

EDP ELECTRICIDADE DE PORTUGAL SA
Form 6-K
October 21, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO
RULE 13A-16 OR 15D-16 UNDER THE SECURITIES EXCHANGE ACT OF 1934**

For the Month of October 2004

EDP- Electricidade de Portugal, S.A.

Praça Marquês de Pombal, 12

1250-162 Lisbon, Portugal

(Address of principal executive offices)

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

Form 20-F Form 40-F

(Indicate by check mark whether the registrant by

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

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

Yes No

FINANCIAL STATEMENTS

June 30, 2004, December 31, 2003 and

June 30, 2003

F-1

EDP - ELECTRICIDADE DE PORTUGAL, S.A. AND SUBSIDIARIES

Consolidated Balance Sheets as at June 30, 2004 (unaudited) and December 31, 2003

| | Notes | Jun 2004 USD 000 (*) <i>(unaudited)</i> | Jun 2004 Euro 000 <i>(unaudited)</i> | Dec 2003 Euro 000 |
|---|-------|---|--|----------------------|
| Assets | | | | |
| Cash and cash equivalents | 3 | 247,394 | 203,533 | 287,496 |
| Accounts receivable - trade, net | 4 | 1,316,056 | 1,082,728 | 1,108,064 |
| Accounts receivable - other, net | 5 | 770,104 | 633,570 | 651,843 |
| Inventories | 6 | 175,051 | 144,016 | 159,236 |
| Total Current Assets | | 2,508,605 | 2,063,847 | 2,206,639 |
| Long term receivables | 7 | 702,123 | 577,641 | 435,842 |
| Investments, net | 8 | 2,177,591 | 1,791,519 | 1,622,451 |
| Fixed assets, net | 9 | 14,228,707 | 11,706,053 | 11,651,599 |
| Other assets, net | 10 | 3,222,218 | 2,650,940 | 2,734,138 |
| Total Non-Current Assets | | 20,330,639 | 16,726,153 | 16,444,030 |
| Total Assets | | 22,839,244 | 18,790,000 | 18,650,669 |
| Liabilities and Shareholders Equity | | | | |
| Short term debt and current portion of long term debt | 11 | 2,004,440 | 1,649,066 | 1,579,130 |
| Accounts payable - trade | 12 | 854,905 | 703,336 | 782,626 |
| Accounts payable - other | 13 | 261,673 | 215,280 | 187,262 |
| Accrued cost | 14 | 462,347 | 380,376 | 236,534 |
| Taxes payable | 15 | 248,733 | 204,634 | 269,103 |
| Deferred revenue | 16 | 476,623 | 392,121 | 235,764 |
| Total Current Liabilities | | 4,308,721 | 3,544,813 | 3,290,419 |
| Long term debt | 11 | 7,063,108 | 5,810,866 | 5,913,579 |
| Accrued pension and post retirement liabilities | 17 | 647,559 | 532,751 | 562,263 |
| Deferred revenue and other liabilities | 18 | 3,559,360 | 2,928,312 | 2,962,410 |
| Total Non-Current Liabilities | | 11,270,027 | 9,271,929 | 9,438,252 |
| Total Liabilities | | 15,578,748 | 12,816,742 | 12,728,671 |
| Minority interests | | 284,228 | 233,836 | 236,485 |
| Hydrological correction account | 19 | 456,057 | 375,201 | 387,506 |
| Share capital | 20 | 3,646,500 | 3,000,000 | 3,000,000 |
| Treasury stock | 22 | (67,554) | (55,577) | (49,020) |
| Reserves and retained earnings | 23 | 2,607,182 | 2,144,946 | 1,965,918 |
| Consolidated net profit | 23 | 334,083 | 274,852 | 381,109 |
| Total Shareholders Equity | | 6,520,211 | 5,364,221 | 5,298,007 |

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| | | | |
|---|-------------------|-------------------|-------------------|
| Total liabilities and Shareholders equity | <u>22,839,244</u> | <u>18,790,000</u> | <u>18,650,669</u> |
|---|-------------------|-------------------|-------------------|

(*) Converted at 1.2155 USD

See accompanying notes to the Consolidated Financial Statements

F-2

EDP - ELECTRICIDADE DE PORTUGAL, S.A. AND SUBSIDIARIES

Consolidated Profit and Loss Account

for the six-months ended June 30, 2004 (unaudited) and 2003 (unaudited)

| | Notes | Jun 2004 USD 000 (*) (unaudited) | Jun 2004 Euro 000 (unaudited) | Jun 2003 Euro 000 (unaudited) |
|---|-------|---|-------------------------------------|-------------------------------------|
| Revenues | | | | |
| Sales | 24 | 3,968,458 | 3,264,877 | 3,146,515 |
| Services rendered | 24 | 324,666 | 267,105 | 199,176 |
| | | <u>4,293,124</u> | <u>3,531,982</u> | <u>3,345,691</u> |
| Operating costs and expenses, net | | | | |
| Raw materials and consumables | 24 | 2,334,352 | 1,920,487 | 1,841,065 |
| Personnel costs | 25 | 394,714 | 324,734 | 345,273 |
| Depreciation and amortization | 26 | 472,583 | 388,797 | 408,346 |
| Supplies and services | 27 | 367,134 | 302,044 | 310,239 |
| Own work capitalized | 28 | (126,626) | (104,176) | (116,659) |
| Concession and power-generating rents | | 115,148 | 94,733 | 87,948 |
| Provisions | 29 | 56,201 | 46,237 | 62,523 |
| Other operating expenses / (income) | 30 | 9,188 | 7,559 | 118 |
| | | <u>3,622,694</u> | <u>2,980,415</u> | <u>2,938,853</u> |
| Operating Margin | | 670,430 | 551,567 | 406,838 |
| Interest and related income | 31 | 127,494 | 104,890 | 128,789 |
| Interest and related expenses | 31 | (348,054) | (286,346) | (311,320) |
| Other non-operating income / (expenses) | 32 | (24,401) | (20,075) | 59,379 |
| Profit before tax | | 425,469 | 350,036 | 283,686 |
| Provision for income taxes | 33 | 125,673 | 103,392 | 110,640 |
| Profit after tax | | 299,796 | 246,644 | 173,046 |
| Minority interests | | (34,287) | (28,208) | (8,997) |
| Consolidated Net Profit | | <u>334,083</u> | <u>274,852</u> | <u>182,043</u> |
| Net Profit per share - Basic - Euros | 20 | <u>0.11 USD</u> | <u>0.09 euros</u> | <u>0.06 euros</u> |

(*) Converted at 1.2155 USD

See accompanying notes to the Consolidated Financial Statements

EDP - ELECTRICIDADE DE PORTUGAL, S.A. AND SUBSIDIARIES

Consolidated Statement of Cash Flows

for the six-months ended June 30, 2004, and 2003

| | Jun 2004 | Jun 2004 | Jun 2003 |
|---|------------------|------------------|------------------|
| | USD 000 | Euro 000 | Euro 000 |
| | (unaudited) | (unaudited) | (unaudited) |
| Cash Flow from Operating Activities | | | |
| Operating activities : | | | |
| Cash receipts from customers | 4,372,823 | 3,597,551 | 3,270,124 |
| Cash paid to suppliers | (2,773,246) | (2,281,568) | (2,171,203) |
| Cash paid to staff | (463,334) | (381,188) | (391,511) |
| Concession rents paid | (113,593) | (93,454) | (87,948) |
| | <u>1,022,650</u> | <u>841,341</u> | <u>619,462</u> |
| Cash flows provided by operating activities | 1,022,650 | 841,341 | 619,462 |
| Income tax received / (paid) | (83,642) | (68,813) | (93,031) |
| Other variations of operating | 96,546 | 79,429 | 264,944 |
| | <u>12,904</u> | <u>10,616</u> | <u>171,913</u> |
| Net Cash flow provided by Operating Activities | 1,035,554 | 851,957 | 791,375 |
| Cash Flow from Investing Activities | | | |
| Cash receipts resulting from: | | | |
| Investments and long term-receivables | 3,846 | 3,164 | 20,677 |
| Tangible and intangible fixed assets | 9,011 | 7,413 | 122,916 |
| Fixed assets subsidies | 45,290 | 37,260 | 28,074 |
| Interest | 9,201 | 7,570 | 881 |
| Dividends | 10,909 | 8,975 | 31,481 |
| | <u>78,257</u> | <u>64,382</u> | <u>204,029</u> |
| Cash payments resulting from: | | | |
| Investments | (11,375) | (9,358) | (52,207) |
| Tangible and Intangible fixed assets | (679,818) | (559,291) | (422,045) |
| | <u>(691,193)</u> | <u>(568,649)</u> | <u>(474,252)</u> |
| Net Cash Flow used in Investing Activities | (612,936) | (504,267) | (270,223) |
| Cash Flow from Financing Activities | | | |
| Loans repaid | (76,284) | (62,759) | (96,256) |
| Interest and similar costs | (180,392) | (148,410) | (154,896) |
| Dividends | (325,764) | (268,008) | (258,895) |
| Acquisition of treasury stock | (7,970) | (6,557) | (1,871) |
| | <u>(590,410)</u> | <u>(485,734)</u> | <u>(511,918)</u> |

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| | | | |
|---|------------------|------------------|------------------|
| Net Cash Flow used in Financing Activities | (590,410) | (485,734) | (511,918) |
| Variation of cash and cash equivalents | (167,792) | (138,044) | 9,234 |
| Effect of currency translation differences | 29,292 | 24,099 | (65,732) |
| Cash and cash equivalents at the beginning of the period | (374,872) | (308,410) | (407,258) |
| Cash and cash equivalents at the end of the period (*) | (513,372) | (422,355) | (463,756) |

(*) See note 3 to the Financial Statements, detailing the breakdown of Cash and Cash equivalents

See accompanying notes to the Consolidated Financial Statements

EDP - ELECTRICIDADE DE PORTUGAL, S.A. AND SUBSIDIARIES

Changes in Consolidated Statements of Shareholders Equity

for the six-months ended June 30, 2004 (unaudited) and year ended December 31, 2003

| | (Thousands of Euros) | | | | | |
|--|----------------------|------------------|----------------|------------------|---|-----------------|
| | Total | Share | Legal | Reserves | Fair value reserves and other valuation | Treasury stock |
| | | | and special | and retained | | |
| Shareholders | capital | reserve | earnings | | | |
| Equity | | | | | | |
| Balance as at December 31, Dec 2002 | 5,494,182 | 3,000,000 | 309,631 | 2,497,020 | (268,975) | (43,494) |
| Transfer to reserves: | | | | | | |
| Legal and special reserves | | | 16,760 | (16,760) | | |
| Bonus to employees | (25,062) | | | (25,062) | | |
| Dividends paid (Eur 0.09 per share) | (268,275) | | | (268,275) | | |
| Purchase and sale of treasury stock | (5,526) | | | | | (5,526) |
| Net profit for the year | 381,109 | | | 381,109 | | |
| Deferred taxes | (252,296) | | | (252,296) | | |
| Effects arising from the implementation of IAS 36 and 39 in EDP Group: | | | | | | |
| - Financial instruments / Derivatives | 131,181 | | | 131,181 | | |
| - Reclassification of impairment of BCP in 2002(*) | | | | (247,750) | 247,750 | |
| - Fair value of investments available for sale | 10,758 | | | | 10,758 | |
| - Reversion of Fair value of Iberdrola in 2002 | 21,223 | | | | 21,223 | |
| Exchange differences arising on consolidation | (193,032) | | | (193,032) | | |
| Other reserves arising on consolidation | 3,745 | | | 3,745 | | |
| Balance as at December 31, Dec 2003 | 5,298,007 | 3,000,000 | 326,391 | 2,009,880 | 10,756 | (49,020) |
| Transfer to reserves: | | | | | | |
| Legal and special reserves | | | 19,055 | (19,055) | | |
| Bonus to employees | (20,722) | | | (20,722) | | |
| Dividends paid (Eur 0.09 per share) | (268,008) | | | (268,008) | | |
| Purchase and sale of treasury stock | (6,557) | | | | | (6,557) |
| Net profit for the period | 274,852 | | | 274,852 | | |
| Deferred taxes | (31,256) | | | (31,256) | | |
| Effects arising from IAS 36 and 39 in EDP Group: | | | | | | |
| - Financial instruments / Derivatives | (2,147) | | | (2,147) | | |
| - Fair value of investments available for sale | 149,633 | | | | 149,633 | |
| Exchange differences arising on consolidation | (12,952) | | | (12,952) | | |
| Other reserves arising on consolidation | (16,629) | | | (16,629) | | |
| Balance as at June 30, 2004 (unaudited) | 5,364,221 | 3,000,000 | 345,446 | 1,913,963 | 160,389 | (55,577) |

(*) This reclassification is caused by the implementation of IAS 39 and IAS 36 in 2003, specifically the application of the concept of impairment loss in the event of conditions that can be considered as being of a permanent nature. It is considered that the depreciation in value of the financial investment in BCP has these characteristics and, consequently, that the impairment loss would be recorded within retained earnings in the opening balance sheet of 2003, whilst the amount remains within equity as a fair value adjusted for 2002 in accordance with the principles of adopting new standards within the Portuguese accounting framework.

See accompanying notes to the Consolidated Financial Statements

F-5

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

These interim financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. The interim information has been prepared on a basis consistent with those used to prepare the annual financial statements, except for matters referred in Note 2.

1. The business operations of the EDP Group

The EDP Group operates mainly in the Iberian and Brazilian markets in the electricity and telecommunications sectors.

Activity in the Energy Sector on the Iberian Peninsula

In Portugal, the National Electricity System (SEN) is based on the coexistence of a Public Service Electricity System (SEP) and of an Independent Electricity System (SEI), the latter comprising the Non-binding Electricity System (SENV) and the Special Regime Producers (PRE).

The SEP comprises the National Transport Network (RNT), Binding Producers, Binding Distributors and Binding Customers. The RNT, under concession to REN - Rede Eléctrica Nacional, S.A., is in charge with providing electricity transport and with the overall technical management of the SEP. Binding Producers are tied to RNT by long-term exclusive supply contracts. Binding Distributors are obliged to supply their customers in accordance with fixed prices, under the law, by the Energy Services Regulatory Entity (ERSE). Binding Customers are entities and individuals that cannot opt for a SENV supplier (currently low-tension consumers), or either those that are able to do so, but opt to acquire electricity from their respective binding distributor under conditions determined by the ERSE. The SENV essentially comprises Non-binding Producers and Non-binding Customers, the latter being entitled to use the SEP networks using fixed tariffs determined by ERSE under the terms of the law.

Special Regime Producers operate in the renewable energies and cogeneration areas, delivering their electricity to the SEP networks under special legislation. In accordance with the law, the ERSE is in charge with exercising the regulation of the sector, through the preparation, issue, and application of regulations, and also through the definition of the tariffs both for the use of infrastructure and for the supply of electricity to SEP customers. Through the generation and distribution companies, the EDP Group plays a fundamental role in the entire SEN, and has a relevant position within the SEP, and also owns generation companies that operate within the SEI both at the level of the SENV and at the level of the PREs.

In Spain, the EDP Group has a 40% shareholding in Group Hidroeléctrica del Cantábrico, S.A. (Hidroantábrico), a company in which it undertakes a joint operational management. Hidroantábrico is the parent company that carries on the business in the electricity (generation, transport, distribution and supply), gas (distribution and supply) and telecommunications sectors. This EDP shareholding in Hidroantábrico constitutes part of a strategy for the integration and consolidation of the Iberian energy market.

Activity in the Energy Sector in Brazil

In Brazil, the EDP Group operates in the electricity sector, namely in generation, distribution and supply. In distribution it has a 96.5% shareholding in Bandeirante Energia S.A., and 99.97% of IVEN, S.A., which controls Escelsa Espírito Santo Centrais Eléctricas, S.A., and Enersul Empresa Energética do Mato Grosso do Sul S.A..

In the electricity generation sector, the EDP Group has holdings in Usina Hidroeléctrica (UHE), Lajeado (27.65%), Usina Termoeléctrica (UTE) and Fafen (79.6%); in partnership with the Rede Group of Brazil was successful in the auctions for the concession of the construction and operation of Peixe Angical and Couto Magalhães hydroelectric power stations.

In the supply business, in addition to the business carried on by the distribution companies, the EDP Group operates in the electricity trading market through Enertrade, a wholly owned Group company.

Low-tension Electricity Distribution Concession Regime

In accordance with specific legislation (Decree-Law 344-B/82), the right to distribute low-tension electricity in Portugal is in the hands of the municipalities (local authorities). However, EDP is allowed to carry on this activity, under concession, by entering into concession contracts generally with a 20 year term, which can be revoked with 2 years notice. Since 1994, when EDP was restructured as a Group by splitting into new companies, these concession terms were maintained in relation to the 4 electricity distribution companies set-up at that time and later merged in 2000 into EDP Distribuição S.A.. In respect to these concessions, a rent is paid to the concessor municipalities.

Activity in the Telecommunications Sector

In the telecommunications sector, the EDP Group holds 56.03% of the share capital of ONI SGPS (ONI), the remaining capital is held by BCP, GALP Energia and Brisa. ONI operates in fixed telecommunications, providing voice and data services in the Portuguese market (both corporate and residential customers) and in the Spanish market (in the corporate segment).

Activity in the Information Technologies Sector

The EDP Group operates in the information technologies through EDINFOR - Sistemas Informáticos S.A., a wholly owned subsidiary which holds 57.8% of ACE, engaged namely in consultancy, systems integration, processing, application outsourcing, IT infrastructure, georeferenced solutions, printing solutions, and finishing.

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

Public Domain Assets

In Portugal some fixed assets allocated to electricity generation and distribution within the SEP are subject to the public domain regime. However, EDP has the authority to operate and manage these assets in the binding sector only, and never for any other purpose. In Brazil the fixed assets used in the distribution and supply of electricity are tied to those services and cannot be withdrawn, sold, assigned or mortgaged without the prior express consent of the Regulator. ANEEL has already created regulations releasing the assets of the Public Electricity Service concessions, granting prior authorisation for the release of assets of no use to the concession, provided they are to be sold, further determining that the product of the sale be deposited in a tied bank account, to be used in the concession.

2. Accounting policies

Basis of presentation

The Group's parent company, EDP - Electricidade de Portugal, S.A. (hereinafter known as EDP), was incorporated in 1976 as a consequence of the nationalisation and consequent merger of the principal companies of the electricity sector operating in mainland Portugal. Its registered office is in Lisbon at Praça Marquês de Pombal, 12, 6°. During 1994, as established by Decree-Law 7/91 and 131/94, the EDP Group was established (hereinafter known as EDP Group or Group) following the split of EDP, which led to a number of subsidiaries wholly owned by EDP itself, directly or indirectly. The Group's businesses are currently focused on the generation, distribution and supply of electricity, on the distribution and supply of gas, on telecommunications and on information technologies. Although complementary, the Group currently operates as well in related areas such as water, engineering, laboratory tests, vocational training and property management.

The Consolidated Financial Statements of the EDP Group have been prepared in accordance with accounting principles generally accepted in Portugal (Portuguese GAAP), except as provided in notes 17 and 35 particularly as a result of the adoption of International Accounting Standards IAS 19, IAS 32, IAS 36 and IAS 39. The Consolidated Financial Statements have been prepared from the accounting records of EDP and its subsidiary companies listed below. Portuguese GAAP differs in certain significant respects from generally accepted accounting principles in the United States of America (U.S. GAAP). A description of these differences and their effects on consolidated net income and shareholders equity are set forth in Note 37. The financial statements also include certain reclassifications and additional disclosures in order to conform more closely to the form and content of financial statements required by the Securities and Exchange Commission of the United States of America.

Convenience translation (unaudited): the Company maintains its accounting records and prepares its financial statements in Euro. The United States dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader at the June 30, 2004 rate of 1,2155 Euro to the dollar (closing rate per Bank of Portugal). Such translations should not be construed as representations that the Euro amounts represent, or have been or could be converted into United States dollars at that or any other rate.

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

The preparation of the financial statements in conformity with Portuguese GAAP, together with the reconciliation to U.S. GAAP, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Some of the more significant estimates and assumptions relate to the hydrological correction account, depreciation and impairment of long lived assets, fair value of financial investments, provision for employee retirement benefits and deferred taxes. Actual results could differ from those estimates.

The accounting standards are as described in Note 2 of Part III Form 20F as at December, 2003 for EDP Group.

The accounting standards are consistent with those applied in the first half of 2003, with the exception to:

- a)* In June 2003, under Portuguese GAAP, the EDP Group did not measure its derivatives and investments at fair value. During the second half of 2003 the EDP Group made early implementation of International Accounting Standards IAS 32, IAS 36 and IAS 39. The effect before taxes resulting from this adoption as at June 30, 2003 would be as follows:

| | Assets | Liabilities | Shareholders Equity | Profit before tax for the period |
|-------------|-----------|-------------|------------------------|--|
| | DR / (CR) | DR / (CR) | DR / (CR) | DR / (CR) |
| | Euro 000 | Euro 000 | Euro 000 | Euro 000 |
| Derivatives | 294,309 | (82,116) | (131,181) | (81,102) |
| Investments | 311,058 | (272,697) | (38,361) | |

- b)* Compensation of depreciation of portion funded by clients of fixed assets is presented in 2004 as a deduction to the amortizations instead of being recognized as other non-operating income. Thus in June 30, 2003 the other non-operating income included Eur 34.38 million related to the depreciation of the portion of fixed assets funded by clients.

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

3. Cash and cash equivalents

The balance **Cash and cash equivalents** is analysed as follows:

| | Group | |
|--|-----------------|-----------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Cash: | | |
| - Cash in hand | 2,889 | 20,375 |
| | <u>2,889</u> | <u>20,375</u> |
| Bank deposits: | | |
| - Current deposits | 102,807 | 116,205 |
| - Short term deposits | 4,267 | 6,963 |
| - Other deposits | 4,455 | |
| | <u>111,529</u> | <u>123,168</u> |
| Negotiable securities: | | |
| - Other securities | 56,376 | 56,291 |
| | <u>56,376</u> | <u>56,291</u> |
| Other treasury placements: | | |
| - Financial products at domestic banks | 20,300 | 85,300 |
| - Financial products at foreign banks | 12,445 | 2,368 |
| | <u>32,745</u> | <u>87,668</u> |
| Provision | (6) | (6) |
| | <u>203,533</u> | <u>287,496</u> |

With reference to the consolidated statement of cash flows, the breakdown for the purpose of determination and detailing the Cash and Cash equivalents components, is as follows:

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| | Group | |
|----------------------------------|-------------------------|-------------------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Cash components: | | |
| - Cash | 2,889 | 20,375 |
| - Bank deposits | 111,529 | 123,168 |
| - Negotiable securities | 56,376 | 56,291 |
| | <u>170,794</u> | <u>199,834</u> |
| Cash equivalents: | | |
| - Other treasury securities | 32,745 | 87,668 |
| - Overdrafts | (625,894) | (595,912) |
| | <u>(593,149)</u> | <u>(508,244)</u> |
| Cash and cash equivalents | <u>(422,355)</u> | <u>(308,410)</u> |

4. Accounts receivable - Trade, net

This balance **Accounts receivable - Trade, net** is analysed as follows:

| | Group | |
|-----------------------------------|------------------|------------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Resident customers: | | |
| State and official entities | 43,853 | 36,234 |
| Local authorities | 30,689 | 31,041 |
| Corporate sector and individuals | 767,297 | 789,986 |
| Unbilled receivables | 50,912 | 85,193 |
| Trade accounts - bills receivable | 1 | 46 |
| | <u>892,752</u> | <u>942,500</u> |
| Non-resident customers: | | |
| Corporate sector and individuals | 187,312 | 158,490 |
| | <u>187,312</u> | <u>158,490</u> |
| | <u>1,080,064</u> | <u>1,100,990</u> |
| Doubtful debt | 191,977 | 188,689 |
| Provision for doubtful debt | (189,313) | (181,615) |

1,082,728

1,108,064

F-8

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

5. Accounts receivable - Other, net

This balance is analysed as follows:

| | Group | |
|---|-----------------|---------------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Other accounts receivable - Short term / Current | | |
| State and other public entities: | | |
| - Income tax | 3,972 | 73,398 |
| - Value added tax | 85,937 | 100,730 |
| - Other taxes | 14,550 | 5,647 |
| Other related companies | 3,948 | 1,178 |
| Advances to suppliers | 3,408 | 2,478 |
| Other debtors: | | |
| - Account with the Pension Fund | 12,120 | 12,120 |
| - Amounts owed to staff | 2,863 | 8,536 |
| - Amounts owed by the State and Concessors | 10,697 | 6,879 |
| - Debtors in respect of other goods and services | 90,721 | 94,437 |
| - Regulatory assets | 27,269 | 51,732 |
| - INAG/EDP Protocol - Alqueva | 26,082 | 26,082 |
| - Advances to pensioners | 17,024 | 8,497 |
| - Other debtors and sundry operations | 29,152 | 7,344 |
| | <u>327,743</u> | <u>399,058</u> |
| Provision for short-term debtors | (10,646) | (9,335) |
| | <u>317,097</u> | <u>389,723</u> |
| Accrued income | | |
| - Interest receivable | 294,109 | 193,234 |
| - For sales and services provided | 5,321 | 7,368 |
| - Other accrued income | 17,043 | 61,518 |
| | <u>316,473</u> | <u>262,120</u> |
| | <u>633,570</u> | <u>651,843</u> |

6. Inventories

This balance is analysed as follows:

| | Group | |
|--|-------------------|---------------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| | <u> </u> | <u> </u> |
| Merchandise | 13,498 | 15,794 |
| Purchases and advances on account of purchases | 5,834 | 2,291 |
| Finished and intermediate products | 619 | 569 |
| Products and work in progress | 3,998 | 3,648 |
| Sub-products, waste, residues and scrap | 2,188 | 1,989 |
| Raw and subsidiary materials and consumables: | | |
| Coal | 19,833 | 24,920 |
| Fuel | 29,919 | 47,530 |
| Other consumables | 68,137 | 62,495 |
| | <u>144,026</u> | <u>159,236</u> |
| Provision for inventories | (10) | |
| | <u>144,016</u> | <u>159,236</u> |

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

7. Long term receivables, netThe balance **Long term receivables, net** is analysed as follows:

| | Group | |
|--|-----------------|-----------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Trade accounts receivable - Medium and long-term / Non Current: | | |
| <i>Resident customers:</i> | | |
| Customers - Local government - Debt at December 31, 1988 (i) | 180,452 | 181,689 |
| Corporate sector and individuals | 17,885 | 5,017 |
| Trade accounts - bills receivable | 414 | 413 |
| | <u>198,751</u> | <u>187,119</u> |
| Provision for local government customers at December 31, 1988 | (88,228) | (101,322) |
| | <u>110,523</u> | <u>85,797</u> |
| Trade accounts receivable - Medium and long term / Non Current | | |
| Other related companies | 10,934 | |
| Other debtors: | | |
| - Fixed assets in compensated integration (ii) | 9,270 | 9,270 |
| - Regulatory assets: | | |
| Portugal (iii) | 223,328 | 148,352 |
| Brazil | 128,138 | 127,256 |
| - Performance bonds and tied deposits | 49,748 | 44,991 |
| - Other debtors and sundry operations | 53,242 | 20,176 |
| | <u>474,660</u> | <u>350,045</u> |
| Provision for medium-/long-term debtors - Non current | (7,542) | |
| | <u>467,118</u> | <u>350,045</u> |
| | <u>577,641</u> | <u>435,842</u> |

- (i) The amount of this heading is shown net of the compensation of debits related to assets undergoing integration to be transferred to the Group and of the rents owed by the Group on that date.

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

- (ii) Compensated fixed assets undergoing integration correspond to the net amounts, on integration date, of the debts of local authorities up to December 31, 1988, compensated by means of the respective assets undergoing integration (Tangible Fixed Assets under the regime of Decree-law 344-B/82). The transfer of these amounts to tangible fixed assets is awaiting formalisation of the concession contracts or debt regularisation protocols to be entered into by EDP and the local authorities.
- (iii) The regulatory assets Portugal heading shows the costs associated with the 2003 Human Resources Rationalisation Plan in EDP Distribuição, which were accepted by the Energy Services Regulatory Entity as an investment amortizable over a period of 20 years, beginning in 2005.

F-10

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

8. Investments

This balance is analysed as follows:

| | Group | |
|---|------------------|------------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Shareholdings | | |
| Subsidiary companies | 65 | 1,305 |
| Associate companies | 431,527 | 441,449 |
| Investments in other companies | 1,485,224 | 1,351,958 |
| | <u>1,916,816</u> | <u>1,794,712</u> |
| Investment in properties | | |
| Buildings and other constructions | 1,390 | 1,417 |
| | <u>1,390</u> | <u>1,417</u> |
| Other financial investments | | |
| Bank deposits | 5,000 | |
| Public debt securities | 19 | 19 |
| Other securities | 38,244 | 70,143 |
| Other financial investments | 6,245 | 4,029 |
| Amounts recoverable from the sale of Oniway | 90,339 | 39,667 |
| | <u>139,847</u> | <u>113,858</u> |
| | <u>2,058,053</u> | <u>1,909,987</u> |
| Provision for financial assets : | | |
| Shareholdings | (265,012) | (285,790) |
| Other financial investments | (1,161) | (1,391) |
| | <u>(266,173)</u> | <u>(287,181)</u> |
| Amortization of investment in properties | | |
| | <u>(361)</u> | <u>(355)</u> |
| | <u>(361)</u> | <u>(355)</u> |

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| | | |
|--|------------------|------------------|
| | (266,534) | (287,536) |
| | <u>1,791,519</u> | <u>1,622,451</u> |

The breakdown of **Shareholdings** is analysed as follows:

| | Group | |
|--|------------------|------------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Investment in subsidiary companies: | | |
| Other | 65 | 1,305 |
| | <u>65</u> | <u>1,305</u> |
| Investment in associated companies: | | |
| DECA - Distribucion Eléctrica Centroamerica, SA | 69,135 | 67,894 |
| Companhia de Electricidade de Macau | 59,649 | 65,129 |
| REN - Rede Eléctrica Nacional, SA | 248,694 | 254,223 |
| Associated Companies of Hidrocantábrico Group | 36,813 | 39,398 |
| Portsines - Terminal de Sines | 7,501 | 7,501 |
| Turbogás - Produtora Energética | 7,499 | 5,211 |
| Other | 2,236 | 2,093 |
| | <u>431,527</u> | <u>441,449</u> |
| Investment in other companies | | |
| CERJ - Companhia Eléctrica do Estado Rio Janeiro | 95,050 | 97,767 |
| Galp, SGPS | 457,201 | 328,211 |
| BCP - Banco Comercial Português | 552,789 | 552,789 |
| OPTEP (Optimus) | 315,000 | 314,750 |
| Other companies | 65,184 | 58,441 |
| | <u>1,485,224</u> | <u>1,351,958</u> |
| | <u>1,916,816</u> | <u>1,794,712</u> |

The subsidiary and associated companies incorporated in the consolidated accounts by the full consolidated method, the proportional method and by the equity method are referred in the 2003 Financial Statements.

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

The new Subsidiary Companies acquired and incorporated since December 31, 2003, fully consolidated were as follows:

| Subsidiary Companies | Head office | Share capital / Currency | Shareholders | Net | % |
|---|---------------|--------------------------|--------------|-------------|---------|
| | | | Equity | Profit | |
| | | | 31 Dec 2003 | 31 Dec 2003 | Group |
| | | | Euro 000 | Euro 000 | |
| Digihotel, S.A. | Lisbon | 249 500 EUR | 153 | 99 | 57.77% |
| Digigest, S.A. | Lisbon | 149 700 EUR | (45) | | 57.77% |
| Digitec, S.A. | Lisbon | 74 850 EUR | 8 | | 57.77% |
| Greatplains, S.A. | Lisbon | 224 550 EUR | (363) | | 55.65% |
| Case Edinfor ÁSIA, Lda | Macao | 25 000 MOP | 12 | (10) | 57.77% |
| EDP - Investments and Services, Limited | Cayman Island | 1,000 USD | 792 | | 100.00% |

After December 31, 2003, Subsidiary Companies sold were as follows:

| Subsidiary Companies | Head office | Share capital / Currency | Shareholders | Net | % |
|----------------------|-------------|--------------------------|--------------|-------------|--------|
| | | | Equity | Profit | |
| | | | 31 Dec 2003 | 31 Dec 2003 | Group |
| | | | Euro 000 | Euro 000 | |
| ONI Way | Lisbon | 300 000 000 EUR | 5,810 | (14,369) | 56.02% |

9. Fixed assets

This balance is analysed as follows:

| Group | |
|----------|----------|
| Jun 2004 | Dec 2003 |
| Euro 000 | Euro 000 |

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| | | |
|---|---------------------|---------------------|
| Fixed assets under the Decree Law 344-B/82 regime | 240,607 | 240,607 |
| Land and natural resources | 128,051 | 128,169 |
| Buildings and other constructions | 393,047 | 410,982 |
| Plant and machinery: | | |
| Hydroelectric generation | 6,937,749 | 6,952,258 |
| Thermoelectric generation | 3,602,883 | 3,405,254 |
| Renewables generation | 61,245 | 42,795 |
| Electricity distribution | 12,857,159 | 12,675,981 |
| Other plant and machinery | 721,166 | 714,415 |
| Transport equipment | 74,845 | 75,761 |
| Office equipment and utensils | 357,498 | 344,250 |
| Other tangible fixed assets | 36,243 | 22,393 |
| Fixed assets in progress | 1,183,812 | 1,187,302 |
| | <u>26,594,305</u> | <u>26,200,167</u> |
| <i>Accumulated depreciation</i> | | |
| Depreciation charges for the year | (404,757) | (391,467) |
| Other accumulated depreciation | (14,483,495) | (14,157,101) |
| | <u>(14,888,252)</u> | <u>(14,548,568)</u> |
| | <u>11,706,053</u> | <u>11,651,599</u> |

Tangible fixed assets under the Decree-Law 344-B/82 regime are those assets allocated to low-tension in electricity distribution transferred from the local authorities under the concession regime. These assets, though operated by the Group, continue to be the property of the local authorities and are accounted as follows:

| | Group | |
|---|-----------------|-----------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Fixed assets under the DL 344-B/82 regime | 240,607 | 240,607 |
| Accumulated depreciation | (232,831) | (231,528) |
| Net amount | <u>7,776</u> | <u>9,079</u> |

Part of these assets may be transferred to Group ownership by settlement, by offsetting accounts in respect of debts of the respective municipalities (State and official entities) pending settlement (see Note 4).

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

Tangible fixed assets during the 1st half of 2004, are analysed as follows:

| | Balance | Changes in | | | | Balance |
|---|-------------------|---------------------------|-----------------|-----------|---------------------|-------------------|
| | January 1st | Acquisitions | Disposals | Transfers | Subsidiaries | June 30 |
| | Euro 000 | / Charge year Euro 000 | Euro 000 | Euro 000 | / Other Euro 000 | Euro 000 |
| Cost : | | | | | | |
| Fixed assets under the DL 344-B/82 regime | 240,607 | | | | | 240,607 |
| Land and natural resources | 128,169 | 717 | (419) | 462 | (878) | 128,051 |
| Buildings and other constructions | 410,982 | 2,054 | (3,117) | (12,487) | (4,385) | 393,047 |
| Plant and machinery | 23,790,703 | 76,995 | (32,286) | 402,044 | (57,254) | 24,180,202 |
| Transport equipment | 75,761 | 2,052 | (3,576) | 990 | (382) | 74,845 |
| Office equipment and utensils | 344,250 | 4,672 | (982) | 10,006 | (448) | 357,498 |
| Other tangible fixed assets | 22,393 | 44,032 | | 13,599 | (43,781) | 36,243 |
| Fixed assets in progress | 1,187,302 | 377,588 | (116) | (414,614) | 33,652 | 1,183,812 |
| | <u>26,200,167</u> | <u>508,110</u> | <u>(40,496)</u> | | <u>(73,476)</u> | <u>26,594,305</u> |
| Accumulated depreciation : | | | | | | |
| Fixed assets under the DL 344-B/82 regime | 231,528 | 1,303 | | | | 232,831 |
| Buildings and other constructions | 166,403 | 4,658 | (1,153) | | (1,518) | 168,390 |
| Plant and machinery | 13,911,573 | 368,789 | (29,753) | | (20,828) | 14,229,781 |
| Transport equipment | 54,532 | 4,815 | (2,875) | | (230) | 56,242 |
| Office equipment and utensils | 180,109 | 23,276 | (905) | | (7,308) | 195,172 |
| Other tangible fixed assets | 4,423 | 1,916 | | | (503) | 5,836 |
| | <u>14,548,568</u> | <u>404,757</u> | <u>(34,686)</u> | | <u>(30,387)</u> | <u>14,888,252</u> |

As at June 30, 2004, for the Group, the cost of tangible fixed assets financed by leasing is in the amount of Eur 39.8 million (accumulated depreciation in the amount of Eur 8.5 million) and the respective falling due in the amount of Eur 28.3 million.

10. Other assets

The balance **Other assets** is analysed as follows:

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| | Group | |
|-------------------|------------------|------------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Intangible assets | 933,715 | 950,182 |
| Goodwill | 873,849 | 899,514 |
| Deferred taxes | 546,683 | 609,338 |
| Deferred costs | 296,693 | 275,104 |
| | <u>2,650,940</u> | <u>2,734,138</u> |

The balance **Intangible assets** is analysed as follows:

| | Group | |
|---|------------------|------------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Intangible assets | | |
| Set-up costs | 85,455 | 85,157 |
| Research and development costs | 98,129 | 103,302 |
| Industrial property and other rights | 176,775 | 158,057 |
| Fixed assets in progress and other fixed assets | 13,148 | 21,944 |
| Other intangible assets on telecommunications business | 40,209 | 40,209 |
| Concession rights in Brazil and Spain | 835,583 | 835,366 |
| | <u>1,249,299</u> | <u>1,244,035</u> |
| Accumulated amortization | | |
| Amortization of concession rights during the period | (15,220) | (30,439) |
| Amortization of intangible fixed assets during the period | (22,015) | (42,501) |
| Other accumulated amortization | (278,349) | (220,913) |
| | <u>(315,584)</u> | <u>(293,853)</u> |
| | <u>933,715</u> | <u>950,182</u> |

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

Intangible assets during the 1st half of 2004, are analysed as follows:

| | Balance | | Changes in | | | Balance June 30 Euro 000 |
|--|------------------|---------------|----------------|----------|---------------------|--------------------------------|
| | January 1st | Acquisitions | Subsidiaries | | / Other Euro 000 | |
| | / Charge year | Disposals | Transfers | | | |
| Euro 000 | Euro 000 | Euro 000 | Euro 000 | Euro 000 | Euro 000 | |
| Cost : | | | | | | |
| Set-up costs | 85,157 | 308 | (133) | (74) | 197 | 85,455 |
| Research and development costs | 103,302 | 190 | (5,946) | 323 | 260 | 98,129 |
| Industrial property and other rights | 158,057 | 269 | (4) | 20,030 | (1,577) | 176,775 |
| Fixed assets in progress and other fixed assets | 21,944 | 4,040 | (179) | (14,568) | 1,911 | 13,148 |
| Other intangible assets on telecommunications business | 40,209 | | | | | 40,209 |
| Concession rights in Brazil and Spain | 835,366 | 2,167 | | (5,711) | 3,761 | 835,583 |
| | <u>1,244,035</u> | <u>6,974</u> | <u>(6,262)</u> | | <u>4,552</u> | <u>1,249,299</u> |
| Accumulated amortization : | | | | | | |
| Set-up costs | 64,855 | 7,785 | (39) | | (6,391) | 66,210 |
| Research and development costs | 44,606 | 8,879 | (2,342) | | (95) | 51,048 |
| Industrial property and other rights | 32,376 | 4,243 | 17 | | (8,086) | 28,550 |
| Other intangible assets on telecommunications business | 14,571 | 1,108 | | | 1,457 | 17,136 |
| Concession rights in Brazil and Spain | 137,445 | 15,220 | | | (25) | 152,640 |
| | <u>293,853</u> | <u>37,235</u> | <u>(2,364)</u> | | <u>(13,140)</u> | <u>315,584</u> |

 The **Concession rights** heading, resulting from the difference between cost and the proportional fair value of the company's assets on the date of acquisition, is analysed as follows for the following acquisitions:

| | Jun 2004 | | | Dec 2003 | | |
|--------------------------------------|------------|--------------|----------|------------|--------------|----------|
| | Concession | Accumulated | Net | Concession | Accumulated | Net |
| | Rights | amortization | Amount | Rights | amortization | Amount |
| | Euro 000 | Euro 000 | Euro 000 | Euro 000 | Euro 000 | Euro 000 |
| Electricity Business - Brazil | | | | | | |
| Bandeirante Energia | 274,949 | (58,876) | 216,073 | 275,279 | (54,483) | 220,796 |
| Escelsa / Enersul | 560,634 | (93,764) | 466,870 | 560,087 | (82,962) | 477,125 |

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| | | | | | | |
|--|---------|-----------|---------|---------|-----------|---------|
| | 835,583 | (152,640) | 682,943 | 835,366 | (137,445) | 697,921 |
| <i>Amortization charges for the period</i> | | (15,220) | | | (30,439) | |

The **Concession rights** over the Brazilian electricity distribution subsidiaries, particularly over Bandeirante Energia SA, Escelsa - Espírito Santo Centrais Eléctricas SA, and Enersul - Empresa Energética do Mato Grosso do Sul SA, are amortized using the straight-line method over the life of the concessions, up to 2025 and 2030 respectively. In June 2003, amortization of the period was Eur 22,977 thousand.

As at June 30, 2004, by business area, the main **Research and development projects** are as follows:

| | Amount invested Euro 000 | Accumulated amortization Euro 000 | Net Amount Euro 000 |
|---|--------------------------------|---|---------------------------|
| <i>Development projects by business area:</i> | | | |
| Electricity generation | 18,498 | (12,167) | 6,331 |
| Information technologies | 8,751 | (5,544) | 3,207 |
| Telecommunications | 67,254 | (32,387) | 34,867 |
| Other | 3,626 | (950) | 2,676 |
| | 98,129 | (51,048) | 47,081 |

As at June 30, 2004, the breakdown of the **Industrial property and other rights** assets, is as follows:

| | | Amount invested Euro 000 | Accumulated amortization Euro 000 | Net Amount Euro 000 |
|--------------------------|----------------------------|--------------------------------|---|---------------------------|
| | EDP Group Company | | | |
| Software licensing | Brazil and Hidrocantábrico | 66,093 | (19,516) | 46,577 |
| Optic fibre usage rights | ONI Telecom | 108,932 | (8,071) | 100,861 |
| Other | Other companies | 1,750 | (963) | 787 |
| | | 176,775 | (28,550) | 148,225 |

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

The breakdown of **Goodwill** is as follows:

| | Jun 2004 | | | Dec 2003 | | |
|--|------------------|------------------|----------------|------------------|------------------|----------------|
| | Accumulated | Net | | Accumulated | Net | |
| | Goodwill | amortization | Amount | Goodwill | amortization | Net Amount |
| | Euro 000 | Euro 000 | Euro 000 | Euro 000 | Euro 000 | Euro 000 |
| Electricity Business | | | | | | |
| Hydrocântábrico Group | 758,014 | (78,488) | 679,526 | 752,676 | (46,319) | 706,357 |
| Investco | 2,108 | (158) | 1,950 | 2,177 | (127) | 2,050 |
| Enerpeixe | 1,014 | (28) | 986 | 1,629 | (4) | 1,625 |
| | <u>761,136</u> | <u>(78,674)</u> | <u>682,462</u> | <u>756,482</u> | <u>(46,450)</u> | <u>710,032</u> |
| Telecommunications Business | | | | | | |
| Connexo | 21,103 | (9,454) | 11,649 | 21,103 | (8,399) | 12,704 |
| Comunitel Global | 91,393 | (27,266) | 64,127 | 86,157 | (22,889) | 63,268 |
| Other | 12,782 | (2,024) | 10,758 | 12,779 | (1,385) | 11,394 |
| | <u>125,278</u> | <u>(38,744)</u> | <u>86,534</u> | <u>120,039</u> | <u>(32,673)</u> | <u>87,366</u> |
| Information Technology Business | | | | | | |
| ACE, SGPS | 58,844 | (10,298) | 48,546 | 58,844 | (8,827) | 50,017 |
| Case Edinfor | 3,612 | (1,264) | 2,348 | 3,612 | (1,084) | 2,528 |
| Copidata | 4,064 | (4,064) | | 4,064 | (3,861) | 203 |
| S-Tecno Serviços TI | 3,926 | (1,374) | 2,552 | 3,926 | (1,178) | 2,748 |
| Other | 8,660 | (2,742) | 5,918 | 8,827 | (2,428) | 6,399 |
| | <u>79,106</u> | <u>(19,742)</u> | <u>59,364</u> | <u>79,273</u> | <u>(17,378)</u> | <u>61,895</u> |
| Other Businesses | | | | | | |
| Affinis Serviços | 12,725 | (1,007) | 11,718 | 12,725 | (689) | 12,036 |
| Turbogás | 18,174 | (1,363) | 16,811 | 18,174 | (908) | 17,266 |
| Companhia Electricidade Macau | 17,110 | (7,842) | 9,268 | 16,543 | (6,893) | 9,650 |
| Other | 9,254 | (1,562) | 7,692 | 2,127 | (858) | 1,269 |
| | <u>57,263</u> | <u>(11,774)</u> | <u>45,489</u> | <u>49,569</u> | <u>(9,348)</u> | <u>40,221</u> |
| | <u>1,022,783</u> | <u>(148,934)</u> | <u>873,849</u> | <u>1,005,363</u> | <u>(105,849)</u> | <u>899,514</u> |
| Amortization charges for the period | | <u>(29,644)</u> | | | <u>(54,439)</u> | |

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

Goodwill in respect of subsidiary and associate companies is amortized using the straight-line method over the estimated useful life (10 years in general, and 20 years for ACE, Affinis, Turbogás and Hidrocantábrico). In June 2003, amortization of the period was Eur 25,704 thousand.

In respect of **Deferred tax assets**, the EDP Group records in its accounts the tax effect arising from temporary differences between the assets and liabilities determined from an accounting standpoint and from a taxation standpoint, and this is broken down by company as follows:

| | Deferred Tax Assets | |
|-----------------------------|----------------------------|---------------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Individual - EDP, SA | 284,231 | 336,924 |
| ONI Group | 101,915 | 107,831 |
| EDP Produção Group | 1,037 | 1,037 |
| EDP Brazil Group | 131,313 | 131,707 |
| Hidrocantábrico Group | 9,162 | 12,814 |
| EDP Finance BV | 18,510 | 18,510 |
| Other | 515 | 515 |
| | 546,683 | 609,338 |

The balance **Deferred costs** is analysed as follows:

| | Group | |
|--|---------------------|---------------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Deferred costs : | | |
| - Rents | 14,158 | 1,771 |
| - Expenditure on concessions | 11,148 | 11,499 |
| - Accrued maintenance | 3,828 | 18,172 |
| - Compensation of fuel costs | 140,455 | 130,502 |
| - Deferred retirement benefit obligation | 47,991 | 50,993 |
| - Cost of negotiating loans (BEI) | 22,316 | 24,537 |
| - Discounts on bond issues | 5,959 | 6,434 |
| - Other deferred costs | 50,838 | 31,196 |
| | 296,693 | 275,104 |

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

11. Debt - Short and long term

This balance is analysed as follows:

| | Group | |
|-----------------------------------|------------------|------------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Short term loans - Current | | |
| Overdrafts : | | |
| - EDP, SA | 20,424 | |
| - ONI Group | 595,100 | 592,298 |
| - Grupo Edinfor | 10,248 | |
| - Other | 122 | 3,614 |
| | <u>625,894</u> | <u>595,912</u> |
| Bank loans: | | |
| - EDP, SA | 258,231 | 315,711 |
| - ONI Group | 91,071 | 51,395 |
| - Edinfor Group | 4,947 | |
| - Produção Group | 4,718 | |
| - Brazil Group | 199,286 | 225,530 |
| - Hidrocantábrico Group | 27,623 | 24,360 |
| - EDP Finance BV | 93,524 | 93,524 |
| - Other | 33,897 | 46,977 |
| | <u>713,297</u> | <u>757,497</u> |
| Bonds issued - Non convertible: | | |
| - EDP, SA | 9,975 | 10,221 |
| - EDP Finance BV | 45,500 | 45,500 |
| | <u>55,475</u> | <u>55,721</u> |
| Commercial paper | | |
| - EDP, SA | 220,000 | 170,000 |
| - Grupo Hidrocantábrico | 34,400 | |
| | <u>254,400</u> | <u>170,000</u> |
| | <u>1,649,066</u> | <u>1,579,130</u> |

| | <u> </u> | <u> </u> |
|---|-------------------|-------------------|
| Medium and long term loans - Non Current | | |
| Bank loans: | | |
| - EDP, SA | 592,133 | 631,021 |
| - ONI Group | | 41,732 |
| - Edinfor Group | 6,488 | |
| - Produção Group | 30,664 | |
| - Brazil Group | 336,101 | 237,662 |
| - Hidrocantábrico Group | 666,134 | 761,800 |
| - EDP Finance BV | 550,000 | 550,000 |
| - Other | 15,895 | 67,032 |
| | <u>2,197,415</u> | <u>2,289,247</u> |
| Bonds issued - Non convertible: | | |
| - EDP, SA | 2,466,323 | 2,476,551 |
| - EDP Finance BV | 963,694 | 963,694 |
| - Brazil Group | 83,434 | 84,087 |
| | <u>3,513,451</u> | <u>3,524,332</u> |
| Commercial paper | | |
| - EDP, SA | 100,000 | 100,000 |
| | <u>100,000</u> | <u>100,000</u> |
| | <u>5,810,866</u> | <u>5,913,579</u> |
| | <u>7,459,932</u> | <u>7,492,709</u> |

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

As of June 30, 2004, the scheduled repayments of the long-term portion of the group's debt was as follows:

| | Euro 000 |
|---------------------------------------|------------------|
| Since Jul 01, 2005 until Jun 30, 2006 | 715,393 |
| Since Jul 01, 2006 until Jun 30, 2007 | 942,683 |
| Since Jul 01, 2007 until Jun 30, 2008 | 842,268 |
| Since Jul 01, 2008 until Jun 30, 2009 | 367,741 |
| Jul 01, 2009 and following years | 2,942,847 |
| | 5,810,932 |

At the EDP, SA, level, the Group has short-term credit facilities in the sum of Eur 797 million, indexed to the Euribor rate for the agreed period of use, with margin conditions agreed in advance, of which Eur 777 million have a firm underwriting commitment. There is also a Eur 350 million commercial paper programme with guaranteed placement. As far as medium-term credit facilities are concerned, Eur 700 million is available to EDP, SA, with a firm underwriting commitment, also indexed to Euribor under previously agreed conditions. As at June 30, 2004, no credit facilities had been used.

The bank loans in Brazil involve floating-rate interest on the real, mostly indexed to the CDI. On the other hand, bank loans in euros are associated with floating-rate interest indexed to the three- or six-month Euribor rates.

The breakdown of Bonds issued as at June 30, 2004 is as follows:

| Issuer | Issue date | Interest rate | Repayment/ conditions | Group Euro 000 |
|----------------------------|-----------------------|---------------------------|----------------------------------|---------------------------|
| Issued by EDP, S.A. | | | | |
| EDP, SA 22nd Issue | May 13, 1996 | Euribor 6 months - 0.10% | (i) | 13,424 |
| EDP, SA 23rd Issue | Dec 20, 1996 | Euribor 6 months - 0.125% | (ii) | 10,332 |
| EDP, SA 24th Issue | Dec 22, 1997 | Euribor 6 months + 0.10% | (iii) | 3,263 |
| EDP, SA 25th Issue | Nov 23, 1998 | Euribor 6 months + 0.225% | (iv) | 299,279 |
| EDP, SA 26th Issue | Mar 26, 2003 | Euribor 6 months + 0.5% | On Mar 26, 2013 | 150,000 |
| | | | | 476,298 |

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| <u>Issuer</u> | <u>Issue date</u> | <u>Interest rate</u> | <u>Repayment/ conditions</u> | <u>Group Euro 000</u> |
|--|-------------------|----------------------------|------------------------------|-----------------------|
| Issued by EDP within the Euro Medium Term Notes Programme | | | | |
| EDP, SA 1st Issue | Oct 29, 1999 | Fixed rate EUR 6.40% | On Oct 29, 2009 | 1,000,000 |
| EDP, SA 2nd Issue | Mar 27, 2001 | Fixed rate EUR 5.875% | On Mar 28, 2011 | 1,000,000 |
| EDP Finance BV 3rd Issue (*) | Oct 29, 2001 | JPY Libor 3 months + 0.20% | On Oct 29, 2004 | 45,500 |
| EDP Finance BV 4th Issue | Nov 26, 2001 | Coupon Zero | On Nov 26, 2009 | 22,455 |
| EDP Finance BV 5th Issue (*) | Nov 28, 2001 | Fixed rate JPY 0.70% | On Nov 28, 2006 | 27,882 |
| EDP Finance BV 6th Issue (*) | Aug 9, 2002 | Fixed rate GBP 6.625% | On Aug 9, 2017 | 320,000 |
| EDP Finance BV 7th Issue | Dec 16, 2002 | Fixed rate EUR 5.00% | On Dec 16, 2008 | 500,000 |
| EDP Finance BV 8th Issue | Dec 23, 2002 | Fixed rate EUR 2.661% | On Dec 23, 2022 | 93,357 |
| | | | | 3,009,194 |
| Issued by Escelsa (Brazil) (International Bond) | | | | |
| Escelsa USD 430 Million (**) | On Jul 28, 1997 | Fixed rate USD 10.0% | On Jul 15, 2007 | 57,388 |
| Issued by Investco (Brazil) (Domestic bond) | | | | |
| Investco 1st Issue | Nov 1, 2001 | IGPM + 12.80% | On Nov 1, 2011 | 19,721 |
| Investco (FINAM) | Nov 14, 2003 | TJLP + 4% | On Nov 14, 2011 | 6,325 |
| | | | | 26,046 |
| | | | | 3,568,926 |

- (i) : 4 annual payments beginning in June 2, 2003. It may be repaid early at the request of bondholders.
- (ii) : 4 annual payments beginning in December 20, 2008. As from December 20, 2006 it may be repaid in part or in full at the request of EDP to all the bondholders.
- (iii) : 4 annual payments beginning in January 5, 2002.
- (iv) : 6 semi-annual payments beginning in May 23, 2006.
- (*) : These issues by EDP Finance BV have associated floating-interest-rate euro currency swaps.
- (**) : The EDP Group holds 83% of the value of this issue in an intra-group portfolio, as a result of the international takeover bid launched in 2002.

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

The breakdown of the fair value of the EDP Group's debt, that is the market value of the debt, is as follows:

| | Jun 2004 | | Dec 2003 | |
|--|------------------|------------------|------------------|------------------|
| | Carrying Value | Market Value | Carrying Value | Market Value |
| | Euro 000 | Euro 000 | Euro 000 | Euro 000 |
| Short term loans - Current | 1,649,066 | 1,649,066 | 1,579,130 | 1,579,130 |
| Medium and long term loans - Non current | 5,810,866 | 6,142,875 | 5,913,579 | 6,251,355 |
| | 7,459,932 | 7,791,941 | 7,492,709 | 7,830,485 |

The market value of the medium/long-term loans is calculated on the basis of the cash flows discounted at the rates ruling on June 30, 2004. In current short-term debt, the book value is considered to be the market value

12. Accounts payable - Trade

This balance is analysed as follows:

| | Group | |
|---------------------------------------|----------------|----------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Short term creditors - Current | | |
| Suppliers | 643,475 | 678,741 |
| Supplies of fixed assets | 59,861 | 103,885 |
| | 703,336 | 782,626 |

13. Accounts payable - Other

This balance is analysed as follows:

| | Group | |
|---|----------------|----------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Other shareholders | 27,888 | 10,541 |
| Advances to customers | 2,908 | 1,204 |
| Other creditors | | |
| - Employees | 9,406 | 20,625 |
| - Supply of other goods and services | 12,138 | 12,946 |
| - Concession rents | 7,739 | 6,690 |
| - Creditors for collections | 28,544 | 20,115 |
| - For interest and financial credits | 77 | 13,960 |
| - INAG/EDP Protocol - Alqueva | 35,893 | 35,893 |
| - Other creditors and sundry operations | 90,687 | 65,288 |
| | <u>215,280</u> | <u>187,262</u> |

14. Accrued cost

The balance **Accrued cost** is analysed as follows:

| | Group | |
|--|----------------|----------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Accrued costs: | | |
| - Holiday pay, bonus and other charges | 64,409 | 68,393 |
| - Interest payable | 226,327 | 121,874 |
| - Other accrued costs | 89,640 | 46,267 |
| | <u>380,376</u> | <u>236,534</u> |

15. Taxes payables

This balance is analysed as follows:

| | Group | |
|--|-----------------|-----------------|
| | Jun | Dec |
| | 2004 | 2003 |
| | Euro 000 | Euro 000 |
| <i>State and other public entities:</i> | | |
| - Income tax | 104,142 | 173,924 |
| - Withholding tax | 9,530 | 11,686 |
| - Social security contributions | 12,933 | 11,359 |
| - Value added tax | 14,955 | 12,197 |
| - Other taxes | 63,074 | 59,937 |
| | 204,634 | 269,103 |

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

16. Deferred revenue

The balance **Deferred revenue** is analysed as follows:

| | Group | |
|--|---------------------|---------------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Deferred revenue: | | |
| - Equal Installment Account EDP Distribuição | 134,744 | 101,096 |
| - Other deferred revenue (i) | 257,377 | 134,668 |
| | 392,121 | 235,764 |

- (i) The deferred revenue include personnel rationalisation programme deferred income amounting Eur 192 million. (December 2003, Eur 133 million)

17. Accrued pension and post retirement liabilities

The balance **Accrued pension and retirement liabilities** is analysed as follows:

| | Group | |
|----------------------------------|---------------------|---------------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Defined benefit pension plan | 106,026 | 149,636 |
| Post retirement medical benefits | 426,725 | 412,627 |
| | 532,751 | 562,263 |

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

Some companies of the EDP Group grant their employees post-retirement benefits, both under the form of defined-benefit plans and under the form of defined-contribution plans. These include pension benefits that pay complimentary old-age, disability and surviving-relative pension complements, and also early retirement pensions. In some cases medical care is provided during the period of retirement and of early retirement, through mechanisms complementary to those of the National Health Service.

The existing plans are presented hereunder, with a brief description of each and of the companies covered by them, as well as of the economic and financial data.

I. Pension Plans - *Defined-Benefit Type*

In Portugal, the companies of the EDP Group resulting from the split of EDP in 1994 have defined benefits plan financed through a closed Pension Fund, covered by a specific provision. This Pension Fund covers liabilities for retirement pension benefits (old age, disability and surviving relative) as well as liabilities for early retirement.

In Brazil, Bandeirante, Escelsa and Enersul have defined-benefit plans managed by a closed complementary welfare entities with its own assets: CESP, ESCELSOS and ENERSUL foundation, respectively.

Bandeirante has two defined-benefit plans:

- BD Plan in force up to March 31, 1998, a Balance Benefit Plan that grants Balanced Proportional Supplementary Benefit (BSPS) in the form of an annuity payable to participants enrolled by March 31, 1998, of an amount defined in proportion to past length of service accumulated by the reference date, based on compliance with regulatory granting requirements. The company is liable in full for the cover of any actuarial insufficiencies of this Plan.

- BD Plan in force after March 31, 1998, which grants an annuity in proportion to the accumulated past length of service after March 31, 1998, on the basis of 70% of the average actual monthly wage for the last 36 months in service. In the event of death or disability caused by works accident, beneficiaries incorporate the whole of the past service (including that accumulated up to March 31, 1998), not just the past service accumulated after March 31, 1998. The Company and the participants equally share liability for the cover of the actuarial insufficiencies of this plan.

Escelsa and Enersul has a defined-benefit plan that grants a complementary benefit for past length service, disability, age and pension. Escelsa also has grants a special complementary benefit for retirement, for the former combatants and for dead.

The change in benefit obligation of consolidated liabilities for past services linked to these pension plans has been as follows:

| | Jun 2004 | Dec 2003 |
|----------|----------|----------|
| Portugal | | |

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| | <u>Euro 000</u> | <u>Brazil</u> <u>Euro 000</u> | <u>Group</u> <u>Euro 000</u> | <u>Portugal</u> <u>Euro 000</u> | <u>Brazil</u> <u>Euro 000</u> | <u>Group</u> <u>Euro 000</u> |
|--|------------------|----------------------------------|---------------------------------|------------------------------------|----------------------------------|---------------------------------|
| <i>Change in benefit obligation</i> | | | | | | |
| Liabilities at the beginning of period | 1,412,541 | 64,750 | 1,477,291 | 1,394,075 | 54,658 | 1,448,733 |
| Cost of current services | 4,435 | 499 | 4,934 | 11,193 | 1,047 | 12,240 |
| Cost of Interest | 34,776 | 4,158 | 38,934 | 78,843 | 6,006 | 84,849 |
| Benefits paid | (66,577) | (1,854) | (68,431) | (139,459) | (1,516) | (140,975) |
| Actuarial losses | 90,329 | 21,119 | 111,448 | 67,889 | 4,147 | 72,036 |
| Currency fluctuation | | (2,161) | (2,161) | | 407 | 407 |
| | <u>1,475,504</u> | <u>86,511</u> | <u>1,562,015</u> | <u>1,412,541</u> | <u>64,750</u> | <u>1,477,291</u> |
| <i>Liabilities at the end of the period</i> | | | | | | |

F-19

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

As at June 30, 2004, the Actuarial losses from Brasil includes the responsibilities reclassified from the Defined Contribution Plan to Defined Benefit Plan of Escelsa and Enersul in the amount of Eur 10.6 million and Eur 7.9 million, respectively.

In calculating the liabilities inherent in these pension plans within the EDP Group the following financial and actuarial assumptions were used:

| | Jun 2004 | | Dec 2003 | |
|---|-----------------------------|--------------------|-----------------------------|--------------------|
| | Portugal | | Portugal | |
| | Euro 000 | Brazil Euro 000 | Euro 000 | Brazil Euro 000 |
| Assumptions | | | | |
| Rate of return of the Funds | 5.70% | 10.24% - 12.82% | 5.70% | 10.24% |
| Discount rate | 5.20% | 10.24% - 10.76% | 5.20% | 10.24% |
| Wage growth rate | 3.30% | 6.08% - 7.12% | 3.30% | 7.12% |
| Pension growth rate | 2.25% | 7.12% | 2.25% | 7.12% |
| Social Security wage appreciation rate | 2.00% | 4.00% | 2.00% | 4.00% |
| Inflation rate | 2.00% | 4.00% | 2.00% | 4.00% |
| Mortality table | TV 88/90 | AT-49(qx) | TV 88/90 | AT-49(qx) |
| Disability table | 50% EKV 80 | Light-Average (ix) | 50% EKV 80 | Light-Average (ix) |
| Expected % of subscription by employees eligible for early retirement | 40% of the eligible actives | Not applicable | 40% of the eligible actives | Not applicable |

As mentioned above, only part of the liabilities for the Pension Plan is financed through the Pension Funds, the remainder being recognised in accordance with IAS 19, by means of a provision detailed hereunder:

| | Jun 2004 | | | Dec 2003 | | |
|--|---------------|---------------|----------------|----------------|---------------|----------------|
| | Portugal | Brazil | Group | Portugal | Brazil | Group |
| | Euro 000 | Euro 000 | Euro 000 | Euro 000 | Euro 000 | Euro 000 |
| Provision for Pension Plans | | | | | | |
| Liabilities at the end of the period | 1,475,504 | 86,511 | 1,562,015 | 1,412,541 | 64,750 | 1,477,291 |
| Fund assets at the end of the period | (805,685) | (61,075) | (866,760) | (785,147) | (31,355) | (816,502) |
| Unfunded liabilities | 669,819 | 25,436 | 695,255 | 627,394 | 33,395 | 660,789 |
| Deferred actuarial losses (i) | (585,661) | (1,525) | (587,186) | (506,600) | (4,553) | (511,153) |
| Value of the provision at the end of the period | 84,158 | 23,911 | 108,069 | 120,794 | 28,842 | 149,636 |

- (i) The international accounting standards adopted by EDP allowed deferred actuarial gains/losses to be recognised systematically in the statement of income for the year by amortizing the amount that exceeded, in the previous year, 10% of the value of the greater of the liabilities or assets of the Fund. Such amortizations are calculated for the period corresponding to the average remaining length of service of the active population.

The components of consolidated net cost recognised during the period with these plans are as follows:

| | Jun 2004 | | |
|---|---------------|--------------|---------------|
| | Portugal | Brazil | Group |
| | Euro 000 | Euro 000 | Euro 000 |
| <i>Cost for the period</i> | | | |
| Cost of the service | 4,435 | 499 | 4,934 |
| Cost of interest | 34,776 | 4,158 | 38,934 |
| Return on the Funds assets | (21,438) | (5,084) | (26,522) |
| Worker contributions | | (233) | (233) |
| Amortization of deferred actuarial losses | 12,168 | | 12,168 |
| <i>Net cost for the period</i> | 29,941 | (660) | 29,281 |

As at June 30, 2003, the Cost for the period was in the amount of Eur 36.3 million and the breakdown is not available.

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

The plan assets of the Pension Funds was as follows:

| | Jun 2004 | | | Dec 2003 | | |
|---|----------------|---------------|----------------|----------------|---------------|----------------|
| | Portugal | Brazil | Group | Portugal | Brazil | Group |
| | Euro 000 | Euro 000 | Euro 000 | Euro 000 | Euro 000 | Euro 000 |
| <i>Change in plan assets</i> | | | | | | |
| Assets at the beginning of period | 785,147 | 31,355 | 816,502 | 727,258 | 22,687 | 749,945 |
| Group Contributions | 22,609 | 2,129 | 24,738 | 54,340 | 3,947 | 58,287 |
| Worker contributions | | 233 | 233 | | 552 | 552 |
| Pensions paid during the period | (22,609) | (1,780) | (24,389) | (50,340) | (1,516) | (51,856) |
| Return of the Funds | 20,538 | 5,084 | 25,622 | 44,286 | 15,403 | 59,689 |
| Actuarial gains (losses) | | 25,269 | 25,269 | 9,603 | (10,016) | (413) |
| Currency fluctuation | | (1,215) | (1,215) | | 297 | 297 |
| <i>Assets at the end of the period</i> | 805,685 | 61,075 | 866,760 | 785,147 | 31,355 | 816,502 |

As at June 30, 2004, the Actuarial losses from Brazil includes the responsibilities reclassified from the Defined Contribution Plan to Defined Benefit Plan of Escelsa and Enersul in the amount of Eur 12.5 million and Eur 12.7 million, respectively.

As a result of the fact that in accounting the costs of pensions and associated charges the EDP Group transposed the provisions of IAS 19 earlier than required, derogating in this way and to this extent the provisions of Accounting Directive 19 which transposed to Portuguese accounting standards the earlier version of the international standard we present hereunder the effects and impacts on the said the derogation. In analysing the differences in this particular case, the EDP Group makes use of the corridor method to recognise actuarial gains and losses, allowing deferral of their impact on results. This technique is one of the options provided for in IAS 19 in paragraphs 92 and 93. Accounting Directive 19, on the contrary, imposes in this matter recognition of actuarial losses and gains directly in results for the year in which they occur and does not accept the corridor alternative or allow deferral of actuarial gains and losses in excess of the said corridor. It therefore imposes a systematic method of immediate recognition in results.

II. Pension Plans - Defined Contribution Type

Hidrocarbónico in Spain and Bandeirante, Escelsa and Enersul in Brazil have social benefits Defined-contribution plans that complement those benefits granted by the Social Welfare Systems to the Group companies employees, under which they pay a contribution to these plans each year, calculated in accordance with the rules established in each case.

III. Liability for Medical Care Plans - Defined Benefit Type

In Portugal, Group companies resulting from the split of EDP in 1994 have a Medical Care Plan of the defined-benefit type, supported through a provision that covers the whole of these liabilities. The evolution of consolidated liabilities for past services inherent in the EDP Group medical care plan has been as follows:

| | Jun 2004 | | Dec 2003 | |
|--|----------------|---------------|----------------|----------------|
| | Portugal | Brasil | Group | Group |
| | Euro 000 | Euro 000 | Euro 000 | Euro 000 |
| <i>Change in benefit obligation</i> | | | | |
| Liabilities at the beginning of the period | 660,255 | | 660,255 | 496,201 |
| Cost of current services | 3,952 | 58 | 4,010 | 5,942 |
| Cost of interest | 16,823 | 541 | 17,364 | 29,049 |
| Benefits paid | (13,208) | (289) | (13,497) | (24,099) |
| Actuarial losses | 10,804 | 12,196 | 23,000 | 153,162 |
| Currency translation | | (12) | (12) | |
| <i>Liabilities at the end of the period</i> | 678,626 | 12,494 | 691,120 | 660,255 |

The following financial and actuarial assumptions were used in calculating the liabilities associated with this medical care plan:

| | Group | |
|---|----------|----------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| <i>Assumptions</i> | | |
| Discount rate | 5.20% | 5.20% |
| Annual growth rate of medical services costs | 4.5% (a) | 4.5% (a) |
| Mortality table | (b) | (b) |
| Disability table | (b) | (b) |
| Expected % of subscription by employees eligible for early retirement | (b) | (b) |

(a) 4.5% during the next 9 years and 4.0% during the remaining years

(b) As mentioned in the Pension Plan assumptions

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

As mentioned above, Medical Care Plan liabilities are recognised in the Group's accounts through a provision, which is presented below:

| | Jun 2004 | | Dec 2003 | |
|---|----------------|--------------|----------------|----------------|
| | Portugal | Brasil | Group | Group |
| | Euro 000 | Euro 000 | Euro 000 | Euro 000 |
| <i>Provision for Medical Care Plans</i> | | | | |
| Liabilities at the end of the period | 678,626 | 12,494 | 691,120 | 660,255 |
| Deferred actuarial losses (i) | (251,901) | (5,139) | (257,040) | (247,628) |
| <i>Value of the provision at the end of the period</i> | 426,725 | 7,355 | 434,080 | 412,627 |

- (i) The international accounting standards adopted by EDP allowed deferred actuarial gains/losses to be recognised systematically in the statement of income through amortization of the amount exceeding, in the previous year, 10% of the amount of the greater of the liabilities or of the assets of the Fund. These amortizations are calculated for the period corresponding to the estimated average remaining length of service of the active population.

The components of net consolidated cost recognised during period with this plan are as follows:

| | Jun 2004 | | |
|--|---------------|------------|---------------|
| | Portugal | Brasil | Group |
| | Euro 000 | Euro 000 | Euro 000 |
| <i>Cost for the period</i> | | | |
| Cost of the service | 3,952 | 58 | 4,010 |
| Cost of interest | 16,823 | 541 | 17,364 |
| Amortization of the deferred transitory obligation (i) | 6,532 | (290) | 6,242 |
| <i>Net cost for the period</i> | 27,307 | 309 | 27,616 |

As at June 30, 2003, the Cost for the period was in the amount of Eur 20 million and the breakdown is not available.

18. Deferred revenue and other liabilities

The balance **Deferred revenue and other liabilities** is analysed as follows:

| | Group | |
|--|-----------|-----------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Subsidies for investment in fixed assets | 1,528,910 | 1,546,101 |
| Deferred taxes | 532,221 | 616,056 |
| Provision for financial assets | 90,449 | 92,696 |
| Provisions for other contingencies and liabilities | 181,618 | 164,615 |
| Concession fixed assets held - (Reg. DL 344-B/82) | 7,775 | 9,079 |
| State share in Multipurpose hydroelectric power stations | 14,996 | 14,996 |
| Concession fixed assets held - (Reg. DL 344-B/82) | 40,748 | 39,843 |
| Recognition of liabilities on the sale of OPTEP in 2002 | 315,000 | 315,000 |
| Supplies of fixed assets | 64,659 | 74,618 |
| Electricity tariff compensations in Brazil | 20,035 | 35,013 |
| Other creditors and sundry operations | 131,901 | 54,393 |
| | 2,928,312 | 2,962,410 |

Subsidies for investment in fixed assets is the deferred income related to the portion of fixed assets funded by clients

As an immediate consequence of the full application by the EDP Group for the first time of IAS 39: Measurement and Recognition of financial instruments, the Creditors Medium/long-term heading of the Group, includes an entry of the EDP Group's liability as a result of the sale of 100% of the OPTEP/Optimus asset (see Note 7) in 2002, since there is an Optimus/OPTEP selling price adjustment mechanism clause with the buyer, and consequently, in accordance with the IAS 39, it cannot be specified as a sale/firm commitment. In accordance with the international standard, the asset sold in 2002 is carried in full under assets and the respective liability, also in full, is carried under the Group's liability, while price fluctuations are recognized as though the matter was one of investments available for sale for as long as the said clause is in force until March 22, 2005.

As at June 30, the provision for financial assets includes a provision in the amount of Eur 30 million (December 2003: 30 million) related to investments in Brasil and Cabo Verde and associated commitments and another provision in the amount of Eur 60 million (December 2003: 60 million) recorded by EDP Brazil and related with impairment charges resulting from its investments in EDP Lajeado and FAFEN Energia.

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

In respect of **Deferred tax liabilities**, the EDP Group records in its accounts the tax effect arising from temporary differences between the assets and liabilities determined from an accounting standpoint and from a taxation standpoint, and this is broken down by company as follows:

| | Deferred Tax Liabilities | |
|-----------------------------|-------------------------------------|---------------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Individual - EDP, SA | 376,967 | 474,839 |
| ONI Group | 719 | 719 |
| EDP Brasil Group | 114,657 | 103,066 |
| Hidrocantábrico Group | 39,878 | 37,432 |
| EDP Group | 532,221 | 616,056 |

19. Hydrological correction account

The balance **Hydrological correction account** is analysed as follows:

| | Group | |
|---------------------------------|---------------------|---------------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Opening balance on January 1 | 387,506 | 324,111 |
| Differential for the year. | (17,124) | 71,916 |
| Hydrological correction bonuses | | (19,350) |
| Financial charges | 4,819 | 10,829 |
| Closing balance | 375,201 | 387,506 |

The Hydrological Correction Account is a mechanism that was legally instituted (Decree-Law 338/91) to compensate variable electricity production costs. In dry years the thermoelectric system is overused and the spending on fuel or on the import of electricity increases significantly. In wet years the situation is reversed. Electricity supply tariffs for the customers of the SEP cannot be altered in the light of the cost fluctuations caused by the hydraulicity. In accordance with Order-in-Council 987/2000, the hydrological correction account is assigned to

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

the EDP accounts and, consequently, it is carried in an account under liabilities in its balance sheet, and the corresponding movements for the year are detailed in the notes to the financial statements.

The annual amount of the hydrological correction is calculated in accordance with parameters established by law, and includes:

(i) The differential between the economic cost of electricity production and the reference economic cost, which is borne by REN as the RNT concessionaire and sole manager of the hydrological correction account. EDP pays REN each month the positive differentials and receives from REN the negative differentials. These payments and revenues are recorded with a contra entry in the hydrological correction account;

(ii) the financial costs or income associated with the accumulated balance of this account constitute an EDP cost or income; (iii) the part corresponding to the amount necessary to make the expected value of the balance, within 10 years, equal to an adequate benchmark, when it reflects a debit to the hydrological correction account, constitutes EDP income, when it reflects a credit, the REN is obliged to make the respective payment to EDP. The corresponding cost is included in the REN electricity-selling tariff to the tied distribution company (EDP Distribuição), constituting a cost for the latter to be recovered through its customer selling prices. Movements under the hydrological correction account are subject to approval by ministerial order.

20. Share capital

The share capital amounts to Euro 3 billion represented by 3,000,000,000 ordinary shares each of a par value of 1 euro, and is fully paid-up.

The breakdown of the earnings per share (EPS) is as follows:

| | Group | |
|--|---------------|---------------|
| | Jun 2004 | Jun 2003 |
| Consolidated net profit in Euros | 274,852,348 | 182,043,997 |
| Average number of shares in the year net from treasury stock | 2,975,651,332 | 2,980,342,044 |
| Net Profit per share - Basic - Euros | 0.09 euros | 0.06 euros |

EDP, which began as a state-owned Company, was successively transformed into a *sociedade anónima* (limited liability company under Portuguese law) wholly owned by the public sector and then into a *sociedade anónima* with a majority of its share capital owned by the public sector. It is currently a *sociedade anónima* in whose share capital the State and other Public Entities have a minority holding. The privatisation process began in 1997, and the second and third stages of the privatisation took place in 1998 and the fourth stage in 2000, following which the State now holds about 30% of the share capital, directly and indirectly.

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

The EDP Group calculates its basic and diluted earnings per share under the terms of which earnings per share are calculated using the weighted average of the shares issued during the reporting period.

F-23

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

21. Legal reserve

In accordance with article 295 of Companies Code and with the EDP articles of association, the Legal Reserve must be increased by a minimum of 5% of the annual profits until such time as its value equals 20% of the company's share capital. This reserve may be used only to cover losses or to increase share capital.

22. Treasury stock

This balance is analysed as follows:

| | Group | |
|--|-------------------|-------------------|
| | Jun 2004 | Dec 2003 |
| | Euro 000 | Euro 000 |
| Book value of EDP, SA shares | 55,577 | 49,020 |
| Number of EDP SA shares | 24,348,668 shares | 21,430,964 shares |
| Market price of EDP, SA shares as at June 30, 2004 and December 31, 2003 | 2.30 euros | 2.09 euros |
| Market value of EDP, SA shares as at June 30, 2004 and December 31, 2003 | 56,002 | 44,791 |

The treasury shares held by EDP, S.A., lie within the limits established by the Company's articles of association and by the Companies Code.

23. Reserves and retained earnings

This balance is analysed as follows:

Group

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| | Jun 2004 | Dec 2003 |
|--|------------------|------------------|
| | Euro 000 | Euro 000 |
| Legal reserves | 345,446 | 326,391 |
| Revaluation reserves | 89,449 | 89,449 |
| Other reserves and retained earnings | 3,127,938 | 3,031,892 |
| Fair-value adjustments of investments available for sale | 160,389 | 10,756 |
| Net profit | 274,852 | 381,109 |
| Currency translation arising on consolidation | (585,452) | (572,500) |
| Other reserves arising on consolidation | (992,824) | (920,070) |
| | 2,419,798 | 2,347,027 |

The amount resulting from the fluctuation in local currency of the Shareholders' Equity of the Subsidiary and Associate Companies expressed in foreign currencies resulting from the fluctuation of the respective exchange rates is recorded under Currency Translation arising on consolidation. The exchange rates used in the preparation of the Financial Statements are as follows:

| Currency | | Exchange rates in June 30, 2004 | | Exchange rates in June 30, 2003 | |
|-----------------|-----|---------------------------------|-----------------------|---------------------------------|-----------------------|
| | | Rates Closing | Average exchange-rate | Rates Closing | Average exchange-rate |
| American dollar | USD | 1.2155 | 1.2240 | 1.1427 | 1.1146 |
| Brazilian Real | BRL | 3.7839 | 3.6367 | 3.2888 | 3.5527 |
| Macao Pataca | MOP | 9.7647 | 9.8194 | 9.1000 | 8.8833 |

The contra entry of the adjustments made to the headings of tangible fixed assets and financial investments in properties caused by the various revaluations undertaken, net of amounts used to increase the share capital and to cover retained losses, and the corresponding deferred taxes are carried under Revaluation Reserves. These revaluations were undertaken pursuant to the following legislation:

| | |
|-------------------------|-----------------------|
| Decree-law no. 430/78 | Decree-law no. 111/88 |
| Decree-law no. 219/82 | Decree-law no. 7/91 |
| Decree-law no. 399-G/84 | Decree-law no. 49/91 |
| Decree-law no. 171/85 | Decree-law no. 264/92 |
| Decree-law no. 118-B/86 | |

Article 8 of Decree-Law 7/91, of January 8, which determined the formation of new sociedades anónimas constituted by means of the simple split of EDP, called for the valuation of EDP's assets, the valuation having been undertaken by entities selected from among those previously qualified by the Finance Ministry for the purpose and subjected to the approval of the Finance Minister. This evaluation, pursuant to Decree-Law 22/92 of February 14, is used for tax purposes, particularly with regard to the calculation of depreciation charges for the year.

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

24. RevenuesThe **Revenues**, with breakdown by **Sales and Services rendered**, and by contribution of each business, is analysed as follows:

| | Group | |
|--|------------------|------------------|
| | Jun 2004 | Jun 2003 |
| | Euro 000 | Euro 000 |
| Sales by sector of activity/business: | | |
| Electricity | 3,137,687 | 3,115,611 |
| Steam and ashes | 12,061 | 9,601 |
| Gas | 90,623 | |
| Information systems and technologies | 8,121 | 9,208 |
| Telecommunications | 2,500 | 5,319 |
| Other sales | 13,885 | 6,776 |
| | 3,264,877 | 3,146,515 |
| Services rendered by sector of activity/business: | | |
| Associated with electricity sales | 44,654 | 26,284 |
| Thermo/Hydro electricity engineering | 3,877 | 3,485 |
| Information systems and technologies | 35,423 | 21,599 |
| Telecommunications | 156,044 | 142,642 |
| Consultancy and services | 3,191 | 1,251 |
| Other | 23,916 | 3,915 |
| | 267,105 | 199,176 |
| TOTAL TURNOVER by business: | | |
| Electricity | 3,182,341 | 3,141,895 |
| Steam and ashes | 12,061 | 9,601 |
| Gas | 90,623 | |
| Thermo/Hydro electricity | 3,877 | 3,485 |
| Information systems and technologies | 43,544 | 30,807 |
| Telecommunications | 158,544 | 147,961 |
| Other | 40,992 | 11,942 |
| | 3,531,982 | 3,345,691 |

The breakdown of **Gross profit on Sales** is as follows:

| | Group | |
|--|------------------|------------------|
| | Jun 2004 | Jun 2003 |
| | Euro 000 | Euro 000 |
| Sales: | | |
| Electricity | 3,137,687 | 3,115,611 |
| Steam and ashes | 12,061 | 9,601 |
| Gas | 90,623 | |
| Other sales | 24,506 | 21,303 |
| | <u>3,264,877</u> | <u>3,146,515</u> |
| Cost of sales - Raw materials and consumables : | | |
| Electricity | 1,621,769 | 1,598,222 |
| Fuel, steam and ashes | 219,987 | 129,322 |
| Other costs | 78,731 | 113,521 |
| | <u>1,920,487</u> | <u>1,841,065</u> |
| | <u>1,344,390</u> | <u>1,305,450</u> |

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

The breakdown of **Services rendered** is as follows:

| | Group | |
|-----------------------------------|---------------------|---------------------|
| | Jun 2004 | Jun 2003 |
| | Euro 000 | Euro 000 |
| Associated with electricity sales | 44,654 | 26,284 |
| Engineering studies and designs | 3,877 | 3,485 |
| IT services | 35,423 | 21,599 |
| Other telecommunications services | 156,044 | 142,641 |
| Other services provided | 27,107 | 5,167 |
| | 267,105 | 199,176 |

25. Personnel costs

The balance **Personnel costs** is analysed as follows:

| | Group | |
|-----------------------------------|---------------------|---------------------|
| | Jun 2004 | Jun 2003 |
| | Euro 000 | Euro 000 |
| Corporate officers remuneration | 6,014 | 6,562 |
| Employees remuneration | 201,912 | 214,070 |
| Charges on remuneration and other | 116,808 | 124,641 |
| | 324,734 | 345,273 |

26. Depreciation and amortization

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

The balance **Depreciation and amortization** is analysed as follows:

| | Group | |
|---|-----------------|----------------|
| | Jun 2004 | Jun 2003 |
| | Euro 000 | Euro 000 |
| <i>Tangible fixed assets:</i> | | |
| Fixed assets under concession the Decree-law 344-B/82 | 1,303 | 1,866 |
| Buildings and other constructions | 4,658 | 2,854 |
| Plant and machinery: | | |
| Hydroelectricity generation | 59,685 | 62,701 |
| Thermoelectric generation | 56,259 | 50,811 |
| Electricity distribution | 220,392 | 217,801 |
| Other plant and machinery | 32,453 | 29,723 |
| Transport equipment | 4,815 | 4,325 |
| Administrative equipment and utensils | 23,276 | 19,527 |
| Other tangible fixed assets | 1,916 | 1,859 |
| | <u>404,757</u> | <u>391,467</u> |
| <i>Intangible fixed assets:</i> | | |
| Set-up costs | 7,785 | 7,680 |
| Research and development costs | 8,879 | 7,645 |
| Industrial property and other rights | 4,243 | 1,554 |
| Other intangible assets on telecommunications business | 1,108 | |
| | <u>22,015</u> | <u>16,879</u> |
| <i>Compensation of depreciation of part-funded fixed assets:</i> | | |
| Compensated fixed assets | (37,975) | |
| | <u>(37,975)</u> | |
| | <u>388,797</u> | <u>408,346</u> |

In June 30, 2003, Compensation of depreciation of part-funded fixed assets was included in other non-operating income and amounted EUR 34.3 million.

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

27. Supplies and services

This balance is analysed as follows:

| | Group | |
|--|-------------------------|-------------------------|
| | Jun 2004 Euro 000 | Jun 2003 Euro 000 |
| <i>Subcontracts:</i> | | |
| Subcontracts | 93,839 | 93,892 |
| Other subcontracts | 7,887 | |
| <i>Supplies and services:</i> | | |
| Water, electricity and fuel | 4,638 | 2,678 |
| Utensils and office material | 2,441 | 1,808 |
| Leases and rents | 22,804 | 26,802 |
| Communications | 14,045 | 11,104 |
| Insurance | 10,578 | 9,522 |
| Transport, travel, and the board and lodging | 5,842 | 3,633 |
| Commissions and fees | 5,065 | 7,424 |
| Maintenance and repairs | 42,708 | 27,805 |
| Advertising and propaganda | 6,118 | 6,758 |
| Specialised work | 75,388 | 92,192 |
| Other supplies and services | 10,691 | 26,621 |
| | 302,044 | 310,239 |

28. Own work capitalized

This balance is analysed as follows:

| | Group | |
|--|-------------------------|-------------------------|
| | Jun 2004 Euro 000 | Jun 2003 Euro 000 |

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| | | |
|-------------------------------------|----------------|----------------|
| Consumption of materials | 47,614 | 46,085 |
| Direct internal costs and overheads | 40,841 | 42,395 |
| Financial charges | 11,833 | 16,360 |
| Other own work capitalized | 3,888 | 11,819 |
| | <u>104,176</u> | <u>116,659</u> |

29. Provisions for the year

This balance is analysed as follows:

| | Group | |
|--|---------------|---------------|
| | Jun 2004 | Jun 2003 |
| | Euro 000 | Euro 000 |
| Charge for doubtful debt | 13,059 | 37,101 |
| Charge for healthcare liabilities | 27,345 | 20,006 |
| Charge for other contingencies and liabilities | 5,833 | 5,416 |
| | <u>46,237</u> | <u>62,523</u> |

30. Other operating expenses net

This balance is analysed as follows:

| | Group | |
|---|--------------|--------------|
| | Jun 2004 | Jun 2003 |
| | Euro 000 | Euro 000 |
| <i>Other operating income:</i> | | |
| Supplementary income | 4,439 | 2,033 |
| Operating subsidies | 201 | 110 |
| Other operating income | 3,356 | 7,347 |
| | <u>7,996</u> | <u>9,490</u> |
| <i>Other operating expenses:</i> | | |
| Direct taxes | 784 | 189 |

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| | | |
|---|-----------------------|---------------------|
| Indirect taxes | 8,968 | 4,276 |
| Other operating costs and losses | 5,803 | 5,143 |
| | <u>15,555</u> | <u>9,608</u> |
| <i>Other net operating income / (expenses)</i> | <u>(7,559)</u> | <u>(118)</u> |

F-27

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

31. Interest and related income and expensesThe balance **Interest and related income and expenses**, are analysed as follows:

| | Group | |
|--|------------------|------------------|
| | Jun 2004 | Jun 2003 |
| | Euro 000 | Euro 000 |
| <i>Interest and related income :</i> | | |
| Interest income | 23,817 | 29,307 |
| Income on application of the equity method | 21,172 | 17,474 |
| Investment income | 8,976 | 31,481 |
| Favourable exchange differences | 15,156 | 8,259 |
| Other financial gains | 35,769 | 42,268 |
| | 104,890 | 128,789 |
| <i>Interest and related expenses :</i> | | |
| Interest expense | 167,837 | 185,076 |
| Banking services | 7,525 | |
| Losses on application of the equity method | 1,054 | 10,283 |
| Unfavourable exchange differences | 33,193 | 5,799 |
| Other financial losses | 29,964 | 61,480 |
| | 239,573 | 262,638 |
| Amortization of investments (Goodwill): | | |
| - Concession rights | 15,220 | 22,978 |
| - Goodwill assets | 29,644 | 25,704 |
| - Other intangible assets on telecommunications business | 1,909 | |
| | 46,773 | 48,682 |
| | 286,346 | 311,320 |
| <i>Net Financial Income / (Expenses)</i> | (181,456) | (182,531) |

32. Other non-operating income / (expenses)

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

The balance **Other non-operating income / (expenses)** is analysed as follows:

| | Group | |
|--|-----------------|---------------|
| | Jun 2004 | Jun 2003 |
| | Euro 000 | Euro 000 |
| Other non-operating income | | |
| Gains on fixed assets | 1,906 | 22,737 |
| Recovery of debt | 269 | 232 |
| Reduction of provisions | | |
| - For customer debt | 32 | |
| - For financial assets | 562 | |
| - For other contingencies and liabilities | 4,833 | 23,280 |
| Corrections to previous years | 5,321 | 2,639 |
| Compensation of depreciation of part-funded fixed assets | | 34,385 |
| Investment subsidies | 3,313 | 4,062 |
| Compensation of cost of human resources rationalisation | 6,627 | |
| Other extraordinary gains | 9,519 | 6,538 |
| | <u>32,382</u> | <u>93,873</u> |
| Other non-operating (expenses) | | |
| Losses on stocks | 1,293 | 616 |
| Losses on fixed assets | 6,524 | 16,323 |
| Bad debt | 2,420 | 288 |
| Fines and penalties | 41 | 50 |
| Corrections to previous years | 10,270 | 5,047 |
| Extraordinary provisions | | |
| - For other contingencies and liabilities | 1,066 | |
| Loss on Baixa UTE Campo Grande (Enersul) | 1,502 | |
| Cost of human resources rationalisation | 23,199 | |
| Other extraordinary losses | 6,142 | 12,170 |
| | <u>52,457</u> | <u>34,494</u> |
| Net Non-Operating Results | <u>(20,075)</u> | <u>59,379</u> |

In 2004, Compensation of depreciation of part-funded fixed assets was reclassified to depreciation and amortization.

Cost of human resources rationalisation mainly includes charges with pensioners, compensation from contract rescissions and Flexible Retirement Program promoted by EDP Group.

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

33. Provisions for income taxes

In accordance with prevailing legislation, tax returns are subject to review and correction by the tax authorities during subsequent years. In Portugal this period is four years, and 1998 was the last year considered to be definitively liquidated by the tax authorities.

Tax losses calculated for given year, also subject to inspection and adjustment, may be deducted from taxable profits during subsequent years. The companies of the EDP Group are taxed, whenever possible, under the consolidated systems allowed by the tax law of the respective countries.

The breakdown of income tax expense is as follows:

| | Group | |
|----------------------------|---------------------|---------------------|
| | Jun 2004 | Jun 2003 |
| | Euro 000 | Euro 000 |
| Tax base | | |
| Income before income taxes | 350,036 | 283,686 |
| Permanent differences | 25,934 | 28,334 |
| | <u>375,970</u> | <u>312,020</u> |
| Normal charge | 103,392 | 102,967 |
| Adjustments | | 7,672 |
| Income tax expenses | <u>103,392</u> | <u>110,639</u> |
| Current income taxes | 174,007 | 141,835 |
| Deferred income taxes | (70,615) | (31,195) |
| Income tax expense | <u>103,392</u> | <u>110,640</u> |

The inverse in deferred income taxes relates mainly to reversal of deferred tax liabilities related with capital gains taxes.

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

The breakdown of the reconciliation between the nominal and the actual income tax (IRC) rate for the Group in June 30, 2004 is as follows:

| | Jun 2004 | | |
|--|----------|----------|-------|
| | Tax Base | Tax | Rate |
| | Euro 000 | Euro 000 | % |
| Nominal tax on profits | 350,036 | 96,260 | 27.5% |
| Amortization resulting from revaluation fixed assets | 35,979 | 9,894 | 2.8% |
| Book losses not compensated | 36,766 | 10,111 | 2.9% |
| Other adjustments to taxable income | (46,811) | (12,873) | -3.7% |
| | | 103,392 | 29.5% |

| | Jun 2003 | | |
|--------------------------------|----------|----------|-------|
| | Tax Base | Tax | Rate |
| | Euro 000 | Euro 000 | % |
| Nominal tax on profits | 283,686 | 93,616 | 33.0% |
| Book losses not compensated | 23,565 | 7,776 | 2.7% |
| Change in prior year estimates | 23,248 | 7,672 | 2.7% |
| Other adjustments | 4,764 | 1,576 | 0.6% |
| | | 110,640 | 39.0% |

Corporate income tax returns are subject to review and correction by the income tax authorities for a period of four years after the filing of such returns. Accordingly, the last taxation year that can be considered definitively assessed by the income tax authorities in 1998.

34. Segmental reporting

The Segmental Reporting was prepared in accordance with Portuguese Accounting Directive 27 and with international best practices.

EDP Group Business by Business Segment
Information by business segment - 1st Half 2004

(Amounts expressed in thousands of euros)

| | Portugal | | Spain | | | Brazil | | Telecoms | Information Technology | Services and Other Adjustments | EDP Group |
|----------------------------------|---------------------------|--------------------------|-----------------|--------------------------|--------------------|----------------|-----------------|------------------|---------------------------|--------------------------------------|------------------|
| | Generation ^(a) | Distribution + Supply | Generation | Distribution + Supply | Gas ^(b) | Generation | Distribution | | | | |
| Turnover | | | | | | | | | | | |
| Sales of electricity | 678,224 | 1,745,221 | 110,949 | 124,056 | 9,286 | 13,506 | 462,576 | | | (6,130) | 3,137,688 |
| Other sales | 10,393 | 1,211 | 3,595 | 31,596 | 82,735 | 1,700 | | 5,222 | 13,083 | (22,346) | 127,189 |
| Services rendered | 36,030 | 11,800 | 843 | 8,533 | 7,677 | 3,766 | 31,908 | 160,596 | 77,940 | (71,988) | 267,105 |
| | <u>724,647</u> | <u>1,758,232</u> | <u>115,387</u> | <u>164,185</u> | <u>99,698</u> | <u>18,972</u> | <u>494,484</u> | <u>165,818</u> | <u>91,023</u> | <u>(100,464)</u> | <u>3,531,982</u> |
| Raw materials and consumables | | | | | | | | | | | |
| Purchase of electricity | 17,974 | 1,143,337 | 7,982 | 124,805 | 64,532 | 3,302 | 302,872 | | | (43,035) | 1,621,769 |
| Fuel costs | 163,121 | | 53,105 | 979 | 407 | 2,375 | | | | | 219,987 |
| Other materials | 1,430 | 53,407 | 2,480 | 6,180 | 2,853 | 48 | 4,041 | 4,495 | 11,549 | (7,751) | 78,732 |
| | <u>182,525</u> | <u>1,196,744</u> | <u>63,567</u> | <u>131,964</u> | <u>67,792</u> | <u>5,725</u> | <u>306,913</u> | <u>4,495</u> | <u>11,549</u> | <u>(50,786)</u> | <u>1,920,488</u> |
| Gross Margin | <u>542,122</u> | <u>561,488</u> | <u>51,820</u> | <u>32,221</u> | <u>31,906</u> | <u>13,247</u> | <u>187,571</u> | <u>161,323</u> | <u>79,474</u> | <u>(49,678)</u> | <u>1,611,494</u> |
| Other operating income / (costs) | | | | | | | | | | | |
| Supplies and services | (32,156) | (109,382) | (8,207) | (8,944) | (4,643) | (6,090) | (24,191) | (122,341) | (29,474) | 43,384 | (302,044) |
| Personnel costs | (63,075) | (189,363) | (8,652) | (7,470) | (3,484) | (491) | (30,797) | (27,641) | (29,725) | 35,963 | (324,735) |
| Own work capitalized | 7,728 | 90,525 | 867 | 660 | 100 | | | 2 | 454 | 3,840 | 104,176 |
| Other operating income / (costs) | 2,073 | (89,537) | (2,801) | 2,679 | 629 | (98) | (4,496) | 1,455 | 878 | (13,073) | (102,291) |
| | <u>(85,430)</u> | <u>(297,757)</u> | <u>(18,793)</u> | <u>(13,075)</u> | <u>(7,398)</u> | <u>(6,679)</u> | <u>(59,484)</u> | <u>(148,525)</u> | <u>(57,867)</u> | <u>70,114</u> | <u>(624,894)</u> |
| Gross Operating Margin | 456,692 | 263,731 | 33,027 | 19,146 | 24,508 | 6,568 | 128,087 | 12,798 | 21,607 | 20,436 | 986,600 |
| Depreciation and | 118,490 | 175,964 | 20,039 | 6,868 | 12,118 | 2,257 | 26,842 | 31,814 | 14,803 | 17,576 | 426,771 |

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| | | | | | | | | | | | |
|--|----------------|----------------|----------------|---------------|---------------|----------------|---------------|-----------------|----------------|-----------------|----------------|
| amortization | | | | | | | | | | | |
| Compensation of depreciation of part-funded fixed assets | (115) | (36,909) | (68) | (322) | (248) | | | | | (313) | (37,975) |
| Provisions | 5,719 | 23,277 | 72 | 264 | 34 | | 8,249 | 1,737 | 228 | 6,657 | 46,237 |
| Operating Margin | 332,598 | 101,399 | 12,984 | 12,336 | 12,604 | 4,311 | 92,996 | (20,753) | 6,576 | (3,484) | 551,567 |
| Financial income / (expense) | (51,467) | (16,773) | (8,532) | (4,299) | (2,218) | (4,959) | (54,642) | (18,146) | (3,351) | 29,703 | (134,684) |
| (Amortization of goodwill and concession rights) | | | (4,794) | (5,954) | (369) | (36) | | (8,094) | (2,512) | (25,013) | (46,772) |
| Current results | 281,131 | 84,626 | (342) | 2,083 | 10,017 | (684) | 38,354 | (46,993) | 713 | 1,206 | 370,111 |
| Extraordinary gains / (losses) | 1,780 | 3,114 | 120 | 251 | 73 | (19) | (4,716) | (424) | (825) | (19,429) | (20,075) |
| Profit before taxes | 282,911 | 87,740 | (222) | 2,334 | 10,090 | (703) | 33,638 | (47,417) | (112) | (18,223) | 350,036 |
| Income taxes | 83,864 | 61,222 | 807 | 1,125 | 3,229 | 1,016 | 12,898 | 5,916 | 1,818 | (68,503) | 103,392 |
| Minority interests | (1) | | 185 | (59) | 3,403 | | (1,657) | (23,445) | 1 | (6,635) | (28,208) |
| Net attributable profit | 199,048 | 26,518 | (1,214) | 1,268 | 3,458 | (1,719) | 22,397 | (29,888) | (1,931) | 56,915 | 274,852 |
| Other information : | | | | | | | | | | | |
| Tangible fixed assets | 4,380,103 | 4,491,895 | 728,512 | 219,314 | 158,529 | 334,846 | 637,558 | 221,988 | 90,877 | 442,431 | 11,706,053 |
| Intangible fixed assets | 5,897 | 917 | 1,129 | 2,428 | (8,331) | 1,055 | 35,396 | 168,987 | 7,580 | 718,657 | 933,715 |
| Current assets | 796,583 | 768,254 | 66,180 | 45,608 | 43,680 | 48,676 | 568,972 | 207,573 | 113,558 | (208,204) | 2,450,880 |
| Shareholders equity | 4,014,261 | 1,546,700 | 381,994 | 183,123 | 115,274 | 114,241 | 420,659 | (187,359) | 52,743 | (1,277,415) | 5,364,221 |
| Current liabilities | 817,255 | 2,854,054 | 136,124 | 89,047 | 26,762 | 164,254 | 492,056 | 852,132 | 117,568 | (643,359) | 4,905,893 |
| Investment in fixed assets | 131,319 | 124,410 | 35,479 | 6,169 | 9,127 | 86,333 | 27,632 | 13,541 | 7,344 | 5,712 | 447,064 |

- (a) The electricity generation includes the renewables segment
(b) The commercial activity of the Gas segment is aggregated with the Distribution and Supply

EDP Group Business by Business Segment

Information by business segment - 1st Half 2003

(Amounts expressed in thousands of euros)

| | Portugal | | Spain | | | Brazil | | Telecoms | Information Technology | Services and Other Adjustments | EDP Group |
|---|----------------|--------------------------|------------|--------------------------|---------|------------|--------------------------|-----------|---------------------------|--------------------------------------|--------------|
| | Generation (a) | Distribution + Supply | Generation | Distribution + Supply | Gas (b) | Generation | Distribution + Supply | | | | |
| Turnover | | | | | | | | | | | |
| Sales of electricity | 626,512 | 1,811,750 | 120,133 | 149,495 | 11,507 | 18,401 | 441,627 | | | (63,814) | 3,115,611 |
| Other sales | 9,603 | 832 | 438 | 153 | | | | 7,370 | 13,071 | (563) | 30,904 |
| Services rendered | 7,465 | 35,697 | 486 | 833 | 1,422 | | | 142,641 | 82,159 | (71,527) | 199,176 |
| | 643,580 | 1,848,279 | 121,057 | 150,481 | 12,929 | 18,401 | 441,627 | 150,011 | 95,230 | (135,904) | 3,345,691 |
| Raw materials and consumables | | | | | | | | | | | |
| Purchase of electricity | 30,372 | 1,202,615 | 50,677 | 114,125 | | 966 | 301,180 | | | (101,713) | 1,598,222 |
| Fuel costs | 131,018 | | | | | 793 | | | | (2,489) | 129,322 |
| Other materials | 1,987 | 51,342 | 14,667 | 7,284 | 5,655 | 44 | 3,152 | 3,152 | 10,870 | 15,367 | 113,520 |
| | 163,377 | 1,253,957 | 65,344 | 121,409 | 5,655 | 1,803 | 304,332 | 3,152 | 10,870 | (88,835) | 1,841,064 |
| Gross Margin | 480,203 | 594,322 | 55,713 | 29,072 | 7,274 | 16,598 | 137,295 | 146,859 | 84,360 | (47,069) | 1,504,627 |
| Other operating income / (costs) | | | | | | | | | | | |
| Supplies and services | (28,969) | (101,105) | (7,856) | (6,898) | (1,347) | (7,518) | (24,870) | (121,908) | (34,685) | 24,917 | (310,239) |
| Personnel costs | (61,031) | (203,041) | (8,603) | (7,245) | (961) | (165) | (28,763) | (30,652) | (33,448) | 28,636 | (345,273) |
| Own work capitalized | 17,462 | 88,645 | 1,246 | 766 | 124 | | 235 | 6 | 3,611 | 4,565 | 116,660 |
| Other operating income / (costs) | (27) | (82,200) | 1,175 | (759) | 184 | (1,235) | (328) | 36 | 1,299 | (6,214) | (88,069) |
| | (72,565) | (297,701) | (14,038) | (14,136) | (2,000) | (8,918) | (53,726) | (152,518) | (63,223) | 51,904 | (626,921) |

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| | | | | | | | | | | | |
|--|----------------|----------------|---------------|----------------|--------------|----------------|---------------|-----------------|--------------|------------------|----------------|
| Gross Operating Margin | 407,638 | 296,621 | 41,675 | 14,936 | 5,274 | 7,680 | 83,569 | (5,659) | 21,137 | 4,835 | 877,706 |
| Depreciation and amortization | 118,146 | 174,787 | 16,521 | 9,341 | 2,006 | 1,847 | 26,527 | 33,986 | 11,260 | 13,924 | 408,345 |
| Compensation of depreciation of part-funded fixed assets | (87) | (36,251) | (88) | (412) | (318) | | | (154) | (4) | 37,314 | |
| Provisions | 4,916 | 41,982 | 151 | 427 | 18 | | 10,676 | 3,357 | 364 | 632 | 62,523 |
| Operating Margin | 284,663 | 116,103 | 25,091 | 5,580 | 3,568 | 5,833 | 46,366 | (42,848) | 9,517 | (47,035) | 406,838 |
| Financial income / (expense) | (33,949) | (17,168) | (10,991) | (5,052) | (622) | (7,783) | 30,124 | (17,196) | (2,662) | (68,588) | (133,887) |
| (Amortization of goodwill and concession rights) | | | (9,313) | (2,942) | (64) | (36) | | (7,340) | (2,687) | (26,263) | (48,645) |
| Current results | 250,714 | 98,935 | 4,787 | (2,414) | 2,882 | (1,986) | 76,490 | (67,384) | 4,168 | (141,886) | 224,306 |
| Extraordinary gains / (losses) | 6,862 | 8,481 | (447) | 1,946 | 20 | (545) | 12,518 | (4,865) | (533) | 35,943 | 59,380 |
| Profit before taxes | 257,576 | 107,416 | 4,340 | (468) | 2,902 | (2,531) | 89,008 | (72,249) | 3,635 | (105,943) | 283,686 |
| Income taxes | 87,047 | 35,170 | (7,004) | (164) | 1,016 | | 34,972 | (9,637) | 2,352 | (33,113) | 110,639 |
| Minority interests | 2,256 | | 774 | | | | (763) | 22,772 | (27,476) | (183) | (8,997) |
| Net attributable profit | 168,273 | 72,246 | 10,570 | (304) | 1,886 | (1,768) | 31,264 | (35,136) | 1,466 | (66,453) | 182,044 |
| Other information : | | | | | | | | | | | |
| Tangible fixed assets | 4,367,736 | 4,477,925 | 711,682 | 219,064 | 157,618 | 259,135 | 665,181 | 233,623 | 95,401 | 464,234 | 11,651,599 |
| Intangible fixed assets | 6,663 | 756 | 139,837 | 199,870 | 14,567 | 978 | 29,403 | 181,814 | 8,878 | 367,417 | 950,183 |
| Current assets | 1,108,217 | 1,072,971 | 76,661 | 81,144 | 43,894 | 38,933 | 781,218 | 170,896 | 110,993 | (420,111) | 3,064,816 |
| Shareholders equity | 4,101,294 | 1,658,780 | 368,534 | 194,150 | 113,526 | 108,043 | 428,732 | (204,018) | 53,835 | (1,524,869) | 5,298,007 |
| Current liabilities | 3,423,871 | 3,502,151 | 105,685 | 80,416 | 33,229 | 127,582 | 618,986 | 854,089 | 207,351 | (4,130,949) | 4,822,411 |
| Investment in fixed assets | 281,812 | 405,211 | 37,874 | 20,736 | 11,918 | 59,091 | 74,215 | 28,564 | 58,784 | 25,069 | 1,003,274 |

(a) The electricity generation includes the renewables segment

(b) The commercial activity of the Gas segment is aggregated with the Distribution and Supply

Additional disclosure of Brazil business Segment

(Amounts expressed in thousands of euros)

| | Brazil | | | | | | |
|--|-----------------|-----------------|-----------------|-----------------------|-----------------|-----------------|---------------|
| | 1st Half 2004 | | | 1st Half 2003 | | | |
| | Distribution | | | Distribution + Supply | | | |
| | Bandeirante | Escelsa | Enersul | Bandeirante | Escelsa | Enersul | Enertrade |
| Turnover | | | | | | | |
| Sales of electricity | 239,069 | 126,852 | 89,321 | 226,569 | 124,746 | 72,223 | 18,089 |
| Other sales | | | | | | | |
| Services rendered | 18,621 | 10,528 | 2,467 | | | | |
| | <u>257,690</u> | <u>137,380</u> | <u>91,788</u> | <u>226,569</u> | <u>124,746</u> | <u>72,223</u> | <u>18,089</u> |
| Raw materials and consumables | | | | | | | |
| Purchase of electricity | 169,928 | 84,017 | 47,206 | 171,735 | 75,208 | 37,616 | 16,620 |
| Fuel costs | | | | | | | |
| Other materials | 1,025 | 1,322 | 1,694 | 1,012 | 1,016 | 1,125 | |
| | <u>170,953</u> | <u>85,339</u> | <u>48,900</u> | <u>172,747</u> | <u>76,224</u> | <u>38,741</u> | <u>16,620</u> |
| Gross Margin | <u>86,737</u> | <u>52,041</u> | <u>42,888</u> | <u>53,822</u> | <u>48,522</u> | <u>33,482</u> | <u>1,469</u> |
| Other operating income / (costs) | | | | | | | |
| Supplies and services | (12,676) | (6,197) | (4,724) | (11,111) | (7,800) | (5,543) | (444) |
| Personnel costs | (12,502) | (10,003) | (8,025) | (11,872) | (9,429) | (7,136) | (327) |
| Own work capitalized | | | | 235 | | | |
| Concession and power-generating rents | | | | | | | |
| Other operating income / (costs) | (1,359) | (1,984) | (1,112) | 840 | (732) | (300) | (110) |
| | <u>(26,537)</u> | <u>(18,184)</u> | <u>(13,861)</u> | <u>(21,908)</u> | <u>(17,961)</u> | <u>(12,979)</u> | <u>(881)</u> |
| Gross Operating Margin | 60,200 | 33,857 | 29,027 | 31,914 | 30,561 | 20,503 | 588 |
| Depreciation and amortization | 10,940 | 8,323 | 7,562 | 10,352 | 8,300 | 7,802 | 73 |
| Provisions | 3,862 | 2,694 | 1,693 | 2,104 | 6,573 | 1,999 | |
| Operating Margin | <u>45,398</u> | <u>22,840</u> | <u>19,772</u> | <u>19,458</u> | <u>15,688</u> | <u>10,702</u> | <u>515</u> |
| Financial income / (expense) | (8,550) | (37,057) | (8,820) | (14,863) | 48,095 | (3,096) | (12) |
| (Amortization of goodwill and concession rights) | | | | | | | |
| Current results | 36,848 | (14,217) | 10,952 | 4,595 | 63,783 | 7,606 | 503 |
| Extraordinary gains / (losses) | (3,089) | (169) | (1,460) | (1,708) | 21,095 | (6,891) | 22 |
| Profit before taxes | <u>33,759</u> | <u>(14,386)</u> | <u>9,492</u> | <u>2,887</u> | <u>84,878</u> | <u>715</u> | <u>525</u> |
| Income taxes | 12,514 | (5,179) | 4,421 | 621 | 30,603 | 3,624 | 122 |
| Minority interests | 744 | (4,165) | 1,765 | 79 | 24,563 | (1,871) | |

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| | | | | | | | |
|--------------------------------|---------|---------|---------|---------|---------|---------|--------|
| Net attributable profit | 20,501 | (5,042) | 3,306 | 2,187 | 29,712 | (1,038) | 403 |
| Other information : | | | | | | | |
| Tangible fixed assets | 237,067 | 214,892 | 185,556 | 248,828 | 224,633 | 191,589 | 131 |
| Intangible fixed assets | 19,770 | 9,946 | 5,873 | 14,921 | 8,700 | 5,745 | 37 |
| Current assets | 217,027 | 234,093 | 100,919 | 300,381 | 325,005 | 145,383 | 10,449 |
| Shareholders' equity | 204,298 | 84,490 | 122,143 | 197,033 | 105,668 | 120,535 | 5,496 |
| Current liabilities | 213,229 | 160,210 | 109,237 | 317,934 | 183,305 | 110,919 | 6,828 |
| Investment in fixed assets | 12,462 | 7,305 | 7,862 | 37,580 | 17,596 | 15,279 | |

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

35. Commitments

As at June 30, 2004, the breakdown of financial commitments not shown in the balance sheet in respect of guarantees provided (no mortgages have been provided) is as follows:

| <u>Commitments</u> | <u>Group</u> <u>Euro 000</u> |
|--|---------------------------------|
| Guarantees of a financial nature | |
| Guarantees provided by Group entities - Portugal | |
| to domestic banks | 72,674 |
| to foreign banks | 236,944 |
| to other foreign entities | 5,300 |
| Guarantees provided by Group entities - Spain | |
| to foreign banks | 37,057 |
| to other foreign entities | 9,610 |
| Guarantees provided by Group entities - Brazil | |
| to foreign banks | 149,819 |
| | <u>511,404</u> |
| Guarantees of an operational nature | |
| Guarantees provided by group entities - Portugal | |
| to other domestic entities | 54,114 |
| to foreign banks | 14,535 |
| to other foreign entities | 24,023 |
| Guarantees provided by group entities - Spain | |
| to foreign banks | 52,776 |
| to other foreign entities | 628 |
| | <u>146,076</u> |
| | <u>657,480</u> |

Bank guarantees provided for operational activities are as follows:

| | <u>Group</u> <u>Euro 000</u> |
|----------------|---------------------------------|
| Domestic banks | 12,352 |
| Foreign banks | 76,799 |

The breakdown of financial commitments in respect of swap contracts outstanding on the balance sheet date is as follows:

| | Group | | | |
|------------------------------|-----------------|--------------------|-----------------|--------------------|
| | Jun 2004 | | Dec 2003 | |
| | Assets | Liabilities | Assets | Liabilities |
| | Euro 000 | Euro 000 | Euro 000 | Euro 000 |
| Interest rate swaps : | | | | |
| EUR | 2,997,445 | 3,339,837 | 3,117,287 | 3,510,669 |
| GBP | 200,000 | | 200,000 | |
| JPY | | | 8,000,000 | |

On the date of the first application of IAS 32 and IAS 39, EDP did not have all the documents required to be able to comply with the requirements for hedge accounting. Therefore, all changes in the fair value of derivatives have been recorded in accordance with amounts reflected for U.S. GAAP standard FAS 133 in EDP's 2002 Form 20-F as filed with the U.S. Securities and Exchange Commission. Consequently, all variations to the fair value of these instruments have been recognised in the statement of income for the year as from the date of the adoption.

However, owing to the process of transition to the IFRS, in which the EDP Group has been involved for some time, the preparation of the documentation required for these financial derivatives to be considered as hedging instruments had started in 2003 and was completed in the beginning of 2004. Therefore, hedge accounting was applied for those instruments in accordance with IAS 39.

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

Taking into account the fact that financial instrument assets are recorded under accruals and deferrals assets and that financial instrument liabilities are recorded under accruals and deferrals liabilities, the relevant information is as follows:

| | Group | |
|------------------------|---------------------|--------------------|
| | Jun 2004 | Dec 2003 |
| | Assets | Liabilities |
| | Euro 000 | Euro 000 |
| Trading derivatives | (6,530) | (3,317) |
| Foreign exchange swaps | 251 | |
| Fair value hedge | | |
| - Derivatives | 2,805 | |
| - Covered liabilities | (2,805) | |
| | <u>(6,279)</u> | <u>(3,317)</u> |

The maturity of these derivatives instruments is as follows:

| | Group Jun 2004 | | | | |
|---|---------------------------|-------------------------------|------------------------------|------------------------------|-------------------|
| | Up to 3 months | 3 months to 1 year | 1 year to 5 years | More than 5 years | Total |
| | Euro 000 | Euro 000 | Euro 000 | Euro 000 | Euro 000 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Interest-rate contracts: | | | | | |
| Interest-rate swaps | | 350,000 | 200,000 | 2,422,455 | 2,972,455 |
| Options bought and sold | 25,000 | 2,923,272 | 250,000 | 500,000 | 3,698,272 |
| | <u>25,000</u> | <u>3,273,272</u> | <u>450,000</u> | <u>2,922,455</u> | <u>6,670,727</u> |
| Interest-rate and exchange-rate contracts: | | | | | |
| CIRS (currency and interest rate swaps) | | 45,500 | 27,882 | 320,000 | 393,382 |
| | <u>25,000</u> | <u>3,318,772</u> | <u>477,882</u> | <u>3,242,455</u> | <u>7,064,109</u> |

The possible real interest rates on the various financial derivatives instruments are as follows:

| | Group Jun 2004 | | | | |
|---|----------------|----------|---------|--------------|---------|
| | Currency | EDP Pays | | EDP Receives | |
| Interest-rate contracts: | | | | | |
| Interest-rate swaps | Euro | 4.50% | 2.17% | 6.40% | 2.35% |
| Interest-rate and exchange-rate contracts: | | | | | |
| CIRS (currency and interest rate swaps) | EUR / JPY | 2.4740% | 2.4190% | 0.7000% | 0.2550% |
| CIRS (currency and interest rate swaps) | EUR / GBP | 3.4860% | | 6.6250% | |

| | Euro 000 | Group Jun 2004 | |
|--|-----------|----------------|-------|
| Interest-rate contracts: | | | |
| Options bought on interest rates (CAP purchases) | 3,735,697 | 4.82% | 2.51% |
| Options sold on interest rates (CAP sale) | 1,000,000 | 5.30% | 4.10% |
| Options sold on interest rates (FLOOR sale) | 3,735,697 | 3.50% | 2.27% |

36. Employee Stock Option Plans

The EDP Group began a stock option programme under the terms approved by the General Meeting, applicable to senior management and directors, with a view to stimulating the creation of value, in keeping with the practice employed by similar companies.

The aim of the plan, approved in 1999, is to grant over a period of five years purchase options on shares representing the EDP share capital. The number of options to be awarded cannot exceed 16,250,000 (following the stock split in which each share was replaced by 5 shares of a par value equal to 1/5 of the value before the stock split), each option giving entitlement to the acquisition of one share. In the event of alteration of the EDP share capital, this limit and the number of options already granted may be adjusted so that the size of the plan and/or the position of the beneficiaries of the option remain substantially the same as the size and/or position existing prior to the fact in question. This provision may be applicable in other cases that, in the opinion of the board of directors of EDP, warrant identical treatment.

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

The consideration payable for the acquisition of shares granted under the stock options (exercise price) is the weighted average of the closing prices of EDP shares during the period prior to the date defined as the option-granting date fixed by the EDP board of directors. The exercise price may be corrected in the event of: a) alteration to the share capital; b) distribution of dividends and other reserves to shareholders having a significant effect on the price of the EDP shares; and c) the occurrence of other facts of a similar nature that, in the judgement of the EDP board of directors, warrant such corrections.

The liabilities assumed within the scope of the EDP incentives plans in respect of directors and certain senior staff in the service of the Group companies are recognised as a cost in each period, taking into account the time to maturity of the option exercise right or of the attribution of the shares. The respective provision is set aside/increased taking into account the staggering of the rights granted and of the inherent costs, over the life of the plan. These costs correspond to the difference between the estimated cost of acquisition of the shares by the Company and their selling price to the employees. The corresponding costs are recorded under *Staff costs*, and costs inherent in the respective hedging operations are recorded under *Financial costs and losses*.

37. Reconciliation to accounting principles generally accepted in the United States of America

The consolidated financial statements of EDP Group have been prepared in accordance with Portuguese GAAP which varies in certain significant aspects from U.S. GAAP. Differences that have a significant effect on the Group consolidated results of operations and shareholders equity are as follows:

a) Revaluation of fixed assets

The Group's fixed assets that were acquired prior to 1993 are stated at revalued amounts as permitted under Portuguese GAAP. The revalued fixed assets are being depreciated over their estimated useful lives on their revalued basis. Under U.S. GAAP, fixed assets may not be stated at more than their historical acquisition cost. Accordingly, in the accompanying reconciliation, the increases in shareholders' equity and the related increase in depreciation expense occurring as a result of such revaluations have been reversed for all periods presented. Depreciation for corporate income tax purposes is based on the original acquisition cost and 60% of the additional revaluation increment. Therefore, the adjustments also reflect the remaining deferred tax benefit arising from the revaluation increments. The effect of the revaluation on the gains and losses on disposals is not significant.

b) Capitalized overhead

The EDP Group capitalizes a portion of its general and administrative overhead to the cost of its assets under construction. Under U.S. GAAP, such costs are expensed in the period incurred.

c) Foreign exchange differences

As permitted under Portuguese GAAP, prior to 1995, the EDP Group capitalized net foreign exchange differences (both gains and losses) that resulted from loans contracted to fund capital expenditures denominated in non-escudo currencies. Under U.S. GAAP, foreign exchange gains and losses may not be capitalized.

d) Deferred costs

The EDP Group capitalizes and amortizes research and development expenses, advertising costs, major repairs and maintenance costs, and reorganization costs. Under U.S. GAAP, such amounts are expensed in the period incurred. The Group also defers and amortizes subsidies received with respect to research and development costs (included in deferred revenue in the consolidated balance sheets). Under U.S. GAAP, the benefit of the subsidies would be included in income as the related research and development costs are incurred.

e) Hydrological correction account

As required by Government regulation, the Group records a liability amount to smooth the effect on its earnings that result from changes in hydrological conditions. Under U.S. GAAP, the effect of future changes in hydrological conditions would be viewed as a general business risk and such a recording would not be permitted. Since July 2000, the movement of gain/losses for hydro conditions are charged to REN and not to the income statements.

The hydrological correction adjustments presented below in the U.S. GAAP net income reconciliation reflect the net change for the year in the Hydrological correction account which consists of the amounts disclosed in Note 19.

f) Distribution to management and employees

The EDP Group customarily distributes a portion of its net income to management and employees. The amount of the distribution generally amounts to one month's salary. Under Portuguese GAAP, this distribution is reflected in the period in which formal shareholder approval is obtained and is recorded as a reduction of retained earnings or other reserves. U.S. GAAP requires that such distributions be recorded as compensation expense in the period to which they relate.

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

g) Employee retirement benefits

The Company and some of its subsidiaries have pension obligations, both defined benefit and contribution and also medical benefits for retired employees. Costs for defined contribution are expensed when incurred. Accumulated obligations and annual expenses for medical and defined benefit pension plans are determined on actuarial basis. The company adopted this policy in Portuguese GAAP by implementing IAS 19 in 1999. For U.S. GAAP the company is using SFAS 87 and SFAS 106 as from 1995.

Thus, differences in accounting for these obligations are basically originated from the date of determination of transition obligation (1989 for U.S. GAAP purposes and 1996 for Portuguese GAAP) and the assumptions relating the adherence rate to the early retirement plan for the period 1999-2002, as well as for recognition the additional pension minimum liability.

h) Accounts receivable

Under Portuguese GAAP a provision for doubtful accounts is established based on historical collection experience and evaluation of the current status of existing receivable balances. However, accounts receivables are only written-off when a customer is declared bankrupt by a court of law. Under U.S. GAAP, the write-off of a receivable would occur when collection is not probable.

In 1998, 1999 and 2000 the Company reached agreements with various municipalities on the terms of the future settlement of various old accounts receivable that under Portuguese GAAP had been fully provided in the past. Under U.S. GAAP, the collection of the receivables in question had previously been considered not probable and consequently had been written off. Therefore, under U.S. GAAP the benefit from the recovery of these accounts receivable may only be recorded when the amounts are actually received.

i) Power purchase agreements

As permitted under Portuguese GAAP, REN has recorded the minimum contracted payments made to producers of the Binding sector in connection with PPAs as an expense of the respective periods. U.S. GAAP would require these agreements to be treated as acquisitions of assets and the assumption of capital lease obligations because the power plants production is fully dedicated and at the direction of REN and the agreements are for the duration of the estimated useful lives of the power plants.

Prior to July 1, 2000, PPAs held by REN were reflected in the balance sheet amounts on the U.S. GAAP basis presented below by recognition of a fixed asset and a capital lease obligation recorded at the inception of the term of the agreements equal to the present values of the minimum payments required under the agreements, less estimated executory costs. The reconciliation presented below also reflects the allocation of the minimum payments, less the estimated executory costs, between a reduction in the liability and interest expense. In addition, an adjustment has

been made for the depreciation expense of the fixed asset.

In accordance with U.S. GAAP PPAs between REN and CPPE were accounted for as capital lease receivables for CPPE and a capital lease obligations for REN. The generation assets related to the PPAs were recorded in REN's accounts. Prior to July 1, 2000, the effects of the PPAs between the two related companies were eliminated as a result of consolidation.

j) Equity accounting on investments

The Group's equity investments and equity in earnings (primarily of REN and Hidrocantábrico) are affected by certain accounting differences between U.S. GAAP and Portuguese GAAP. The differences affecting the Group's investments and equity in earnings include: revaluation of fixed assets, overheads capitalized, deferred costs, employee termination benefits, distribution to management and employees, PPAs and deferred income taxes. These differences are as described in the respective narratives.

k) Disposal of REN

Under Portuguese GAAP, sale proceeds from the disposal of the EDP 70% interest in REN were equal to the net book value of the interest sold, resulting in no gain or loss recorded on the transaction. Under U.S. GAAP, the net book value of the interest sold was reduced as a result of the accounting differences between Portuguese GAAP and U.S. GAAP; therefore, the proceeds received from the disposal of REN exceeded the net book value of the interest disposed, resulting in a gain on disposal and the remaining investment in REN must be reduced accordingly.

l) Derivative instruments

The EDP Group uses derivative instruments in the normal course of business, to offset fluctuations in earnings and cash flows associated with movements in exchange rates, interest rates and commodity prices. Derivative instruments are not generally held by the company for speculative trading purposes. FAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by FAS 137, FAS 138 and FAS 149, was adopted by the Company with effect from January 1, 2001 under U.S. GAAP. FAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. FAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. FAS 133 prescribes requirements for designation and documentation of hedging relationships and ongoing assessments of effectiveness in orders to qualify for hedge accounting. However, EDP have not designated any hedge relationships for US GAAP.

From January 1, 2003 (as discussed at note 2a) IAS 39 was adopted on Portuguese GAAP, and IAS 39 compliant hedge relationships were designated and documented from January 2004.

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

m) Amortization of goodwill

As of January 1, 2002 U.S. GAAP requires that goodwill, including previously existing goodwill, and intangible assets with indefinite useful lives are not amortized but are tested for impairment annually. Concession rights continue to be amortized, as this is a finite lived intangible asset. In June 2003 and June 2004 the goodwill amortization charged to the profit and loss account was adjusted under U.S. GAAP in the amount of Eur 25,704 thousand and Eur 29,644 thousand.

n) Equity Method vs Proportional consolidation

The investment in Hidrocantábrico where EDP owns 40% of its share capital is jointly controlled with two other main shareholders with a residual amount of 1.2% of share capital owned by other shareholders. Under Portuguese GAAP, associated companies where the parent company exercises significant influence together with other shareholders, even if the parent company's participation is fewer than 50%, are proportionately consolidated. Under U.S. GAAP these investments are accounted for by the equity method as presented in adjustment j).

o) Tariff adjustments and accounting for rate regulated entities

Prior to 1999, the selling price of electricity in Portugal was based upon a negotiated price between the EDP and the Government. Tariffs were generally based on operating costs incurred during a year associated with average hydrological conditions. However, there were no specific guidelines in place that ensure that the Group would recover actual cost incurred during this time.

On January 1, 1999, and again on January 1, 2002, a new tariff regime was introduced that established formulae for the calculation of the selling price of electricity in Portugal. These tariffs at current market conditions allow for the EDP to recover actual costs incurred; however, not all of the criteria necessary to adopt the U.S. GAAP accounting for regulated industries exist. Therefore, U.S. GAAP requirements applicable to regulated industries have not been applied.

On January 1, 2002, the regulator implemented alternative revenue programs which allow EDP to increase tariffs in future periods to recover allowable revenues. Future tariff increases have been recorded in the current year for Portuguese GAAP and are reversed under U.S. GAAP.

p) Guarantees

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

Under U.S. GAAP, the guarantees related to the Group's operations with bank loans and other operational activities must be adjusted and presented as a liability. These adjusted amounts are related to the purchase of electricity and the receivable of some subsidies from the government.

q) Regulatory assets

During 2003 the Company set up a restructuring plan, which is intended to be completed by 2006. The costs that will be expensed in those 4 years, were accepted by the Portuguese regulator, to be recovered through the tariffs, in the next 20 years. As such, until June 30, 2004 the Company recorded a regulated asset against a provision for restructuring (no effect on equity) in the amount of Eur 223,3 million. For U.S. GAAP purposes the regulatory asset and regulatory liability and the related regulatory income were reversed as such amounts are not recorded under U.S.GAAP.

r) Income taxes

Until December 31, 1998, as permitted under Portuguese GAAP, income taxes were accounted for in accordance with the taxes payable method based on estimated income taxes currently payable as determined by Government regulations. Under U.S. GAAP and, subsequent to January 1, 1999, under Portuguese GAAP, income taxes are provided using the liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amount of assets and liabilities and their tax bases. A valuation allowance is provided based on the expected realization of the deferred tax assets. Additionally, any deferred tax effect of other U.S. GAAP adjustment is reflected.

s) Operating income

Under U.S. GAAP, except for losses resulting from discontinued operations which would be presented separately, substantially all the amounts in Note 32 would be included in the determination of operating income.

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

Net income

| | Jun 2004 | Jun 2004 | Jun 2003 |
|--|----------|----------|----------|
| | US\$ 000 | Euro 000 | Euro 000 |
| Net income as reported under Portuguese GAAP | 334,083 | 274,852 | 182,043 |
| U.S. GAAP adjustments increase (decrease) due to: | | | |
| a. Depreciation of revaluation of fixed assets | 109,331 | 89,947 | 95,629 |
| b. Capitalized overheads | (9,717) | (7,994) | (9,751) |
| c. Depreciation of exchange differences | 13,185 | 10,847 | 9,617 |
| d. Deferred costs | 23,474 | 19,312 | 47,823 |
| e. Hydrological correction adjustments | 5,857 | 4,819 | 5,948 |
| f. Distribution to management and employees | (15,693) | (12,911) | (12,296) |
| g. Pension and other post-retirement benefits | 60,436 | 49,721 | (20,869) |
| h. Accounts receivable municipalities | 1,504 | 1,237 | 1,545 |
| i. Power purchase agreements after REN disposal | (7,184) | (5,910) | (6,099) |
| j. Equity accounting on investments - REN | 23,235 | 19,116 | 50,753 |
| k. Equity accounting on investments - Hidrocantábriico | 103 | 85 | 1,869 |
| l. Derivative instruments | 800 | 658 | 81,012 |
| n. Amortization of goodwill | 36,032 | 29,644 | 25,704 |
| o. Tariff adjustments | 135,669 | 111,616 | (14,955) |
| q. Regulatory assets | (37,797) | (31,096) | (50,149) |
| Other | (1,291) | (1,062) | (412) |
| r. Income taxes | (90,019) | (74,059) | (52,175) |
| Net adjustments | 247,925 | 203,970 | 153,194 |
| Net income in accordance with U.S. GAAP | 582,008 | 478,822 | 335,237 |
| Basic and diluted net income per share | 0.20 | 0.16 | 0.11 |

Shareholders equity

| | Jun 2004 | Jun 2004 | Dec 2003 |
|---|-------------|-----------|-----------|
| | US\$ 000 | Euro 000 | Euro 000 |
| Shareholders equity as reported under Portuguese GAAP | 6,520,211 | 5,364,221 | 5,298,007 |
| U.S. GAAP adjustments increase (decrease) due to: | | | |
| a. Revaluation of fixed assets | (1,033,316) | (850,116) | (940,063) |
| b. Capitalized overheads | (863,038) | (710,027) | (702,033) |
| c. Exchange differences capitalized | (317,782) | (261,441) | (272,289) |
| d. Deferred costs | (36,143) | (29,735) | (49,047) |
| e. Hydrological correction adjustments | 389,457 | 320,409 | 315,590 |
| f. Distribution to management and employees | (15,693) | (12,911) | (22,519) |
| g. Pension and other post-retirement benefits | 85,949 | 70,711 | 20,990 |

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| | | | |
|---|-------------------|-------------------|-------------------|
| g. Additional minimum pension liability | (469,279) | (386,079) | (293,814) |
| h. Accounts receivable municipalities | (82,202) | (67,628) | (68,865) |
| i. Power purchase agreements after REN disposal | (277,839) | (228,580) | (222,671) |
| j. Equity accounting on investments - REN | 61,293 | 50,426 | 31,310 |
| j. Equity accounting on investments - Hidroantábriico | (3,540) | (2,912) | (2,997) |
| k. Gain on disposal of REN | (178,181) | (146,591) | (146,591) |
| l. Derivative Instruments | 3,409 | 2,804 | |
| m. Amortization of goodwill | 116,662 | 95,979 | 66,335 |
| o. Tariff adjustments | (19,811) | (16,299) | (127,915) |
| p. Guarantees | (9,745) | (8,017) | (10,114) |
| q. Regulatory assets | (85,750) | (70,547) | (39,450) |
| Other | (2,971) | (2,444) | (1,382) |
| r. Income taxes | 762,607 | 627,402 | 664,856 |
| | <u> </u> | <u> </u> | <u> </u> |
| Net adjustments | (1,975,913) | (1,625,596) | (1,800,669) |
| | <u> </u> | <u> </u> | <u> </u> |
| Shareholders equity in accordance with U.S. GAAP | 4,544,298 | 3,738,625 | 3,497,338 |
| | <u> </u> | <u> </u> | <u> </u> |

F-38

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

Certain significant line items of the balance sheets as presented on a Portuguese GAAP basis would be as follows after application of U.S. GAAP differences:

| | Group | |
|--|-------------------|-------------------|
| | Jun 2004 | Dec 03 |
| | Euro 000 | Euro 000 |
| Fixed assets | 7,324,363 | 7,172,209 |
| Total assets | 18,118,138 | 17,730,012 |
| Total current liabilities | 3,414,602 | 3,279,785 |
| Total long-term liabilities | 10,731,077 | 10,891,738 |
| Total liabilities and minority interests | 14,379,513 | 14,232,674 |
| Shareholders' equity: | | |
| Share capital | 2,944,423 | 2,950,980 |
| Other comprehensive income | (850,762) | (773,711) |
| Reserves and retained earnings | 1,644,964 | 1,320,069 |
| | <u>3,738,625</u> | <u>3,497,338</u> |
| Total liabilities and shareholders' equity | <u>18,118,138</u> | <u>17,730,012</u> |

Comprehensive income

For purposes of presenting its reconciliation of shareholders' net equity and net income from Portuguese GAAP to U.S. GAAP, in 1998 the Company adopted FAS 130, "Reporting Comprehensive Income". This standard requires reporting the components of comprehensive income, the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, and the components thereof in an entity's financial statements. The non-owner changes in equity that have not been included in income include accounts such as foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. The adoption of FAS 130 resulted in revised and additional disclosures for U.S. GAAP reporting purposes, but had no effect on the financial position, results of operations, or liquidity of the Company.

The comprehensive income for June 30, 2004 and 2003 is as follows:

| | Group | |
|--|-----------------|-----------------|
| | Jun 2004 | Jun 2003 |

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

| | Euro 000 | Euro 000 |
|--|-------------------|-------------------|
| | <u> </u> | <u> </u> |
| Net income in accordance with U.S. GAAP | 478,822 | 335,237 |
| Change in currency translation adjustment | (12,952) | (44,663) |
| Unrealized gains (losses) on investments | 149,633 | |
| Tax effect of unrealized gains (losses) on investments | (5,677) | |
| Additional minimum pension liability | (92,265) | (38,698) |
| Tax effect on additional minimum liability | 25,373 | 12,770 |
| | <u> </u> | <u> </u> |
| Comprehensive income | 542,934 | 264,646 |
| | <u> </u> | <u> </u> |

Earnings per ordinary share

Basic earnings per share is based upon the weighted average number of Ordinary Shares outstanding during the year. Diluted earnings per share is computed on the basis of the weighted average number of Ordinary Shares outstanding during the year plus the effect of Ordinary Shares issuable upon the exercise of employee stock options using the treasury stock method. During 1999, the Company established two employee stock option plans. The shares issued under these plans had no material effect on the weighted average Ordinary Shares outstanding. Ten Ordinary Shares equal one American Depository Share (ADS).

| | Group | |
|--|-------------------|-------------------|
| | Jun 2004 | Jun 2003 |
| | Euro 000 | Euro 000 |
| | <u> </u> | <u> </u> |
| Net income Portuguese GAAP | 274,852 | 182,043 |
| Net income - U.S. GAAP | 478,822 | 335,237 |
| Weighted average Ordinary Shares outstanding | 2,975,651,332 | 2,980,342,044 |
| Weighted average ADS outstanding | 297,565,133 | 298,034,204 |

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

| | | Group | |
|--------------------------------|-----------------|----------|----------|
| | | Jun 2004 | Jun 2003 |
| | | Euro | Euro |
| Net income per Ordinary Share: | | | |
| Basic and diluted | Portuguese GAAP | 0.09 | 0.06 |
| Basic and diluted | U.S. GAAP | 0.16 | 0.11 |
| Net income per ADS: | | | |
| Basic and diluted | Portuguese GAAP | 0.92 | 0.61 |
| Basic and diluted | U.S. GAAP | 1.61 | 1.13 |

Employee stock option plans

The Company has two fixed option plans. Under the 1999 option plan for members of the Board of Directors of EDP, the Company may grant options for up to 2,450,000 shares of common stock. Under the 1999 option plan for members of the boards of directors of the EDP's operating companies and senior officers of EDP and its subsidiaries, the Company may grant options for up to 16,120,000 shares of common stock. Under both plans, the exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is 5 years. Options are granted at the discretion of the board of directors of EDP and vest over a two year service period.

A summary of the status of the Company's two fixed stock option plans as of December 31, 2003 and June 30, 2004, and changes during the years then ended on those dates is presented below:

| | Shares available for grant under 1999 option plans | Option activity | Weighted average exercise price |
|--------------------------------|---|--------------------|---------------------------------------|
| Balance December 31, 2002 | 16,413,750 | 2,286,250 | |
| Options forfeited | | (353,992) | |
| Options granted | | 490,000 | |
| Balance December 31, 2003 | 16,413,750 | 2,422,258 | |
| Options forfeited | | | |
| Options granted ⁽¹⁾ | | | |
| Balance June 30, 2004 | 16,413,750 | 2,422,258 | |

At the general shareholders meeting held on May 10, 2000, an increase in the number of options available under the 1999 options plans was approved to adjust the plans for an increase in the number of directors from 5 to 7.

Of 2,400,000 options granted in 1999, only 2,286,250 were accepted by directors and executive officers.

⁽¹⁾ The number of options to be granted for 2004 has not yet been determined.

The basic and diluted earnings per ordinary share as reported would not change if calculated as if the fair value based method of SFAS 123, Accounting for Stock-Based Compensation, had been applied to all awards.

The following table summarizes information about stock options outstanding and exercisable as of June 30, 2004.

| <u>Options outstanding</u> | <u>Weighted average exercise price</u> | <u>Weighted average remaining contractual life</u> | <u>Options exercisable</u> |
|----------------------------|--|--|--------------------------------|
| 2,422,258 | 3.35 | 0.83 years | |

Proportional consolidation

As mentioned on note 2.c) the Company consolidates interests in jointly controlled entities, using the proportional method, namely Hidroantábrico (HC). For US GAAP purpose investments in jointly controlled entities must be accounted using the equity method. The differences in accounting treatment between proportional consolidation and the equity method of accounting have no impact on reported stockholders' equity or net income. Rather, they relate solely to matters of classification and display.

Condensed financial information relating to the Company's pro rata interest in Hidroantábrico is as follows:

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

| | HC Jun 2004 | HC Dec 2003 |
|--|------------------|------------------|
| | Euro 000 | Euro 000 |
| Balance sheet information | | |
| Tangible and intangible fixed assets | 1,814,054 | 1,870,271 |
| Current assets | 134,497 | 150,572 |
| Non current assets | 68,137 | 21,500 |
| Total assets | 2,016,688 | 2,042,343 |
| Loans | 666,134 | 787,675 |
| Current Liabilities | 292,498 | 188,895 |
| Non-current liabilities | 79,996 | 99,191 |
| Total Liabilities | 1,038,628 | 1,075,761 |
| Minority Interests | 181,769 | 175,127 |
| EDP's Investment | 796,291 | 791,455 |
| | HC Jun 2004 | HC Jun 2003 |
| | Euro 000 | Euro 000 |
| Statement of income information | | |
| Net Revenue | 350,498 | 280,134 |
| Operating Costs, net | (322,258) | (254,833) |
| Other operating income (costs) | (20,528) | (12,376) |
| Minority Interests | (3,530) | (774) |
| Net income | 4,182 | 12,151 |

38. Relevant and subsequent events*EDP signed a five-year revolving credit facility*

On July, 27 2004, EDP - Electricidade de Portugal, S.A. signed a five year Revolving Credit Facility in the amount of EUR 1, 300 million. The Facility replaces EDP's two existing and unutilised credit lines - EUR 600 million revolving credit facility maturing on 22nd August 2004 and the EUR 700 million revolving credit facility dated 27th March, 2003 - and will be used as a back up line for the company's Euro Commercial Paper Programme as well as for general corporate purposes. Current international loan market conditions allowed EDP to extend the term of its credit lines in more favourable terms and to reduce the costs associated with the maintenance of these liquidity lines. The syndication process attracted strong support from EDP's international relationship banks and resulted in a significant over-subscription. Since EDP decided not to

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

increase the facility amount, the participating bank's commitments were scaled back accordingly.

EDP increases stake in hidroantábriico to 95.7% by acquiring an additional 56.2% stake from ENBW, CAJASTUR and CÁSER

On July 29, 2004, EDP has today entered into a set of agreements with Energie Baden-Württemberg AG (EnBW), Caja de Ahorros de Asturias (Cajastur) and Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. (Cáser) that will lead to the acquisition of an additional 56.2% stake in Hidroeléctrica del Cantábriico, S.A. (Hidroantábriico), and permit EDP to increase its current stake from 39.5% to 95.7% of Hidroantábriico's share capital. The total consideration to be paid by EDP within this transaction will be Eur 1.195 million.

Simultaneously, Cajastur will receive shares equivalent to approximately 5.4%-5.8% of EDP share capital to become one of the largest shareholders of EDP, strengthening the strategic partnership between both companies.

This transaction will be financed through a share capital increase by means of a rights issue in the amount of Eur 1.200 million, through the issue of new shares to EDP shareholders. EDP has ensured that a group of financial institutions undertake to subscribe all the shares that are not subscribed for by the shareholders of the company.

The execution of the rights issue is subject to the approval by the Portuguese Government of a privatisation Decree-Law of EDP, and the registration of the subscription public offer with the Comissão do Mercado de Valores Mobiliários. The launching of the offer is expected to occur in October.

The agreements reached with the remaining shareholders of Hidroantábriico provide for the acquisition of the entire stake held by EnBW in Hidroantábriico (34.6%) for a consideration of Eur 649 million to be paid in cash, the acquisition of a 17.5% stake held by Cajastur for a consideration of Eur 453 million to be paid with EDP shares and the acquisition of a 4.1% stake held by Cáser for a consideration of eur 93 million to be paid in cash.

The completion of the transaction will result in the termination of the shareholders agreement of Hidroantábriico currently in force, allowing for a higher degree of integration of EDP's and Hidroantábriico's activities.

Within the scope of this new strategic partnership, aimed at the optimisation of the combined operation of EDP and Hidroantábriico in the Iberian market, Cajastur and Cáser will keep a 3.1% stake in Hidroantábriico, as well as certain veto rights, particularly in relation with matters concerning regional interests, which will preserve Hidroantábriico's links with the region of Asturias.

EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

In addition, Cajastur will have the right, for a long period of time, to sell out of Hidrocontábrico's share capital through a put option on EDP. The price of this put option is indexed to the value of EDP shares, ensuring the interests of EDP and Cajastur are unequivocally aligned.

The number of EDP shares to be delivered to Cajastur will be determined based on the volume weighted average price of EDP's shares during the six months prior to July 28, 2004 (Eur 2.29 per share), adjusted for the technical dilution effect of the capital increase.

The Board of Directors of EDP requested the Chairman of the General Shareholders Meeting to call a general shareholders meeting for October 7, 2004, in order to obtain the approval of the amendment to the articles of association of the company to delegate to the Board of Directors the ability to execute the share capital increase once the new phase of the company's privatisation is approved. The rights issue will ensure certainty of funds to finance the transaction, preserving the Group's balance sheet strength and sustaining profitability per share in the future. EDP has ensured that a group of financial institutions composed by Caixa Geral de Depósitos, Goldman Sachs, Millennium bcp, Morgan Stanley and UBS undertake to subscribe the shares that are not subscribed for by the shareholders of the company.

Completion of the acquisition by EDP of the shares held by Hidrocontábrico's remaining shareholders is subject to certain conditions precedent including the approval of the transaction at the General Shareholders Meeting of EDP, the approval by the EU Commission with respect to the its compliance with EU antitrust rules and the non-opposition by the Spanish authorities.

The strengthening of the partnership through the acquisition of Hidrocontábrico will enable both companies to maximise management flexibility and optimise business integration at the Iberian level. This is a key factor for EDP to successfully implement its business strategy and for the positioning of the Group as a top tier energy player in the Iberian market. This will be achieved through the optimization of the energy generation assets portfolio, based on dispatch centralization and coordinated expansion of generation capacity, the definition and execution of a joint retail strategy for Portugal and Spain and integrated management of the gas assets portfolio.

EDP believes the completion of this transaction will enable it to implement a series of measures to achieve significant synergies between the companies, including cash savings from implementing coordinated strategies for energy generation and commercialisation, joint management of energy trading in the market, and the coordination of gas and other fossil-fuel sourcing activities.

The agreement reached with Cajastur will also allow Hidrocontábrico to focus on its core-business. A divestment of its cable TV assets is expected once the transaction has been executed. Such divestment is expected to generate a substantial capital gain.

EDP concludes Framework Agreement with a view to Acquisition of Control of the Natural Gas Industry in Portugal

Edgar Filing: EDP ELECTRICIDADE DE PORTUGAL SA - Form 6-K

On February 6, 2004, within the context of Council of Ministers Resolution 68/2003 of May 10, in respect of the restructuring of the Portuguese energy sector, EDP concluded a framework agreement with Eni, S.p.A. (Eni), establishing the heads of agreement reached by the parties with regard to bringing together the gas and electricity industries, and also with regard to the final structure of the share capital of GDP, SGPS, S.A. (GDP), 51% of which is expected to be held by EDP and 49% by Eni. However, during the transition period, REN Rede Eléctrica Nacional may come to have a minority holding in GDP up to the conclusion of the process of separation of regulated assets such as the high-pressure natural gas network.

The direct involvement of these companies in the natural gas business will be undertaken on the basis of a reference figure of Eur 1.2 billion attributed to the whole of the gas assets (including such regulated assets as come to be transferred to REN) currently held by the GALP Energia group. Implementation of this transaction is based on the assumption that the direct involvement of EDP in the natural gas business will be underpinned by the economic value resulting from its sale of its holding in GALP Energia, in which EDP has a 14.7% stake, and for this reason it is not expected that the transaction will require any additional investment by EDP.

EDP and Eni are now concerning the contracts to structure the operation and to define the corporate governance of GDP, to be concluded by the end of 2004.

The conclusion of the transaction will in any case depend on approval by the respective fair trade authorities.

EDP Clarifies the Market on the Process of Definition of the Compensation Value of the CAEs

On March 5, 2004, EDP informed the market and the public in general that the process of definition of the value of compensation (CMEC Contractual Balance Maintenance Costs) linked to the possible transition of the energy acquisition contracts (CAEs) to the market system within the scope of MIBEL was still underway and had not therefore been concluded.

On March 8, 2004, in response to several requests for clarification in view of the news published in respect of the early termination of the Energy Acquisition Contracts (CAEs), EDP once again stated:

1. That not being party to the work of the European Commission and the Portuguese Government in progress in Brussels, EDP was entirely unaware of any progress or of the content thereof;
2. That investors and the market in general should not base investment decisions on the figures that had been published, which EDP considered totally unfounded and whose calculation criteria it was unable to reconstitute; and
3. That, as it had disclosed on several occasions, EDP would only formalise the early termination of the CAEs, provided that an economically neutral and equivalent alternative were ensured, certified by independent entities, and that it believed that this could occur until the end of year.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated October 20, 2004

EDP-Electricidade de Portugal, S.A.

By: /s/ João Ramalho Talone

Name: João Ramalho Talone
Title: Chief Executive Officer