

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

**ANNUAL REPORT AND ACCOUNTS 2004**



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2004 was a year of consolidation, following the successes of the first decade, culminating with the third time award, of the best company in the Water, Electricity and Gas sector, by Exame magazine.

This award recognizes the commitment and motivation of a proactive and consistent work team that once again responded effectively to various business demands, from dissimilar utilization patterns to the commercial and financial challenges ahead.

There were over 5,900 visitors to the Plant during the year. The number of visitors since the Project start is now over 50,000 and I am truly pleased that the Station is increasingly part of the curricular activities of a significant number of Schools and Universities in Portugal.

We have observed the evolution of available technology in order to allow, during the next years, the update of equipment and facilities, necessary to comply with the atmosphere emission reductions as from 2008.

We continued to review our structure and the adaptability of our competences facing the challenges, demands and opportunities resulting from the implementation process of the Iberian Electricity Market.

I am convinced of the reinforced capacity of Tejo Energia to respond to the previewed changes to the Electrical Sector, by positioning itself on the first row to sustained development of its activities and by incrementing the efficiency contribution that was consistently demonstrated to this day.

Pego, 18th March 2005

António José Baptista Cardoso e Cunha

In 2004 we have completed eleven years of the project and nine years of two unit generation.

During the early part of the year, the Station followed an unstable running regime, characterized by two shifting and frequent load changes due to the raise of coal prices which affected the merit order.

From May onwards, coal prices adjusted below gas prices and the Station ran at base load during most of the rest of the year, also as a consequence of low rainfall.

Utilisation for the year was of 87.9%, above the budget of 82.0%. Commercial availability was of 98.4% and thermal efficiency of 38.41%, both clearly above targets. The Station consumed over 1.6 million tones of coal to generate 4,400 GWh of electricity, which represents circa 10% of market share.

There were no major overhauls during the year. The forced outage rate was of 1.9%, which is 0.6% better than target.

This performance has resulted in sales of € 250,260,000 and post tax profits of € 52.754.000. Dividends of € 30,000,000 were distributed to the Shareholders.

In the environmental performance, NOx emissions averaged 735 mg/Nm<sup>3</sup> during the year, below the 800 mg/Nm<sup>3</sup> limit. Paticulate emissions were in average 48 mg/Nm<sup>3</sup>, nearly half of the permitted limit. Sulfur coal content averaged 0.7% against the 1.2% limit.

In 2004 there were several changes to the Board. Paulo Almirante (International Power) replaced Jeff Wright as Managing Director. Álvaro Barreto resigned as non-executive president and was replaced by António Cardoso e Cunha. Finally, Gareth Griffiths (International Power) replaced Paul Turney and Gillian Watson (Endesa) was replaced by Eduardo Martin Baena.

The discussions with the Administration and REN in the context of the Iberian Electricity Market resumed with the publication at the year end of crucial legislation setting the framework of the process.

In 2004 the company consolidated its performance and took firm steps towards the adaptation to anticipated new market conditions, maintaining the strength of the Board and of the Management Team.

Pego, 18th March 2005

Paulo Almirante

### GENERAL MEETING OF SHAREHOLDERS

#### PRESIDENT

JOÃO VIEIRA DE ALMEIDA

#### SECRETARY

MANUEL PROTÁSIO

### BOARD OF DIRECTORS

#### NON-EXECUTIVE PRESIDENT

ANTÓNIO JOSÉ BAPTISTA CARDOSO E CUNHA

#### EXECUTIVE MEMBERS

PAULO JORGE TAVARES ALMIRANTE

JOSE LUIS GUTIERREZ BLANCO

#### NON-EXECUTIVE MEMBERS

JUAN ANTÓNIO DIEZ

GLEN BURGESS

JEAN-RÉMY CAUQUIL

JORGE RIBEIRINHO MACHADO

SIMON PINNELL

JOSÉ TEVES VIEIRA

EDUARDO MARTIN BAENA

GARETH GRIFFITHS

### STATUTORY AUDITOR

KPMG & ASSOCIADOS, S.R.O.C., S.A. (Nº 189)

REPRESENTED BY RUI MIGUEL NOGUEIRA MACHADO

ADMINISTRATOR (NR. 1012)

MARIA CRISTINA SANTOS FERREIRA

STATUTORY AUDITOR (NR. 1010)

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 2004.

### 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 fulfil 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 REN 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 REN 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 € 105,000, analysed as follow:

	€'000
• Buildings and basic equipment	
• Vehicles	
• Tools and equipment	66
• Administrative equipment	39

#### 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 € 630,000 and transfers to Fixed Assets were of € 291,000.

### 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 € 14,451,000 including interest on the loans provided by the national and international banking syndicates (€13,964,000) and foreign exchange losses and others of € 487,000.

## 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 € 21,958,00 due to the State relating to taxes withheld on December 2004 salary payments, municipal rent and the estimated tax on profits for 2004.

## 10 - RESULTS

The net result for the year ended 31st December 2004 was a profit of € 52,754,000. The Board of Directors recommends that this is transferred to reserves after a distribution of profits to employees of € 55,000 and a dividend of € 10,000,000.

## 11 – FORECAST DEVELOPMENTS IN 2005

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 – IBERIAN ELECTRICITY MARKET

The protocol signed in November 2001 between the Portuguese and Spanish governments to the creation of the Iberian Electricity Market, implies a new market framework, including the repositioning of the market agents and the renegotiation of the Power Purchase Contracts. In this context, compensations are set to preserve the economical value to generators. Tejo Energia is progressing the discussions with the Administration and REN, while are not envisaged significant changes to the risk pattern and operational activities of the company, under the principle of economical neutrality.

## 13 – DEVELOPMENT COSTS

Tejo Energia has incurred capitalized costs to be transferred to its subsidiary Tejo Energia II, in the case that the Combined cycle gas project was developed by this company. As there is not, until this date, a clear definition on the legal vehicle that will develop the project, it was decided to write off those costs on the present year.

## 14 – VOTES 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, 18<sup>th</sup> March 2005

## THE BOARD OF DIRECTORS

ANTÓNIO JOSÉ BAPTISTA CARDOSO E CUNHA

PAULO JORGE TAVARES ALMIRANTE

JOSE LUIS GUTIERREZ BLANCO

JUAN ANTÓNIO DIEZ

GLEN BURGESS

JEAN-RÉMY CAUQUIL

JORGE RIBEIRINHO MACHADO

SIMON PINNELL

JOSÉ TEVES VIEIRA

EDUARDO MARTIN BAENA

GARETH GRIFFITHS

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 Participações, S.G.P.S.                | 100.500 shares |
| • Stephen Ramsey                             | 1 share        |

Pego, 18<sup>th</sup> March 2005

### THE BOARD OF DIRECTORS

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PAULO JORGE TAVARES ALMIRANTE  
JOSE LUIS GUTIERREZ BLANCO  
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EDUARDO MARTIN BAENA  
GARETH GRIFFITHS

## STATEMENT OF DIRECTOR'S RESPONSIBILITIES

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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 judgments 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, 18<sup>th</sup> March 2005

### THE BOARD OF DIRECTORS

ANTÓNIO JOSÉ BAPTISTA CARDOSO E CUNHA  
PAULO JORGE TAVARES ALMIRANTE  
JOSE LUIS GUTIERREZ BLANCO  
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SIMON PINNELL  
JOSÉ TEVES VIEIRA  
EDUARDO MARTIN BAENA  
GARETH GRIFFITHS

## Balance Sheet

as at 31 December 2004

(Values expressed in thousands of Euros)

Assets	2004			2003
	Gross	Provisions	Net	Net
<b>Fixed Assets</b>				
<i>Intangible:</i>				
Company and project formation expenses	8,320	8,320		
Development costs	50,555	50,555		
	58,875	58,875		
<i>Tangible:</i>				
Land	958		958	958
Power station building and integral plant	950,874	423,439	527,435	569,203
Equipment	15,028	6,798	8,230	8,894
Motor vehicles	255	223	32	36
Tools	942	339	603	568
Administrative equipment	4,352	2,717	1,635	1,715
Other	9	6	3	3
Exchange losses capitalized	7,346	2,834	4,512	4,819
Plant under construction	1,186		1,186	847
	980,950	436,356	544,594	587,043
<i>Financial investments:</i>				
Equity in participated companies	50		50	50
	50		50	50
<b>Current Assets</b>				
<i>Stocks:</i>				
Raw materials and consumables	15,007		15,007	13,295
Plant spares and stores	15,412	65	15,347	15,150
	30,419	65	30,354	28,445
<i>Accounts Receivable - Short Term:</i>				
Customers	458		458	1
Owed by the state	21,501		21,501	21,081
Other debtors	260		260	1,361
	22,219		22,219	22,443
<i>Marketable Securities, Bonds and Treasury Investments:</i>				
Treasury investments	71,905		71,905	67,938
	71,905		71,905	67,938
<i>Cash and Banks:</i>				
Banks	152		152	123
Cash	2		2	1
	154		154	124
<i>Accrued Income and Deferred Costs:</i>				
Accrued income	22,308		22,308	17,290
Deferred costs	8,356		8,356	11,319
Deferred tax	24		24	23
	30,688		30,688	28,632
Total depreciation		495,231		
Total provisions		65		
Total assets	1,195,260	495,296	699,964	734,675

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

## **Balance Sheet**

as at 31 December 2004

(Values expressed in thousands of Euros)

	<b>2004</b>	<b>2003</b>
<b>Net Equity</b>		
<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	95,754	81,460
Subtotal	146,636	132,342
Net profit for the year	52,754	44,350
Total net equity	199,390	176,692
<i>Accounts Payable - Medium and Long Term:</i>		
Bank loans	410,149	460,812
Due to shareholders		
	410,149	460,812
<i>Accounts Payable - Short Term</i>		
Bank loans	50,663	58,524
Suppliers of goods and services	6,703	5,323
Owed to the state	21,958	21,820
Other creditors	2	
Due to shareholders	1,550	3,075
	80,876	88,742
<i>Accrued Charges and Deferred Income</i>		
Accrued charges	9,547	8,426
Deferred income	2	3
	9,549	8,429
Total liabilities	500,574	557,983
Total net equity and liabilities	699,964	734,675

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

**Profit and Loss Account**  
for the Year ended 31 December 2004  
(Values expressed in thousands of Euros)

	2004		2003	
<b>Costs and Losses</b>				
<i>Cost of goods sold and materials consumed:</i>				
Materials		90,328		71,258
External services supplied		31,443		29,775
<i>Payroll costs:</i>				
Remuneration	391		295	
Social charges:	85		83	
Pensions	31		3	
Others	15	522	118	499
Depreciation and amortisation	43,232		43,148	
Provisions	1	43,233		43,148
Taxes (other than income tax )	781		869	
Other operational costs	32	813	28	897
(A) Operational costs		166,339		145,577
<i>Interest and similar charges:</i>				
Loans	13,964		17,355	
Foreign exchange losses	331		320	
Other	156	14,451	177	17,852
(C) Subtotal		180,790		163,429
Extraordinary losses		44		51
(E) Subtotal		180,834		163,480
Tax on profit		19,662		21,455
(G) Subtotal		200,496		184,935
Net profit		52,754		44,350
		253,250		229,285
<b>Income and Gains</b>				
<i>Sales:</i>				
Products	96,429		71,713	
Services rendered	153,831	250,260	154,710	226,423
(B) Operational income		250,260		226,423
<i>Interest and similar income:</i>				
Bank deposits	1,336		1,631	
Foreign exchange gains	722		333	
Other		2,058	4	1,968
(D) Subtotal		252,318		228,391
Extraordinary gains		932		894
(F) Subtotal		253,250		229,285
Summary				
Operational result: (B) - (A) =		83,921		80,846
Financial result: (D-B) - (C - A) =		-12,393		-15,884
Current result: (D) - (C) =		71,528		64,962
Profit before tax: (F) - (E) =		72,416		65,805
Net profit for the year: (F) - (G) =		52,754		44,350

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

### ***Profit and Loss Account by Function***

*for the Year ended 31 December 2004*

*(Values expressed in thousands of Euros)*

	<b>2004</b>	<b>2003</b>
Sales and services rendered	250,260	226,423
Cost of sales and services rendered	-160,499	-140,045
Gross margin	89,761	86,378
Administrative costs	-3,349	-3,190
Other costs and operational losses	-32	-28
Operating profit	86,380	83,160
Net cost of finance	-13,964	-17,355
Pre tax profit	72,416	65,805
Tax on profit	-19,662	-21,455
Net profit	52,754	44,350
Extraordinary profit	52,754	44,350
Tax on extraordinary profit	0	0
Net profit for the year	52,754	44,350
Profit per share (Euro)	52.49	44.13

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

## Cash Flow Statement

for the Year ended 31 December 2004

(Values expressed in thousands of Euros)

	2004	2003
<b>Operating activities:</b>		
Receipts from clients	249,801	239,816
Payments to suppliers	-122,647	-116,139
Payments to staff	-278	-269
Movements generated from operations	126,876	123,408
Payments of income tax	-22,250	-19,230
Movements generated before extraordinary items	104,626	104,178
Payments relating to extraordinary items	-43	-51
Movements relating to operating activities (1)	104,583	104,127
<b>Investing activities:</b>		
Receipts from:		
Tangible fixed assets	0	35
Interest	1,105	1,432
Payments relating to:		
Tangible fixed assets	-376	-2,630
Movements relating to investing activities (2)	729	-1,163
<b>Financing activities:</b>		
Payments relating to:		
Loans obtained	-58,524	-56,385
Interest	-14,269	-19,428
Dividends	-28,450	-38,925
Movements relating to financing activities (3)	-101,243	-114,738
Change in cash and cash equivalents (4)=(1)+(2)+(3)	4,069	-11,774
Effect of foreign exchange movements	-72	-146
Cash and cash equivalents at start of year	68,062	79,982
Cash and cash equivalents at end of year	72,059	68,062
Components of cash and cash equivalents:		
Cash and bank deposits	154	124
Treasury applications	71,905	67,938
	72,059	68,062

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 rules established by Decree Law 410/89 of 21 November that approved the Official Plan of Accounts ("POC"), with the subsequent alterations introduced by Decree Law 238/91 of 2 July, by the Decree Law 44/99 of 12 February and by the Decree Law 79/2003 of 23 April, the following comprise the notes to the balance sheet and income statement of **Tejo Energia - Produção e Distribuição de Energia Eléctrica, S.A.** for the year ended 31 December 2004.

### 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.

Depreciation charge during the financial year was based on the estimates of useful lives:

	Anos
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 to the defined contribution fund 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

The Board of Directors considers that the possibility of any liability arising as a result of a tax inspection is remote.

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 which do not differ in any material respect 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 sheet closing exchange rate for 2004	Balance sheet closing exchange rate for 2003
American dollar	1.3553	1.2580
Pound Sterling	0.7077	0.7038

#### 6 - TAXATION

As at 31 December 2004, the company had a liability to pay corporate income tax in the amount of 21,958,000 Euro.

The accounts of 2001 to 2004 are open to inspection by the tax authorities for corporate tax purposes. For social security purposes, the years open to inspection are ten up to 1999, five years from 2000 onwards.

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 € 24,000 (see note 49).

## 7 – COMPANY EMPLOYEES

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

	2004	2003
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:

	2004	2003
Company and project formation expenses	8,320	8,320
Development and refinancing costs	50,555	50,555
Accumulated depreciation	(58,875)	(58,875)

## 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
<b>Intangible assets:</b>					
Company and project formation expenses	8,320				8,320
Development and refinancing costs	50,555				50,555
	58,875				58,875
<b>Tangible assets:</b>					
Land	958				958
Power station buildings and integral plant	950,829			46	950,875
Equipment	15,028				15,028
Motor vehicles	246			9	255
Tools	844	66		31	941
Administrative equipment	4,108	88	-49	205	4,352
Other	9				9
Exchange losses	7,346				7,346
Assets under construction	847	630		-291	1,186
	980,215	784	-49		980,950

### Depreciation and amortisation

	Opening balance	Additions	Disposals	Transfers	Closing balance
<b>Intangible assets:</b>					
Company and project formation expenses	8,320				8,320
Development and refinancing costs	50,555				50,555
	58,875				58,875
<b>Tangible assets:</b>					
Land					
Power station buildings and integral plant	381,626	41,813			423,439
Equipment	6,134	664			6,798
Motor vehicles	210	13			223
Tools	276	63			339
Administrative equipment	2,393	372	-48		2,717
Other	6				6
Exchange losses	2,527	306			2,833
	393,172	43,231	-48		436,355

### 29 – THIRD PARTY DEBTS DUE IN MORE THAN FIVE YEARS

The third party debts due in more than five years at 31st December 2004, were as follows:

	€ m
Bank loans - total	460,812
• Due 4/1/2005	(24,849)
• Due 4/7/2005	(25,813)
	410,149

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:

	€m
2005 (see left).....	50,662
2006.....	31,158
2007.....	48,542
2008.....	51,039
2009.....	47,720

### 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.

### 32 – COMMITTED GUARANTEES

At 31st December 2004 the following bank guaranties were committed:

Banco	Beneficiary	Amount
Caixa Geral Depósitos	DGCI	4,988 KEuros
Millennium BCP	DGCI	13,304 KEuros

### 34 – MOVEMENTS IN PROVISIONS

(€m)	Opening balance	Additions	Releases	Closing balance
Provisions for stocks	64	1		65
	64	1		65

### 36 – SHARE CAPITAL ANALYSIS

At 31<sup>st</sup> December 2004, the share capital was held as follows:

	Type of share	Number	Nominal value
NPIH, B.V.	Ordinary	452,249	€ 5
Endesa Europe	Ordinary	351,750	€ 5
EDFI	Ordinary	100,500	€ 5
EDP	Ordinary	100,500	€ 5
S.Ramsey	Ordinary	1	€ 5

### 37 – SHAREHOLDERS WITH MORE THAN 20% HOLDING

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

	Percentage		Value (€ m)	
	2004	2003	2004	2003
International Power	45	45	2,261	2,261
Endesa Europe	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	€ 19,250
Audit board	€ 22,700

#### 40 – MOVEMENTS IN NET EQUITY DURING THE YEAR

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

(€m)	Opening balance	Increases	Transfers	Dividends	Closing balance
Share capital	5,025				5,025
Share premium	44,852				44,852
Statutory reserve	1,005				1,005
Profit and loss account	81,460		44,350	-30,056	95,754
Net profit	44,350	52,754	-44,350		52,754
	176,692	52,754		-30,056	199,390

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 2004 dividends of € 30,000,000 were attributed and €56,000 paid as employee bonus.

#### 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:

	Raw materials, sub assemblies and consumables
Opening stock	28,509
Purchases	92,239
Closing stock	(30,419)
Cost of goods sold	90,329

#### 44 – SALES AND SERVICES RENDERED

The analysis of sales and services rendered is as follows:

	2004	2003
Capacity income	153,831	154,710
Energy income	94,022	69,651
Ash sales	2,407	2,062
	250,260	226,423

#### 45 – ANALYSIS OF FINANCIAL RESULTS

The analysis of financial results is as follows:

(€ m)		
Costs and losses	2004	2003
Interest paid	13,964	17,374
Foreign exch. losses	331	320
Other	156	158
	14,451	17,852
Profits and gains		
Foreign exchange gains	1,336	1,631
Discounts obtained	722	333
Other		4
Financial results	12,393	15,884
	14,451	17,852

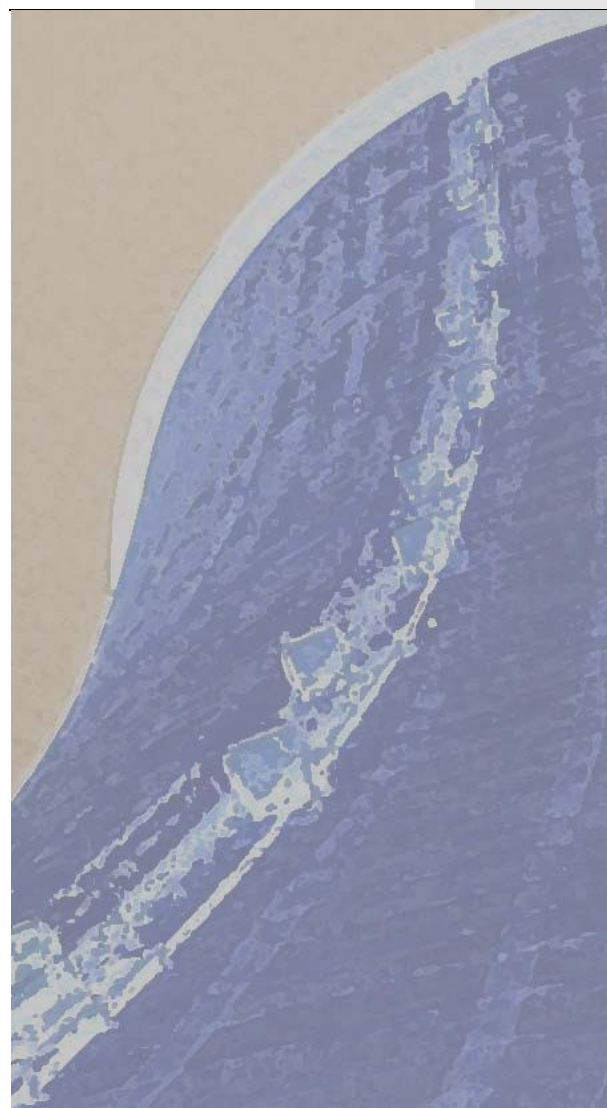
#### 46 – ANALYSIS OF EXTRAORDINARY RESULTS

The analysis of extraordinary results is as follows:

(€ m)		
Costs and losses	2004	2003
Underaccrual for tax		
Losses on fixed assets		3
Donations	29	23
Others		26
Corrections to previous years	15	
Extraordinary results	888	842
	932	894
Profits and gains		
Reductions of provisions		43
Gains on fixed assets		13
Corrections to previous years		13
Overaccrual for tax	932	825
Extraordinary results		
	932	894

#### 49 – DEFERRED TAX

€' 000	31-Dec -03	Increase / (decrease)	31-Dec -04
Provision for stock obsolescence	64	1	65
Other	18	3	21
Total time differences	82	4	86
IRC rate 33% > 27,5%	23	1	24



**50 – RECONCILIATION OF RESULTS OF PROFIT AND LOSS ACCOUNT BY FUNCTION WITH PROFIT AND LOSS ACCOUNT BY NATURE**

€' 000	2004	2003
Operating result from profit and loss by nature	83,921	80,846
Extraordinary profit / (loss) (see note 46)	888	843
Other financial results	1,571	1,471
Operating result from profit and loss by function	86,380	83,160

**OFFICER RESPONSIBLE FOR THE ACCOUNTS**

JOÃO MATOS ROSA

**THE BOARD OF DIRECTORS**

ANTÓNIO JOSÉ BAPTISTA CARDOSO E CUNHA  
 PAULO JORGE TAVARES ALMIRANTE  
 JOSE LUIS GUTIERREZ BLANCO  
 JUAN ANTÓNIO DIEZ  
 GLEN BURGESS  
 JEAN-RÉMY CAUQUIL  
 JORGE RIBEIRINHO MACHADO  
 SIMON PINNELL  
 JOSÉ TEVES VIEIRA  
 EDUARDO MARTIN BAENA  
 GARETH GRIFFITHS



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Internet: www.kpmg.pt

## STATUTORY AUDITOR'S OPINION

### Introduction

- 1 We have audited the attached financial statements of **TEJO ENERGIA – Produção e Distribuição de Energia Eléctrica, S.A.**, which comprise the balance sheet as at 31 December 2004, the profit and loss statement by nature and by functions and the cash flow statement for the year then ended and the corresponding notes to the balance sheet, the profit and loss statement and the cash flow statement. Such documents show assets of Euro 699,964,000 and a net equity of Euro 199,390,000, including a profit for the year of Euro 52,754,000.

### Responsibilities

- 2 The Board of Directors is responsible for the preparation of financial statements which present a true and fair view of the financial position of the company, of its results and cash flows, as well as for the adoption of adequate accounting policies and accounting criteria and the maintenance of a adequate internal control system.
- 3 Our responsibility is to express an independent opinion on those financial statements based on our audit.

### Scope

- 4 We conducted our audit in accordance with technical standards and recommendations issued by the Official Body of Statutory Auditors, which require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements. For this purpose our audit included:
  - verification by sampling of evidence supporting the amounts and disclosures in the financial statements and evaluation of estimates, based on judgement and criteria defined by TEJO ENERGIA – Produção e Distribuição de Energia Eléctrica, S.A., used in their preparation;
  - assessment of the adequacy of the adopted accounting policies and of their disclosure, and of the appropriateness of the going concern basis of accounting;
  - assessment of the adequacy of the use of the going concern assumption;
  - assessment of the adequacy of the overall presentation of the financial statements.
- 5 We believe that our audit provides a reasonable basis for our opinion on those financial statements.

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Capital Social: 511.700 Euros  
Pessoa Colectiva N.º PT 502 161 078  
Inscrito na O.R.O.C. N.º 189  
Inscrito na C.M.V.M. N.º 9093

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## Opinion

- 6 In our opinion the above-mentioned financial statements give a true and fair view, in all material respects, of the financial position of **TEJO ENERGIA – Produção e Distribuição de Energia Eléctrica, S.A.** as at 31 December 2004, of its profit and its cash flows for the year then ended in accordance with generally accepted accounting principles in Portugal.

Lisbon, 18 March 2005

KPMG & Associados, SROC, S.A. (nr 189)

represented by  
Rui Miguel Nogueira Machado  
Administrator  
(ROC nr 1012)

Maria Cristina Santos Ferreira  
Statutory Auditor  
(ROC nr 1010)



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## TEJO ENERGIA – Produção e Distribuição de Energia Eléctrica, S.A.

### REPORT ON THE AUDIT WORK CARRIED OUT

Year ended 31 December, 2004

To the Shareholders and the Board of Directors of  
TEJO ENERGIA – Produção e Distribuição de Energia Eléctrica, S.A.

Dear Sirs,

- 1 In accordance with point 2 of Article 451 of the Company Law, and line a) of point 1 of Article 52 of Decree Law 487/99 of 16 November, we draw to your attention the main aspects of our work as statutory auditor of the company.
- 2 We have carried out a statutory audit of the financial statements of TEJO ENERGIA – Produção e Distribuição de Energia Eléctrica, S.A. for the year ended 31 December 2004 in accordance with the technical standards approved by the Official Body of Statutory Auditors in the depth considered necessary in the circumstances. Following our audit we issued a statutory audit opinion dated 18 March 2005 with no reserves.
- 3 Amongst others, the following were the main procedures adopted:
  - 3.1 Meetings with the management of the company and the reading of the relevant minutes and requesting and obtaining any clarifications that we considered necessary;
  - 3.2 Verification as to the adequacy and consistent application of the accounting policies adopted by the company and which are referred to in the notes to the financial statements;
  - 3.3 Verification that the financial statements are presented in accordance with the supporting accounting records;
  - 3.4 Analysis of the Company's internal control system, in order to plan the scope and depth of our audit procedures. These tests did not reveal any significant internal control deficiencies;
  - 3.5 Performance of the substantive tests considered necessary in light of the materiality of the amounts of the financial statements captions;
  - 3.6 Analysis of fixed assets, by testing the acquisitions and disposals of the fixed assets occurred during the year and verification as to the adequacy and consistent application of the depreciation rates;
  - 3.7 Analysis of the stock inventory and valuation;

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- 3.8 Obtaining direct written confirmation of third party balances (banks and suppliers), responsibilities and guarantees given and obtained, analysing and testing the reconciliations prepared the company and the ownership of the assets or other information; applying alternative tests that we considered necessary where such written assurance was not forthcoming;
  - 3.9 Analysis and test of the bank reconciliations prepared by the company;
  - 3.10 Analysis of other assets and liabilities, through whatever tests we considered relevant, particularly concentrating on the accrual principle;
  - 3.11 Obtaining written confirmation to the company's lawyers concerning pending litigation, contingent liabilities, other risks and also the fees due;
  - 3.12 Analysis of potential situations leading to the creation of provisions against asset values or provisions for contingent liabilities or other risks;
  - 3.13 Analysis of tax and Social Security issues and the adequate recognition of taxes;
  - 3.14 Analysis and test of the profit and loss captions booked in the period, with special concern to the balance and accrual principles;
  - 3.15 We requested and obtained a representation letter, requested by paragraph 2 of Article 26 of the technical standards for Statutory Auditors in Portugal.
- 4 We also assessed the Directors' report and noted its consistency with the accounts and that it fulfils all legal requirements.
  - 5 We take this opportunity to thank the Company's responsables for the excellent collaboration received during the course of our work.

Lisbon, 18 March 2005

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## TEJO ENERGIA – Produção e Distribuição de Energia Eléctrica, S.A.

### REPORT AND OPINION OF THE OFFICIAL AUDITOR

To the Shareholders of  
TEJO ENERGIA – Produção e Distribuição de Energia Eléctrica, S.A.

In accordance with the articles 420 and 421 of the Companies Act and in compliance with our functions of official auditor of TEJO ENERGIA – Produção e Distribuição de Energia Eléctrica, S.A., in relation to the year ended 31 December 2004, we have acknowledged the deliberations of the Board of Directors of the Company, we have enquired about the compliance with the law and the Articles of Association, we have carried out periodical checks of the Company's accounting records, as well as of the relating supporting documents, we tested transactions and balances and carried out other procedures as considered necessary in the circumstances.

We have also checked the accuracy of the balance sheet, the profit and loss statement by nature and by functions, the cash flow statement and relating notes as well as the adequacy of the accounting procedures, on which basis the corresponding the Statutory Auditors' Opinion was issued with no reserves, dated 18 March 2005. We acknowledge the collaboration of the Board of Directors' in clarifying all situations that arose.

Under Article 452 of the Companies Act we have issued our Report on the Work Carried Out.

In accordance with the above, we are of the opinion that you may approve:

- a) the Directors' Report and Accounts for the year ended 31 December 2004;
- b) the proposed distribution of results included in the mentioned Directors' Report;
- c) the Directors' management of the Company in 2004.

Lisbon, 18 March 2005

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