

**TEJO ENERGIA – PRODUÇÃO
E DISTRIBUIÇÃO DE ENERGIA
ELÉCTRICA, S.A.**

ANNUAL REPORT AND ACCOUNTS

2002

**TEJO ENERGIA - PRODUÇÃO E DISTRIBUIÇÃO DE ENERGIA ELÉCTRICA, S.A.
ANNUAL REPORT AND ACCOUNTS 2002**

INDEX	Page
PRESIDENT'S FOREWORD	2
MANAGING DIRECTOR'S REPORT	3
GOVERNING BODIES	4
DIRECTORS' REPORT	5
ANNEX TO THE DIRECTORS' REPORT	9
STATEMENT OF DIRECTORS' RESPONSIBILITIES	10
INDEPENDENT AUDITORS' REPORT	11
FINANCIAL STATEMENTS	13
NOTES TO THE FINANCIAL STATEMENTS	17
STATUTORY AUDIT OPINION	28
REPORT ON AUDIT WORK CARRIED OUT	30
REPORT AND OPINION OF THE OFFICIAL AUDITOR	31

President's Foreword

The Company's performance in previous years has been very impressive and the challenge has been to maintain this high level of performance.

I am pleased to report that the management team and employees have succeeded again, rising to the challenge and producing another set of impressive results whilst generating 11.7% of Portugal electricity.

The managing director's report provides more operational and financial details on this year's performance but I was impressed by the number of visitors to the plant in 2002. Normally, we receive around 6.000 visitors per annum, mainly schools and universities, but this year a record, 7.500 visitors came demonstrating the interest and the reputation the power station enjoys in Portugal.

In environmental management the power station maintained its accreditation to ISO 14001 and EMAS and in safety management the ROSPA gold award was achieved for the sixth consecutive year.

The Company has faced two additional challenges this year, the first to devise a plan to achieve compliance with the European Large Combustion Plant Directive which will entail major environmental modifications to the station. The plan has been devised and technology options agreed with REN. The second challenge was to prepare for the introduction of the Iberian Electricity Market in 2003. The structure and rules of the market are as yet unknown but I am confident that the company is well prepared and will continue to thrive and play an important role in Portugal's electricity production when the market is introduced.

Álvaro Roque Pinho Bissaia Barreto

Pego, 26th March 2003

Managing Director's Report

A dry winter last year led to base load operation until November and December 2002 when the rain came and the Pego Plant moved into a variable despatch regime. Utilisation for the year was 94%.

The Pego Station operated reliably with a forced outage factor of 1.16% (4 days unavailable) due to breakdowns and the plant only tripped 4 times during the year.

Commercial availability for the year was 99.25%, an excellent achievement and the Plant's thermal efficiency was a record at 38.41%.

Throughout the year the fuel supply chain operated well with over of 1.8 m tonnes of coal being burnt. To ensure the Company can transport as much coal as it burns on a daily basis, during 2002, 15 new rail wagons were added to the Tejo Energia fleet making a total of 105 wagons.

This performance resulted in € 40,726,000 profit after tax on sales of € 255,021,000 and dividend attribution of 25,000,000 to the Shareholders. Another very satisfying year.

In the area of environmental management, throughout the year our environmental emissions complied with our license requirements. NO_x emissions averaged 738 Mg/Nm³ over the year, comfortable below the 800mg/Nm³ limit. Particle emissions averaged 39 mg/Nm³ less than half the permitted limit and the sulphur content of our coal average 0.7% compared to the 1.2% limit.

During 2002 there were a number of changes to the Board of Directors. In June, Michel Andrieux (EDF) resigned and was replaced by Jean-Rémy Cauquil. In December, Mike Grasby (International Power) resigned and his replacement will be announced in 2003. Also in December Juan Diez resigned as Technical Director of Tejo Energia and was replaced by José Luis Gutierrez and Eduardo Martin Baena (Endesa) resigned and was replaced by Juan Diez as non Executive Director.

To conclude my report for 2002, the company finished the year in a good position, with a proactive Board and strong management team and the prospects for 2003 onwards are bright.

Jeffery Kenneth Wright

Pego, 26th March 2003

Governing Bodies

General Meeting of Shareholders

President

Dr. João Vieira de Almeida

Secretary

Dr. Manuel Protásio

Board of Directors

Non-Executive President	Eng. Álvaro Roque Pinho Bissaia Barreto
Executive Member	Dr. Jeffery Kenneth Wright
Executive Member	Dr. José Luis Gutierrez Blanco
Non-Executive Member	Eng. Paulo Jorge Tavares Almirante
Non-Executive Member	Eng. Jean-Rémy Cauquil
Non-Executive Member	Eng. Jorge Fernando Alves Ferreira Guimarães
Non-Executive Member	Dr. José Teves Vieira
Non-Executive Member	Eng. Juan António Diez Gonzalez
Non-Executive Member	Dr. Gillian Anne McGregor Watson
Non-Executive Member	Dr. Paul Herbert Turney

Audit Board

Official Auditor	Ferreira, Pereira & Associados, SROC, S.A. (nº 132) represented by Dr ^a . Maria Cristina Santos Ferreira
Alternative Auditor	João Augusto & Associados, SROC, S.A. (nº 109) represented by Dr. João Albino Cordeiro Augusto

Directors' Report

In compliance with the statutes of Tejo Energia - Produção e Distribuição de Energia Eléctrica, S.A. and in accordance with point 1 of article 65 of the Company Law, the Board of Directors presents for the approval of the shareholders in a general meeting, the Directors' report, balance sheet, profit and loss account and notes to the financial statements for the year ended 31 December 2002.

1 General considerations

On 24th November 1993 Tejo Energia, S.A. entered into an agreement with Electricidade de Portugal S.A. ("EDP") to own, operate and maintain the Pego Power Station for a period of 28 years. From this date the purpose of Tejo Energia S.A. has been and will continue to be to fulfill its obligations in a responsible and safe manner for the benefit of all interested parties.

2 Evolution of the business

The Pego Power Station currently represents more than 10 % of the total installed generating capacity in Portugal.

The Directors expect the company to evolve in line with the forecasts made at the time of Financial Close on 24th November 1993 with the full support of the shareholders and the participating banks.

3 Sales

3.1 Capacity income

Capacity income relates to the monthly charge to EDP to maintain the Power Station available to produce electricity in accordance with the Power Purchase Agreement.

3.2 Energy income

Energy income relates to the monthly charge to EDP in respect of the energy supplied.

3.3 Ash income

Ash income relates to the income generated from the sale of ash.

3.4 Other income

Other income relates to the income generated from the sale of scrap, wood and cork.

4 Investments

4.1 Financial investments

No financial investments were made other than in the day to day management of cash deposits.

4.2 Tangible fixed assets

Net investment in the year was € 49.000 analysed as follow:

	<u>€'000</u>
Buildings	13
Equipment	9
Vehicles	(72)
Tools and equipment	45
Administrative equipment	<u>54</u>
	<u>49</u>

4.3 Intangible fixed assets

There were no investments in intangible assets during the year.

4.4 Capital work in progress

The net investment in capital work in progress relates mainly to the costs of the plant improvements to the Power Station. The total investment in Work in progress for the year amounted to € 1,922,000 and transfers to Fixed Assets were of € 414,000.

5 Operating costs

Operating costs comprise the monthly operating costs of the Power Station plus the management fee, the cost of additional services, the technical services fee and the performance bonus payable to Pegop.

6 Coal costs

Coal costs comprise the costs of purchasing the coal, transportation of the coal, management of stored coal and ancillary services such as surveying, sampling and analysis.

7 Financial costs

Financial costs amounted to € 24,425,000 including interest on the loans provided by the national and international banking syndicates (€ 24,567,000) and foreign exchange losses of € 858,000.

8 Amortisation and depreciation

The rates permitted by the tax authorities were applied on a straight line basis.

9 Debts to the state

These were debts of € 21,202,000 due to the State relating to taxes withheld on December 2002 salary payments, municipal rent and the estimated tax on profits for 2002.

10 Results

The net result for the year ended 31st December 2002 was a profit of € 40,726,000. The Board of Directors recommends that this is transferred to reserves after a distribution of profits to employees of € 34,946 and the maiden dividend of € 15,000,000.

11 Forecast developments in 2003

The focus of future management attention will be on achieving industry best practice in operation and maintenance, safeguarding the well being of the assets and minimising the costs of finance.

12 Vote of thanks

At the end of this productive year, and in advance of the Annual General Meeting of Shareholders, the Board of Directors would like to express their thanks to all:

- Employees
- Customers and Suppliers
- Banks
- Lawyers
- Audit Board member
- Shareholders.

Pego, 26th March 2003

The Board of Directors

Eng. Álvaro Roque Pinho Bissaia Barreto
Dr. Jeffery Kenneth Wright
Dr. José Luis Gutierrez Blanco
Eng. Juan Ant3nio Diez
Eng. Paulo Jorge Tavares Almirante
Eng. Jean-R3my Cauquil
Eng. Jorge Fernando Alves Ferreira Guimar3es
Dr. Jos3 Teves Vieira
Dra. Gillian Anne McGregor Watson
Dr. Paul Herbert Turney

Annex to the Directors' Report

In accordance with articles 447 and 448 of the Company Law, we set out below the list of the shareholders of Tejo Energia - Produção e Distribuição de Energia Eléctrica, S.A based on written communications and on the company's share register:

National Power International Holdings B.V.	452.249 shares
Endesa Europa S.A.	351.750 shares
EDF International, S.A.	100.500 shares
EDP - Electricidade de Portugal, S.A.	100.500 shares
Stephen Ramsey	1 share

Pego, 26th March 2003

The Board of Directors

Eng. Álvaro Roque Pinho Bissaia Barreto
Dr. Jeffery Kenneth Wright
Dr. José Luis Gutierrez Blanco
Eng. Juan António Diez
Eng. Paulo Jorge Tavares Almirante
Eng. Jean-Rémy Cauquil
Eng. Jorge Fernando Alves Ferreira Guimarães
Dr. José Teves Vieira
Dra. Gillian Anne McGregor Watson
Dr. Paul Herbert Turney

Statement of Directors' Responsibilities

Company Law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for the year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are prudent;
- state that applicable accounting standards have been followed, or disclose and explain in the financial statements any material departure;
- prepare financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with Portuguese legislation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Pego, 26th March 2003

The Board of Directors

Eng. Álvaro Roque Pinho Bissaia Barreto
Dr. Jeffery Kenneth Wright
Dr. José Luis Gutierrez Blanco
Eng. Juan António Diez
Eng. Paulo Jorge Tavares Almirante
Eng. Jean-Rémy Cauquil
Eng. Jorge Fernando Alves Ferreira Guimarães
Dr. José Teves Vieira
Dra. Gillian Anne McGregor Watson
Dr. Paul Herbert Turney

Independent Auditors' Report

Tejo Energia - Produção e Distribuição de Energia Eléctrica, S.A.

We have audited the financial statements of Tejo Energia – Produção e Distribuição de Energia Eléctrica, S.A. for the year ended 31 December 2002. Our audit was made in accordance with International Auditing Standards.

Respective responsibilities of directors and auditors

The Board of Directors is responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and report our opinion to you.

Basis of opinion

We conducted our audit in accordance with International Auditing Standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002, its profit and cashflow for the year then ended and have been properly prepared in accordance with generally accepted accounting standards in Portugal.

Lisbon, 26th March 2003

KPMG

Balance Sheet as at 31 December 2002

(Values expressed in thousands of Euros)

Assets	2002			2001
	AB	AP	AL	AL
Fixed Assets				
<i>Intangible:</i>				
Company and project formation expenses	8,320	8,320		
Development costs	<u>50,555</u>	<u>50,544</u>	<u>11</u>	<u>2,128</u>
	<u>58,875</u>	<u>58,864</u>	<u>11</u>	<u>2,128</u>
<i>Tangible:</i>				
Land	958		958	958
Power station building and integral plant	946,858	339,934	606,924	648,392
Equipment	14,980	5,465	9,515	10,082
Motor vehicles	326	243	83	148
Tools	808	217	591	604
Administrative equipment	4,058	2,046	2,012	2,157
Other	9	6	3	4
Exchange losses capitalized	7,346	2,220	5,126	5,432
Plant under construction	<u>1,700</u>		<u>1,700</u>	<u>192</u>
	<u>977,043</u>	<u>350,131</u>	<u>626,912</u>	<u>667,969</u>
Current Assets				
<i>Stocks:</i>				
Raw materials and consumables	19,556	1,601	17,955	16,810
Plant spares and stores	14,978	107	14,871	14,739
In transit				<u>6,455</u>
	<u>34,534</u>	<u>1,708</u>	<u>32,826</u>	<u>38,004</u>
<i>Accounts Receivable - Short Term:</i>				
Customers	754		754	473
Owed by the state	21,447		21,447	16,222
Other debtors	<u>757</u>		<u>757</u>	<u>193</u>
	<u>22,958</u>		<u>22,958</u>	<u>16,888</u>
<i>Marketable Securities, Bonds and Treasury Investments:</i>				
Treasury investments	<u>79,904</u>		<u>79,904</u>	<u>68,902</u>
	<u>79,904</u>		<u>79,904</u>	<u>68,902</u>
<i>Cash and Banks:</i>				
Banks	77		77	139
Cash	<u>1</u>		<u>1</u>	<u>1</u>
	<u>78</u>		<u>78</u>	<u>140</u>
<i>Accrued Income and Deferred Costs:</i>				
Accrued income	18,398		18,398	23,240
Deferred costs	8,371		8,371	11,546
Deferred tax	<u>572</u>		<u>572</u>	<u>931</u>
	<u>27,341</u>		<u>27,341</u>	<u>35,717</u>
Total depreciation		408,995		
Total provisions		<u>1,708</u>		
Total assets	<u>1,200,733</u>	<u>410,703</u>	<u>790,030</u>	<u>829,748</u>

To be read in conjunction with the notes to the Financial Statements

Balance Sheet as at 31 December 2002*(Values expressed in thousands of Euros)***Net Equity**

	<u>2002</u>	<u>2001</u>
<i>Share Capital:</i>		
Capital	5,025	5,025
Premium on issue of shares	44,852	44,852
Legal reserve	1,005	1,005
Net profit brought forward	70,768	58,784
Subtotal	<u>121,650</u>	<u>109,666</u>
Net profit for the year	40,726	37,011
Total net equity	<u>162,376</u>	<u>146,677</u>
<i>Accounts Payable - Medium and Long Term:</i>		
Bank loans	519,336	575,721
Due to Shareholders	12,750	
	<u>532,086</u>	<u>575,721</u>
<i>Accounts Payable - Short term:</i>		
Bank loans	56,385	53,411
Suppliers of goods and services	5,706	14,411
Owed to the state	21,202	21,516
Other creditors		3,421
	<u>83,293</u>	<u>92,759</u>
<i>Accrued Charges and Deferred Income:</i>		
Accrued charges	12,272	14,588
Deferred income	3	3
	<u>12,275</u>	<u>14,591</u>
Total liabilities	<u>627,654</u>	<u>683,071</u>
Total net equity and liabilities	<u>790,030</u>	<u>829,748</u>

To be read in conjunction with the notes to the Financial Statements

Profit and Loss Account for the Year ended 31 December 2002

(Values expressed in thousands of Euros)

Costs and Losses	<u>2002</u>		<u>2001</u>	
<i>Cost of goods sold and materials consumed:</i>				
Materials		95,631		86,860
External services supplied		29,459		26,622
<i>Payroll costs:</i>				
Remuneration	380		450	
<i>Social charges:</i>				
Pensions		1		13
Others	119	500	115	578
Depreciation and amortization		45,203		47,604
Provisions		1	45,204	47,604
Taxes (other than income tax)		869		857
Other operational costs		4	8	865
(A) Operational costs		<u>171,667</u>		<u>162,529</u>
<i>Interest and similar charges:</i>				
Loans		24,567		33,724
Foreign exchange losses		858		1,067
(C) Subtotal		<u>25,425</u>		<u>34,791</u>
Extraordinary losses		197,092		197,320
(E) Subtotal		<u>331</u>		<u>45</u>
Tax on profit		197,423		197,365
(G) Subtotal		<u>20,217</u>		<u>20,228</u>
Net profit		<u>217,640</u>		<u>217,593</u>
		<u>40,726</u>		<u>37,011</u>
		<u><u>258,366</u></u>		<u><u>254,604</u></u>
Income and Gains				
<i>Sales:</i>				
Products		96,286		87,314
Services rendered		158,735		164,348
(B) Operational income		<u>255,021</u>		<u>251,662</u>
<i>Interest and similar income:</i>				
Bank deposits		1,975		1,674
Foreign exchange gains		1,355		1,143
Other		3,330		2,817
(D) Subtotal		<u>258,351</u>		<u>254,479</u>
Extraordinary gains		15		125
(F) Subtotal		<u><u>258,366</u></u>		<u><u>254,604</u></u>
Summary				
Operational result: (B) - (A)=		83,354		89,133
Financial result: (D - B) - (C - A)=		(22,095)		(31,974)
Current result: (D) - (C) =		61,259		57,159
Profit before tax: (F) - (E) =		60,943		57,239
Net profit for the year: (F) - (G)=		40,726		37,011

To be read in conjunction with the notes to the Financial Statements

Profit and Loss Account by Function for the Year ended 31 December 2002*(Values expressed in thousands of Euros)*

	<u>2002</u>	<u>2001</u>
Sales and services rendered	255,021	251,662
Cost of sales and services rendered	(168,805)	(160,188)
Gross margin	<u>86,216</u>	<u>91,474</u>
Administrative costs	(2,987)	(2,089)
Other costs and operational losses	(4)	(8)
Operating profit	<u>83,225</u>	<u>89,377</u>
Net cost of finance	(22,282)	(32,138)
Pre tax profit	<u>60,943</u>	<u>57,239</u>
Tax on profit	<u>(20,217)</u>	<u>(20,228)</u>
Net profit	40,726	37,011
Extraordinary profit	<u>40,726</u>	<u>37,011</u>
Tax on extraordinary profit		
Net profit for the year	<u>40,726</u>	<u>37,011</u>
Profit per share (Euro)	<u>40.52</u>	<u>36.83</u>

To be read in conjunction with the notes to the Financial Statements

Cash Flow Statement for the Year ended 31 December 2002

(Values expressed in thousands of Euros)

	2002	2001
Operating activities:		
Receipts from clients	254,740	250,291
Payments to suppliers	(125,903)	(121,960)
Payments to staff	<u>(294)</u>	<u>(281)</u>
Movements generated from operations	128,543	128,050
Payments of income tax	<u>(24,501)</u>	<u>(22,370)</u>
Movements generated before extraordinary items	104,042	105,680
Payments relating to extraordinary items	<u>(331)</u>	<u>(28)</u>
Movements relating to operating activities (1)	<u>103,711</u>	<u>105,652</u>
Investing activities:		
Receipts from:		
Tangible fixed assets	14	13
Interest	1,141	1,732
Payments relating to:		
Tangible fixed assets	<u>(2,052)</u>	<u>(2,018)</u>
Movements related to investing activities (2)	<u>(897)</u>	<u>(273)</u>
Financing activities:		
Payments relating to:		
Loans obtained	(53,411)	(56,720)
Interest	(26,711)	(36,359)
Dividends	<u>(12,250)</u>	<u></u>
Movements relating to financing activities (3)	<u>(92,372)</u>	<u>(93,079)</u>
Change in cash and cash equivalents (4)=(1)+(2)+(3)	10,442	12,300
Effect of foreign exchange movements	497	(324)
Cash and cash equivalents at start of year	<u>69,043</u>	<u>57,067</u>
Cash and cash equivalents at end of year	<u>79,982</u>	<u>69,043</u>
Componants of cash and cash equivalents:		
Cash and bank deposits	78	141
Treasury applications	<u>79,904</u>	<u>68,902</u>
	<u>79,982</u>	<u>69,043</u>

To be read in conjunction with the notes to the Financial Statements

Notes to the Financial Statements

(Values expressed in thousands of Euros)

According to the regulations established by Decree Law 410/89 of 21 November 1989 approving the Official Plan of Accounts (POC), together with the alterations introduced by Decree Law 238/91 of 2 July 1991, the following constitute the notes to the financial statements:

1 Object and activity of the company

Tejo Energia – Produção e Distribuição de Energia Eléctrica S.A. is a company incorporated under Portuguese Law on 15th October 1992 whose objects are the production, transport and distribution of electrical energy in high, medium and low tension, as well as the provision of related services complementary to that activity and the realisation of any financial transactions necessary for that purpose.

Following the signing of the project agreements in 1993 the early years of operation were concerned with establishing the project and safeguarding the assets. Now there is another phase which is to maximise the performance of the plant and to achieve industry best practice consistent with the preservation of the environment.

2 Basis of presentation of the financial statements

The balance sheet, profit and loss account and these notes constitute the official accounts of Tejo Energia, S.A. for legal and tax purposes and were prepared in accordance with generally accepted accounting principles in Portugal.

These accounts therefore follow the standards of presentation and the complementary information required by the POC. Only requirements applicable to the company are included.

3 Accounting policies

- *Tangible fixed assets*

Tangible fixed assets are stated at original cost less accumulated depreciation. In the case of assets under construction, related works costs, direct overheads, commissioning and financing expenses are included in cost. Assets under construction are valued on the basis of expenditure incurred up to the balance sheet date. Tangible fixed assets include strategic plant spares.

- *Intangible fixed assets*

Intangible fixed assets comprise company and project formation expenses, and development and refinancing costs and are amortised over five years.

- *Depreciation and amortisation*

Depreciation is calculated so as to write off the cost of fixed assets evenly over their estimated useful lives. Estimated useful lives are reviewed periodically, taking into account commercial and technological obsolescence as well as normal wear and tear.

The depreciation charge during the financial year was based on the following estimates of useful lives:

	<u>Years</u>
Power station buildings and integral plant, and equipment	8 - 24
Motor vehicles	4 - 12
Tools	8 - 16
Computer equipment and software	5 - 16
Administrative equipment	6 - 16

- *Pension costs*

Pension contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' estimated working lives.

- *Stocks*

Coal stocks are valued at the net realisable value of the coal calculated by reference to the latest published indices and based on the amount that REN would pay Tejo Energia to burn that coal. Stores and general plant spares are valued at the lower of cost or net realisable value using the weighted average cost of purchase plus transportation costs.

- *Overhauls*

Normal repair and maintenance costs are charged to the profit and loss account as incurred. Overhaul costs are deferred and written off to the profit and loss account during a three year period, which is the period expected between overhauls.

- *Interest, bank charges and exchange differences*

Interest, bank charges and exchange differences on borrowings specifically related to the financing of major projects with long periods of development are capitalised during the construction phase and written off as part of the total cost over the operational life of the asset.

Exchange differences arising on the translation of foreign currency borrowings during the operational phase are accumulated and written off over the life of the project in accordance with corresponding income movements under the Power Purchase Agreement.

All other interest and bank charges and realised exchange differences are charged to the profit and loss account as they arise.

- *Taxation*

Taxation is calculated on the basis of the estimated taxable profits of the year and includes deferred taxation. The concept of deferred tax, resulting from the differing treatment of certain timing differences between the profit and loss account and the tax computation, is applicable whenever there is a reasonable probability that any tax difference will be paid or received in the near future.

- *Foreign exchange*

Assets and liabilities expressed in foreign currencies are translated to Euros at the rates of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies are translated to Euros at the exchange rate ruling on the date payment takes place unless related or matching forward foreign exchange contracts have been entered into when the rate specified in the contract is used.

- *Recognition of costs and income*

Costs and income are recognised in the period to which they relate.

The financial statements have been prepared on the basis of accounting principles generally accepted in Portugal, which do not differ in any material respect from internationally accepted principles.

Therefore the profit for the year and the net equity position presented in accordance with internationally accepted principles would be the same as those shown in these financial statements. However, internationally accepted principles require a series of notes to be shown in the financial statements which differ from the notes required under POC; these additional notes have not been prepared.

4 Exchange rates

The exchange rates used to convert foreign currency balances to euros were as follows:

	Balance and sheet closing <u>exchange rate for 2002</u>	Balance and sheet closing <u>exchange rate for 2001</u>
American Dollar	1.0487	0.8852
Pound Sterling	0.6505	0.6100

6 Taxation

The accounts of 1999 to 2002 are subject to inspection by the tax authorities. The Directors consider that having complied with all fiscal legislation the possibility of any additional liability arising as a result of a tax inspection is remote.

The effect of deferred tax from time differences between the recognition of costs and revenue was considered, resulting in an asset from deferred tax of € 572,000 (see note 49).

7 Company employees

The average number of company employees during the year was as follows:

	<u>2002</u>	<u>2001</u>
Employees	8	8

8 Company and project formation expenses and development costs

These include all expenses related to company and project formation, and development and refinancing costs of the company up to 31st December 2000. The gross cost is analysed as follows:

	<u>2002</u>	<u>2001</u>
Company and project formation expenses	8,320	8,320
Development and refinancing costs	50,555	50,555
Accumulated depreciation	<u>(58,864)</u>	<u>(56,747)</u>
	<u>11</u>	<u>2,128</u>

10 Movements in fixed assets

During the year the movements in intangible and tangible assets were as follows:

Gross assets

	Opening balance	Additions	Disposals	Transfers	Closing balance
<i>Intangible assets:</i>					
Company and project formation expenses	8,320				8,320
Development and refinancing costs	50,555				50,555
	<u>58,875</u>				<u>58,875</u>
<i>Tangible assets:</i>					
Land	958				958
Power station buildings and integral plant	946,687	13		158	946,858
Equipment	14,883	9		88	14,980
Motor vehicles	398		(72)		326
Tools	763	45			808
Administrative equipment	3,836	63	(9)	168	4,058
Other	9				9
Exchange losses	7,346				7,346
Assets under construction	192	1,922		(414)	1,700
	<u>975,072</u>	<u>2,052</u>	<u>(81)</u>		<u>977,043</u>

Depreciation and amortisation

	Opening balance	Additions	Disposals	Transfers	Closing balance
<i>Intangible assets:</i>					
Company and project formation expenses	8,320				8,320
Development and refinancing costs	48,427	2,117			50,544
	<u>56,747</u>				<u>58,864</u>
<i>Tangible assets:</i>					
Land					
Power station buildings and integral plant	298,295	41,639			339,934
Equipment	4,801	664			5,465
Motor vehicles	250	42	(49)		243
Tools	159	58			217
Administrative equipment	1,679	375	(8)		2,046
Other	5	1			6
Exchange losses	1,914	306			2,220
	<u>307,103</u>	<u>43,085</u>	<u>(57)</u>		<u>350,131</u>

29 Third party debts due in more than five years

The third party debts due in more than five years at 31st December 2002, were as follows:

Bank loans – total	575,721
- due 6/1/2003	(24,908)
- due 4/7/2003	<u>(31,477)</u>
	<u>519,336</u>

The long term loans from the National and International Banking Syndicates are repayable in instalments commencing on 6th January 1998 and ending on 30th June 2014. However, the company has the option to fully repay the loans at any time.

Repayments of loans due within the next five years are as follows:

2003 – <i>see above</i>	56,385
2004	58,524
2005	50,662
2006	31,158
2007	48,542

30 Amounts payable to third parties covered by guarantees

The loans from the National and International Banking Syndicates are secured by a charge over the power station assets.

34 Movements in provisions

	Opening balance	Additions	Releases	Closing balance
Provision for stocks	<u>2,803</u>	<u>1</u>	<u>(1,096)</u>	<u>1,708</u>
	<u>2,803</u>	<u>1</u>	<u>(1,096)</u>	<u>1,708</u>

36 Share capital analysis

At 31st December 2002, the share capital was held as follows:

	<u>Type of share</u>	<u>Number</u>	<u>Nominal value</u>
International Power	Ordinary	452,249	€ 5
Endesai Europa	Ordinary	351,750	€ 5
EDFI	Ordinary	100,500	€ 5
EDP	Ordinary	100,500	€ 5
S. Ramsey	Ordinary	1	€ 5

37 Shareholders with more than a 20% holding

The companies with a shareholding higher than 20% are as follows:

	<u>Percentage</u>		<u>Value (000)</u>	
	<u>2002</u>	<u>2001</u>	<u>2001</u>	<u>2002</u>
National Power	45	45	€ 2.261	€ 2.261
Endesa	35	35	€ 1.759	€ 1.759

39 Remuneration of the governing bodies

The remuneration of the members of the governing bodies of the company was as follows:

Board of Directors	€ 123,000
Audit Board	€ 21,000

40 Movements in net equity during the year

During the year the movements in net equity were as follows:

	<u>Opening balance</u>	<u>Increase</u>	<u>Closing balance</u>
Share capital	5,025		5,025
Share premium	44,852		44,852
Statutory reserve	1,005		1,005
Profit and loss account	58,784	11,984	70,768
Net profit	<u>37,011</u>	<u>3,715</u>	<u>40,726</u>
	<u>146,677</u>	<u>15,699</u>	<u>162,376</u>

The share premium may not be distributed, but it can be used to absorb losses after all other reserves have been used, or it may be used to increase capital.

During 2002 dividends of € 25.000.000 were attributed, from which € 12.250.000 were paid.

41 Analysis of the cost of goods sold and materials consumed

The analysis of the cost of goods sold and materials consumed is as follows:

	<u>Raw materials, sub assemblies and consumables</u>
Opening stock	40,807
Purchases	89,358
Closing stock	<u>(34,534)</u>
Cost of goods sold	<u>95,631</u>

44 Sales and services rendered

The analysis of sales and services rendered is as follows:

	<u>2002</u>	<u>2001</u>
Capacity income		
Energy income	158,735	164,348
Ash sales	93,507	84,942
	<u>2,779</u>	<u>2,372</u>
	<u>255,021</u>	<u>251,662</u>

45 Analysis of financial results

The analysis of financial results is as follows:

<u>Costs and losses</u>	<u>2002</u>	<u>2001</u>	<u>Profits and gains</u>	<u>2002</u>	<u>2001</u>
Interest paid	24,567	33,724	Interest earned	1,975	1,674
Foreign exchange losses	858	1,067	Foreign exchange gains	1,355	1,143
			Discounts obtained		
			Financial results	<u>22,095</u>	<u>31,974</u>
	<u>25,425</u>	<u>34,791</u>		<u>25,425</u>	<u>34,791</u>

46 Analysis of extraordinary results

The analysis of extraordinary results is as follows:

<u>Costs and losses</u>	<u>2002</u>	<u>2001</u>	<u>Profits and gains</u>	<u>2002</u>	<u>2001</u>
Underaccrual for tax	7	26	Reduction of provisions		72
Losses on fixed assets		7	Gains on fixed assets	14	
Donations	30	9	Corrections to previous years		1
Others	11	3	Others		52
Corrections to previous years	283		Extraordinary results	317	
Extraordinary results		80			
	<u>331</u>	<u>125</u>		<u>331</u>	<u>125</u>

48 Contingent liabilities

a) In April 2000 the Supreme Administrative Court rejected the appeal by the Municipality of Abrantes to have the exemption granted to Tejo Energia concerning real estate transfer tax ('SISA') annulled.

Consequently the SISA exemption given by the Sub-director of the Tax Administration department on 6th October 1993 still stands.

b) On 1st February 1999 Tejo Energia was informed by the Ministry of Finance that it had re-computed the amount of tax due from the company for 1996. The Ministry of Finance had applied the legislation set out in article 57-C of the Companies' Tax Code, which came into effect on 1st January 1996, to Tejo Energia.

This legislation states that any interest paid on loans from related parties (the suprimentos provided by the shareholders) in excess of two times their participation in the equity of the company should be disallowed for tax purposes. The effect of the Ministry of Finance applying this legislation was to increase the 1996 taxable profits of Tejo Energia by PTE 1,326,000,000 (€ 6.614.060).

On 1st April 1999 Tejo Energia was order to pay the sum of PTE 627,968,669 (€ 3.132.294) regarding the additional tax for 1996. The company presented its appeal against the order to the competent authorities on 30th July 1999. The decision is now awaited.

Given the appeal, which constitutes a valid reason for the suspension of the act to recover the amount due, Tejo Energia did not pay the amount due but instead on 6th September 1999 put in place a bank guarantee in favour of the relevant authorities for the sum of PTE 1,000,000,000 (€ 4,988,000) which will be retained until the final decision is known.

49 Deferred Tax

	31-Dec-01 Euro'000	Increase/(decrease) Euro'000	31-Dec-02 Euro'000
Provision for stock obsolescence	2.803	(1.095)	1.708
Other	17	9	26
Total Time Differences	2.820	(1.086)	1.734
IRC rate 33%	931	(359)	572

50 Reconciliation of Results by function

	2002 Euro	2001 Euro
Operating result from Profit and Loss by nature		
	83.354	89.133
Extraordinary profit / (loss) (see note 46)	(317)	80
Bank services	188	164
Operating result from Profit and Loss by function	83.225	89.377

Officer responsible for the accounts

Dr. João Matos Rosa

The Board of Directors

Eng. Álvaro Roque Pinho Bissaia Barreto
Dr. Jeffery Kenneth Wright
Dr. José Luis Gutierrez Blanco
Eng. Juan António Diez
Eng. Paulo Jorge Tavares Almirante
Eng. Jean-Rémy Cauquil
Eng. Jorge Fernando Alves Ferreira Guimarães
Dr. José Teves Vieira
Dra. Gillian Anne McGregor Watson
Dr. Paul Herbert Turney