EDP ELECTRICIDADE DE PORTUGAL SA
Form 20-F
July 03, 2003

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934,

for the fiscal year ended December 31, 2002

Commission File Number: 1-14648

EDP Electricidade de Portugal, S.A.

(Exact name of registrant as specified in its charter)

EDP Electricity of Portugal	**Republic of Portugal**
(Translation of registrant s name into English)	(Jurisdiction of incorporation or organization)

Praça Marquês de Pombal, 12
1250-162 Lisbon, Portugal
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered

Ordinary Shares, with nominal value 1 per share*	New York Stock Exchange
American Depositary Shares (as evidenced by American Depositary Receipts), each representing 10 Ordinary Shares	New York Stock Exchange

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the last full fiscal year covered by this Annual Report:

At December 31, 2002, there were outstanding:

3,000,000,000 Ordinary Shares, with nominal value of 1 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days:

Yes ý No o

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 o Item 18 ý

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Defined terms

In this annual report, EDP refers to EDP Electricidade de Portugal, S.A. and the terms we , us and our refer to EDP and, as applicable, its direc and indirect subsidiaries as a group. Unless we specify otherwise or the context otherwise requires, references to US$, $ and U.S. dollars are to United States dollars, references to escudo(s) or PTE are to Portuguese escudos, references to real or reais are to Brazilian reais, references to or GBP are to British Pounds Sterling and references to or euro are to the euro, the single European currency established pursuant to the European Economic and Monetary Union, or EMU. We have explained a number of terms related to the electricity industry in the Glossary of Terms included in this annual report.

Forward-looking statements

This annual report and the documents incorporated by reference in this annual report contain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations, business strategies, operating efficiencies, competitive positions, growth opportunities for existing services, plans and objectives of management, markets for stock and other matters. Statements in this annual report that are not historical facts are forward-looking statements for the purpose of the safe harbor provided by Section 21E of the Exchange Act and Section 27A of the Securities Act.

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

the effect of, and changes in, regulation and government policy;

the effects of competition, including competition that may arise in connection with the development of an Iberian electricity market;

our ability to reduce costs;

hydrological conditions and the variability of fuel costs;

anticipated trends in our business, including trends in demand for electricity;

our success in developing our telecommunications business;

future capital expenditures and investments;

the timely development and acceptance of our new services;

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

our success at managing the risks of the foregoing.

We undertake no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this annual report or to reflect the occurrence of unanticipated events.

Presentation of financial information

Unless we indicate otherwise, we have prepared the financial information contained in this annual report in accordance with generally accepted accounting principles in Portugal, or Portuguese GAAP, which differs in significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. We describe these differences in Item 5. Operating and Financial Review and Prospects Portuguese GAAP Compared with U.S. GAAP and in note 33 to our consolidated financial statements. Unless we indicate otherwise, any reference in this annual report to our consolidated financial statements is to the consolidated financial statements, including the related notes, included in this annual report.

Beginning in 2002 (for fiscal year 2001 and thereafter), we published our consolidated financial statements in euros. Unless we indicate otherwise, we have translated amounts stated in U.S. dollars from euros at an assumed rate solely for convenience. By including these currency translations in this annual report, we are not representing that the euro amounts actually represent the U.S. dollar amounts shown or could be converted into U.S. dollars at the rate indicated. Unless we indicate otherwise, we have translated the U.S. dollar amounts from euros at the noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the Noon Buying Rate) on June 20, 2003 of $1.1616 per 1.00. That rate may differ from the actual rates used in the preparation of our consolidated financial statements included in Item 18 and U.S. dollar amounts used in this annual report may differ from the actual U.S. dollar amounts that were translated into euros in the preparation of our consolidated financial statements. For information regarding recent rates of exchange between euros and U.S. dollars, see Item 3. Key Information Exchange Rates. In addition, for convenience only and except where we specify otherwise, we have translated certain reais figures into euro at the fixed rate of exchange between the real and euro of 3.3489 reais = 1.00. The rate of exchange between reais and euros represents the euro equivalent of the U.S. dollar/real fixed rate of exchange, calculated by translating reais into U.S. dollars using the Noon Buying Rate on June 20, 2003 of 2.8830 reais = $ 1.00 and then translating U.S. dollars into euros using the rate of exchange between U.S. dollars and euros of $1.1616 = 1.00, which was the applicable Noon Buying Rate on June 20, 2003. By including convenience currency translations in this annual report, we are not representing that the reais amounts actually represent the euro amounts shown or could be converted into euros at the rates indicated.

Prior to January 1, 2001, our reporting currency was Portuguese escudos. For convenience and to facilitate a comparison, our consolidated financial statements included in Item 18 and all other escudo-denominated financial data for periods prior to January 1, 2001 included in this annual report have been restated from escudos to euros at the fixed rate of exchange as of January 1, 1999 of PTE 200.482 = 1.00. Where escudo-denominated amounts for periods prior to January 1, 2001 have been rounded, the restated euro amounts have been calculated by converting the rounded escudo-denominated amounts into euros. The comparative balances for prior years now reported in euros depict the same trends as would have been presented had we continued to report such amounts in Portuguese escudos. Our consolidated financial statements and other financial data for periods prior to January 1, 1999 may not be comparable to that of other companies reporting in euros if those companies had restated from a reporting currency other than Portuguese escudos.

PART I

Item 1. *Identity of Directors, Senior Management and Advisers*

Not applicable.

Item 2. *Offer Statistics and Expected Timetable*

Not applicable.

Item 3. *Key Information*

SELECTED FINANCIAL DATA

You should read the following in conjunction with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and other financial data, including the related notes, found elsewhere in this annual report.

The summary financial data below has been extracted from our audited consolidated financial statements for each of the five years ended December 31, 2002 and as of December 31, 1998, 1999, 2000, 2001 and 2002 and the related notes, which appear elsewhere in this annual report. The audited consolidated financial statements have been prepared in accordance with Portuguese GAAP, which differ in certain significant respects from U.S. GAAP. See Item 5. Operating and Financial Review and Prospects Portuguese GAAP compared with U.S. GAAP, note 33 to our consolidated financial statements for a discussion of the principal differences between Portuguese GAAP and U.S. GAAP with respect to our audited consolidated financial statements.

In 1999, we selected a new firm of independent public accountants to audit our consolidated financial statements based on a solicitation of bids to a number of firms, including our previous firm of independent public accountants. Our fiscal year 1999 consolidated financial statements were audited by PricewaterhouseCoopers, Lda. Fiscal years prior to 1999 were audited by Ernst & Young.

	Year ended December 31,					
	1998	1999	2000	2001	2002	2002
	Euro	Euro	Euro	Euro	Euro(1)	US$(1)
	(in millions, except per ordinary share and per ADS data)					
Statement of income:						
Amounts in accordance with Portuguese GAAP						
Electricity sales	2,951	2,966	3,676	5,201	5,876	6,826
Other sales(2)	19	38	61	98	112	130
Services(3)	40	68	110	351	398	463
Total revenues	3,010	3,072	3,846	5,650	6,387	7,419
Raw materials and consumables	714	901	1,731	3,080	3,687	4,283
Personnel costs	430	463	439	592	625	726
Depreciation and amortization	611	616	614	665	740	859
Other external supplies and services	227	287	369	651	675	784
Own work capitalized(4)	(194)	(214)	(229)	(233)	(242)	(281)
Concession and power-generation rental costs(5)	123	129	133	149	158	184
Hydrological correction(6)	0	(60)	(35)	0	0	0
Other operating expenses, net	38	43	102	73	95	110
Total operating costs and expenses	1,949	2,166	3,122	4,977	5,738	6,665
Operating income	1,061	906	724	674	649	754
Net interest expense(7)	204	140	175	205	223	259
Other non-operating expenses (income), net	(57)	(56)	(289)	(126)	139	161
Income before income taxes	914	822	838	594	287	333
Provision for income taxes	(395)	(308)	(313)	(203)	(172)	(199)
Minority interest	3	0	23	60	220	256
Net income	523	514	549	451	335	389
Net income from operations per ordinary share(8)	0.35	0.30	0.24	0.22	0.22	0.25
Net income from operations per ADS	3.54	3.02	2.41	2.25	2.16	2.51
Basic and diluted net income per ordinary share(8)	0.17	0.17	0.18	0.15	0.11	0.13
Basic and diluted net income per ADS(8)	1.75	1.72	1.83	1.50	1.12	1.30
Dividends per ordinary share(9)(11)	0.13	0.14	0.14	0.11	0.09	0.11
Dividends per ADS(9)(11)	1.30	1.40	1.40	1.13	0.90	1.05
Amounts in accordance with U.S. GAAP (12)						
Net income	704	644	405	519	300	348
Basic and diluted net income per ordinary share(9)	0.23	0.21	0.14	0.17	0.10	0.12
Basic and diluted net income per ADS(9)	2.34	2.14	1.35	1.74	1.00	1.16
Cash flow data:						
Amounts in accordance with Portuguese GAAP						

Net cash from operating activities	1,358	985	1,122	1,221	898	1,043
Net cash used in investing activities	1,110	1,294	914	1,243	1,141	1,326
Net cash used in (from) financing activities	279	(385)	482	96	297	345

	Year ended December 31,					
	1998	1999	2000	2001	2002	2002
	Euro	Euro	Euro	Euro(1)	Euro(1)	US$(1)
	(in millions, except per ordinary share and per ADS data)					
Balance sheet data (at period end):						
Amounts in accordance with Portuguese GAAP						
Cash and cash equivalents	1	16	58	34	214	249
Other current assets	580	707	1,162	1,496	1,863	2,165
Total current assets	581	723	1,220	1,530	2,077	2,413
Fixed assets, net(10)	10,550	10,477	9,540	9,844	11,204	13,015
Other assets	1,265	2,510	4,128	4,901	4,844	5,626
Total assets	12,396	13,710	14,887	16,233	18,125	21,054
Short-term debt and current portion of long - term debt	737	598	1,807	1,744	1,887	2,192
Other current liabilities	501	621	890	1,286	1,631	1,895
Total current liabilities	1,238	1,219	2,697	3,030	3,518	4,087
Long-term debt, less current portion	2,734	3,770	3,205	4,055	6,107	7,094
Hydro account	388	339	366	388	324	376
Other long-term liabilities	1,908	2,319	2,377	2,423	2,616	3,039
Total liabilities	6,267	7,648	8,645	9,896	12,566	14,596
Minority interest	1	2	37	241	65	76
Shareholders equity	6,127	6,060	6,205	6,097	5,494	6,382
Amounts in accordance with U.S. GAAP (12)						
Fixed assets, net(10)	8,594	8,750	5,316	5,929	6,602	7,668
Total assets	11,464	12,940	14,010	15,455	16,922	19,657
Total current liabilities	1,257	1,238	2,714	3,052	2,551	2,963
Total long-term liabilities	6,046	7,415	6,776	7,721	10,420	12,104
Total liabilities	7,303	8,653	9,489	10,773	12,970	15,066
Shareholders equity	4,161	4,287	4,483	4,441	3,886	4,511

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(1) For 1998, 1999 and 2000, escudos are translated into euro at the fixed rate of exchange established at the commencement of the third stage of European Monetary Union on January 1, 1999 by the European Council of Ministers between the euro and escudo of PTE 200.482 = 1.00. For 2002, euros are translated into U.S. dollars at the rate of exchange of $1.1616 = 1.00, which was the U.S. Federal Reserve Bank of New York noon buying rate on June 20, 2003.

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

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

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

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

(6) As required by government regulation, we record charges and credits to operating income, depending on hydrological conditions in a given year, to smooth the effect on our earnings and customer prices that result from changes in hydrological conditions. The difference between the economic costs of generating electric energy and the economic reference costs based on an average hydrological year are included in this item. The imputed interest on the accumulated balance of the hydro account and other adjustments are included in Other non-operating expenses (income).

(7) Includes interest and related expenses and interest and related income. See Item 5. Operating and Financial Review and Prospects 2002 compared with 2001 Other expenses (income).

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

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

(10) Substantially all of these assets are subject to reversion to the Republic or the municipalities. See Item 4. Information on the Company Regulation Reversionary assets.

(11) Dividends per ordinary share in US$, translated at the prevailing rate of exchange at the date of payment between the dollar and the escudo for 1998, amount to US$ 0.14 in 1998, US$ 0.13 in 1999, US$ 0.12 in 2000, US$ 0.10 in 2001 and US$ 0.11 in 2002 *and dividends per ordinary share in euro, translated at the fixed rate of exchange between the euro and the escudo for 1998, amount to 0.11 in 1998, 0.14 in 1999, 0.14 in 2000, 0.11 in 2001 and 0.09 in 2002.*

(12) U.S. GAAP amounts for 1998, 1999, 2000, 2001, and 2002 are not comparable due to the implementation of SFAS 142.

EXCHANGE RATES

Effective January 1, 1999, Portugal and 11 other member countries of the European Union, or EU, adopted the euro as their common currency. The euro was traded on currency exchanges and was available for non-cash transactions during the transition period between January 1, 1999 and December 31, 2001. During this transition period, the national currencies remained legal tender in the participating countries as denominations of the euro, and public and private parties paid for goods and services using either the euro or the participating countries existing currencies. On January 1, 2002, the euro entered into cash circulation. Between January 1, 2002 and February 28, 2002 both the euro and the escudo were in circulation in Portugal. From March 1, 2002, the euro became the sole circulating currency in Portugal. As of January 1, 2002, we ceased to use the escudo.

The vast majority of our revenues, assets, expenses and liabilities have historically been denominated in escudos, and we prepared and published our consolidated financial statements in escudos through the 2000 fiscal year. Beginning in 2002 (for fiscal year 2001 and thereafter), our consolidated financial statements have been published in euros. A portion of our revenues and expenses and certain liabilities are nonetheless denominated in non-euro currencies outside the euro zone and fluctuations in the exchange rates of those currencies in relation to the euro will therefore affect our results of operations. To learn more about the effect of exchange rates on our results of operations, you should read Item 5. Operating and Financial Review and Prospects . Exchange rate fluctuations will also affect the U.S. dollar price of the ADSs and the U.S. dollar equivalent of the euro price of our ordinary shares, the principal market of which is the Euronext Lisbon Stock Exchange. In addition, any cash dividends are paid by us in euro, and, as a result, exchange rate fluctuations will affect the U.S. dollar amounts received by holders of ADSs on conversion of those dividends by the depositary.

The following table shows, for the periods and dates indicated, information concerning the exchange rate between the U.S. dollar and the euro. These rates are provided solely for your convenience. We do not represent that the escudo could have been, or that the euro could be, converted into U.S. dollars at these rates or at any other rate.

The column of averages in the table below shows the averages of the relevant exchange rates on the last business day of each month during the relevant period. The high and low columns show the highest and lowest exchange rates, respectively, on any business day during the relevant period.

U.S. dollar per euro(1) **Year ended December 31,**	**End of Period**	**Average**
1998	1.17	1.11
1999	1.01	1.06
2000	0.94	0.92
2001	0.89	0.89
2002	1.05	0.95

U.S. dollar per euro(1) **Period**	**High**	**Low**
2002	1.05	0.86
December	1.05	0.99
2003		
January	1.09	1.04

February	1.09	1.07
March	1.11	1.05
April	1.12	1.06
May	1.19	1.12

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(1) *Amounts for 1998 are based on noon buying rates for the escudo, converted into euros at the fixed escudo/euro conversion rate of PTE 200.482 = 1.00 and then based on the U.S. Federal Reserve Bank of New York noon buying rate on January 4, 1999 of 1.00 = $1.18. For 1999, 2000, 2001 and 2002, euros are based on the U.S. Federal Reserve Bank of New York noon buying rate.*

Our ordinary shares are quoted in euro on the Euronext Lisbon Stock Exchange. Our ADSs are quoted in U.S. dollars and traded on the New York Stock Exchange. On June 20, 2003, the exchange rate between the euro and the U.S. dollar was $1.1616 = 1.00.

CAPITALIZATION AND INDEBTEDNESS

Not applicable.

REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

RISK FACTORS

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

RISKS RELATED TO OUR CORE ELECTRICITY BUSINESS

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

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

While we currently face limited competition from independent power producers in generation, we expect that this competition will increase as the industry further liberalizes. Portuguese law requires that contracts for the construction of future power plants in Portugal in the Binding Sector be awarded through competitive tender processes, in which we expect to participate. In a competitive tender process, we may lose opportunities to generate electricity in the Binding Sector in Portugal.

In the context of liberalization of the electricity market within the EU, at the end of 2001 the Portuguese and Spanish governments entered into a cooperation protocol which sets forth the main principles for the creation of an Iberian electricity market   free competition, transparency, objectiveness and efficiency. The stated intent of the cooperation protocol is to guarantee for Portuguese and Spanish consumers access to electricity distribution and to create interconnections with third countries on equal conditions applicable to Portugal and Spain. In addition, it is intended that the production of electricity by producers in Portugal and Spain be subject to similar regulatory environments that allow producers in one country to execute bilateral agreements for electricity distribution to consumers in the other country. The cooperation protocol also calls for the creation of an Iberian common electricity pool. Although there have been advances as a result of the October 2002 Valência summit, there is currently no specific organizational model for an Iberian electricity market. Accordingly, we cannot anticipate the specific organizational model that will be adopted nor can we anticipate the risks and advantages that may arise from such a model. When further defined and implemented, the organizational model and resulting competition may materially and adversely affect our results of operations and financial condition.

The Portuguese regulatory structure now allows for competition in the supply of electricity, which could adversely affect our sales of electricity. In particular, as more electricity consumers qualify to participate in the market-based Non-Binding Sector in Portugal, more electricity will be sold in the competitive markets where prices may be lower than existing tariffs. Prior to 2002, consumers of electricity were eligible to participate in the Non-Binding Sector as Qualifying Consumers based on minimum annual consumption thresholds set by regulation, which declined annually over the 1999-2001 period. Pursuant to EU directives, the threshold was 20 GWh for 2000 and 9 GWh for 2001. Since January 1, 2002, all electricity consumers other than low voltage consumers, which are generally residential and small commercial users, have been treated as Qualifying Consumers automatically upon notification to the Portuguese regulatory authority. As of March 2003, there were approximately 21,000 consumers eligible to be Qualifying Consumers, which represented approximately 44.5% of our 2002 sales in volume and 28.6% of our 2002 sales in monetary terms.

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

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

In real terms, adjusted for inflation, both high and medium voltage tariffs, generally applied to industrial customers, have declined by an average of approximately 6.0% per year over the period 1998 to 2003. The tariffs for low voltage customers have also declined in real terms by an average of approximately 3.3% per year over the same period. In 2002, in nominal terms, tariffs for all voltage levels increased, on average, by 2.2% from the 2001 levels. At the end of 2002, the regulator established new tariffs for 2003. Although the nominal final tariff charged to consumers increased, on average, across all voltage levels in 2003 by 2.8% from the 2002 levels, the component of the final tariff charged by EDP Distribuicão, or EDPD, our distribution company, decreased for the second regulatory period, covering the years 2002-2004, from the tariff charged in the first regulatory period, covering the years 1999-2001. During the first regulatory period, the annual decrease in the tariff charged by EDPD was calculated on the basis of the Portuguese consumer price index, or CPI, less approximately 5%. During the second regulatory period, the figure subtracted from CPI, referred to as the efficiency factor, increased to approximately 7%. The net tariffs to be charged by EDPD in 2003 are lower than in 2002, which could adversely affect our profitability in 2003.

In addition, the Portuguese government has implemented selected measures to encourage the development of various forms of electricity production, including autoproduction (entities generating electricity for their own use that may sell surplus electricity to the national transmission grid), cogeneration, small hydroelectric production (under 10 MVA installed capacity) and production using renewable sources. These alternative producers compete with us in the supply of electricity in the Binding Sector.

The Portuguese government s recently announced intention to renegotiate or terminate the PPAs could eventually adversely affect our revenues.

According to the Resolution of the Council of Ministers no. 63/2003 of April 28, relating to the promotion of liberalization of the electricity and gas markets in furtherance of the organizational structure of the Iberian Electricity Market, the Portuguese government intends to renegotiate the existing power purchase agreements, or PPAs. Although the Portuguese government expressly declared that it intends to adequately compensate operators for the loss of the economic benefit of the PPAs, the amount of compensation has not yet been defined and our generation revenues could otherwise be adversely affected if our generation companies do not sufficiently replace electricity purchases previously made by Rede Eléctrica Nactional, S.A. or REN.

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

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

Our cash flow is affected by variable hydrological conditions.

Hydroelectric plants, which are powered by water, account for approximately 55% of our generation capacity in mainland Portugal. Our hydroelectric generation in Portugal is dependent on the amount and location of rainfall and river flows from Spain, all of which vary widely from year to year. Consequently, there is a high degree of variation in levels of hydroelectric production.

In years of less favorable hydrological conditions, we generate less hydroelectricity and must rely more heavily on thermal production to meet demand for electricity. Thermal generation, which is fired by coal, fuel oil, natural gas or a combination of fuels, is more expensive in terms of variable costs than hydroelectric generation. Our total variable production costs and costs of purchased electricity in a very dry year can vary from those in a very wet year by approximately 200 million. These increased costs in a dry year could have an adverse impact on our operational cash flow.

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

Our electricity business is subject to extensive environmental regulations. These include regulations under Portuguese law, laws adopted to implement EU regulations and directives and international agreements on the environment. Environmental regulations affecting our business primarily relate to air emissions, water pollution, waste disposal and electromagnetic fields. The principal waste products of fossil-fueled electricity generation are sulfur dioxide, or SO2, nitrogen oxides, or NOX, carbon dioxide, or CO2, and particulate matters such as dust and ash. A primary focus of environmental regulation applicable to our business is to reduce these emissions.

We incur significant costs to comply with environmental regulations requiring us to implement preventive or remediation measures. Environmental regulatory measures may take such forms as emission limits, taxes or required remediation measures, and may influence our policies in ways that affect our business decisions and strategy, such as by discouraging our use of certain fuels.

We have made capital expenditures to minimize the impact of our operations on the environment, including measures to comply with applicable law. Major expenditures so far include capital expenditures to limit SO2 and NOX emissions in generation and to install underground cables in our distribution network. In October 2002 we initiated the use of fuel with a 1% sulphur content in order to comply with environmental regulations requiring us to reduce the level of sulfur in the fuel oil we consume, and as a result we have incurred higher fuel costs.

RISKS RELATED TO OUR OTHER BUSINESSES

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

Although we have not recently made new investments in our Brazilian electricity business, we have significant investments in electricity-related projects in Brazil and other international investments. Our investments in Brazil and in other countries present a different or greater risk profile than that of our electricity business in Portugal and Spain. Given the size of our operations in Brazil relative to that of our other international investments, these risks are particularly relevant to our Brazilian operations where, for example, we have experienced adverse currency fluctuations and an uncertain regulatory regime. Risks associated with our investments in Brazil and other international investments include, but are not limited to:

- increased economic volatility;
- exchange rate fluctuations and exchange controls;
- stronger inflationary pressures;
- greater government involvement in the domestic economy;

- less political stability;
- higher potential for civil unrest; and
- unanticipated changes in regulatory or legal regimes.

There can be no assurance that we will successfully manage our operations in Brazil and other international operations.

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

We hold interests in Brazilian distribution companies and have invested in Brazilian generation projects. In 2002, our distribution activities in Brazil were adversely affected by regulatory, hydrological and infrastructure conditions in Brazil. Our generation projects in Brazil were also adversely affected by these conditions. These conditions could have a similar adverse effect on our Brazilian generation and distribution operations in the future.

Delays by the Brazilian energy regulatory authorities in developing a regulatory structure that encourages new generation have led to, and will continue to contribute to, shortages of electricity to meet demand in some regions of Brazil. Additionally, drought conditions in Brazil have limited and will in the future limit the supply of electricity available for our distribution companies in Brazil. A lack of capacity in the electricity transmission system has limited and continues to limit the ability of generation plants operating in geographical areas with abundant rainfall to transmit generated electricity to distribution companies operating in areas experiencing drought conditions. Sales by these distribution businesses are and will continue to be affected by these conditions that limit the supply of electricity available for distribution.

As a result of a shortage of electricity and lack of transmission capacity, the Brazilian federal government implemented an electricity rationing plan in June 2001. Although the rationing program ended on February 28, 2002, its implementation had an adverse effect not only on electricity consumption, which decreased significantly during the period the program was in effect, but on consumption habits in affected areas. As a result, we anticipate that a recovery in consumption to pre-rationing levels may take some time. The lower demand from consumers has affected and will continue to affect demand for electricity from our distribution businesses in Brazil. While the period up to and during the rationing period was characterized by electricity shortages, the post-rationing period was characterized by surplus electricity as a result of decreased consumption combined with abundant rainfall after a long drought. Consequently, in 2002 our Brazilian operations could only dispose of surplus electricity at depressed prices.

The regulatory delays and lack of transmission capacity are also affecting our investment in generation projects in Brazil. These delays pose problems for the development of generation facilities, and the lack of transmission capacity will affect the ability of our generation businesses, once established, to transmit their generated electricity to distribution companies in Brazil.

We face new risks and uncertainties related to our new non-electricity businesses.

We have limited experience operating a large-scale telecommunications business and limited experience in gas. In entering and operating these business areas we face managerial, commercial, technological and other risks, as well as regulatory regimes, including fees and licensing requirements and operating restrictions, that are different from the ones we have faced in the past. If we fail to manage these risks and operate these businesses effectively, our ability to develop successfully and achieve profitability in these business areas would be affected.

We face increasing competition from various types of providers in our telecommunications business.

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

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

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

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

OTHER RISKS

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

The Portuguese government may sell all or a portion of its shareholding in us at any time through formal privatization stages, either through a public offering or by direct sales of our shares to third parties. Sales of substantial amounts of our ordinary shares by the Portuguese government, or the perception that such sales could occur, could adversely affect the market price of our ordinary shares and ADSs and could adversely affect our ability to raise capital through subsequent offerings of equity.

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

Under our Articles of Association, no holder of ordinary shares, except the Republic of Portugal and equivalent entities, may exercise voting rights that represent more than 5% of our voting share capital. In addition, specific notification requirements are triggered under our Articles of Association when shareholders purchase 5% of our ordinary shares and under the Portuguese Securities Code, or Cod.VM, when purchases or sales of our ordinary shares cause shareholders to own or cease to own specified percentages of our voting rights. Under Portuguese law currently in force, no person may acquire more than 10% of our ordinary shares without prior approval of the Portuguese Ministry of Finance. Such law may be amended or revoked in response to a June 4, 2002 judgment of the Court of Justice of the European Community. For more information on this law, please see Item 10. Additional Information Articles of Association Limitations on the purchase and transfer of ordinary shares; special rights of the Portuguese government. These limitations may impede an unauthorized change in control of EDP, and a failure to comply with these limitations could result in restrictions on the ability to exercise voting rights attaching to ordinary shares or the denial of registration of record ownership for ordinary shares. Holders of ADSs will be treated as holders of ordinary shares for purposes of the foregoing limitations.

In connection with the offering by the Portuguese government of our ordinary shares in October 2000, and pursuant to Article 13 of Decree Law 14/2000 of July 15, 2000, known as the Privatization Decree Law, special rights were granted to the Portuguese government. The government will have these rights so long as it is an EDP shareholder. These rights provide that, without the favorable vote of the government, no resolution can be adopted at our general meeting of shareholders relating to:

- amendments to our by-laws, including share capital increases, mergers, spin-offs or winding-up;

- authorization for us to enter into group/partnership or subordination agreements; or

- waivers of, or limitations on, our shareholders rights of first refusal to subscribe to share capital increases.

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

Item 4. *Information on the Company*

HISTORY AND BUSINESS OVERVIEW

History

We are the largest generator and distributor of electricity in Portugal. In addition, we own 30% of REN, the sole transmitter of electricity in Portugal, and we have significant electricity operations in Spain and Brazil. Our principal executive offices are located at Praça Marquês de Pombal, 12, 1250-162 Lisbon, Portugal. Our telephone number at this location is +351-21-001-2500.

We were incorporated in 1976 under the name EDP Electricidade de Portugal, E.P., as a result of the nationalization and merger of the principal Portuguese companies in the electricity sector in mainland Portugal. Following the sale by the Republic of Portugal in October 2000 of 20% of our outstanding ordinary shares, after a period that started in 1997 of privatization in four phases of our share capital, we are approximately 26.1% owned, directly or indirectly, by the Republic of Portugal and an additional 4.75% of our shares are held by Caixa Geral de Depósitos, a state-owned bank. Other significant shareholders include Banco Comercial Português, or BCP (5.05%), Iberdrola (5%) and, indirectly, Brisa Autoestradas de Portugal, or Brisa (2%).

The following chart shows our current structure and a list of the primary companies within the investments of the EDP Group. For a more detailed listing, please see note 2 to our consolidated financial statement.

General Note

The percentages are rounded. Some ownership percentages indicated above reflect indirect ownership.

(1) For a more detailed listing and description, please see Subsidiaries, Affiliates and Associated Companies below.

(2) EDP Energia S.A., or EDP Energia, is an electric trading comapny operating in the independent electricity system

that operates five small hydroelectric plants

Business Overview

Iberian Energy

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

As the largest producer and distributor of electricity in Portugal, we currently hold the leading position in the Portuguese market. In 2002, we accounted for approximately 82% of the installed generation capacity in the Public Electricity System and 99% of the distribution in the Public Electricity System. REN, in which we hold a 30% equity interest, accounted for 100% of the transmission in the Public Electricity System. Our 2002 operating revenues amounted to 6,386.6 million (US$ 7,418.6 million), approximately 92% of which represented electricity sales, yielding operating income of 648.7 million (US$ 753.5 million). At December 31, 2002, our total assets were 18,125.2 million (US$ 21,054.2 million), and shareholders equity was 5,494.2 million (US$ 6,382.0 million).

The following table sets shows our revenues by activity and geography:

	Year ended December 31,		
	2000	**2001**	**2002**
	(millions of EUR)		
Energy (1)			
Portugal	3,701	4,530	4,898
Spain	0	0	321
Brazil	0	691	669
Telecommunications			
Portugal	17	126	190
Spain	0	62	131
Information Technology	22	150	107
All Other	106	93	72
Total	3,846	5,650	6,387

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

In Portugal, we create power for consumption in both the Public Electricity System and the Independent Electricity System. In 2002, our generating facilities in Portugal had a total installed capacity of 7,654 MW. In the transmission function, REN operates the national grid for transmission of electricity throughout mainland Portugal on an exclusive basis pursuant to Portuguese law. REN also manages the system dispatch and the interconnections with Spain. In our distribution function, EDPD carries out Portugal s local electricity distribution almost exclusively. EDPD provided more than 5.6 million customers with 35,973 GWh of electricity in 2002.

We expect regional markets for electricity to develop in Europe as an initial stage in the development of an integrated and liberalized electricity market with the EU. For geographical and regulatory reasons, we anticipate that an Iberian electricity market will be the regional market for our core electricity business in the near future. Accordingly, we consider our core electricity business to include our operations in the Portuguese and Spanish electricity markets. In a process that took place during 2001 and 2002, we expanded our energy operations with the acquisition of a 40% interest in Hidroeléctrica del Cantábrico S.A., or Hidrocantábrico, a Spanish electricity and gas utility company. Hidrocantábrico operates electricity generation plants and distributes and supplies electricity and gas in the Iberian Peninsula, mainly in the region of Asturias in Spain. Beginning in June 2002, we have consolidated on a proportional basis 40% of Hidrocantábrico. In March 2003, Hidrocantábrico won the privatization auction process that will lead to the acquisition of Naturcorp, the major gas distribution company operating in the Basque region of Spain.

Telecommunications and Information Technology

In 2000, taking into consideration our existing resources and expertise, we decided to pursue the telecommunications and information technology businesses.

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

In addition, we pursue the information technology business through our wholly owned subsidiary EDINFOR Sistemas Informáticos, S.A., or EDINFOR, which holds a 60% interest in ACE Holding SGPS, S.A., or ACE. ACE owns 100% of CASE Concepção e Arquitectura de Soluções Informáticas Estruturadas, S.A., or CASE. CASE provides consulting and information systems services to us and to third parties.

Group capital expenditures and investments

Our total capital expenditures in the electricity business in Portugal were 666.1 million, 409.2 million and 351.0 million in 2002, 2001 and 2000, respectively. One of our strategic goals in recent years has been to reduce the overall level of capital expenditures in our core electricity business. However, we had higher capital expenditures in 2002 compared with 2001 primarily as a result of expenditures in generation relating to the TER CCGT plant and the Venda Nova hydroelectric plant, operational and financial expenditures relating to Hidrocantábrico that are discussed below, telecommunications expenditures and the acquisition of U.S. dollar denominated notes that had been issued by Escelsa. We expect lower total capital expenditures in 2003 since the investment related to the acquisition of Hidrocantábrico has been completed, the operational investment in Hidrocantábrico in 2003 is expected to be lower than in 2002, expenditures in telecommunications will decrease as a result of our divestment of the UMTS business and, having reduced the exchange rate risk relating to U.S. dollar debt of our Brazilian subsidiaries, we do not forsee the need for further debt acquisition programs. We do expect a similar level of operational investment in generation in Portugal in 2003.

Our acquisition of a 40% interest in Hidrocantábrico involved a total investment of 783 million, of which 262.4 million was invested in 2001. For more information about our Hidrocantábrico investment, you should read Spain History and Overview below. In 2002, we also consolidated Hidrocantábrico s capital expenditures relating to generation and distribution.

The following table sets forth our capital expenditures and investments for the years 2000 through 2002. Capital expenditures in electricity in Portugal are broken into two categories: technical and financial costs. Technical costs refer to all amounts expended other than interest. Expenditures in Spain, Brazil, telecommunications and information technology are broken into two categories: operational investment, which generally refers to the development and acquisition of fixed assets, and financial investment, which generally refers to the acquisition of equity interests in companies.

	Year ended December 31,		
	2000	2001	2002
		(thousands of EUR)	
Energy:			
Portugal:			
Generation:			
Thermal/Hydro	56,406	109,646	204,979
Renewable: wind	11,190	6,574	11,397
Renewable: biomass(1)	0	0	35,205
Cogeneration	25,459	13,142	9,619
Engineering (2) and Operations and Maintenance	1,051	2,371	15,262
Total Generation	94,106	131,733	276,462
Transmission(3)	15,079	0	0
Distribution(4)	232,310	260,636	365,961
Supply(5)	1,970	980	8,337
Total technical costs	343,422	393,352	650,759
Financial costs	7,622	15,867	15,361
Total Portugal	351,087	409,217	666,121
Spain:			
Operational Investment:			
Hidrocantábrico		0	211,938
Financial Investment:			
Hidrocantábrico(6)	0	262,388	520,591
Total Spain	0	262,388	732,529
Total Energy Portugal and Spain	351,087	671,605	