



Annual Report
Institucional Report
and Report on Corporate Governance

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VISION

MISSION

VALUES

VISION

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

MISSION

EDP's mission is based on three fundamental pillars:

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

VALUES

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

Annual Report 2004 • Institutional Report and Report on Corporate Governance
Financial Highlights

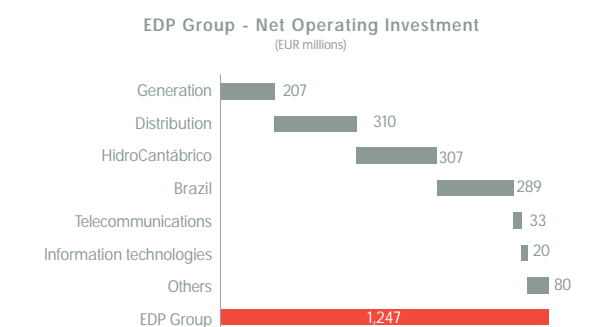
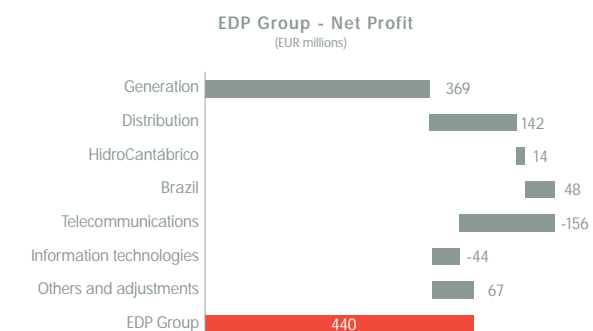
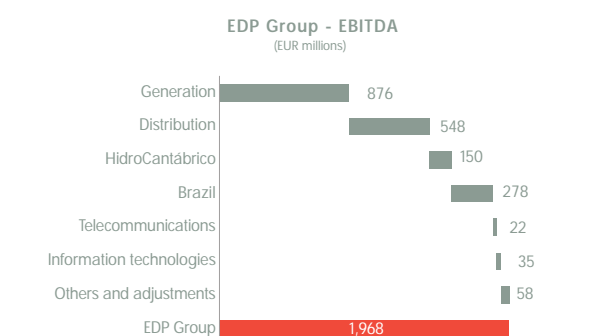
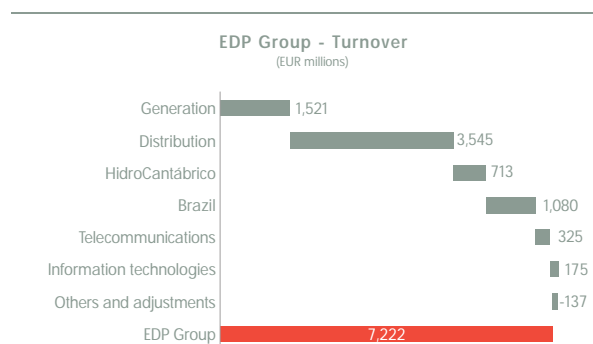
Economic and Financial Highlights

EUR '000	2004	2003	% Var.
EDP Group Consolidated			
Turnover	7,221,690	6,977,520	3.5%
EBITDA	1,968,041	1,827,040	7.7%
EBIT	1,058,446	905,742	16.9%
Net profit	440,152	381,109	15.5%
Cash flow before investment ⁽¹⁾	1,429,368	1,302,407	9.7%
Net operating investment	1,247,405	1,008,238	23.7%
Financial investment	149,360	181,760	-17.8%
Nets assets	22,589,321	18,650,669	21.1%
Shareholders' equity	6,401,714	5,298,007	20.8%
Financial liabilities	8,598,844	7,492,709	14.8%
Return on equity	7.8%	7.2%	0.6 p.p.
Return on assets	2.3%	2.0%	0.3 p.p.
Financial liabilities / Shareholders' equity	134.3%	141.4%	-7.1 p.p.
Net assets / liabilities	150.4%	142.2%	8.2 p.p.
Earnings per share (EUR)	0.14	0.13	13.2%
Payout ratio	76.4%	70.8%	5.6 p.p.
Market capitalization	8,154,079	6,270,000	30.0%
Electricity generation - Portugal			
Turnover	1,520,732	1,342,097	13.3%
EBITDA	875,687	813,218	7.7%
EBIT	623,972	570,020	9.5%
Net profit	369,410	328,488	12.5%
Operating investment	206,634	236,083	-12.5%
Wind farms - Portugal			
Turnover	20,145	10,701	88.3%
EBITDA	19,606	9,048	116.7%
EBIT	14,155	6,671	112.2%
Net profit	8,321	3,625	129.6%
Operating investment	54,366	39,720	36.9%
Electricity distribution - Portugal			
Turnover	3,544,730	3,573,054	-0.8%
EBITDA	548,395	523,158	4.8%
EBIT	220,833	135,008	63.6%
Net profit	142,032	134,366	5.7%
Operating investment	309,981	283,904	9.2%
Electricity Supply - Portugal ⁽²⁾			
Turnover	327,256	133,818	144.6%
EBITDA	-1,441	26,106	-
EBIT	-6,334	22,537	-
Net profit	-6,804	15,164	-
Operating investment	6,524	6,354	2.7%
Electricity & Gas in Spain (100%)			
Turnover	1,783,589	1,656,364	7.7%
EBITDA	375,824	358,514	4.8%
EBIT	205,143	205,562	-0.2%
Net profit	35,310	30,973	14.0%
Operating investment	307,329	192,504	59.6%
Electricity in Brazil			
Turnover	1,079,991	972,219	11.1%
EBITDA	278,308	186,720	49.1%
EBIT	179,158	117,300	52.7%
Net profit	48,116	-16,814	-
Operating investment	289,088	140,275	106.1%
Fixed telecommunications			
Turnover	325,425	341,572	-4.7%
EBITDA	22,124	8,939	147.5%
EBIT	-45,904	-63,969	28.2%
Net profit	-155,567	-119,258	-30.4%
Operating investment	33,498	46,182	-27.5%
Information technologies			
Turnover	174,604	186,347	-6.3%
EBITDA	35,495	34,101	4.1%
EBIT	4,023	9,291	-56.7%
Net profit	-44,499	-6,174	-620.8%
Operating investment	20,424	55,464	-63.2%

NB: 100% of the values shown are Operational Investment (net of contributions).

⁽¹⁾ Net profit + Amortizations + Provisions.

⁽²⁾ Includes EDP Energia Ibérica in both periods



Operating Highlights

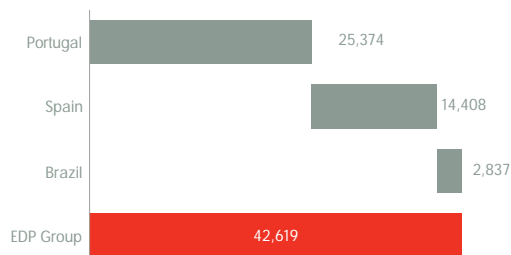
	2004	2003	Var. %
Number of employees	16,243	17,664	-8.0%
Portugal - Electricity	7,416	8,398	-11.7%
Generation	1,792	1,988	-9.9%
Wind farms	15	12	25.0%
Distribution	5,532	6,335	-12.7%
Supply	77	63	22.2%
HidroCantábrico	1,339	1,355	-1.2%
Electricity	1,040	1,078	-3.5%
Gas	299	277	7.9%
Brazil - Electricity	3,569	3,710	-3.8%
Telecommunications	1,096	1,180	-7.1%
Information technologies	1,416	1,625	-12.9%
EDP Valor	581	629	-7.6%
Others	826	767	7.7%
Portugal - Electricity			
Maximum Power (MW) ⁽¹⁾	8,778	8,196	7.1%
Hydraulicity Coefficient	0.81	1.33	-0.52
Electricity Sales (GWh)			
Generation	25,374	28,532	-11.1%
Distribution	41,315	38,955	6.1%
Supply	4,381	2,724	60.8%
Number of Customers			
SEP	5,818,504	5,766,368	0.9%
SENV	3,616	1,404	157.5%
SEP Customers / Employees in Distribution	1,052	910	15.6%
Distribution Sales / Employees in Distribution (EUR '000)	636	560	13.6%
Spain			
Electricity			
Maximum Power (MW)	2,595	2,554	1.6%
Electricity Sales (GWh)			
Generation	14,408	14,155	1.8%
Distribution	9,002	8,659	4.0%
Supply	4,616	4,527	2.0%
Numbers of Customers			
Distribution	574,560	561,208	2.4%
Supply	5,276	3,376	56.3%
Gas			
Gas Sales (GWh)			
Distribution	22,059	21,652	1.9%
Supply	10,989	5,711	92.4%
Numbers of Customers			
Distribution	577,802	542,794	6.4%
Supply	1,484	474	213.1%
Brazil - Electricity			
Maximum Power (MW)	999	1,053	-5.1%
Electricity Sales (GWh)			
Generation	2,837	2,601	9.1%
Distribution ⁽²⁾	22,395	21,425	4.5%
Supply	4,849	2,737	77.2%
Number of Customers	2,998,020	2,902,208	3.3%
Telecommunications			
Direct Customers (thousands)	21.9	10.7	104.7%
Portugal	2.0	1.5	33.3%
Spain	19.9	9.2	116.3%
Voice Traffic (millions of minutes)	3,071	2,639	16.4%
Portugal	992	938	5.7%
Spain	2,079	1,700	22.3%

NB: 100% of the values shown for all companies, independently of holding by the EDP Group. The number of employees includes executive bodies.

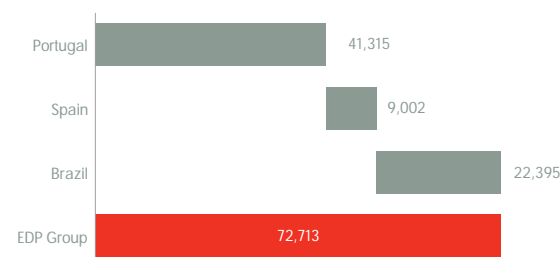
⁽¹⁾ Includes Alqueva (50% in 2004), Turbogás (20%) and Tejo Energia (10%).

⁽²⁾ Includes energy distributed to access customers.

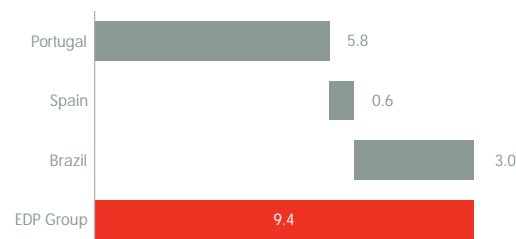
Electricity Generated - EDP Group
(GWh)



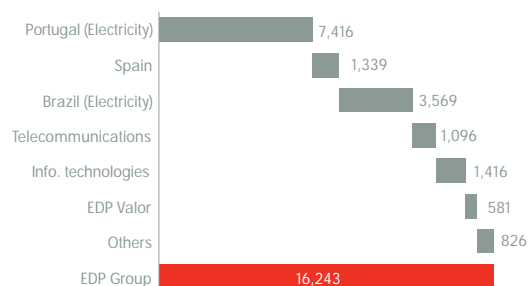
Electricity Distributed - EDP Group
(GWh)

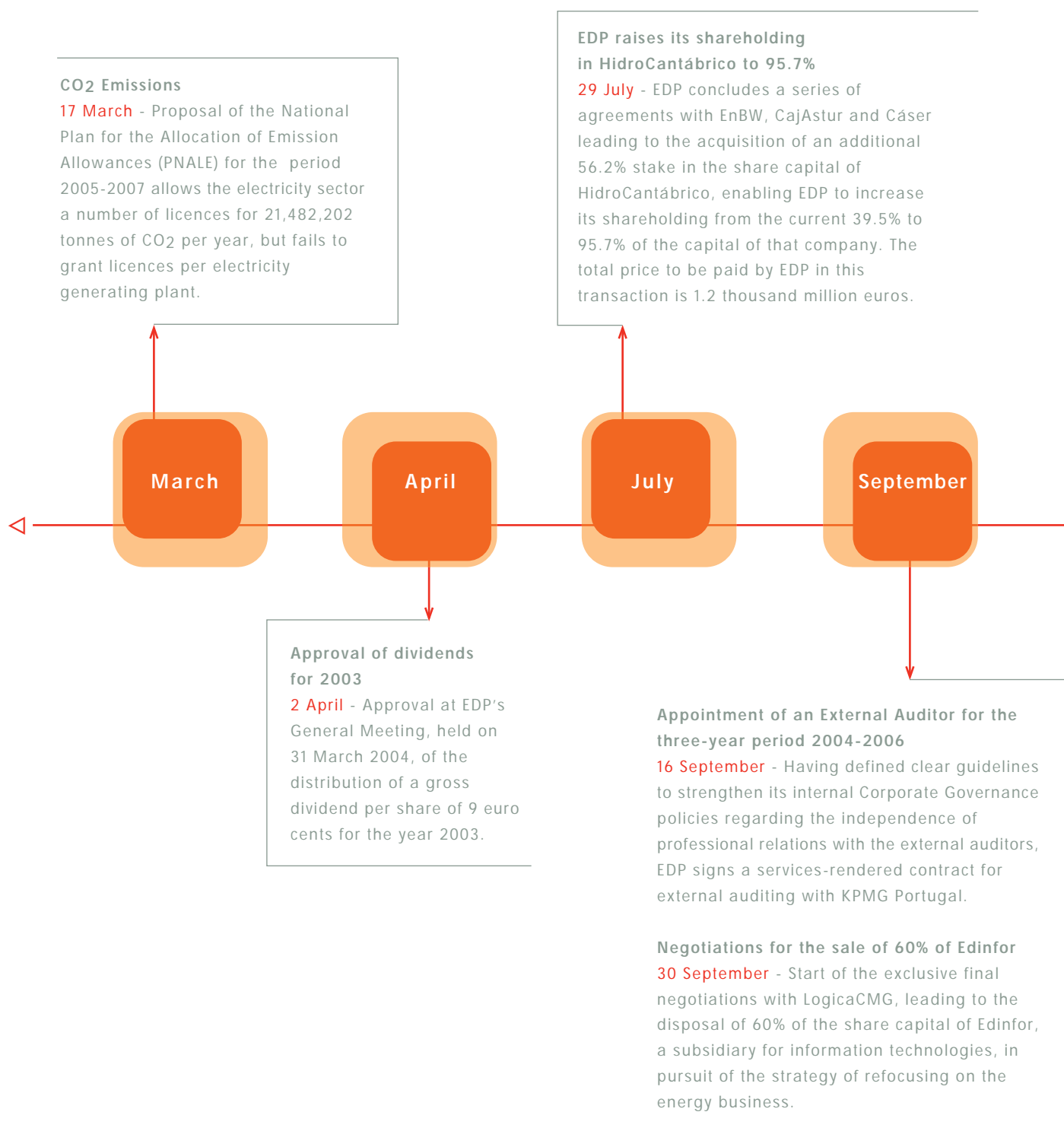


Electricity Customers - EDP Group
(Millions of customers)



EDP Group Employees





HidroCantábrico sells Retecal

20 October - HidroCantábrico signs a purchase-and-sale of shares contract with the Corporativo Ono Group so as to transfer to this company its 34.964% stake in the share capital of Retecal.

Tariff revision at Bandeirante

22 October - ANEEL, through a homologous published resolution, decides to revise the average tariff increase granted to Bandeirante, previously established in the context of the price revision process on 23 October 2003, from 18.08% to 10.51%.

Change of EDP's company name

26 October - Change of EDP's company name from EDP – Electricidade de Portugal, S.A., to EDP – Energias de Portugal, S.A.

2005 tariffs

6 December - ERSE (Energy Services Regulator) discloses parameters, tariffs and prices for electrical energy for 2005.

European Commission fails to approve gas deal

9 December - The European Commission fails to approve the joint operation by EDP and ENI to acquire control of Gás de Portugal, SGPS, S.A., considering this incompatible with the common market.

Exercise of options at Turbogás

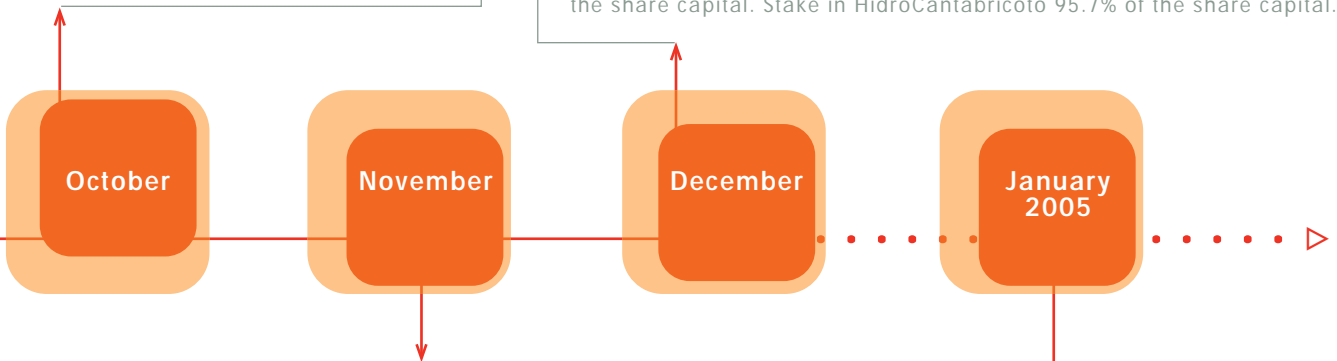
13 December - EDP announces its intent to exercise purchase option on holdings in Turbogás and Portugalen.

Strategic presentation in London

15 December - EDP holds presentation in London with regard to the strategic objectives for the three-year period 2005-2007.

Increase of stake in HidroCantábrico

16 December - EDP increases its holding in HidroCantábrico to 95.7% of the share capital. Stake in HidroCantábrico to 95.7% of the share capital.



Operation to increase EDP's fully subscribed share capital by EUR 1.2 thousand million

30 November - The public offering for subscription to increase EDP's share capital by EUR 1.2 thousand million, through the issue of 656,537,715 new shares, is fully subscribed, due to the exercise of rights and additional requests for surplus shares.

EDP signs contract for the sale of Edinfor

7 January - EDP signs a purchase-and-sale contract with LogicaCMG with a view to the disposal of 60% of the share capital of Edinfor.

EDP signs termination agreements for PPAs (Power Purchase Agreements)

27 January - EDP announces that it has signed agreements for the termination of the PPAs by the EDP Group, through the CPPE (Portuguese Electricity Generating Company), and by the REN (National Electrical Network). The total gross amount of the compensation is EUR 3,356,139,000 at this date, subject however to revision at the actual time of the early termination of the PPAs.

CajAstur holds 5.75% of EDP's share capital

31 January - CajAstur announces that it has a total stake in EDP's share capital of 210,251,158 shares, or 5.75% of the total.



Francisco de la Fuente Sánchez
Chairman of the Board of Directors

Shareholders,

The year 2004, for which we are now providing accounts, was expected to be a very busy one for EDP.

These expectations were fully confirmed.

And I believe that EDP can take pride in having carried out this work on behalf of the interests of its shareholders, customers and employees, and in having prepared the company for the future.

The challenge of creating value in a changing environment takes on added complexity, due firstly to the intense rate of adaptation required of the Company, its managers, its organisation and its employees, but above all due to the need to make decisions in a context of very high uncertainty.

This was true of our activities in 2004, rather similarly, indeed, to other major energy sector operators all over the world.

In particular, our strategic agenda at EDP, already ambitious in itself, coexists and connects with important national objectives.

Some of these are of a domestic nature, in view of the essential character of the services we provide, which are crucial for the safety, reliability, continuity and improvement of the supply of the nation's electrical energy, contributing to the endeavour to create wealth, sustainability and wellbeing.

Others are of a broader scope, on account of Portugal's position in markets and economic areas - immediate examples of which are the Iberian Peninsula and the European Union - that involve international partners with whom we simultaneously have to co-operate and compete, within a framework of growing competition and liberalisation.

It was in this context that in 2003 EDP announced its active participation in the restructuring of the energy sector decided on by the Portuguese Government, regarding the challenge as an opportunity to create value for customers and shareholders.

Our positioning was widely considered natural and positive, in view both of the need to optimise resources and to manage them flexibly, and of the experiences and practices that can be seen in the organisation of the energy sector in other countries and companies.

Therefore, after we had arduously taken all the appropriate measures, it was with understandable surprise and disappointment that we received the news of the European Commission's unfavourable decision regarding EDP and the reorganisation determined for the energy sector.

Nevertheless, in addition to taking careful note of our rights, we shall continue, as we have done up to now, to pursue activities that will enable us to offer our customers optimised energy solutions, similarly to the other relevant operators in the competitive Iberian framework in which we work.

It is from this perspective that we regard the development of our stake in gas companies - for example our acquisition of part of the capital of Portgás, which earned a favourable decision from the Competition Authority - as essential to the creation of value for the EDP Group, to the benefit of our customers and shareholders.

Alongside this, we continued in 2004 to prepare ourselves for the complete liberalisation of the electrical energy markets, by steadily restructuring our supply areas.

We identified and implemented new organisational and operational methods. We increased training and qualification. We recruited the expertise appropriate for the new needs and for the rejuvenation of the workforce in the Group's companies. We rationalised the workforce by means of organic corporate simplification according to criteria of efficiency and productivity, through the Restructuring Support Plan.

This process, approved by the Energy Services Regulator, was conducted and concluded with success. The aims were achieved in a context of social dialogue and peace, always mindful of personal or family situations of special sensitivity, in keeping with the principles of social responsibility that guide the Group's human resource policies.

We also achieved the best levels ever in our quality of service indicators, as a result of careful investment in professional training and in upgrading infrastructures, equipment and networks.

Certain actions had greater visibility: the modernisation of the network of shops and sales points; the change of the brand; the alteration of the Company's name to EDP – Energias de Portugal, S.A., approved at a Shareholders General Meeting. All in all, we affirmed EDP's new attitude and the image: proximity, attention and orientation to the customer, in an attractive and genuine way.

But we promote change in harmony with the precepts of public service, firm management, technical and organisational competence, ethics and social responsibility that have, along with environmental and sustainability concerns, characterised the EDP Group.

The size and significance of the increase to approximately 96% of our stake in HidroCantábrico, sanctioned by the authorities of Spain and the European Union, will make it part of the EDP Group's history. EDP consolidated its position as the third largest Iberian electricity company and took control of the second largest Spanish gas operator.

In order to undertake this operation, EDP planned and carried out the largest share capital increase in our market, attracted private and institutional investors from Portugal and abroad, strengthened its core shareholder structure, formed useful partnerships and fulfilled all the objectives it set for itself. In particular, this was a considerable economic endeavour in asset terms, and one that did not affect the financial ratios or the structure of the balance sheet.

This strategy was also pursued with the total agreement of the Shareholders, to whom the operation was presented in detail at the General Meeting that authorised the Board of Directors to proceed with raising the capital.

The Group's other business areas also had a year of laborious, but essentially productive and positive, consolidation.

Traditional generation received a strong boost from the entry into service at the Ribatejo power station of the first two electricity-generating units, and the decision to build the third. This natural gas combined cycle power station uses a more environmentally friendly fuel, with one of the highest efficiency levels in the world.

We are also continuing to invest in equipment to minimise emissions of greenhouse gases and to prepare the EDP Group for the future emissions market. And we are pursuing the drive to modernise and improve hydroelectric operations, such as the new Frades power station – Vila Nova II.

We are studying the best ways to safeguard the value of our long-term contracts – the Power Purchase Agreements (PPAs) – and we are fighting to have compensation set for their early termination, to be calculated accurately and fairly, and implemented in appropriate conditions, at the time when the Iberian Electricity Market comes into force.

In terms of renewable energies in Portugal, EDP has gone ahead with the planning and building of new wind farms, attaining 150 MW in capacity, in line with the strategic objectives defined. Although applying judicious analysis, and selecting investments with a view to profitability, our activity has contributed significantly to the national objectives of generating energy from renewable resources, reducing polluting emissions and making use of endogenous resources and environmentally sustainable procedures.

In telecommunications, we continue with the approach previously defined for ONI, together with our strategic partners in this sector. We have tried to achieve the aims of financial equilibrium, and to boost the effort to generate profits and self-sufficiency. This was the reason for ONI's increasingly assertive actions in the segments in which it has recognised advantages, and for the sale of the stake held by HidroCantábrico in Retecal, in Spain.

In the area of information technologies we have also fulfilled our agenda. The negotiations for choosing a partnership for Edinfor were conducted and concluded, culminating in the selection of LogicaCMG. We also reorganised and contracted the model for acquiring information services, safeguarding the aspects that are critical for our business processes.

In Brazil, we went ahead with the construction of the new hydroelectric power station of Peixe Angical, on the River Tocantins in the state of the same name; we disposed of a thermoelectric project which was not expected to achieve the profitability levels we defined; and we developed the corporate reorganisation process with a view to preparing EDP Brasil for listing on the Brazilian capital markets, so that it becomes self-sufficient in its activities and investments.

In Spain, in spite of the considerable amount of work carried out in 2004, the acquisition of control of HidroCantábrico dominates the near future. In effect, beyond the immediate synergies and the current reality, the combined action of the EDP Group companies in Portugal and Spain constitutes a new paradigm, capable of creating value in the medium- and long-term by extracting all the potentialities, complementarities and flexibility of management.

One further word about the internal life of the Company's administration. The direction and system of the Company's governance, defined at the start of the mandate of the present company officers, has been consolidated, ensuring high levels of stability, dynamism and transparency.

The replacements the Board has carried out as a result of directors retiring, duly ratified by the General Meeting, have maintained the team spirit, co-operation and cohesion on which the EDP Group, with its size and complexity, had always relied.

Furthermore, EDP has contributed to the discussion on tightening the rules of transparency and good governance, by seeking to reflect and apply the best practices regarding information provided to the market, in particular to shareholders, as well as to the different regulatory authorities in the EDP Group's various areas of operation.

Both personally and on behalf of the Board of Directors, I also take pride in the significant progress achieved for Portuguese society by EDP's participation, together with prominent partners, in such initiatives as the United Nations Global Compact, the Global Reporting Initiative and the World Business Council for Sustainable Development, incorporating the values and best practices of social responsibility and sustainable development. Besides the immediate benefits, this stock of good practices and good governance is a qualitative advance for the community as a whole and for future generations, to which no one nowadays can judge himself or herself indifferent.

At the beginning of 2005, the Board of Directors approved a Code of Ethics for the EDP Group. This Code, which applies to all our activities, companies and employees, embodies a set of functional principles that we decided to formalise for reasons of appropriate disclosure, transparency and exemption. We believe that this is the way forward, as well as a means for checking and comparing our behaviour, bringing us into closer touch with our customers, investors and business partners, in keeping with the EDP Group's public commitment to the best standards of corporate ethics.

At the next General Meeting, which will appraise the accounting documents that we now present, showing a net profit of EUR 440.2 million, the Board will propose a gross dividend of 9.243 euro cents, in line with the growth outlook for profits announced in the approved Strategic Plan.

It is therefore in a constructive and positive frame of mind that I reaffirm our aim of pursuing the growth of the EDP Group as an agent of value creation. In particular for shareholders, but also for our business partners, based on a practice of customer orientation, dialogue and respect for our interlocutors and the community, sharing equally the benefits resulting from the provision of an essential public service, the wealth produced and the profits generated.

The EDP Group's employees, of course, also deserve to be recognised and to share responsibility for the positive evolution of the Group's companies and for the profits obtained. They also deserve our trust as they carry out their work in the future.

I particularly hope that our achievements in 2004, in the complex context in which we operate, will help us towards the ambitious but feasible goals we have set for ourselves in order to enable the EDP Group to take its place among the most efficient and profitable of companies, at the service of a strategic agenda for creating value for shareholders and progress for Portugal.

EDP, 1 March 2005.



Francisco de la Fuente Sánchez
Chairman of the Board of Directors



João Ramalho Talone
Chairman of the Executive Committee
of the Board of Directors

To the Shareholders
As an introduction to last year's report, on behalf of the
Executive Committee of the Board of Directors,
I expressed a number of public commitments that
ought to respond to the various difficult challenges
facing EDP, seeking to turn them into opportunities.

Before we leave the past behind and turn to what will or should take place in the future, which is after all the real source for generating value in the Company, allow me to make a brief summary.

We foresaw great uncertainty in the regulatory and market conditions in which EDP would move, forcing the Company to prepare beforehand not just to confront them but to take advantage of them. We foresaw well! The year 2004 could not have been more unexpected for this sector. The construction of the Iberian Market, successively confirmed, was also successively delayed (the last date announced is June 2005). The creation of the regulatory conditions for EDP to be able to open up the long-term contracts binding the Company and the electricity generating system (the PPAs – Power Purchase Agreements), and to allow EDP to place its energy on an Iberian market, was never in question, but it took place only with the publication of Decree-Law No. 240/2004 of 27 December. The regulatory convergence between Portugal and Spain, agreed at the International Convention signed on 8 November 2003, remains to be evened out between the two countries. Meanwhile, in both Portugal and Spain, the plans have been published for the allocation of emissions up to 2007, according to the Kyoto Protocol, that the EU has signed, which will have an undeniable impact on the economics of the energy operators' activity. The recent dissolution of the Portuguese Parliament will delay the expected publication of the new Framework Laws for Electricity and Gas, which are needed to close the system's 'regulatory arc'.

In the meantime, liberalisation for the end consumer of electricity was completed in Portugal well ahead of most other European countries, lacking only the regulations for low-voltage consumers for everyone to be able to choose their supplier freely and competitively. I would venture to say that the electricity sector in Portugal, traditionally considered the most protected of the general interest services, will be the one that is liberalised the fastest and most completely!

What are our "commitments" and to what extent are they being implemented?

We wish to be the "customers EDP!" This is something we know to be difficult! But we are trying to give a new image of ourselves! To correspond to the image by changing all our outlets, turning them into convenient, comfortable places where customers feel good and see their cases being dealt with properly! Giving proper training to our agents and employees who interact with customers, personally or by telephone, focusing their attention on solving their problems! Launching new products that are competitive, attractive and innovative! Launching a new billing format that is more transparent and easy to understand! Significantly improving the technical quality of the product we supply - electrical energy - by reducing within two years the annual equivalent interruption time to approximately half, 215 minutes.

We want to be the **“competitive EDP!”** This is an ongoing project! But with great dedication and effort by all who work here, it has been possible to increase the productivity indicators by around 15%, coming close to the Iberian averages - which are among the best in Europe. We have changed work processes! We have increased investment in improving the quality of the network, 30% higher than the average of the previous two years! We have radically changed our generating facilities with the entry into service of two gas combined cycle groups, an investment decided on at the right moment. The most modern technology available in the world, today representing 10% of our generating capacity, currently being expanded with one more electricity-generating group!

We wish to be the **“Iberian EDP!”** In an Iberian market, only companies with a true Iberian aspiration can survive and become effectively competitive for the benefit of their shareholders, customers and employees. Definitively, and in contrast to the pessimism of some, we have no doubts that EDP is one of the Portuguese companies with the capacity, vocation and, I would even say, obligation to be an independent quality operator at the Iberian level. The purchase of HidroCantábrico, the fourth Spanish operator, and a company with a great tradition and prestige in Spain, does not in itself automatically guarantee this objective, but it does create the conditions for attaining it by working hard together. This redefinition of EDP's territorial scope of activity was done without jeopardising our commitments to our customer base in Portugal. It was fully financed by shareholders' equity, raised in Portugal and abroad, through a capital increase of EUR 1.2 thousand million, the largest ever carried out in Portugal. The excellent market response confirmed the merits of the operation.

We wish to be the **“EDP of Energies”**, providing our customers, as is currently the case in the best companies in Europe, with energy not based exclusively on electricity. This is perhaps the objective in which we are most delayed, as we have not completed what appears to be the easiest operation on our agenda: the acquisition of Gás de Portugal, to which we were invited by the Government following Council of Ministers Resolution No. 68/2003. History will show the reasons for the failure to complete this operation, which was eventually vetoed by the European Commission, for reasons still to be legally justified. Through mere political omission, a solution was not immediately adopted that deserved the agreement of the shareholders indirectly involved in GDP, and that would circumscribe its scope and implantation period. We have therefore advanced only partially in this objective, with the acquisition - simultaneously with that of HidroCantábrico -, of the control of NaturCorp, the second largest gas operator in Spain, and we now have to decide on the best way to serve our customers in Portugal in competitive conditions with our Spanish competitors.

We wish to be the **“efficient EDP”**, wherever we are and in whatever business capacity we act. In Brazil, where we are among the fifty largest companies and have already gone ahead with a restructuring plan that will make EDP Brasil attractive to the local capital market, as a way of supporting its future activity. In information technologies, through partnership with the European leader LogicaCMG, recently set up for the development of EDINFOR. In telecommunications, through ONI's approach as an alternative operator of excellence for specific customer segments.

But let's talk of the future! Of creating value for our shareholders, customers and employees. And the future is essentially about performing. Performing well the activities inherent in the plan made viable in the previous year. In an EDP that today is more enticing, 'richer' and more complex.

EDP, 1 March 2005.



João Ramalho Talone
Chairman of the Executive Committee
of the Board of Directors

BOARD OF THE GENERAL MEETING

José Manuel Galvão Teles, Chairman
António Campos Pires Caiado, Vice-Chairman

SUPERVISORY BODY

Permanent Statutory Auditor: KPMG & Associados, SROC, S.A., represented by Jean-Éric Gaign, ROC
Deputy Statutory Auditor: Vítor Manuel da Cunha Ribeirinho, ROC

BOARD OF DIRECTORS

Francisco de la Fuente Sánchez, Chairman

In 1965, he graduated from the Instituto Superior Técnico in Lisbon in Electrotechnical Engineering. In 1969, he joined the Companhias Reunidas Gás e Electricidade, where in 1975, he was appointed to the Management Commission. From 1977, he headed EDP's Lisbon Area Concessions Department and, from 1981, he headed the Organisation Support Body of Distribuição Tejo's Operations Division. In 1985, he was appointed manager of the Lisbon Distribution Centre. In 1987, he became assistant to EDP's Board of Management and, in 1988, he was appointed Central Commercial Manager. He was general manager of Distribuição Tejo's Operations Division until 1994, when he was made a director of LTE. In 1997, he was elected a director of EDP and, in 2000, he became Chairman and CEO. In the international area, he has been a non-executive director of CERJ since 1997, non-executive Vice-Chairman of Bandeirante and later non-executive Chairman of CERJ. Since 2002, he has been a director of HidroCantábrico. Outside the electricity sector, he has been a non-executive director of Galp Energia and BVLP. He is currently non-executive Chairman of ONI, a senior board member of BCP, a non-executive director of the Portugal-Africa Foundation, a member of the Advisory Board of APDC and a director of PROFORUM and of the Forum for Competitiveness. He is at present the Portuguese representative at EURÉLECTRIC. He was named 2002 Personality of the Year by the Portuguese-Brazilian Chamber of Commerce and Industry.

João Ramalho Talone, Chief Executive Officer

In 1974, he graduated from the Instituto Superior Técnico in Lisbon in Civil Engineering. He simultaneously took the Higher Management course at the National Institute for Industrial Research. In 1984, he took his MBA at the Universidade Nova in Lisbon (Wharton School of Pennsylvania), with a final grade of 18. In 2002, he attended the Advanced Management Program at Harvard Business School. From 1988 to 1989, he was a guest lecturer in International Business at the Universidade Nova in Lisbon. He was Chairman of the Board of Directors of the entire BCP insurance group and an executive member of the Board from 1993 to 2002. In 1994, he was elected a member of the Supervisory Board of Eureko. He was a member of the Association de Genève, joining the board of this international insurance association in 2000. On 1 September 1999, he was appointed CEO of Eureko, based in Paris. In August 2002, by deliberation of the Council of Ministers, he was appointed head of the mission to work with the Minister for Finance and the Minister for the Economy to dissolve the IPE. In January 2003, by deliberation of the Council of Ministers, he was entrusted with the task of rethinking the corporate strategy of the national energy sector. In April 2003, he was elected Vice-Chairman of Lusotur.

António Galvão Lucas, Member of the Audit Committee

He graduated from the Instituto Superior Técnico in Lisbon, and is now a manager and entrepreneur in the ceramics sector. He is Chairman of EPM – Sociedade Gestora de Participações Sociais, S.A. He was previously a manager and a director in the CUF Group in Portugal and Brazil, and in the SAPEC Group in

Portugal, Spain and Belgium. He was Director of the CIP - Confederation of Portuguese Industry, and is currently Chairman of APICER - the Portuguese Ceramics Industry Association, a member of the Senior/Advisory Boards of the AEP - Portuguese Employers' Association, of COTEC - the Employers' Association for Innovation, and of the Forum for Competitiveness.

Arnaldo Navarro Machado, Member of the Executive Committee

He graduated from the University of Strathclyde, Scotland, in Naval Engineering. He has been CEO of the Sociedade Central de Cervejas, of Internel (1992-1998), of CPPE (1994-1997) and of MRH (1997-1998). He was a voting member of the Boards of Directors of HLC, of CERJ (1996-1998), of Investco (1998) and of OPTEP (1997-1998), as well as of Turbogás (1995-1998) and EDP (1991- 1992). He was Vice-Chairman of EDP from 1992 to 1998. He has also been a voting member of the Board of Management of the Sociedade Central de Cervejas (1988-1991), Chairman of Luso, the water company (January 1990) and a voting member of the Board of Directors of Setenave (1984-1988).

João Silva Freixa, Non-executive Voting Member

In 1978, he graduated from the Instituto Superior de Economia in Business Management, taking his MBA at the Universidade Nova in Lisbon in 1981. He is currently Vice-Chairman of the CGD bank. He was previously a lecturer at the Instituto Superior de Economia (1978-86). He has been an auditor for Price Waterhouse & Co. (1978-79), Treasurer at the Industrial Português Group (1979-85), a senior manager at Barclays Bank Plc. (1985-2002), a director of the Association of Portuguese Banks (2000-2002), Chairman of Euronext Lisbon (2003-2004), a director of the Stock Exchanges of Paris, Amsterdam and Brussels and a director of the Euronext N.V. holding company.

Jorge de Oliveira Godinho, Member of the Executive Committee

He graduated in Electrotechnical Engineering from the Instituto Superior Técnico in Lisbon, and took his MBA at the Universidade Nova in Lisboa. Until 2003, he was Chairman of the Executive Committee of EDINFOR and of the Board of Directors of ACE. He was a member of the tenth and eleventh Constitutional Governments as Secretary of State for Fisheries from 1985 to 1990. As Chairman of Portucel and Portucel Industrial, from 1990 to 1998, he led the restructuring of the company and initiated its privatisation. He has also been Chairman of Docapesca, Vice-Chairman of the Portuguese Industrial Association and a director of the Social Security Financial Management Institute, the National Scientific and Technological Research Board, the Forum for Competitiveness, Efacec and the Fund for the Internationalisation of the Portuguese Economy. Representing EDP, he has been Vice-Chairman of Optimus (1998-2000) and a director of OPTEP. He has also been an Assistant and Senior Lecturer at IST. From 1978 to 1982, he was a union leader at EDP and a member of the EDP inter-union committee.

José Holtreman Roquette, Non-executive Voting Member

In 1958, he graduated in Economics from the University of Oporto, and he is currently Chairman of Finagra and a member of the Senior Board of BCP. He was formerly a member of the Executive Committee of BES (1971-1975). He was a director of the Espírito Santo Group's main holding companies (after 1975), Chairman of Banco Inter-Atlântico, Brazil (1976-1981), Chairman of Emptel - Empresa de Equipamentos de Telecomunicações (partly controlled by Siemens) (1986-1993), Chairman and CEO of Valores Ibéricos, SGPS (Banco Totta & Açores) (1989-1993), Chairman of BTA, Totta Gespar, Totta Urbe (1991), Chairman of Mantero (1992), Chairman of the Board of Sporting Club de Portugal and the main companies of the SCP Group (1996-2000), Chairman of Sirius (2000) and Chairman of SAIP, Sociedade Alentejana de Investimentos e Participações (2003).

José Manuel de Morais Cabral, Non-executive Voting Member

He graduated in Economics from ISCEF in 1970. He is at present a director of ONI, Efacec Capital, Imopólis, SGFII, S.A., José de Mello Participações II, Soimper and Soponata, and manager of José de Mello Serviços. He started his career in 1968 in the Technical Secretariat of the Council of Ministers as a technical specialist in regional planning. In 1970, he joined METAL Portuguesa as Financial Controller and Manager, becoming Financial Director in 1980. In 1989, he became Director and Chairman of Air Atlantis, and Director of IPE and Celbi from 1992 to 1994 and 1993 to 1995, respectively. In 1994, he was appointed Adviser to the Board of the Banco de Fomento, and President of the Forum of the Sea in 1995. At the end of 1995, he became a director of Lisnave, where he was Chairman of the Executive Committee from 1997 to 1999. He was a founder and Board member of the CIP from 1974 to 2000. He is Vice-Chairman of the Forum for Competitiveness.

José Neves Adelino, Chairman of the Audit Committee

In 1976, he graduated from the Universidade Técnica in Lisbon in Finance. He gained his doctorate in Business Administration from Kent State University, Ohio, USA, in 1981. He has been Aggregate Professor in Economics at the Faculty of Economics at the Universidade Nova in Lisbon since 1995, where he is currently a full professor, and he has also been a voting member of the faculty board there from 1982 to 1986, and again since 1990. From 1990 to 1996, he was director of management on the MBA programme and of executive training, in addition to heading the Universidade Nova's Economics Faculty from 1999 to 2002. He is a member of the Global Advisory Board of Sonae, SGPS, of Portugal Telecom's Strategy Board, of the Confederation of Portuguese Industry's Advisory Committee and of the National Education Board. He has held non-executive positions on the Boards of the BPA and the BPI Group's companies, and has wide experience as a consultant.

José Sucena Paiva, Non-executive Voting Member

He graduated from the Instituto Superior Técnico in Electrotechnical Engineering, and gained a doctorate from Imperial College, London. He is Aggregate Professor at the Instituto Superior Técnico in Lisbon, where he has been a full professor of Electrical Energy Systems since 1980 and Chairman of the Scientific Board of the Electrical Energy Centre. He is a director of COGEN Portugal and the Advisory Board of COGEN Europe, and President of the Jury for awarding the REN and the Luís Vidigal Prizes. He was formerly the Secretary of State for Science and Technology (1988-1991), founder and first Chairman of Tagusparque (1992-1996) and founder member (1998) and Chairman of the Board of the General Meeting (1991-2003) of ENERSIS.

Luís Azevedo Coutinho, Member of the Audit Committee

He graduated in 1984 in Business Management and Administration from the Universidade Católica Portuguesa, and gained his MBA from the Universidade Nova in Lisbon. He is currently a business consultant and has been a lecturer at the Economics Faculty of Universidade Nova in Lisbon since 1985. He began his career in 1984 at José Bento Pedrosa & Filhos, where he performed various roles in the financial area. He was a consultant first at IPE, and then with the V.I./B.T.A Group, the Abrantina Group, the Ministry of Finance, the Bank of Portugal, the Calouste Gulbenkian Foundation and Lisbon City Council. From 1999 to 2002, he was Director of Finance of Valora-Serviços de Apoio à Emissão Monetária. Since November 2003, he has been a director of the Association of Music, Education and Culture.

Manuel Menéndez Menéndez, Non-executive Voting Member

Since 1990, he has been a Full Professor in the Department of Business Administration and Accountancy at the University of Oviedo, where he gained his doctorate in Economic Sciences in 1985 (cum laude and with a Special Mention from the Board of Examiners). He graduated in Economics and Business Administration in 1982. He is currently Chairman of CajaAstur, of HidroCantábrico and of NaturCorp, a voting member of the Boards of the Spanish Confederation of Savings Banks and of UNESA and a member

of the Official Registry of Auditors of Accounts. He was previously a voting member and member of the Boards of Directors of CajAstur (1986-1987; 1990-1995) and HidroCantábrico (1996-2001), a voting member of the Board of Directors and a member of the Executive Committee and Audit and Control Committee of AIRTEL (1997-2000), a voting member of the Board of the LICO Corporación (1995-1996), Vice-Chairman of SEDES, S.A. (1986-1995) and Executive Chairman of the Sociedad de Garantías Recíprocas de Asturias (Asturgar) (1986-1995).

Paulo Azevedo Silva, Non-executive Voting Member

He graduated in Economics from the Faculty of Economics of the University of Oporto. He attended the training course run by the Euromoney Institute of Mergers and Acquisitions at Cranfield, and the INSEAD Executive Education Programme. He has been managing director of the Banco Comercial Português since 1998, a director of LeaseFactor and of CrédiBanco, Chairman of the Board of Luso-Atlântica and a non-executive director of ONI. He was also Chairman of the Boards of Directors of BCP Leasing and BCP Factoring (2000-2003), He was a director of CISF (1998), of Sociedade Portuguesa de Risco (1995), of Comercial Dealer (1994), of Sociedade de Capital de Risco do CISF (1994) and of Interfinança (1990) and manager of CISF (1990).

Pedro Bastos Rezende, Member of the Executive Committee

He graduated from the ICAI, Madrid, in Industrial and Mechanical Engineering in 1985. He took his MBA at the INSEAD in Fontainebleau in 1990. He began his professional career in 1985, at VALEO Clutch Division as a development engineer. He left this company in 1989, when he was head of the Test, Trial and Prototype Department, after a period as a commercial technical engineer in Detroit, Michigan. In 1990, he joined the Boston Consulting Group in Madrid as a consultant. In 1995, he assisted in the opening of the Lisbon office, where he was elected a partner in 1997, and was jointly in charge of the development of the business in Portugal, taking on internal management duties in Iberia and Europe. In this stage of his career as a consultant, he had the opportunity to get to know and work not only with EDP and other major Portuguese and Spanish companies, but also with some large and prestigious multinationals in various sectors.

Rui Horta e Costa, Member of the Executive Committee

He graduated in Economics from the Universidade Católica Portuguesa and holds an MBA from the University of Minnesota. He was an executive director of UBS Warburg in London from 1995 to 2000, a director of the Jorge de Mello Group (1990-1995), resident Vice-Chairman of Citibank Portugal (1989-1990) and Manager and Assistant to the Board of Banco Finantia (1987-1989). He started his professional career as an assistant lecturer on the MBA programme at the University of Minnesota (1986), and then joined the staff of MDM-Sociedade de Investimentos (1986-1987).

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Permanent: António Pedro Balançuela Alfaia de Carvalho
Deputy: António José Marrachinho Soares

We have taken a leap ahead,
by combining the interests of
shareholders, customers and
employees.
Our aim is to be a model of
corporate governance, ambitious
and dependable!

The challenge of generating value at a time of uncertainty has been a hallmark of EDP's management in 2004.

We have aimed to be what our customers need – competitive, energetic, Iberian and efficient. All of this based on a sustainable business outlook designed to make EDP's future one of excellence and reliability.

Corporate Governance

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The year 2004 was of particular importance for EDP at the corporate level, basically due to the preparation and implementation of the successful fifth phase of the process of reprivatizing the respective share capital, which was accompanied by the change in company name.

From the corporate point of view, the main effect of this operation was the change in EDP's share structure, due to the reduction of the state's holding in the share capital to approximately 25.5%, and the entry, as defined by the decree-law for the reprivatization of EDP, of a new major shareholder – Cajastur – Caja de Ahorros de Asturias –, thus creating a greater spread of the Company's share capital.

Subsequent to the reprivatization process, the Board of Directors was enlarged from thirteen to fifteen members on 31 January 2005, with the entries of Manuel Menéndez Menéndez and José Alfredo Parreira Holtreman Roquette. This increased the proportion of independent directors on the EDP Board, in keeping with the national and international corporate governance guidelines adopted by EDP.

Added to this, EDP was again one of the security-issuing companies listed on the Euronext Lisbon with the largest number of material events and other communications disclosed to the market during 2004, having disclosed 21 material events, 27 communications and eight announcements to the market.

In fact, EDP, as an issuing entity that maintains a highly transparent relationship with investors and capital markets, has kept up a policy of continuous and frequent communication with the market. It has, at the same time, attached special importance to adopting the best organisational models and the best practices and conduct guidelines with regard to corporate governance. This has been achieved by monitoring the evolution of international trends, and internally promoting reflection about these matters.

For this reason, EDP is today one of the security-issuing entities listed on Euronext Lisbon that shows one of the highest indices of compliance with the CMVM's recommendations regarding the governance of companies. It is, furthermore, a pioneer in the adoption of measures of organisation and internal operation aimed at promoting the best practices of corporate governance.

This report has been organised in accordance with the model provided in CMVM Regulation No. 7/2001 (amended by CMVM Regulation No. 11/2003), presenting a summary of the most important aspects concerning the practices relating to the governance of EDP.

0. DECLARATION OF COMPLIANCE

0.1. In keeping with the provisions in CMVM Regulation No. 7/2001 (amended by CMVM Regulation No. 11/2003), it is put on record that EDP, with the exceptions mentioned below in Point 0.2, fully adopts all the CMVM's recommendations regarding the governance of listed companies, namely:

- Recommendation 1 (Contact with investors);
- Recommendation 2, paragraphs b), c) and d) (Exercise of voting rights and shareholder representation);
- Recommendation 3 (Internal control system);
- Recommendation 4 (Defensive measures against public offerings for acquisition);
- Recommendation 5 (Composition of the Board of Directors);
- Recommendation 6 (Independence of the Board of Directors);
- Recommendation 7 (Internal control committees);
- Recommendation 8 – 1st part (Remuneration of the Board of Directors);
- Recommendation 9 (Independence of the remuneration committee);
- Recommendation 10 (Plans to allot shares).

0.2. The EDP's statutes establish a period of fifteen days before each General Meeting for shareblocking, as a way of making it possible to determine, reasonably in advance, the composition of the shareholders who will take part in this meeting of the company body. This statutory period does not appear particularly lengthy – besides which the proof of share ownership only has to be provided at least eight days prior to the date of the meeting –, and is compatible with the legally established period of advance notice for public disclosure of the convening of the General Meeting. This has been

applicable for several years and, during the period, it has not been shown to restrict the active exercise of voting rights by shareholders.

Indeed, EDP has been actively promoting the participation of shareholders at the General Meeting. In this regard, we should highlight the recent decision for the costs of issuing declarations of ownership and of shareblocking, with a view to shareholders' participation at the Annual General Meeting, to be borne by the Company. In this way, EDP is adopting, in a pioneering way in Portugal, a measure that encourages the exercise of voting rights by the respective shareholders.

On the other hand, EDP does not concur with the final part of Recommendation 8 regarding the individual specification of the remuneration of each director, since it considers that this option does not represent the most suitable approach in this matter.

EDP feels that the information about the remuneration of the members of the Board of Directors should be segmented on the basis of the nature of the duties performed within the Company. It therefore elects to show the individual amount of the remuneration of the Chairman of the Board of Directors and the Chairman of the Executive Committee, and the aggregate amount of the remuneration of the other directors on the Executive Committee and the Audit Committee, and the other directors of EDP.

This method of describing remuneration, which is disclosed below in this report, makes it possible to promote the transparency of information about the remuneration gained by members of the Board of Directors through the use of a qualitative, functional criterion that puts the emphasis on the competencies performed. It particularly stresses the separation of the amount of the remuneration allotted to the Chairpersons of the Board of Directors and of the Executive Committee from that allotted to the other members of the Executive Committee and the members of the Audit Committee.

0.3. With regard to the CMVM recommendations adopted, the following table illustrates the main relevant aspects:

MEASURES ADOPTED FROM THE CMVM RECOMMENDATIONS

CMVM RECOMMENDATION	MEASURES ADOPTED
<p>I. – Disclosure of Information:</p> <p>1. Each listed company is required to ensure the appointment of a permanent representative for liaison with the market, respecting the principle of equality among shareholders and preventing uneven access to information on the part of investors. The creation of a department designed to assist investors is therefore recommended.</p>	<p>Existence and development of the following channels of information with:</p> <ul style="list-style-type: none"> • Investor Relations Office (GRI); • General access website.
<p>II. – Exercise of Voting Rights and Shareholder Representation</p> <p>2. The active exercise of voting rights must not be restricted, either directly, in particular by postal vote, or by representation. For this purpose, the following are considered to be a restriction on the active exercise of voting rights:</p> <ol style="list-style-type: none"> a) The imposition of a deposit, or blocking of shares for participating in a General Meeting, more than five working days in advance; b) Any statutory restriction on postal voting; c) The imposition of a prior period of more than five working days for the reception of the declaration to vote issued by post; d) The inexistence of voting ballots at the disposal of shareholders for postal voting. 	<ul style="list-style-type: none"> • Payment of the banking costs of the issue of declarations of ownership and of shareblocking, for shareholders to participate in the Annual General Meeting I; • No imposition of statutory restriction on postal voting; • No imposition of a prior period of more than five working days for the reception of the declaration to vote issued by post; • Availability of ballot papers for the exercise of voting rights by postal vote (at the website, by physical delivery or postal dispatch, through the GRI or at the shareholder's request); • Vote by proxy accepted without any restrictions. Its exercise is facilitated through the assistance the GRI provides to all interested shareholders.
<p>III. – Corporate Rules</p> <p>3. It is recommended that companies establish internal control systems, aimed at efficiently detecting risks arising from the activities of the company, and thereby helping to safeguard the assets of the company and the transparency of its corporate governance.</p>	<ul style="list-style-type: none"> • Adoption of a developed, connected and efficient internal control system, aimed at detecting and mitigating the risks inherent in the Company's activity.
<p>4. Measures adopted to prevent the success of public offerings for acquisition should respect the interests of the company and its shareholders. Measures considered contrary to these interests include defensive clauses intended to cause an automatic erosion of company assets in the event of the transfer of control, or of a change to the composition of the Board which prove detrimental to the free transferability of shares and the free appraisal by shareholders of the performance of members of the Board.</p>	<ul style="list-style-type: none"> • Inexistence of defensive clauses whose effect might cause an automatic erosion of company assets in the event of the transfer of control or of a change in the composition of the Board (without prejudice to the usual clauses of a change of control not defensive in nature, aimed at protecting counterparts in terms in accordance with international practices).

MEASURES ADOPTED FROM THE CMVM RECOMMENDATIONS

CMVM RECOMMENDATION	MEASURES ADOPTED
<p>IV. – Board of Directors</p> <p>5. The Board should be composed of a number of members who provide managers with effective guidance for the management of the company.</p>	<ul style="list-style-type: none"> • Effective guidance regarding the management of the Company from the Board; • Separation of the responsibilities of the Chairman of the Board of Directors and the Chairman of the Executive Committee; • Separation and linkage of the duties of control and supervision in relation to Board and management, due to the existence of directors with executive and non-executive roles.
<p>6. The inclusion on the Board of one or more members who are independent in relation to the dominant stakeholders is encouraged, with a view to maximising the pursuit of the company's interests.</p>	<ul style="list-style-type: none"> • Composition of the Board is essentially of members unrelated to dominant stakeholders, including, in particular, three directors who are on the Audit Committee; • Ongoing appraisal of the independence of the directors by the Board of Directors.
<p>7. The Board is encouraged to set up internal control committees, with competencies in the evaluation of corporate structure and governance.</p>	<ul style="list-style-type: none"> • Existence of an Audit Committee with responsibilities such as reviewing and perfecting accounting principles and practices and auditing the Company.
<p>8. It is recommended that the remuneration of the members of the Board be structured so as to permit their interests to be aligned with the interests of the company, and that they should be the object of annual disclosure in individual terms.</p>	<ul style="list-style-type: none"> • Annual disclosure of the total amounts of remuneration allotted to the members of the Board, specifying both the fixed and variable components and the remuneration of the executive and non-executive directors.
<p>9. The members of the remuneration committee or equivalent should be independent from the members of the Board of Directors.</p>	<ul style="list-style-type: none"> • The remuneration of the Board members is fixed by the Remuneration Committee, elected by shareholders, composed of independent members of the Board of Directors.
<p>10. The proposal submitted to the General Meeting regarding the approval of plans to allot shares and/or stock options to members of the Board and/or employees should contain all the information necessary for a proper appraisal of the plan. The plan's regulations, if already available, should accompany the proposal.</p>	<ul style="list-style-type: none"> • Plans to allot shares or stock options approved by the General Meeting in the terms recommended.

1. DISCLOSURE OF INFORMATION

1.1. The Group's Organisational Structure

The Board and supervision of EDP is undertaken by the Board of Directors and the Statutory Auditor, the latter being required to be an Official Auditor.

The Board of Directors, whose mandate began at the General Meeting in May 2003, delegated competencies for the day-to-day management of the Company to an Executive Committee, composed of five members. At the General Meeting on 31 January 2005, the Board of Directors was enlarged from thirteen to fifteen members through the election of two directors who do not perform executive functions.

The EDP Board of Directors also set up an Audit Committee, composed of three independent members, with the mission of continuously supervising the activity of the Company's external auditors and expressing an opinion on their appointment or dismissal, observing their

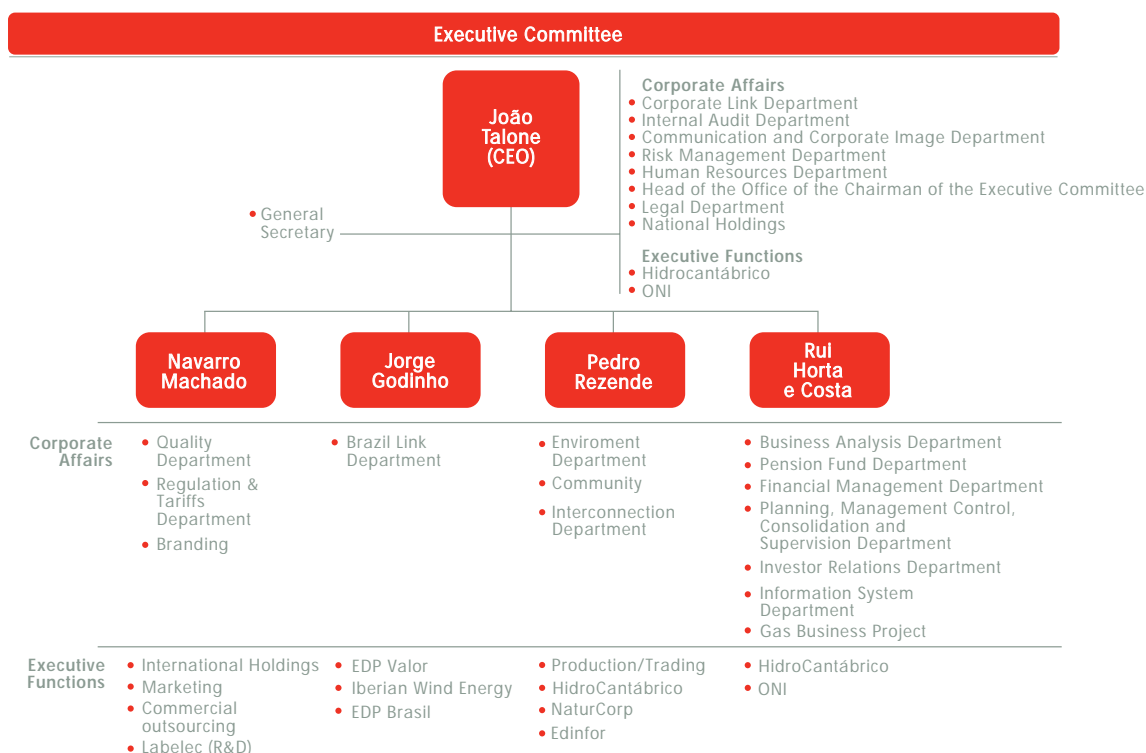
relationship with the various company officers, and giving an opinion on the internal procedures with regard to auditing or on issues that may be raised in respect of the accounting practices followed by the Company.

Board of Directors	
Chairman	Francisco de la Fuente Sánchez
Executive Committee	João Luís Ramalho de Carvalho Talone (Chairman) Arnaldo Pedro Figueiróa Navarro Machado Jorge Manuel Oliveira Godinho Pedro Manuel Bastos Mendes Rezende Rui Miguel de Oliveira Horta e Costa
Audit Committee	José Manuel Trindade Neves Adelino (Chairman) António Afonso Pinto Galvão Lucas Luís Filipe Rolim de Azevedo Coutinho
Non-Executive Directors	João Eduardo Moura da Silva Freixa José Alfredo Parreira Holtreman Roquette José Pedro da Silva Sucena Paiva Manuel Menéndez Menéndez Paulo Azevedo Pereira da Silva

In 2004, EDP established the EDP Foundation, dedicated to patronage, for the EDP's intervention in the area of social and cultural citizenship and to provide for the management of the Electricity Museum.

Fundação EDP	
Chairman	Francisco de la Fuente Sánchez

The Executive Committee is organised in accordance with the following functions:



(1) In greater detail in Chapter 5.6. of this book
NB: The Department of the Environment & Sustainable Development is under the control of the Chairman of the Board of Directors

1.2. EDP Functional Structure

EDP's activities are structured into a corporate group in accordance with the organisation, functions and competencies determined by the Executive Committee, which defines the Group's organisational model and the breakdown of functions between the various Business Units, the Shared Services Unit – EDP Valor – and the central structure that works together with the Executive Committee, composed of a body of General Managers and a Corporate Centre, organised into Departments and Co-ordination Areas.

In 2004, the Corporate Centre was reorganised, and priority areas were defined, with the aim of making the structure more flexible and lighter. Essentially, new departments were included and the internal composition of each department was studied, together with its functions and aims.

This study, completed at the start of 2004 and immediately implemented, made it possible to transfer certain competencies between the Corporate Centre, EDP Valor and the various business units, so that the respective functions and processes were optimised. With its new organisation, the Corporate Centre will have only the essential and added-value services but, at the same time, a greater role as a centre for defining the strategy implemented by the business units.

At the beginning of 2005, a new readjustment was introduced in order to give a better response to the more markedly Iberian identity that EDP took on after the acquisition of control of HidroCantábrico, and to adapt to the restrictions resulting from the Community Directive on the Electricity Market. The present configuration of the central support structure for decision-making processes is the following:

Boards of Directors • Executive Committee

GENERAL MANAGERS

António Manuel Barreto Pita de Abreu
António Manuel Pacheco de Castro
António Martins da Costa
João Manuel Manso Neto
Joaquim Armando Ferreira Silva Filipe
Joaquim Coronado
Jorge Manuel Ribeirinho Soares Machado
Manuel Luís Norton Brandão
Vasco Manuel de Castro Coucello

OFFICES & DEPARTMENTS

Head of the Office of the Chairman of the Executive Committee
Quality Department
Environment Department
Business Analysis Department
Corporate Link Department
Internal Audit Department
Communication and Corporate Image Department
Pension Fund Department
Risk Management Department
Financial Management Department
Community Interlink Department
Brazil Link Department
Planning, Management Control, Consolidation and Supervision Department
Energy Planning Department
Human Resources Department
Regulation & Tariffs Department
Investor Relations Department
Information System Department
Legal Department
Gas Business Project
General Secretariat

Stephan Godinho Lopes Morais
Paula Pinto da Fonseca
António Manuel Neves de Carvalho
Carlos Alves Pereira
Rui Ferin Cunha
Vitor Manuel Silva Leitão
Horácio Manuel Piriquito Casimiro
Luís Manuel da Costa Veloso
António Maria Ramos da Silva Vidigal
Magda Abdool Magid Vakil
António Manuel Pacheco de Castro
Joaquim Pedro de Macedo Santos
Miguel Ribeiro Ferreira
António José Silva Coutinho
Eugénio André da Purificação Carvalho
Mária Joana Mano Pinto Simões
Pedro Manuel Manuel Carreto Pires João
Luís Pedro Ferraz Flores
António Pedro Balançuela Alfaia de Carvalho
José Manuel Ferrari Bigares Careto
António José Marrachinho Soares

The competencies and functions of the currently existing offices are the following:

The Chairman of the Executive Committee and the other members of the Executive Committee of the Board of Directors are advised by the **Head of the Chairman of the Executive Committee's Department**, who, besides acting as secretary at the Executive Committee's weekly meetings, directs and monitors projects of strategic and financial importance and represents EDP before external entities.

The mission of the **Quality Department (GQL)** is to collaborate with the Group's business units so as to increase their profitability, competitiveness and market share in applicable cases. For this purpose, it gathers, selects and analyses information relevant for decision-making, to enable internal perfection processes to be better conducted and to facilitate the achievement of aims. In order to attain these objectives, it (i) uses market studies of external and internal customers, and Group employees, as its main support methodology, (ii) identifies new business opportunities, (iii) provides training courses in the quality area and (iv) acts as an internal consultant.

The main competencies of the **Environment Department (GAB)** are (i) to advise the Board of Directors in matters relating to the environment and sustainability, particularly in defining corporate action policies and strategies and in supervising goals and aims, as well as in the relationship with the Environment Board, (ii) to report on the Company's activity in environmental matters, (iii) to provide the co-ordination of activities of a strategic order in environmental matters in the Corporate Centre and to ensure that operational activity in the Group is undertaken in coherence with the guidelines of the Board of Directors and (iv) to supervise the development of the environmental issues most important for the business, and to propose the adoption of overall strategies for the company's activity.

The mission of the **Business Analysis Department (GAN)** is to optimise the Group's business portfolio through critical analysis in the light of the strategic development outlined by the Board of Directors. Its main areas of operation are the appraisal of projects, identification of business opportunities, analysis and execution of operations involving the purchase and sale of assets and stakeholdings and negotiation of partnership agreements, as well as support for the Board of Directors in taking decisions regarding strategic investment and disinvestment.

The **Corporate Link Department (GAC)** was set up in 2005 to support and guarantee the smooth running of the new central structure, ensure that the Management Committees are performing adequately and liaise with the company officers of the companies they cover, guaranteeing, in particular, that decisions taken are formalised and implemented at head office.

The main function of the **Internal Audit Department (GAI)** is to support management in designing, implementing and monitoring an internal control system suitable for pursuing the set objectives of operational effectiveness and efficiency, by carrying out structural appraisal audits of the internal control and by checking the effective working and effectiveness of the established controls, providing management with a reasonable guarantee of their capacity to prevent, detect and correct the occurrence of operational irregularities and errors, or materially relevant omissions in the information used to measure the degree of compliance with the set objectives, and to manage the organisation, liaising their activity with External Auditors and Statutory Auditors.

The **Communication and Corporate Image Department (GCI)** is responsible for managing media contacts, advertising and media management, internal and organisational communication, the company media (website, intranet and in-house magazines) and institutional relations. The GCI centralises all the EDP Group's communication areas, including EDP Brasil.

The main competencies of the **Pension Fund Department (GFP)**, set up in 2004, are to provide the EDP Group's Pension Fund with a specialised, dedicated management and to ensure an integrated management of assets and liabilities, in order to minimise the financing risk in the Pension Fund Balance Sheet.

The mission of the **Risk Management Department (GGR)** is to define, implement and maintain an Integrated Risk Management System (SGIR) for the EDP Group. The use of the SGIR represents a source of comparative advantages for EDP, since it makes it possible to include the risk factor in the Group's strategic and operational decisions. Indeed, the opportunities that present themselves to a group the size of EDP bring with them uncertainties whose quantification, by calculating their inherent risk, is a decisive contribution towards correct decision-making.

The **Financial Management Department (GFN)** is responsible for presenting proposals defining the Group's financial management policy, by observing compliance with it and by controlling its financial liabilities. The GFN's functions include managing the debt portfolios of EDP, S.A., and EDP Finance BV, the associated interest and exchange rate risk and the centralised cash management of Group companies that operate in the domestic electricity sector, or are directly or indirectly 100% owned by EDP, and negotiating and contracting financing and credit lines. Along with this, it supervises the financial areas of the subsidiary companies. The GFN is also the main interlocutor with the debt and banking markets and with the rating agencies.

The **Community Interlink Department (GIC)** was set up in 2005, and will aim to ensure the relationship with community bodies with regard to the monitoring of themes with a significant impact on the activity and representation of the EDP Group.

The **Brazil Link Department (GLB)** was set up in 2003 due to the importance of EDP's investment in the Brazilian electricity sector. In a period of major corporate change in Brazil, it has become all the more important to have an office in EDP with an integrated view of the most important critical business areas in the country. The GLB follows and monitors the various aspects of the evolution of operations in Brazil, particularly from the strategic, financial, operational and legal and organisational standpoints. It also reinforces the interaction between EDP and its subsidiaries in that country.

The **Planning, Management Control, Consolidation and Supervision Department (GCO)** is organised into three areas of operation: (i) the area of consolidation and corporate control, whose main function is consolidation and accounts reporting, (ii) the area of planning and control of corporate management, responsible for the Group's operational planning and budget, management control, budget control, financial reporting, production of balanced scorecards and review of budgeting systems, (iii) the area of corporate accounting standardisation (national, international and environmental) and (iv) the area of supervision of the Group. Taking on the leadership of the Group in these competencies, the GCO went ahead in 2004 with the implementation, across the whole Group, of an integrated management accounting and corporate control information system.

The **Energy Planning Department (GPE)** was established in 2003 with the purpose of supporting the Group with an integrated view of the entire portfolio and of its present and future positioning in the Iberian market, looking at needs and options for sourcing energy. With this purpose, the GPE was set up as a platform to organise liaison between the Group's various gas and electricity business areas to achieve the necessary integrated view of the market and of the activity of the EDP Group.

The purpose of the **Human Resources Department (GRH)** is to support the development of the organisation and its personnel by developing policies and strategies aligned with the Group's objectives and values. Its main responsibilities are (i) designing and developing HR strategies, policies and procedures and Health and Safety at Work, (ii) negotiating with social partners, (iii) controlling the execution of the HR policy, (iv) developing personnel management instruments, (v) implementing social support policies for employees and retired employees, (vi) developing a safety culture and (vii) adapting the HR corporate systems to the regulations and legislation in force and to the needs of organisational development.

The mission of the **Regulation and Tariffs Department (GRT)** is to support the Executive Committee in taking decisions within the scope of the regulations and in the relationship with the various supervisory entities in the energy sector. The GRT monitors the development and implementation of the new European Electricity and Natural Gas Directives, and studies the impacts of the implementation of the MIBEL. The liberalisation of the energy sectors, and the regulation of the 'natural monopolies', entail profound legislative, regulatory and organisational changes. The implications of these for the profitability of companies are important to study, making it necessary to develop economic and financial models and studies of tariffs.

Investor Relations Department (GRI) (see 1.10.)

The **Information Systems Department (GSI)** is responsible for promoting the alignment of the Group's information systems with the business objectives and the evolution of technology, for supporting the Board of Directors in defining the objectives, policies and standards in the area of systems and information technologies and in the overall contracting of goods and services. The GSI's mission is also to assist the Executive Committee in defining the strategy for the Group's systems and information technologies, and to establish the systems master plan, to define the architectural model for systems and technology, to promote software security and to carry out the planning, budgeting and management control for systems and information technologies.

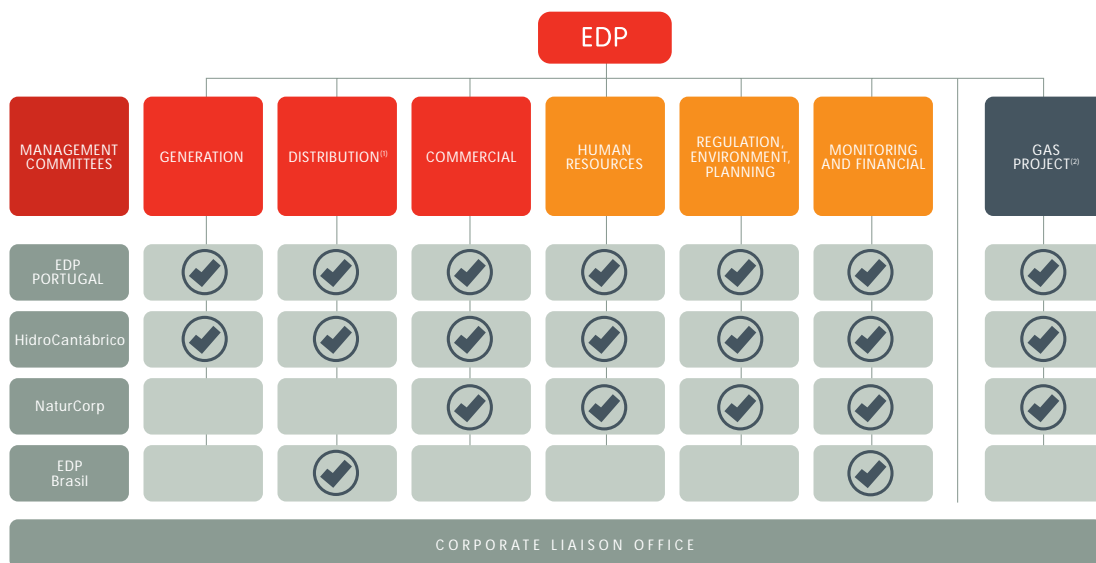
The **Legal Department (GJR)** provides direct legal assistance to the Board of Directors and the Executive Committee, to the other offices and to the various Group companies that may request it. It monitors and provides information about changes in legislation that are of interest to company business, especially those relating to the electricity sector. It assists with the drafting of EURELECTRIC's legal studies and opinions. It takes part in legal proceedings, representing EDP and various other Group companies in lawsuits of a civil, administrative or fiscal nature.

The **Gas Business Project (PNG)** is responsible for EDP's expansion into the natural gas business. Its functions include co-ordinating the activities necessary for entry into the gas market and for the development of the business related to this, with a view to maximising the synergies between gas and electricity.

At the beginning of 2005, in view of the need to adopt a management model that might represent EDP's nature as an Iberian business group, following the increased stake in HidroCantábrico, the Executive Committee decided to give the Corporate Centre the functions of an Iberian Corporate Centre, and approved a central management and reporting structure, geographical and reporting in scope, composed of management committees according to the chart shown below.

Eduardo Oliveira Fernandes (Co-ordinator), Carlos Alberto Pimenta, Gonçalo Ribeiro Teles, Maria Teresa Andresen and Álvaro José Patrício Costa competencies, can effectively minimise the costs of control and supervision.

Central Management



(1) Electricity Distribution;
(2) May become a committee at a later stage.

1.3. Environment Board

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

The Environment Board has certain advisory responsibilities to the Board of Directors in environmental matters, including the formulation of opinions and recommendations on the environmental impact of projects to be promoted by the EDP Group. The Environment Board is composed of five persons of recognised competence in the area of the defence of the environment, elected by the General Meeting, namely:

1.4. Special Committees

An international consensus has gradually been generated on the importance – in terms of efficiency of control, added value for shareholders and corporate social responsibility – of establishing specialised internal structures to facilitate the pursuit of specific objectives. In structuring them, however, care must be taken to guard against genuinely divergent objectives, and to follow a principle of balanced concentration that, without declining into a dilution of competencies, can effectively minimise the costs of control and supervision.

On the other hand, there has always been a principle of adjusting internal committees to the characteristics of each national context, underlining, for example, the recent guidelines defined in the Recommendation of the European Commission of 15 February 2005 (which the Member States of the European Union are invited to implement by 30 June 2006) that internal committees have a particularly important role in those areas where the probability of a conflict of interests at the management level is highest. This implies, in specific terms, the pursuit of a more effective supervision of the management, or a more adequate preparation of the decisions to be taken by the Board of Directors itself, with the purpose of improving the governance of listed companies.

These principles and guidelines that are now recommended by the European Commission, in the wake of international experience, especially in the United States of America, have played a part in EDP's reflection on the matter and in the considered decision to establish special internal committees.

Indeed, as a company with securities listed on the New York Stock Exchange, EDP is subject not only to the national and Community rules in force, but also to certain North American laws and regulations regarding securities, including the Sarbanes-Oxley Act of July 2002 and the regulations on conduct approved by the Securities and Exchange Commission and the New York Stock Exchange.

These regulations and legislation are an essential guide to some of the organic changes that occurred in EDP during the present mandate, in particular the creation in 2003 of an Audit Committee of the EDP Board of Directors, with important roles in the area of vigilance, preparation of financial information and the operation of control systems, as well as a Disclosure of Information Control and Procedures Committee, whose main function is to control the internal certification process of information for the purpose of preparing the annual accounts.

1.4.1. Audit Committee of the Board of Directors

The EDP Audit Committee is a special committee of the Board of Directors composed of three independent directors, to whom the Board has allocated special competencies for supervising the company's financial information and monitoring the activity of the external auditor, the internal auditor and the internal control systems. The current members of the committee are directors José Manuel Trindade Neves Adelino (Chairman), Luís Filipe Rolim de Azevedo Coutinho and António Afonso Pinto Galvão Lucas.

The duties of the Audit Committee are:

- To supervise compliance with, and the proper application of, the accounting principles and standards in force, in liaison with the work of the supervisory body and the external auditor, promoting and requesting the exchange of information necessary for this purpose;
- To analyse the quarterly, half-yearly and annual financial information, producing a non-binding report concerning the accounts for appraisal by the Board of Directors, prior to their approval and signature by the latter. This report may in particular include recommendations to the Board of Directors regarding the provision of information to shareholders;
- To present the Board of Directors with a proposal for appointing the Company's external auditor and establishing the respective remuneration;

- To monitor the activity and vicissitudes of the contractual relations with the external auditor, including recommendations concerning the relationship between the Board of Directors, the Executive Committee or directors and the external auditor regarding the financial information, as well as appraising the objectivity and independence of the external auditor;
- To check the conformity and appropriacy of the costs of the audit in relation to its efficiency, including presenting an opinion on the direct or indirect contracting of services, to the entity providing the external auditing services or to entities that may be related to its group or network;
- To discuss the scope of the audit with the external auditor, for the purposes of submitting recommendations to the Executive Committee or to the Board of Directors;
- To discuss the contents of the annual audit report with the external auditor, particularly with regard to possible reservations submitted, for the purposes of presenting recommendations to the Executive Committee or to the Board of Directors;
- To propose to the Board of Directors measures aimed at improving the performance of the internal control systems and the internal audit;
- To discuss the contents of the internal control report with the internal auditor; and
- To define and implement the procedures for receiving and processing complaints regarding accounting matters, internal accounting and auditing controls, as well as complaints lodged by employees regarding accounting or auditing practices.

For the performance of the duties indicated, the Audit Committee may contract the services of external consultants and take any necessary measures involving the EDP Group's departments and companies.

The members of the Audit Committee are independent directors in accordance with the criteria defined in Article 1.2 of CMVM Regulation No. 7/2001 (as amended by CMVM Regulation No. 11/2003). As soon as it was set up, the Audit Committee took into account criteria relating to the independence of its members, such as the inexistence of any employment relationship or contractual tie with EDP and its respective subsidiaries, or with shareholders with a holding of 2% or more, or with entities in a controlling or group relationship with such shareholders.

These characteristics and duties of the Audit Committee, defined approximately two years ago, are in keeping with the ones now proposed by the European Commission in the Recommendation of 15 February 2005. Although this recommendation is not yet applicable at the internal level, it can be seen that with regard to its composition the Audit Committee includes three non-executive directors, whose profile of independence corresponds, in general, to the one proposed by the European Commission. Likewise, the duties allocated to EDP's Audit Committee are compatible with the role proposed by the European Commission for the audit committee of listed companies in the areas of internal procedures and auditing.

The establishment of the Audit Committee, a pioneering experiment with regard to corporate governance in Portugal, has helped to strengthen the internal control mechanisms within EDP, by virtue of the work of independent board members who have real monitoring competencies. As international experience shows, the work of this committee is important in strengthening the mechanisms for the internal control of management, through a prior intervention that helps to eliminate and prevent possible conflict of interest situations and to enhance the transparency of the management.

During 2004, the Audit Committee actively pursued its business within the scope of the competencies allocated to it, holding 29 meetings.

1.4.2. Other Committees

Disclosure of Information Control and Procedures Committee (CDI)

The CDI is responsible for three primary functions:

- To identify and analyse the information that periodically has to be made public by the Company;
- To participate in the review of the information periodically provided by EDP in the context of preparing reports and other communications to the market; and
- To make a quarterly evaluation of EDP's control and disclosure of information mechanisms.

This committee is therefore an organisational structure responsible for monitoring and evaluating the control mechanisms and information procedures, and is included in the EDP Group's Information Certification Project, which also includes a Project Work Group, directed by the Internal Audit Department in close liaison with the Executive Committee, and Business Area Teams responsible for the control procedures of each sector of activity.

The composition of the CDI includes the heads of the Investor Relations, Internal Audit, Legal, Planning, Management Control, Consolidation and Supervision, Financial Management, Regulation and Tariffs, Human Resources and Environment Departments and the assistants to the Board of Directors responsible for the preparation of information, as well as the heads of the Company's main business areas.

General Committee for Risk Control (CGCR)

The duties of the CGCR are:

- To conduct proper monitoring and appraisal of the EDP Group's risk profile;
- To propose recommendations on the procedures and risk limits for appraisal and approval by the Executive Committee; and
- To analyse extraordinary situations in terms of risk.

Within the scope of the CGCR, an Energy and Financial Risk Sub-Committee (SCREF) was set up, with responsibilities in the trading and financial areas. It is responsible in particular for the operational monitoring of the CGCR's decisions, and for the management of risks common to the financial and trading areas.

1.5. Compliance with the Sarbanes-Oxley Act

The Sarbanes-Oxley Act, passed in July 2002, requires all companies registered with the Securities and Exchange Commission (SEC) to certify their annual report as to the fullness and accuracy of the information contained in it, as well as to disclose publicly the result of the evaluation of the internal control of the financial information disclosed to the market.

Aware of the benefits that the adoption of the principles and practices proposed in Sarbanes-Oxley Act would have for the transparency of the Company's relations with the market, EDP launched a project with the objective of, in a timely manner, creating the conditions enabling it to comply fully with the requirements of the act.

In a first phase, therefore, the project focused on establishing and implementing disclosure procedures and controls consistent with the provisions of Section 302 of the Act, directed mainly at the facts that it is compulsory to report to the American market.

The project currently covers Portugal, Spain and Brazil and focuses on:

- Surveying, documenting, evaluating and correcting omissions and weaknesses identified in the internal control:
 - Of the information flows regarding events and transactions with a materially relevant impact on EDP's financial statements; and
 - Of the controls regarding the other components of the COSO (Committee of Sponsoring Organizations of the Treadway Commission) reference model.
- Formalising the internal control management procedures in accordance with the requirements of the act.

The aim of this work is basically to:

- Monitor more effectively the performance of the internal control of financial information and, consequently, to act more quickly to correct omissions or weaknesses that might undermine the quality of the information provided;
- Produce more objective bases for evaluating the internal control of the financial information that, under the terms of the Sarbanes-Oxley Act, it is required to provide.

1.6. Increase in EDP's Share Capital

On 29 July 2004, EDP announced that it would increase its stake in HidroCantábrico to 95.7%, by acquiring an additional 56.2% holding for the sum of EUR 1.2 thousand million, financed through an increase in EDP's share capital, which was fully subscribed and paid up.

The transaction was communicated to the European Commission, and on 9 September 2004 the Competition Directorate General disclosed its decision not to oppose the operation.

On 4 November 2004, following authorisation approved at an Extraordinary General Meeting, held on 7 October 2004, the EDP Board of Directors determined the share capital increase through a public offering for subscription, reserved for shareholders, of 656,537,715 new shares with the nominal value of EUR 1 each, at the unit price of EUR 1.84.

Key dates relating to the invitation for subscription:

Start of ex-rights trading of shares	9 November 2004
Subscription period	12 to 25 November 2004
Rights negotiation period	12 to 19 November 2004
New shares admitted for trading	7 December 2004

The public offering for subscription for the increase of EDP's share capital was fully subscribed through the exercise of rights and through the additional requests for surplus shares.

The number of subscriptions by exercise of rights amounted to 624,365,827 shares, and 842,720,313 shares were requested on a pro-rata basis. The total demand therefore amounted to 1,467,086,140 shares, equivalent to 2.23 times the total number of shares offered.

This was the largest share capital increase ever undertaken in the capital market in Portugal, and one of the largest in Europe in 2004.

1.7. EDP on the Capital Market

The shares representing EDP's share capital were initially listed on the official market of Euronext Lisbon (then called the Lisbon Stock Exchange) on 16 June 1997.

EDP currently has 2,936,222,980 ordinary shares listed on Euronext Lisbon, with the nominal value of EUR 1, representing 80.30% of its share capital.

Besides Euronext Lisbon, EDP also has securities representing its share capital listed on the Frankfurt Stock Exchange and the New York Stock Exchange (NYSE) in the form of Global Depositary Receipts (GDRs) and American Depositary Shares (ADSs) respectively.

EDP – Energias de Portugal, S.A.

Shares

Shareholder's equity	€ 3,656,537,715
Nominal value of shares	€ 1.00
No. of Shares	3,656,537,715
Stock-market entry date	16 June 1997

Euronext Lisbon

Reuters RIC	EDPP.IN
Bloomberg	EDP PL
ISIN	EDPOAM0009

New York Stock Exchange

Reuters RIC	ADP.N
Bloomberg	EDP US
ISIN	US2683531097

Frankfurt Stock Exchange

Bloomberg	GDR's
	EDP GR

Additionally, EDP shares are an underlying asset for futures contracts transacted on the Lisbon market.

Six of EDP's bond issues are also listed:

Bonds	ISIN Code	Maturing	Coupon	Stock Exchange
22nd Issue	PTEDPROE0003	02-06-06	Euribor 6m - 10.0bp	Euronext Lisbon
23rd Issue	PTEDPSOE0002	20-12-11	Euribor 6m - 12.5bp	Euronext Lisbon
24th Issue	-	05-01-05	Euribor 6m - 10.0bp	Euronext Lisbon
25th Issue	PTEDPKOE0000	23-11-08	Euribor 6m + 22.5bp	Euronext Lisbon
1st Issue EMTN ⁽¹⁾	XS0103383286	29-10-09	Taxa fixa EUR 6.400%	London, Frankfurt
2nd Issue EMTN ⁽¹⁾	XS0126990778	28-03-11	Taxa fixa EUR 5.875%	London, Euronext Paris

⁽¹⁾ EMTN – Euro Medium Term Notes

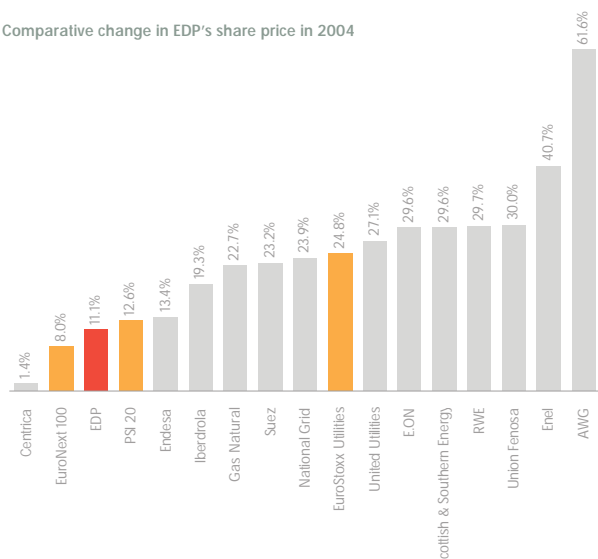
EDP is among the Portuguese companies with greater relative weight on the Euronext Lisbon index, the PSI 20, in the order of 19%, as well as being one of the seven Portuguese companies represented on the Euronext 100 index, with a weight in the order of 0.57%. EDP shares are also included in several European indices, such as the Dow Jones Eurostoxx Utilities, calculated on the basis of the market performance of the principal and most representative European companies in the Utilities sector.

In the period from 31 December 2003 to 31 December 2004, EDP shares rose in value by 11.1%, up from EUR 2.01 (value adjusted due to the importance of the subscription rights to the share capital increase) to EUR 2.23, an increase of 22 euro cents per share.

During most of the year, EDP accompanied the performance of its main European counterparts. However, it closed 2004 underperforming in relation to the Dow Jones Europe Stoxx Utilities index (which went up 24.8% in 2004).

Despite this, EDP performed well in relation to the PSI 20 (+12.6% in 2004), considering that the shares of PT and BCP, respectively the first and third companies with the greatest weight on the PSI 20, went up by 7% and 13%, respectively.

Comparative change in EDP's share price in 2004



EDP vs PSI20 vs DJ Euro Stoxx Utilities



EDP shares are currently one of the most liquid stocks on the domestic market. The market value of the EDP Group, calculated on the basis of its market capitalization as at 31 December 2004, amounted to EUR 8,154 million, or 7% of the total capitalisation of Euronext Lisbon which, at the end of the year, stood at EUR 113,264 million. In 2004, around 2,477 million EDP shares were traded on this official market, representing a daily average of around 10 million shares and about 84% of the total number of EDP shares listed on this market. In terms of turnover, EDP shares accounted for the equivalent of 20% (EUR 5,471 million) of the total volume of shares traded on the regulated Lisbon market (EUR 27,745 million).

Factors influencing EDP share prices

The year 2004 was characterised by a very positive performance by the main stock market indices, supported by some signs of economic recovery and an improvement in the financial performance of companies.

After an initial period of some uncertainty as to the sustainability of economic growth, interest rate moves and the sharp increase in oil prices, the main European utilities rose steadily.

Up to the middle of the year, the behaviour of EDP shares was favourably influenced by the positive performance of world markets and by a number of auspicious factors linked to the EDP Group's current activity.

With regard to endogenous factors, during early 2004, EDP shares incorporated the strategic objectives outlined by the Executive Committee for the three-year period 2004-2006, presented in December 2003 in London to financial analysts and institutional investors. The good reception given to these objectives was reflected in the improvement in the target prices for EDP shares recommended by financial analysts during the first half of the year.

It is worth noting that the developments in the process of restructuring the energy sector in Portugal, especially those relating to the incorporation of Galp Energia's gas assets into EDP, had both a positive and negative influence on the behaviour of EDP shares in the capital market during 2004.

Thus, on the one hand, the agreement of Principes, signed in February between EDP and Eni S.p.A., which established the basis for an understanding as to the pairing of the electricity and gas areas, was seen by the market as a definitive step in redefining the energy sector in Portugal.

On the other hand, the European Commission's declaration of opposition to the operation, proffered in December, marked the end of a period in which the behaviour of the shares was negatively influenced by the flow of news that anticipated this decision unfavourably.

In December, the ERSE's disclosure of the regulatory parameters for 2005 for EDP Distribuição will also have been a factor in pushing down the share price, since the income level established does not yet allow immediate convergence to the profitability levels of the assets.

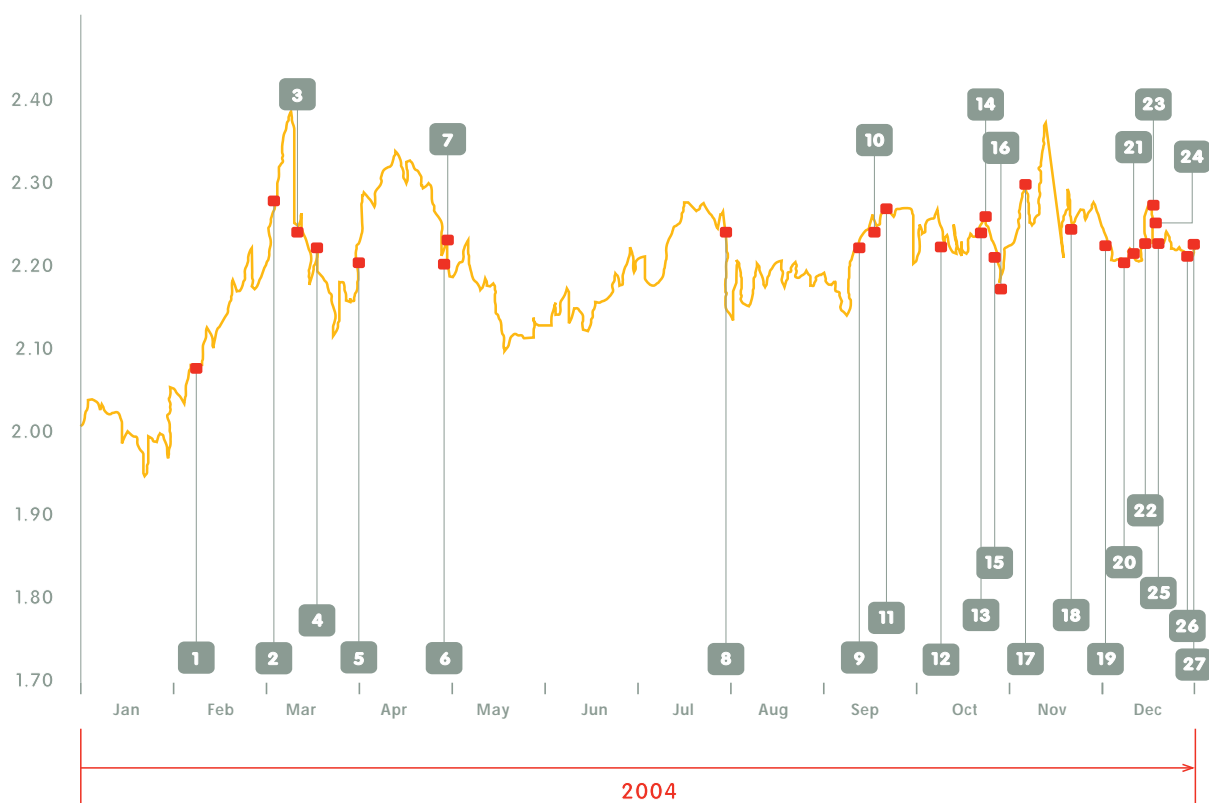
In mid-December, EDP's strategic objectives for the three-year period 2005-2007 were presented in London to financial analysts and institutional investors.

The final days of 2004 saw the publication of Decree-Law No. 240/2004 of 27 December, which granted the right to compensation for the early termination of the Power Purchase Agreements (PPAs) respecting the electricity generating power stations of the Portuguese Public Service Electricity System (SEP), as well as the method and timing of its payment.

Considering that the provisions of this law guarantee the neutrality of the termination of the PPAs, and in particular the possibility of proceeding with the securitisation of the compensation to be awarded to the contracting generators, this has removed one of the factors of uncertainty that might affect the behaviour of EDP shares, probably having a positive influence on the stock's performance.

On 27 January 2005, EDP formalised the contracts for the early termination of the PPAs with the REN, the effects of which will only be seen when the MIBEL actually comes into force.

Main points in the evolution of EDP share quotes in 2004



#	Date	Descrição
1	6Feb	EDP reaches framework agreement with Eni to acquire control of the natural gas sector in Portugal
2	3Mar	Publication of 2003 results
3	11Mar	Madrid bombings
4	17Mar	Draft national plan for Portugal for the awarding of carbon dioxide emissions licences
5	31Mar	Annual general meeting / EDP completes a series of agreements aimed at acquiring GALP's gas business, jointly with Eni and REN
6	27Apr	"Ex-Dividend"
7	29Apr	DatePublication of 2004 1st quarter results
8	29Jul	Publication of 2004 1st half-year results / EDP announces an increase in its stake in HidroCantábrico to 95.7%, via the acquisition of an additional 56.2% stake held by EnBW, CajAstur and Cáser
9	10Sep	European Commission authorizes EDP to increase its stake in HidroCantábrico to 95.7%
10	16Sep	Appointment of KPMG as external auditor for 2004-2006
11	20Sep	Competition Authority decides not to oppose EDP's acquisition of 12.92% of Portgás
12	7Oct	Extraordinary general meeting
13	20Oct	HidroCantábrico and Ono reach agreement to sell a 34.964% holding in Retecal
14	22Oct	ANEEL revises Bandeirante's electricity tariffs downwards
15	25Oct	Publication of 2004 3rd quarter results
16	26Oct	EDP seals a stock option agreement to buy shares in Turbogás and Portugen
17	4Nov	EDP announces a 656 537 715 euros equity increase
18	19Nov	EDP provides information for the European Commission's legal and competition assessment of the company gaining joint control of GDP - Gás de Portugal, SGPS, S.A.
19	30Nov	EDP's equity increase (1.2 billion euros) fully subscribed
20	6Dec	ERSE announces the parameters, tariffs and prices for electricity and other services in 2005 / EDP's board presents its views on the main events and occurrences in 2004
21	9Dec	European Commission decides on EDP's bid to gain joint control of GDP - Gás de Portugal
22	13Dec	EDP exercises its option to buy shares in Turbogás and Portugen
23	15Dec	EDP announces its strategic objectives for 2005-2007
24	16Dec	EDP completes the increase of its holding in HidroCantábrico to 95.7%
25	17Dec	EDP sells its stake in FAFEN to Petrobrás
26	27Dec	Publication of decree-law on the early termination of energy purchasing agreements
27	29Dec	Options exercised to buy shares in natural gas distribution companies in Portugal

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Disclosure of Information

Indicators - Capital Market

	2004	2003	2002	2001	2000	1999	1998	1997
EDP shares on Euronext Lisbon (euros)								
Opening price	-	1.58	2.43	3.52	3.50	3.79	3.49	3.49
Closing price	-	2.09	1.59	2.44	3.52	3.47	3.75	3.48
Maximum price	-	2.14	2.50	3.64	4.22	4.36	4.99	4.04
Minimum price	-	1.38	1.47	2.29	3.10	2.82	3.40	2.64
EDP's price adjusted for the equity increase (euros)⁽¹⁾								
Opening price	2.01	1.52	2.33	3.38	3.36	3.64	3.35	3.35
Closing price	2.23	2.01	1.53	2.34	3.38	3.33	3.60	3.34
Maximum price	2.42	2.06	2.40	3.50	4.05	4.19	4.79	3.88
Minimum price	1.93	1.33	1.41	2.20	2.98	2.71	3.26	2.54
EDP ADR's on the NYSE (US dollars)								
Opening price	26.59	16.79	22.19	33.50	34.75	45.50	38.38	25.84
Closing price	30.23	26.37	16.80	21.80	33.88	34.88	44.56	38.75
Maximum price	31.15	26.50	22.19	34.31	39.50	50.04	54.50	39.63
Minimum price	25.75	15.10	14.56	20.90	25.81	29.00	38.38	25.84
Change in price and reference indices								
EDP shares ⁽¹⁾	11%	31%	-35%	-31%	2%	-8%	8%	12%
EDP ADSs	15%	57%	-23%	-36%	-3%	-22%	15%	12%
PSI20	13%	16%	-26%	-25%	-13%	9%	25%	20%
Dow Jones Eurostoxx Utilities	25%	10%	-27%	-11%	7%	-5%	32%	19%
Euronext 100	8%	13%	-33%	-20%	-	-	-	-
Market liquidity of EDP shares								
Volume on Euronext Lisboa (M. euros)	5,470.9	2,800.2	2,489.5	3,475.5	4,535.4	3,450.1	4,364.0	2,226.1
Average daily volume (M. euros)	21.1	11.0	10.1	14.1	18.4	13.9	17.6	16.4
Volume on the NYSE (M. dólares)	124.3	40.8	43.1	33.2	73.2	55.4	179.4	301.5
Average daily volume (M. dólares)	0.5	0.2	0.2	0.2	0.4	0.3	0.8	2.2
Number of shares traded (M.) ⁽²⁾	2,477.2	1,587.5	1,294.2	1,228.9	1,308.4	1,024.2	1,078.0	726.7
Number of ADRs traded (M.)	2.0	2.0	2.3	1.3	2.5	1.5	3.9	8.5
Total number of shares issues (M.)	3,656.5	3,000.0	3,000.0	3,000.0	3,000.0	3,000.0	3,000.0	3,000.0
Privatized shares at end of year (M.)	2,936.2	2,099.1	2,099.1	2,099.1	2,099.1	1,499.1	1,499.1	899.8
% of equity already privatized	80%	70%	70%	70%	70%	50%	50%	30%
Number of own shares at 31 Dec (M.)	14.3	21.4	17.4	11.7	2.4	1.8	0.0	0.0
Equity rotation (privatized shares)	84.4%	75.6%	61.7%	58.5%	62.3%	68.3%	71.9%	80.8%
Equity rotation (ADRs)	0.7%	0.9%	1.1%	0.6%	1.2%	1.0%	2.6%	9.5%
EDP's market value (M. euros)								
Stock market capitalization at the end of year	8,154.1	6,270.0	4,770.0	7,320.0	10,560.0	10,398.0	11,250.0	10,431.0
Total return to shareholders								
Annual price fluctuation ⁽¹⁾	0.22	0.48	-0.82	-1.04	0.05	-0.27	0.26	-0.01
Gross dividend distributed per share during year	0.090	0.090	0.113	0.140	0.140	0.140	0.130	-
Total return to shareholders	16%	37%	-30%	-27%	6%	-4%	12%	12%
Dividends								
Net profit (M. euros)	440.2	381.1	335.2	450.8	549.0	513.9	522.8	464.0
Net profit distributed as dividends	336.4	270.0	270.0	339.0	419.0	419.0	419.0	388.6
Pay out	76%	71%	81%	75%	76%	82%	80%	84%
Dividend per share	0.092	0.090	0.090	0.113	0.140	0.140	0.140	0.130
Dividend yield	4.1%	4.3%	5.7%	4.6%	4.0%	4.0%	3.7%	3.7%
Share value (euros)								
Net result	0.120	0.127	0.112	0.150	0.183	0.171	0.174	0.155
Dividend relative to profit for the year	0.092	0.090	0.090	0.113	0.140	0.140	0.140	0.130
Book value	1.751	1.766	1.831	2.032	2.068	2.020	2.042	2.059
Market indicators								
Price Earnings Ratio (end of year)	18.5 x	16.5 x	14.2 x	16.2 x	19.2 x	20.2 x	21.5 x	22.5 x
Price to Book Value (end of year)	0.8 x	1.2 x	0.9 x	1.2 x	1.7 x	1.7 x	1.8 x	1.7 x
Dividend yield	4.1%	4.3%	5.7%	4.6%	4.0%	4.0%	3.7%	3.7%
Earnings yield	5.4%	6.1%	7.0%	6.2%	5.2%	4.9%	4.6%	4.4%

⁽¹⁾ For comparison purposes, EDP share prices prior to 9/11/04 have been adjusted to take account of the increase in EDP's share capital in 2004.

⁽²⁾ The number of shares traded has been adjusted so as not to alter the daily turnover, after adjustment of the price referred in (1).

EDP Shareholders Structure Qualified Holdings

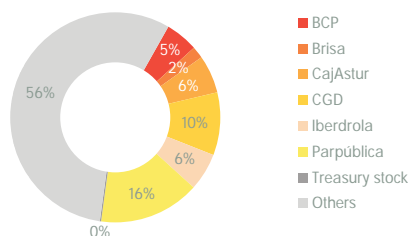
In accordance with the provisions of Article 8.1e) of CMVM Regulation No. 4/2004 of 11 June, the following information is provided in respect of the qualified holdings held by shareholders in EDP's share capital, on the date of the last General Meeting, held on 31 January 2005:

EDP Shareholder structure

Shareholders	No. of shares	% Capital	% Vote
Parpública - Participações Públicas (SGPS), S.A.	569,951,698	15.59%	15.65%
Caixa Geral de Depósitos, S.A.	354,807,404	9.70%	9.74%
Caja de Ahorros de Asturias (CajAstur)	210,251,158	5.75%	5.00%
Iberdrola, S.A.	208,422,650	5.70%	5.00%
Banco Comercial Português, S.A.	185,390,516	5.07%	5.00%
BRISA - Participações, SGPS, S.A.	73,212,459	2.00%	2.01%
EDP (Treasury stock)	13,994,018	0.38%	-
Remaining shareholders	2,040,507,812	55.80%	-
Total	3,656,537,715	100.00%	-

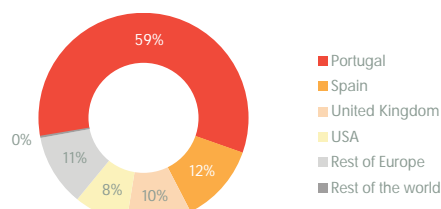
NB: In accordance with the provisions of No. 3, Article 12 of EDP's Articles of Association, no private shareholder may issue votes that exceed 5% of the total votes corresponding with the share capital.

Shareholder Structure



The geographical breakdown of EDP's shareholder structure on 31 January 2005 was the following:

Geographical Breakdown of EDP's Shareholders



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

Shareholding Reported by Shareholders

Shareholders	No. of shares	% Capital
Caixa Geral de Depósitos	353,994,300	9.68%
Fidelidade-Mundial	813,104	0.02%
Sub-Total	354,807,404	9.70%
Caja de Ahorros de Asturias (Cajastur)	202,250,158	5.53%
Cantabrica de Inversiones de Cartera, S.L. (Sociedad Unipersonal)	8,001,000	0.22%
Sub-Total	210,251,158	5.75%
Banco Comercial Português, S.A.	184,995,602	5.06%
Órgãos de Adm. e Fiscalização do BCP, S.A.	44,914	0.00%
Fundação Banco Comercial Português	350,000	0.01%
Sub-Total	185,390,516	5.07%
BRISA Participações, S.G.P.S.	73,202,802	2.00%
Membros do Conselho de Administração da BRISA Participações, S.G.P.S.	9,657	0.00%
Sub-Total	73,212,459	2.00%

Dividend Distribution Policy

Since EDP shares started to be listed on the Lisbon Stock Exchange (now Euronext Lisbon), EDP has annually undertaken a principled and reasoned distribution of dividends, according to rules of prudence and value creation for its shareholders. In keeping with these rules, the values of the dividends distributed by EDP since 1997 are the following:

Financial year	Date of approval	Date of payment	Gross dividend	Net dividend	
				Resident	Non-Res.
1997 (1)	17-04-98	18-05-98	€ 0.648	€ 0.534	€ 0.534
1998 (1)	11-05-99	28-05-99	€ 0.698	€ 0.620	€ 0.620
1999 (1)	12-05-00	31-05-00	€ 0.698	€ 0.611	€ 0.611
2000 (2)	10-05-01	31-05-01	€ 0.140	€ 0.119	€ 0.119
2001 (2)	10-05-02	06-06-02	€ 0.113	€ 0.099	€ 0.093
2002 (2)	22-05-03	18-06-03	€ 0.090	€ 0.079	€ 0.074
2003 (2)	31-03-04	30-04-04	€ 0.090	€ 0.079	€ 0.074

- (1) Amounts converted from escudos to euros to the third decimal place.
The gross value per share in relation to the currency in circulation at the date of payment of the dividend was PTE 129.87 in 1997, PTE 140.00 in 1998 and PTE 140.00 in 1999.
(2) Following a stock split in which each share was replaced with five shares with a nominal value equal to one fifth of their value prior to the stock split.

With regard to 2003, the EDP Board of Directors submitted for the approval of the Shareholders' General Meeting, held on 31 March 2004, a proposal for the appropriation of the net profit of EUR 381.1 million, of which EUR 270 million are for distribution to shareholders in the form of dividends. The proposal was approved by 99.9872% of the votes cast in that General Meeting, and a gross dividend of 9 euro cents per share was placed at the disposal of shareholders for payment on 30 April 2004

The EDP articles of association, in keeping with legal provisions in force, require that the profits for the year be appropriated, in particular, to:

- Cover losses in previous years;
- Constitute or increase the legal reserves or other reserves determined by law;
- Constitute or increase other reserves established by deliberation of the General Meeting;
- Distribute to shareholders as dividends; and
- Allocate bonuses to directors and employees, according to criteria defined by the General Meeting.

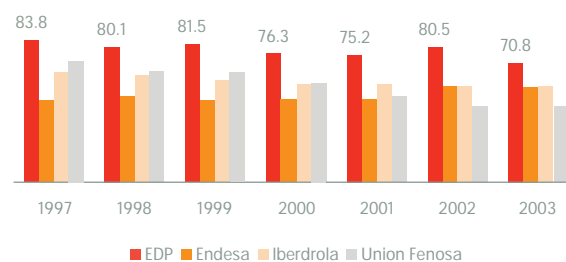
In accordance with the accounting principles generally accepted in Portugal, profits distributable in the form of dividends are deemed to be those that arise after the deduction of losses brought forward from previous years and the provision of 5% to increase the legal reserves, until this amounts to one-fifth of the share capital, taking into consideration all the other applicable legal and statutory limitations.

Dividend Payout and Dividend Yield

EDP has followed a sustained policy of dividend distribution that seeks to reconcile, on the one hand, the strict compliance with the relevant legal and statutory provisions and, on the other hand, the sharing with all its shareholders of a significant portion of the value created by the Group in keeping with the specific conditions of the Company and the market. The pursuit of this policy is intended to enable shareholders to obtain an adequate return on their investment, without compromising the preservation of the Company's value, as shown by comparison with the dividend distribution carried out by its Iberian counterparts:

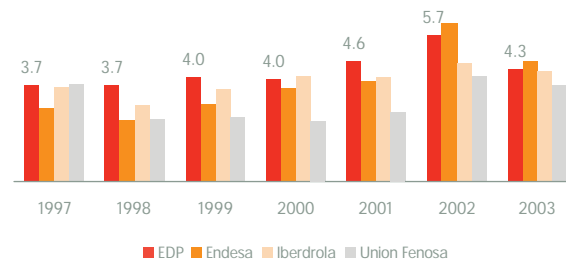
Dividend Payout (%)

Dividend distributed / Net result



Dividend Yield (%)

Dividend distributed per share / quotation year-end close



Subject to the Company's financial situation, and as the forecasts presented in the strategic plan for 2005-2007 are confirmed, it is the intention of the EDP Board of Directors, in respect of the total amount of dividends distributed, to show an annual growth of approximately 7% to 8% per year for the period from 2005 to 2007.

In the first year in which dividends were distributed after the share capital increase in November 2004, the total value of the dividends to be distributed by EDP will need to be adjusted, due to the technical effect resulting from that increase, by considering the closing quotation of EDP shares on Euronext Lisbon on the last day of trading with subscription rights. Hence the total amount of dividends to be distributed by EDP, and their future variation, will need to be determined on the basis of the proportion of the effect of the share capital increase on EDP's market capitalization recorded before the increase.

Therefore the dividend to be distributed for 2004 will be subject to this adjustment, and it is proposed by the Board of Directors that the General Meeting approves the distribution of a gross dividend of 9.243 euro cents per share.

Outlook

EDP believes that a transparent relationship with investors and the market involves the definition of clear criteria and reasonable objectives as to the dividend distribution policy, as the growing demands by the investment community, in view of the instability of the capital markets experienced in recent years, have made clear.

Therefore, at the presentation on 15 December 2004 with Portuguese and international investors and analysts, the objective of increasing dividends by approximately 7% per year for the period 2005-2007 was renewed.

1.8. Share and Option Allocation Plans

The EDP Group implemented two plans to allocate shares following and pursuant to the terms approved at the General Meeting on 11 May 1999, one for Executive Directors and another for staff of the Group's subsidiaries.

At the end of 2004, only the plan for Executive Directors had exercisable options, according to the following table:

Date of allotment	No. of Benef.	No. of options allotted	Price of year	Date year start	Date of expiry	No. of options cancelled
31-Dec-01	7	490,000	2.95	31-Dec-03	31-Dec-06	206,889
31-Dec-02	9	490,000	2.00	31-Dec-04	31-Dec-07	160,386

The other terms, object and characteristics of the stock option purchase plans remain as in the description in Point 1.6 of the Annual Report - Institutional Report for 2003.

In March 2004, the Remuneration Committee defined the performance evaluation factors relating to the variable remuneration of the Chairman of the Board of Directors, Chairman of the Executive Committee and Executive Voting Members for the period 2003/2006, and allocated the stock purchase options for 2003, with an exercise price of EUR 2.29, prior to the share capital increase on 9 November 2004, with the following breakdown:

Date of allotment: 30 Apr 04	Value (euros)	Number
Chairman - Board of Director	47,052	114,832
Chairman - Executive Committee	67,217	164,046
Voting members - Executive Committee	197,332	481,604
Total	311,601	760,482

This plan provides that each purchase option may be exercised up to a maximum of one-third on each one of the first anniversaries counted from the allocation date. Options not exercised at the end of eight anniversaries from the allocation date become null and void.

1.9. Transactions between the Company and members of the Board of Directors and Audit Board, holders of qualified shares and group or group-controlled companies in a controlling or group relationship

EDP strictly observes the legal restrictions applicable in relation to transactions between directors and the Company or Group or Group-controlled companies.

In 2004, there were no transactions between directors and the Company or with Group or Group-controlled companies.

As to services-rendered, purchase or financing contracts with qualified shareholders, the Board of Directors determined that all transactions of a value of EUR 1 million or more for services and supplies, and of EUR 10 million for financial operations and liabilities, must always be submitted for approval or homologation by the Executive Committee, and the Audit Committee must also be informed.

1.10. Investor Support Structures

EDP Communication Policy

EDP, in line with good practices in the governance of listed companies regarding shareholders' right of access to information about the Group's activity, is constantly concerned to ensure that the Company's communication policy and the disclosure of all the relevant information is conducted in a manner that does not discriminate between the various parties acting in the financial market, and that the content of the information is clear and objective.

EDP's communication policy is based on adopting the recommendations put forward by the CMVM and on the best practices of corporate governance in the market in this matter, with a view to ensuring the transparency of the management, and the credibility of the information conveyed by EDP, in order to promote and enhance the trust of shareholders, strategic partners, employees, customers, creditors and the general public.

EDP Investor Relations Department

EDP's Investor Relations Department, set up in 1997 following the first phase of the Company's reprivatisation process, plays a vital role in the pursuit of this objective, by making it possible to maintain a proper institutional and informative relationship with the vast number of shareholders, financial analysts and potential investors in EDP, as well as with the stock markets where EDP shares are listed, and their regulatory and supervisory entities (the Portuguese Securities Market Commission and the Securities and Exchange Commission in the United States).

The primary function of the Investor Relations Department is to act as an interlocutor with the Executive Committee of the EDP Board of Directors and with investors and financial markets as a whole. It is responsible, within the scope of its normal activity, for all the information provided by the EDP Group, both with regard to the disclosure of material events and other communications to the market and to the publication of the regular financial statements. In order to perform its duties, this department maintains a constant flow of communication with investors and financial analysts, providing all the necessary information to satisfy the requests for information addressed to it by these entities, in compliance with the applicable legal provisions and regulations.

The representative for relations with the market is Rui Horta e Costa, an executive member of the Company's Board of Directors. EDP's Investor Relations Department is co-ordinated by Pedro Pires João, and is situated at the company's registered office at:

**Praça Marquês de Pombal, n.º 12, 4º Piso
1250-162 Lisboa**

Telephone: +351 21 001 2834

Fax: + 351 21 001 2899

Email: ir@edp.pt

During 2004, various meetings took place with analysts, shareholders and investors, and there were three 'road shows': the first, in April, in London, and in various cities in the United States of America (San Francisco, San Diego, Denver and New York), the second in June, in the Scandinavian countries, and the third, in the context of the share capital increase, in London, New York, Boston, Frankfurt, Paris and Madrid.

The following table shows a summary of the channels of communication that EDP places at the disposal of its shareholders for the disclosure of information regarding each of the document types indicated.

CHANNELS	In person ¹	www.edp.pt	E-mail	GRI Telephone ⁵	Post ²	www.cmvm.pt	Media
Elements required by law or regulation³							
Convening	v	v	v	v	v	v	v
Board of Directors proposal	v	v	-	v	-	-	-
Change of memorandum+articles of association	v	v	-	v	-	v	-
Other proposals	v	v	-	v	-	-	-
2003 report and accounts ⁴	v	v	v	-	v	v	v
Board and supervisory post held at other companies by members of governing bodies	v	v	-	v	-	-	-
Name, qualifications and professional experience of two new members proposed for the board of directors	v	v	-	v	-	-	-
Additional elements provided by EDP							
Draft proxy voting form	v	v	v	v	v	-	-
Voting slips for postal voting	v	v	v	v	v	-	-
Draft slip for E-voting	v	-	v	v	v	-	-
Clarification of queries	v	v	v	v	v	-	-
EDP memorandum/articles and regulations	v	v	v	v	v	v	-
Results of votes on proposal	v	-	-	v	v	v	-

¹ At EDP's head office

² Also, at EDP's initiative: information from chairman of the board of directors on participating in annual general meetings; communication by the chairman of the executive committee detailing economic and financial activity and indicators at the end of each year; and communication of any matters of importance to the company, such as the equity increase.

³ Companies Act (Article 289) and Stock Market Regulation no. 7/2001.

⁴ Management report, individual and consolidated accounts, statutory audit certificate and sole supervisor's report.

⁵ Investor Link telephone number: +351 21 001 28 34.

Use of New Information Technologies for Disclosure of Corporate Information

Besides the existence of the Investor Relations Office, and in compliance with the regulatory requirements of the CMVM, EDP's institutional website (www.edp.pt) provides all the information of a legal nature or regarding the Company's governance, updates on the development of the Group's business and a complete set of the Company's financial and operational data, in order to make it easier for its shareholders, financial analysts and other interested parties to search for and access information.

The information provided by these means includes the Annual Reports, the communications of material events, the internal regulations and the Company's articles of association, the Group's shareholder structure, the preparatory documents for each General Meeting, the historical evolution of EDP's share price and other information of potential interest about the Group. EDP's website also makes it possible for all interested parties to consult the Annual Reports for any year since 1997 or request that they be sent.

EDP has increased its use of IT support in all disclosure of information processes, far beyond its institutional page on the Internet. Indeed, there is a consistent practice of investing in information technologies in order to facilitate access and the exchange of information between EDP Group companies and the various stakeholders, especially shareholders, financial analysts and media professionals.

With this in mind, EDP has promoted and encouraged the use of e-mail to receive and provide information on its relations with the supervisory entity and the market, as well as teleconference and videoconference facilities in its interaction with brokers and institutional investors.

1.11. Remuneration Committee

The remuneration of the directors and other company officers is fixed by the Remuneration Committee (in line with the guidance provided in the European Commission Recommendation of 14 December 2004), composed of three shareholders elected by the General Meeting, in accordance with the articles of association.

The current members of the Remuneration Committee are:

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

None of the members of this body holds a position on the EDP Board of Directors or is a spouse or relative within the third degree of any EDP director.

The composition of the Remuneration Committee respects the criteria of independence defined by the CMVM.

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

1.12. Auditors

The Audit Committee has reviewed the Group's process for reporting financial information. The management bodies are responsible for the production and reporting of the financial statements, as well as for the internal control systems that serve as a basis for creating them.

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

In connection with internal policies for the governance of listed companies as to the independence of their professional relations with the external auditors, EDP in 2004 consulted the market regarding the provision of auditing services for the three-year period 2004-2006, inviting prestigious international auditing firms to submit bids.

This process ended in the signing of a services-rendered contract for external auditing with KPMG Auditores, S.A., starting in October 2004.

The independent external auditors are responsible for expressing their opinion on the individual and consolidated financial statements prepared in accordance with the accounting principles generally accepted Portugal. The Audit Committee, as already mentioned, has the mission of monitoring the conduct of these activities and for producing recommendations on the process of preparing financial information.

Having discussed the relevant matters regarding the financial statements with the Board of Directors and independent auditors, the Audit Committee recommended to the Board of Directors, which approved it, the inclusion of the audited financial statements in this 2004 Annual Report.

Mandate of the Independent Auditors

KPMG commenced its services on 1 October 2004 for those subsidiaries with a registered office in Portugal, and on 1 January 2005 for those with a registered office abroad. On those dates, PriceWaterhouseCoopers (PwC) ceased its auditing services for the EDP Group.

The costs of auditing fees and the official auditing of accounts, and other recognised and specialised auditing and consultancy services for Portugal, Spain (HidroCantábrico Group at 40%) and Brazil in 2004, were the following:

EUR	Audit & accountancy	Other audit services	Fiscal services	Total
KPMG & corresponding Statutory Auditors & Chartered Accountants	1,497,032	518,690	804,606	2,820,328
PwC & corresponding Statutory Auditors & Chartered Accountants	1,659,996	875,594	42,000	2,577,590
Deloitte & corresponding Statutory Auditors & Chartered Accountants	-	1,326,890	78,593	1,405,483
Other Statutory Auditors & Chartered Accountants	407,725	131,577	-	539,302
Total	3,564,753	2,852,751	925,199	7,342,703

The auditing services and the official auditing of accounts are the services required in order to issue opinions on the individual and consolidated financial statements of the parent company and its subsidiaries in Portugal and abroad. These amounts do not include services provided to associated companies or jointly controlled entities.

The other auditing services performed by PwC and KPMG include the auditing of non-recurrent transactions, implementation of new accounting policies, advice on risk management in terminating the PPAs, review of internal control and other services in connection with the requirements of the CMVM (Portugal) and the Securities and Exchange Commission (United States).

The other auditing services provided by other international auditors relate to services provided by Deloitte & Touche in Portugal, Spain and Brazil, and by Ernst & Young in Brazil, relating to valuation work and other services. The consultancy services are for management consultancy, organisation and control.

2. EXERCISE OF VOTING RIGHTS AND SHAREHOLDER REPRESENTATION

2.1. Statutory Rules

In accordance with the EDP articles of association, to attend and take part in the Shareholders General Meeting, and to be granted voting rights, requires ownership of a minimum of one hundred shares, one vote corresponding to each one hundred shares, without prejudice to grouping and representation rights, under the following terms:

- Shareholders owning less than one hundred shares may form a group so that as a whole, and being represented by one of the group members, they have between them the number necessary for the exercise of voting rights;
- A signed letter addressed to the President of the Board of the General Meeting is sufficient as an instrument of representation.

2.2. Legitimation for the Exercise of Voting Rights

Shareholders may only participate in the General Meeting if they have been holders of shares since at least the fifteenth day prior to the date of the Meeting, and provided that they maintain this status up to the date on which it is held.

Proof of share ownership takes place by sending to the President of the Board of the General Meeting, at least eight days prior to the date of the Meeting, a declaration issued and authenticated by the financial intermediary entrusted with the service of registering the shares in an account, which must state that the shares in question have been registered in this account since at least the fifteenth day prior to the date of this Meeting, and that these shares are blocked in an account up to the date on which this General Meeting will take place.

In a pioneering way in Portugal, EDP has decided to bear the costs of issuing declarations of ownership and of shareblocking for shareholders to participate in the Annual General Meeting. This measure is intended to encourage the active exercise of shareholders' voting rights by eliminating obstacles, especially those of a financial order, that might discourage shareholders from exercising their voting rights.

2.3. Methods of exercising voting rights

EDP Shareholders

Shareholders may exercise their voting rights by correspondence on each of the items on the agenda by sending a recorded delivery letter to the registered office, addressed to the Chairman of the General Meeting, at least eight days prior to the date of the meeting.

EDP has sought to encourage shareholders to participate in the life of the company, in particular by exercising their voting rights at General Meetings, and therefore authorised postal voting in the articles of association as soon as the Securities Code came into force.

To allow for this method of exercising voting rights, the proposals to be submitted by the Board of Directors to the General Meeting, as well as the reports that legally accompany these proposals and other items of preparatory information, are made available to all shareholders at EDP's head office at least fifteen days prior to the General Meeting. At the request of shareholders, EDP also sends this information by mail, fax or e-mail.

Holders of American Depositary Shares (ADSs)

Holders of rights representing shares under ADS programmes listed on the New York Stock Exchange may give instructions to the respective depositary bank for the exercise of voting rights, or grant a proxy to a representative appointed by EDP for the purpose, with due regard for the applicable legal and statutory provisions; the deposit contract must regulate the deadlines and methods for exercising the voting instructions, as well as cases of absence of instructions.

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

Limitation on the Exercise of Voting Rights

With the exception of the State or entities legally equivalent to it for this purpose, no shareholder may cast votes, in their own name or as a representative of another, that exceed 5% of all votes corresponding to the share capital.

In addition, shareholders who come to have a holding of 5% or more of the voting rights, or of the share capital, must communicate the fact to the Board of Directors within the period of five working days from the date on which the holding arose, and may not exercise such voting rights so long as they have not communicated this.

2.4. Model for the Exercise of Postal Voting Rights

In order to extend the use and facilitate the process of postal voting by shareholders wishing to take advantage of this prerogative, EDP provides a draft copy of the proxy letter and ballot paper for the exercise of postal voting on the web page www.edp.pt. Alternatively, these can be forwarded by personal request in writing or by telephone, in accordance with the applicable legal and statutory rules.

2.5. Possibility of Exercising Voting Rights by Electronic Means

EDP offers the possibility of exercising voting rights by correspondence through an electronic message, provided that the legal and statutory formalities for participation in the General Meeting are complied with, and that the identification of the shareholder is provided through adequate methods of certification.

3. COMPANY RULES

Internal Regulations

The EDP articles of association, which define the main rules for the working and organisation of the Company's organic and administrative structure, are available for the public to consult, and can be provided on request at the EDP Investor Relations Office or by accessing the EDP website at www.edp.pt.

Besides the EDP articles of association, the Board of Directors has approved certain regulations regarding the way in which it and its committees operate. The Regulations of the Board of Directors establish a set of rules governing competency and procedure in respect of its activities. Furthermore, the main working rules for the Executive Committee, set up by delegation of powers deliberated on 22 May 2003, are set out in the Regulations of the Executive Committee.

The EDP Board of Directors has also set up a specialised committee composed of three independent directors, called the Audit Committee, with a view to implementing the CMVM Recommendations on the Governance of Listed Companies, and to comply with the standards applicable to companies listed on the New York Stock Exchange, as a result of the Sarbanes-Oxley Act, passed by the United States Senate in July 2002.

The internal regulations of the Board of Directors, and of the committees mentioned, are available for shareholders to consult at the Company's head office or on the EDP website at www.edp.pt, as well as on the Group's intranet.

Indication of measures that might interfere with the success of public offerings for acquisition

Although there are no limitations on the transmissibility of EDP shares, since, under the terms of the Securities Code, shares transacted on the market must be freely transmissible, EDP's articles of association contain rules regarding the limitation on the exercise of voting rights. The law that defined the conditions for the fourth phase of EDP's reprivatization, which took place in October 2000, also establishes certain special rights granted to the Portuguese State, as an EDP shareholder, that might interfere with the success of public offerings for acquisition of EDP shares.

According to the EDP articles of association, no shareholder, with the exception of the State or of entities legally equivalent to it, may cast votes, in their own name or as a representative of another, that exceed 5% of all votes corresponding to the share capital.

In addition, shareholders who come to have a holding of 5% or more of the voting rights or of the share capital must communicate the fact to the Board of Directors within the period of five working days from the date on which the holding arose, and may not exercise such voting rights while they have not communicated this. For this purpose, the voting rights that under the terms of the Securities Code are deemed to be part of a qualified holding are deemed to be cast by the same shareholder; in this case, shareholders have the duty to provide to the Board of Directors, in writing and in a complete, objective, clear and truthful manner, and in a form satisfactory to the Board, all the information that the latter may request of them regarding facts that may concern them and that may be related to that qualified holding.

Furthermore, under the terms of Article 13 of Decree-Law No. 141/2000 of 15 July, regarding the fourth phase of the EDP reprivatisation process, so long as the Portuguese State is an EDP shareholder, irrespective of the number of shares it may hold, whether directly, or indirectly through public bodies, the approval of the following deliberations depends on its vote in favour:

- Alteration of the articles of association, including share capital increases, mergers, splits and dissolution;
- Signature of group parity and subordination contracts; and
- Abolition of, or limitation on, shareholders' right of preference in share capital increases.

Likewise, so long as the State retains its status as an EDP shareholder, it holds the right to appoint a director if it votes against the winning list in the election of EDP directors. This right granted to the Portuguese State prevails over the rights granted to minority shareholders, under the terms of Article 392 of the Companies Code.

4. RISK MANAGEMENT AND CONTROL SYSTEM

During 2004, the Risk Management Department (GGR) continued the work of modelling and controlling the EDP Group's Risks. Solid advances were achieved in this area during the year, and the main structures for the EDP Group's governance were put into operation.

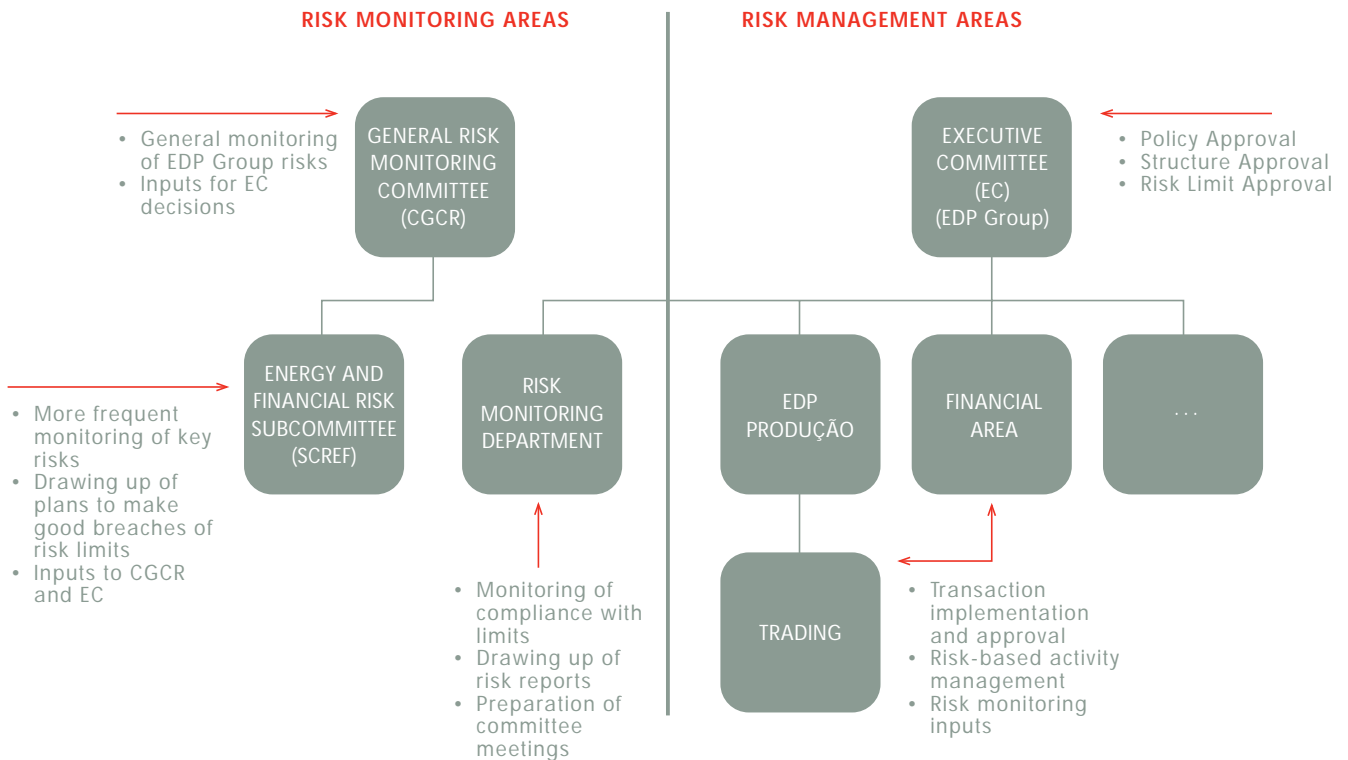
The EDP Group's General Committee for Risk Control, whose mission is to define the Group's risk strategy and to monitor its execution, meets on a quarterly basis under the aegis of the Chairman of the Executive Committee. The SCREF - Sub-Committee for Energy and Financial Risks - also meets on a monthly basis, following more closely the risk aspects of the Financial and Trading Divisions.

In 2004, these committees ensured the regular monitoring of the risks of:

- the Trading Unit;
- the EDP Group's debt (EDP,S.A., EDP Finance BV and HidroCantábrico);
- the assets of the Pension Fund; and
- the assets of Energia RE.

The risk strategy, proposed by these committees and approved by the Executive Committee, involves the recognition that risk constitutes an additional dimension of management, which must be taken into account when the Company takes its main decisions. The GGR should ensure that the levels of risk in the Group are low, and that it is managed in an objective and rigorous manner, based on well-defined processes and in close co-operation with the Internal Auditors.

GOVERNANCE STRUCTURE

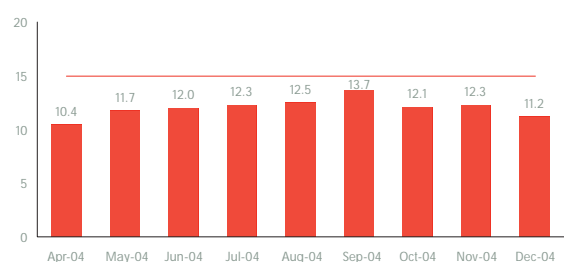


During the year, a series of steps have been taken to raise the awareness of risk management within the Group, including in particular the development, together with the CEMAF/ISCTE, of a training programme in Financial Risk Management, which will enable a large number of staff in various areas of the EDP Group to have access to specialist knowledge and eventually to receive a PRMIA Certificate.

Risks Associated with Trading

In 2004, the Trading Unit developed methodologies that allowed it to optimise its decisions and to keep the different components of the risk within the defined levels. This area systematically uses the 'mark-to-model' of the different trading positions, and it has been observed during the year that the CFaR (Cash Flow at Risk) at one year with confidence at 95% has remained consistently below the defined limit of EUR 15 million.

EVOLUTION OF CASH FLOW AT RISK

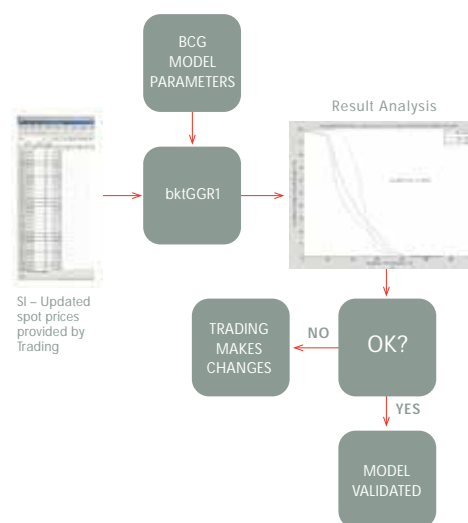


During the year, this Unit's Credit Risk was also controlled, remaining within the established limits.

As the markets in which we operate still have limited liquidity, the model used to measure the risk of the positions taken is of fundamental importance.

Therefore, the GGR and the Trading Unit have agreed on an internally developed methodology of systematically 'backtesting' the model used. This methodology, which makes it possible to guarantee the consistency of the risk measurements obtained, will be an integral part of the new system being developed for the Trading Unit, the MUR – Single Market Risk Quantification Model.

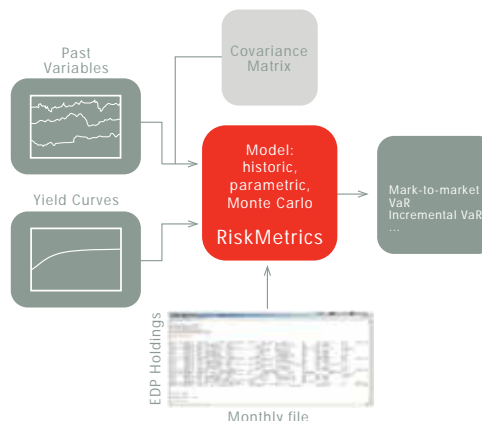
BCG MODEL BACKTEST PRODUCE (analysis will gradually be expanded)



EDP Group Debt Risks

For the systematic measurement of the EDP Group's debt, the RiskMetrics methodology was adopted, with which the monthly 'mark-to-market' of the debt was carried out.

MONTHLY CYCLE

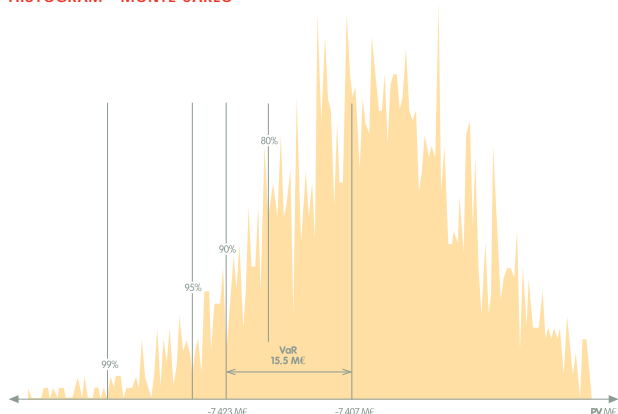


For analyses, the historic, parametric or Monte Carlo method is used, and thus a set of characteristics associated with the volatility of EDP's debt portfolio is obtained.

During 2004, the calculation of the risk of the debt of EDP, EDP Finance BV and HidroCantábrico was placed in automatic processing, and certain aspects of the debt of the companies in Brazil were also studied.

From studies carried out in a systematic way, it is concluded that, by virtue of the prudent and judicious use of derivatives, EDP was able to keep the volatility of the debt of EDP, EDP Finance BV and HidroCantábrico at low values, and the Value at Risk (VaR) by the Monte Carlo method, at five days with 95% confidence, was kept at a value below EUR 15.5 million, or 0.2% of the value of the debt.

DEBT RISK (EDP+HC) IN DECEMBER - VaR 95%, 5 days
HISTOGRAM - MONTE CARLO



Risk of Pension Fund assets

During 2004, monthly measurements were taken of the VaR associated with the different assets of EDP's Pension Fund. For this purpose, procedures were established for systematically sending, in electronic format, the portfolio positions of the four holding companies that provide the management of the fund's financial component. The same was done with the fund's property component, which is managed directly by EDP. It was observed that the Fund's VaR at one year of the Fund, by the Monte Carlo method, with a confidence interval of 95%, remained below EUR 40 million, or 4.9% of the value of the Fund. It was also seen that the fund behaved adequately when subjected to a series of 'stress tests', which included the simulation of a situation similar to September 11, as well as important changes in interest rates.

The correlation between the different portfolios was also analysed.

Measurement and Risk Control of the assets of Energia RE

A systematic measurement was also carried out of the risk associated with the Fund of Energia RE, the EDP Group's reinsurer, whose assets are managed by Kredietrust. It was observed that the VaR of this Fund at one year, by the Monte Carlo method, with 95% confidence, remained below 10% of its current net value.

Future developments

In 2005, the development of the Integrated Risk Management System (SGIR) continued, ensuring in parallel its adoption throughout the EDP Group. This strategy involves the implementation, together with HidroCantábrico, of three important projects, which in a second phase will be extended to the Group's other companies:

- Authorisation System – control workflow of decisions by the Group's senior management, already in operation at HidroCantábrico and to be extended to companies in Portugal and Brazil, for a series of processes relevant for risk and not included in the existing corporate systems;
- Risk Portal – makes it possible to constantly update and consult the risk indicators (quantitative and/or qualitative) of the EDP Group's various organisational units, as well as to check the total aggregate values (by business, by type of risk, and others); and
- Risk Measurement System – will make it possible to calculate the risk of the various business units and their aggregation at the Group level, as well as to determine the risk associated with large investments.

5. MANAGEMENT

5.1. Characterisation of the Board of Directors

The EDP Board of Directors, which includes independent persons, is currently composed of fifteen directors elected at a General Meeting, which also appoints the Chairman of the Board of Directors. The directors' mandate is for three years with no restriction as to their re-election.

5.2. Description of the work of the Board of Directors

It is the responsibility of the EDP Board of Directors to direct the management of the company's business, and particularly, in accordance with the articles of association, to:

- Establish the objectives and management policies of EDP and the EDP Group;
- Draw up the annual business and financial plans;
- Manage corporate business and undertake all the actions and operations with regard to the corporate object that do not fall within the competency allocated to other company bodies;
- Represent the company in and out of court, actively and passively, with the power to waive, transact and confess in any legal proceedings, as well as to make arbitration agreements;
- Acquire, sell or by any other means dispose of, or encumber, rights or fixed assets;
- Establish companies and subscribe, acquire, encumber and dispose of corporate holdings;
- Deliberate on the issue of bonds and other securities under the terms of the law and the articles of association;

- Establish the technical and administrative organisation of EDP and the rules of its internal operation, especially regarding personnel and their remuneration;
- Establish proxies with such powers as it may deem fit, including those of appointing substitutes;
- Appoint the company secretary and his/her deputy; and
- Exercise the other competencies that may be granted to it by law or by the General Meeting.

The Chairman of the Board of Directors is granted particular competencies, and has the duty of:

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

The Board of Directors meets as a rule on a monthly basis in the presence of all the directors, and may not deliberate unless the majority of its members are present. It is not permitted for more than one director to be represented at each meeting. All directors have equal voting rights, and the Chairman has the casting vote. The work of the Board of Directors is guided by an internal set of regulations.

In 2004, the Board of Directors held twelve ordinary and twelve extraordinary meetings.

5.3. Executive Committee

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

As a rule, the Executive Committee meets on a weekly basis in the presence of all of its members. The work of the Executive Committee is established in the respective regulations, approved by the Board of Directors, which also appointed the Chairman of the Executive Committee and established the rules regarding information and the monitoring of its activities by the Board.

At all meetings of the Board of Directors, the Executive Committee presents the developments of the Group's strategic agenda and the more important decisions that it has taken, in addition to the minutes of the meetings of the Executive Committee.

In order to ensure complete knowledge of all matters covered by the Executive Committee, it is established that the provision of information to any member of the Board of Directors is made known to all members of the Board.

The duties of the Executive Committee were established by the Board of Directors in the deliberation delegating the powers of the Company's day-to-day management, consisting essentially of:

- Designing and proposing the Group's strategy and policy;
- Day-to-day conduct of the business of EDP and the Group's companies;
- Co-ordination of the activity of the subsidiary companies;
- Management of the holdings owned by EDP; and
- Co-operation with the Board for the definition of the Group's policies.

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

- Co-option of directors;
- Requests to call General Meetings;
- Approval of the Annual Report to be submitted to the General Meeting;
- Approval of the half-yearly and quarterly accounts to be published under the terms of the law;
- Approval of the annual and multi-annual plans and budgets and the periodic monitoring of their execution;
- Change of EDP's registered office, under the terms set out in the articles of association;
- Projects for the merger, split, transformation and disposal of EDP Group companies; and
- Provision of bonds and personal or real guarantees by the Company.

The Executive Committee must also make the Board of Directors aware of the decisions of special importance that it may have taken and, when justified, submit for the appraisal of the Board of Directors the decisions that, due to their importance, it deems to require the confirmation of the Board.

Notwithstanding this delegation of powers, the members of the Board of Directors who are not on the Executive Committee are, under the terms of the applicable legislation, responsible for supervising the actions of the Executive Committee, as well as for the losses caused by its acts or omissions, when, having been made aware of these acts or omissions, or of the intent to practise them, they do not bring about the intervention of the Board of Directors to take the appropriate measures.

In 2004, the Executive Committee held forty ordinary meetings and fourteen extraordinary meetings.

5.4. Remuneration of Company Officers

Remuneration of Company Officers during 2004

In keeping with the articles of association, the General Meeting elects a Remuneration Committee that establishes the remuneration of Company Officers. The General Meeting may also determine the award of a part of the profits to directors, as profit sharing, as well as the implementation of stock option plans.

The remuneration awarded in 2004 to EDP Company Officers was the following:

euros	Total
Board of the General Meeting	7,500
Sole Auditor	116,731
Board of Directors	4,276,613
Total	4,400,844

Remuneration policy for the Members of the Board of Directors

In the present mandate, the Remuneration Committee defined a set of assumptions aimed at rewarding performance and encouraging the consistency of management in the medium and long term. This is in keeping with the CMVM recommendations and with the best international practices of aligning the interests of managers with the interests of the Company.

For this purpose, a ceiling of variable remuneration was established for each type of responsibility, which may be reached on the basis of qualitative and quantitative performance criteria, according to predefined objectives:

- Short term – Cash bonus, taking into account the objectives of return on shareholders' equity (ROE), return on invested capital (ROIC), gross operating profits (EBITDA) and variation in the net situation;

- Medium term – Shares for performance, taking into account the objectives of total return on shareholders' equity, all the equivalent companies and the evolution of the PSI 20; and
- Long term – Stock option plan, taking into account the objectives of return on shareholders' equity (ROE), return on invested capital (ROIC), gross operating profits (EBITDA) and variation in the net situation.

Remuneration of the Board of Directors in the present Mandate

The remuneration earned by the members of the Board of Directors during 2004 breaks down as follows:

Board of Directors	Fixed	Variable	Attendance fees ⁽¹⁾	Total
Chairman - Board of Directors	606,167	134,433		740,600
Chairman - Board of Committee	606,167	134,433		740,600
Voting members - Exec. Comm.	1,786,776	394,668		2,181,444
Voting members - Audit Comm. ⁽¹⁾	118,382		125,000	243,382
Voting members neither on the EC nor the AC	141,382			141,382
Previous term (variable relating to Jan./May 2003) ⁽²⁾		229,206		229,206
Total	3,258,873	892,740	125,000	4,276,613

⁽¹⁾ Value of attendance fees relating to the 2003 & 2004 financial years, paid in 2004

⁽²⁾ Management premium relating to the term ended in May 2003

5.5. EDP shares held by Company Officers

In accordance with Article 447.5 of the Companies Code, the movement of shares belonging to Company Officers during the year ended as at 31 December 2004 was as follows:

EDP Shares held by Members of Governing Bodies

	Movements em 2004*	No. of shares 31-12-04
Board of the General Meeting		
José Manuel Archer Galvão Teles	771	4.277
António Campos Pires Caiado	1.096	5.078
Board of Directors		
Francisco de la Fuente Sánchez	2.281	12.654
João Luís Ramalho de Carvalho Talone	419	2.324
António Afonso de Pinto Galvão Lucas	-	-
Arnaldo Pedro Figueirôa Navarro Machado	2.129	11.809
João Eduardo Moura da Silva Freixa	-	-
Jorge Manuel de Oliveira Godinho	6.287	35.380
José Alfredo Parreira Holtreman Roquette	-	1.000.000
José Manuel Gonçalves de Morais Cabral	-	-
José Manuel Trindade Neves Adelino	196	1.091
José Pedro da Silva Sucena Paiva	5.060	10.060
Luis Filipe Rolim de Azevedo Coutinho	-	-
Manuel Menéndez Menéndez	-	-
Paulo Azevedo Pereira da Silva	1.318	7.304
Pedro Manuel Bastos Mendes Rezende	-	-
Rui Miguel de Oliveira Horta e Costa	670	4.432
Company Secretary		
António Pedro Balançuela Alfaia de Carvalho	-	1.346
António José Marrachinho Soares (Suplente)	-	11.696
Remuneration Committee		
BRISA	-	73.202.802
PARPÚBLICA	-	569.951.658
Ruy Manuel Corte-Real de Albuquerque	-	4.561

* All acquisitions were made at the unit price of 1,84 euros

5.6. Company positions held by the members of the Board of Directors

Positions held by non-executive directors

António Afonso Pinto Galvão Lucas: Chairman of the Board of Directors of EPM – Sociedade Gestora de Participações Sociais, S.A.; Chairman of the Board of Directors of Fábrica Cerâmica de Valadares S.A.; Chairman of the Board of Directors of Valadares España S.A.; Manager of CCS Serviços de Gestão, Lda.

João Eduardo Moura da Silva Freixa: Vice-Chairman of the Board of Directors of the Caixa Geral de Depósitos.

José Alfredo Parreira Holtreman Roquette: Chairman of the Board of Directors of Finagra – Sociedade Industrial e Agrícola; Member of the Senior Board of the Banco Comercial Português.

José Manuel Gonçalves de Morais Cabral: Director of Soponata; Director of Efacec Capital, SGPS; Director of Soimper; Director of José de Mello Participações II, SGPS; Manager of José de Mello Serviços, Lda.

José Manuel Trindade Neves Adelino: Member of the Advisory Board of Sonae SGPS; Member of the Board of Management of the Fundo de Garantia de Depósitos; Member of the Strategic Board of Portugal Telecom; Member of the Advisory Board of the Confederation of Portuguese Industry; Member of the National Board of Education.

José Pedro da Silva Sucena Paiva: Full Professor of Electrical Energy Systems at the Instituto Superior Técnico (IST), Technical University of Lisbon; Chairman of the Scientific Board of the Electrical Energy Centre of the IST; Member of the Board of Directors of COGEN Portugal and of the Advisory Board of COGEN Europe; President of the Jury for awarding the REN and the Luís Vidigal Prizes.

Luís Filipe Rolim de Azevedo Coutinho: Guest lecturer at the Economics Faculty of the Universidade Nova in Lisbon; Director of the Association of Music, Education and Culture; Business Consultant.

Manuel Menéndez Menéndez: Chairman of Caja de Ahorros of Astúrias; Chairman of HidroCantábrico; Chairman of NaturCorp; Voting Member of the Board of Directors of the Spanish Confederation of Savings Banks; Voting Member of the Board of Directors of UNESA; Member of the Official Registry of Auditors of Accounts.

Paulo Azevedo Pereira da Silva: Chairman of the Board of Directors of Millennium BCP – Serviços de Comércio Electrónico, SA; Director of BCP Investimento – Banco Comercial Português de Investimento, SA; Director of Credicar - Aluguer de Longa Duração, SARL; Director of ONI, SGPS; Chairman of the Board of Directors of Tecnilease; Chairman of the Board of Directors of Luso-Atlântica; Chairman of the Board of Directors of Unilong; Manager of Cifv Veiculos; Director of BIM-Leasing, SARL (Mozambique).

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

	Francisco Sánchez	João Talone	Navarro Machado	Jorge Godinho	Pedro Rezende	Rui Horta e Costa
EDP - Energias de Portugal, S.A.	CBD	CEC	D	D	D	D
Central-e-Informação e Comércio Electrónico, S.A						CBD
CPPE - Companhia Portuguesa de Produção de Electricidade, S.A		CBD			CEC	D
Edalpro Imobiliária, Lda.						M
EDP - Gestão da Produção de Energia, S.A.		CBD			CEC	D
EDP - Investimentos, Gestão de Participações e Assistência Técnica, Lda						D
EDP Brasil, S.A.				CBD		
EDP Comercial, S.A.			CBD		D	
EDP Energia Ibérica, S.A.					CBD	
EDP Estudos e Consultoria, S.A.		CBD	D	D	D	D
EDP Imobiliária, S.A.					D	CBD
EDP Outsourcing Comercial, S.A.			CBD			
EDP Participações - S.G.P.S., S.A.		CBD				D
EDP Produção EM - Engenharia e Manutenção, S.A.					CBD	
EDP Produção Bioeléctrica, S.A.				CBD		
EDP Serviner - Serviços de Energia, S.A.				CBD	D	
EDP Valor, S.A.		CBD		D		
Electricidade de Portugal Internacional, S.G.P.S., S.A.			CBD			D
Energia RE - Sociedade Cativa de Resseguro						D
Enernova - Novas Energias, S.A.				CBD		
Hidroeléctrica del Cantábrico, S.A.	HC	D			D	D
Iberenergia, S.A.						D
Internel - Serviços de Consultoria Internacional, S.A			CBD			D
Labelec - Estudos, Desenvolvimento e Actividades Laboratoriais, S.A			CBD			
ONI S.G.P.S., S.A	CBD	D				D
Tergen - Operação e Manutenção de Centrais Termoeléctricas, S.A.					CBD	

CBD: Chairman of the Board of Directors

CEC: Chairman of the Executive Committee

HC: Honorary Chairman

D: Director

M: Manager

6. HUMAN RESOURCES

The main guideline for Human Resources (HR) policy in 2004 was that of ensuring the restructuring of the workforce, aligning HR with the Company's strategic plan. The development of new skills, prompted by the new requirements of the market and by the emergence of new business opportunities, mainly in the commercial and trading areas, was one of the major factors in the spheres of recruitment and training.

6.1. Development of Human Resources

Readjustment of skills profiles to business objectives

One of the main concerns in 2004 was to match skill profiles to the new reality of the EDP Group. Therefore there was an emphasis on:

- Execution of appraisal activities, with a view to improving knowledge about the characteristics of the existing managers and top executives;
- Implementation of a coaching process for staff with management roles;
- Admission of fresh staff with the skills appropriate to the new needs identified;
- Reformulation of remuneration policies with a view to both the recruitment and retention of employees with the special capacities needed, and to the international mobility that the EDP Group requires.

Management Appraisal

A plan launched with the aim of acquiring better knowledge of the Group's managers and of making it possible to form and develop qualified and motivated management teams, through:

- Appraisal of the behavioural and management skills of this group of executives in relation to the strategic objectives;

- Identification of areas/skills to be improved, maximising the potential for overall and sectorial development;
- Explanation to each manager in the areas of professional development to be emphasised, in order to improve and activate these skills;
- Obtaining feedback from the staff involved in order to improve career management processes, to clarify possible potentials within the Group and to appraise individual aspirations.

The Management Appraisal plan proved to be one of the most powerful engines for change within the Group. It covered approximately 300 managerial staff, including Assistant Directors, Deputy Directors and Heads of Departments.

Training

With the emphasis on developing top executives and adapting them to the new requirements of the business, two lines of action were taken:

- Advanced training in higher management schools in Portugal, with a view to developing specific skills, involving 22 participants;
- A plan implemented in partnership with the INSEAD Strategic Leadership Programme, aimed at developing support mechanisms for a multipolar corporate culture, involving different geographies and activities, intended basically for members of the macrostructure but also including a limited number of staff considered promising on the basis of proven abilities. In 2004, 66 of the Group's managers were involved, and a total of 200 staff members are expected to participate by the end of 2005.

The contents of this Plan were specially designed for the EDP Group, and are aimed at aligning the corporate culture on all of the Group's fronts. It is composed of six separate modules, dealing with themes like Organisational Change, Leadership, Marketing, Financial Analysis, etc.

Alongside this, the process of the continuous training of executive staff and other employees was maintained. In 2004, 6,605 trainees were involved. Some 40% of the training courses were directed towards Health and Safety and 30% towards Information Systems.

Recruitment and Selection

In terms of Recruitment and Selection:

- There was an extra effort to rejuvenate the active population and to acquire new skills, with 129 new employees being admitted with an average of 31;
- 52 new fixed-term contracts were signed;
- 8,801 new applications were recorded as originating from the online application form on the web page www.edp.pt; and
- EDP attended the main workshops and jobshops organised by the universities.

In 2004, 73 new professional placements were awarded. There were also 100 curricular placements, which, besides their purpose within the scope of the curriculum, also provided the Group with a first contact with potential future employees. Support was also given, in an extremely significant number of cases, to the development of school projects on subjects related to EDP's activity.

International Labour Regulations

The EDP Group's geographical diversification and the international mobility strategy require the implementation of specific global expatriate management solutions.

In 2004, the International Labour Regulations were revised to make them fit the present context.

These regulations are generic (applicable to any employee), far-reaching (they cover all aspects related to the posting), flexible (they permit the necessary adaptations for each country) and coherent (with the Company's strategy).

The policy for expatriates contained in these regulations allows employees to have a greater sense of security and transparency regarding remuneration and reintegration at the end of their posting.

6.2. Rationalisation of Human Resources

Restructuring Support Plan (PAR)

In a continued drive to optimise resources, the Restructuring Support Plan initiated in 2003 achieved an unexpectedly high level of adhesion: 1,045 more employees left the company, due to early retirement, pre-retirement and mutually agreed terminations.

There were therefore approximately 1,620 employees who, from 2003 up to the end of 2004, accepted EDP's proposals in the context of this plan, meaning that the goals set for the period 2003-2006 have been practically accomplished.

Outplacement

In addition to this, EDP offered special facilities for the socioprofessional reorientation of employees who, in the context of PAR, ceased to be part of the Company's permanent staff. The conditions were thus created for a better preparation for the transition to new stages in their lives.

Outplacement includes plans for active retirement, searching for a new job and setting up their own business. In 2004, around 500 employees took part in this process.

Individual Repositioning Programme (PIR)

In September 2004, the Individual Repositioning Programme (PIR) was launched, with the main objective of repositioning employees who remained in the Company after being identified in the context of PAR as suitable for early retirement. The Programme was implemented in four steps:

- Evaluation of internal employability;
- Evaluation of geographical and functional repositioning alternatives;
- Requalification, training and development; and
- Support and career counselling.

Flexible Retirement Programme (PRF)

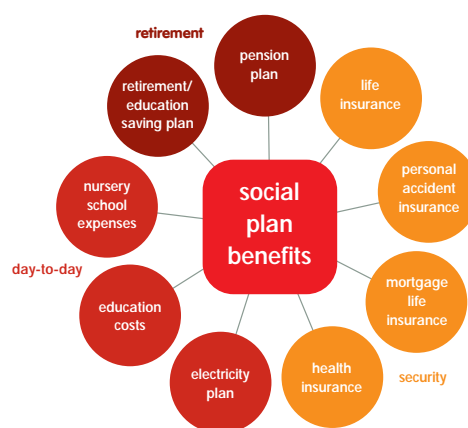
This programme was launched in 2003 with the aim of supporting employees approaching the retirement age pursuant to Decree-Law No. 9/99 of 8 January. This programme was continued in 2004, which meant that another 371 joined the 587 from 2003.

6.3. Remuneration

The EDP Group aims to be one of the best employers in terms of remuneration. In 2004, this aim was pursued through three instruments:

EDP Flex Plan

The EDP Flex Plan is an innovative remuneration package, complementary to basic remuneration and the annual bonus. It is flexibly managed in accordance with the interest of each employee, who then has the opportunity to adjust, exchange or change part of his/her emoluments, adapting them to his/her needs or optimising tax savings.



"Live your daily life", "take care of the present" and "prepare for the future" are the major aims of this innovative plan, in which EDP is a pioneer.

Salary Studies

Continuing the salary study carried out the previous year, covering senior managers, it was decided to extend the process to second-tier managers and more qualified senior executives. It was intended, as previously, and in line with best market practices, to increase the company's competitiveness in terms of the retention and recruitment of senior managers, and to strengthen their commitment to the Company.

Profit-sharing

In 2004, we continued the principle of previous years of sharing part of the previous year's profits with employees.

The overall sum appropriated in this operation (EUR 23.13 million) took into account the Group's economic performance, the response that the various companies gave to the challenges facing them over the year and the weighting of each individual's contribution to the productivity of his/her team.

6.4. Health and Safety

EDP's commitment: EDP recognises the value of a positive safety culture, backed by strong leadership and by a commitment to practical aims for progress. The attention paid to issues of safety, hygiene and health pursues an interest and a conviction: good practices regarding safety are a factor of added competitiveness in a climate in which sustainable development is increasingly encouraged. Respecting the commitments expressed in the Safety Policy Declaration, revised and reissued in 2004, EDP undertakes to seek continuously to improve standards of safety and quality in pursuit of the assumed objective of "Zero Accidents, No Injuries". In this context, various actions were taken in 2004 to prevent accidents at work, including service providers, the protection of plants and assets and the minimisation of risks to third parties, and the consolidation of the management system for safety, hygiene and health at work (SHST), with reference to standard OHSAS 18001:1999.

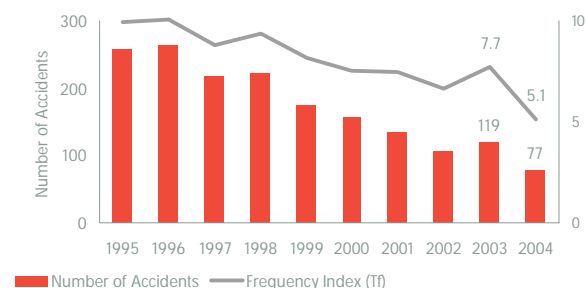
SHST Certification of Power Stations: By the end of last year, all of EDP's power stations had been certified for Safety, Hygiene and Health by Lloyd's Register Quality Assurance, in full compliance with the initial objective of this process. In this connection, too, we highlight the meeting on the theme "Health and Safety Management System: a successful move", promoted by the Hydraulic Generation Division at the Castelo de Bode power station. This was attended by various external bodies, such as the Inspectorate for Labour and bodies and representatives from similar companies.

Health planning: With regard to the management and co-ordination of safety at worksites, there was a joint intervention by service providers with a view to ensuring that practices are appropriate to the new procedures resulting from Decree-Law No. 273/2003 of 29 October. Within the scope of the crisis management plan, exercises were held at various industrial and administrative premises in response to accident scenarios, in order to test the effectiveness of the internal emergency plans. Twelve simulacra were staged at power stations, involving fire brigade, police (GNR) and civil protection bodies. Efforts continued to implement the 'Safety Certificate' and the 'Safety Passport', maintaining the goal of applying them in full to all EDP service providers by the end of 2005.

Citizen company: As a responsible company and citizen, EDP cannot fail to be concerned also about the safety of those who may, in their daily life, due to their work or leisure activities, be wittingly or unwittingly exposed to the risk of contact with, or dangerous proximity to, high-voltage electricity lines. Therefore, in solidarity with European Safety Week, EDP prepared a set of three posters intended to make citizens aware of the precautions to take in the presence of high-voltage electricity lines, so that accidents do not occur.

Some figures: The number of accidents at work decreased very significantly, and the trend of the previous years rose sharply. We still unfortunately have to mourn the death of two EDP employees in an accident at work.

Accidents and Frequency



6.5. Meetings and Activities

Second EDP Meeting

The title of the second Meeting – ‘The Customers’ EDP’ –, attended by over 9,200 employees, was the cue for the more urgent message that the Company wishes to convey to the market: we are attentive to our customers’ needs, we do not want to lose them and we will do everything to see our smile on their faces, synonymous with their satisfaction...

The update of the Group’s strategic agenda was also publicised. With regard to Human Resources, particular emphasis was given to efficiency, motivation and levels of satisfaction, to the improved knowledge of each individual, to the identification and development of talents, to the new skills and rejuvenation and to the streamlining of the organisational structures.

First Human Resources Meeting

In line with the Group’s geographical multipolarity, the first RH Meeting was held in Lisbon, bringing together the EDP Group’s principal RH officers in Portugal, Spain, Brazil and Macau and directors of the main companies. Various matters were discussed concerning new RH management practices, with a view to mutual knowledge-sharing and reflection.

The concern of this first meeting was to “create the coalition of Human Resources” that will lead the EDP Group to the encounter with its future.

Global Management

EDP again took part in this management game, with fifty young people making up the ten teams, once again a mixture of staff and students from various higher education institutions in Portugal.

6.6. Employee Breakdown

At the end of 2004, the total number of EDP Group employees consisted of the following:

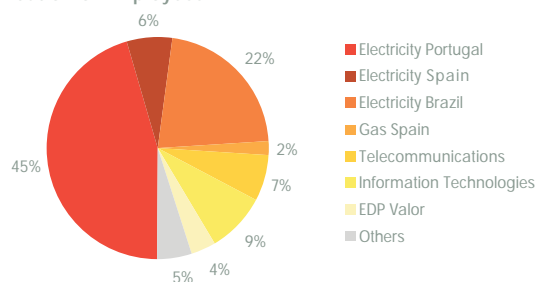
Number of Employees	2004	2003	2002	Var. %
Electricity	12,025	13,186	13,934	-8.8%
Portugal	7,416	8,398	9,150	-11.7%
Generation	1,792	1,988	2,099	-9.9%
Renewables	15	12	16	25.0%
Distribution	5,532	6,335	6,979	-12.7%
Supply	77	63	56	22.2%
Spain	1,040	1,078	1,116	-3.5%
Generation	424	471	481	-10.0%
Renewables	121	98	139	23.5%
Distribution	357	395	388	-9.6%
Supply	138	114	108	21.1%
Brazil	3,569	3,710	3,668	-3.8%
Generation	216	186	28	16.1%
Bandeirante	1,207	1,261	1,345	-4.3%
Escelsa	1,238	1,309	1,353	-5.4%
Enersul	899	944	928	-4.8%
Supply	9	10	14	-10.0%
Gas -Spain	299	277	62	7.9%
Telecommunications ⁽¹⁾	1,096	1,180	1,617	-7.1%
Information Technologies	1,416	1,625	1,713	-12.9%
EDP Valor	581	629	531	-7.6%
Others ⁽²⁾	826	767	598	7.7%
TOTAL	16,243	17,664	18,455	-8.0%

NB: includes executive bodies and relates to 100% of the number of employees, independently of participation in the EDP Group.

(1) Includes ONI Way in 2002.

(2) Includes holdings and other investee companies.

Distribution of Employees



7. PENSION FUND

In 2004, a Defined Contribution Pension Plan was established in the EDP Group, alongside the Defined Benefit Pension Plan, including also the complementary regime. Parity between the two plans in terms of EDP's contribution was ensured, in order to maintain a high degree of equity between the benefits placed at the disposal of the participants in each plan.

The new Pension Plan – EDP Flex – signalled the greater social conscience that EDP intends to promote in this sphere. The main benefits are summarised in Point 6.3 of this Report.

The management model to be implemented in the Defined Benefit Plan will emphasise discipline and strict governance, the design and implementation of optimised investment strategies and, in particular, a risk immunisation policy (especially regarding interest rates) inherent in the liability structure.

The management of the Defined Contribution Plan was entrusted to BPI Pensões, which, exclusively and at all times, assumes responsibility for the investment strategy pursued, on account of its different nature and the voluntary assumption of the financing risks associated with these responsibilities.

Defined Benefit Pension Plan (PBD)

The costs of this plan, which covers only employees in the EDP Group's Collective Labour Agreement, whether for past services, currently paid pensions or pre-retirement situations, are based on and provided at current values.

The financing level of costs for past services and current pension payments has progressed well, as demonstrated by values that are above the minimum solvency level established by the Portuguese Insurance Institute.

The costs of pre-retirement are fully provided for in the EDP balance sheet, and will tend to be absorbed by this Plan.

The early retirement negotiations, which had a very significant impact during 2004, added to the total liability structure of EDP's pension charge.

The intervention directed at the PBD within the scope of the new management model covers various aspects, such as:

1. Actuarial Assumptions

The implementation of the IFRS requires greater discipline regarding the criteria to be used in determining the current value of the costs of each pension plan, and EDP has:

- Increased the level of rigour and reasonableness of the relevant actuarial assumptions, after having already adopted in 2003 a new mortality table (TV 88-90), more realistic than the one required by law (TV 77-99) with regard to the incorporation of the increase in average life expectancy. This decision, although involving a significant additional financial effort, illustrates EDP's commitment in the pursuit of policies of social responsibility that may contribute to the wellbeing of the organisation and to the increased loyalty of its employees;
- Adjusted the discount rate annually, by reference to the levels of the best quality market rates;
- Created the necessary conditions for implementing an asset / liability management model that assesses liabilities in accordance with principles equivalent to those used in valuing the assets that make up the investment portfolio of the EDP Pension Fund; and
- Promoted the systematic application of 'marked-to-market' methodologies.

Without these basic conditions, it would not be recommendable to develop risk cover strategies for the balance sheet of the EDP Pension Fund, since (1) the departure conditions will not be those observed on arrival; (2) the fluctuations recorded during the year in the current value of liabilities depend on market conditions; (3) the financing risk level being below the legal minimum (100%) could be aggravated as a result of the greater or lesser aggravation of the deviation from the initial assumptions; (4) not knowing the impact of these fluctuations over each year makes it impossible to phase out the calculation of investment strategies and risk cover policies; (5) the extraordinary contribution will tend to be concentrated only at the year end, not benefiting from gradual lock-ins during the year that might minimise the recourse to extraordinary injections of capital.

2. Strategic Benchmark

The management of the Pension Fund assets is based on prudent principles of diversification capable of guarding against a wide variety of risks (economic, financial, actuarial and demographic) and of helping to minimise the variability of the level of financing.

The strategic benchmark is the instrument that helps to define the optimal long-term asset-mix that produces an acceptable minimum return for different loss-probability scenarios, in order to avoid risks of underfinancing.

As a rule, the strategic benchmark is based on Asset and Liability Modelling studies that analyse the whole liabilities structure and project, for different scenarios, the long-term portfolios that best immunise them for a certain compromise between return and risk.

Given that the time span of each study has to be broad (normally ten years), more short-term tactical interventions are needed in the real investment portfolios, whether through an active policy of asset allocation, or through policies that cover interest and inflation rate risks at the macro level, capable of keeping the minimum acceptable return within the desired levels.

In this way, it becomes possible not only to define a financing plan for the Pension Fund, but also to control the risks of potential losses on the capital invested.

3. Risk Management

In terms of assets, because it lies at the basis of the portfolio optimisation process and of the asset allocation policy.

In terms of liabilities, because it constitutes the minimum acceptable reference associated with the return that needs to be generated for the financing level to remain at 100%, thus being incorporated into the strategic benchmark.

In terms of the integrated management of assets and liabilities, because the recourse to risk budgets makes it possible to create investment discipline taking into account the sources of risk generated in the portfolio (in terms of Value-at-Risk) and their dynamic redistribution.

4. Investment Principles

The concerns with greater rigour, discipline and transparency in the management of the EDP Pension Fund bring with them the need to define a set of basic operating principles, which will form the basis of the governance structure to be implemented.

8. INFORMATION SYSTEMS

8.1. Information Systems and Technologies

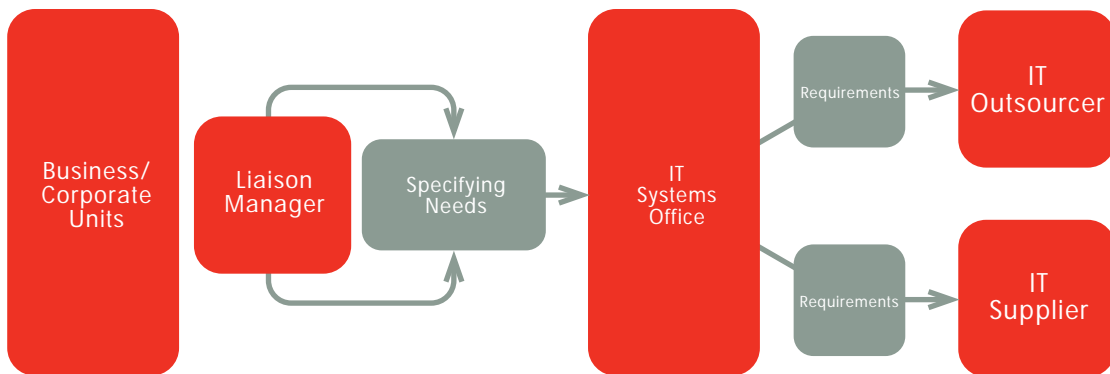
The evolution of EDP's information systems (SI) during 2004 was based, on the one hand, on the reorganisation of the IT operation and, on the other hand, on the development of the Business Units' specific transversal systems, aligned with the strategic orientation of the Group's Customer Service.

Reorganisation of the EDP Group's IT operation

EDP's focus on the core business led to the internal reorganisation of the IT operation and the admission of a strategic partner into Edinfor's capital, with a view to reducing costs on SI and increasing the effectiveness of the Group's IT operation. This implies a greater degree of centralised management and control. The main objectives of the new model are:

- Global / integrated view of the Group's systems, guaranteeing control of operating investment and costs;
- Centralisation of information and simplification of support in preparing decisions;
- Definition of priorities based on the contribution to the Group's business strategy;
- Timely planning of the evolution of services, from a global standpoint;
- Increase in capacity for negotiation with suppliers and for control of execution;
- Guarantee of effective outsourcing of the EDP Group's SIs.

New Organizational Model



In order to being about the new reality, the Group's central body for IT management was re-established. This has four development areas:

- IT leadership, guaranteeing alignment between SI management, the business strategy and support for decision-taking;
- Supplier management, for negotiation of contracts / services and control of the efficiency and effectiveness of the services provided;
- Internal SI co-ordination, which will regulate the systems' global architecture, the efficient use of new technologies, the smooth processing, appraisal and co-ordination of requests and the management of IT projects;
- Relations with companies for coordination of operational needs, through the Relations Managers as the preferred channel of communication, the Process Owners as those in charge of alterations to application systems and the Support Process Owners, who provide the validation of the infrastructure requirements.

The global control of outsourcing services has been chosen as an absolute development priority for 2005, while work on the second priority has also started, with the control of the evolution of the Group's application architecture and of its infrastructures.

8.2. The EDP Group's information systems

Management of Internal Controls

A system has been implemented that will ensure the control of EDP's internal processes, in the form of the application SAP-MIC (Management of Internal Controls), in response to the objective of meeting the 2002 US Sarbanes-Oxley Act standards, compulsory for companies listed on the New York Stock Exchange.

Environmental Accounting System

The EDP Group's 'Environmental Accounting System' will make it possible, as from 2005, to find out the accounting reality of these costs, and thereby improve the planning and control of the figures relating to EDP's Environmental Management activities.

Commercial Distribution System (ClienteMais)

ClienteMais entered cruising speed during 2004. The regulatory evolution seen since the start of 2004, in the context of market liberalisation, led to the establishment of a multi-year systems evolution plan in response to the changes needed in business processes. The plan also included a significant number of improvements, and there were some important achievements in 2004,

EDP Distribuição's Technical Systems and the GeoEDP Programme

EDP Distribuição finished implementing the GeoEDP programme, a multiple project aimed at spatial information management and systems integration, with the objective of providing widespread access to functions and comprehensive data warehouses, as support for the new work cycle and the various business management processes and information flows.

The GeoEDP programme made it possible to modernise the systems of EDP Distribuição's technical areas, with a strong emphasis on applied development, including links with university research.

The full implementation of GeoEDP, in terms of internal operation, will bring about a radical change in working methods in the technical area (increased effectiveness), and will support the optimised redesign of corporate processes (increased efficiency), the effects of which are already evident. The benefits sustain the improvement in the capacity to respond to customers' needs, through speed, efficiency and quality of service.

EDP Valor Support Systems

In accordance with the strategic guidelines established at the end of 2003, the restructuring of the Information Systems commenced in 2004, which includes the appraisal or development of the Service Portal, electronic billing and support solutions (including documentation, fleet management, negotiation and purchasing).

Trading Systems

In 2004, the Trading Unit implemented a high-availability infrastructure to support its Trading Information System, mitigating potential losses stemming from the unavailability of its support system. This investment in the new infrastructure resulted in an ROI of over 500%, involving the adoption of innovative technological solutions in the EDP Group. There is an ongoing project for the technological convergence of the Trading Information System between the Trading Units of EDP Produção and HidroCantábriço.

Energy Planning

In the context of Energy Planning, a model was implemented as a simulacrum of the Iberian electricity market to make it possible to analyse market evolution scenarios and the corresponding planning of EDP's portfolio of generating capacity in Iberia.

Support systems for market liberalisation challenges (EDP Comercial)

The evolution of information systems revolved around two major issues:

- Achieving a closer relationship with customers:

- Launch of a portal directed at its target-segment (companies and organisations), offering important online information in the area of electrical energy; and
- Evolution of the Customer Management System, enhancing its capacities for automising sales processes, and extending it to the executives and management of commercial campaigns directed at small corporate clients;

- Greater operational effectiveness, by:
 - Implementing a new billing system (SAP-ISU), in response to the entry into the liberalised market of Special Low-Voltage (SLV) customers;
 - Launching a Systems Integration and Information Management project, with a view to increasing the automisation of internal processes, improving the reliability of data and systems; and
 - Optimising the existing systems, and reducing their operating costs.

8.3. Organisation and Management of Systems and Infrastructures

As a first step towards optimising the EDP Group's ITs, a first global survey was carried out in 2004 of the applications and infrastructures of the systems architecture. The analysis of the situation led to the launching of initiatives in the areas of:

- Definition of the reference architecture for the EDP Group's decision-taking systems;
- Identification and documentation of the interfaces between applications; and
- Detailed survey of the functional architecture and definition of the support tool for this documentation.

Various transversal initiatives were also launched throughout the Group, including:

- Diagnosis of the current situation for continuity of operations with support to SI;
- Analysis of the topology of the data network, with a view to defining ways of expanding and increasing the reliability of the network, and appraisal of technological alternatives for its management;
- Reformulation of standards, and implementation of rules, for security and use of shared and individual IT resources;
- Analysis of the operational risk of the Group's distributed systems, reformulation / creation of new images at workposts for better correspondence with current needs, and launching of the remote support for incident resolution;
- Appraisal of possibilities of SI convergence between EDP and HidroCantábrico; and
- Preparation to make individual e- mail and Intranet access available to all the Group's employees.

9. RESEARCH AND DEVELOPMENT

The global objectives of the Research and Development (R&D) Policies of the EDP Group are:

- To contribute to the competitiveness of the companies;
- To explore new business areas within the scope of the Group's core activities; and
- To contribute to increasing the efficiency of the companies' processes.

In 2004, the Research and Development Policy established for the EDP Group was consolidated, particularly in the following priority areas:

- Optimisation of the service quality of the electricity networks;
- Development of renewable energies and distributed generation; and
- Technological modernisation of electrical plants and systems.

EDP took part in various R&D projects in the area of electrical energy generation and distribution, in particular the following:

- The micro-generation project developed by Labelec, inaugurated on 7 May 2004 at Sacavém, consisting of a demonstration unit that generates electrical energy (30 kW) from a gas micro-turbine. With this demonstrator, it is intended to acquire experimental skill in the areas of planning, installation, O&M and management of this type of unit, to analyse the impact on the BT electrical network and to demonstrate the technical advantage and economic interest of micro-cogeneration; and
- The Multi-Technologies Platform (PMT) for demonstrating the distributed micro-generation of electrical energy from renewable sources, consisting of fixed and movable photovoltaic panels and of a wind

generator, with a capacity of about 5 kW. The system is connected to the Labelec building's low-voltage network and came into operation on 19 March 2004.

As a boost to innovation at the heart of the Group, Learning Forum initiatives were launched, contributing to an exhaustive and innovative discussion of ideas.

Laboratory Studies and Activities

Laboratory Studies and Activities grew by approximately 8% in 2004, with special emphasis on:

- Systematic monitoring activities and study of the various parameters associated with the service quality of the electrical transmission (REN) and distribution (EDP) networks, providing essential information for identifying measures to improve the quality of service provided;
- Implementation of the medium-voltage telemetering plan, auditing of metering and telemetering systems, calibration of international connection and SIME project meters and installation of meters at Special Regime Producers;
- Monitoring the water quality of reservoirs (cases of eutrophication and pollution problems), and an environmental control plan at thermal power stations to deal with waste water, circuit water and industrial waste, as well as air quality control;
- Systematic preventive monitoring of transformers, and expert diagnosis of their condition, through physical-chemical and dielectric tests of the oil, and analysis by Gas Chromatography of the dissolved gases, and by HPLC (High Pressure Liquid Chromatography) of the furanic products;

- Thermographic inspection by land and air (helicopter) of electrical plants (substations, power stations, lines) and of thermal isolations (chimneys, turbines, boilers), using infrared cameras. Around 1,400 plants and 14,000 km of lines were inspected, especially those of the EDP Group and of REN. Thermographic inspections were also carried out of electrical plants on eight of the islands in the Azores, and of the plants of various external customers;
- Evaluation and dimensioning of substation earths in order to ensure conditions of electrical safety and better atmospheric discharge behaviour; and
- Audits and evaluation of the Protection Systems of Electrical Power Stations and Electrical Networks of the EDP Group and EDA – Electricidade dos Açores, S.A., technical specification of equipment and monitoring of the implementation of new systems.



"Let's talk about the future! About creating value for our shareholders, customers and employees. The future is about implementation: fully implementing the activities derived from the previous year's progress, as part of an EDP that is now more attractive, 'richer' and more complex."

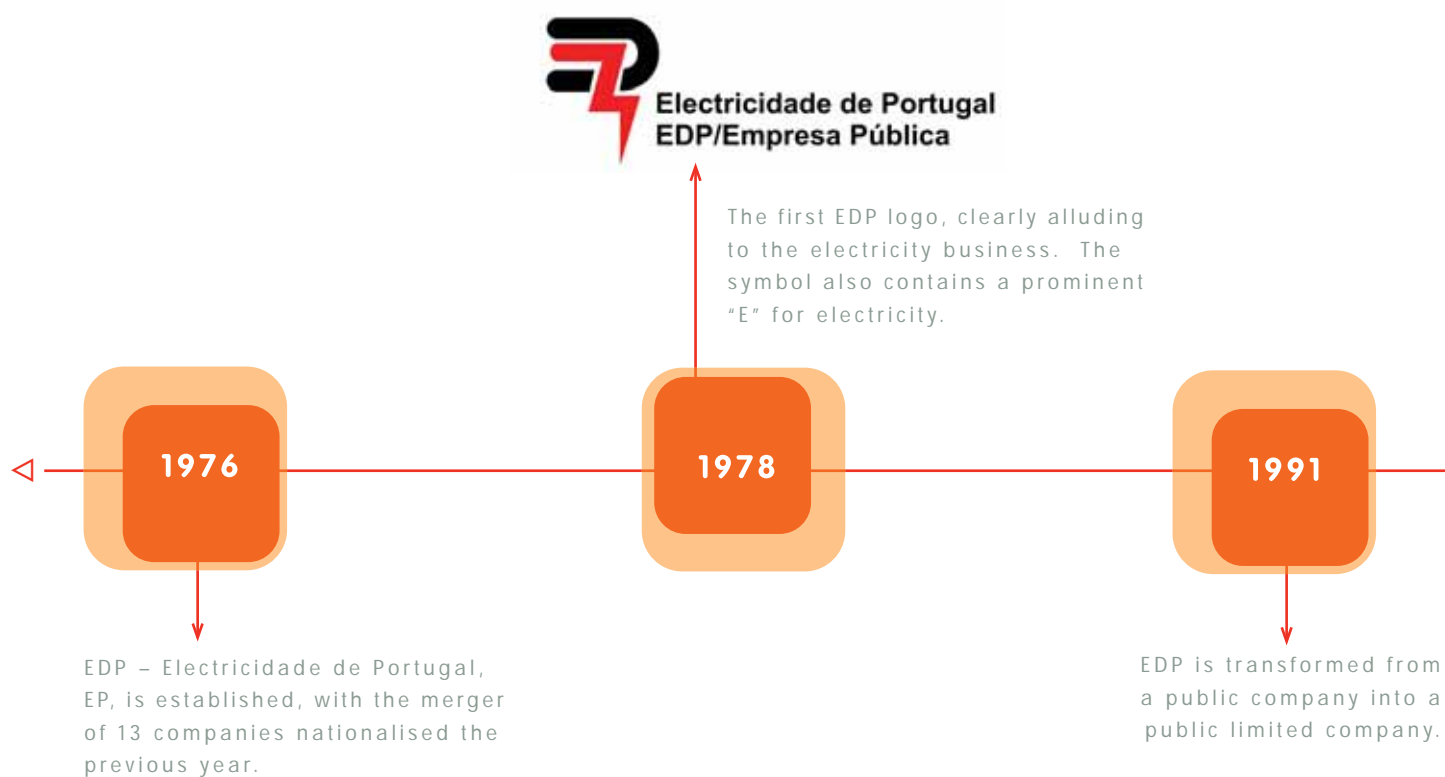
João Talone
Executive Committee Chairperson

The market changed in 2004. Preparing for the Iberian Electricity Market (MIBEL), the ending of economic activity classifications, complete liberalisation of the Portuguese market and the decision on emission allocation plans up to 2007, resulting from the Kyoto Protocol, were major changes. But the main event was the largest acquisition ever made by a Portuguese company in Spain, when EDP purchased almost 100% of HidroCantábrico's stock.

From the management point of view, EDP's future will be about focussing on our customers – EDP Customer, increasing productivity – EDP Competitive, looking to the Iberian market as our area of business – EDP Iberian, and supplying both electricity and gas – EDP Energies.

EDP Group Business

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ELECTRICIDADE DE PORTUGAL EDP EMPRESA PÚBLICA

CHENOP - Companhia Hidroelétrica do Norte de Portugal
ED - Elétrica Duriense
UEP - União Elétrica Portuguesa
EHEC - Empresa Hidroelétrica do Coura
CPE - Companhia Portuguesa de Electricidade
CEB - Companhia Elétrica das Beiras
SEOL - Sociedade Elétrica do Oeste
EHESI - Empresa Hidroelétrica da Serra da Estrela
CRGE - Companhias Reunidas de Gás e Electricidade
HEAA - Hidroelétrica do Alto Alentejo
HEP - Hidroelétrica Portuguesa
CEAL - Companhia Elétrica do Alentejo e Algarve
AES - Aliança Elétrica do sul



EDP adopts a new logo, and is presented as a new company with a new dynamism, more cohesion and with a more solid public image.

The symbolic use of a stylised alternating current repeated three times alludes to the company's three business areas: generation, transmission and distribution of electricity.

1993

1994

2004

The EDP Group is formed, with one parent company and 19 subsidiaries.



EDP - Energias de Portugal, S.A., is launched as a customer-oriented company. This strategic stance is symbolised by a democratic, friendly and uncomplicated smile. The new brand is unitary, encompassing the various companies within the group.

Restructuring and liberalisation of the energy market, with the natural knock-on effects for competition, together with an expansion in EDP's services, resulted in a deep-rooted change to the Company's way of doing business and of communicating with its customers.

To prepare for this new challenge, it made an undertaking to speak clearly, be all-embracing and have its finger on the pulse, in its dealings with the market. That attitude and promise was expressed via a new visual and verbal identity for the EDP brand.

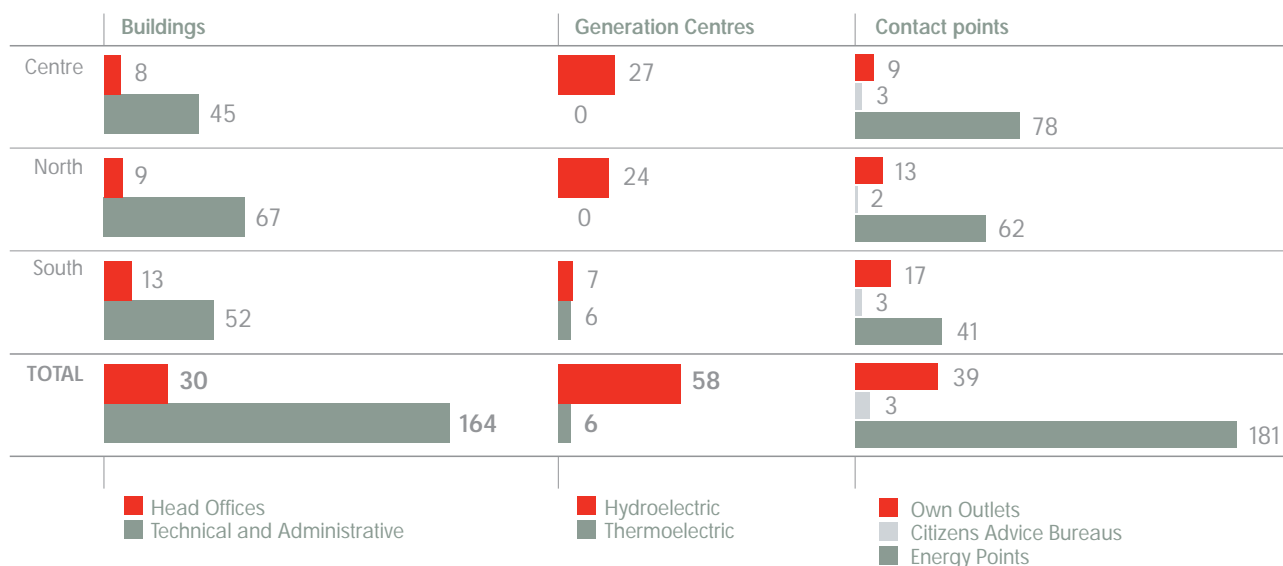


Head Office



Thermolectric Power Station

EDP in figures



The rationale behind the new brand is as follows:

- The brand must serve all of the EDP Group's interests from a corporate / institutional and business viewpoint, based on its stated sustainability principles;
- The values associated with the brand profile should encourage, educate and raise awareness amongst EDP employees of the need for a customer-based culture;
- EDP's brand architecture is unitary. EDP is the brand that represents the group in the marketplace and amongst employees.



EDP Shop



Launch campaign for the new EDP brand

2. CUSTOMER AND QUALITY

The customer at the heart of EDP's activity

The second quarter of 2004 saw EDP establishing a new structure with the aim of developing retail commercial strategy (households and small businesses).

As a first stage, the commercial strategy was drawn up and approved, and this was followed by a second stage in which it was rolled out and implemented along three priority vectors: implementing the **new strategic positioning**, development of **customer-loyalty promotions** and the implementation of the **new commercial organisational structure**.

As regards the **repositioning**, a new approach to over-the-counter customer service was developed, including the refurbishment of 49 shops, together with the new-look EDP invoice and the new EDP website. The new EDP brand image was likewise applied to all other means of contact with the customer – the logos on 2,983 vehicles and the design of advertising material (brochures, leaflets, etc.), and a start was made on raising the quality of service with the launch of more than 100 measures to improve service.



Contact Center

At the **commercial level**, the first promotional actions were begun aimed at retaining special low voltage customers and work was begun on similar actions for standard low voltage customers in 2005. Promotional campaigns were run for "efficient heating", "electrical safety" and "migration of collection to agents".

Organisationally, and with a view to ensuring the uniform and efficient implementation of EDP's commercial strategy and practice, preparations were made for the establishment of three areas of business which, though distinct in functions, services and products, are complementary. To serve industrial customers, a B2B ("business to business") platform was created; and for domestic customers a "B2C" ("business to consumer") platform. These platforms, which will be responsible for serving their respective clienteles in the deregulated market, will in 2005 begin to receive support from a new company within the group, EDP Outsourcing Comercial. This company, whose activity had until 2004 been incorporated within EDP Distribuição, will take over responsibility for the running of over-the-counter and distant service (shops and call centre) for all commercial operations, for the management of agreements and partnerships, for supervising the suppliers of related services and for commercial information systems.



Members of the customers liaison team

Quality

The revitalisation of the EDP brand in the context of a fully deregulated market places the emphasis on consumer relations as a decisive factor in a sustainable competitive advantage.

Understanding needs and expectations is the way to better-quality action, through the ability to meet and exceed them. Product and price are ceasing to be distinguishing features. The difference, increasingly, lies in service and response to problems.

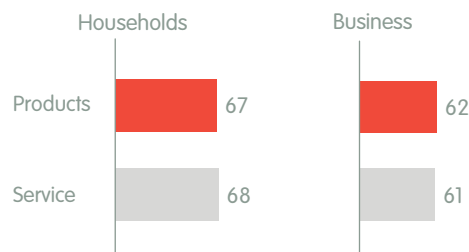
EDP Group has undertaken various initiatives, specifically in the electricity industry, some organisational, others in the improvement of products and services, and all aimed at raising the level of customer satisfaction. External customer satisfaction presupposes the satisfaction of internal customers and staff, and should of course be reflected in the results.

The year 2004 saw the launch under this new system of the first customer satisfaction surveys for domestic customers, business customers, internal customers and employees.

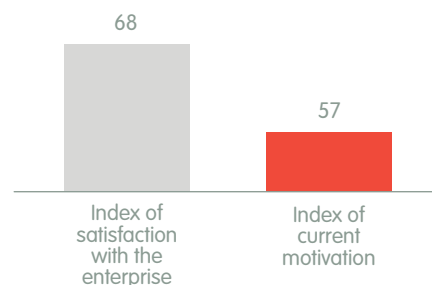
The **Quality Management Model** adopted by EDP relies on the Baldrige criteria for performance excellence. These criteria are used by the European Foundation for Quality Management (EFQM) in granting the European Quality Award, and they permit an approach to quality at the organisational level by, for example, linking the way in which products are designed to functions such as the satisfaction of customers, staff and internal clients.

For this purpose, we have identified the indices which, if monitored, show how we are progressing with external customers and staff:

Index of External customer satisfaction



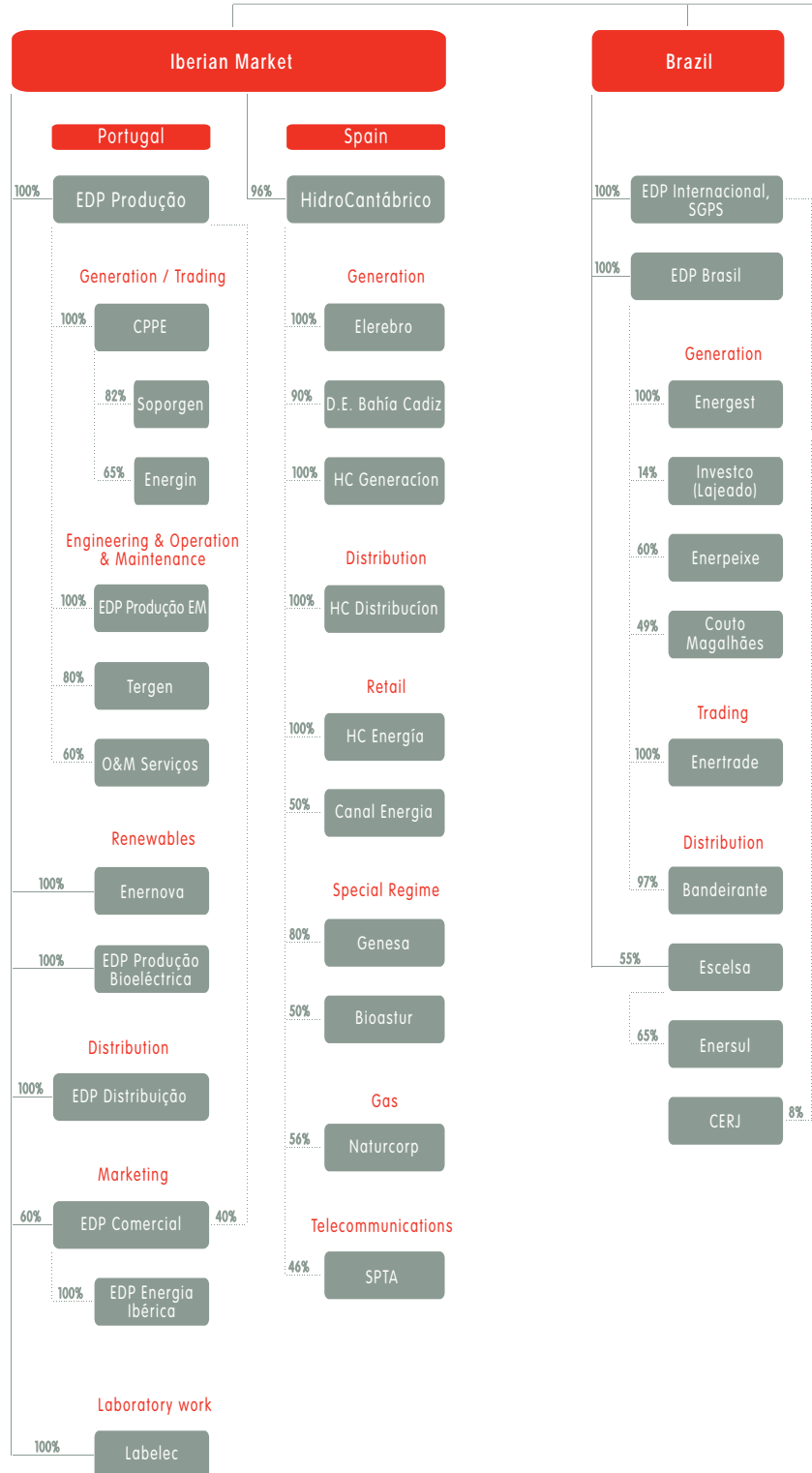
Staff



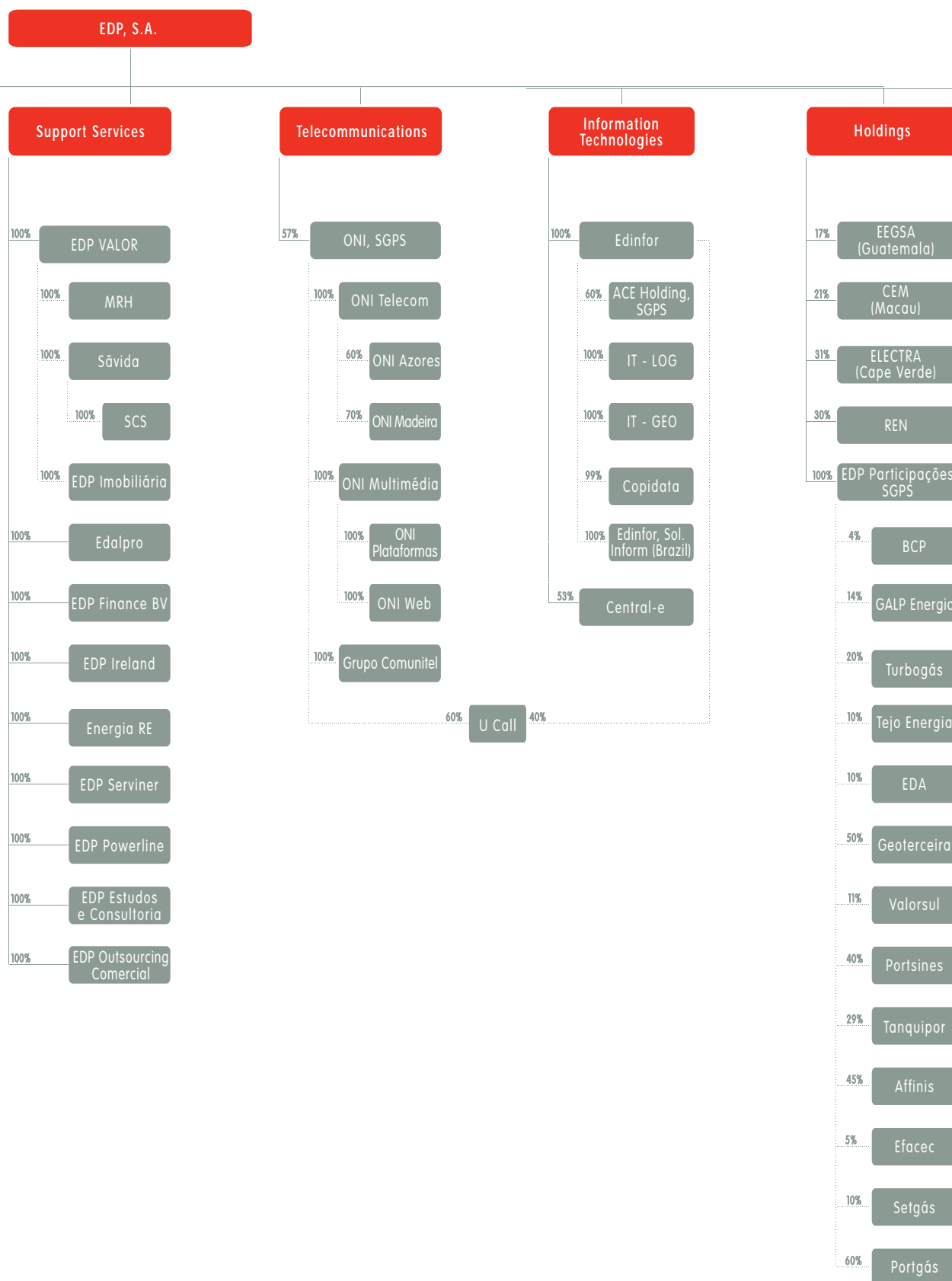
The new brand, new organisation and new operations will be evaluated for their impact on external customer satisfaction and staff satisfaction.

Investing in a quality policy (with the implicit underlying concept of continuous improvement) thus takes the form of attention to the factors that customers most value in order to maximise results and win and retain market shares.

3. ORGANISATIONAL STRUCTURE



General note:
The % have been rounded up. Some of the % shown relate to indirect shareholdings.



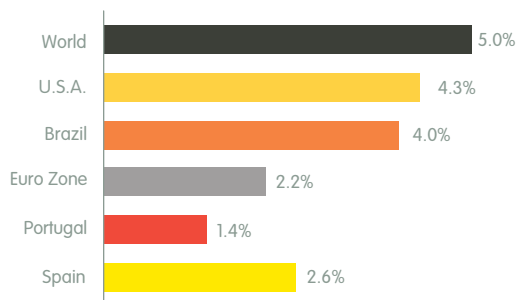
4. MACROECONOMIC FRAMEWORK

4.1. World economy

4.1.1. World economic growth

After a difficult period marked by a slow-down in world economic growth, the year 2004 began hopefully with expectations recently revised upwards to around 5.0%. If these prove accurate, it will have been the best for some years. World economic growth continues to be led by the United States, but has also benefited from a strong contribution by the leading far-eastern economies, notably China and Japan, and from Latin America. In the Euro zone, growth has been weaker but reflects a gradual recovery and stabilisation of the zone's leading economies.

GDP growth, 2004



Source: IMF forecasts (World Economic Outlook) for a comparable base

4.1.2. Fuel prices

In 2004, Brent crude was frequently trading at prices in excess of USD 40 a barrel, and even passed USD 50 during the second half of the year. This trend resulted from the production forecasts of the leading producer countries including Russia, the OPEC countries and certain countries of Latin America, and amplified the effect of rising demand triggered by the accelerating world economy.

Price of oil "brent"(USD)



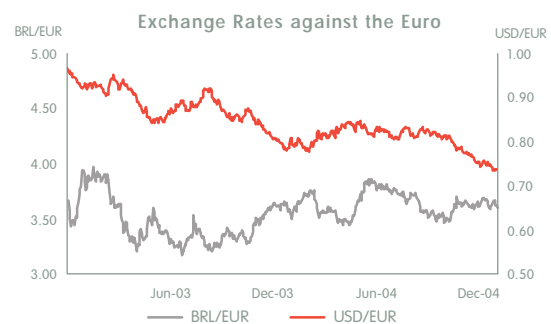
Source: Bloomberg

In step with oil, coal prices also rose under pressure from strong demand in China and India.

4.1.3. Interest rates

After a period during which leading reference rates fell as a result of the need to encourage investment and in the absence of inflationary pressures, the year 2004 saw interest rates step into line with growth in the leading world economies. Thus, in the USA, the base rate rose gradually over 2004 from 1.0% to 2.25%, whilst with the greater difficulties faced by Europe's economy, the European Central Bank kept its reference rate unchanged at 2.0%.

4.1.4. Foreign exchange



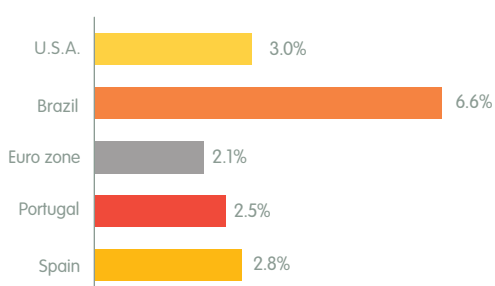
Source: Bloomberg

The Euro's general rise against the US Dollar continued in 2004. It accelerated during the second half with repeated new highs and the Euro closed the year at around USD 1.36. This trend attenuated the rising cost of oil, which is expressed in US Dollars, but at the same time affected the competitiveness of European goods and hampered exports.

4.1.5. Leading world economies

With support from expansionist policies, the United States economy recovered rapidly from a period of cooling, with signs of recovery visible as early as 2002. With economic activity far greater than that of the Euro zone, the US economy should have grown by 4.3% in 2004. Forecasts for 2005 indicate a steadying of the economy, with growth at a significant level, although lower than was achieved in 2004.

Inflation in 2004



Source: IMF forecasts (World Economic Outlook) for a comparable base

The Euro Zone recorded greater difficulties in recovering from the slowdown. After two years of growth below 1.0%, the recovery came in 2004 with support from the leading economies, France and Germany, permitting overall growth of around 2.2%. Despite inflationary pressure from oil, prices rose at exactly the same rate as in 2002 and 2003. Similarly reflecting the figures of the previous two years, unemployment remained at around 9.0%.

The year 2004 saw a significant step forward in European integration with the accession of ten new Member States to the European Union, bringing the total to 25. In addition to this being the greatest EU enlargement of all time, it also brings into the Union countries of Eastern Europe that, until fairly recently, had economic systems significantly different from the market economies of the West.

With its peculiar situation of deflation, Japan's economy grew by more than 4.0% in 2004, on the basis of export and investment trends. The other Asian economies, notably China, made a decisive contribution to world growth in 2004, and also influenced oil prices on the world markets.

Latin America recorded substantial growth in 2004, supported by the stabilisation of its principal economies and, in the case of oil-exporting countries, the additional benefit of rising oil prices on the international markets. Since the overall regional growth rate has been adversely affected by the recent years' recession in certain economies, short-range forecasts are for continued stability, but with more modest growth.

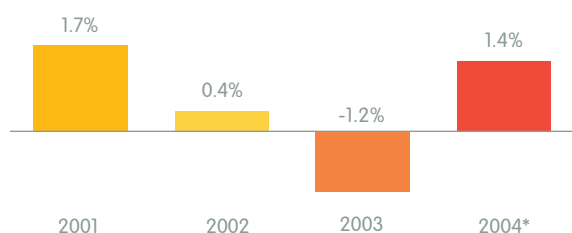
Thus, after a difficult period for the world economy, hopes rose in 2004 for a recovery that would mark the beginning of a period of greater world economic growth. With the particular help of a few countries, growth expectations for 2004 were exceeded, and hopes for 2005 are for sustained and significant growth, although perhaps slightly below the levels of 2004 and still subject to certain risk factors such as oil price trends.

4.2. Iberian economy

4.2.1. Portugal

Portugal's economy was already showing signs of recovery in late 2003, and in 2004 came out of recession, keeping in step with international trends and fuelled by domestic demand and exports, and additionally benefiting from the Euro 2004 football championships.

GDP growth in Portugal



IMF forecasts (World Economic Outlook) for a comparable base Source: INE

The downward trend in price inflation in Portugal became stronger, with the Harmonised Consumer Price Index at 2.5%, still somewhat above the European average. The weak level of economic activity in recent years has contributed to this, and has made a necessity of moderate wage rises, together with the effect on imports of the rise in the Euro. A rebounding economy and rising oil prices may make it difficult for Portugal's inflation to approach the Euro zone average.

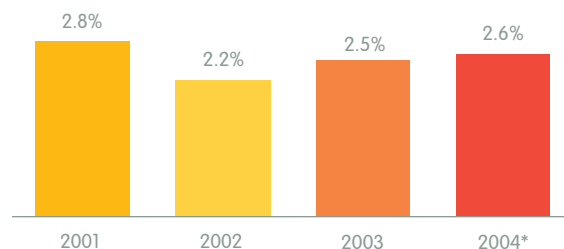
Although the economic upturn has put a brake on the growth in unemployment, and offers the prospect of a slight fall in coming years, it is unlikely that unemployment will fall below 6.0% in 2006. Even so, this remains significantly below the EU average.

With the current trend continuing, economic growth of over 2.0% can be expected in 2005. The outcome of the Portuguese elections, held following the dissolution of Parliament, could lead to a revision of recent forecasts of the future of the Portuguese economy.

4.2.2. Spain

With Europe strongly affected by the difficult international economic situation, Spain too has seen a slackening in growth over recent years, though far shorter and far less severe than in the Euro zone and in its leading economies. It is expected that in 2005 economic growth will reach a level close to 3.0%.

GDP growth in Spain



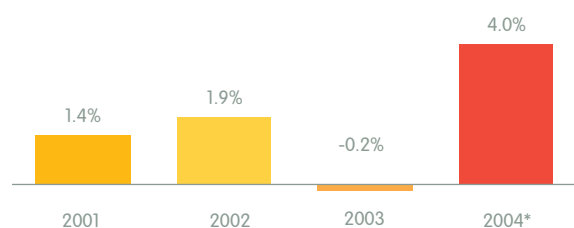
IMF forecasts (World Economic Outlook) for a comparable base Source: IMF

Inflation, whilst lower than in 2003, was still 2.8% in 2004, above the European average. Spain's economic growth has substantially exceeded the Euro zone average in recent years, but unemployment has also stayed somewhat above the European average. Although the trend is downwards, Spanish unemployment is not expected to fall below 10% in 2005.

4.3. Brazilian economy

With energy rationing a thing of the past and economic policies based on stability and aimed at growth, the forecasts for 2003, based on signs of an economic recovery, were carried forward to 2004. As a result, the principal international organisations report Brazilian growth in excess of 4.0%, fuelled by rising domestic demand and exports. That growth has triggered a fall in unemployment, with the creation of 1.5 million jobs in the country's formal sector.

GDP growth in Brazil



IMF forecasts (World Economic Outlook) for a comparable base Source: IMF

Despite the rising price of oil, there was a significant slowing in prices inflation. In order to reach the targets set for this indicator, under heavy pressure from a dynamic economy and the rising price of oil, Brazil's reference interest rate (SELIC) was raised gradually to reach 17.75% at the close of 2004.

The exchange rate for the Real was hit hard by the period of severe instability in 2002. In 2003, economic players showed more confidence in Brazil's currency, permitting an improvement. Although the Real shifted irregularly against the Euro in 2004, its trend against the US Dollar, which is the reference currency for the Brazilian economy, was more favourable.

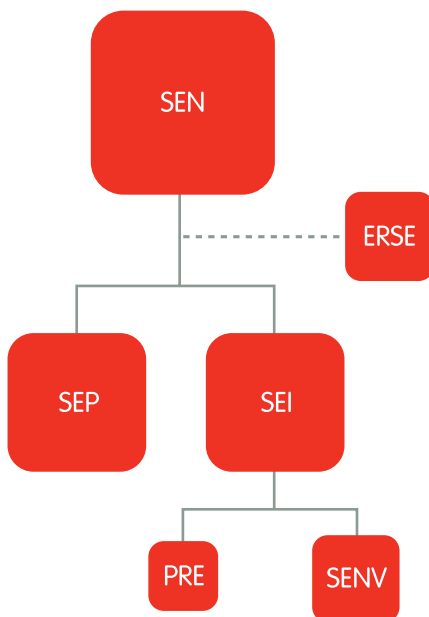
5. SUMMARY OF ACTIVITY

5.1. Energy Sector – Portugal

5.1.1. The National Electricity System

Organisation

The organisation of the National Electricity System (SEN) remained unchanged in 2004:



In the Public Service Electricity System (SEP), generation, transport and distribution of electricity are carried out as a public utility, with the associated requirement to provide electricity with an appropriate standard of service quality and the principle of a uniform tariff for the territory. The principal players involved in the SEP are:

- Binding producers, who have an exclusive arrangement with the operator of the National Transport Grid through long term energy acquisition contracts;
- Rede Eléctrica Nacional, S.A. — REN, operator of the National Transmission Network (RNT);

- Binding distributors who, on being granted a binding distribution licence, must:
 - a) Sign a binding contract with REN, by which they undertake to acquire from REN the totality of the contracted energy; and
 - b) Supply to their customers the electricity they themselves have contracted for, on the tariffs and terms established by the Energy Services Regulator; and
- Binding Customers.

The Independent Electricity System (SEI), meanwhile, has two sub-systems:

- On the one side, the Non-Binding Electricity System (SENV), which is open to market forces, and in which access is open to generation and commercialisation of special low voltage, medium, high and very high voltage and in which players are entitled to use the transport and distribution infrastructure for the physical transfer of energy, against payment of the appropriate tariffs;
- Alongside, there exist Special Regime Producers (PRE), who generate using small hydroelectric power stations of up to 10 MW, cogeneration and renewable sources. These producers supply power to the SEP grid under specific legislation, and are remunerated on the basis of the costs thus avoided by the SEP plus an environmental premium reflecting the benefits caused by the use of renewable energy.

The relations between these systems are ensured by the Energy Services Regulating Body (ERSE), whose roles comprise:

- Overseeing compliance with the operating rules of the SEP and those governing relations between the SEP and the SENV; and

- Regulating the activities performed within the framework of the SEP, specifically setting tariffs and prices for electricity, and for other services provided by the REN and by holders of binding distributors' licences, to other licence-holders and to customers.

The present organisation of the SEN will have to be reviewed out of necessity in the short term, in light of the prospect of the Iberian market and the necessary transposition of Parliament and Council Directive 2003/54/EC, of 26 June 2003, which sets out common rules for the internal electricity market.

Market position of EDP Group

EDP Group is present:

- Within the SEP, in the following activities:
 - a) Generating, holding around 82% of the installed generating capacity within the SEP, as well as minority holdings in the capital of the energy producers Tejo Energia and Turbogás (10% and 20%, respectively);
 - b) Transport, holding 30% of the issued capital of REN; and
 - c) Distribution and binding supply, being a licensed operator for binding medium and high voltage distribution and also the operator for virtually all low voltage distribution;
- Within the SENV, in generation activities (in particular, the two units of the new Ribatejo thermal power station) and marketing, where EDP has contracts with 3,616 of the 4,838 customers of the SENV; and

- Within the PRE, where EDP Group has sought to foster electricity generation from renewable sources: mini-hydros, cogeneration and, in particular, wind power.

Regulation

- Opening of the markets

The Portuguese electricity market has been deregulated gradually. All the legislation needed for total deregulation of the retail market is now in place, and this will offer customers full choice, enabling each to freely select his/her supplier of electricity.

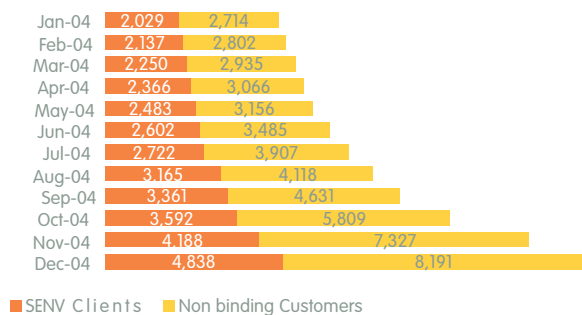
Directive 2003/54/EC of 26 June, required Member States to ensure that their markets were opened for all non-domestic customers by 1 July 2004. To that end:

- On 26 February 2004, Decree-Law No. 36/2004 extended eligibility in mainland Portugal to consumers of special low voltage electricity (BTE);
- On 17 August 2004, Decree-Law No. 192/2004 extended eligibility in mainland Portugal to consumers of standard low voltage (BTN) and public lighting (IP), corresponding to a potential customer base of 5,772,840 with an annual consumption of 19,329 GWh.

Opening of the markets for standard low voltage customers also requires changes to the existing regulations, and the ERSE has begun the process of adapting the regulations on commercial relations, the tariff regulations and the regulations on access to networks and interconnections, in order to effectively permit consumer choice in electricity supply.

In this context, at the close of 2004, eligibility covered all customers except those on standard low voltage (it includes own consumption) for a total of 50,679 customers, with a total consumption of 25,458 GWh, i.e. approximately 55.9% of electrical energy consumption at output. Of these, 8,191 had been granted non-bound customer (CNV) status, corresponding to 16.2% of potentially eligible installations.

SENV Customers and non binding Customers

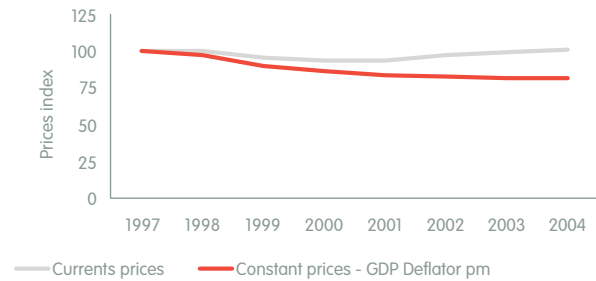


Of the 8,191 customers with non binding status as at December 2004, 4,838 left the SEP, their consumption representing 6,763 GWh in 2004, or around 16.4% of the total supplied by EDP Distribuição.

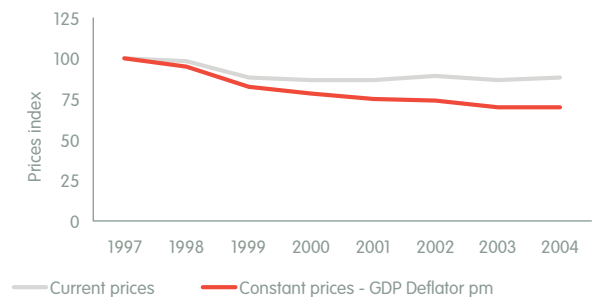
• Changes in tariffs

The mean annual selling price of electricity has been falling in real terms for the last seven years, by around 2.8% in low voltage and 4.9% for the other voltages taken as a whole.

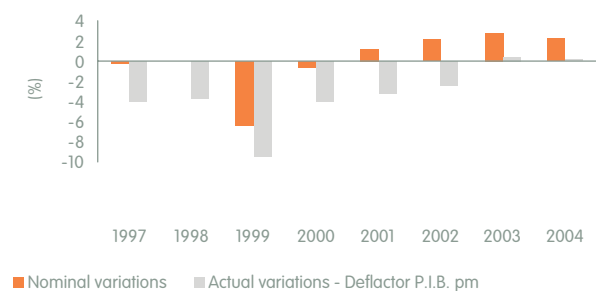
Trend in mean low voltage prices



Trend in mean electricity prices, medium, high and very high voltage

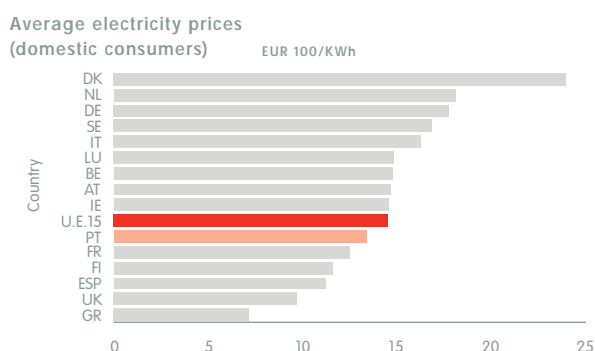


Nominal & actual variation of average electricity prices



• International Price Comparison

As at 1 January 2004, the price of electricity for domestic consumers in Portugal was 7.6% below the mean for the 15-member European Union.



Operational start-up of MIBEL

The protocol of 14 November 2001 signed by the governments of Portugal and Spain and the 19th Hispano-Portuguese Summit held in Figueira da Foz on 7 and 8 November 2003 were the settings for final agreement on the conditions needed to create an Iberian Electricity Market (MIBEL). Following on from this, on 20 January 2004 an agreement was signed in Lisbon between the Portuguese Republic and the Kingdom of Spain on the establishment of MIBEL (Presidential Decree No. 19-B/2004 and Parliamentary Resolution No. 33-A/2004). The agreement provided for the operational start-up of MIBEL on 20 April 2004.

Under the agreement, creating an Iberian electricity market implies recognising a single market in electricity for the countries concerned, in which all players have the same rights and responsibilities. Portugal and Spain must consequently act in coordination to set up domestic legislation enabling MIBEL to operate.

The agreement covers, inter alia, the following aspects:

- The setting-up of an Iberian Market Operator (OMI);
- Contractual modalities within MIBEL;
- Mechanisms for regulation, consultation, supervision and management;
- Authorisation and registration of players, and the guarantee of energy supplies; and
- Infringements, penalties and competent jurisdiction.

After eight months of the provisional application of this agreement, the countries recognised that it would not be possible to achieve the requisite changes within the prescribed time limit. They further noted the need to bring the MIBEL into line with the provisions of Community Directive 2003/54/EC on common rules for the internal electricity market. At the Santiago de Compostela Summit of 1 October 2004, Portugal and Spain accordingly decided to proceed to a new agreement governing those aspects.

This being the case, the parties were obliged to draft and amend, in coordination, the domestic legislation and regulations enabling MIBEL to start operations no later than 30 June 2005.

Like its predecessor, the new agreement provides for a transitional period of up to two years during which OMIP and OMIE, respectively the Portuguese and Spanish poles of the Iberian Market Operator (OMI), will operate as distinct entities and after which they will merge to form a single Operator.

It also places greater emphasis on aspects relating to the specific organisation of markets within MIBEL, specifically:

- the OMIE will be responsible for managing the day-to-day market, which as a transitional measure will operate exclusively and on the basis of the legislation in force in Spain;
- the OMIP, which will manage the term market. This does not necessarily require settlement by physical transfers, and allows the possibility of strictly financial settlements; and
- the contracting of additional services, which may be done through market mechanisms to be defined by each operator within the system, and which must be settled by physical transfers.

Portugal and Spain will then have a period of not more than a year to define a plan for the harmonisation of tariffs, establish the principles applying to its implementation and bring the regulated tariffs applying in their respective countries within the scope of the price indices of the organised markets.

The agreement also establishes as a rule the requirement to set up agreed market mechanisms for the management of interconnections.

Finally, it also lays down provisions for mechanisms for the regulation, consultation supervision and management of the MIBEL. It provides for the setting-up of a Council of Regulators with broad powers, the possibility of establishing committees of market players with simply consultative powers, and maintains the establishment of a MIBEL Technical and Economic Management Committee.

Until this new agreement comes into force, Portugal and Spain must continue the provisional application of the Lisbon agreement of 20 January 2004.

With the deepening of the process of deregulation, and in view of the start-up of MIBEL, new Portuguese regulations were accordingly published that were aimed at adapting the structure and workings of the SEN to a competitive market environment:

- Circular No. 96/2004 of 23 January 2004, which establishes the inclusion as operating costs within CMECs (Costs for the maintenance of contractual equilibrium), of the costs arising from the lease of land occupied by power stations, except that belonging to the public water domain. It also sets down the methodology for determining the values for the lease and acquisition of land;
- Decree-Law No. 36/2004 of 26 February 2004 extends the concept of eligibility applicable to electrical energy consumers in mainland Portugal, by raising the upper limit for eligibility to consumers with a contracted capacity exceeding 41.4 kW at a voltage below 1 KV;
- Decree-Law No. 153/2004 of 30 June 2004, with a view to facilitating the early termination of Power Purchase Agreements (PPA), establishes the resolution of the General Meeting of EDP of 18 August 1994, accompanied by a joint declaration by EDP and REN for the full and accurate identification of the land in question, as sufficient, for land registry purposes, for the transfer of land provided for in Decree-Law No. 198/2003 of 2 September 2003. It also grants the RNT concession holder the right to use the public water domain under a concessionary regime;
- Decree-Law No. 192/2004 of 17 August 2004, and following on from Decree-Law No. 36/2004 of 26 February, extends eligibility to standard low voltage (BTN) electrical energy consumers and defines the exercise of the right to eligibility. It also designates EDP Distribuição as regulated retailer;

- IP/04/1123 of 22 September 2004: the Commission has recognised that investments in unprofitable power stations represent a category of irrecoverable losses, provided that it can be demonstrated that the inefficiency of the investment would result in real prejudice in the wake of deregulation. Accordingly, the Commission decided not to raise objections to the granting of state aid intended to compensate such "irrecoverable losses" on the part of EDP, Tejo Energía and Turbogás;
- Decree-Law No. 240/2004 of 27 December 2004 defines the terms for early termination of Power Purchase Agreements (PPAs) and establishes the compensatory measures designated as Costs for the Maintenance of Contractual Equilibrium (CMECs). It also provides that the early termination of PPAs remains subject to approval of an agreement between the binding producers and the RNT's concession holder setting out the conditions provided for in the same legislation, on the coming into effect of the MIBEL in circumstances which assure the sale of electricity generated and the award of non binding generating licences to the producers concerned.

Although the framework of the SEN has kept pace step-by-step with the last two years' changes in the law, adapting its structure and workings to a market fully open to competition is a complex and lengthy task which will involve profound change in Portuguese legislation. Notwithstanding the government's stated intentions, the year 2004 did not see approval of the new founding law for the electricity sector, which was to have set out the terms and principles fundamental to the implementation of the MIBEL and the necessary transposition of Directive 2003/54/EC.

5.1.2. Generation Activity

The EDP Group currently has a role in every one of the market segments covered by current legislation on the SEN.

SEN legislation will, in the short term, have to be adapted to the new framework created by the MIBEL, and, for this reason, the year 2004 saw the implementation of a **new organisational structure for EDP Produção**, aimed at approaching this new environment in a more competitive manner.

In the context of this new organisational structure, the CPPE purchased holdings that permitted the integration, with effect from 1 January 2004, of TER, EDP Cogeração, HDN, Hidrocenel, Hidrinos and HidrOeM. The formal mergers were concluded shortly before the end of the year. At the same time, the position of EDP Comercial in SENV hydroelectric power station mandate contracts was transferred to EDP Produção, and a contract in the form of a tolling agreement was agreed between the CPPE and the Trading section of EDP Produção, to regulate the market placement of energy generated by the Ribatejo power station.

EDP Produção continued the rationalisation of its structures, with a year-on-year reduction of around 9% of its workforce. In addition, and reflecting the **focus on operational efficiency**, unit costs of maintenance and operations remained at their previous level, offering a high level of efficiency in a context of greater installed capacity.

The binding generation of electricity in Portugal has been conceded to three enterprises holding binding licences: CPPE, Tejo Energia and Turbogás, which hold contracts for long-term exclusive supply to the REN. The drafting of common rules for Spain and Portugal permitting the setting up of the MIBEL and ensuring free competition means that these trading relationships will have to be restructured. **The current long-term contracts must be terminated and their beneficiaries compensated.**

Decree-Law No. 240/2004 of 27 December 2004 defined the rules for termination of the contracts and the manner in which compensation will be awarded. All contracts should be terminated by 30 June 2005, and a termination agreement between CPPE and REN was signed on 27 January 2005.

As regards the **expansion of existing capacity**, on 2 October 2004, Joint Circular No. 592/2004 of the Ministry for Economic Activities and the Ministry for Towns, Land Planning and the Environment recognised the general interest of the Baixa Sabor hydroelectric project, to be constructed on the uppermost north-bank tributary of the River Douro. Publication of this circular allowed work to begin on the project during 2004. Within the SEI, the year was notable for the production start-up of the first two units of the Ribatejo power station (+784 MW) and new wind-farms (+71 MW) coming on-stream.

Principal variables external to operation:

- Coefficient of potential hydroelectric generation of 0.81 in 2004, one of the lowest figures in the last decade (1.33 in 2003). Except during the period from August to October, water flow was consistently below the average level, and this contributed to the low level of reservoirs at the close of the year;
- Low "pool" prices, which encouraged the import of electricity from Spain and reduced REN reliance on fuel-oil thermal power station, and consequently lower total generation than in 2003.

Maximum capacity and net generation

Maximum capacity as at 31 Dec			EDP Group		
MW	2004	2003	2002	2001	2000
SEP power stations	7,052	7,052	7,183	7,183	7,183
Hydroelectric	3,903	3,903	3,903	3,903	3,903
Thermoelectric	3,149	3,149	3,280	3,280	3,280
SENV power stations	1,028	647	255	309	270
Hydroelectric	244	255	255	309	270
Thermoelectric	784	392	0	0	0
Special Regime Producers	322	241	216	117	106
Mini-hydroelectric power stations	66	56	55	1	0
Wind farms	136	65	40	40	30
Biomass	9	9	9	9	9
Cogeneration	111	111	112	67	67
Maximum capacity	8,402	7,940	7,654	7,609	7,559

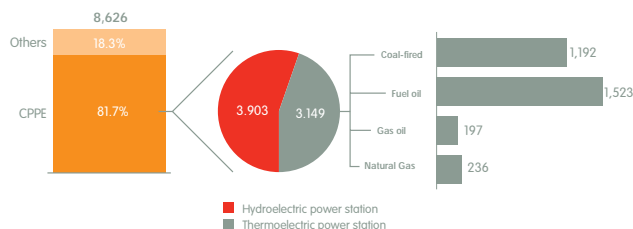
Net generation			EDP Group		
GWh	2004	2003	2002	2001	2000
SEP power stations	20,475	26,583	24,201	26,947	24,000
Hydroelectric	8,718	13,964	6,764	12,607	10,229
Thermoelectric	11,756	12,619	17,437	14,340	13,771
SENV power stations	3,817	908	497	786	623
Hydroelectric(1)	398	705	497	786	623
Thermoelectric	3,419	203	0	0	0
Special Regime Producers	1,083	1,041	815	535	209
Mini-hydroelectric power stations(1)	141	196	75	4	0
Wind farms	237	128	113	90	70
Biomass	49	38	37	18	5
Cogeneration(2)	656	679	590	423	134
Net generation	25,374	28,532	25,513	28,268	24,832

(1) Generation split SENV/PRE in 2003 in accordance with Decree-Law 85/2002, 6 April 2002.
(2) Includes energy delivered to industrial customers

Binding generation

At the close of 2004, the capacity contracted to binding producers totalled 8,626 MW. Of this the CPPE held 7,052 MW (82% of the total), 3,903 MW in hydroelectric and 3,149 MW thermal.

Installed capacity in SEP



The CPPE hydroelectric generation capacity, in a total of 63 generator groups controlled centrally from the Régua remote control centre, can meet around 22% of mainland public grid consumption, in a year of average rainfall, corresponding to approximately 10,000 GWh.



Régua Remote Control Centre

The generation capacity of the CPPE installed within the Douro river basin is essentially powered by river water. The capacity will be raised by the storage capacity of new reservoirs to be built in the tributaries of the upper Douro, such as that of the Baixo Sabor. A further increase could be achieved by raising the capacity of the existing power station along the river.

In addition, EDP Group has holdings in other binding producers: 10% in Tejo Energia, which runs the coal-fired Pego power station, and 20% in Turbogás which runs the natural gas combined cycle power station in Tapada do Outeiro. On 13 December, EDP announced its intention to exercise the option to purchase a further 20% stake in Turbogás.

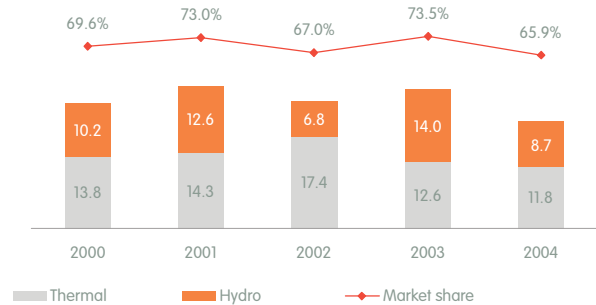
Net generation of the CPPE was 20,475 GWh, 23.0% less than the 26,583 GWh of the previous year. This was the result of reduced output in both hydro and thermal generating:



Sines Thermolectric Power Station

- Hydroelectric generation was down 38% at 8,718 GWh, reflecting the poor rainfall that affected reservoir storage. Output fell from the second half of the year from 1,561 GWh to 1,057 GWh (-28%) at the year's end;
- Thermal generation totalled 11,756 GWh, 6.8% down on 2003 and the lowest total in seven years. This resulted from the increased capacity of the SEI and the low energy prices offered in the pool, stemming from a larger volume of imports.

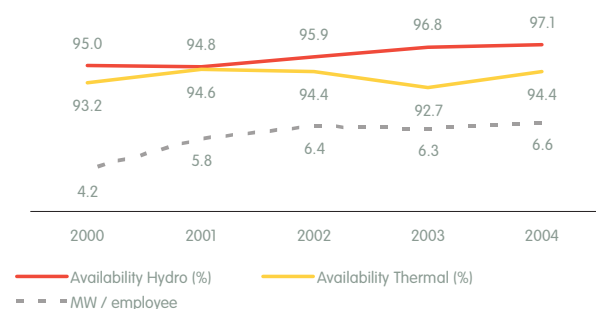
Net generation and market share in the SEP (TWh)



The decline meant a fall in market share from 73.5% to 65.9% vis-à-vis 2003. In a year when consumption rose 5.7%, the CPPE met 45% of total consumption compared with 2003's 61.7%.







CPPE installations continue to offer high levels of availability. In 2004, figures were 97.1% for hydroelectric and 94.4% for thermal.

Binding generation - Indicators





- | | | |
|-------------------------|--------------------|-------------------------------|
| 1. France | 26. Freijil | 51. Raiva |
| 2. Lindoso | 27. Alto Talefe | 52. Rei de Moinhos |
| 3. Alto Lindoso | 28. Aregos | 53. Açor |
| 4. Touvedo | 29. Varosa | 54. Santa Luzia |
| 5. Vilarinho das Furnas | 30. Régua | 55. Ermida |
| 6. Paradela | 31. Vilar-Tabuaço | 56. Vila Nova |
| 7. Alto Rabagão | 32. Valeira | 57. Soporgem |
| 8. Serra do Barroso | 33. Pocinho | 58. Cabril |
| 9. Venda Nova | 34. Bemposta | 59. Bouça |
| 10. Salamonde | 35. Picote | 60. Velada |
| 11. Caniçada | 36. Mirandad | 61. Pracana |
| 12. Penide I e II | 37. Riba-coa | 62. Fratel |
| 13. Caniços | 38. Drizes | 63. Bruceira |
| 14. Sra. do Porto | 39. Ribafeita | 64. Póvoa |
| 15. Ponte Esperança | 40. Pateiro | 65. Belver |
| 16. Ermal | 41. Caldeirão | 66. Castelo de Bode |
| 17. Guilhofrei | 42. Figueiral | 67. Caldeirão |
| 18. Cefra | 43. Pisões | 68. Carregado |
| 19. Padrela | 44. Sabugueiro I | 69. Termoelétrica do Ribatejo |
| 20. Olo | 45. Sabugueiro II | 70. Energin |
| 21. Tapada do Outeiro | 46. Lagoa Comprida | 71. Barreiro |
| 22. Crestuma-Lever | 47. Desterro | 72. Setúbal |
| 23. Torrão | 48. Ponte Jugais | 73. Sines |
| 24. Forte da Quelha | 49. Moriágua | 74. Madrinha |
| 25. Carrapatelo | 50. Agueira | 75. Tunes |

-  Hydroelectric
-  Thermolectric
-  Wind farms
-  Biomass power station
-  Cogeneration and natural gas power stations
-  Natural gas combined cycle power stations

The following points are worthy of note in bound generation:

- 31 December saw the termination of energy acquisition contracts with the Tapada do Outeiro power station, where operations were already reduced to a single generator group (46.9 MW), and with Units 1 and 2 of the Tunes power station (32.0 MW). Meanwhile, REN had expressed interest in these two units continuing for a further two years, not on the same basis as before but for systems services;
- The two units of the Alqueva power station, belonging to EDIA, came under the control of the CPPE's Régua remote control centre after Unit 2 came on stream on 13 February and Unit 1 on 18 June;
- Following completion of civil engineering and power station assembly works in Unit 1 of the upgraded Vila Nova/Venda Nova power station, commissioning trials and the first pressurising of the hydraulic circuit took place. The power station is expected to enter industrial service in mid-2005 (+192 MW); and
- The Sines power station is being adapted to new environmental standards, with the assembly of NO_x reduction equipment and dry clinker extraction systems in Unit 4. As regards the desulphurisation project, an international competition was launched in a "Bidder's Conference" jointly with HidroCantábrico (for the environmental upgrade of the Aboño and Soto de Ribera power stations), and the wet limestone/gypsum technology adopted. The Environmental Impact Assessment was concluded and the results sent to the DGGE for authorisation. In December, the Instituto do Ambiente (Environment Institute) declared the EIA in conformity with the project, and this was to be followed in early 2005 by a public consultation.



Ribatejo Thermoelectric Power Station

Non-binding generation

This segment of the industry saw an increase in installed capacity in 2004, the result of the coming on stream of the first two units of the Ribatejo combined cycle power station (784 MW), offering total installed capacity of 1,028 MW at the end of 2004. That figure compares with 647 MW at the end of 2003, and which total already included Unit 1 at Ribatejo, which was undergoing trials.

The hydroelectric power station contributed 244 MW, including EDP Comercial's Belver power station, but no longer including Ermal, which had been transferred to the PRE system.

As a result of below-average rainfall, hydroelectric generating took a smaller share of the total output of the SENV, whilst the greater capacity of Ribatejo promoted it to EDP Produção's second-ranked thermal generator behind Sines, an early indication of its importance.

It may be noted also that in 2004 applications were submitted to REN for certification under the "Renewable Energy Certificate System" of the SENV cascaded hydro power station of Serra da Estrela.

Regarding the development of natural gas-fired combined cycle power station, the EDP Group's strategic positioning in the Iberian context relies on maintaining market shares in capacity and generation, and hence:

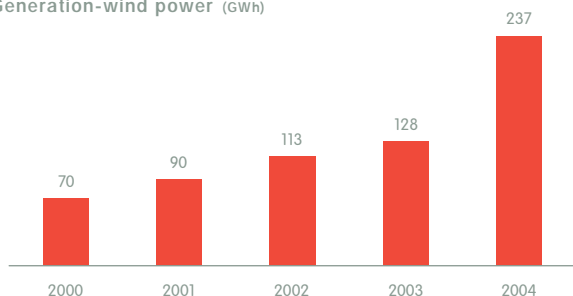
- the construction of the Ribatejo power station, comprising three generator units, each rated at 392 MW. Units 1 and 2 entered into service on schedule, and Unit 3 is now expected to come on stream in March 2006, six months early;

- the planned construction of three new natural gas-fired combined cycle units each with an output rating of 400 MW, to enter into service in 2008, 2009 and 2011. With a view to their possible construction in Sines, work began in 2004 on drawing up an Environmental Impact Assessment (EIA). The proposed definition of the scope of the EIA was submitted to the Instituto do Ambiente on 14 October, with the period of public consultation running from 8 November to 21 December. As part of the Prior Study, a competition for the Geological and Geotechnical Study of the proposed area has been launched. EIAs have also been launched in respect of other possible construction sites, notably Figueira da Foz.

Wind power

Installed capacity more than doubled between 2003 and 2004 (+71 MW), the result of the expansion strategy defined by EDP Group, and resulting in a market share of 26.4%.

Generation-wind power (GWh)

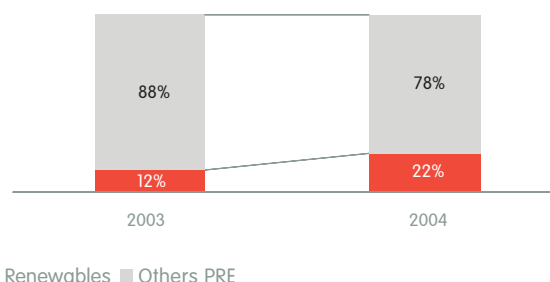


The growth over 2003 resulted from the coming on stream of the wind farms of Padrela (7.5 MW), in February, Fonte da Quelha (12 MW) and Alto do Talefe (12 MW), in March, Vila Nova (20 MW) in July and Açor (20 MW) in late December. At the end of 2004, Enernova was operating ten wind farms with 136 MW installed capacity. Generation totalled 237 GWh, 84.7% up on 2003. This growth meant an increase in wind power's share of total PRE from 12% in 2003 to 22% in 2004.



Fonte da Quelha Wind Farm

Share of renewable energy in PRE

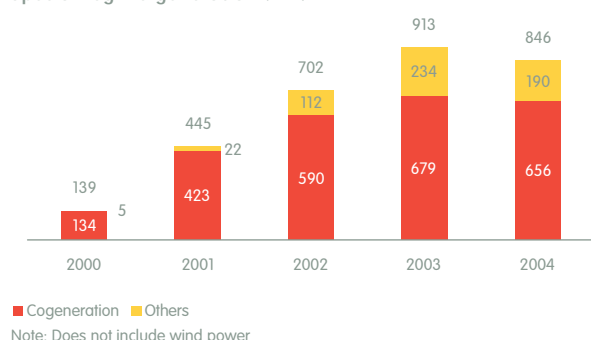


Further new projects were in progress at the close of 2004. Contracts were being awarded for increased capacity at Fonte da Quelha (1.5 MW), Alto do Talefe (1.5 MW), Vila Nova (6 MW) and Pena Suar (6 MW), due for entry into service in 2005. Also at the close of 2004, the award process was under way for a wind farm at Madrinha (10 MW) and that for Serra d'El Rei (20 MW) was being publicised, both with a view to entry into service in late 2005 or early 2006. Projects at the design stage, some of them in partnership, include around 116 MW at the approval stage and approximately 178 MW at the stage of awarding the reception point at the electricity grid. Taking the total of wind farms in service, under construction, under award and under design, Enernova held, at the close of 2004, total capacity for connection to the grid of approximately 400 MVA, representing some 12.5% of the total so far awarded by the DGE up to 2007. As regards partnerships, it may be noted that, at the end of 2004, the wind farm at Alagoa de Cima (13,5 MW) was connected to the grid. This is owned by Eólica da Alagoa, S.A., with a 40% stake held by Enernova.

Other special regime generation

The net generation of hydro power stations under 10 MW, cogeneration power stations and the biomass power station at Mortágua, totalled 846 GWh, some 8% short of the 2003 total, principally as a result of the downturn in hydroelectric generation.

Special regime generation (GWh)



Hydroelectric: The change in installed hydro capacity results from the transfer of the Ermal power station from the SENV to the PRE. Meanwhile, the hydroelectricity generated fell sharply as a result of the low 2004 hydraulicity coefficient.

Biomass: The Mortágua forest waste power station, owned by EDP Produção Bioelétrica, S.A., with installed capacity of 9 MW, produced some 49 GWh in 2004, up 28.3% on 2003. This was the result of improvements made at the station, in terms of technical equipment and also as regards the management of biomass. The biomass consumed totalled 95,700 tonnes, of which some 91.3% was forest biomass (forest waste) and 8.7% waste biomass (pine and eucalyptus bark).

Cogeneration: The CPPE holds a majority stake in the Soporgen and Energin natural gas cogeneration power stations. Both are associated with the supply of heat and power to the Soporcel and Solvay Portugal industrial sites, and total 111 MW of installed capacity. The year 2004 saw changes in the supplies of electricity to these cogeneration customers, with a resulting increase in the level of electricity exports to the public grid. At the close of the year they had generated a total of 656 GWh, only 3.4% down on 2003, and with supplies to the grid up 32.7%.



Mortágua Forest Waste Power Station



Energin Cogeneration Power Station

Services

For EDP Produção EM, the year's tasks were:

- Project supervision, management, and inspection of the construction and assembly of Unit 3 at the Ribatejo power station, and work relating to construction and installation of Units 1 and 2;
- Environmental upgrading of the coal-fired power stations at Sines (CPPE) and Aboño and Soto Ribera (HidroCantábrico);
- Involvement in the two major hydroelectric projects: the Alqueva multi-purpose supply (installations at Alqueva and Pedrógão) and raising capacity at Vila Nova/Venda Nova;
- Launch support for new major projects:
 - Localisation and technology studies for new natural gas combined-cycle power stations, drafting applications for attribution of grid reception points for Sines and Lares, contracting the EIA for Sines and design of the prior study and invitation to tender;
 - A start on work involved in the Baixo Sabor project;
- On the international front:
 - Project management in raising capacity at the Fafen (II) cogeneration power station (Brazil);
 - Provision of services to CEM – Macau in their project for NO_x and SO_x reduction at Coloane A power station;
 - Compiling the EIA for upgrading of the 400 kV and 225 kV high voltage grid for ONE, in Morocco; and
 - Technical evaluation for improvement works at Matala dam, and safety inspections at the Biópio, Matala and Cambambe dams.

- The APCER granted certification of the quality management system implemented by EDP Produção EM in compliance with NP EN ISO standard 9001:2000, and a favourable report on the audit of maintenance carried out by the same body. It may also be noted that work is advancing on integrating environmental management and health and safety at work, in accordance with standards NP EN ISO 14001:1999 and NP 4397:2001, and should be complete by the end of 2005;

O&M Serviços continued the operation and maintenance contracts for CPPE and PRE power stations already in force in 2003, and extended the scope of the Sines contract.

Energy balance

Consumption expressed as output (i.e. the energy put out to the grid) totalled around 45.5 TWh, 5.7% up on 2003 but decelerating slightly compared with the 5.9% increase between 2003 and 2002.

Because of the low rainfall during the year, hydroelectric generation fell steeply during the year compared with 2003 (38%, for SEP and SENV as a whole).

Total binding thermal generation, around 22 TWh, was broadly the same as in 2003, whilst non-binding thermal generation was, with the coming on stream of the first two units at Ribatejo, 3,419 GWh, or around 7.5% of consumption expressed as output.

Energy balance		Generation		
GWh		2004	2003	Var. %
Coefficient of hydroelectric generability		0.81	1.33	-0.52
EDP Group power stations				
Hydroelectric emission	SEP	8,718	13,964	-37.6%
Thermoelectric emission	SEP	11,756	12,619	-6.8%
Hydroelectric emission	SENV	398	705	-43.5%
Thermoelectric emission	SENV	3,419	203	1583.3%
Mini-hydroelectric emission	PRE	141	196	-28.2%
Wind power emission	PRE	237	128	85.2%
Biomass emission	PRE	49	38	29.4%
Cogeneration emission	PRE	656	679	-3.4%
Net generation by EDP Group		25,374	28,532	-11.1%
Direct sales to industrial customers		-461	-532	13.4%
Emission to grid (EDP Group)		24,912	28,000	-11.0%
Other SEP producers	SEP	10,675	9,572	11.5%
Auto-generators consumption	SEI	3,858	3,184	21.2%
Balance of imports / (Exports)		6,481	2,793	132.0%
Hydroelectric pumping		-408	-485	15.9%
Consumption expressed emission		45,518	43,064	5.7%
Synchronic compensation		-35	-31	-13.3%
Own consumption in generation		-8	-3	-166.3%
Own consumption of grid		-10	-10	-3.2%
Losses		-657	-759	13.4%
Energy delivered to distribution		44,808	42,261	6.0%

5.1.3. Distribution Activity and binding supply business

Enhancing our image with the market and the end consumer

To prepare for the process of deregulation of the energy markets with the opening of the non-binding market to special low voltage customers, EDP has invested in fostering customer loyalty and the consequent need to enhance the quality of service:

- The launch, in the final quarter of 2004, of the rebranding operation and the new layout of the entire network of sales points in order to stress to the customer the values of the new EDP brand;
- The launch of a new electricity invoice in a new format, transforming it into a more accessible document, easier to follow and meeting the requirements of current regulations;
- The regular insertion of news and or promotional messages, in particular those relating to the various ways the invoice can be paid;
- Improved quality of service at the contact centre, the result of investments in installations, equipment and human resources. Of vital importance to the speed and ease of contact with our Company, EDP has gained international recognition as winner of the "Utilities" category in the "Fourth Call-Center Trophy", an event organised by the International Faculty for Executives, in partnership with IZO System;
- Maintaining cordial and constructive relations with the National Association of Portuguese Municipalities, built upon a spirit of mutual understanding and openness, thus ensuring stability in relations with bodies awarding concession contracts;



EDP Shop

- Participation in various fairs and exhibitions, and the organisation of EDP weeks at Citizens' Shops (Lojas do Cidadão);
- Improvements to the website with new content and functions, promoting dialogue with customers; this was also demonstrated to a number of local authorities.

Enhancing the quality of customer service

Concerning the quality of service offered to customers, EDP Distribuição has adopted measures aimed at meeting set targets which may be seen as the provision of high-quality service.

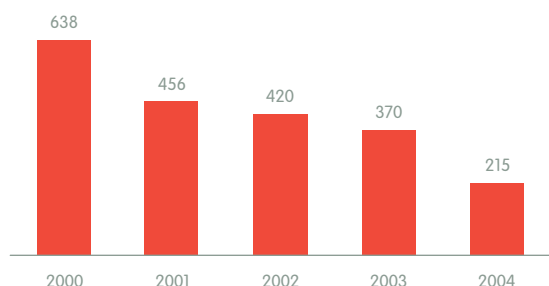
EDP has accordingly met the supply service quality indicators set out in the Service Quality Regulations (RQS):

- Estimates for low-voltage lines and connections within 20 working days;
- Works for low-voltage lines and connections within 20 working days;
- Customer low-voltage connections within two working days;
- Maximum 20 minutes' waiting time in shops;
- Maximum 60 seconds' waiting time for telephone callers;
- Reconnection after accidental interruption within four hours;
- Complaints examined and answered within 15 working days;
- Requests for information dealt with within 15 working days;
- Low-voltage meter reading, bearing in mind the Additional Standards of the Quality of Service Regulation which state that "calculation of the indicator for meter-reading should not take account of second residences in which the meter is inaccessible to the supplier".

Enhancing the quality of technical service

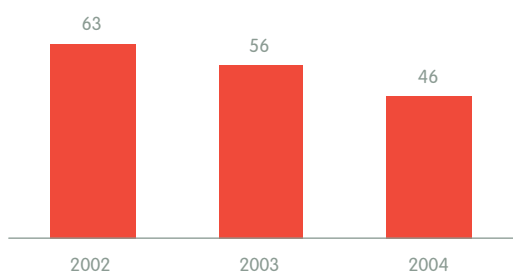
As measured by the TIEPI indicator (Equivalent Interruption Time for Installed Power), quality of service showed a significant improvement on previous years, down from 370 minutes in 2003 to 215 minutes in 2004 (-42%). Although 2003's outbreak of forest fires contributed 29 minutes to that year's figure, through exceptional cuts for reasons of safety and at the request of the forces engaged in fighting the fires, the annual target of 290 minutes was achieved by a clear margin.

Equivalent Interruption Time Installed Power
 Medium Voltage (minutes)



The trend of the TIEPI was followed by the remaining general indicators of service quality on EDP Distribuição's medium and low voltage grids, and acknowledged by customers.

Complaints received ('000)



Live line maintenance

This improvement in service quality was due essentially to:

- The high levels of investment and maintenance effort of recent years, together with the combined effect of a number of technical and organisational measures begun a little over a year ago;
- The LEAN project, aimed at reducing the time taken to restore current in all areas of the grid after a failure. This led to general mobilisation of virtually all technical staff, and contributed strongly to their motivation and to the fine results thus achieved;
- Favourable weather conditions.

At the same time, the Quality and Continuity of Current (QCT) on the grid were evaluated in 2004 by implementing the QCT Monitoring plan, as provided for in the RQS, with monitoring in 36 high and medium voltage substations and in 108 distribution transformer stations.

During 2004, an international conference was held in Lisbon on birdlife and overhead power lines. The conference took place in the framework of an agreement between EDP Distribuição, the Portuguese Nature Conservation Institute (ICN), Quercus and the Portuguese Bird Society (SPEA), and was aimed at studying and minimising the effects of high and medium voltage lines on birds.

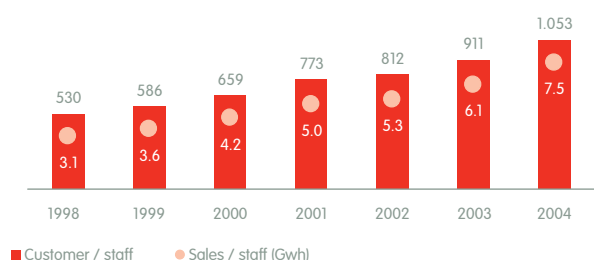
Ensuring the efficiency of operations

Increasing operating efficiency allowed us to serve a greater number of customers and supply more energy with fewer staff. The ratio of customers to staff, which is widely used as a measure of productivity in distributive enterprises, rose from 659:1 in 2000 to 1,053:1 in 2004.



Anti-nesting device

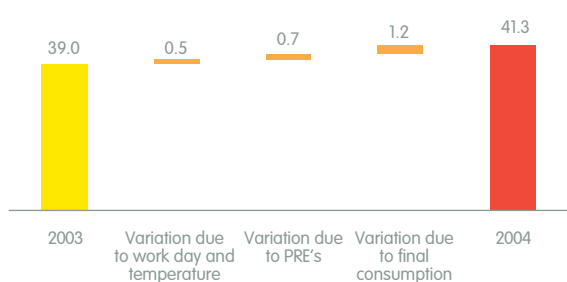
Operating efficiency of EDP Distribuição (SEP+SENV)



Distribution Activity

The year 2004 saw a 6.1% increase in the global volume of energy distributed. Part of the increase was attributable to the weather and a greater number of working days than in 2003 — the two factors accounted for 1.2 percentage points of consumption, according to REN estimates. At the same time, there was a steep rise in the input of energy from special regime producers. In the case of cogeneration, this is mainly accounted for by the high number of cogenerators signing up for the option to sell the totality of their output to the SEP, in the wake of the publication of Order No. 399/2002. This alone accounts for around 1.9 percentage points of consumption transported by the EDP Distribuição grid, and lost by own consumption.

Variation in the consumption of electricity (TWh)



This being the case, the underlying growth in consumption would have been around 3.0%, confirming the trend of recent years for the consumption of electricity to grow faster than the economy, as per capita consumption gradually approaches the EU average.

Binding supply business

Binding supply business was influenced by the ongoing switching of customers to the SENV following deregulation of the electricity market. Here, and despite there having been a small net increase in the number of SEP customers (09%), there was a decline in the system's sales of energy.

Customers and electricity sales in the SEP EDP Distribuição

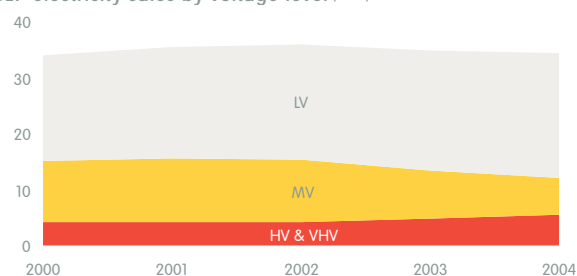
	Number of customers ⁽¹⁾			Electricity sales (GWh) ⁽²⁾		
	2004	2003	Var. %	2004	2003	Var. %
Total	5,818,504	5,766,368	0.9%	34,552	34,907	-1.0%
Very high voltage	20	16	25.0%	1,222	1,115	9.6%
High voltage	154	130	18.5%	4,340	3,680	17.9%
Medium voltage	18,184	19,039	-4.5%	6,506	8,600	-24.3%
Special low voltage	27,306	28,184	-3.1%	3,155	3,050	3.4%
Low voltage	5,728,865	5,676,952	0.9%	18,112	17,296	4.7%
Public lighting	43,975	42,047	4.6%	1,218	1,167	4.4%

⁽¹⁾ Includes EDP Group

⁽²⁾ Includes sales to EDP Group for final consumption

As regards sales by type of voltage, there was a steep decline in medium voltage, the result of customers switching to the SENV. This explains the fall of more than 24% in SEP sales in this segment compared with 2003.

SEP electricity sales by voltage level (TWh)



The quantity of electricity entering the grid in 2004 was up by 6.0%. At the same time, the energy acquired for SEP consumption was down 0.8%, the result of customers switching from the SEP to the SENV. Since the customers who switched to the SENV are supplied at the higher voltage levels, in which losses are relatively low, the 1.0% reduction in the energy leaving the grid for SEP customers resulted in a decline of only

0.8% in the energy acquired for those customers. This means that the distribution losses in the SEP increased, in relative terms, as a consequence of the shift in structure towards low voltage, where distribution losses are greater.

Energy purchases	EDP Distribuição			
	GWh	2004	2003	Var. %
For SEP		37,757	38,045	-0.8%
REN		30,342	32,307	-6.1%
SENV		2,933	2,044	43.5%
PRE		4,482	3,694	21.3%
For SENV		7,051	4,216	67.3%
REN		7,051	4,216	67.3%
Total		44,808	42,261	6.0%

Energy balance

Total energy output in 2004 was 41,315 GWh, 6.1% more than in 2003, of which 34,552 GWh was in the SEP and 6,763 GWh in the SENV.

Energy sales in the SEP were down 1.0%. The high voltage segment showed the highest growth (17.9%), whilst the decline in medium voltage reflected customers switching to the SENV in step with deregulation of the sector.

Energy balance	GWh	EDP Distribuição	
		2004	2003 ⁽¹⁾
Energy delivered to the distribution grid	44,808	42,261	6.0%
Own consumption by distribution	-29	-33	-13.0%
Sales to EDP Group power stations	-13	-15	-13.0%
Distribution losses	-3,451	-3,259	5.9%
Energy living the distribution grid ⁽²⁾	41,315	38,955	6.1%
Sales of energy at the SEP	34,552	34,907	-1.0%
Very high voltage	1,222	1,115	9.6%
High voltage	4,340	3,680	17.9%
Medium voltage	6,506	8,600	-24.3%
Special low voltage	3,155	3,050	3.4%
Low voltage	18,112	17,296	4.7%
Public lighting	1,218	1,167	4.4%
Delivery of energy at the SENV	6,763	4,048	67.1%
EDP Group customers	4,381	2,724	60.8%
Very high voltage	0	0	-
High voltage	25	46	-44.6%
Medium voltage	4,337	2,679	61.9%
Special low voltage	19	0	-
Other customers	2,381	1,324	79.9%
Very high voltage	0	0	-
High voltage	24	68	-65.0%
Medium voltage	2,343	1,256	86.6%
Special low voltage	14	0	-

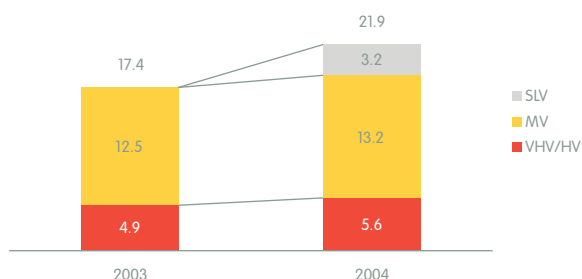
⁽¹⁾ 2003 energy balance adjusted to treat sales by Soporgen and Energin as sales to EDP Group for final consumption

⁽²⁾ Sales to EDP Group for final consumption included as sales to the SEP

5.1.4. Non-binding supply

The year 2004 saw a further phase in the process of deregulation of the electricity sector. This opened the SENV to low voltage consumers with a contracted capacity of 41.4 kVA or more (special low voltage), as well as the medium, high and very high voltage customers who already had access to the SENV. This latest group, comprising around 28,000 installations and accounting for 8% of consumption in Portugal, brought eligible consumption to 54% of total consumption, for a total of 50,000 installations.

Eligible Consumption (TWh)



EDP Group operates in the market through its subsidiary EDP Energia, which as a consequence of the EDP Group's re-branding, changed its name to "EDP Comercial – Comercialização de Energia", and is now branded on the market as "EDP Corporate".

Given the opportunities and dangers of the present phase of market growth and the evolution towards an Iberian market, EDP Comercial has concentrated its work on four key areas:

- On the marketing side, the quality of the offer was enhanced, with the launch of new energy services aimed at complementing the supply of energy for specific market segments;
- At the Iberian level, a project was implemented aimed at linking and approximating the commercial practices and policies of EDP Comercial and HidroCantábrico;

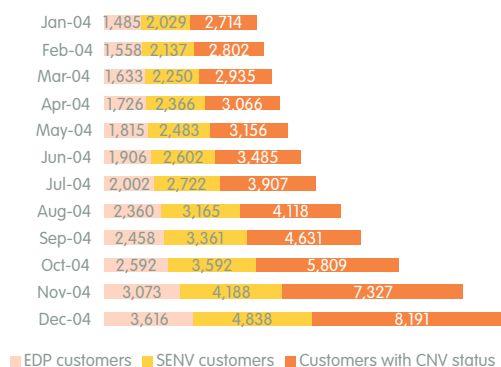
- At the organisational level, a new commercial structure was set up, able to respond efficiently to the needs of the new deregulated segment, whilst at the same time the "one-to-one" relationship with the larger customers was intensified with the aim of establishing a partnership relationship;
- For systems, operational efficiency was increased and corporate processes improved, particularly commercial processes and the management of customer relations. A level of maturity and efficiency appropriate to current needs has been achieved.

The competitive environment changed during 2004 following the entry of new competitors and more intensive and effective competition from players already present on the market.

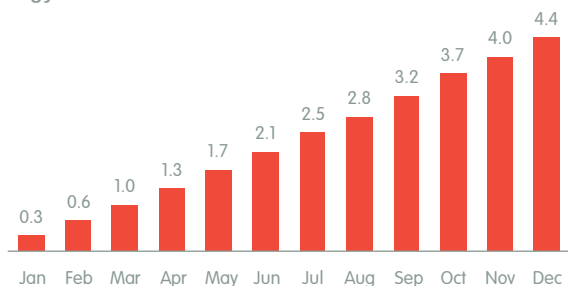
An increase in tariffs in the public system towards the end of the year resulted in a relative rise in the competitiveness of the market system.

The year 2004 saw an exponential rise in the number of customers and volume of energy supplied through the market system. By the end of the year, 4,838 customers were operating in the market, 3,616 of them supplied by the EDP Group.

Customers



Energy sold - EDP Comercial (TWh)



To sum up, in 2004 the EDP Group consolidated its leading position as electricity supplier in the market system, with a market share of 75% in customer terms and 65% in terms of energy sales. This position contributed to the Group supplying, over the year, approximately 88% of the consumption associated with eligible customers, and 93% of total consumption.

EDP Comercial	2004		2003	
Sales GWh – SENV	6,763	100%	4,048	100%
EDP Comercial	4,381	65%	2,724	67%
Others	2,381	35%	1,324	33%
Customers – SENV	4,834	100%	1,919	100%
EDP Comercial	3,616	75%	1,404	73%
Others	1,222	25%	515	27%

5.2. Iberian Market – Spain

The year 2004 saw a further step forward in the strategy of developing EDP's core business across Iberia. The first stage of EDP's Iberian development strategy was the acquisition of a 39.5% holding in HidroCantábrico in December 2001, followed during the course of 2004 by a further purchase taking the holding to 95.7%.

The work undertaken jointly by EDP and HidroCantábrico, even before the full capital had been acquired, has contributed to the Iberian positioning of EDP Group through:

- A joint approach to major investment projects in energy generation. Here, positions at Iberian level have been concerted with a view to improving EDP's and HidroCantábrico's negotiating position vis-à-vis suppliers and makers of desulphurising equipment for the coal-fired installations at Sines, Aboño and Soto, and for the planned construction of new combined-cycle power stations; and
- Linking of operational activities, notably trading in the wholesale electricity markets and large-scale fuel purchases for thermal power station.

This further control of HidroCantábrico is one of the most important events in the history of EDP, ranking amongst the year's biggest financial operations in Europe, the largest capital increase ever registered in Portugal and the largest investment in Spain ever made by a Portuguese enterprise.

Once the purchase terms had been agreed, an immediate start was made on a programme that has allowed known synergies to be exploited, with joint action in investment policy and operations, and a joint approach to the Iberian market.

Project Sinergias was set up for this specific purpose. A number of working groups were formed with the task of identifying best business practice and the potential for cost reductions and for coordination in operations and "back-office" work.

5.2.1. Organisation and Regulation

Electricity Sector

This, the second year in which the electricity market was open for all customer segments, the sector was characterised by:

- Low prices on the wholesale market;
- A rise in the price of coal, attributable in part to the steep rise in demand from Asia, in particular China and India. Demand on those markets was so high that it triggered a shortage in the supply of freight to Europe, with a consequent increase in the cost of sea transport.

At the close of the year, 33.1% of total consumption in Spain was under contract with energy distribution enterprises.

The year 2004 saw the most important step towards the start-up in 2005 of the market in licences for greenhouse gas emissions. This was the publication of Royal Decree-Law 5/2004, which regulates the system in Spain for trade in allowances. This provision transposes into Spanish Law Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading and regulates, inter alia:

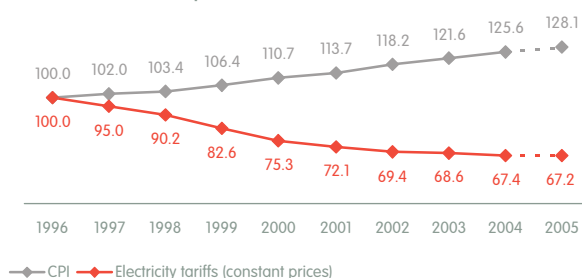
- The rules for greenhouse gas emission allowances (GEE);
- The nature and content of the Spanish scheme for awarding allowances;
- The rules governing emission allowances; and

- The requirement to inform and the national register of emission allowances.

At the end of 2004, the European Commission approved the Spanish scheme for awarding allowances for the period 2005-2007. And on 21 January 2005, the final list was published of allowances granted to various CO₂-emitting industrial installations affected by the scheme, which include thermal power stations of a capacity exceeding 20MW. These allowances, which are needed to continue producing electricity, also entitle the holder to participate in the market for emission allowances.

The average electricity tariff for regulated customers rose 1.54%, allowing customers to benefit from a real-terms cut in the price of electricity for yet another year. Electricity price rises in Spain have been consistently less than the rise in the Consumer Price Index for the last 13 years.

Tariff increases compared with CPI



Note: 2005 values based on the average tariff increase already published by the government (1.71%) and a forecast inflation rate of 2% (EU)
Source: EU Budget and CNE.

During the final quarter of 2004, the Spanish Ministry of Industry, Tourism and Trade announced its intention to publish a white paper on reform of the Spanish regulatory framework for electricity generation, with the aim of:

- Identifying positive and negative aspects of the existing rules;
- Carrying out a comparative analysis with regulatory models applied in other countries;

- Defining the principles, aims and approaches which should inform the programme of regulatory reform; and
- Indicating the areas in which the rules should be reformed and selecting the proposed reforms on the basis of prior analysis of the alternatives.

The EDP Group is fully committed to contributing to the drafting of this white paper, defending a balanced and equitable regulation that promotes transparency for customers and stability for the sector throughout the Peninsula.

Regarding the Special Regime, a new methodology was established for updating and systematising the legal and economic framework for generating, reformulating the principles of remuneration of special regime generating and opening new prospects for investment in such projects, in particular through:

- Differentiated remuneration according to the technology and scale of the special regime installation; and
- Remuneration indexed on the spot market price, plus a premium and an incentive, defined as percentages of the mean reference tariff.

Gas Sector

For the gas sector, the year 2004 was the second year of the market being open for all consumers.

At the end of 2004, the deregulated gas market had approximately 1.3 million customers, representing around 22% of all gas customers, with consumption of 260,000 GWh equivalent to 81% of annual consumption. In contrast to the electricity sector, the (regulated) gas tariff is additive, which facilitates the workings of gas supply enterprises.

5.2.2 HidroCantábrico Activity

For HidroCantábrico, the year 2004 was dominated by meeting the business plan approved by the shareholders in a market whose climate was characterised by:

- A 4% rise in demand for electricity vis-à-vis 2003;
- An average wholesale market price of 35.4€/MWh⁽¹⁾, 6.3% down on 2003, and particularly low not only in Iberian terms but also in comparison with the other European markets;
- A significant rise in the price of natural gas and coal, at the same time as a rise in oil prices on the international markets:
- In January 2004, Brent stood at 31.3 USD/barrel, and closed the year on 39.9 USD/barrel, after having peaked at 52.0 USD/barrel in October;
- Imported coal delivered to Europe was trading at an average 42.5 USD/tonne in 2003 and 71.8 USD/tonne in 2004, a rise of 69%.

To cope with this combination of unfavourable circumstances in both primary energy and electricity markets, HidroCantábrico's approach during 2004 was to:

- Concentrate on the Group's core activities: the energy sector – gas and electricity;
- Improve the gains in operating efficiency;

- Continue the strategy of growth in special regime generating, in particular wind technology; and
- Create the conditions to retain and attract the best customers for gas and electricity.

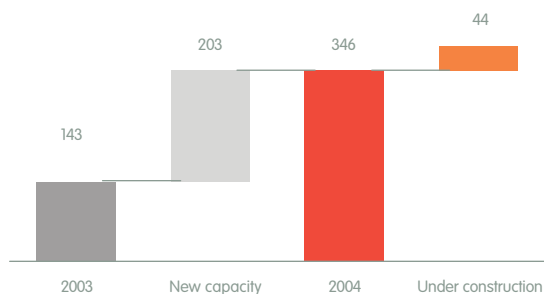
The implementation of this strategy entailed a number of projects and initiatives, of which those making the most important contributions to HidroCantábrico's position were:

- Disposal of Retecal, a Telecom and Cable TV company, which brought in EUR 57.5 million and was in line with the strategic aim to focus on HidroCantábrico's core business;
- Reorganisation of the Trading business, with a view to preparing for an Iberian operation, and defining an integrated operating model;
- Defining the criteria for evaluating grid construction and electricity supply activities in geographical areas outside the Astúrias region;
- Consolidation of the gas business following the acquisition of NaturCorp;
- Conception and implementation of a new human resources management model, aimed at guiding, motivating and retaining the company's best staff;
- Design and implementation of a quality policy based on Six Sigma, aimed at a sustained improvement of operations;

⁽¹⁾ Price based on the day-to-day intra-day market and including components for restrictions, guaranteed supply and complementary services

- Continued investment in wind farms, with another 247 MW (at 100% capacity) begun or acquired during construction during 2004, and a further 142.1 MW coming on stream during the year;

Wind power
MW installed

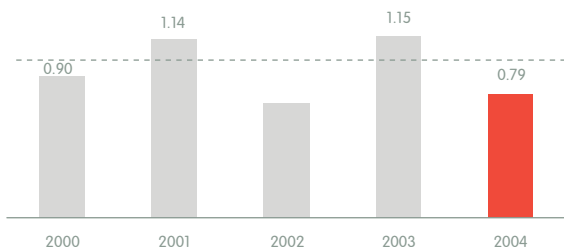


- Merger of Genesa and Sinae, both active in the area of renewable energies, with all operations now concentrated in a single company, Genesa;
- Externalisation of the customer support centre, with shop locations optimised and customer support procedures aligned on the target market.

Electricity generation activity

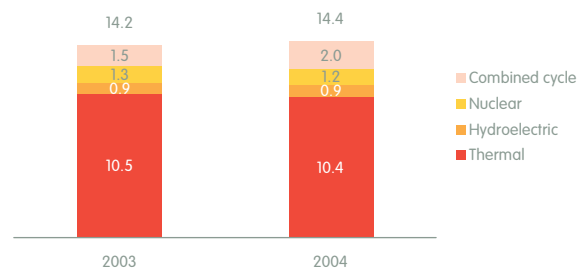
Net generation by HidroCantábrico in normal regime in 2004 was 1.8% up on 2003, in an extremely competitive environment of falling prices on the wholesale market and a low hydroelectric coefficient.

Hydroelectric coefficient activity



Net generation in normal regime	HC (100%)			
	GWh	2004	2003	Var. %
Hydroelectric		854	861	-0.8%
Thermal		10,356	10,491	-1.3%
Nuclear		1,237	1,257	-1.6%
Combined cycle		1,961	1,546	26.8%
Electricity generated		14,408	14,155	1.8%

Net generation



HidroCantábrico's investments in renewable energy sources began to pay dividends in 2004. With a substantial construction phase completed, the wind farms have been gradually connected to the grid and brought into service, practically tripling generation compared with 2003.



HidroCantábrico Wind Farm

Generation in special regime	HC (100%)			
	GWh	2004	2003	Var. %
Wind		272	36	678.6%
Others		354	197	79.7%
Total		626	233	170.0%



(I) For the Special Regime, the participation of HidroCantábrico in projects is considered according to the criterion of consolidation of accounts.

Distribution of electricity and gas activity

Electricity

HidroCantábrico pursued its policy centred on quality of service to the customer, with a TIEPI (Equivalent Interruption Time for Installed Power) of only 63.8 minutes, the best among Spain's four largest electricity enterprises. The high quality of customer service has made possible a proactive approach to fostering loyalty amongst customers, both regulated and deregulated, and, at the same time, selectivity in prospecting new customers.

This being the case, the number of grid points supplied by HidroCantábrico rose significantly, notably in the medium voltage segment, with a 9.7% increase over 2003.

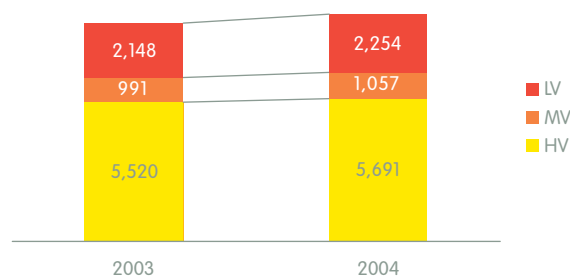
Points supplied in electricity (TI+TA)	HC (100%)		
	2004	2003	Var. %
Electricity distribution	574,560	561,208	2.4%
High voltage	20	19	5.3%
Medium voltage	757	690	9.7%
Low voltage	573,783	560,499	2.4%

Demand for electricity in 2004 totalled 234.9 TWh, a 4% increase over the previous year.

HidroCantábrico recorded significant growth, notably amongst customers in the medium-voltage segment (6.7%), in line with the business plan. For the first time the electricity transported on the HidroCantábrico grid passed the 9 TWh mark, making an increase of 4% over 2003, and allowing the company to maintain its market share in mainland Spain.

Electricity distribution	HC (100%)			
	GWh	2004	2003	Var. %
High voltage		5,691	5,520	3.1%
Medium voltage		1,057	991	6.7%
Low voltage		2,254	2,148	4.9%
Total		9,002	8,659	4.0%

Electricity supplied (GWh)



Gas

The gas sector in Spain is going through a period of expansion, as regards both consumers and supply points.

In addition to the 6.4% rise in the total number of supply points, it is worth drawing attention to the steep rise in the number of supply points at access tariff, the result of the expansion through which the sector is going and fact that the deregulated market is more dynamic than the regulated market.

Gas supply points (TI+TA)	HC (100%)		
	2004	2003	Var. %
Total full tariff points TI	564,210	540,180	4.4%
P<=4 Bar	563,983	539,834	4.5%
P>4 Bar	227	346	-34.4%
Total de access tariff points TA	13,592	2,614	420.0%
P<=4 Bar	13,120	2,273	477.2%
P>4 Bar	472	341	38.4%
Total TI + TA (I)	577,802	542,794	6.4%

(I) Number of supply points taking account of 100% of company holdings

Demand in mainland Spain rose to 319.7 TWh, a fairly significant rise of around 16%.

The general Spanish trend towards contracting in the deregulated energy markets is particularly strong in the case of the gas sector. Of the total 319 TWh supplied, around 80%, or approximately 255 TWh, was contracted on the deregulated market.

This trend is reflected in the 44% decline in the energy supplied by HidroCantábrico at full tariff and the steep (70%) rise in the amount distributed at access tariff.

Gas distribution (TI + TA)		HC (100%)	
GWh	2004	2003	Var. %
Total GWh TI	7,227	12,916	-44.0%
P<=4 Bar	5,353	4,440	20.6%
P>4 Bar	1,874	8,476	-77.9%
Total GWh TA	14,832	8,736	69.8%
P<=4 Bar	265	44	502.3%
P>4 Bar	14,567	8,692	67.6%
Total TI + TA (I)	22,059	21,652	1.9%

(I) Distribution of gas taking account of 100% of company holdings

Supply of electricity and gas activity

Electricity

Total electricity and gas sales for 2004 by suppliers on the deregulated market were 326 TWh, up 27.6% on 2003 (255.5 TWh).

Of the 22.22 million electricity supply points in the whole of Spain, some 1.35 million or 5.7% were at the close of 2004 fed from the deregulated sector of the market, an increase of approximately 1.5 percentage points over 2003 (4.2%).

Supply points	2004	2003	HC (100%) Var. %
Trading electricity	5,276	3,376	56.3%
Asturias	1,947	1,180	65.0%
Other Spanish regions	3,329	2,196	51.6%

HidroCantábrico recorded a 2% increase over 2003 in the electricity supplied, in line with the defined target of sustained growth in both the number and the value of clients and energy delivered.

HidroCantábrico's market share in total electricity supplied in Spain including the island regions (a total of approximately 71.1 TWh) was 6.5%.

Trading electricity		HC (100%)	
GWh	2004	2003	Var. %
HCE	4,218	4,341	-2.8%
NaturCorp	398	186	114.0%
Trading electricity (I)	4,616	4,527	2.0%

(I) Net of purchases by Naturcorp in 2003 and 2004

Gas

In 2004, the gas sector in Spain totalled 4.37 million gas supply points, of which 1.27 million (approximately 22.5%) had opted for the deregulated market. The number of deregulated market points has risen very rapidly, with a subscription-connection rate of almost 100,000 customers per month.

During 2004, HidroCantábrico recorded a significant trend of customers switching from the regulated to the market regime, matching the general trend in the Spanish energy market and growing by 216%.

Supply points	HC (100%)		
	2004	2003	Var. %
Trading gas	1,484	474	213.1%
HC Energía	37	148	-75.0%
Naturgas	1,447	326	343.9%

HidroCantábrico continued to intensively develop its sales in the deregulated market, recording a significant increase in the energy supplied, 92% up on 2003.

Trading gas	GWh	HC (100%)		
		2004	2003	Var. %
Asturias		1,137	2,816	-59.6%
Rest of Spain		9,852	2,895	240.3%
Trading gas		10,989	5,711	92.4%

5.3. Brazil

5.3.1. Institutional structure of the electricity sector in Brazil

The year 2004 saw the establishment of the new structure for the electricity sector in Brazil:

- The supply of electrical energy was split into two separate markets:
- A regulated market (Regulated Contract Framework – ACR), aimed at the provision to distributors of the energy needed to service their captive market, by means of auctions for the lowest tariff;
- A free market (Free Contract Framework – ACL), where terms can be negotiated freely between concession holders and generators, distributors and importers of electricity and those consumers who opt for the free market.
- The award of new generating contracts, granted to the lowest bidder, on projects where preliminary environmental approval has been given;
- Demand forecasting (with effect from 2005): all distributors, sellers, auto-producers and free-market customers must by 1 August of each year inform the Ministry of Mines and Energy (MME) of their market or demand forecast for the coming five years;
- The definition of “free-market customers” has been agreed as those who have the possibility of freely choosing their supplier of electricity. The qualifying criterion is contracted capacity of 3 MW or more; those already connected at 8 July 1995 must be served at a voltage of 69 kV or higher; those connected after that date may be served at any voltage;

- Distributors may acquire current at auction, which may be held up to five years ahead.

The regulatory framework will continue to be influenced in 2005 by the consolidation of this new structure and regulations are expected on the following areas amongst others: obligation to present ballast; modalities for the criteria for distributors passing on costs of acquiring energy, provided for in the law; separation of distribution from generation and transmission; incorporation of private electricity networks into distributors’ assets.

5.3.2. Positioning of EDP Group

In the context of Brazil’s macroeconomic development and the new structure of the electricity sector, the strategy adopted by EDP Brazil in 2004 proved appropriate and commensurate with the strategic plan approved earlier.

As regards generating, the following may be noted:

- Accelerated investment in the hydroelectric power station at Peixe Angical (452 MW);
- Sale of the 80% holding in Fafen thermal power station to Petrobrás, for 96 million Reals. Delays in defining the regulation, and the perceived greater risk involved in investments in thermal generating in Brazil, seen alongside regulatory problems and problems acquiring gas on acceptable terms, shifted Fafen Energia’s position in the asset portfolio to non-strategic;
- Writing down of the investment previously made in the turbine at Campo Grande thermal power station, which was never built, confirming that the policy adopted was well-founded;

- A start made on eliminating the vertical structure of Escelsa and Enersul, consisting in the separating-off of generating assets, previously incorporated within these suppliers, to autonomous business units.

As regards distribution, the distributors were prepared, with their energy requirements covered for the short-, medium- and long-term.

In supply, the new structure opened new opportunities, with a clear definition of the free market environment. In 2004, Enertrade, one of Brazil's most important suppliers, successfully concluded the sale of a large quantity of energy to Uruguay, whilst maintaining a prudent approach to risk, consonant with best practice in this domain.

Meanwhile, despite these positive aspects, the regulator, ANEEL, has assimilated and interpreted the new structure in a manner that has yet to become stable. As a result, the tariff revisions made by Escelsa and Bandeirante during the year were readjusted, retrospectively to 2003, on the grounds that ANEEL considered the new bases for remuneration of these companies' regulated assets to be lower than had previously been approved, although it still maintained them provisionally.

Given the measure of uncertainty in this scenario, EDP Brazil decided to postpone the planned **corporate restructuring** announced in April until the regulatory environment became clearer and more stable. Changes that will allow this project to be restarted are to be hoped for in 2005. The year 2004 saw all the preparatory steps for launching the operation, which has the following aims:

- Concentrating the Brazilian assets of EDP in EDP Brasil;

- Migration of minority shareholders in Escelsa, Enersul and Bandeirante to EDP Brasil;
- Flotation of EDP Brasil in Bovespa, the São Paulo stock exchange;
- Launch of mechanisms to guarantee the liquidity of stock after flotation;
- Transfer of Escelsa and Enersul generation assets to the strategic generation area, and transfer of Enersul to direct control of EDP Brasil;
- Balance of the Group's internal capital structure consolidated, with a view to shareholder remuneration, and regulatory and fiscal aspects; and
- Internal reorganisation with a view to observing best business management practice and achieving corporate, organisational and operational efficiency.

In November 2004, EDP Brasil sold its 10% holding in EDINFOR Brasil to Edinfor Sistemas Informáticos, S.A. (Edinfor Portugal), for 312,500 Reals. This sale was made in the context of the sale of 60% of Edinfor Portugal to Lógica CMG.

- **Focus on operational efficiency**

Work on enhancing profitability by exploiting synergies forms part of the Efficiency Programme currently under way within EDP Brasil. This has been a success in terms of both quantity (total savings of 15.0 million Reals, against initial forecasts of between 10.3 and 14.0 million) and quality, with the establishment of a consistent dynamic of linking of the activities and work practices of cross-company teams.

Among the measures to have had major effects, the most striking were those rolling out practices in revenue collection and management of commercial services contracts, which led to significant savings totalling, to date, 7.7 million Reals.

Also of note were the implementation of various projects for joint consultation and negotiation, and the harmonisation of stock management practices, which produced savings totalling 5.2 million Reals.

The Efficiency Programme also involved implementation of a specific internal communications strategy and a reporting tool for monitoring the implementation of the 60-odd measures that make up the programme.

5.3.3. EDP Group activity in Brazil

Generation Activity

Maximum Power and Net Generation	Brazil	
	2004	2003
Lajeado (1)	250	250
Peixe Angical (2)	452	452
Fafen (Cogeneration) (3)	-	54
Generation by distributors (4)	297	297
Maximum power at 31 Dec (MW)	999	1,053
Lajeado (1)	1,194	1,232
Peixe Angical (2)	-	-
Fafen (Cogeneration) (3)	236	167
Generation by distributors (4)	1,407	1,202
Net generation (GWh)	2,837	2,601

(1) 27.65% shareholding equivalent to the portion held by EDP in the business
 (2) Under construction
 (3) Sold to Petrobras in Dec. 2004
 (4) 25 MW under construction. Includes CESA and Costa Rica, controlled by Escelsa and Enersul respectively

Lajeado: Lajeado is a hydroelectric station with 902.5 MW installed capacity located on the River Tocantins and constructed by Investco, a company in which EDP holds 27.65%. In 2004, it operated within forecast, producing 4,320 GWh, corresponding to 98.0% of the generating capacity recognised by ANEEL. In the environment, the Technical Assistance and Rural Development Plan was implemented and work continued on reforestation and cleaning the reservoir, studies of limnology and fish behaviour relating to power station operation and use of the fish ladder. The year 2004 saw a speeding up in the process of updating land registry entries for reservoir and remaining properties, for the definition of potential future uses.



UHE Lajeado

Peixe Angical: In 2004, construction work gathered pace on Peixe Angical hydroelectric station, which will have an installed capacity of 452 MW. This project is being developed jointly by EDP (60%) and Furnas Centrais Elétricas (40%), at a budgeted cost of 1.4 thousand million Reals at August 2003 values. The three generating units are planned to come on stream in May, July and October 2006.

The year 2004 saw continuation of civil engineering works; a start was made on electro-mechanical assembly work (9 March); negotiations began on the acquisition of land for the reservoir and on contract work for the construction and installation of the transmission line serving the project, all in accordance with the project plan. Investment in the project in 2004 totalled 700 million Reals.

Couto Magalhães: Work remains suspended on the Couto Magalhães hydroelectric project (150 MW installed capacity), in which EDP has a 49% stake and Grupo Rede 51%. This follows the consortium's application to ANEEL for the concession contract to be annulled amicably. ANEEL's position on this application is awaited. The annulment was requested following the appearance of new requirements by the environmental authorities, not mentioned in the concession contract, likely to compromise the economic viability of the project.

Viability studies for new projects: In April 2004, IBAMA, the Brazilian environmental institute, acknowledged the application for environmental approval for Ipueiras hydroelectric project, together with its environmental impact study. We are still waiting to hear from the environmental licensing authority.



Peixe Angical Hydroelectric Development

We are also waiting for conclusions of the environmental study relating to Tupiratins hydroelectric project.

Suppliers' own generating capacity: Escelsa has concession rights to six hydroelectric installations with total installed capacity of 193.4 MW plus, through CESA, the concession on two mini-hydros totalling 26.1 MW.

Energul has the concessions on four mini-hydros and three thermal installations totalling 43.9MW installed capacity. Through Costa Rica Energética, in which it holds 51%, it also operates the Costa Rica mini-hydro with 16MW of installed capacity.



Distribution Activity

EDP Brazil's supply business in 2004 resulted in rises of 3.3% in the number of customers, and 4.5% in the total volume of energy supplied, indicating a period of economic recovery during the second half of the year, although not shared equally by the three suppliers:

- Bandeirante returned a 4.2% increase in the number of customers and customers switching to the free market, without any real impact on trading margins

(major customers with energy tariffs benefiting from subsidies);

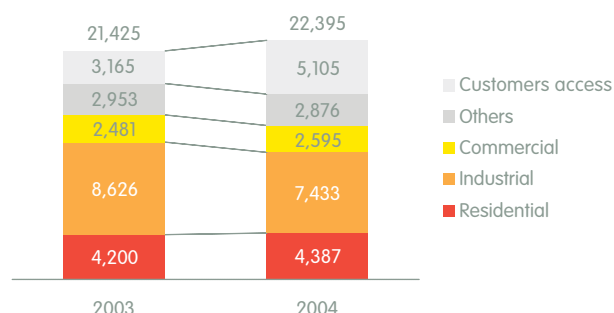
- For Escelsa, a significant number of major customers opted for auto-generation;
- For Enersul, the expanding agricultural sector brought rises of 4.2% in numbers of customers and 5.9% in the volume of energy supplied.

	Number of Customers									EDP Group in Brazil		
	Bandeirante			Escelsa			Enersul			Total		
	2004	2003	Var. %	2004	2003	Var. %	2004	2003	Var. %	2004	2003	Var. %
Total customers	1,375,096	1,320,211	4.2%	983,173	968,165	1.6%	639,751	613,832	4.2%	2,998,020	2,902,208	3.3%
Residential	1,257,668	1,210,721	3.9%	774,805	764,264	1.4%	525,497	503,544	4.4%	2,557,970	2,478,529	3.2%
Industrial	9,282	7,620	21.8%	10,611	10,633	-0.2%	4,430	4,451	-0.5%	24,323	22,704	7.1%
Commercial	91,617	86,510	5.9%	86,179	85,465	0.8%	54,620	53,279	2.5%	232,416	225,254	3.2%
Others	16,529	15,360	7.6%	111,578	107,803	3.5%	55,204	52,558	5.0%	183,311	175,721	4.3%

	Sales												EDP Group in Brazil		
	GWh	Bandeirante			Escelsa			Enersul			Total				
		2004	2003	Var. %	2004	2003	Var. %	2004	2003	Var. %	2004	2003	Var. %		
Acquisition of electricity & own generation	10,337	11,236	-8%	7,011	7,237	-3%	3,566	3,449	3%	20,914	21,922	-5%			
Electricity entering distribution	13,443	12,389	9%	8,254	8,184	1%	3,607	3,390	6%	25,304	23,964	6%			
Losses in distribution	-1,254	-1,009	-24%	-1,076	-997	-8%	-578	-533	-8%	-2,908	-2,539	-15%			
Sales of electricity	8,814	9,543	-8%	5,626	5,900	-5%	2,851	2,816	1%	17,291	18,260	-5%			
Residential	2,283	2,132	7%	1,192	1,195	0%	912	872	5%	4,387	4,200	4%			
Industrial	4,355	5,227	-17%	2,498	2,745	-9%	580	654	-11%	7,433	8,626	-14%			
Commercial	1,235	1,180	5%	775	754	3%	585	547	7%	2,595	2,481	5%			
Others (1)	941	1,004	-6%	856	888	-4%	762	712	7%	2,559	2,953	-2%			
Distributors	-	-	-	305	318	-4%	12	30	-60%	317	348	-9%			
Deliveries to access customers	3,375	1,837	84%	1,552	1,287	21%	178	41	334%	5,105	3,165	61%			
Total energy distributed	12,189	11,380	7%	7,178	7,187	0%	3,029	2,857	6%	22,396	21,425	5%			

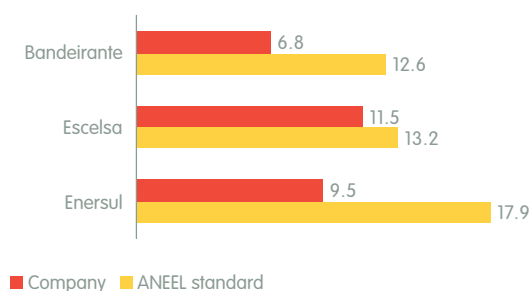
(1) Includes own consumption

Sales of Energy - Brazil (GWh)

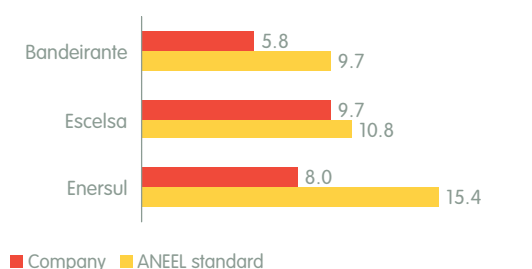


As regards quality of service, the technical indicators show a situation in which all three companies were able to guarantee the quality standards established by the Regulator.

DEC - Average interruption time (hours)



FEC - Average frequency of interruptions (times)



Regarding tariffs, the following may be noted:

- For Enersul, the tariff adjustment of 8 April, averaging 17.02%, included a deferred part of the 2003 adjustment;

- For Escelsa, an adjustment on 6 August, averaging 4.96%, included a correction to the tariff resulting from the previous adjustment;
- For Bandeirante, a tariff adjustment on 23 October, averaged 15.95%, and involved a new and still provisional valuation of the asset base to be remunerated by the tariffs.

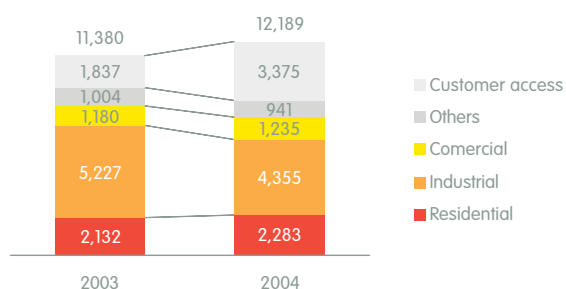
The investments made by the Group's supply sector companies totalled 303.2 million Reals, and encompassed extension of their electrical systems (80.1 million Reals amongst the three suppliers), universal access to electricity notably in the "Luz para Todos" ("Light for all") Programme (65.0 million), and modernisation of equipment and systems (46.5 million).

Various measures, notably the modernisation projects, made it possible in 2004 to raise the suppliers' efficiency by reducing staffing (140 employees). This resulted in a global 8.8% improvement in the number of customers per employee compared with 2003.

• **Bandeirante**

Total electricity supplied by the Bandeirante system in 2004 was 12.189 GWh, up 7.1 % on 2003. Electricity supplied to the captive market was 8,814 GWh, 7.6% down from 2003. This decline was due to captive, mainly industrial customers switching status to the free market. The company closed the year with a total customer base of 1,375,096, up 4.2% on 2003. Electricity supplied to the free market in 2004 by the Bandeirante system totalled 3,375 GWh, an 83.7% increase compared with 2003.

Sales of Energy - Bandeirante (GWh)



With the tariff revision of October 2003, the Regulating Body provisionally recognised an 18.08% rise in Bandeirante's supply tariffs, and established a calendar for application of the approved index, with an average 14.68% applying in the year and the balance divided and applied over the next three years. In defining this new tariff, the Regulating Body used as a basis for calculating remuneration (BRR) a provisional figure until the company had submitted an Asset Valuation Report, which it duly did in 2004.

ANEEL had not had sufficient time to evaluate the report before the October 2004 adjustment, and decided to maintain a provisional BRR at a significantly lower level than in 2003, implicitly also redefining the tariff published in 2003. The new index for the tariff revision of 2003 went down from 18.08% to 10.51%.

Implicit in this decision is a cut in the tariff base that served as a reference for the 2004 adjustment. That being the case, an average increase of 15.95%, came into effect, of which 11.40% related to the contractual adjustment and 4.55% to tariff financial components external to the annual adjustment (CVA, Percee, etc.).

In 2004, Bandeirante invested around 120 million Reals in extending and upgrading its electricity system to meet market demand at the statutory quality levels, to connect new customers, in installing metering systems, modernising, on public lighting and in support services.



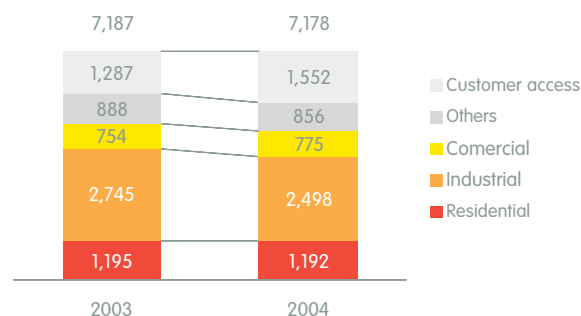
Grid maintenance Bandeirante

The Integrated Modernisation Programme (PIM) begun in 2002 was consolidated during this year, and made a decisive contribution to giving the company greater operational efficiency, agility and flexibility, reducing costs and improving the quality of service offered to customers.

• Escelsa

Total electricity supplied by Escelsa in 2004 was 7,178 GWh, down 0.1% on 2003. The number of customers was 1.6% up on the previous year. Electricity supplied to the captive market was 5,321 GWh, 4.7% down on 2003. This decline was mainly due to captive customers changing status to the free market, with a 9% fall in the number of industrial customers. Electricity supplied to the free market and other suppliers in 2004 by Escelsa totalled 1,857 GWh, a 15.7% increase compared with 2003.

Sales of Energy - Escelsa (GWh)



Escelsa's third tariff review took place in 2004. On 6 August, ANEEL published its Resolution No. 191, setting Escelsa's tariffs with an average adjustment of 4.96%. This figure reflects the downward revision of the previous provisional basis for calculating tariffs, down from the provisional 19.89%, to 17.80%. The difference between these two was applied to the volume of energy sold between the second and third reviews, and represents a reduction of 5.11% in the new tariff to be applied for one year from 7 August 2004 to 6 August 2005.

In 2004, Escelsa invested 108.6 million Reals on extending, improving and modernising its electricity supply system, on substations, on upgrading lines, on projects concerning the basic grid and hydroelectric installation, and elsewhere in full tariff and universalisation.

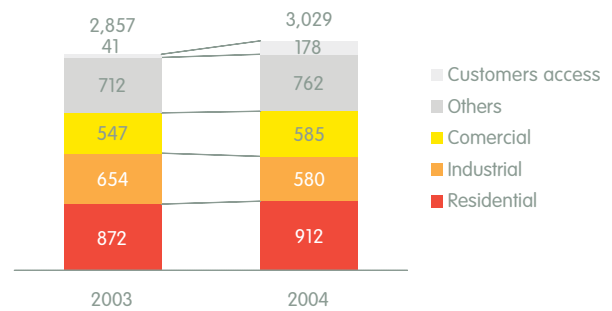


Operations Centre

• Enersul

Total electricity supplied by Enersul system in 2004 was 3,028 GWh, up 5.9 % from 2003's 2,858. The customer base was up 4.2% to 639,753. Electricity supplied to the captive market was 2,838 GWh, 1.9% up on 2003. This increase reflects the fine performance in the domestic, commercial and rural segments. Electricity supplied to the free market and other suppliers in 2004 by Enersul totalled 190 GWh, a 163.9% increase compared with 2003.

Sales of Energy - Enersul (GWh)



Enersul's tariffs were adjusted by an average of 17.02% on 8 April 2004. The adjustment also includes a deferred part of the April 2003 tariff adjustment.

In 2004, Enersul invested 93.7 million Reals in extending, upgrading and modernising its electricity system to meet market demand at the statutory quality levels. Other projects were aimed at attaining environmental standards, in generating, incorporating private networks, universalisation and technological modernisation in energy metering.



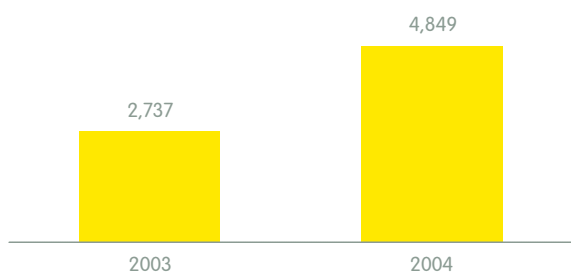
Grid maintenance Enersul

Supply Activity

During 2004, and principally its second half, the new structure of the electricity sector resulted in greater activity in long-term business. Attentive to the possibilities offered by the new regulations, Enertrade concluded a significant number of contracts with free-market consumers for periods of between five and ten years, with supplies to begin in 2005.

Enertrade's total sales in 2004 were 4,849 GWh, an increase of 77% vis-à-vis 2003, consolidating the company's position as one of the most active in the sector.

Sales of Energy - Enertrade (GWh)



With the livelier competition on the non-regulated market, the year 2004 produced a trend towards narrower margins in the supply of energy to the free-market consumer. We believe that the trend will become more marked in coming years.

Enertrade has limited the market risk inherent in the supply of energy by implementing procedures that limit exposure to the market. In 2004, the maximum exposure observed was equivalent to 12% of the total energy sold.

Coordinated action with the energy-distributing members of the Group made it possible during 2004 to avoid their being exposed to the short-term market, by adjusting contracts to real needs on a month-to-month basis.

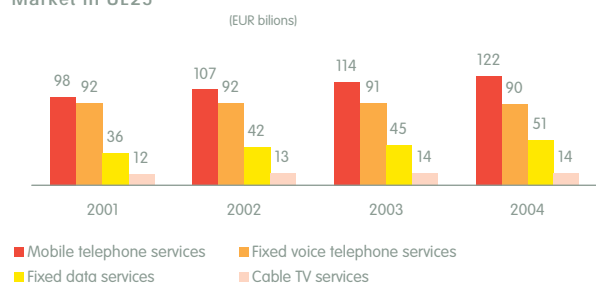
5.4. Telecommunications

5.4.1. Global framework

The telecommunications sector is going through a period of recovery driven by innovation in mobile and broadband communications, and has recorded growth of around 4.6% in 2004, faster than GDP growth for the 25-Member State EU.

The principal motors of growth are fixed data services and mobile services, both of which grew steeply (11.5% and 7% respectively).

Distribution of the Electronic Communicators Market in UE25



5.4.2. ONI Group: organisation and activity

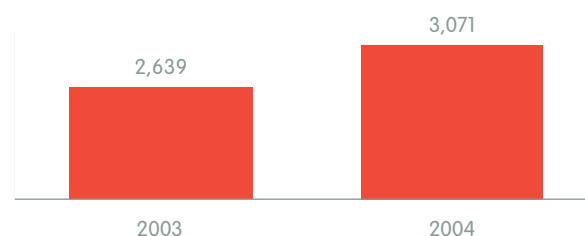
ONI: Consolidated activity

The main consolidated operational indicators of ONI's fixed network reveal a positive trend vis-à-vis 2003.

Operating Highlights	Fixed telecommunications						
	2004			2003			Var. %
	PT	SP	Total	PT	SP	Total	Total
Voice traffic (M. min.)	992	2,079	3,071	938	1,700	2,639	16.4%
Business	381	1,394	1,775	409	958	1,367	29.9%
Residential	226	0	226	245	0	245	-7.6%
Operators	385	685	1,070	285	742	1,027	4.2%
Direct Customers ('000)	2.0	19.9	21.9	1.5	9.2	10.7	104.7%
Business	0.9	10.8	11.7	0.7	4.7	5.4	116.7%
Residential	1.1	9.1	10.2	0.8	4.5	5.3	92.5%
Data traffic							
Internet (M. min.)	467	21	488	638	30	667	-26.9%
Business	54	21	75	55	30	85	-11.6%
Residential	413	0	413	583	0	583	-29.1%

Notable is the growth in overall fixed voice traffic, which exceeded three billion minutes in 2003

Voice Traffic Volume (minutes x millions)



The number of direct access customers (i.e. those connected directly to the ONI network) in Portugal and Spain doubled during the year and now exceeds 20,000.

Switched access Internet traffic was down for the second consecutive year, by around 27%. This resulted in part from the decision to invest less in attracting low-margin domestic customers, and partly from customer migration to direct access via OLL/ADSL in both the domestic and business segments.

Increase in capital

At the end of 2004, ONI SGPS undertook a capital increase that took the following form:

- Call-in of shareholder contributions of EUR 65 million;
- Reduction in issued capital to cover accumulated losses of earlier years totalling EUR 324.1 million, which effectively reduced the nominal value of the 400,119,796 shares to EUR 0.19;
- Conversion of shareholder contributions to additional capital totalling EUR 37.4 million;

- Issue of 126,195,994 new shares with a nominal value of EUR 0.19, created by incorporating additional capital of a value of EUR 24 million; so that
- On completion of this sequence of operations, the issued capital of ONI SGPS stood at EUR 100 million, representing a total of 526,315,790 shares each with a nominal value of EUR 0.19.

This completed the first phase of a broader shareholder financing operation with a total value of EUR 100 million, which is expected to conclude in 2005.

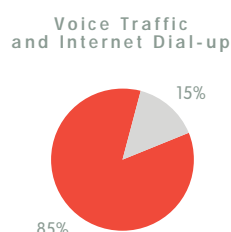
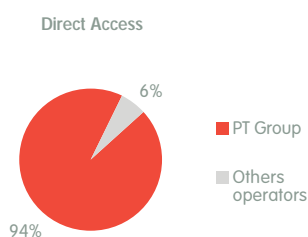
Activity in Portugal

Regulatory framework

The main event in the legislative and regulatory framework of the electronic communications sector in 2004 was the publication on 10 February of Law No. 5/2004 on Electronic Communications. This, after a six-month delay, transposed into Portuguese law the new European regulatory framework. Also of note were the subsequent analyses of relevant markets carried out by the sectoral regulating body, ANACOM.

The less-than-full implementation of this law means that the fixed electronic communications sector in Portugal continues, as in the past, to show only an incipient level of competition, with the incumbent operator still in a dominant position:

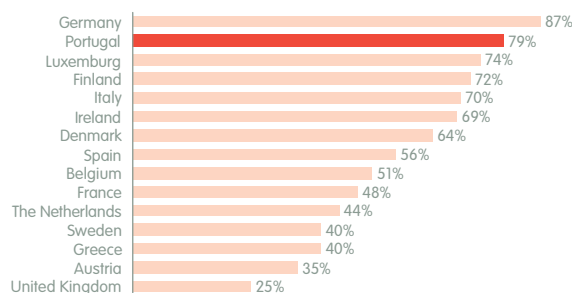
- For the local fixed telephone service, Grupo PT still holds around 94% of direct connections and 85% of voice and Internet dial-up traffic;



Source: ANACOM - 2004 quarterly reports

- For broadband connections, in all, Grupo PT holds around 79% of the market (87% in ADSL connections and 74% in cable modems), a percentage which has even risen, and is now the second highest in the EU-15.

Market share of Broadband Access



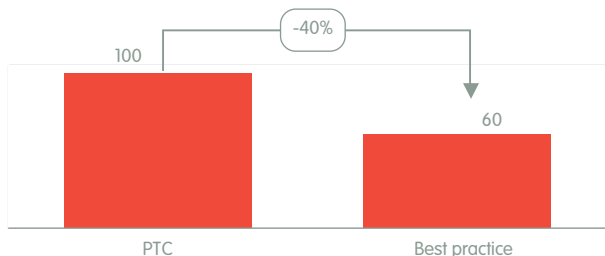
Source: 10th Implementation Report

This situation results from a structural context unparalleled in Europe, in which the incumbent operator holds not only the basic telecommunications network, but also a heavily dominant cable TV network, allowing the Group to control end-user access and enhancing its vertical integration which also combines retail and wholesale functions, in many instances in the same legal entity.

As a result of the obligations flowing from the new regulatory framework, the sectoral Regulating Body has adopted a number of decisions affecting a range of areas, including, in particular:

- Market analyses: ANACOM presented final decisions relating to the definition of relevant markets, evaluating significant market power, and setting down obligations relating to the retail and wholesale markets;
- Interconnections: Values were set for interconnection charges to be practised by PT Comunicações (PTC) for call origin and termination services, with a manifestly insufficient reduction of 8%;

Local connection price (index)



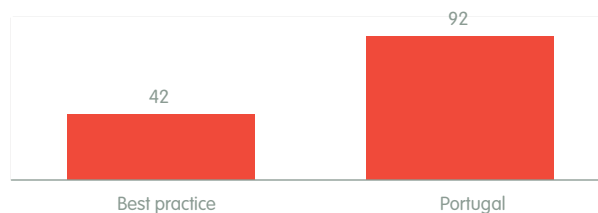
Source: ANACOM / ONI data

- Mobile networks: ANACOM issued no decisions in this area and at the close of 2004 presented proposals for a gradual evolution of prices leading to a uniform 0.11 EUR/minute by the end of 2006;
- Broadband: ANACOM published a draft decision only in December 2004, and unsatisfactory conditions thus persisted in Disaggregated Local Loop Offer (OLL) notably in activation and monthly charges with the result that, according to an independent study, the margins in Portugal on OLL-based services are the lowest in the EU-15. As a result of the various complaints by operators, ANACOM intervened and enforced changes in the ADSL wholesale terms offered by PTC. In broadband, a number of supplier conditions were laid down which Grupo PT must observe, with a view to guaranteeing that they are replicated by the other operators;
- Monitoring of retail offers: ANACOM intervened with a view to ensuring that the PT-Deco agreement was extended to customers of all operators. As regards the offers launched by new operators, the Regulating Body recently prohibited the "Optimus Home" service offer and placed restrictions on the new offer from Novis, with significantly limited mobility.

Notwithstanding the Regulatory Body's decisions, there remain constraints that in effect hamper the development of business in the sector:

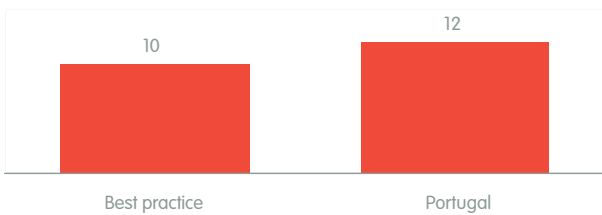
- The fact that the incumbent operator continues to hold the basic telecommunications network and the principal cable TV network;
- The fact that the Regulatory Body's approach is not always objective or effective, and lacks political objectives which are clear and quantified in terms of effective competition;
- A lack of selective measures which encourage and reward operators who invest in their own network;
- No defined minimum conditions to be followed by the wholesale market which would make possible the single invoice and the flat-rate interconnection tariff;
- Lack of ex-ante measures to prevent abusive practices in retail pricing;
- The continued existence of various aspects of Disaggregated Local Loop Offer (ORALL) which urgently need to be brought into line with European best practice;

Local Loop Activation Price (EUR)



Source: ANACOM and Regulators' Decisions

Monthly charge for full local loop access (EUR)



Source: 9th Report and Regulators' Decisions

- Continued extremely high administrative costs in respect of number portability;

Administrative costs of porting a batch of 100 numbers (EUR)



Source: Dossier and Report on ANACOM's probable decision on changes to be made to the 2004 PRI and Regulators' Decisions

- Administrative pre-selection, with limited and expensive functions vis-à-vis Europe;
- Interconnection tariffs with the PT Comunicações network and mobile network termination tariffs generally amongst the highest in Europe.

Evolution of fixed telecommunications business in Portugal

ONI maintained its strategy of a global approach to the domestic market, through a product portfolio directed at every segment of the market:

- Continued focus on more profitable segments and on those with a greater capacity to retain customers;

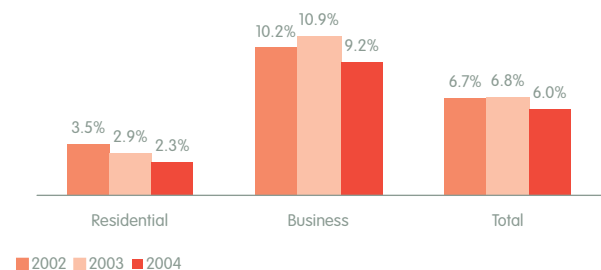
- Additional efforts towards growth in mass market segments based on broadband services.

The year 2004 saw a new presentation of ONI's market offer to the domestic and SoHo market, based on the launch of OniDuo, the first integrated package of voice and ADSL internet which does away with the need for a telephone subscription.

On the business market, the existing customer base was consolidated, in particular major accounts, and new customers were won with differentiated products and services (e.g. Ethernet over SDH and business VoIP service) and in more dynamic indirect sales channels.

The operators' segment improved, despite the persistence of the trends characterising this segment: heavy prices erosion and aggressive marketing resulting from excess installed capacity. In this context ONI succeeded in consolidating its position as the alternative "carrier's carrier" amongst the other operators in the Portuguese market, and increasing its client base by 25% to more than 50 clients.

Market share - Fixed telecommunications in Portugal



Spain

Regulatory framework

The regulation of telecommunications in Spain was adapted to take account of new forms of services. The main points to note in 2004 were:

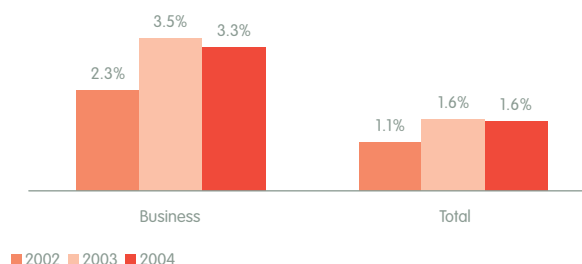
- New Local Loop Offer (OBA): the OBA regulates inter alia the wholesale ADSL service and the disaggregated local loop (OLL);
- ADSL: Telefónica doubled the speed of ADSL access but this did not result in any change in the wholesale terms for ADSL; and
- Consultation on Voice over IP (VoIP): on 27 May 2004, CMT launched a public consultation of all operators on VoIP technology. The aim was to establish a regulatory benchmark that would permit the development of VoIP services in an environment of free competition.

Evolution of fixed telecommunications business in Spain

Comunitel is positioned as the best alternative supplier of telecommunications solutions for businesses, bringing together differentiated quality of service and innovative ideas. Global solutions include voice services, data, Internet, security, IT infrastructure hosting, applications leasing and outsourcing services.

In 2004, Comunitel's business remained marked by a focus on the offer of direct access via OLL. The product portfolio and that of the subsidiary Ola Internet were unified. Capitalising on this position, Comunitel was, jointly with BT, the operator most appreciated by Spanish businesses, according to a report by the Penteo Group "Las Telecomunicaciones en España" ("Telecommunications in Spain").

Market share - Fixed telecommunications in Spain



Other business

UCALL

Strict management of costs and structure typical in a customer service operation, UCALL recorded a positive trend in its operating costs, increasing its EBITDA margin and reaching a positive net result for the first time in its history.

Germinus XXI

The commercial evolution of Germinus XXI during 2004 was focused on enhancing profitability by greater commercial activity outside the group. This strategy is aimed at producing sustained growth towards the company's commercial autonomy.

This improving trend has been reflected in the company's better positioning vis-à-vis the public administration, industry and telecommunications and media sectors in the areas of security, infrastructure and applications development.

5.5. Information technology

5.5.1. EDINFOR

For EDINFOR, the year 2004 was marked by the process of opening the capital to an external partner, and the very significant simultaneous efforts to restructure internally with a view, inter alia, to the fundamental aims of cutting and rationalising operating costs. This restructuring had already been under way with some success since 2003.

Internally, the management team was busy redesigning and adjusting the organisation generally and, predictably directed much of its attention to personnel management:

- Resizing staffing levels;
- Suitably relocating professional staff;
- Giving attention to the many dozens of individuals who left the company;
- Significant investment in an internal communications plan to sustain acceptable levels of staff motivation in a climate of understandable anxiety and concern.

EDINFOR's business in 2004 was conducted in the context of an unpromising economic climate and limited IT sector growth in Portugal. Changes introduced by EDP Group in the organisation and management of its information systems also brought a – temporary – reduction in the total volume of services provided by EDINFOR to the Group.

In this context, the company's volume of business continued to lead the ranking of IT enterprises in Portugal, and this situation will undoubtedly be strengthened by the entry of a new strategic partner in EDINFOR's capital.

Opening of EDINFOR's capital

The opening of EDINFOR's capital took place in carefully planned stages over practically the whole of 2004, and was completed during the early days of 2005. Starting with an initial contingent of 13 expressions of interest in the company – including virtually all the leading IT sector players in Portugal – and continuing with process of gradually selecting the candidates best positioned vis-à-vis EDP's objectives, the final decision was made to select the British Logica CMG, which previously had no connection in Iberia but was strongly present generally in Europe.

This capital partnership, in which EDP will continue for the present to hold 40% of EDINFOR, was based on the search to meet four essential objectives:

- Allowing EDP to concentrate on its core business, and sharing the running of EDINFOR with a company primarily concerned with the IT business;
- Guaranteeing a high level of IT services to EDP, in terms of both quality and price, through a partner with wide experience of outsourcing services in complex, large-scale enterprises, and whose synergies with other major clients would permit services at highly competitive prices;
- Enhancing the turnover of EDINFOR, both through the contribution of new or strengthened IT skills, and through the opening of new and more IT-intensive markets; and
- Minimising conflicts of interest through the possibility of using the technological solutions which best serve EDP, regardless of the origin of their supporting infrastructure.

Alongside the opening of EDINFOR's capital to an external investor during the second half of 2004, EDP successfully negotiated with the minority shareholders in ACE, who held 40% of the company. EDP now holds the capital in full.

Internal structure

The year 2004 saw work continuing on the internal restructuring of EDINFOR, begun in 2003. A number of important organisational measures were completed, resulting in more logical and efficient management:

- Concentration of administrative and financial resources and management, and of planning and supervision of all non-ACE activities, and strengthened integrated financial management of the entire EDINFOR Group;
- Setting-up of a client management directorate, with responsibility for standardising, integrating and centralising all business and management of contracts with EDP Group and other major clients — OMIP, REN, CTT, CERTIEL, ONI and HidroCantábrico.
- Establishing a dynamic, modern, "Service Desk" structure (based on the former "Help Desk" service), founded on appropriate information systems, which will form the basis of the new Service Management model and from which, at the start of 2005, the "single point of contact" for the entire EDP Group was established;
- Creating a unit for the coordination of EDINFOR Group's information systems policy, with the task of ensuring the implementation and running of an information system which is efficient and adapted to the company's business;

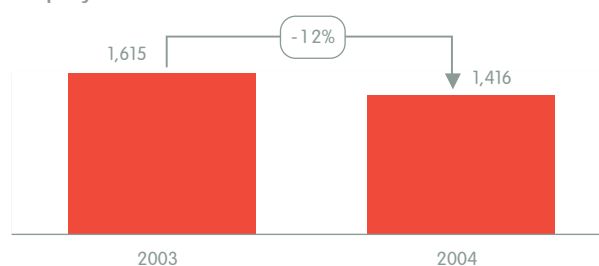
- Consolidating a unit responsible for the management of EDINFOR Group's human resources, which in 2004 had the difficult task of managing change, oversaw the resizing of staff and laid the foundations for a common Human Resources policy for the entire EDINFOR Group;
- Bringing about the merger, decided in 2003, of all IT infrastructure management business: data processing centre, and distributed systems, under the management of a single body, IT-LOG, certified under ISO 9000. This allowed benefits to be realised in a number of ways from the integrated management of existing technologies and skills in both units; and
- Proceeding with organising activities in the subsidiary ACE into four business clusters (this, too, had been begun in 2003), eliminating management complexity and costs from the previous structure.

Human resources

As already mentioned, in 2004 EDINFOR Group paid particular attention to human resources, as it made efforts to resize staff levels in a balanced manner across units as business evolved.

In all, the staff numbers fell by 183, principally in EDINFOR and ACE. At IT-LOG, staff numbers rose with the arrival of EDP personnel who had previously staffed the EDP/IT-LOG joint venture for the management of outsourcing contracts.

Employees



In parallel with this rationalisation, measures were promoted to ensure that staff members were motivated and involved in professional development and objectives:

- Implementation of various forms of internal communication, e.g. the Internal Bulletin and information meetings on various key issues;
- A questionnaire addressed to all staff evaluating the staff relations climate;
- Wider implementation of a Performance Evaluation System aimed at providing more solid backing for salary incentives; and
- Setting-up of professional training programmes meeting the needs of the various areas of business.

Investments

Both centrally and within individual business units, EDINFOR completed a technology renewal plan essential for the proper provision of its contracted services. Steps were also taken to modernise information systems in accordance with business and cost-reduction objectives:

- Renovation of major hardware (servers) and migration of systems supporting major EDP applications to the Data Processing Centre (ISU, SIAG, EDINFOR.Sys);
- Renovation and extension of firewall infrastructure to strengthen system security;
- Improved operating conditions and physical security at the Data Processing Centre;
- Setting up of a Customer and Service Support System, to support EDP customer relations across the full range of services;

- Setting up the geographical information portal www.it-geo.com, making all the cartographic information available on the Internet with innovative functions in the use of the data.

Progress of business

The information technology sector grew by 4.6% in 2004, less than had been forecast.

The focus on IT expenditure remained the search for lower costs and better performance, and the emphasis remained on more tactical and short-term projects in a context marked by lengthy decision making cycles. Concerns about Total Cost of Ownership (TCO) have emerged as a dominant trend, notably in larger organisations.

Business within EDP Group

In Portugal, the following principal EDINFOR services to EDP Group may be noted:

A) In IT infrastructure:

- Outsourcing of "LAN & Desktop Management", WAN and CPD services through existing contracts;
- Consolidation of servers and their placing in a single EDP domain for 3,300 users;
- Implementation of network infrastructure, communications and systems for the central remote control system for SEI thermal installations on behalf of EDP Produção;
- Adapting systems to the challenges of deregulation of the electricity market (e.g., refitting network and communications infrastructures in all EDP shops as part of the launch of the Group's new image).

B) In applications:

- Implementing a document management system on behalf of Sávda and interconnecting the document management systems of the various members of EDP Group;
- Implementing an SMS communications channel for EDP Distribuição, offering the customer quick and easy contact with EDP;
- Full migration from the SAP R/3 environment to the SAP R/3 Enterprise version, ensuring adaptation of business processes and interfaces, together with training and full support to some 4,000 users around the country;

C) In hardware and software marketing:

- Licensing contracts were renewed with Microsoft and IBM/LOTUS; and
- In the framework of centralised EDP Group procurement, 3,300 PCs and other peripherals were acquired.

D) In finishings:

- Regular printing and finishing services were provided, both for EDP's commercial activity, and for internal and shareholder communications.

Business outside EDP Group

A) In IT infrastructure:

- Implementation of infrastructure and contracting its operation, for the Iberian Energy Market Operator;
- Supply and installation of active equipment and network infrastructure for Impala; and
- Supply of energy, communications and network infrastructure for Bowne Global Solutions.

B) In applications:

- Implementation of a Microsoft technology version of the document management system (SGS@Web) at Directorate-General for State Patrimony;
- Implementation of the SAP R/3 Enterprise upgrade at AIP;
- Implementation of the "Trading" and "Clearing" systems at the OMIP;
- Service provision contract for SAP support at Portucel Tejo, S.A.;
- Implementation of the HR module from "Microsoft Business Solutions Navision" for MultiÓpticas;
- Implementation of the GesRed application (underground infrastructure management) for Lisbon City Council;
- IIES – Instituto de Informática e Estatística da Solidariedade – implementation of the Social Security financial information system concluded. This project went on to be selected as a case-study by the INA and presented at the National Public Administration Congress, with the sponsorship of the Information Society Operational Programme POSI;
- CIMPOR Egypt – Roll-out of CIMPOR Group's SAP system for its works in Alexandria, with the system adapted to local realities and translations into Arabic and English;

- Ministry of Health – Implementation of an integrated system for the management of patient lists queued for surgery. The system manages the lists of patients awaiting surgery in the Central management unit, in regional health administrations, and in the hospitals, working on the basis of predefined work-flows and processes and providing indicators for list management and supervision. The system is based on operational applications and a data warehouse, both accessible over the Internet;
- DGV – Project SIGA (Integrated System for Document Management); and
- REDAL – Implementation of a commercial system for management of gas and water.

C) In hardware and software marketing:

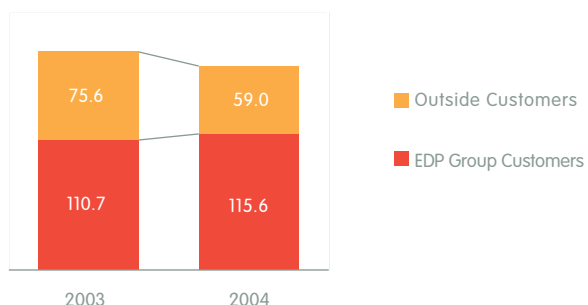
- Supply of miscellaneous equipment to ANA under an agreement.

D) In finishings:

- Outsourced printing & finishing contract for Servibanca (Millennium BCP).

It may also be noted that, in particular through applications development teams with ACE and IT-GEO, EDINFOR takes a role in projects in other countries including Mozambique, Cape Verde, Brazil, Denmark, Italy, Belgium and Macau.

Turnover (EUR x million)



5.5.2. Central-e

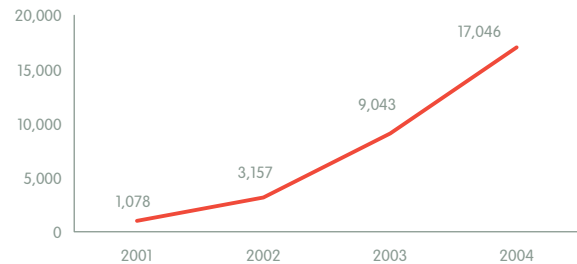
Central-e is present in the B2B market via the forumB2B.com portal. This EDP Group company has now been in business for more than four years, operating the first business transactions portal in Portugal, and is positioned as the privileged means of controlling and reducing costs arising from member organisations' transactions.

Central-e's activity in 2004 was characterised by a rise in the number of projects implemented, with a resultant 27% increase in turnover (EUR 1.3 million in 2004, against 1.0 million in 2003). The electronic purchasing platform forumB2B.com was implemented within EDP Valor and, through TradeForum ACE (a partner with PT Prime – Tradecom), in the Presidency of the Council of Ministers, the Ministry of Public Works, Transport and Communications, the Ministry of Justice and the Ministry of Finance. Current users of the platform include CME, the Lisbon Metro, GalpEnergia and ONI.

Five electronic auctions were conducted for EDP Distribuição, generating total savings of EUR 465,000 (average savings of 5.5%).

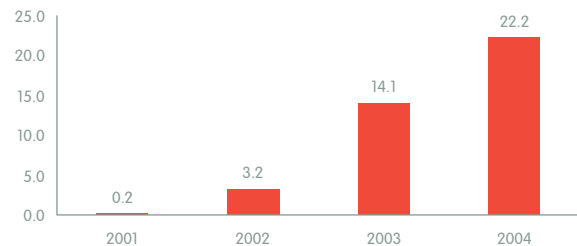
Also noteworthy within the business conducted in partnership with TradeForum ACE was the implementation of a pilot project with ANACOM and the signing of a partnership agreement with Oporto City Council for the "Porto Cidade Digital" ("Oporto Digital City") Association.

Number of orders



A total of more than 17,000 electronic purchase orders were handled by forumB2B.com in 2004, with a value of EUR 22 million.

Value of transactions (EUR millions)



5.6. EDP Valor

EDP Valor is the sub-holding of the EDP Group whose role is to provide support services to the energy business on competitive terms which permit the creation of value whilst satisfying all the interested parties within the enterprise: generally shareholders, customers, staff and partners.

Guided by the strategic framework underlying its constitution and the general aims of the Group, in 2004 EDP Valor:

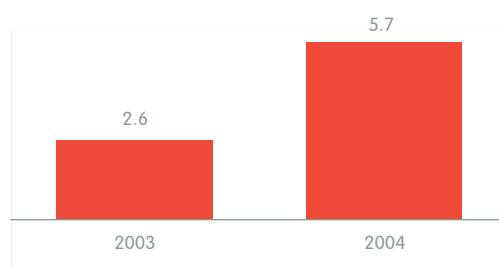
- Continued its efforts to consolidate at various levels;
- Extended its portfolio of services and its client base;
- Proceeded with initiatives to promote internal cohesion within the organisation and to foster closer relations with clients and other partners; and
- Concentrated its efforts to reduce and rationalise clients' operating costs and enhance the management of the various assets in its charge.

In the extension of services and client base, the following may be noted:

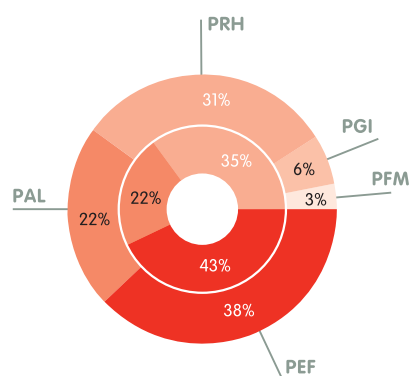
- Restructuring of the training and documentation business through the new Training and Documentation Platform;
- Launch of a new platform for Group procurement and negotiation;
- A start on management of holiday camps and concentration of other activities of an operational nature dispersed around the Group, such as health and safety;
- Reinforcement of the Buildings Management Platform.

Regarding maximising the use of client assets and external services and supplies, EDP Valor has undertaken major renegotiations with third parties producing significant savings, and organised and begun the process of selling EDP assets not affected to core business or capable of optimisation.

Across the board Group saving - EDP Group Supplies and Services (EUR x million)



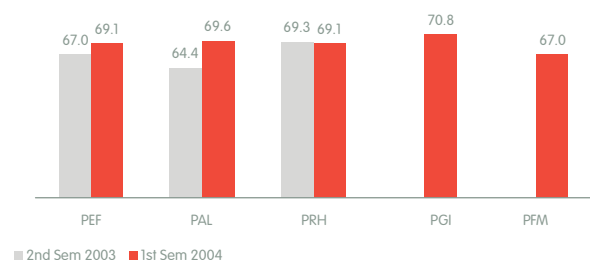
The breakdown of services provided to the Group in 2004 evolved as follows:



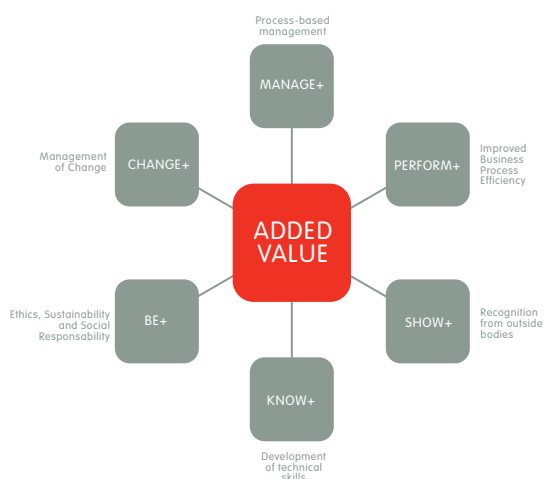
The year 2004 saw a number of management initiatives aimed at improving service quality and efficiency and at ongoing customer satisfaction, including, in particular:

- Launch of an ongoing customer satisfaction evaluation process, based on a quality charter ("Carta de Compromissos") which puts the company's quality policy into practice;

Evaluation of the Letter of Internet



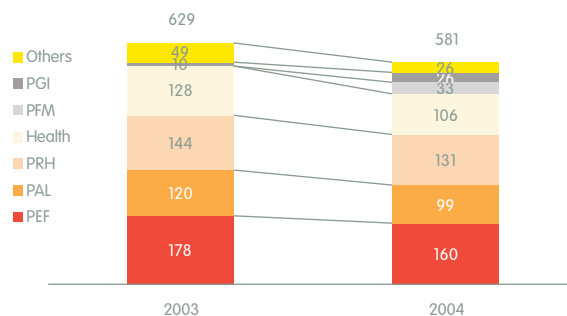
- Measures to enhance skills and motivation in the company's teams (training programme, meetings with other staff, customising the quality charter; etc.);
- Strengthening mechanisms for management planning and supervision, with particular emphasis on identifying and regularly monitoring key business indicators, allowing greater control over any deviation and permitting timely adjustment;
- Conception, development and implementation of various IT projects to support efficiency and quality improvements in the services offered;
- The launch during the second half of 2004, of Valer +, a quality management programme, to implement process-based management;



- Support to the EDP Group in staff changes, permitting a net reduction of 48 in 2004.

At the close of 2004, EDP Valor had total staff of 581, located throughout the country and organised in accordance with the following chart:

Distribution of Employees - EDP Valor



Economic and Financial Platform (PEF)

The PEF provides services in the areas of budgeting, cash office, accounting, tax questions, third-party accounts, and management of risk and insurance:

- Accounts of 38 enterprises;
- Processing of around 320,000 documents from suppliers and issue of 14,000 invoices to clients;
- Payment of 354,000 invoices;
- Processing EUR 18 million of insurance premiums.

In addition, the PEF prepares tax dossiers, assembles transfer price dossiers and drafts replies to miscellaneous inquiries to clients from official bodies.

Supplies and Logistics Platform (PAL)

PAL provides services in the negotiation and purchase of goods and services in cross-business categories: qualification and monitoring, fleet management, management of installations and services of the secretariat-general. Activity in 2004 took the form of:

- 363,000 m² of installations under management (monthly average);
- EUR 37 million of goods and services negotiated;
- EUR 5.5 million of direct savings as a result of negotiations effected;
- 3,752 vehicles under management (monthly average);
- 1.5 million documents processed.

PAL was also involved in the massive operation to update the EDP image on its fleet of around 3,200 vehicles, a complex logistical operation.

Human Resources Platform (PRH)

PRH provides services in the processing and checking of salaries and pensions, and provides the full range of administrative support for the Human Resources departments.

The PRH broadened the range of its services to clients, and for the first time in 2004, took responsibility for the management of holiday camps.

In addition to extensive statistical work and maintaining the data on some 9,432 employees and 17,960 pensioners, in 2004 the PRH processed some 113,000 pay statements and 215,500 pension statements.

Buildings Management Platform (PGI)

PGI is responsible for restructuring and capitalising on the Group's real property assets, and in 2004 began a programme to:

- Bring in funds through the sale of unused assets (EUR 130 million over three years);
- Achieve a significant reduction on the costs of occupation; and
- Realise gains by optimisation operations and relocating services.

Activity in the year 2004 can be summarised in the following figures:

- Management of 8,300 buildings surplus to electricity business;
- Study of 108,000 m² for intervention;
- Management of budgeted works totalling EUR 6 million.

PGI had a vital role in implementing the new brand image in EDP Distribuição's shops (33 finished before the end of 2004, and six to be completed in January 2005).

Training and Documentation Platform (PFM)

PFM was set up in 2004 to integrate the existing resources in MRH and other enterprises. Its mission is to match training activities with the needs created by the Group's strategy, through a Plan for Skills Development and Support through Change.

Through PFM, EDP Valor is assured of the status of Accredited Training Body, covering all the areas of the training cycle as well as in distance learning. Accredited Training Body status entitles EDP to participate in training projects financed by the European Community.

Alongside these processes of organisation and consolidation, PFM provided a programme of action that, in 2004, resulted in some 149,400 hours of training.

Negotiation and Procurement Platform (PNC)

The launch in 2004 of a new platform with the mission to restructure and bring together the Group's negotiation and procurement activities, had as its aim to reap the benefits of merging the planning and negotiation services, standardising and harmonising specifications, optimising management of suppliers and adding to EDP's negotiating power vis-à-vis those suppliers, with spin-off in the optimisation and duration of framework agreements and contracts, in terms of both quality and price. There is scope for a reduction of around 25% in the resources currently committed to purchasing in the various business units.

Health Care Services

Health care for employees, pensioners and their family members entitled to medical assistance is dispensed by Sãvida – Medicina Apoiada, S.A., a service complementary to the Portuguese National Health Service (SNS), and in accordance with contractual terms agreed with the companies of the EDP Group.

The scope of service in 2004 was identical to that of 2003, although a slight decline in activity was recorded, due to lower patient numbers and to measures aligning the service more closely with the SNS, in particular the resumed collection of the patient's portion of the cost, on the basis defined by the Directorate-General for Health.

As regards occupational medicine, the year saw progress towards health management policies, in particular with the launch of consultations encouraging people to give up smoking, and the EDP sport and physical fitness prize, an important factor in encouraging a healthy lifestyle.

Prospects

More efficient organisation and a 100% client-oriented provision of services should be possible with the support of management tools based on the concept of excellence in business. EDP Valor has already adopted some such tools, including in particular the Quality Management System and the Management Information System based on the Balanced Scorecard, which will come on stream in 2005.

In accordance with the Company's action plans for 2005, a major programme of training and involving staff in defined objectives will accompany these tools. At the same time, there will be a significant programme of investment in high-performance information systems, capable of modernising and bringing agility to the Company's workings.

This will also be a period of closer approximation with HidroCantábrico and the Group's Brazilian companies in exchanges of experience and identifying shared opportunities for improvement in the areas where EDP Valor is active.

6. BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Consolidated Balance Sheet at 31 December 2004 and 2003

	<u>2004</u>	<u>2003</u>
		(EUR thousands)
Assets		
Tangible fixed assets	13,559,325	11,651,599
Intangible fixed assets	968,664	950,182
Goodwill	1,989,823	899,514
Investments	1,615,293	1,582,784
Deferred taxes	589,094	609,338
Customers	95,140	85,797
Debtors and other sundry assets	<u>850,283</u>	<u>350,045</u>
Total Non-Current Assets	<u>19,667,622</u>	<u>16,129,259</u>
Inventories	168,567	159,236
Customers	1,202,250	1,022,871
Debtors and other sundry assets	631,839	429,390
Accrued income and deferred costs	641,038	622,417
Trading securities	81,922	143,953
Cash and banks deposits	<u>196,083</u>	<u>143,543</u>
Total Current Assets	<u>2,921,699</u>	<u>2,521,410</u>
	<u>22,589,321</u>	<u>18,650,669</u>
Shareholders' Equity		
Share capital	3,656,538	3,000,000
Treasury stock	-31,662	-49,020
Share premiums	472,955	-
Reserves and retained earnings	1,863,731	1,965,918
Consolidated net income	<u>440,152</u>	<u>381,109</u>
Total Shareholders' Equity	<u>6,401,714</u>	<u>5,298,007</u>
Minority interests	801,018	236,485
Hydrological correction account	364,197	387,506
Liabilities		
Long term debt	6,741,014	5,913,579
Provisions for liabilities and charges	1,257,697	819,574
Deferred taxes	545,901	616,056
Creditors and other liabilities	<u>588,130</u>	<u>542,942</u>
Total Non-Current Liabilities	<u>9,132,742</u>	<u>7,892,151</u>
Short term debt	1,857,830	1,579,130
Creditors and other liabilities	1,599,454	1,238,991
Accrued costs and deferred income	<u>2,432,366</u>	<u>2,018,399</u>
Total Current Liabilities	<u>5,889,650</u>	<u>4,836,520</u>
Total Liabilities	<u>15,022,392</u>	<u>12,728,671</u>
	<u>22,589,321</u>	<u>18,650,669</u>

Consolidated Profit and Loss Account
for the years ended on 31 December 2004 and 2003

	2004	2003
	(EUR thousands)	
Sales	6,699,294	6,456,361
Cost of sales	<u>-4,017,270</u>	<u>-3,921,046</u>
Gross margin	<u>2,682,024</u>	<u>2,535,315</u>
Other operating income		
Services rendered	522,396	521,159
Own work capitalized	258,774	235,623
Other operating income	<u>17,731</u>	<u>18,081</u>
	<u>798,901</u>	<u>774,863</u>
	<u>3,480,925</u>	<u>3,310,178</u>
Other operating costs		
Supplies and services	-649,504	-632,518
Personnel costs	-642,619	-646,636
Other operating costs	<u>-220,761</u>	<u>-203,984</u>
	<u>-1,512,884</u>	<u>-1,483,138</u>
Gross Operating Results	1,968,041	1,827,040
Provisions	-114,078	-75,706
Depreciation and amortization	<u>-795,517</u>	<u>-845,592</u>
Operating results	1,058,446	905,742
Financial income / (expense)	-239,727	-266,600
Amortisation of goodwill and concession rights	<u>-95,525</u>	<u>-92,420</u>
Current Results	723,194	546,722
Extraordinary gains / (losses)	<u>-164,732</u>	<u>-14,443</u>
Profit before tax	558,462	532,279
Provision for income taxes	<u>-159,617</u>	<u>-195,534</u>
Profit after tax	398,845	336,745
Minority interests	<u>41,307</u>	<u>44,364</u>
Consolidated Net Profit	<u><u>440,152</u></u>	<u><u>381,109</u></u>

Company Balance Sheet at 31 December 2004 and 2003

	<u>2004</u>	<u>2003</u>
		(EUR thousands)
Assets		
Tangible fixed assets	118,857	117,547
Intangible fixed assets	187,938	207,356
Goodwill	452,165	106,738
Investments	7,741,430	7,195,266
Deferred taxes	61,699	336,924
Debtors and other sundry assets	<u>3,832,752</u>	<u>2,431,736</u>
Total Non-Current Assets	<u>12,394,841</u>	<u>10,395,567</u>
Customers	5,161	4,171
Debtors and sundry assets	547,474	1,692,895
Accrued income and deferred costs	520,157	432,841
Trading securities	15,288	85,641
Cash and banks deposits	<u>2,414</u>	<u>8,332</u>
Total Current Assets	<u>1,090,494</u>	<u>2,223,880</u>
	<u><u>13,485,335</u></u>	<u><u>12,619,447</u></u>
Shareholders' Equity		
Share capital	3,656,538	3,000,000
Treasury stock	-31,662	-49,020
Share premium	472,955	-
Reserves and retained earnings	1,863,731	1,965,918
Net profit	<u>440,152</u>	<u>381,109</u>
Total Shareholders' Equity	<u>6,401,714</u>	<u>5,298,007</u>
Hydrological correction account	364,197	387,506
Liabilities		
Long term debt	3,137,735	3,207,572
Provisions for liabilities and charges	434,572	383,608
Deferred taxes	64,318	474,839
Creditors and other liabilities	<u>316,085</u>	<u>315,646</u>
Total Non-Current Liabilities	<u>3,952,710</u>	<u>4,381,665</u>
Short term debt	2,251,986	2,176,932
Creditors and other liabilities	290,472	266,465
Accrued costs and deferred income	<u>224,256</u>	<u>108,872</u>
Total Current Liabilities	<u>2,766,714</u>	<u>2,552,269</u>
Total Liabilities	<u>6,719,424</u>	<u>6,933,934</u>
	<u><u>13,485,335</u></u>	<u><u>12,619,447</u></u>

Company Profit and Loss Account
for the years ended on 31 December 2004 and 2003

	<u>2004</u>	<u>2003</u>
		(EUR thousands)
Operating income		
Services rendered	33,151	24,252
Other operating income	<u>3,532</u>	<u>3,170</u>
	<u>36,683</u>	<u>27,422</u>
Other operating costs		
Supplies and services	-85,610	-61,360
Personnel costs	-5,380	-5,637
Other operating costs	<u>-2,145</u>	<u>-2,099</u>
	<u>-93,135</u>	<u>-69,096</u>
Gross Operating Results	-56,452	-41,674
Provisions	-2,944	-873
Depreciation and amortization	<u>-8,677</u>	<u>-8,112</u>
Operating Results	-68,073	-50,659
Financial income / (expense)	432,194	354,350
Amortisation of goodwill and concession Rights	<u>-13,670</u>	<u>-13,541</u>
Current Results	350,451	290,150
Extraordinary gains / (losses)	<u>42,232</u>	<u>81,712</u>
Profit Before Tax	392,683	371,862
Provision for income taxes	<u>47,469</u>	<u>9,247</u>
Net Profit	<u><u>440,152</u></u>	<u><u>381,109</u></u>

7. PROPOSAL FOR THE APPROPRIATION OF PROFITS

In accordance with Article 27 of the Articles of Association, the Board recommends that the net profits should be appropriated as follows:

Appropriation of Net Profit (euros)

Legal Reserve	22.007.620,36
Dividends	338.000.000,00
Retained Earnings	80.144.786,78
Net Profit	440.152.407,14

The proposed dividend is EUR 0.09243 per share, i.e. a payout of 76.4%.

8. OUTLOOK FOR 2005 AND BUSINESS PLAN 2005-2007

The year 2005 will be a crucial year for EDP. It will be a year as much of consolidation of the changes begun in 2004 as of new challenges for the Company.

The increase in our holding in HidroCantábrico, from 39.5% to 95.7%, will in 2005 begin to have practical effects at various levels of the Group. EDP will become truly Iberian, and it is in 2005 that the synergies of this takeover will become significant. Whilst guaranteeing the specificity of each company and seeking to select the best of each organisation, the gradual integration with HidroCantábrico and NaturCorp will bring significant benefits for the new Grupo Ibérico.

One of the great changes which will continue beyond 2004 is the full deregulation of the Portuguese electricity market. With the opening of the domestic consumer market, every household in Portugal will be free to choose its supplier. The year 2005 must be the year in which EDP dedicates itself and adapts to more demanding customers who may be more tempted, or for the first time surprised, by competitors' offers. EDP will be ready to compete, and expects to have to do so.

During 2004, EDP made intensive preparations for the reorganisation of its commercial arm in readiness for the total deregulation of the market. New teams were set up dedicated to the domestic and industrial segments, and preparations were made for the start-up of a new joint platform for commercial services and customer relations. In 2005, these units will become the public face as well as the brains behind EDP's customer relations and its market attitude in Portugal.

After the efforts of 2003 and 2004 to selectively reduce the Company's staffing and raise productivity, 2005 will be a year of consolidation. With the departure of many Group employees, EDP will pass through a phase of adjusting processes, building teams and consolidating new leadership.

There is here a major challenge for the group, which will acquire new importance in 2005. Several of the topical issues of the year will call for a more proactive management of human resources – with new systems, new processes, and new tools – and for a new intake of youthful skills into the Group. EDP will thus have as its aim to continue to recruit young people into every area of the Company, alongside the older professionals who can bring skills and experience where the Group is not yet fully prepared to face the changes that will be felt during the year.

There is yet one more major challenge that is coming ever closer. The construction of MIBEL, the Iberian market, should make rapid progress in 2005, bringing EDP closer to competition, this time in the energy generating market. EDP will continue to prepare its portfolio of generating activities and its trading capacity, in order to face up to this challenge, and to meet it.

We shall thus have a year of steady improvements for the Company:

- Improvements for our customers, in the form of more efficient services from the Group;
- Improvements for our personnel, the fruit of new opportunities for advancement;
- Improvements for our shareholders, who will be the owners of a pan-Iberian company focused on its core business of generating, distributing and supplying energy.

In London, on 15 December 2004, EDP presented to the market its strategic objectives for the period 2005-2007:

- Strengthening its competitive position in the Iberian peninsula;
- Operational efficiency and an organisation geared towards customer service;
- Maximising the return on investments made abroad and in complementary activities.

The strengthening of our competitive position in the Iberian Peninsula is being achieved by:

- Integrating HidroCantábrico, after acquiring full control of the company, with a view to benefiting from synergies in the management of common business and activities, such as power station management, purchase of fuels, and investment in renewable energy installations within Iberia;
- In the deregulated market for electricity, implementation in accordance with legislation of contract agreements for energy purchase with REN, ensuring a neutral economic effect for the Group;
- Additional generating capacity through investment in new hydroelectric and combined cycle power stations and wind farms in the Iberian Peninsula.

Operational efficiency and an organisation geared towards customer service:

- Defining and implementing commercial policies individually for Portugal and Spain for each segment of the deregulated electricity market;
- Identifying alternative business models for integrating the gas and electricity businesses;

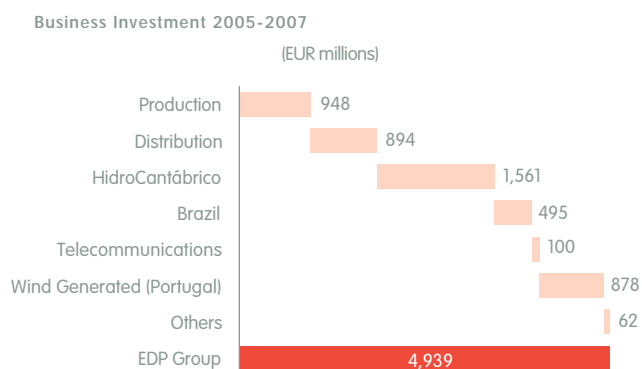
- Commercial re-engineering turned towards customer service, evolution of the brand and communications strategy, and shop refitting aimed at the customer;
- Cost controls and a long-term downward trend in the operating costs of regulated electricity distribution and supply with a target return of 8.5% on regulated business;
- Pursuing our great efforts to improve the quality of technical and commercial service, maintaining the downward trend in interruptions of service (215 minutes in 2004) and complying with all the standards set for the quality of commercial service.

Maximising the return on investments made abroad and in complementary activities:

- Increased return on the investments made in Brazil, and corporate restructuring, opening the way to an application for flotation of EDP Brasil on the São Paulo stock exchange (Bovespa) with a view to financial self-sufficiency;
- Performance improvements at ONI, and the possibility, should market conditions be appropriate, of disinvesting in operations outside Portugal, together with the diversification of commercial distribution channels and possible exploration of alternative technologies, capitalising on potential synergies with existing shareholders;

Disinvestment in information technology, through the disposal of 60% of the capital of Edinfor to Logica CMG and the setting up of a strategic partnership which should allow us to achieve a competitive advantage in creating an Iberian IT platform and in restructuring the present contractual framework with EDP Group.

EDP Group's strategic plan assumes total cumulative investment for the period 2004-2007 of the order of EUR 6 thousand million in Iberian core business, more than 80% of which is for maintaining and expanding generating capacity, with a focus on renewable energy which account for 27% of total planned investment.



Implementation of the strategic plan 2005-2007 should result in a sustained improvement in EDP Group's financial indicators, (referring to base 2003 adjusted to consolidate the whole of HidroCantábrico):

- Increase of around 6.5% in gross operating profit;
- Forecast rise in EBITDA of around 35%;
- Forecast 1.4 increase in return on investment (after tax and goodwill) between 2003 and 2007;
- Annual estimated dividend increase of 7%-8% from 2004 to 2007, assuming forecasts are wellfounded and targets are met.

ACKNOWLEDGMENTS

The Board would like to express its thanks to the shareholders for their continued confidence in EDP Group.

The Board would also like to thank the members of the supervising bodies for their support the Company's activities during the course of the year.

In the sphere of the energy industry it is perhaps also natural to make special mention of the Group members' close relations with the Energy Services' Regulating Body and the Directorate-General for Geology and Energy.

The gratitude of the Board of Directors also extends to all those entities that co-operated with the EDP Group during 2004, particularly:

- CMVM, Euronext Lisboa and Interbolsa;
- The statutory auditor and the external auditors of the companies of the EDP Group;
- Financial institutions; and
- Institutions of a scientific, university and technical nature.

A special word of thanks is also due to:

- Shareholders who have accompanied the evolution of the Company more closely, taking part in the General meetings of 31 March 2004, 7 October 2004 and 31 January 2005;

- The customers of the EDP Group companies, to whom we would reaffirm our commitment to the quest for excellence in the provision of services and to the full satisfaction of their needs;
- Our employees, for their contribution to the development of the EDP Group, for their competence and professionalism in performing their duties and for their commitment to EDP Group's dynamic change and growth.

During 2004, António de Almeida, António José Fernandes de Sousa, Luís Fernando de Mira Amaral and Vitor Ângelo Mendes da Costa Martins stepped down from the Board.

Also during 2004, the following joined the Board: António Afonso de Pinto Galvão Lucas, Luís Fernando de Mira Amaral, João Eduardo Moura da Silva Freixa and José Pedro da Silva Sucena Paiva.

Following the expansion of the Board to fifteen members agreed at the General Meeting of 31 January 2005, Manuel Menéndez Menéndez and José Alfredo Parreira Holtreman Roquette were likewise elected.

To these directors, the Board would like to express its recognition and gratitude for their contribution to the development of the EDP Group.

Following a selection procedure, in October KPMG Auditores, S.A., succeeded PWC – PriceWaterhouseCoopers as external auditor of EDP Group. The Board would like to thank both companies for their cooperation and hard work.

The Extraordinary General Meeting of 31 January 2005, also elected new serving and alternate members of the supervisory body, KPMG & Associados, SROC, S.A., represented by Messrs Jean-Éric Gaign and Vítor Manuel da Cunha Ribeirinho, in place of Bernardes, Sismeiro & Associados, SROC, Lda., represented by Messrs Carlos Marques Bernardes and Joaquim Patrício da Silva. The Board's grateful thanks go to them all.

The Board of Directors

Francisco de la Fuente Sánchez (Chairman)
João Luís Ramalho de Carvalho Talone
António Afonso de Pinto Galvão Lucas
Arnaldo Pedro Figueirôa Navarro Machado
João Eduardo Moura da Silva Freixa
Jorge Manuel de Oliveira Godinho
José Alfredo Parreira Holtreman Roquette
José Manuel Gonçalves de Morais Cabral
José Manuel Trindade Neves Adelino
José Pedro da Silva Sucena Paiva
Luís Filipe Rolim de Azevedo Coutinho
Paulo Azevedo Pereira da Silva
Pedro Manuel Bastos Mendes Rezende
Manuel Menéndez Menéndez
Rui Miguel de Oliveira Horta e Costa

Lisbon, 1 March 2005

EXTRACT FROM THE MINUTES OF THE ANNUAL GENERAL MEETING

Extract of minute no. 2/2005 of the Annual General Meeting of EDP - Energias de Portugal, S.A., held on 31 March 2005, where pertaining to the present statutory publication:

(...)

The duly organised list of attendance showing that shareholders were present or duly represented holding one billion nine hundred and twenty-five million five hundred and forty-nine thousand nine hundred and thirty-two shares, corresponding to fifty-two point sixty-six per cent of shareholders' equity, abiding by all of the conditions pertaining to decisions concerning the matters set forth on the agenda, and it also being ascertained that the relevant statutory publications of the Annual General Meeting's convening had been duly made, the Chairman of the General Meeting thanked the large number of participating shareholders, noting in particular the increase in the number of participants, either in person or represented by postal vote, including e-mail, and declared the Meeting legally constituted and with quorum to make valid decisions on all points of the agenda, in consequence of which he deemed the meeting to be open.

(...)

Having discussed the first two points on the agenda together, Point One was put to the vote, this relating to the Company's individual financial statements for two thousand and four, which were approved with seventeen million twenty-seven thousand and sixty-six (99.76%) votes for, no votes against, and forty-one thousand two hundred and twenty-two abstentions.

Point Two of the agenda was then put to the vote, this relating to the consolidated financial statements for two thousand and four, and this was also approved, with seventeen million forty-two thousand seven hundred and seventy-two (99.85%) votes for, no votes against, and twenty-five thousand five hundred and sixteen abstentions.

Discussion then moved on to Point Three of the agenda, wherein the Chairman opened the debate on the proposed appropriation of net profits submitted by the Board of Directors, as follows: net profit for the year: EUR 440,152,407.14; legal reserve: EUR 22,007,620.36; dividends: EUR 338,000,000.00; and retained earnings: EUR 80,144,786.78.

(...) The Board of Director's proposal was passed with seventeen million sixty-seven thousand six hundred and thirty-five (99.99%) votes for, one vote against, and six hundred and fifty-two abstentions.

(...)

The proposal relating to Point Four, concerning the directors' and supervisors' reports on the Company, being put to the vote, a vote of confidence in the Board of Directors, each of its members and the sole supervisor, was passed, with seventeen million sixty-seven thousand eight hundred and twenty-seven (99.99%) votes for, one vote against, and four hundred and sixty abstentions.

(...)

Discussion of Point Five of the agenda was opened by the Chairman of the General Meeting, this relating to the request for authorisation to trade in the Company's treasury stock. Following clarifications given on the reasons, and full observation by the Company of the Stock Market Commission's (CMVM) recommendations on this subject, the Board's proposal was put to the vote. The General Meeting decided to authorise the Board of Directors in accordance with the proposed terms, seventeen million fifty-eight thousand and thirty-nine (99.94%) votes being in favour, one thousand and fifty-one votes against, and nine thousand one hundred and ninety-eight abstentions.

(...)

Finally, the discussion moved on to Point Six, concerning a request for authorisation for the Company to acquire and dispose of its own bonds. The Board of Directors' proposal was put to the vote, and the General Meeting voted to approve it under the terms submitted, seventeen million sixty-six thousand sixty hundred and eighty-five (99.99%) votes being in favour, one thousand and fifty-one votes against, and five hundred and fifty-two abstentions.
(...)

Lisbon, 31 March 2005

The Company Secretary
António Pedro Balançuela Alfaia de Carvalho



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