

INDEPENDENCE HOLDING CO

Form 8-K

October 06, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) **October 4, 2004**

INDEPENDENCE HOLDING COMPANY

(Exact name of registrant as specified in its charter)

Delaware

010306

58-1407235

(State or other jurisdiction of
incorporation or organization)

(Commission File Number)

(I.R.S. Employer Identification
No.)

96 Cummings Point Road, Stamford, Connecticut

06902

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **(203) 358-8000**



Item 12. Results of Operations and Financial Condition

On October 4, 2004, Independence Holding Company issued a press release announcing formation of Special Health Products Division, a copy of which is attached as Exhibit 99.1.

SIGNATURE

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.

INDEPENDENCE HOLDING COMPANY

<u>/s/ Teresa A. Herbert</u> Teresa A. Herbert Vice President and Chief Financial Officer	Date:	<u>October 4, 2004</u>
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Exhibit 99.1

INDEPENDENCE HOLDING
COMPANY
TERESA A. HERBERT

CONTACT:

96 CUMMINGS POINT
ROAD
(203) 358-8000

STAMFORD, CONNECTICUT
06902
www.Independenceholding.com

NEWS RELEASE

INDEPENDENCE HOLDING COMPANY

ANNOUNCES FORMATION OF SPECIAL HEALTH PRODUCTS DIVISION

Stamford, Connecticut, October 4, 2004, Independence Holding Company (NYSE: IHC) today announced the formation of a division to write special health insurance products, including small group major medical, short-term medical and limited medical through Madison National Life Insurance Company, Inc. and Standard Security Life Insurance Company of New York. IHC expects to begin marketing high-deductible small group products, which will employ cutting edge consumer-driven concepts, in certain states in the fourth quarter, and anticipates that the short-term limited medical will be rolled out in the first quarter of 2005. Madison National Life has hired Jim Kenneally as Vice President - Strategic Health Initiatives focusing on marketing and product development of these new products. Jim has 15 years experience in health insurance product development and distribution. Mark Musser, who has been with Madison Life for 12 years, has been promoted to Vice President of IHC in charge of business development in addition to his responsibility as Chief Marketing Officer of Madison Life.

Mr. Roy T.K. Thung, Chief Executive Officer, commented "We have been working with leaders in specialized health insurance markets to develop niche products to serve the changing needs of American workers, while continuing our commitment to disciplined underwriting. We are optimistic that these new lines will begin contributing to our top line and bottom line growth in 2005."

IHC is a holding company principally engaged in the life and health insurance business and the acquisition of blocks of policies through its subsidiaries, Standard Security Life Insurance Company of New York and Madison National Life Insurance Company, Inc. and its affiliate, American Independence Corp. Standard Life markets medical stop-loss, long-term and short-term disability, group life and managed health care products. Madison Life sells group life and disability, employer medical stop-loss, credit life and disability and individual life insurance. AMIC is a holding company principally engaged in the insurance and reinsurance business through Independence American Insurance Company and its employer medical stop-loss and managed care managing general underwriters

Some of the statements included herein may be considered to be forward looking statements which are subject to certain risks and uncertainties. Factors which could cause the actual results to differ materially from those suggested by such statements are described from time to time in IHC's filings with the Securities and Exchange Commission.

capital loss when the debt security matures.

Market Discount

If you purchase a debt security at a price that is lower than the debt security's remaining redemption amount (or in the case of an Original Issue Discount Debt Security, the debt security's adjusted issue price), by 0.25% or more of the remaining redemption amount (or adjusted issue price), multiplied by the number of remaining whole years to maturity, the debt security will be considered to bear market discount in your hands. In this case, any gain that you realize on the disposition of the debt security generally will be treated as ordinary interest income to the extent of the market discount that accrued on the debt security during your holding period. In addition, you may be required to defer the deduction of a portion of the interest paid on any indebtedness that you incurred or continued to purchase or carry the debt security. In general, market discount will be treated as

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accruing ratably over the term of the debt security, or, at your election, under a constant yield method. You must accrue market discount on a foreign currency debt security in the specified currency. The amount that you will be required to include in income in respect of accrued market discount will be the U.S. dollar value of the accrued amount, generally calculated at the exchange rate in effect on the date that you dispose of the debt security.

You may elect to include market discount in gross income currently as it accrues (on either a ratably or constant yield basis), in lieu of treating a portion of any gain realized on a sale of the debt security as ordinary income. If you elect to include market discount on a current basis, the interest deduction deferral rule described above will not apply. If you do make such an election, it will apply to all market discount debt instruments that you acquire on or after the first day of the first taxable year to which the election applies. The election may not be revoked without the consent of the Internal Revenue Service. Any accrued market discount on a foreign currency debt security that is currently includible in income will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the holder's taxable year).

Indexed Debt Securities and Other Debt Securities Providing for Contingent Payments

Special rules govern the tax treatment of debt obligations that provide for contingent payments (contingent debt obligations). These rules generally require accrual of interest income on a constant yield basis in respect of contingent debt obligations at a yield determined at the time of issuance of the obligation, and may require adjustments to these accruals when any contingent payments are made. We will provide a detailed description of the tax considerations relevant to U.S. holders of any contingent debt obligations in the pricing supplement.

Foreign Source Income and Foreign Tax Credits

The Portuguese withholding tax on interest at the rate applicable to the U.S. holder under the Treaty will be treated as a foreign income tax eligible (subject to generally applicable limitations and conditions under U.S. tax law) for credit against a U.S. holder's federal income tax liability, or at the U.S. holder's election, for deduction in computing the holder's taxable income. Interest and additional amounts, if any, paid on our debt securities will constitute income from sources without the U.S. for foreign tax credit purposes. As discussed under Portuguese Taxation Debt Securities Taxation of interest in respect of debt securities interest payments to non-residents are generally subject to a 20% withholding tax. Under the Treaty, this rate is reduced to 10%. At current Portuguese withholding rates, interest payments on our debt securities will be subject to the separate foreign tax credit limitation for high withholding tax interest. Gain or loss realized by a U.S. holder on the sale or disposition of a debt security general will be treated as U.S. source income or loss for foreign tax credit purposes.

SHARES OR ADSs

Dividends

The gross amount of any dividends received with respect to our ordinary shares or ADSs, including amounts withheld in respect of Portuguese withholding tax, generally will be subject to U.S. federal income taxation as foreign-source dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Dividends paid in euros will be includible in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt by you or, in the case of ordinary shares held in ADS form, by the depositary. If dividends paid in euros are converted into U.S. dollars on the date of receipt, you generally should not be required to recognize

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foreign currency gain or loss in respect of the dividend income. If you do not convert euros that are received by you into U.S. dollars on the date of receipt, you generally will have a basis in those euros equal to their U.S. dollar value on that date. You also generally will be required to recognize foreign currency gain or loss realized on a subsequent conversion or other disposition of the euros, which will be treated as U.S. source ordinary income or loss.

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Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2009 with respect to our ordinary shares or ADSs will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on our ordinary shares or ADSs will be treated as qualified dividends if we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company (PFIC), foreign personal holding company (FPHC) or foreign investment company (FIC). Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC, FPHC or FIC for U.S. federal income tax purposes with respect to our 2003 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC, FPHC or FIC for our 2004 taxable year. The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs or common stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. Holders of our ADSs and ordinary shares should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

Portuguese withholding tax on dividends should be treated as foreign income taxes that, subject to generally applicable limitations under U.S. tax law, are eligible for credit against your U.S. federal income tax liability or, at your election, may be deducted in computing taxable income. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which the expected economic profit is insubstantial. You are urged to consult your own tax adviser to determine whether you are eligible for benefits under the Treaty, and whether, and to what extent, foreign tax credits will be available with respect to dividends paid by us.

Distributions of additional shares with respect to ordinary shares or ADSs that are made as part of a *pro rata* distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

Capital Gains

Upon a sale or other disposition of ordinary shares or ADSs, you will recognize gain or loss for United States federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and the your tax basis, determined in U.S. dollars, in the ordinary shares or ADSs. Generally, such gain or loss will be capital gain or loss, will be long-term capital gain or loss if your holding period for such ordinary shares or ADSs exceeds one year and any gain will be income from sources within the United States for foreign tax credit limitation purposes. The net amount of long-term capital gain recognized by an individual U.S. holder before January 1, 2009 generally is subject to taxation at a maximum rate of 15%. The deductibility of capital losses is subject to significant limitations.

As discussed in Portuguese Taxation Capital Gains, above, if we are a Portuguese Real Property Holding Company, U.S. holders could be subject to a Portuguese capital gains tax of 10% on capital gains realized under Portuguese law on the sale or other disposition of ordinary shares or ADSs that were held for 12 months or less. In the event that such a Portuguese tax is imposed, U.S. holders that do not receive significant foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of such Portuguese tax.

Deposits and withdrawals of ordinary shares in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

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U.S. INFORMATION REPORTING AND BACKUP WITHHOLDING

Dividends, interest (including original issue discount) and payments of the proceeds of a sale of our securities, paid to U.S. holders within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the U.S. holder is a corporation or other exempt recipient or provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, a non-U.S. person may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability. You may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim or refund with the Internal Revenue Service and filing any required information.

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PLAN OF DISTRIBUTION

At the time of offering any securities, we will supplement the following summary of the plan of distribution with a description of the offering, including the particular terms and conditions thereof, set forth in a prospectus supplement relating to those securities.

We may offer securities by way of a grant of rights to existing shareholders to acquire additional securities.

We may sell securities in any of the following ways: through underwriters or dealers; directly to one or a limited number of institutional purchasers; or through agents or by way of exercise of rights granted pro rata to our existing shareholders. Each prospectus supplement with respect to a series of securities will set forth the terms of the offering of those securities, including the name or names of any underwriters or agents, the price of such securities and the net proceeds to EDP from such sale, any underwriting discounts, commissions or other items constituting underwriters' or agents' compensation, any discount or concessions allowed or reallocated or paid to dealers and any securities exchanges on which those securities may be listed.

If underwriters are used in the sale, the securities may be underwritten pursuant to a stand-by underwriting agreement or acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices to be determined at the time of sale. We may offer the securities to the public either through underwriting syndicates of investment banking firms represented by managing underwriters, or directly by one or more such investment banking firms or others, as designated. Unless otherwise set forth in the applicable prospectus supplement, the obligations of the underwriters to purchase the securities will be subject to certain conditions precedent and the underwriters will be obligated to purchase all of the securities offered thereby if any are purchased. Any initial public offering price and any discounts or concessions allowed or reallocated or paid to dealers may be changed from time to time.

We may sell securities either directly to one or more institutional purchasers, or through agents designated by us from time to time. Any agent involved in the offer or sale of the securities will be named, and any commissions payable by us to such agent will be set forth in the applicable prospectus supplement. Unless otherwise indicated in such prospectus supplement, any such agent will be acting on a reasonable efforts basis for the period of its appointment.

We may authorize agents, underwriters or dealers to solicit offers by certain institutional investors to purchase offered securities which will be paid for and delivered on a future date specified in a prospectus supplement. The obligations of any purchasers under this delayed delivery and payment arrangements will not be subject to any conditions except that the purchase at delivery must not be prohibited under the laws of any jurisdiction in the United States to which the institution is subject.

Agents and underwriters may be entitled under agreements entered into with us to indemnification by us against certain civil liabilities, including liabilities under the Securities Act of 1933, or to contribution with respect to payments which the agents or underwriters may be required to make in respect thereof.

Agents and underwriters may engage in transactions with or perform services for EDP in the ordinary course of business.

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In the event that we do not list securities of any type or series on a U.S. national securities exchange or quotation system, various broker-dealers may make a market in the securities, but will have no obligation to do so, and may discontinue any market making at any time without notice. Consequently, it may be the case that no broker-dealer will make a market in securities of any series or that the liquidity of the trading market for the securities will be limited.

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The financial statements incorporated in this Prospectus by reference to the Annual Report on Form 20-F for the year ended December 31, 2003 have been so incorporated in reliance on the report of PricewaterhouseCoopers, independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing. PricewaterhouseCoopers is registered with the Ordem dos Revisores Oficiais de Contas.

VALIDITY OF THE SECURITIES

Morais Leitão, J. Galvão Teles & Associados will pass upon the validity of the ordinary shares for us and as to certain matters of Portuguese law. The validity of the debt securities and certain matters of New York law will be passed upon by Cleary, Gottlieb, Steen & Hamilton or any other law firm named in the applicable prospectus supplement as to certain matters of New York law. Shearman & Sterling LLP or any other law firm named in the applicable prospectus supplement will pass upon the validity of the debt securities and certain matters of New York law for any underwriters or agents. Cleary, Gottlieb, Steen & Hamilton may rely upon Morais Leitão, J. Galvão Teles & Associados with respect to certain matters governed by Portuguese law.

ENFORCEABILITY OF CIVIL LIABILITIES

We are a limited liability company (*sociedade anónima*) organized under the laws of the Portuguese Republic. All of our directors and executive officers, as well as certain experts named in this prospectus or in documents incorporated by reference, are resident outside the United States, and all or a substantial portion of our assets and the assets of such persons are located outside the United States, namely in Portugal. As a result, it may be difficult for you to effect service of process within the United States upon these persons or to enforce against them judgments obtained in U.S. courts predicated upon civil liabilities under the U.S. federal securities laws. Therefore, you may need to enforce U.S. courts' judgments in the Portuguese courts. In such an event, Portuguese law subjects the enforceability of foreign sentences to a High Court revision procedure, which is merely formal and aims exclusively to ensure respect for the due process of law. Based on the opinion of Morais Leitão, J. Galvão Teles & Associados, our Portuguese counsel, there is doubt as to the enforceability in Portugal, whether in original actions or in actions for enforcement of judgments of U.S. courts, of liabilities predicated solely upon the U.S. federal securities laws.

EXPENSES

The table on the following page sets forth the estimated expenses to be paid by us in connection with the issuance and distribution of the securities being registered.

Legal fees and expenses	U.S.\$ 600,000
Accounting fees and expenses	400,000
Printing and engraving expenses	3,000
Securities and Exchange Commission registration fee	
Miscellaneous	

Total	U.S.\$ 1,003,000
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WHERE YOU CAN FIND MORE INFORMATION

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at its Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. As a foreign private issuer, we have been required to make filings with the SEC by electronic means since November 2002. Any filings we make electronically will be available to the public over the Internet at the SEC's web site at www.sec.gov and at our web site at www.edp.pt.

We provide Citibank, N.A., as depositary, under the Deposit Agreement between us, the depositary and registered holders of the American depositary receipts evidencing our ordinary shares, with annual reports in English, including a review of operations, and annual audited consolidated financial statements prepared in conformity with generally accepted accounting principles in Portugal, or Portuguese GAAP, together with a reconciliation of operating income, net income and total stockholders' equity to generally accepted accounting principles in the United States, or U.S. GAAP. We also furnish the depositary with unaudited semi-annual consolidated financial statements prepared in accordance with Portuguese GAAP. Upon receipt of these reports, the depositary promptly mails them to all record holders of ADSs. We also furnish to the depositary in English all notices of meetings of holders of shares and other reports and communications that are made generally available to holders of shares. The depositary will mail to all holders of ADSs a notice containing the information (or a summary of the information) contained in any notice of a shareholders' meeting received by the depositary and will make available to all holders of ADSs such notices and all other reports and communications received by the depositary in the same manner as we make them available to holders of shares.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus and certain later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the following documents:

our annual report on Form 20-F for the year ended December 31, 2003, filed with the SEC on June 30, 2004 (SEC File No. 1-14648),

our report on Form 6-K, containing our results of operations for the three-month periods ended March 31, 2004 and 2003, furnished to the SEC on July 7, 2004,

our reports on Form 6-K, containing our results of operations for the six-month periods ended June 30, 2004 and 2003, furnished to the SEC on October 21, 2004 and October 26, 2004,

our report on Form 6-K containing our results of operations for the nine-month periods ended September 30, 2004 and 2003, furnished to the SEC on October 26, 2004,

any future filings on Form 20-F made with the SEC under the Securities Exchange Act of 1934, as amended, after the date of this prospectus and prior to the termination of the offering of the securities offered by this prospectus, and

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any future reports on Form 6-K that we furnish to the SEC after the date of this prospectus and prior to the termination of the offering of securities offered by this prospectus that are identified in such reports as being incorporated by reference in this prospectus.

You may request a copy of any and all of the information that has been incorporated by reference in this prospectus and that has not been delivered with this prospectus, at no cost, by writing or telephoning us at our principal executive offices, located at Praça Marquês de Pombal, 12, 1250-162 Lisbon, Portugal, +351-21-001-2500, attention: Mr. Pedro Pires, Investor Relations.

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	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

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Total Shareholders Equity	<u>6,520,211</u>	<u>5,364,221</u>	<u>5,298,007</u>
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

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Table of Contents**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 (*) <i>(unaudited)</i>	Jun 2004 Euro 000 <i>(unaudited)</i>	Jun 2003 Euro 000 <i>(unaudited)</i>
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

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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)

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	(590,410)	(485,734)	(511,918)
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

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Table of Contents**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		Legal	Reserves		
	Shareholders	Share	and special	and retained	Fair value	Treasury
	Equity	capital	reserve	earnings	reserves and other valuation	stock
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

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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

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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. (Hidrocantábrico), a company in which it undertakes a joint operational management. Hidrocantábrico 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 Hidrocantábrico

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.

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

Notes to the Financial Statements (Continued)

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

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 conessor 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.

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

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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, 6º. 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.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

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.

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:

<u>Assets</u>	<u>Liabilities</u>	<u>Shareholders Equity</u>	<u>Profit before tax for the period</u>
<u>DR / (CR)</u>	<u>DR / (CR)</u>	<u>DR / (CR)</u>	<u>DR / (CR)</u>
<u>Euro 000</u>	<u>Euro 000</u>	<u>Euro 000</u>	<u>Euro 000</u>

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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.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****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
	<u> </u>	<u> </u>
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>

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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:

	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
	170,794	199,834
Cash equivalents:		
- Other treasury securities	32,745	87,668
- Overdrafts	(625,894)	(595,912)
	(593,149)	(508,244)
Cash and cash equivalents	(422,355)	(308,410)

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****4. Accounts receivable - Trade, net**This balance **Accounts receivable - Trade, net** is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
	<u> </u>	<u> </u>
<i>Resident customers:</i>		
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>
<i>Non-resident customers:</i>		
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)
	<u>1,082,728</u>	<u>1,108,064</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****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>

633,570	651,843
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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****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> </u>	<u> </u>
	144,026	159,236
Provision for inventories	(10)	
	<u> </u>	<u> </u>
	<u>144,016</u>	<u>159,236</u>

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

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
	<u> </u>	<u> </u>

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>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

- (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.
- (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.

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

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	139,847	113,858
	<u>2,058,053</u>	<u>1,909,987</u>
<i>Provision for financial assets :</i>		
Shareholdings	(265,012)	(285,790)
Other financial investments	(1,161)	(1,391)
	<u>(266,173)</u>	<u>(287,181)</u>
<i>Amortization of investment in properties</i>	(361)	(355)
	<u>(361)</u>	<u>(355)</u>
	<u>(266,534)</u>	<u>(287,536)</u>
	<u>1,791,519</u>	<u>1,622,451</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**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.

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

<u>Subsidiary Companies</u>	<u>Head office</u>	<u>Share capital / Currency</u>	Shareholders	Net	% Group
			Equity	Profit	
			31 Dec 2003	31 Dec 2003	
			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%

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

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
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>

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<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>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

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).

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

	Balance				Changes in	Balance
	January 1st	Acquisitions / Charge year	Disposals	Transfers	Subsidiaries / Other	June 30
	Euro 000	Euro 000	Euro 000	Euro 000	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></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></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:

	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
	2,650,940	2,734,138

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**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>

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

	Balance				Changes in	
	January 1st	Acquisitions / Charge year	Disposals	Transfers	Subsidiaries / Other	Balance June 30
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
Cost :						
Set-up costs	85,157	308	(133)	(74)	197	85,455

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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>
<i>Accumulated amortization :</i>						
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>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

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	
	Rights	amortization	Amount	Rights	amortization	Net 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
	<u>835,583</u>	<u>(152,640)</u>	<u>682,943</u>	<u>835,366</u>	<u>(137,445)</u>	<u>697,921</u>
Amortization charges for the period		<u>(15,220)</u>			<u>(30,439)</u>	

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	Accumulated	
	invested	amortization	Net Amount
	Euro 000	Euro 000	Euro 000
Development projects by business area:			
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

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	98,129	(51,048)	47,081
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As at June 30, 2004, the breakdown of the **Industrial property and other rights** assets, is as follows:

		Amount invested	Accumulated amortization	Net Amount
	EDP Group Company	Euro 000	Euro 000	Euro 000
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

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****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						
Hydrocantábrico 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						
Comnexo	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>

<i>Amortization charges for the period</i>	(29,644)	(54,439)
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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.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

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
EDP Group	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



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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****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
- Hidrocentrífico 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 Hidrocentrífico	34,400	
	<u>254,400</u>	<u>170,000</u>

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	1,649,066	1,579,130
	<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
- Hidrocontábrico Group	666,134	761,800
- EDP Finance BV	550,000	550,000
- Other	15,895	67,032
	<u> </u>	<u> </u>
	2,197,415	2,289,247
	<u> </u>	<u> </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> </u>	<u> </u>
	3,513,451	3,524,332
	<u> </u>	<u> </u>
Commercial paper		
- EDP, SA	100,000	100,000
	<u> </u>	<u> </u>
	100,000	100,000
	<u> </u>	<u> </u>
	5,810,866	5,913,579
	<u> </u>	<u> </u>
	7,459,932	7,492,709
	<u> </u>	<u> </u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****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

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476,298

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

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

Issuer	Issue date	Interest rate	Repayment/ conditions	Group Euro 000
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.

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 Euro 000	Market Value Euro 000	Carrying Value Euro 000	Market Value 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

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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

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****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
	215,280	187,262

14. Accrued costThe balance **Accrued cost** is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Accrued costs:		

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- 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:

	<u>Group</u>	
	<u>Jun 2004</u>	<u>Dec 2003</u>
	<u>Euro 000</u>	<u>Euro 000</u>
<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
	<u>204,634</u>	<u>269,103</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****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

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.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

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	Brazil	Group	Portugal	Brazil	Group
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
<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
<i>Liabilities at the end of the period</i>	1,475,504	86,511	1,562,015	1,412,541	64,750	1,477,291

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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.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

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		40% of the eligible actives	
	Not applicable		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.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

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.

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

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<i>Assets at the end of the period</i>	805,685	61,075	866,760	785,147	31,355	816,502
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****II. Pension Plans - Defined Contribution Type**

Hidrocantábrico 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
Assumptions		
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

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****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

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

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.

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

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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
	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.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

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 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

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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.

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.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****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	
	Euro 000	Dec 2003 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	
	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)
	<u>2,419,798</u>	<u>2,347,027</u>

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	Average	Rates	Average
		Closing	exchange-rate	Closing	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

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

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.

24. Revenues

The **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

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Services rendered by sector of activity/business:		
Associated with electricity sales	44,654	26,284
Thermo/Hydro electricity engeneering	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
	<hr/>	<hr/>
	267,105	199,176
	<hr/>	<hr/>
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
	<hr/>	<hr/>
	3,531,982	3,345,691
	<hr/>	<hr/>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**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>

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

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Other services provided	27,107	5,167
	<u>267,105</u>	<u>199,176</u>

25. Personnel costs

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

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

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****26. Depreciation and amortization**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
	404,757	391,467
<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	
	22,015	16,879
<i>Compensation of depreciation of part-funded fixed assets:</i>		
Compensated fixed assets	(37,975)	
	(37,975)	
	388,797	408,346

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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.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****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	Jun 2003
	Euro 000	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	Jun 2003
	_____	_____

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	Euro 000	Euro 000
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>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****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
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>

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

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	Jun 2004	Jun 2003
	Euro 000	Euro 000
	<u> </u>	<u> </u>
<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
	<u> </u>	<u> </u>
	104,890	128,789
	<u> </u>	<u> </u>
<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
	<u> </u>	<u> </u>
	239,573	262,638
	<u> </u>	<u> </u>
Amortization of investments (Goodwill):		
- Concession rights	15,220	22,978
- Goodwill assets	29,644	25,704
- Other intangible assets on telecommunications business	1,909	
	<u> </u>	<u> </u>
	46,773	48,682
	<u> </u>	<u> </u>
	286,346	311,320
	<u> </u>	<u> </u>
<i>Net Financial Income / (Expenses)</i>	<u>(181,456)</u>	<u>(182,531)</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****32. Other non-operating income / (expenses)**The balance **Other non-operating income / (expenses)** is analysed as follows:

	Group	
	Jun 2004	Jun 2003
	Euro 000	Euro 000
<i>Other non-operating income</i>		
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
	32,382	93,873
<i>Other non-operating (expenses)</i>		
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
	52,457	34,494
<i>Net Non-Operating Results</i>	(20,075)	59,379



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.

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.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

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.

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	%
	<u> </u>	<u> </u>	<u> </u>

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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%
Effective rate and actual tax on profits		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%
Effective rate and actual tax on profits		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.

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****EDP Group Business by Business Segment****Information by business segment - 1st Half 2004****(Amounts expressed in thousands of euros)**

	<u>Portugal</u>		<u>Spain</u>			<u>Brazil</u>			<u>Information Technology</u>	<u>Services and Other Adjustments</u>	<u>EDP Group</u>
	<u>Generation^(a)</u>	<u>Distribution + Supply</u>	<u>Generation</u>	<u>Distribution + Supply</u>	<u>Gas^(b)</u>	<u>Generation</u>	<u>Distribution</u>	<u>Telecoms</u>			
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 /	2,073	(89,537)	(2,801)	2,679	629	(98)	(4,496)	1,455	878	(13,073)	(102,291)

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(costs)											
	(85,430)	(297,757)	(18,793)	(13,075)	(7,398)	(6,679)	(59,484)	(148,525)	(57,867)	70,114	(624,894)
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 amortization	118,490	175,964	20,039	6,868	12,118	2,257	26,842	31,814	14,803	17,576	426,771
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

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	<u>Portugal</u>		<u>Spain</u>			<u>Brazil</u>		<u>Telecoms</u>	<u>Information Technology</u>	<u>Services and Other Adjustments</u>	<u>EDP Group</u>
	<u>Generation (a)</u>	<u>Distribution + Supply</u>	<u>Generation</u>	<u>Distribution + Supply</u>	<u>Gas (b)</u>	<u>Generation</u>	<u>Distribution + Supply</u>				
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
	<u>643,580</u>	<u>1,848,279</u>	<u>121,057</u>	<u>150,481</u>	<u>12,929</u>	<u>18,401</u>	<u>441,627</u>	<u>150,011</u>	<u>95,230</u>	<u>(135,904)</u>	<u>3,345,691</u>
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
	<u>163,377</u>	<u>1,253,957</u>	<u>65,344</u>	<u>121,409</u>	<u>5,655</u>	<u>1,803</u>	<u>304,332</u>	<u>3,152</u>	<u>10,870</u>	<u>(88,835)</u>	<u>1,841,064</u>
Gross Margin	<u>480,203</u>	<u>594,322</u>	<u>55,713</u>	<u>29,072</u>	<u>7,274</u>	<u>16,598</u>	<u>137,295</u>	<u>146,859</u>	<u>84,360</u>	<u>(47,069)</u>	<u>1,504,627</u>
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	(27)	(82,200)	1,175	(759)	184	(1,235)	(328)	36	1,299	(6,214)	(88,069)

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(costs)											
	(72,565)	(297,701)	(14,038)	(14,136)	(2,000)	(8,918)	(53,726)	(152,518)	(63,223)	51,904	(626,921)
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)	(6,377)	(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

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	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	<u>60,200</u>	<u>33,857</u>	<u>29,027</u>	<u>31,914</u>	<u>30,561</u>	<u>20,503</u>	<u>588</u>
Depreciation and amortization	10,940	8,323	7,562	10,352	8,300	7,802	73

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Provisions	3,862	2,694	1,693	2,104	6,573	1,999	
Operating Margin	45,398	22,840	19,772	19,458	15,688	10,702	515
Financial income / (expense) (Amortization of goodwill and concession rights)	(8,550)	(37,057)	(8,820)	(14,863)	48,095	(3,096)	(12)
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	33,759	(14,386)	9,492	2,887	84,878	715	525
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)	
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	

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****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:

Commitments	Group
	Euro 000
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
	511,404
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
	146,076
	657,480

Bank guarantees provided for operational activities are as follows:

Group
Euro 000

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Domestic banks	12,352
Foreign banks	76,799
	89,151

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 Euro 000	Liabilities Euro 000	Assets Euro 000	Liabilities 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		8,000,000	

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

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.

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	1 year	More than

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	3 months	to 1 year	to 5 years	5 years	Total
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
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>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

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.

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.

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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

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

Notes to the Financial Statements (Continued)

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

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.

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

Notes to the Financial Statements (Continued)

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

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.

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

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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

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

Notes to the Financial Statements (Continued)

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

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

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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.

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

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

Notes to the Financial Statements (Continued)

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

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 Hidroantábrico 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

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.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)***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.

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
j. Equity accounting on investments - Hidrocantábrico	103	85	1,869

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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)
	<u> </u>	<u> </u>	<u> </u>
Net adjustments	247,925	203,970	153,194
	<u> </u>	<u> </u>	<u> </u>
Net income in accordance with U.S. GAAP	582,008	478,822	335,237
	<u> </u>	<u> </u>	<u> </u>
Basic and diluted net income per share	0.20	0.16	0.11
	<u> </u>	<u> </u>	<u> </u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****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
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 - Hidrocantábrico	(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
Net adjustments	(1,975,913)	(1,625,596)	(1,800,669)
Shareholders' equity in accordance with U.S. GAAP	4,544,298	3,738,625	3,497,338

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

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	Jun 2004 Euro 000	Euro 000
	<u> </u>	<u> </u>
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> </u>	<u> </u>
	3,738,625	3,497,338
	<u> </u>	<u> </u>
Total liabilities and shareholders' equity	<u>18,118,138</u>	<u>17,730,012</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****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
	Euro 000	Euro 000
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
Comprehensive income	542,934	264,646

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
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

	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

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****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		Weighted average exercise price
	1999 option plans	Option activity	
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.*

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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 Hidrocarbónico (HC). For US GAAP purpose investments in jointly controlled entities must be accounted using the equity method. The differences in accounting treatment between

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

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 Hidrocantábrico is as follows:

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

EDP increases stake in hidroantábrico 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

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

Notes to the Financial Statements (Continued)

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

Reaseguros, S.A. (Cáser) that will lead to the acquisition of an additional 56.2% stake in Hidroeléctrica del Cantábrico, S.A. (Hidrocantábrico), and permit EDP to increase its current stake from 39.5% to 95.7% of Hidrocantábrico'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 Hidrocantábrico provide for the acquisition of the entire stake held by EnBW in Hidrocantábrico (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 Hidrocantábrico currently in force, allowing for a higher degree of integration of EDP's and Hidrocantábrico's activities.

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

In addition, Cajastur will have the right, for a long period of time, to sell out of Hidrocantábrico'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.

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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.

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

Notes to the Financial Statements (Continued)

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

Completion of the acquisition by EDP of the shares held by Hidrocantábrico'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 Hidrocantábrico 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 Hidrocantábrico 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

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.

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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.

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

Notes to the Financial Statements (Continued)

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

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.

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To the Board of Directors of

EDP - Electricidade de Portugal, S.A.

Report of Independent Registered Public Accounting Firm

In our opinion, the accompanying consolidated balance sheets and the related consolidated profit and loss account, consolidated statement of cash flows and changes in consolidated statement of shareholders' equity present fairly, in all material respects, the financial position of EDP Electricidade de Portugal, S.A. and its subsidiaries at December 31, 2003 and December 31, 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in Portugal. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Additionally, as described in Note 2 to the accounts, the Company has changed its accounting policy for recognition and measurement of financial instruments and impairment of assets during the year ended December 31, 2003.

Accounting principles generally accepted in Portugal vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in the Note 39 to the consolidated financial statements.

/s/ PricewaterhouseCoopers

Lisbon, Portugal

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March 15, 2004, except for the contents of Note 40,

as to which date is June 29, 2004

PricewaterhouseCoopers - Auditores e Consultores, Lda.

Sede: Avenida da Liberdade 245 8º A, 1269 - 034 Lisboa

Contribuinte nº. 504193279 Capital social Euros 750.000

Matriculada na Conservatória do Registo Comercial sob o nº. 7297

Table of Contents**EDP - ELECTRICIDADE DE PORTUGAL, S.A. AND SUBSIDIARIES****Consolidated Balance Sheets as at December 31, 2003 and 2002**

	Notes	2003 USD 000 (*)	2003 Euro 000	2002 Euro 000
Assets				
Cash and cash equivalents	4	349,883	287,496	213,973
Accounts receivable - trade, net	5	1,348,514	1,108,064	970,860
Accounts receivable - other, net	6	793,293	651,843	740,543
Inventories	7	193,790	159,236	150,305
Prepaid expenses and other current assets				1,772
Total Current Assets		2,685,480	2,206,639	2,077,453
Long term receivables	8	530,420	435,842	260,584
Investments, net	9	1,974,523	1,622,451	1,965,984
Fixed assets, net	10	14,179,996	11,651,599	11,204,237
Other assets, net	11	3,327,446	2,734,138	2,616,932
Total Non-Current Assets		20,012,385	16,444,030	16,047,737
Total Assets		22,697,865	18,650,669	18,125,190
Liabilities and Shareholders Equity				
Short term debt and current portion of long term debt	12	1,921,801	1,579,130	1,887,033
Accounts payable - trade	13	952,456	782,626	1,018,571
Accounts payable - other	14	227,898	187,262	173,677
Accrued cost	15	287,862	236,534	294,499
Taxes payable	16	327,498	269,103	49,752
Deferred revenue	17	286,925	235,764	94,855
Total Current Liabilities		4,004,440	3,290,419	3,518,387
Long term debt	12	7,196,826	5,913,579	6,107,042
Accrued pension and post retirement liabilities	18	684,274	562,263	608,256
Deferred revenue and other liabilities	19	3,605,253	2,962,410	2,008,013
Total Non-Current Liabilities		11,486,353	9,438,252	8,723,311
Total Liabilities		15,490,793	12,728,671	12,241,698
Minority interests	20	287,802	236,485	65,199
Hydrological correction account	21	471,595	387,506	324,111
Share capital	22	3,651,000	3,000,000	3,000,000
Treasury stock	24	(59,657)	(49,020)	(43,494)
Reserves and retained earnings	25	2,392,522	1,965,918	2,202,460

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Consolidated net profit	25	463,810	381,109	335,216
Total Shareholders' Equity		6,447,675	5,298,007	5,494,182
Total liabilities and Shareholders' equity		22,697,865	18,650,669	18,125,190

(*) Converted at 1.217 USD

See accompanying notes to the Consolidated Financial Statements

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Table of Contents**EDP - ELECTRICIDADE DE PORTUGAL, S.A. AND SUBSIDIARIES****Consolidated Profit and Loss Account****for the years ended December 31, 2003, 2002 and 2001**

		2003	2003	2002	2001
		USD 000 (*)	Euro 000	Euro 000	Euro 000
	Notes				
<i>Revenues</i>					
Sales	26	7,857,391	6,456,361	5,988,140	5,299,242
Services rendered	26	634,251	521,159	398,417	351,132
		<u>8,491,642</u>	<u>6,977,520</u>	<u>6,386,557</u>	<u>5,650,374</u>
<i>Operating costs and expenses, net</i>					
Raw materials and consumables	26	4,771,913	3,921,046	3,687,097	3,078,864
Personnel costs	27	786,956	646,636	624,771	591,973
Depreciation and amortization	28	1,029,085	845,592	739,541	664,691
Supplies and services	29	769,774	632,518	675,070	651,230
Own work capitalized	30	(286,753)	(235,623)	(241,769)	(232,519)
Concession and power-generating rents		213,758	175,643	158,176	149,114
Provisions	31	92,134	75,706	100,645	115,986
Other operating expenses / (income)	32	12,486	10,260	(5,678)	(42,498)
		<u>7,389,353</u>	<u>6,071,778</u>	<u>5,737,853</u>	<u>4,976,841</u>
Operating Margin		1,102,289	905,742	648,704	673,533
Interest and related income	33	376,083	309,025	381,720	251,422
Interest and related expenses	33	(813,011)	(668,045)	(604,564)	(456,755)
Other non-operating income / (expenses)	34	(17,577)	(14,443)	(138,939)	125,989
Profit before tax		647,784	532,279	286,921	594,189
Provision for income taxes	35	291,173	239,255	171,168	244,012
Provision for deferred taxes	35	(53,208)	(43,721)	571	(41,059)
Profit after tax		409,819	336,745	115,182	391,236
Minority interests		(53,992)	(44,364)	(220,034)	(59,559)
Consolidated Net Profit		463,811	381,109	335,216	450,795
Net Profit per share - Basic - Euros	22	0.15 USD	0.13 euros	0.11 euros	0.15 euros

(*) Converted at 1.217 USD

See accompanying notes to the Consolidated Financial Statements

Table of Contents**EDP - ELECTRICIDADE DE PORTUGAL, S.A. AND SUBSIDIARIES****Consolidated Statement of Cash Flows**

for the years ended December 31, 2003, 2002 and 2001

	2003	2003	2002	2001
	USD 000	Euro 000	Euro 000	Euro 000
<i>Cash Flow from Operating Activities</i>				
<i>Operating activities :</i>				
Cash receipts from customers	8,362,401	6,871,324	6,215,764	5,350,306
Cash paid to suppliers	(5,178,720)	(4,255,316)	(4,085,818)	(3,336,852)
Cash paid to staff	(860,703)	(707,233)	(685,792)	(632,241)
Concession rents paid	(209,019)	(171,749)	(158,176)	(149,114)
	2,113,959	1,737,026	1,285,978	1,232,099
Cash flows provided by operating activities				
Income tax received / (paid)	(177,722)	(146,033)	(277,444)	(111,607)
Other variations of operating	181,338	149,004	(62,527)	121,177
	3,616	2,971	(339,971)	9,570
Cash flow before Extraordinary items	2,117,575	1,739,997	946,007	1,241,669
Proceeds in respect of extraordinary items	203,007	166,809	28,026	16,779
Payments in respect of extraordinary items	(162,113)	(133,207)	(76,363)	(37,274)
	40,894	33,602	(48,337)	(20,495)
Net Cash flow provided by Operating Activities	2,158,469	1,773,599	897,670	1,221,174
<i>Cash Flow from Investing Activities</i>				
<i>Cash receipts resulting from:</i>				
Investments and long term-receivables	555,950	456,820	193,377	175,839
Tangible and intangible fixed assets	40,896	33,604	77,603	5,710
Fixed assets subsidies	90,130	74,059	56,448	132,106
Interest	16,145	13,266	4,083	
Dividends	44,619	36,663	40,042	16,831
Disposal of investments in subsidiaries			315,000	
	747,740	614,412	686,553	330,486
<i>Cash payments resulting from:</i>				
Investments	(49,409)	(40,599)	(55,511)	(734,091)
Tangible fixed assets	(1,137,667)	(934,813)	(931,346)	(709,201)
Intangible fixed assets	(82,650)	(67,913)	(42,981)	(130,178)
Aquisition of subsidiaries and associates	(121,986)	(100,235)	(798,124)	
	(1,391,712)	(1,143,560)	(1,827,962)	(1,573,470)
Net Cash Flow used in Investing Activities	(643,972)	(529,148)	(1,141,409)	(1,242,984)

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Cash Flow from Financing Activities

Cash receipts resulting from:

Loans obtained	16,349,978	13,434,657	12,905,666	4,639,262
	<u>16,349,978</u>	<u>13,434,657</u>	<u>12,905,666</u>	<u>4,639,262</u>

Cash payments resulting from:

Loans repaid	(16,823,088)	(13,823,408)	(11,884,708)	(4,040,265)
Interest and similar costs	(555,036)	(456,069)	(375,734)	(254,104)
Dividends	(326,491)	(268,275)	(337,675)	(415,922)
Acquisition of treasury stock	(6,725)	(5,526)	(10,399)	(25,057)
	<u>(17,711,340)</u>	<u>(14,553,278)</u>	<u>(12,608,516)</u>	<u>(4,735,348)</u>

Net Cash Flow used in Financing Activities **(1,361,362)** **(1,118,621)** **297,150** **(96,086)**

Variation of cash and cash equivalents **153,135** **125,830** **53,411** **(117,896)**

Effect of currency translation differences (32,836) (26,981) 7,857 (9,681)
 Cash and cash equivalents at the beginning of the period (495,634) (407,259) (468,527) (340,951)

Cash and cash equivalents at the end of the period (*) **(375,335)** **(308,410)** **(407,259)** **(468,528)**

(*) See note 4 to the Financial Statements, detailing the breakdown of Cash and Cash equivalents

See accompanying notes to the Consolidated Financial Statements

Table of Contents**EDP - ELECTRICIDADE DE PORTUGAL, S.A. AND SUBSIDIARIES****Changes in Consolidated Statements of Shareholders' Equity**

for the years ended December 31, 2003, 2002 and 2001

	(Thousands of Euros)					
	Total	Share	Reserves		Fair value reserves and other valuation	Treasury stock
			Shareholders	and special		
Equity	capital	reserve	earnings	valuation	stock	
Balance as at December 31, 2000	6,204,730	3,000,000	259,641	2,953,127		(8,038)
Transfer to reserves:						
Legal and special reserves			27,449	(27,449)		
Dividends paid (Eur 0.14 per share)	(418,990)			(418,990)		
Purchase and sale of treasury stock	(25,057)					(25,057)
Net profit for the year	450,795			450,795		
Other reserves arising on consolidation	(114,720)			(114,720)		
Balance as at December 31, 2001	6,096,758	3,000,000	287,090	2,842,763		(33,095)
Transfer to reserves:						
Legal and special reserves			22,541	(22,541)		
Bonus to employees	(22,073)			(22,073)		
Dividends paid (Eur 0.11 per share)	(337,675)			(337,675)		
Purchase and sale of treasury stock	(10,399)					(10,399)
Net profit for the year	335,216			335,216		
Exchange differences arising on consolidation	(300,028)			(300,028)		
Fair value of investments available for sale	(268,975)				(268,975)	
Other reserves arising on consolidation	1,358			1,358		
Balance as at December 31, 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 (see note 8)	(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, 2003	5,298,007	3,000,000	326,391	2,009,880	10,756	(49,020)

(*) 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

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

Notes to the Financial Statements

December 31, 2003, 2002 and 2001

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. (Hidrocantábrico), a company in which it undertakes operational management. Hidrocantábrico 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 Hidrocantábrico constitutes part of a reasoning 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.

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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.

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

a) 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 9, 18, 37

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and 39, particularly as a result of the adoption of International Accounting Standards IAS 19, IAS 22, 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 40. 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.

The accounting standards are consistent with those applied in the previous year, except for the changes resulting from the early adoption of IAS 32, IAS 36 and IAS 39.

The translation of the euro amounts into U.S. dollars is disclosed in the accompanying financial statements solely for the convenience of the readers and has been made at the rate of US\$ 1,217 to Euro 1.00, the exchange rate at June 24, 2004. No representation is made that the euro amounts could have been, or could be, converted into U.S. dollars at that or any other rate.

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.

c) Basis of consolidation

The consolidated financial statements reflect the assets, liabilities and results of EDP, S.A., and of its subsidiary companies, as defined in Note 7, and the proportional part of assets, liabilities and results of joint ventures in respect of the years ended December 31, 2003 and 2002.

Shareholdings in subsidiaries

Shareholdings in subsidiaries and in companies in which the Group directly or indirectly holds more than 50% of the voting rights at General Meetings of Shareholders or is able to control the financial and operating policies of a company have been included in the consolidated financial statements using the purchase method. The subsidiaries are included in the consolidation as from the date on which control is acquired up to the date on which it actually ends. The purchase method is used in accounting for the acquisition of subsidiaries. The acquisition cost corresponds to

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the fair value of the assets delivered, shares issued and liabilities assumed on the date of acquisition, plus those costs directly attributable to the acquisition.

Intra-group transactions, dividends distributed between Group companies, balances and unrealized gains on transactions between Group companies are eliminated. The value corresponding to the third-party holdings is carried under minority interests. The results of subsidiaries acquired or sold during the year are included in the profit and loss account from the date they are included in the consolidation perimeter up to the date of their sale. The companies consolidated using the purchase method are detailed in Note 9.

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Shareholdings in associate companies under the form of joint control

The interests of the Group in jointly-controlled entities are consolidated using the proportional method, namely Hidrocantábrico. The Group consolidates its proportion of costs and revenues, of the assets and liabilities and of the cash flows of the joint undertakings on a line-by-line basis with the respective similar components of the Group's financial statements.

Shareholdings in associated companies

Investments in associated companies are carried at the value resulting from the application of the equity method criteria. The differentials attributed by way of fair values are additionally considered. In accordance with this method, the consolidated financial statements include the Group's share of the total gains and losses recognised from the date on which significant influence begins up to the date on which it actually ends. Associates are entities in which the Group holds between 20% and 50% of the voting rights, or over which the Group has significant influence, although cannot exercise control over them. Unrealised gains or losses on transactions between the Group and its associates are eliminated.

The Group's investment in associates includes goodwill (net of accumulated amortisation) on the acquisition. When the share of the losses of an associate exceeds the investment in the associate, the Group recognises additional losses, if the Group shall have to incur in additional liabilities in benefit of the associate.

Shareholdings in subsidiaries resident abroad

In the consolidation, the value of assets and liabilities of subsidiaries resident abroad are recorded at their value in euros translated at the official exchange rates ruling on the balance sheet date. The results of the subsidiaries are consolidated using their value in euros at the average monthly exchange rate for the year. Currency differences resulting from translation into euros of the balance sheet at the beginning of the year and of the results of the year, at the official exchange rate ruling on the balance sheet date, are recorded against reserves.

Goodwill

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The Goodwill arising from the acquisition of shareholdings in subsidiaries and associates is defined as the difference between cost and the proportional fair value of the assets acquired. Positive Goodwill is recorded under intangible assets and amortized over the estimated useful life, usually of 20 years. Negative Goodwill is recorded in the same way, unless it can be attributed to future losses or to items of fixed assets. The value of the Goodwill carried on the balance sheet, as an intangible fixed asset, is reviewed annually, and adjustments are made in respect of permanent loss of value as necessary.

Concession rights in Brazil (investments in Bandeirante, Escelsa and Enersul)

The Concession rights in Brazil, namely the investments in Bandeirante, Escelsa and Enersul, are the result of the application of calculations and methodologies identical to those of the Goodwill, that is, the difference between the cost and the proportional fair value of the assets acquired. Concession rights are recorded under intangible fixed assets and are amortized over the useful life of the concession, usually of 30 years.

d) Investments Implementation by the EDP Group of International Accounting Standard 39 to financial instruments

Departing from accounting principles generally accepted in Portugal, the EDP Group has made early implementation of International Accounting Standard 39 - Recognition and Measurement of financial instruments during fiscal year of 2003, having calculated the retroactive effects as to December 31, 2002.

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Consequently, the EDP Group classifies its investments in accordance with this international accounting standard, particularly with regard to the types of financial instruments and their recognition and measurement, carrying them under the following categories of financial assets: Trading; Held to maturity; and Available for sale. The classification depends on the purpose for which the investments were acquired.

The Board of Directors determines the classification of these investments on the date of acquisition and re-assesses this classification on a regular basis.

Trading account securities

Investments acquired primarily for the purpose of being traded in the very short term are classified as Trading Securities and are recorded as current assets. For the purpose of these consolidated financial statements, short term is defined as 3 months. Realized and unrealized gains and losses caused by changes to the fair value of trading securities are recorded in the profit and loss account during the period in which they occur.

Medium and long-term investment portfolio (investment securities available for sale)

Investments expected to be held for an undetermined period of time and that can be sold to meet liquidity requirements or in the event of changes to interest rates, are classified as Available for sale under non-current assets, unless the board of directors has the express intention of holding the investments during a period of less than 12 months from the balance sheet date or if there is a need to sell them to generate operating capital, in which case they are carried under current assets. Acquisition cost includes transaction costs. Investments available for sale are accounted at their fair value.

Unrealised gains and losses caused by changes to the fair value of investments classified as available for sale are recognised against reserves. The fair value of investments is based on the listed prices or on amounts derived from cash-flow models. The fair values of unlisted shareholders equity instruments are estimated using applicable price/earnings or price/cash-flow ratios, adjusted to reflect any specific circumstances of the securities issuers. Shares for which fair values cannot be reliably measured are recognised at cost less impairment losses.

When instruments classified as available for sale are sold or subject to impairment losses, the cumulative adjustments of fair value are accounted in the profit and loss account as gains or losses.

e) Impairment of long-term assets

In addition to implementation of IAS 39, the EDP Group has implemented IAS 36, which deals with impairments. Tangible fixed assets and other non-current assets, including goodwill, concession rights and intangible fixed assets, are subject to annual review to determine the existence or otherwise of impairment when events or circumstances indicate that their carrying amount cannot be recovered. An impairment loss is recognised for the excess of the carrying amount of an asset over its recoverable amount, which is defined as the greater of the net value of the sale of the asset and its value in use. For the evaluation of possible impairment, assets are grouped together in the smallest identifiable group of assets generating separate cash flows.

f) Assets and liabilities expressed in foreign currencies

All assets and liabilities expressed in foreign currency have been translated into euros using the exchange rate ruling on the balance sheet date. Favourable and unfavourable currency translation differences caused by

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differences between the exchange rate ruling on the date of the transaction and those ruling on the collection, payment or balance sheet date are recorded as gains or losses in the profit and loss account.

*g) Tangible fixed assets**Fixed assets owned by the Group*

Tangible fixed assets, except those assets existing at the time of the split of EDP in 1994, which are carried at the amounts resulting from the valuation undertaken in 1992, are recorded at cost (acquisition or construction), net of accumulated depreciation. Fixed assets include financial costs and currency translation differences capitalised during the construction stage, resulting from loans taken out to finance them, as well as overheads.

Fixed assets contributed in kind/cash by third parties are amortized on the same basis and at the same rates as the Group's other fixed assets, the respective counter costs compensated in extraordinary income, by the straight-line amortisation of such compensation (recorded under Accruals & Deferrals - Investment Subsidies) on the same basis and at the same rates as the respective contributed fixed assets. Current fixed asset repair and maintenance costs are considered costs for the year in which they are incurred. Expenditures on major repairs and improvements are treated as deferred costs and are amortised over a maximum period of 6 years.

The depreciation and amortisation rates are calculated on the straight-line basis taking into consideration the useful life of each type of fixed assets analysed as follows:

	Rates in Years
Buildings and related improvements	8-50
Plant, machinery and equipment:	
Hydroelectric generation	32-60
Thermoelectric generation	25-30
Renewables generation	30
Distribution	10-30
Other plant and equipment	5-10
Transport equipment	4-25
Administrative equipment	4-10

Fixed assets allocated to the EDP Distribuição concessions

Under the terms of Decree-Law 344-B/82, as mentioned in note 1, low-tension electricity distribution concessions do not involve the sale of the assets of the concessor municipalities, which remain their property, without prejudice to their allocation to operation by the Group. In accordance with the foregoing, the fixed assets allocated to the concession are carried under tangible fixed assets, with a contra entry under medium-and long-term liabilities (Other Debtors and Creditors - DL 344-B/82 Regularisation Account).

The amounts of these fixed assets are carried at the costs arising from the valuation made in 1992, net of accumulated depreciation. The fixed assets allocated to the concession are amortised on the same basis and at the same rates as those of the Company's own fixed assets, the respective cost being compensated under extraordinary income (Note 27), by the reduction, on an equal amount, of the liability towards Municipalities carried under liabilities. The Group is responsible for the maintenance and repair of these fixed assets during the life of the concession contract, the costs being recorded in the same basis with those of the Group's own fixed assets.

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Multipurpose Hydroelectric Plants of Companhia Portuguesa de Produção de Electricidade (CPPE)

Multipurpose Hydroelectric Plants correspond to that part of the hydroelectric power stations built by the Group that is used for sundry purposes that do not lie within the scope of its electricity generating business (irrigation, water supplies to the population, etc.), and for this reason they are subsidised by the State. These fixed assets are carried at construction cost, which includes overheads, as indicated for the Group's own fixed assets. These fixed assets are not amortised. The value attributed to the investment for which the State is responsible in multipurpose hydroelectric plants has been determined by application of provisional percentages to the accumulated direct costs of these facilities. Part funding received from State in respect of these facilities is carried under medium-and long-term liabilities.

h) Financial investments in properties

Financial investments in Properties are carried at the amount of the valuation undertaken during 1992, the difference between this and historic costs have been recorded under revaluation reserves. These investments are amortised over the useful life of the property.

i) Intangible fixed assets

Excluding the goodwill and the concession rights in Brazil balances, intangible fixed assets include set-up costs, research and development costs, and intellectual property and other rights. These balances are amortized using the straight-line method over a period of three to six years.

Those investments that increase the performance of software programs over and above their original specifications are added to the original cost of the software. Software development costs recognised as assets are amortised using the straight-line method over their useful life, generally 3 to 6 years. The Group's major corporate, information and managements IT systems developed on SAP platforms are amortised using the straight-line method over their useful life of 10 years.

j) Deferred costs

Deferred costs stated within other assets in the accompanying balance sheet, include amounts incurred in connection with the issuance of long term debt and major repairs and improvements to fixed assets. Debt issuance costs are amortized over the term of the bonds or long term debt. Costs for major repairs and improvements are amortized over a maximum period of six years.

k) Inventories

Stocks are carried at cost or at market price if less than cost, warehouse outgoings (consumption) are valued at average cost.

l) Recognition of costs and revenues

Costs and revenues are recorded during the year to which they relate regardless of when paid or received. Differences between amounts received and paid and the corresponding revenue and expenditure are recorded under accruals and deferrals. Revenues comprises the amounts invoiced on the sale of products or of services provided, net of value added tax, rebates and discounts, after elimination of intra-group sales. The invoicing of electricity sales is undertaken on a monthly basis. Monthly electricity invoices are based on real meter reading or on estimated consumptions based on the historic data of each consumer. In Portugal ERSE establishes the SEP electricity tariffs.

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Revenues from the telecommunications businesses are recorded in the period which they occurred. These services are billed monthly and invoiced based on real meter reading or on estimated consumptions based on actual traffic.

Interest earned is recognised using the accrual accounting principle, taking into account the amount owed and the real interest-rate during the period to maturity. Dividends are recognised based on a cash basis.

m) Accounts receivable

Accounts receivable are recorded at their net realisable amount, considering the necessary provisions for doubtful debt. These provisions are quantified and recorded based on the valuation of estimated losses from non-collection of accounts receivable at the end of each year.

n) Liabilities for holiday pay and holiday subsidies

The amount of liabilities for holiday pay and holiday subsidies and the respective Social Security charges for the current year, payable in the following year, are recorded as costs of the current year, against accrued costs.

o) Social benefits extended to EDP Group employees

The Group records costs resulting from pensions and associated charges in accordance with the IAS 19, replacing the Portuguese Accounting Directive 19, that results from the adoption to Portuguese law of the earlier version of IAS19. Social benefits are detailed in Note 18 to the consolidated financial statements, as is the quantification of the effects of such alteration.

EDP and some of its subsidiaries have a commitment to supplement retirement and survivors' pensions to the extent that these are not covered by the government's social security plan. Employees may apply for early retirement, subject to certain conditions relating to applicable regulations namely pre-defined age and length of service requirements being met.

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Pension costs for defined benefit plans are recorded using the projected unit credit method. Under this method, the cost of providing pensions is charged to the profit and loss account to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plans every year. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related liability. Pension costs for defined contribution plans are expensed to income as incurred.

Wherever post-retirement medical assistance is also provided to retirees, the entitlement to these benefits is usually based on the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using an accounting method similar to that for defined benefit pension plans. Independent qualified actuaries perform valuations of these obligations.

The assets of these plans are held in separate trustee-administered funds. The pension plans are generally funded by payments from the relevant Group companies, taking into account the recommendations of the independent qualified actuaries.

p) Hydrological correction account

The hydrological correction account constitutes a legally mandated mechanism for compensating the variable costs of electric-power generation. In low rainfall years, the thermoelectric generating system is

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over-utilized and consequently, expenditure on fuel and electricity imports increases substantially. In years with abundant rainfall the opposite occurs. Tariffs can not be modified to take into account the changes in variable costs incurred resulting from hydrological conditions. In this context and with a view to avoiding major distortions in operating results due to favorable or unfavorable hydrological conditions, the hydrological correction account is adjusted upwards or downwards based upon average hydrological conditions.

The annual changes in the hydrological correction account consist of the following:

the difference between the economic costs of generating electricity and the economic reference costs is charged to REN for inclusion in the Binding Sector costs (prior to June 2000 this difference was charged to the income statement);

a financial charge associated with the hydrological correction account's accumulated balance;

an adjustment, which may be either an income or an expense item, corresponding to the amount necessary to make the expected balance, in a time scale of 10 years, equal to an adequate reference level.

The amount of the accumulated balance and the movements during the year are approved by the Government on an annual basis.

q) Own work capitalized

Using specific criteria, costs incurred by the Group (essentially materials, staff costs and financial charges) in the construction of fixed assets on a cost-plus basis, which are recorded in the profit and loss account by nature of expense, are included under fixed assets with a contra entry in this account.

r) Treasury stock

The EDP Group periodically acquires own shares mainly to satisfy obligations in connection with Company stock option plans. Shares acquired are recorded at acquisition cost.

s) Dividends payable

Dividends payable are recorded in the Group's financial statements during the year in which they are approved by the shareholders of the parent company EDP, S.A.

t) Statements of cash flows

The statements of cash flows are prepared using the direct and indirect methods.

Cash and cash equivalents presented on the balance sheets represent highly liquid investments purchased with original maturities of three months or less. Cash and equivalents in the statements of cash flows include cash and cash equivalents, net of bank overdrafts.

u) Taxation

Income tax is calculated on the basis of the taxable income of companies included in the consolidation and considers deferred taxation. Deferred taxes are calculated, using the balance sheet liability method, on the temporary differences between the book values of assets and liabilities and their respective taxable bases.

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The taxable base of assets and liabilities is determined so as to reflect the consequences of taxation resulting from the way in which the company expects, on the balance sheet date, to recover or to pay the recorded amount of its assets and liabilities. In determining deferred tax, the rate in effect or substantially activated on the balance sheet date is used. Recognised deferred tax assets are reduced to the recoverable amount that can be compensated against future expected profits.

3. Financial-risk management policies

Financial-risk management

The businesses of the EDP Group are exposed to a variety of financial risks, including the effects of changes to market prices, exchange rates and interest rates. The Group's exposure to financial risks lies essentially in its debt and derivatives portfolio, arising from the interest-rate risk, the exchange-rate risk and, to a limited extent, the risk of non-compliance by the counterparty in each operation.

The maturity of the financial markets is analysed on an ongoing basis in accordance with the Group's risk management policy. To minimise potential adverse effects on its financial performance, interest-rate and/or exchange-rate and derivatives instruments are employed, including collars (floors and caps).

The management of the financial risks of EDP, SA, and of EDP Finance, B.V. (and other entities) are undertaken by the central treasury in accordance with policies approved by the board of directors. Central treasury identifies, evaluates and submits to the Board for approval hedging mechanisms appropriate to each exposure. The board of directors is responsible for the definition of general risk-management principles and of exposure limits. All transactions undertaken using derivatives instruments require the prior approval of the board of directors, which defines the parameters of each transaction and approves formal documents describing the objectives.

Exchange-rate risk management

The Group operates internationally and is exposed to exchange-rate risk resulting from exposure to various currencies, mainly U.S. dollars and Brazilian reais. Currently, the exposure to the USD/EUR currency fluctuation risk results from the Brazilian companies that have financial debt expressed in US dollars. Debt contracted by the holding company is fully denominated in euros. Bonds issued by EDP Finance BV under the Medium Term Notes Programme in JPY and GBP are immediately converted into euros on the date of issue and to floating interest-rates through exchange-rate and interest-rate derivatives. Central Treasury is responsible for monitoring the evolution of the currencies referred above, seeking to mitigate the impact of currency fluctuations on the financial costs of the Group companies and, consequently on consolidated net profit, using

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exchange-rate derivatives and/or other hedging instruments, and restructuring these debts if required.

The Brazilian subsidiaries exposed to USD/BRL currency fluctuation through their debt in U.S. dollars use forward rate agreements and currency swaps to hedge this risk. Additionally, investments in the Brazilian subsidiaries, whose net assets are exposed to exchange-rate risks, are monitored through analysis of the evolution of the BRL/EUR exchange-rate. Given the long-term nature of investments in the Brazilian subsidiaries, the Group has decided not to use financial instruments to hedge the exchange-rate risk inherent to the investment in these subsidiaries. This position is further strengthened by the short-term nature of the exchange-rate fluctuations that have been seen. Nevertheless, these investment positions are duly monitored, taking into consideration the evolution of the respective exchange rates.

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The policy implemented by the EDP Group consists of undertaking derivatives operations for the purpose of hedging risks with characteristics similar to those of hedged liability. The operations are monitored throughout their useful life and, periodically, their effectiveness in controlling and hedging the risk that gave rise to them is evaluated. At the same time, these operations are revalued to market on an ongoing basis.

Interest-rate risk management

The Group's operating and financing cash flows are substantially independent from fluctuation of the interest-rate markets. The Group has no substantial volume of interest-earning assets. The aims of the interest-rate risk management policies are: i) to reduce debt financial charges and, subsequently; ii) to immunise the cash flows from debt market fluctuations by the settlement of derivatives instruments to fix the debt rates (swaps and caps), taking into consideration a comfortable margin compared with its regulated operating cash flows. Therefore, in floating-rate financing, the Group settles interest-rate instruments and derivatives to hedge cash flows associated with future interest payments, which have the effect of converting floating-interest rate loans into fixed-interest rate loans. Long-term loans settled at fixed rates are, when appropriate, converted into floating rates through interest-rate instruments and derivatives designed to reduce financial charges and to level them to market conditions. In addition to these derivatives operations, more structured collar operations are settled, as necessary, to mitigate exposure of debt cash flows to market rate fluctuations.

All these operations are undertaken on liabilities in the Group's debt portfolio and mainly involve perfect hedging, through matching the periodicity of payments/revenues between the operations and also considering their principal repayment profiles. The Group has a portfolio of interest-rate derivatives with maturities between approximately 1 and 15 years, and does not intend to cancel them before the date initially planned. The Group's Central Treasury undertakes sensitivity analyses of the fair value of financial instruments to interest-rate fluctuations.

Counter party credit-rate risk management in financial transactions

The EDP Group policy in terms of the counter party risk of financial transactions is governed by an analysis of the technical capacity, competitiveness, credit notation and exposure of each counter-party, avoiding significant concentrations of credit risks. Counter parties in derivatives and financial transactions are restricted to high-quality credit institutions, therefore, the Group does not believe that there is significant risk of counter party non-compliance. No collateral is required in these transactions.

The Group has adopted the best market practices in respect of documentation of its financial transactions. To this end, all derivatives operations are contracted under the ISDA Master Agreements, and bond issues are undertaken under a Debt Instrument Issue Programme. Regarding the third-party debt generated by the Group's day-to-day business, the credit risks arise essentially from the legal obligation of providing continuous low-tension electricity to municipalities that normally incur delays insofar as payment is concerned. This risk is considered to be mitigated by the large number of customers and their diversity in terms of sectors of activity and by the large volume of residential customers.

Liquidity risk

The EDP Group undertakes prudent management of the liquidity risk, contracting and maintaining credit lines and financing facilities with a firm underwriting commitment by national and international financial institutions of high credit rating notation, allowing immediate, flexible access to funds. These lines are used to complement and backup national and international commercial paper programmes, allowing the Group's short-term financing sources to be diversified.

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Accounting for financial instruments

The EDP Group implemented early International Accounting Standard 39 Recognition and Measurement of Financial Instruments, or IAS 39, for fiscal year 2003, having calculated the retroactive effects from December 31, 2002. Consequently, we classified our investments in accordance with this IAS 39, particularly with regard to the types of financial instruments and their recognition and measurement, carrying them under the following categories of financial assets: trading, held to maturity and available for sale. The classification depends on the purpose for which the investments were acquired. Our board of directors determines the classification of these investments on the date of acquisition and re-assesses this classification on a regular basis.

Changes in the fair value of derivatives identified as fair-value hedging instruments qualified as effective, are recognised as a gain or loss and taken to the profit and loss account together with the changes in the fair value of the asset or liability for which the hedging risk was attributed.

Changes in the fair value of derivatives identified and classified as cash-flow hedging instruments are recognised against reserves. When the planned transaction or firm commitment leads to recognition of an asset or liability, the gains and losses previously recorded against reserves are included in the initial measurement of the cost of the respective asset or liability. In any other case, the amounts recorded against reserves are transferred to the profit and loss account and classified as income or expense during the period in which the firm commitment or planned transaction impacted on the profit and loss account. For any transaction which, despite economic hedging in accordance with the Group's risk-management policies, is not classified as hedging in accordance with IAS 39, the gains and losses are recognised in the profit and loss account during the period to which they refer.

On the date on which the hedging instruments expires or is sold, or when the hedging transaction no longer meets the requirements for hedge accounting in accordance with IAS 39, any cumulative gain or loss recorded against reserves is maintained until such time as the planned transaction or firm commitment is recognised the profit and loss account. If the planned transaction or firm commitment is no longer expected, the cumulative gain or loss reported against reserves is transferred to the profit and loss account.

The hedging of a net investment in a foreign entity is recorded in a manner similar to cash-flow hedging. If the hedging instrument is a derivative, any gain or loss on the hedging instrument in respect of the effective part of the hedge is recognised against reserves. The gain or loss on the ineffective part is recognised immediately in the profit and loss account. However, if the hedging instrument is not a derivative, all gains and losses on exchange-rate fluctuations are recognised against reserves.

To achieve hedge accounting on the date of commencement of the transaction, the Group documents the relationship between the hedging instrument and the hedged items, as well as the respective risk-management objectives and strategies underlying the respective hedging transactions. This process includes the link between all derivatives identified as hedging instruments for assets and liabilities or for specific transactions or firm commitments. The Group also documents in its evaluation, at the inception of the hedge and during the life of the hedge,

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whether the derivatives used in the hedging transactions are highly effective to compensate the fair value or the cash flows of the hedged items.

Estimate of the fair value of financial instruments

The fair value of derivatives traded on liquid markets and of assets available for sale is based on their listed prices on the balance sheet date. The fair value of interest-rate swaps is calculated on the basis of the present value of future estimated cash flows.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The estimated value of future cash flows is used to determine the fair value of other financial instruments. The book values of financial assets and liabilities with a maturity of less than one year are assumed to be close to their fair values.

4. Cash and cash equivalents

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

	Group	
	2003	2002
	Euro 000	Euro 000
	_____	_____
Cash:		
- Cash in hand	20,375	1,427
	_____	_____
	20,375	1,427
	_____	_____
Bank deposits:		
- Current deposits	116,205	27,428
- Short term deposits	6,963	9,860
	_____	_____
	123,168	37,288
	_____	_____
Negotiable securities:		
- Other securities	56,291	92,691
	_____	_____
	56,291	92,691
	_____	_____
Other treasury placements:		
- Financial products at domestic banks	85,300	82,367
- Financial products at foreign banks	2,368	206
	_____	_____
	87,668	82,573
	_____	_____
Provision	(6)	(6)
	_____	_____
	287,496	213,973

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:

	Group	
	2003	2002
	Euro 000	Euro 000
Cash components:		
- Cash	20,375	1,427
- Bank deposits	123,168	37,288
- Negotiable securities	56,291	92,691
	<u>199,834</u>	<u>131,406</u>
Cash equivalents:		
- Other treasury securities	87,668	82,573
- Overdrafts	(595,912)	(621,238)
	<u>(508,244)</u>	<u>(538,665)</u>
Cash and cash equivalents	<u>(308,410)</u>	<u>(407,259)</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****5. Accounts receivable - Trade, net**This balance **Accounts receivable - Trade, net** is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
	<u> </u>	<u> </u>
<i>Resident customers:</i>		
State and official entities	36,234	29,353
Local authorities	31,041	32,652
Corporate sector and individuals	789,986	651,686
Unbilled receivables	85,193	106,227
Trade accounts - bills receivable	46	14
	<u> </u>	<u> </u>
	942,500	819,932
	<u> </u>	<u> </u>
<i>Non-resident customers:</i>		
Corporate sector and individuals	158,490	142,280
	<u> </u>	<u> </u>
	158,490	142,280
	<u> </u>	<u> </u>
	1,100,990	962,212
	<u> </u>	<u> </u>
Doubtful debt	188,689	159,511
Provision for doubtful debt	(181,615)	(150,863)
	<u> </u>	<u> </u>
	1,108,064	970,860
	<u> </u>	<u> </u>

6. Accounts receivable - Other, net

This balance is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Other accounts receivable - Short term / Current		
State and other public entities:		
- Income tax	73,398	
- Value added tax	100,730	102,657
- Other taxes	5,647	17,762
Other related companies	1,178	
Advances to suppliers	2,478	3,298
Other debtors:		
- Account with the Pension Fund	12,120	12,075
- Performance bonds and tied deposits		13,878
- Amounts owed to staff	8,536	7,092
- Amounts owed by the State and Concessors	6,879	9,523
- Debtors in respect of other goods and services	102,934	163,041
- Regulatory assets	51,732	51,062
- NAG/EDP Protocol - Alqueva	26,082	
- Other debtors and sundry operations	7,344	136,724
	<u>399,058</u>	<u>517,112</u>
Provision for short-term debtors	(9,335)	(13,901)
	<u>389,723</u>	<u>503,211</u>
Accrued income		
- Interest receivable	193,234	137,575
- For sales and services provided	7,368	49,997
- From hydrological correction account		16,113
- Other accrued income	61,518	33,647
	<u>262,120</u>	<u>237,332</u>
	<u>651,843</u>	<u>740,543</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****7. Inventories**

This balance is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
	<u> </u>	<u> </u>
Merchandise	15,794	10,143
Purchases and advances on account of purchases	2,291	5,864
Finished and intermediate products	569	583
Products and work in progress	3,648	4,863
Sub-products, waste, residues and scrap	1,989	
Raw and subsidiary materials and consumables:		
Coal	24,920	38,827
Fuel	47,530	46,985
Other consumables	62,495	44,220
	<u> </u>	<u> </u>
	159,236	151,485
Provision for inventories		(1,180)
	<u> </u>	<u> </u>
	159,236	150,305
	<u> </u>	<u> </u>

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

	Group	
	2003	2002
	Euro 000	Euro 000
	<u> </u>	<u> </u>

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Trade accounts receivable - Medium and long-term / Non Current:		
Resident customers:		
Customers - Local government - Debt at December 31, 1988 (i)	181,689	185,343
Corporate sector and individuals	5,017	
Trade accounts - bills receivable	413	
	<u>187,119</u>	<u>185,343</u>
Provision for local government customers at December 31, 1988	(101,322)	(101,322)
	<u>85,797</u>	<u>84,021</u>
Trade accounts receivable - Medium and long term / Non Current		
Other related companies		18,744
Other debtors:		
- Fixed assets in compensated integration (ii)	9,270	19,246
- Regulatory assets (iii)	275,608	71,290
- Performance bonds and tied deposits	44,991	29,771
- Other debtors and sundry operations	20,176	49,933
	<u>350,045</u>	<u>188,984</u>
Provision for medium-/long-term debtors - Non current		(12,421)
	<u>350,045</u>	<u>176,563</u>
	<u>435,842</u>	<u>260,584</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

- (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.
- (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 heading shows the costs associated with the 2003 Human Resources Rationalisation Plan, which were accepted by the Energy Services Regulatory Entity as an investment amortizable over a period of 20 years, beginning in 2005.

9. Investments

This balance is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
<i>Shareholdings</i>		
Subsidiary companies	1,305	202,518
Associate companies	441,449	483,295
Medium/long-term investments (available for sale)	1,293,517	1,314,863
Other companies	58,441	81,635
	<u>1,794,712</u>	<u>2,082,311</u>
<i>Investment in properties</i>		
Buildings and other constructions	1,417	536
	<u>1,417</u>	<u>536</u>
<i>Other financial investments</i>		
Bank deposits		58
Public debt securities	19	19
Other securities	70,143	86,442
Other financial investments	4,029	5,085
Amounts recoverable for the sale of Oniway	39,667	70,000
Fixed assets in progress		2
	<u></u>	<u></u>

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	113,858	161,606
	<u>1,909,987</u>	<u>2,244,453</u>
<i>Provision for financial assets :</i>		
Shareholdings	(285,790)	(276,734)
Other financial investments	(1,391)	(1,391)
	<u>(287,181)</u>	<u>(278,125)</u>
<i>Amortization of investment in properties</i>	(355)	(344)
	<u>(355)</u>	<u>(344)</u>
	<u>(287,536)</u>	<u>(278,469)</u>
	<u>1,622,451</u>	<u>1,965,984</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The financial investment in CERJ - Companhia de Electricidade do Estado do Rio de Janeiro SA, is carried net of the value of Goodwill amortized up to the year 2000, until which time the EDP Group held significant influence allowing it to account for the investment with the equity method. As of January 1, 2001, the EDP Group no longer holds such influence, holding since then 11.27% of the share capital. In accordance with the Portuguese Official Plan of Accounts, under these circumstances the equity method is no longer applicable, and the financial investment is therefore carried in the books as a cost method investment.

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

	Group	
	2003	2002
	Euro 000	Euro 000
Investment in subsidiary companies:		
EDP Investimentos, Lda		32,698
Calibre		137,898
135 Participações		3,093
Electra de Cabo Verde		27,213
Other	1,305	1,616
	<u>1,305</u>	<u>202,518</u>
Investment in associated companies:		
DECA - Distribucion Eléctrica Centroamerica, SA	67,894	68,423
Companhia de Electricidade de Macau	65,129	
REN - Rede Eléctrica Nacional, SA	254,223	236,366
Associated Companies of Hidrocantábrico Group	39,398	100,399
Portsines - Terminal de Sines	7,501	7,907
Turbogás - Produtora Energética	5,211	22,221
Other	2,093	47,979
	<u>441,449</u>	<u>483,295</u>
Medium-/long-term investment (available for sale)		
CERJ - Companhia Eléctrica do Estado Rio Janeiro	97,767	97,767
Iberdrola		382,340
Galp, SGPS	328,211	322,566
BCP - Banco comercial Português	552,789	512,190
OPTEP (Optimus)	314,750	
	<u>1,203,527</u>	<u>1,315,063</u>

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	1,293,517	1,314,863
	<u> </u>	<u> </u>
Investments in other companies:		
Elcogás	2,166	2,166
Tagusparque	1,097	1,097
Tejo Energia, SA	4,988	4,988
Valor Sul	2,469	2,469
Efacec	3,566	3,566
EDA - Eléctrica dos Açores	6,891	6,891
Costa Rica Energética, Lda	2,073	2,509
Other	35,191	57,949
	<u> </u>	<u> </u>
	58,441	81,635
	<u> </u>	<u> </u>
	1,794,712	2,082,311
	<u> </u>	<u> </u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

During the end of September 2003 and the beginning of October 2003, the EDP Group sold its entire shareholding in Iberdrola, generating a book gain in the amount of Eur 17.8 million.

The **Medium/long-term investments** classified as investments available for sale, in the Group, results from the full implementation from January 1, 2003, for the first time, by the EDP Group, of IAS 39: Recognition and Measurement of Financial Instruments. Movements during the year, as well as the effects of this transition from the Portuguese accounting standards from 2003, are reviewed in the following points.

The year's movements under the Medium/long-term investments classified as available for sale, in the Group, are recorded in the books as follows:

Gains on the investments are added to their acquisition cost

Provisions are set aside for losses on the investments, with a contra-entry against:

profit and loss, in the case of non-temporary potential losses (impairment);

reserves, in the case of potential temporary losses.

As at December 31, 2003, the breakdown of the Medium/long-term investments classified as available for sale in the Group is analysed as follows:

	Group			
	Carrying	Market	Unrealized	
	value	value	gain	Unrealized loss
	Euro 000	Euro 000	Euro 000	Euro 000
CERJ - Companhia Eléctrica do Estado Rio Janeiro	97,767	88,717		(9,050)
Galp, SGPS	322,566	328,211	5,645	
BCP - Banco comercial Português	552,789	277,149		(275,640)
OPTEP (Optimus)	315,000	314,749		(251)

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	1,288,122	1,008,826	5,645	(284,941)
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As an immediate consequence of the full implementation by the EDP Group, for the first time, of IAS 39: Recognition and Measurement of Financial Instruments, the Medium/long-term investments classified as investments available for sale in the Group, includes booking of an asset consisting of the whole of the holding in OPTEP (whose assets included 25.72% of the share capital of Optimus SA), and a liability of the EDP Group to the entity that acquired this asset in 2002, since there is with the latter an agreement which includes an adjustment mechanism of the selling price of Optimus/OPTEP. Consequently, in accordance with IAS 39, it cannot be classified as a definitive sale/commitment. In accordance with the international standard, the assets sold in 2002 are recorded in full under assets, and the respective liability, also in full, and the price fluctuations are recognized as investments available for sale for as long as the referred clause remains in force up to March 22, 2005.

During 2003 the following changes took place to the consolidation structure of the EDP Group:

In the wake of Hidroantábrico (HC) taking control of 62% of the share capital of the Naturcorp Group, as a result of a privatisation process finalised at the end of 2003, the Naturcorp Group was included in the accounts of the HC Group using the purchase method, and consequently were included in the accounts of the EDP Group through the proportional consolidation of the 40% held in the HC Group.

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The impact of the acquisition of 62% of the Naturcorp Group by the Hidrocantábrico Group on the Consolidated Financial Statements of EDP was as follows:

	2003
	40%
	Naturcorp
	Euro 000
ASSETS	
Fixed assets	398,640
Investments	1,840
Accounts receivables	36,560
Cash and cash equivalents	14,440
Other assets	320
	451,800
LIABILITIES	
Provisions for contingencies and liabilities	5,840
Financial debt	6,960
Other liabilities	42,960
	55,760
	2003
	40%
	Naturcorp
	Euro 000
PROFIT AND LOSS ACCOUNT	
Sales	175,680
Cost of sales	(122,160)
	53,520
Personnel costs	6,200
Other costs (net)	8,520

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Depreciation and provisions	11,760
	<u>26,480</u>
	27,040
Financial profit/(loss)	(12,440)
Other non Operating income (expenses)	440
	<u>15,040</u>
Income tax for the year	5,040
	<u>10,000</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**The movements in **Provisions for Investments** are analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
<i>Provision for shareholdings:</i>		
Balance as at January 1	276,734	5,547
Charge for the year	8,585	2,213
Charge against reserves - Available for sale adjustments	15,967	268,974
Write-backs	(15,496)	
Balance as at December 31	285,790	276,734
<i>Provision for other financial placements:</i>		
Balance as at January 1	1,391	1,391
Balance as at December 31	1,391	1,391
	287,181	278,125

The Subsidiary Companies fully consolidated at December 31, 2003, were as follows:

Subsidiary Companies	Head office	Share capital / Currency	Shareholders Equity 31-Dec-03 Euro 000	Net Profit	
				31-Dec-03 Euro 000	% Group
Group's parent holding company :					
EDP, S.A.	Lisbon	3 000 000 000 EUR	5,298,007	381,109	
Electricity Business - Portugal :					
<i>Electricity Generation:</i>					

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EDP Produção, S.A.	Lisbon	1 250 000 000 EUR	1,906,280	328,522	100.00%
EDP Produção Bioelétrica S.A.	Lisbon	4 000 000 EUR	11,095	(2,057)	100.00%
CPPE, S.A.	Lisbon	1 234 000 000 EUR	2,495,933	347,618	100.00%
TER, S.A.	Lisbon	500 000 EUR	303	(164)	100.00%
Enernova, S.A.	Lisbon	7 500 000 EUR	21,234	3,664	100.00%
EDP Cogeração, S.A.	Lisbon	5 740 000 EUR	4,550	884	100.00%
Hidrocenel, S.A.	Seia	45 500 000 EUR	56,255	2,975	100.00%
HDN, S.A.	Braga	24 500 000 EUR	32,133	3,652	100.00%
O & M Serviços, S.A.	Mortágua	500 000 EUR	848	232	60.00%
EDP Energia, S.A.	Lisbon	50 100 200 EUR	86,959	14,477	100.00%
Hidrobasto	Cabeceiras	100 000 EUR	100	(4)	60.00%
Hidrinor, SA	Ponte de Lima	648 437 EUR	748	102	100.00%
Soporgen	Lisbon	50 000 EUR	2,466	2,663	82.00%
Energin Azóia	Lisbon	50 000 EUR	(2,055)	(2,106)	65.00%
<i>Electricity Distribution:</i>					
EDP Distribuição, S.A.	Lisbon	1 024 500 000 EUR	1,566,925	134,366	100.00%

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

Subsidiary Companies	Head office	Share capital / Currency	Shareholders Equity 31-Dec-03 Euro 000	Net Profit	
				31-Dec-03 Euro 000	% Group
Electricity Business - Brazil:					
<i>Electricity Generation:</i>					
EDP Lajeado, S.A.	São Paulo	100 000 000 BRL	2,812	(22,250)	100.00%
Fafen Energia, S.A.	Camaçari	62 501 000 BRL	(625)	(7,582)	79.60%
Enerpeixe, S.A.	São Paulo	213 333 438 BRL	58,224		60.00%
<i>Electricity Distribution:</i>					
Escelsa, S.A.	Espirito Santo	153 946 942 BRL	103,120	48,288	54.76%
Enersul, S.A.	Mato Grosso Sul	463 415 296 BRL	120,346	3,762	35.70%
Bandeirante Energia, S.A.	São Paulo	254 628 684 BRL	195,437	26,925	96.50%
Telecommunications Business - Portugal:					
ONITELECOM	Lisbon	274 630 000 EUR	69,604	(58,104)	56.02%
ONI Multimédia, S.A.	Lisbon	50 000 EUR	(77,780)	(25,500)	56.02%
U Call, S.A.	Lisbon	50 000 EUR	(55)	(62)	73.61%
Autor, S.A.	Aveiro	50 000 EUR	(452)	(408)	56.02%
ONI Madeira	Funchal	50 000 EUR	(78)	(111)	39.21%
ONI Açores	P.Delgada	250 000 EUR	425	229	33.61%
ONI Plataformas, S.A.	Lisbon	50 000 EUR	47	(0)	56.02%
ONI Web	Lisbon	50 000 EUR	(9,263)	(9,263)	56.02%
ONI Way	Lisbon	300 000 000 EUR	5,810	(14,369)	56.02%
FCTE, S.A.	Lisbon	500 000 EUR	(258)	(83)	44.82%
Telecommunications Business - Espanha :					
Germinus XXI	Madrid	4 112 749 EUR	(3,219)	(3,718)	79.77%
Intercom Internet	Barcelona	3 017 EUR	3	(0)	100.00%
Ola Internet	Madrid	405 010 EUR	781	1,636	100.00%
Information Technologies Business - Portugal:					
EDINFOR, S.A.	Lisbon	17 000 000 EUR	53,962	(6,167)	100.00%
Onsource, S.A.	Lisbon	1 250 000 EUR	1,525	30	57.77%
Case Edinfor II, S.A.	Lisbon	500 000 EUR	(658)	(1,844)	57.77%
Netion, S.A.	Lisbon	50 000 EUR	183	122	46.22%
Case Edinfor, ACE	Lisbon	498 798 EUR	498	(0)	57.77%
Integer, S.A.	Lisbon	250 000 EUR	695	(97)	57.77%
Inovis, S.A.	Lisbon	50 000 EUR	344	23	57.77%
Consulteam, S.A.	Lisbon	60 000 EUR	(701)	(700)	57.77%
ACEBENET, S.A.	Lisbon	250 000 EUR	65	(382)	57.77%
ACE BI, S.A.	Lisbon	250 000 EUR	200	(66)	57.77%
ACE Sistemas Comerciais, S.A.	Lisbon	250 000 EUR	503	66	57.77%
ACE QS, S.A.	Lisbon	250 000 EUR	387	22	57.77%

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Sigmaplano, S.A.

Lisbon

174 579 EUR

524

246

57.77%

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

Subsidiary Companies	Head office	Share capital / Currency	Shareholders Equity 31-Dec-03 Euro 000	Net Profit	
				31-Dec-03 Euro 000	% Group
Onalp, Lda	Lisbon	5 000 EUR	14	6	57.77%
S- Tecno, S.A.	Estoril	250 000 EUR	(24)	(69)	57.77%
Case, S.A.	Lisbon	250 000 EUR	2,282	(3,083)	57.77%
Centralbiz, S.A.	Oporto	50 000 EUR	9	(48)	57.77%
ACE Heathcare, S.A.	Paço d Arcos	200 000 EUR	137	(65)	43.62%
ACE Plus, S.A.	Funchal	250 000 EUR	(510)	(753)	46.22%
PSI-DOC, S.A.	Lisbon	150 000 EUR	(111)	(49)	57.77%
No Limits, S.A.	Lisbon	250 000 EUR	414	83	40.44%
IT - LOG, S.A.	Lisbon	1 000 000 EUR	3,889	1,846	100.00%
IT - GEO, S.A.	Lisbon	50 000 EUR	2,064	1,828	100.00%
Copidata, S.A.	Odivelas	4 491 000 EUR	8,354	60	99.33%
Copidata, Lda,	Odivelas	598 558 EUR	1,203	1	99.40%
Escritomática, Lda	Odivelas	44 892 EUR	327	3	99.60%
Central-E, S.A.	Lisbon	5 000 000 EUR	(6,894)	(2,915)	52.80%
Information Technologies Business - Brazil:					
ACE Sistemas Informação, Ltda	São Paulo	1 871 713 BRL	196	5	57.77%
Edinfor Soluções Informáticas, Ltda	São Paulo	2 783 497 BRL	2,439	(883)	100.00%
Information Technologies Business - Mozambique:					
ACESI, Ltda	Maputo	200 000 000 MZM	(193)	25	59.85%
Other :					
EDP Produção EM, S.A.	Oporto	2 250 000 EUR	6,412	1,636	100.00%
Tergen, S.A.	Carregado	250 000 EUR	243	(5)	80.00%
Enerfin, S.A.	Oporto	50 000 EUR	(15)	(19)	74.88%
HIDROEM, SA	Oporto	1 000 000 EUR	308	73	100.00%
HIDRORUMO, SA	Oporto	2 800 000 EUR	6,110	325	100.00%
EDP Energia Ibérica, SA	Madrid	60 200 EUR	(514)	(573)	100.00%
EDP Valor, S.A.	Lisbon	4 550 000 EUR	7,136	635	100.00%
EDP Serviços, S.A.	Lisbon	750 000 EUR	479	(360)	100.00%
MRH, S.A.	Lisbon	750 000 EUR	(505)	(1,117)	100.00%
Sãvida, S.A.	Lisbon	450 000 EUR	1,781	942	100.00%
SCS, S.A.	Lisbon	50 000 EUR	(629)	(699)	100.00%
EDP Imobiliária, S.A.	Lisbon	5 000 000 EUR	6,167	(717)	100.00%
EDIPOMBAL, S.A.	Lisbon	750 000 EUR	2,994	(28)	100.00%
ONI S.G.P.S.	Lisbon	400 119 796 EUR	(132,764)	(133,626)	56.02%
TLD	Vigo	1 235 092 EUR	(25,616)	(3)	56.02%
Comunitel Global, S.A.	Vigo	52 031 843 EUR	8,861	(18,867)	55.98%
ACE S.G.P.S.	Lisbon	11 683 383 EUR	7,254	(9,395)	57.77%

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ACE Consulting, Ltda	Luanda	45 000 EUR	(537)	(188)	71.84%
ACE Global, S.A.	Lisbon	250 000 EUR	(2,443)	(2,950)	57.77%

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

Subsidiary Companies	Head office	Share capital / Currency	Shareholders	Net	% Group
			Equity	Profit	
			31-Dec-03	31-Dec-03	
			Euro 000	Euro 000	
Primitiva, S.A.	Lisbon	87 097 EUR	345	150	57.77%
Case Internacional, Lda	Funchal	5 000 EUR	(132)	11	100.00%
Mecaresopre, S.A.	Lisbon	150 000 EUR	390	45	80.00%
EDP Águas, S.A.	Lisbon	5 000 000 EUR	7,362	(116)	100.00%
Valorágua, S.A.	Lisbon	2 500 000 EUR	1,598	42	100.00%
EDP Estudos e Consultadoria, S.A.	Lisbon	50 000 EUR	82	22	100.00%
EDP Serviner, S.A.	Lisbon	50 000 EUR	922	686	100.00%
Edalpro, Lda	Lisbon	748 197 EUR	1,728	353	100.00%
Labelec, S.A.	Sacavém	2 200 000 EUR	6,481	2,126	100.00%
EDP Participações S.G.P.S.	Lisbon	125 000 000 EUR	1,033,566	37,875	100.00%
Balwerk, Lda	Lisbon	5 000 EUR	(204,710)	(19,988)	100.00%
EDP Internacional S.G.P.S	Lisbon	37 500 000 EUR	817,386	(24,408)	100.00%
EDP Brasil S.A.	São Paulo	1 303 839 767 BRL	347,798	(42,872)	100.00%
Internel, S.A.	Lisbon	50 000 EUR	498	(231)	100.00%
Fundo Aphelion	Cayman Islands	752 290 071 USD	498,592	(205)	100.00%
Iven, S.A.	São Paulo	322 334 857 BRL	56,044	24,230	100.00%
Magistra, S.A.	São Paulo	668 482 734 BRL	176,963	6,006	54.76%
Enercorp, Ltda	São Paulo	4 035 000 BRL	708	(1,126)	100.00%
Enertrade, S.A.	São Paulo	23 047 514 BRL	5,412	1,429	100.00%
Energest, S.A.	São Paulo	46 242 339 BRL	(3)	(3,214)	100.00%
Enercouto, S.A.	São Paulo	1 000 BRL			99.90%
EDP Finance BV	Amsterdam	20 000 EUR	(35,519)	(20,942)	100.00%
EDP Irlanda	Dublin	1 000 000 EUR	659	(61)	100.00%
EDP - Investimentos, Lda	Macau	200 000 MOP	41,552	9,035	99.00%

The Associated Companies included in the consolidation using the proportional consolidation method as at December 31, 2003, were as follows:

Associated Companies	Head office	Share capital / Currency	Shareholders	Net	% Group
			Equity	Profit	
			31-Dec-03	31-Dec-03	
			Euro 000	Euro 000	
Investco S.A.	São Paulo, Brazil	665 643 638 BRL	171,264	(2,518)	27.65%

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Hidroeléctrica Del Cantábrico S.A.	Oviedo. Spain	425 721 430 EUR	1,690,536	30,973	40.00%
Affinis S.A.	Lisbon -Portugal	1 500 000 EUR	46	(489)	45.00%

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The Associated Companies included in the consolidation using the equity method as at December 31, 2003, were as follows:

Associated Companies	Head office	Share capital / Currency	Shareholders	Net	%
			Equity 31-Dec-03 Euro 000	Profit 31-Dec-03 Euro 000	
REN S.A.	Lisbon - Portugal	534 000 000 EUR	847,409	93,489	30.00%
Bioelétrica SPA	Pisa - Itália	2 998 775 EUR	484	(550)	24.00%
BIZFIRST S.A.	Lisbon - Portugal	250 000 EUR	(269)	(301)	35.00%
Campos Envelopagem S.A.	Palmela - Portugal	74 850 EUR	623	86	30.00%
Ecogen S.A.	Loures - Portugal	100 000 EUR	(303)	(195)	34.99%
Portsines S.A.	Sines - Portugal	10 000 000 EUR	17,431	(1,424)	39.60%
Geoterceira	Açores - Portugal	1 000 000 EUR	564	(324)	49.90%
CEM S.A.	Macau	580 000 000 MOP	249,104	44,704	21.19%
Carriço Cogeração, SA	Vila Rei-Portugal	50 000 EUR	37		35.00%
Portábil, SA	Lisbon - Portugal	1 125 000 EUR	1,320	69	35.00%
Turbogás, SA	Oporto-Portugal	13 308 000 EUR	26,056	5,331	20.00%
LBC Tanquipor, SA	Barreiro-Portugal	1 350 000 EUR	3,088	274	28.89%
Electra	S.Vicente-Cabo Verde	600 000 000 CVE	(8,386)	(4,975)	30.60%
DECA-II	Guatemala	2 077 092 000 GTQ	65,339	2,554	21.00%
Eólica da Alagoa, SA	Arcos Val.-Portugal	50 000 EUR	50		40.00%

10. Fixed assets

This balance is analysed as follows:

	Group	
	2003 Euro 000	2002 Euro 000
Fixed assets under the Decree Law 344-B/82 regime	240,607	259,916
Land and natural resources	128,169	122,260
Buildings and other constructions	410,982	336,746
Plant and machinery:		

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Hydroelectric generation	6,952,258	6,936,948
Thermoelectric generation	3,405,254	3,446,991
Renewables generation	42,795	42,795
Electricity distribution	12,675,981	11,648,649
Other plant and machinery	714,415	417,636
Transport equipment	75,761	73,900
Office equipment and utensils	344,250	325,556
Other tangible fixed assets	22,393	17,486
Fixed assets in progress	1,187,302	1,022,066
	<u>26,200,167</u>	<u>24,650,949</u>
<i>Accumulated depreciation</i>		
Depreciation charges for the year	(803,091)	(706,106)
Other accumulated depreciation	(13,745,477)	(12,740,606)
	<u>(14,548,568)</u>	<u>(13,446,712)</u>
	<u>11,651,599</u>	<u>11,204,237</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

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	
	2003	2002
	Euro 000	Euro 000
Fixed assets under the DL 344-B/82 regime	240,607	259,916
Accumulated depreciation	(231,528)	(243,265)
Net amount	9,079	16,651

Part of these assets may be transferred to Group ownership by settlement, by offsetting accounts in respect of debts of the respective municipalities (see Note 5) pending settlement.

Tangible fixed assets during 2003, for the Group, are analysed as follows:

	Balance January 1st	Acquisitions / Charge year	Disposals	Transfers	Changes in Subsidiaries / Other	Balance December 31st
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
<i>Cost :</i>						
Fixed assets under the DL 344-B/82 regime	259,916				(19,309)	240,607
Land and natural resources	122,260	14	(179)	326	5,748	128,169
Buildings and other constructions	336,746	709	(8,211)	28,656	53,082	410,982
Plant and machinery	22,493,019	126,178	(67,720)	395,141	844,085	23,790,703
Transport equipment	73,900	4,777	(7,457)	605	3,936	75,761
Office equipment and utensils	325,556	8,133	(1,291)	92,867	(81,015)	344,250
Other tangible fixed assets	17,486	283	(40)	3,011	1,653	22,393
Fixed assets in progress	1,022,066	801,542		(520,606)	(115,700)	1,187,302
	24,650,949	941,636	(84,898)		692,480	26,200,167

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<i>Accumulated depreciation :</i>					
Fixed assets under the DL 344-B/82 regime	243,265	3,229		(14,966)	231,528
Buildings and other constructions	143,317	9,703	(6,698)	20,081	166,403
Plant and machinery	12,839,248	739,364	(55,701)	388,662	13,911,573
Transport equipment	46,622	10,418	(5,656)	3,148	54,532
Office equipment and utensils	169,455	38,267	33	(27,646)	180,109
Other tangible fixed assets	4,805	2,110	(24)	(2,468)	4,423
	13,446,712	803,091	(68,046)	366,811	14,548,568

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The Changes in Subsidiaries/Other column includes (i) adjustments to fair values arising from the economic revaluations of the tangible fixed assets of Escelsa / Enersul performed during 2003 as part of the final purchase price allocation, (ii) exchange-rate variations during the year, and (iii) the inclusion of the Naturcorp Group in the consolidation perimeter following acquisition of control by the Hidrocantábrico Group in July 2003.

In accordance with the accounting criteria defined in Note 2, the following amounts of financing interest were capitalized during the year under Fixed assets in progress:

	Group	
	2003	2002
	Euro 000	Euro 000
Electricity generation	6,166	10,215
Electricity distribution	7,701	5,269
Studies and projects	10,101	533
	23,968	16,017

11. Other assets

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

	Group	
	2003	2002
	Euro 000	Euro 000
Intangible assets	950,182	1,657,085
Goodwill	899,514	186,034
Deferred taxes	609,338	545,979
Deferred costs	275,104	227,834

	2,734,138	2,616,932
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The balance **Intangible assets** is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
<i>Intangible assets</i>		
Set-up costs	85,157	93,056
Research and development costs	103,302	140,434
Industrial property and other rights	158,057	145,355
Fixed assets in progress and other fixed assets	21,944	13,229
Other intangible assets on telecommunications business	40,209	
Concession rights in Brazil and Spain	835,366	1,515,405
	1,244,035	1,907,479
<i>Accumulated amortization</i>		
Amortization of concession rights during the year	(30,439)	(42,359)
Amortization of intangible fixed assets during the year	(42,501)	(33,435)
Other accumulated amortization	(220,913)	(174,600)
	(293,853)	(250,394)
	950,182	1,657,085

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

Intangible assets during 2003 are analysed as follows:

	Balance January 1st Euro 000	Acquisitions / Charge year Euro 000	Disposals Euro 000	Transfers Euro 000	Changes in Subsidiaries / Other Euro 000	Balance December 31st Euro 000
<i>Cost :</i>						
Set-up costs	93,056	1,633		2,976	(12,508)	85,157
Research and development costs	140,434	968	(35,369)	10,347	(13,078)	103,302
Industrial property and other rights	145,355	4,273		1,300	7,129	158,057
Fixed assets in progress and other fixed assets	13,229	14,555		(14,623)	8,783	21,944
Other intangible assets on telecommunications business		40,209				40,209
Concession rights in Brazil and Spain	1,515,405			(568,431)	(111,608)	835,366
	1,907,479	61,638	(35,369)	(568,431)	(121,282)	1,244,035
<i>Accumulated amortization :</i>						
Set-up costs	50,471	15,145	(68)		(693)	64,855
Research and development costs	35,502	17,294	(90)		(8,100)	44,606
Industrial property and other rights	41,884	7,164			(16,672)	32,376
Other intangible assets on telecommunications business		2,898			11,673	14,571
Concession rights in Brazil and Spain	122,537	30,439		(15,510)	(21)	137,445
	250,394	72,940	(158)	(15,510)	(13,813)	293,853

In the **Changes in subsidiaries/Other** column includes the adjustments related to the Concession rights in Brazil, namely arising from the fair values/economic revaluations of the tangible fixed assets of Escelsa / Enersul undertaken in 2003 as part of the final purchase price allocation.

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

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:

	2003			2002		
	Net Amount Euro 000	Accumulated amortization Euro 000	Concession Rights Euro 000	Net Amount Euro 000	Accumulated amortization Euro 000	Concession Rights Euro 000
Electricity Business - Spain						
Hidroantábriico Group				552,921	(15,510)	568,431
Electricity Business - Brazil						
Bandeirante Energia	220,796	(54,483)	275,279	229,415	(45,648)	275,063
Escelsa / Enersul	477,125	(82,962)	560,087	610,532	(61,379)	671,911
	<u>697,921</u>	<u>(137,445)</u>	<u>835,366</u>	<u>1,392,868</u>	<u>(122,537)</u>	<u>1,515,405</u>
<i>Amortization charges for the year</i>		<u>(30,439)</u>			<u>(42,359)</u>	

On December 31, 2003, the Concession rights over Hidroantábriico Group were transferred to Goodwill as a result of incorporation and start-up of the new Iberian Electricity Open Market (Mibel).

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, 2030 and 2030 respectively.

As at December 31, 2003, by business area, the main **Research and development projects** are as follows:

	Amount invested Euro 000	Accumulated amortization Euro 000	Net Amount Euro 000
Development projects by business area:			
Electricity generation	18,175	(10,609)	7,566

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Information technologies	8,475	(4,708)	3,767
Telecommunications	73,026	(28,467)	44,559
Other	3,626	(822)	2,804
	<u>103,302</u>	<u>(44,606)</u>	<u>58,696</u>

As at December 31, 2003, the breakdown of the **Industrial property and other rights** assets, is as follows:

	<u>EDP Group Company</u>	<u>Amount invested Euro 000</u>	<u>Accumulated amortization Euro 000</u>	<u>Net Amount Euro 000</u>
Software licensing	Brazil and Hidrocantábrico	47,397	(24,975)	22,422
Optic fibre usage rights	ONI Telecom	108,932	(6,609)	102,323
Other	Other companies	1,728	(792)	936
		<u>158,057</u>	<u>(32,376)</u>	<u>125,681</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**The breakdown of **Goodwill** is as follows:

	2003			2002		
	Net	Accumulated	Goodwill	Net	Accumulated	Goodwill
Amount	amortization	Amount		amortization	Amount	
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
Electricity Business						
Hydrocantábrico Group	706,357	(46,319)	752,676			
Investco	2,050	(127)	2,177	1,767	(106)	1,873
Enerpeixe	1,625	(4)	1,629			
	<u>710,032</u>	<u>(46,450)</u>	<u>756,482</u>	<u>1,767</u>	<u>(106)</u>	<u>1,873</u>
Telecommunications Business						
Comnexo	12,704	(8,399)	21,103	14,815	(6,288)	21,103
Comunitel Global	63,268	(22,889)	86,157	71,798	(14,359)	86,157
Other	11,394	(1,385)	12,779	11,580	(135)	11,715
	<u>87,366</u>	<u>(32,673)</u>	<u>120,039</u>	<u>98,193</u>	<u>(20,782)</u>	<u>118,975</u>
Information Technology Business						
ACE, SGPS	50,017	(8,827)	58,844	52,960	(5,884)	58,844
Case Edinfor	2,528	(1,084)	3,612	2,890	(722)	3,612
Copidata	203	(3,861)	4,064	1,016	(3,048)	4,064
S-Tecno Serviços TI	2,748	(1,178)	3,926	3,159	(767)	3,926
Other	6,399	(2,428)	8,827	7,313	(1,273)	8,586
	<u>61,895</u>	<u>(17,378)</u>	<u>79,273</u>	<u>67,338</u>	<u>(11,694)</u>	<u>79,032</u>
Other Businesses						
Affinis Serviços	12,036	(689)	12,725	12,672	(53)	12,725
Turbogás	17,266	(908)	18,174			
Companhia Electricidade Macau	9,650	(6,893)	16,543			
Other	1,269	(858)	2,127	6,064	(1,132)	7,196
	<u>40,221</u>	<u>(9,348)</u>	<u>49,569</u>	<u>18,736</u>	<u>(1,185)</u>	<u>19,921</u>
	<u>899,514</u>	<u>(105,849)</u>	<u>1,005,363</u>	<u>186,034</u>	<u>(33,767)</u>	<u>219,801</u>

<i>Amortization charges for the year</i>	(54,439)	(23,072)
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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).

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

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	
	2003	2002
	Euro 000	Euro 000
Individual - EDP, SA	336,924	300,245
ONI Group	107,831	89,864
EDP Produção Group	1,037	
EDP Brazil Group	131,707	143,140
Hidrocantábrico Group	12,814	12,524
EDP Finance BV	18,510	
Other	515	206
EDP Group	609,338	545,979

The breakdown of **Deferred Tax Assets** is as follows:

	Group
	Euro 000
Balance as at January 1, 2003	545,979
<i>Profit and loss account charge:</i>	
Tax losses	14,023
Provisions	970
Depreciation	3,917
Book revaluations	12,692
Tariff adjustments	1,181
Other	9,317
Charge for the year	42,100
<i>Reserve s charge:</i>	
Book revaluations	24,703

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Other	(3,444)
Charge against reserves	21,259
Balance as at December 31, 2003	609,338

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

	Group	
	2003	2002
	Euro 000	Euro 000
Deferred costs :		
- Rents	1,771	5,309
- Expenditure on concessions	11,499	11,886
- Accrued maintenance	18,172	4,150
- Compensation of fuel costs	159,716	78,884
- Deferred retirement benefit obligation	50,993	62,330
- Advertising and propaganda costs	346	2,361
- Cost of negotiating loans (EIB)	24,537	29,012
- Discounts on bond issues	6,434	6,616
- Other deferred costs	1,636	27,286
	275,104	227,834

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****12. Debt - Short and long term**

This balance is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
	<u> </u>	<u> </u>
Short term loans - Current		
Overdrafts :		
- EDP, SA		44,243
- ONI Group	592,298	571,519
- Other	3,614	5,476
	<u>595,912</u>	<u>621,238</u>
Bank loans:		
- EDP, SA	315,711	271,110
- ONI Group	51,395	2,534
- Brazil Group	225,530	222,556
- Hidrocantábrico Group	24,360	178,622
- EDP Finance BV	93,524	
- Other	46,977	21,028
	<u>757,497</u>	<u>695,850</u>
Bonds issued - Non convertible:		
- EDP, SA	10,221	12,261
- EDP Finance BV	45,500	
	<u>55,721</u>	<u>12,261</u>
Commercial paper		
- EDP, SA	170,000	557,684
	<u>170,000</u>	<u>557,684</u>
	<u>1,579,130</u>	<u>1,887,033</u>

Medium and long term loans - Non Current		
Bank loans:		
- EDP, SA	631,021	946,593
- ONI Group	41,732	48,000
- Brazil Group	237,662	328,873
- Hidrocantábrico Group	761,800	629,947
- EDP Finance BV	550,000	643,524
- Other	67,032	17,994
	<u>2,289,247</u>	<u>2,614,931</u>
Bonds issued - Non convertible:		
- EDP, SA	2,476,551	2,341,958
- EDP Finance BV	963,694	1,009,194
- Grupo Brazil	84,087	40,959
	<u>3,524,332</u>	<u>3,392,111</u>
Commercial paper		
- EDP, SA	100,000	100,000
	<u>100,000</u>	<u>100,000</u>
	<u>5,913,579</u>	<u>6,107,042</u>
	<u>7,492,709</u>	<u>7,994,075</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

As of December 31, 2003, the scheduled repayments of the long-term portion of the group's debt was as follows:

	Euro 000
2005	606,100
2006	924,600
2007	903,500
2008	721,900
2009 and following years	2,757,479
	5,913,579

At the EDP, SA, level, the Group has short-term credit facilities in the sum of Eur 746 million, indexed to the Euribor rate for the agreed period of use, with margin conditions agreed in advance, of which Eur 726 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 December 31, 2003, Eur 50 million had been used of the total credit facilities.

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 December 31, 2003 is as follows:

Issuer	Issue date	Interest rate	Repayment/ conditions	Group Euro 000
Issued by EDP, S.A.				
EDP, SA 22nd Issue	May 30, 1996	Euribor 6 months - 0.10%	(i)	20,636
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)	6,525
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
				486,772

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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 28, 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	58,041
------------------------------	-----------------	----------------------	-----------------	--------

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

3,580,053

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

- (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.

The breakdown of Loans by maturity is as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Bank loans and overdrafts :		
Up to 1 year	1,523,409	1,874,772
1 to 5 years	2,312,265	2,544,263
Over 5 years	76,982	170,668
	3,912,656	4,589,703
Bond issues :		
Up to 1 year	55,721	12,261
1 to 5 years	877,830	232,266
Over 5 years	2,646,502	3,159,845
	3,580,053	3,404,372
	7,492,709	7,994,075

The analysis of total debt by interest is as follows:

	Group	
	2003	2002

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	<u>Euro 000</u>	<u>Euro 000</u>
Bonds and bank loans		
Below 5%	5,491,216	
5% to 7.5%		1,512,084
7.5% and above	547,279	55,222
Variable rates (weighted average rate: 3.467% at 12/31/02; 2.845% at 12/31/03)	588,302	5,147,921
Other debt		
Commercial paper (weighted average rate: 3.212% at 12/31/02; 2.1629% at 12/31/03)	270,000	657,618
Bank overdrafts (4.2325% at 12/31/02; 3.38% at 12/31/03)	595,912	621,230
	<u>7,492,709</u>	<u>7,994,075</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

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

	2003		2002	
	Carrying Value Euro 000	Market Value Euro 000	Carrying Value Euro 000	Market Value Euro 000
Short term loans - Current	1,579,130	1,579,130	1,887,033	1,887,033
Medium and long term loans - Non current	5,913,579	6,251,355	6,107,042	6,406,804
	7,492,709	7,830,485	7,994,075	8,293,837

The market value of the medium/long-term loans is calculated on the basis of the cash flows discounted at the rates ruling on December 31, 2003. In current short-term debt, the book value is considered to be the market value.

13. Accounts payable - Trade

This balance is analysed as follows:

	Group	
	2003 Euro 000	2002 Euro 000
Short term creditors - Current		
Suppliers	678,741	787,361
Supplies of fixed assets	103,885	230,393
Other		817
	782,626	1,018,571

14. Accounts payable - Other

This balance is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Other shareholders	10,541	10,443
Advances to customers	1,204	518
Other creditors		
- Employees	20,625	
- Supply of other goods and services	12,946	19,992
- Concession rents	6,690	6,477
- Creditors for collections	20,115	28,529
- For interest and financial credits	13,960	29,540
- INAG/EDP Protocol - Alqueva	35,893	
- Other	6	19,302
- Corporate income tax (IRC) - payments by the holding company	123	
- Other creditors and sundry operations	65,159	58,876
	<u>187,262</u>	<u>173,677</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****15. Accrued cost**The balance **Accrued cost** is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
	<u> </u>	<u> </u>
Accrued costs:		
- Holiday pay, bonus and other charges	68,393	60,032
- Interest payable	121,874	169,371
- Other accrued costs	46,267	65,096
	<u> </u>	<u> </u>
	236,534	294,499
	<u> </u>	<u> </u>

16. Taxes payables

This balance is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
	<u> </u>	<u> </u>
<i>State and other public entities:</i>		
- Income tax	173,924	9,081
- Withholding tax	11,686	8,415
- Social security contributions	11,359	10,542
- Value added tax	12,197	18,665
- Other taxes	59,937	3,049
	<u> </u>	<u> </u>
	269,103	49,752
	<u> </u>	<u> </u>

17. Deferred revenue

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

	Group	
	2003	2002
	Euro 000	Euro 000
Deferred revenue:		
- Gains on sales to be realised		70,072
- Equal Installment Account EDP Distribuição	101,096	
- Other deferred revenue	134,668	24,783
	235,764	94,855

18. Accrued pension and post retirement liabilities

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

	Group	
	2003	2002
	Euro 000	Euro 000
Defined benefit pension plan	149,636	211,543
Post retirement medical benefits	412,627	396,713
	562,263	608,256

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

Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

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 has two defined-benefit plans managed by the CESP Foundation, a closed complementary welfare entity with its own assets, segregated from those of the Sponsors (Bandeirante and other Brazilian electricity companies) with no contributive solidarity:

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.

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

2003

2002

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	<u>Portugal</u>	<u>Brazil</u>	<u>Group</u>	<u>Portugal</u>	<u>Brazil</u>	<u>Group</u>
	<u>Euro 000</u>	<u>Euro 000</u>	<u>Euro 000</u>	<u>Euro 000</u>	<u>Euro 000</u>	<u>Euro 000</u>
<i>Change in benefit obligation</i>						
Liabilities at the beginning of period	1,394,075	54,658	1,448,733	1,354,910	78,273	1,433,183
Cost of current services	11,193	1,047	12,240	11,977	1,243	13,220
Cost of Interest	78,843	6,006	84,849	83,123	5,703	88,826
Benefits paid	(139,459)	(1,516)	(140,975)	(142,738)	(1,539)	(144,277)
Actuarial losses	67,889	4,147	72,036	86,803	9,439	96,242
Currency fluctuation		407	407		(38,461)	(38,461)
<i>Liabilities at the end of the period</i>	1,412,541	64,750	1,477,291	1,394,075	54,658	1,448,733

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

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

	2003		2002	
	Portugal Euro 000	Brazil Euro 000	Portugal Euro 000	Brazil Euro 000
Assumptions				
Rate of return of the Funds	5.70%	10.24%	6.50%	10.24%
Discount rate	5.20%	10.24%	6.00%	10.24%
Wage growth rate	3.30%	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%	5.00%
Mortality table	TV 88/90	AT-49(qx)	TV 73/77	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	(a)	Not applicable	(a)	Not applicable

- (a) In 2002, 100% of the eligible population (employees entitled to early retirement in accordance with the Collective Bargaining Agreement: 36 years service aged at least 60 or 40 years service of any age) and 70% of employees aged 55 or more. As from 2003, 40% of the eligible population.

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:

	2003			2002		
	Portugal Euro 000	Brazil Euro 000	Group Euro 000	Portugal Euro 000	Brazil Euro 000	Group Euro 000
Provision for Pension Plans						
Liabilities at the end of the period	1,412,541	64,750	1,477,291	1,394,075	54,658	1,448,733
Fund assets at the end of the period	(785,147)	(31,355)	(816,502)	(727,258)	(22,687)	(749,945)
Unfunded liabilities	627,394	33,395	660,789	666,817	31,971	698,788
Deferred actuarial losses (i)	(506,600)	(4,553)	(511,153)	(474,033)	(13,212)	(487,245)
	120,794	28,842	149,636	192,784	18,759	211,543

Value of the provision at the end of the period

-
- (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 amortising the amount that exceeded, in the previous year, 10% of the value of the greater of the liabilities or assets of the Fund. Such amortisations are calculated for the period corresponding to the average remaining length of service of the active population.

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

	2003			2002		
	Portugal Euro 000	Brazil Euro 000	Group Euro 000	Portugal Euro 000	Brazil Euro 000	Group Euro 000
<i>Cost for the period</i>						
Cost of the service	11,193	1,047	12,240	11,977	1,243	13,220
Cost of interest	78,843	6,006	84,849	83,123	5,703	88,826
Return on the Funds assets	(44,286)	(5,800)	(50,086)	(54,063)	(1,968)	(56,031)
Worker contributions		(552)	(552)		(706)	(706)
Amortization of deferred actuarial losses	25,718		25,718	17,045		17,045
<i>Net cost for the period</i>	71,468	701	72,169	58,082	4,272	62,354

The plan assets of the Pension Funds was as follows

	2003			2002		
	Portugal Euro 000	Brazil Euro 000	Group Euro 000	Portugal Euro 000	Brazil Euro 000	Group Euro 000
<i>Change in plan assets</i>						
Assets at the beginning of period	727,258	22,687	749,945	754,270	27,016	781,286
Group Contributions	54,340	3,947	58,287	48,596	4,073	52,669
Worker contributions		552	552		706	706
Pensions paid during the period	(50,340)	(1,516)	(51,856)	(52,058)	(1,539)	(53,597)
Return of the Funds	44,286	5,800	50,086	54,063	1,968	56,031
Actuarial gains (losses)	9,603	(413)	9,190	(77,613)	4,846	(72,767)
Currency fluctuation		297	297		(14,383)	(14,383)
<i>Assets at the end of the period</i>	785,147	31,355	816,502	727,258	22,687	749,945

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The assets of the Pension Fund in Portugal are managed by four independent pension fund management companies of recognised merit. As of December 31, 2003 the composition of and returns on the fund portfolio are as follows:

	Allocation of assets by type				
	Cash	Bonds	Shares	Real Estate	Total
	%	%	%	%	%
Break down of funds assets	5.6%	45.6%	23.7%	25.1%	100.0%
Effective return on investments		1.5%	2.4%	1.9%	5.7%

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 Director of 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

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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

Hidrocantábrico in Spain and Bandeirante and Escelsa 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:

	Group - Portugal	
	2003	2002
	Euro 000	Euro 000
	_____	_____
<i>Change in benefit obligation</i>		
Liabilities at the beginning of the period	496,201	474,371
Cost of current services	5,942	6,540
Cost of interest	29,049	30,096
Benefits paid	(24,099)	(22,735)
Actuarial losses	153,162	7,929
	_____	_____
<i>Liabilities at the end of the period</i>	660,255	496,201
	_____	_____

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

	Group - Portugal	
	2003	2002
	Euro 000	Euro 000
<i>Assumptions</i>		
Discount rate	5.20%	6.00%
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 first 10 years and 4.0% during the remaining years
 (b) As mentioned in the Pension Plan assumptions

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

	Group - Portugal	
	2003	2002
	Euro 000	Euro 000
<i>Provision for Medical Care Plans</i>		
Liabilities at the end of the period	660,255	496,200
Deferred actuarial losses (i)	(247,628)	(99,487)
<i>Value of the provision at the end of the period</i>	412,627	396,713

- (i) The international accounting standards adopted by EDP allowed deferred actuarial gains/losses to be recognised systematically in the statement of income through amortisation 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 amortisations 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:

	Group - Portugal	
	2003	2002
	Euro 000	Euro 000
<i>Cost for the period</i>		
Cost of the service	5,942	6,540
Cost of interest	29,049	30,096
Amortization of the deferred transitory obligation (i)	5,022	4,873
<i>Net cost for the period</i>	40,013	41,509

19. Deferred revenue and other liabilities

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

	Group	
	2003 Euro 000	2002 Euro 000
Subsidies for investment in fixed assets	1,546,101	1,339,085
Deferred taxes	616,056	344,122
Provision for financial assets	92,696	
Provisions for other contingencies and liabilities	164,615	198,027
Concession fixed assets held - (Reg. DL 344-B/82)	9,079	16,650
State share in Multipurpose hydroelectric power stations	14,996	19,740
Reclassifications between headings of customers and other debtors	39,843	41,239
Recognition of liabilities on the sale of OPTEP in 2002	315,000	
Supplies of fixed assets	74,618	
Electricity tariff compensations in Brazil	35,013	
Other creditors and sundry operations	54,393	49,150
	2,962,410	2,008,013

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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.

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	
	2003	2002
	Euro 000	Euro 000
Individual - EDP, SA	474,839	285,789
ONI Group	719	779
EDP Brasil Group	103,066	25,132
Hidrocantábrico Group	37,432	32,422
EDP Group	616,056	344,122

The breakdown of **Deferred Tax Liabilities** is as follows:

	Group
	Euro 000
Balance as at January 1, 2003	344,122
<i>Profit and loss account charge:</i>	
Provisions	920
Depreciation	(24,036)
Book revaluations	(3,014)
Tariff deviation	23,579
Other	930

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Charge for the year	(1,621)
<i>Reserve s charge:</i>	
Revaluation of tangible fixed assets	220,050
Book revaluations	34,637
Other	18,868
Charge against reserves	273,555
Balance as at December 31, 2003	616,056

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The movements in provisions for **Financial Assets** were as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Opening balance		
Increases	114,695	
Decreases	(21,999)	
Closing balance	92,696	

The movements in provisions for **Other Contingencies and Liabilities** were as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Opening balance	198,027	147,601
Changes in subsidiaries		77,527
Increases	39,978	3,972
Decreases	(73,390)	(31,073)
Closing balance	164,615	198,027

20. Minority interests

This balance is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
ONI Group	(89,141)	(11,449)
Edinfor Group	3,222	7,090
Brazil Group	150,273	71,122
Hidrocantábrico Group	175,336	
Other	(3,205)	(1,564)
	<u>236,485</u>	<u>65,199</u>

21. Hydrological correction account

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

	Group	
	2003	2002
	Euro 000	Euro 000
Opening balance on January 1	324,111	387,506
Differential for the year.	71,916	(76,080)
Hydrological correction bonuses	(19,350)	
Financial charges	10,829	12,685
	<u>387,506</u>	<u>324,111</u>

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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 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.

22. 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	
2003	2002

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Consolidated net profit in Euros	381,108,991	335,215,826
Average number of shares in the year	3,000,000,000	3,000,000,000
Net Profit per share - Basic - Euros	0.13 euros	0.11 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.

The EDP Group calculates its basic and diluted earnings per share in accordance with IAS 33, under the terms of which earnings per share are calculated using the weighted average of the shares issued during the reporting period.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****23. 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.

24. Treasury stock

This balance is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Book value of EDP, SA shares	49,020	43,494
Number of EDP SA shares	21,430,964 shares	17,428,926 shares
Market price of EDP, SA shares as at December 31	2.09 euros	1.59 euros
Market value of EDP, SA shares as at December 31	44,791	27,712

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.

25. Reserves and retained earnings

This balance is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Legal reserves	326,391	309,631
Revaluation reserves	89,449	1,172,729
Other reserves and retained earnings	3,031,892	1,287,194
Fair-value adjustments of investments available for sale	10,756	(268,975)
Net profit	381,109	335,216
Currency translation arising on consolidation	(572,500)	(379,468)
Other reserves arising on consolidation	(920,070)	81,349
	2,347,027	2,537,676

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The balance of potential gains and losses on the balance sheet date in respect of investments available for sale is carried in a specific account under shareholders' equity, namely fair value adjustments. The breakdown of the movement during the year under this heading in respect of Medium/Long-term investments classified as available for sale in the Group, impacting directly in this account, is as follows :

	Group	
	Gains	Losses
	Euro 000	Euro 000
Net balance of fair value adjustments as at January 1, 2003		(268,975)
CERJ - Companhia Eléctrica do Estado Rio Janeiro		(9,050)
Iberdrola (cancellation due to sale)		21,223
Galp, SGPS	5,644	
Reclassification of the 2002 loss on BCP shares to retained earnings as a result of the implementation in full of IAS 36 and 39 (see Note 39)		247,750
BCP - Banco comercial Português		(27,889)
OPTEP (Optimus)	42,303	(250)
Balance of fair value adjustments as at December 31, 2003	47,947	(37,191)
Net balance of fair value adjustments as at December 31, 2003		10,756

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 2003		Exchange rates in 2002	
		Rates Closing	Average exchange-rate	Rates Closing	Average exchange-rate
American dollar	USD	1.2630	1.1312	1.0487	0.9456
Brazilian Real	BRL	3.6640	3.4590	3.7120	2.8010
Macao Pataca	MOP	10.0990	9.0340	8.4000	7.5900

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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	

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

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. The following is a comparison of the book value of the tangible fixed assets with their respective historic costs:

	2003			2002		
	Historic costs	Revaluation	Revalued amounts	Historic costs	Revaluation	Revalued amounts
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
Gross assets	14,558,852	10,454,013	25,012,865	13,174,870	10,454,013	23,628,883
Depreciation	(5,034,618)	(9,513,950)	(14,548,568)	(4,124,019)	(9,322,693)	(13,446,712)
Net assets	9,524,234	940,063	10,464,297	9,050,851	1,131,320	10,182,171

During fiscal 2003, of the overall amount of the revaluation reserve, (i) the sum of Eur 136,838,000 was constituted/transferred by way of deferred taxes, and (ii) the sum of Eur 946,442,000 was transferred to retained earnings in respect of revalued assets wholly depreciated and written off. Following these transfers, final amount of the Revaluation Reserve stood at Eur 89,449,000 as at December 31, 2003.

The reserves under Decrees-Law 46031 and 46914 for Self-financing and for Complement of the Financial Amortization were set up in accordance with the provisions of loan contracts entered into with the International Bank for Reconstruction and Development, the outstanding principal of which was repaid in full during 1991.

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****26. Revenues**

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

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Sales by sector of activity/business:			
Electricity	6,296,103	5,876,158	5,201,275
Steam and ashes	22,061	18,651	12,361
Gas	105,311		
Information systems and technologies	26,850	50,861	29,800
Telecommunications	3,889	23,701	30,125
Other Businesses	2,147	18,769	25,681
	6,456,361	5,988,140	5,299,242
Services rendered by sector of activity/business:			
Associated with electricity sales	80,122	18,996	9,235
Thermo/Hydro electricity engineering	6,457	5,311	9,347
Information systems and technologies	69,999	65,174	108,679
Telecommunications	312,334	273,780	151,839
Consultancy and services	12,283	4,536	20,964
Other	39,964	30,620	51,068
	521,159	398,417	351,132
TOTAL TURNOVER by business:			
Electricity	6,376,225	5,895,154	5,210,510
Steam and ashes	22,061	18,651	12,361
Thermo/Hydro electricity	6,457	5,311	9,347
Gas	105,311		
Information systems and technologies	96,849	116,035	138,479
Telecommunications	316,223	297,481	181,964
Other	54,394	53,925	97,713
	6,977,520	6,386,557	5,650,374

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**The breakdown of **Sales** is as follows:

	2003			2002		
	Iberian	Brazilian	Total	Iberian	Brazilian	Total
	Market	market		Market	market	
Electricity:						
To the National Transport network	1,339,411		1,339,411	1,323,894		1,323,894
To final customers:						
- Very high tension	9,509		9,509	37,936	5,629	43,565
- High tension	368,126	242,604	610,730	167,222	126,130	293,352
- Medium tension	738,351	289,371	1,027,722	812,018	172,582	984,600
- Low tension (>39,6 KVA)	313,193		313,193	271,247		271,247
- Low tension	2,424,190	388,807	2,812,997	2,380,945	398,188	2,779,133
- Low tension (Public lightning)	95,731		95,731	86,614	14,977	101,591
Embedded generation	37,062		37,062	38,285		38,285
Discounts and tariff difference	49,748		49,748	45,304	(4,813)	40,491
	<u>5,375,321</u>	<u>920,782</u>	<u>6,296,103</u>	<u>5,163,465</u>	<u>712,693</u>	<u>5,876,158</u>
Other Sales:						
- Steam and ashes	19,748	2,313	22,061	18,651		18,651
- Gas	105,311		105,311			
- Printed forms	10,492		10,492	10,942		10,942
- Telecommunications equipment	3,711		3,711	23,701		23,701
- Data network equipment				23,236		23,236
- PC equipment	13,409		13,409	24,470		24,470
- Other	5,274		5,274	10,982		10,982
	<u>157,945</u>	<u>2,313</u>	<u>160,258</u>	<u>111,982</u>		<u>111,982</u>
	<u>5,533,266</u>	<u>923,095</u>	<u>6,456,361</u>	<u>5,275,447</u>	<u>712,693</u>	<u>5,988,140</u>

2001

Iberian	Brazilian	Total
Market	market	

Electricity:

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To the National Transport network	1,214,073		1,214,073
To final customers:			
- Very high tension	36,837	19,924	56,761
- High tension	175,100	208,259	383,359
- Medium tension	782,980	186,254	969,234
- Low tension (>39,6 KVA)	261,227		261,227
- Low tension	1,965,301	268,373	2,233,674
- Low tension (Public lightning)	83,918	12,514	96,432
Embedded generation	12		12
Discounts and tariff difference	(8,682)	(4,815)	(13,497)
	<u>4,510,766</u>	<u>690,509</u>	<u>5,201,275</u>
Other Sales:			
- Steam and ashes	12,361		12,361
- Gas			
- Printed forms	11,352		11,352
- Telecommunications equipment	30,125		30,125
- Data network equipment	253		253
- PC equipment	29,548		29,548
- Other	14,328		14,328
	<u>97,967</u>	<u></u>	<u>97,967</u>
	<u>4,608,733</u>	<u>690,509</u>	<u>5,299,242</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**The breakdown of **Gross profit on Sales** is as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Sales:			
Electricity	6,296,103	5,876,158	5,201,275
Steam and ashes	22,061	18,651	12,361
Gas	105,311		
Information systems and technologies	26,850	50,861	29,800
Telecommunications	3,889	23,701	30,125
Other Businesses	2,147	18,769	25,681
	<u>6,456,361</u>	<u>5,988,140</u>	<u>5,299,242</u>
Cost of sales - Raw materials and consumables :			
Electricity	3,360,268	3,005,526	2,524,293
Fuel, steam and ashes	398,034	465,527	377,192
Information technologies	19,143	36,207	39,969
Telecommunications	6,571	53,378	20,683
Other activities	137,030	126,459	116,727
	<u>3,921,046</u>	<u>3,687,097</u>	<u>3,078,864</u>
	<u>2,535,315</u>	<u>2,301,043</u>	<u>2,220,378</u>

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

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
	<u> </u>	<u> </u>	<u> </u>

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Associated with electricity sales	80,122	18,996	9,235
Engineering studies and designs	6,457	5,311	9,347
IT services	69,999	65,174	108,679
Voice services - urban calls	227,181	191,437	108,839
Other telecommunications services	85,153	82,343	43,000
Provision of collection services	11,004	8,787	7,630
Consultancy, management and co-ordination	1,279	4,536	20,964
Other services provided	39,964	21,833	43,438
	<u>521,159</u>	<u>398,417</u>	<u>351,132</u>

The breakdown of **Revenues by geographic market** is as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Portugal	5,143,257	5,203,731	4,887,232
Spain	856,848	452,150	61,545
Brazil	977,415	730,676	701,597
	<u>6,977,520</u>	<u>6,386,557</u>	<u>5,650,374</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****27. Personnel costs**The balance **Personnel costs** is analysed as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Corporate officers remuneration	15,258	15,988	16,278
Employees remuneration	413,552	411,630	386,122
Charges on remuneration	192,539	156,540	139,692
Other staff costs	25,287	40,613	49,881
	646,636	624,771	591,973

The breakdown by management positions and professional category of the permanent staff as at December 31, 2003, 2002 and 2001 is as follows:

	Group		
	2003	2002	2001
Managers/ Head of Department	462	621	535
Senior management	2,755	3,167	2,054
Middle management	2,484	2,252	528
Intermediate management	247	353	220
Highly-skilled workers	8,612	7,630	2,718
Skilled workers	1,123	423	4,641
Semi-skilled workers	927	845	983
Unskilled workers	778	906	30
	17,388	16,197	11,709

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As at December 31, 2003, the number of employees in service, including those on temporary contract, totalled 17,664 (18,455 in 2002). These figures include all the employees of all the consolidated companies (purchase or proportional method), regardless of the EDP holding in the share capital.

As at December 31, 2002, the employees assigned to ONI in Spain and the employees assigned to Hidrocantábrico were not included.

The remuneration of the corporate officers of EDP - Electricidade de Portugal, S.A., was as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Board of Directors	3,089	2,815	2,815
External Auditor and Official auditor (EDP, S.A. only)	82	82	82
	3,171	2,897	2,897

During 2003 the EDP Remuneration Committee, in keeping with the mandate that had been given to it at the General Meeting held in May 2003, granted the members of the Board of Directors extraordinary remuneration in respect of the 2002 results, in the total sum of Eur 606,000 of which Eur 585,000 were for executive directors and Eur 21,000 for non-executive directors.

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	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
<i>Tangible fixed assets:</i>			
Fixed assets under concession the Decree-law 344-B/82	3,229	4,284	4,882
Buildings and other constructions	9,703	6,442	6,162
Plant and machinery			
Hydroelectricity generation	128,850	129,004	125,406
Thermoelectric generation	103,778	98,101	96,507
Electricity distribution	445,808	385,319	339,511
Other plant and machinery	60,928	48,906	45,991
Transport equipment	10,418	8,189	7,558
Administrative equipment	37,850	24,314	18,170
Other tangible fixed assets	2,527	1,547	1,790
	803,091	706,106	645,977
<i>Intangible fixed assets:</i>			
Set-up costs	15,145	14,856	13,393
Research and development costs	17,294	15,471	3,883
Industrial property and other rights	7,164	3,108	1,438
Other intangible assets on telecommunications business	2,898		
	42,501	33,435	18,714
	845,592	739,541	664,691

29. Supplies and services

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This balance is analysed as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
<i>Subcontracts:</i>			
Subcontracts	209,239	179,074	113,097
Other subcontracts	5,916		
<i>Supplies and services:</i>			
Water, electricity and fuel	12,335	8,261	9,650
Utensils and office material	5,066	6,511	6,952
Leases and rents	52,010	51,186	40,555
Communications	30,967	21,246	33,650
Insurance	19,636	18,386	10,886
Transport, travel, and the board and lodging	12,972	12,503	13,685
Commissions and fees	10,887	16,724	18,789
Maintenance and repairs	94,127	99,886	95,042
Advertising and propaganda	12,545	20,970	23,557
Specialised work	130,757	187,548	231,475
Other supplies and services:	36,061	52,775	53,892
	632,518	675,070	651,230

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****30. Own work capitalized**

This balance is analysed as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Consumption of materials	99,327	70,695	84,020
Direct internal costs and overheads	105,401	113,220	83,083
Financial charges	24,005	16,036	14,478
Other own work capitalized	6,890	41,818	50,938
	235,623	241,769	232,519

31. Provisions for the year

This balance is analysed as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Charge for doubtful debt	9,649	24,372	20,464
Charge for pension liabilities	17,008	14,687	63,042
Charge for healthcare liabilities	40,014	57,614	32,480
Charge for other contingencies and liabilities	9,035	3,972	
	75,706	100,645	115,986

32. Other operating expenses net

This balance is analysed as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
<i>Other operating income:</i>			
Supplementary income	7,768	8,067	39,961
Operating subsidies	685	453	1,899
Other operating income	9,628	22,094	22,614
	<u>18,081</u>	<u>30,614</u>	<u>64,474</u>
<i>Other operating expenses:</i>			
Direct taxes	398	2,811	898
Indirect taxes	19,092	13,824	12,850
Other operating costs and losses	8,851	8,301	8,228
	<u>28,341</u>	<u>24,936</u>	<u>21,976</u>
<i>Other net operating income / (expenses)</i>	<u>(10,260)</u>	<u>5,678</u>	<u>42,498</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****33. Interest and related income and expenses**The balance **Interest and related income and expenses**, are analysed as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Interest and related income :			
Interest income	65,530	128,599	140,437
Income on application of the equity method	46,464	36,450	25,105
Investment income	36,740	40,042	16,831
Favourable exchange differences	47,559	90,260	62,321
Updating losses on rationing (Brazil)	30,358	15,731	
Other financial gains	82,374	70,638	6,728
	309,025	381,720	251,422
Interest and related expenses :			
Interest expense	399,970	329,860	287,137
Banking services	28,372	57,025	12,647
Losses on application of the equity method	13,308	115,184	13,485
Unfavourable exchange differences	58,273	22,846	63,666
Other financial losses	75,702	14,218	49,029
	575,625	539,133	425,964
Amortization of investments (Goodwill):			
- Concession rights	30,439	53,535	12,683
- Goodwill assets	54,439	11,896	18,108
- Other intangible assets on telecommunications business	7,542		
	92,420	65,431	30,791
	668,045	604,564	456,755
Net Financial Income / (Expenses)	(359,020)	(222,844)	(205,333)



Only in 2001 and 2002 EDP has recorded in interest income, respectively, a financial gain of Eur 88,557 thousand and Eur 89,174 thousand related to early extinguishment of Bandeirante and Escelsa debt.

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	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
<i>Other non-operating income</i>			
Gains on fixed assets	44,147	53,264	27,682
Recovery of debt	2,652	168	398
Reduction of provisions			
- For customer debt	1,444		
- For financial assets	21,774		
- For other contingencies and liabilities	50,736	76,371	18,681
Corrections to previous years	15,147	9,692	13,305
Compensation of depreciation of part-funded fixed assets	79,822	71,767	63,887
Residual value of Oniway		70,000	
Hydrological correction	19,350		47,466
Other extraordinary gains	45,159	22,694	15,176
	280,231	303,956	186,595
<i>Other non-operating (expenses)</i>			
Losses on stocks	1,442	2,279	2,635
Losses on fixed assets	14,850	41,332	2,635
Bad debt	15,086	9,084	1,385
Fines and penalties	3,228	2,248	74
Corrections to previous years	46,755	13,934	7,467
Extraordinary depreciation			
- Intangible fixed assets		1,991	
- Fixed assets in progress		278,944	
Extraordinary provisions			
- Financial assets	114,695		
- For other debtors	3,461		
- For other contingencies and liabilities	12,535	18,297	3,068
Additional income tax assessment in respect of 1995/97/98		15,926	
Loss on Baixa UTE Campo Grande (Enersul)	6,950	13,963	
Cost of human resources rationalisation	47,810		

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Other extraordinary losses	27,862	44,897	43,342
	<u>294,674</u>	<u>442,895</u>	<u>60,606</u>
<i>Net Non-Operating Results</i>	<u>(14,443)</u>	<u>(138,939)</u>	<u>125,989</u>

35. 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 five 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.

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The breakdown of income tax expense is as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Tax base			
Income before income taxes	532,279	286,921	594,188
Permanent differences	192,740	302,779	76,300
	<u>725,019</u>	<u>589,700</u>	<u>670,488</u>
Normal charge	239,256	194,602	234,671
Adjustments	(43,722)	(22,863)	(31,718)
Income tax expenses	<u>195,534</u>	<u>171,739</u>	<u>202,953</u>
Current income taxes	239,255	171,168	244,012
Deferred income taxes	(43,721)	571	(41,059)
Income tax expense	<u>195,534</u>	<u>171,739</u>	<u>202,953</u>

The breakdown of the reconciliation between the nominal and the actual income tax (IRC) rate for the Group in 2003 is as follows:

	2003		
	Tax Base	Tax	Rate
	Euro 000	Euro 000	%
Nominal tax on profits	532,279	175,652	33.0%
- Main effects at taxation level:			
Net depreciation	30,153	9,950	1.9%
Amortization Resulting from revaluation fixed assets	76,503	25,246	4.7%

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Net provisions	(25,338)	(8,362)	-1.6%
Corrections to previous years	11,722	3,868	0.7%
Book losses not compensated	303,463	100,143	18.8%
Effects of untaxed equity method	(31,574)	(10,419)	-2.0%
Tariff deviation in electricity business in Portugal	(73,105)	(24,125)	-4.5%
Elimination of double economic taxation	(36,595)	(12,076)	-2.3%
Employee profit-sharing	(21,296)	(7,028)	-1.3%
Excess tax estimate for 2002	(39,602)	(13,069)	-2.5%
Other adjustments to taxable income	(1,591)	(525)	-0.1%
	<u> </u>	<u> </u>	<u> </u>
Effective rate and actual tax on profits	725,019	239,255	44.8%
	<u> </u>	<u> </u>	<u> </u>

Corporate income tax returns are subject to review and correction by the income tax authorities for a period of six 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.

36. Segmental reporting

The Segmental Reporting is provided in an appendix subsequent to these notes to the financial statements and it was prepared in accordance with Portuguese Accounting Directive 27 and with international best practices.

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****EDP Group Business by Business Segment****Information by business segment - 2003****(Amounts expressed in thousands of euros)**

	<u>Portugal</u>		<u>Spain</u>			<u>Brazil</u>		<u>Telecoms</u>	<u>Information Technology</u>	<u>Services and Other Adjustments</u>	<u>EDP Group</u>
	<u>Generation ^(a)</u>	<u>Distribution + Supply</u>	<u>Generation</u>	<u>Distribution + Supply</u>	<u>Gas ^(b)</u>	<u>Generation</u>	<u>Distribution + Supply</u>				
Turnover											
Sales of electricity	1,318,853	3,610,621	256,791	287,655		27,414	928,963			(134,194)	6,296,103
Other sales	19,748	1,946	1,990	28,948	75,867	2,314		7,290	27,023	(4,868)	160,258
Services rendered	26,629	60,246	1,116	12,357	10,108	11,536	37,609	323,820	159,323	(121,585)	521,159
	<u>1,365,230</u>	<u>3,672,813</u>	<u>259,897</u>	<u>328,960</u>	<u>85,975</u>	<u>41,264</u>	<u>966,572</u>	<u>331,110</u>	<u>186,346</u>	<u>(260,647)</u>	<u>6,977,520</u>
Raw materials and consumables											
Purchase of electricity	65,344	2,412,534	50,113	262,196	48,153	5,597	650,926			(134,595)	3,360,268
Fuel costs	312,346		84,078	1,438			265			(93)	398,034
Other materials	3,453	111,336	454	15,862	52	2,294	7,897	6,571	24,453	(9,628)	162,744
	<u>381,143</u>	<u>2,523,870</u>	<u>134,645</u>	<u>279,496</u>	<u>48,205</u>	<u>7,891</u>	<u>659,088</u>	<u>6,571</u>	<u>24,453</u>	<u>(144,316)</u>	<u>3,921,046</u>
Gross Margin	<u>984,087</u>	<u>1,148,943</u>	<u>125,252</u>	<u>49,464</u>	<u>37,770</u>	<u>33,373</u>	<u>307,484</u>	<u>324,539</u>	<u>161,893</u>	<u>(116,331)</u>	<u>3,056,474</u>
Other operating income / (costs)											
Supplies and services	(74,960)	(210,632)	(16,969)	(14,614)	(5,352)	(16,677)	(45,550)	(265,307)	(70,053)	87,596	(632,518)
Personnel costs	(120,339)	(397,060)	(17,971)	(14,902)	(4,227)	(517)	(63,441)	(50,973)	(66,431)	89,225	(646,636)
Own work capitalized	38,232	184,816	2,508	1,266	222			8	8,397	174	235,623
Concession and power-generating rents	(3,894)	(171,749)									(175,643)
Other operating income / (costs)	(6,152)	(778)	1,232	912	(1,186)	(777)	(17,821)	886	294	13,129	(10,261)
	<u>(167,113)</u>	<u>(595,403)</u>	<u>(31,200)</u>	<u>(27,338)</u>	<u>(10,543)</u>	<u>(17,971)</u>	<u>(126,812)</u>	<u>(315,386)</u>	<u>(127,793)</u>	<u>190,124</u>	<u>(1,229,435)</u>

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Gross Operating Margin	816,974	553,540	94,052	22,126	27,227	15,402	180,672	9,153	34,100	73,793	1,827,039
Depreciation and amortization	234,351	348,926	27,416	25,156	7,529	4,311	53,954	72,744	24,301	46,904	845,592
Provisions	12,742	42,793	295	766	19		11,039	5,076	508	2,468	75,706
Operating Margin	569,881	161,821	66,341	(3,796)	19,679	11,091	115,679	(68,667)	9,291	24,421	905,741
Financial income / (expense)	(76,188)	(37,468)	(18,847)	(9,964)	(5,586)	(15,363)	(14,226)	(38,858)	(7,134)	(42,966)	(266,600)
(Amortization of goodwill and concession rights)		(11)	(20,379)	(11)	(7,600)	(71)	(1)	(19,461)	(5,360)	(39,526)	(92,420)
Current results	493,693	124,342	27,115	(13,771)	6,493	(4,343)	101,452	(126,986)	(3,203)	(58,071)	546,721
Extraordinary gains / (losses)	(4,075)	80,226	(1,118)	1,344	437	(26,414)	14,350	(21,745)	(4,069)	(53,379)	(14,443)
Profit before taxes	489,618	204,568	25,997	(12,427)	6,930	(30,757)	115,802	(148,731)	(7,272)	(111,450)	532,278
Income taxes	164,130	51,065	4,820	(4,350)	2,426	1,190	36,857	(17,658)	2,967	(45,913)	195,534
Minority interests	(164)		181		5,034	(2,172)	22,825	(58,055)	(4,041)	(7,973)	(44,365)
Net attributable profit	325,652	153,503	20,996	(8,077)	(530)	(29,775)	56,120	(73,018)	(6,198)	(57,564)	381,109
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

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	Portugal		Spain			Brazil		Services and Other		EDP Group
	Generation	Distribution + Supply	Generation	Distribution + Supply	Gas ^(a)	Distribution	Telecoms	Information Technology	Adjustments	
Turnover										
Sales of electricity	1,425,432	3,503,395	145,063	150,126		668,597			(16,454)	5,876,158
Other sales	18,651	1,738	2,501	7,587	10,477		46,729	35,510	(11,210)	111,983
Services rendered	18,212	33,075	773	6,262	1,062		274,057	188,494	(123,518)	398,417
	1,462,295	3,538,208	148,337	163,975	11,539	668,597	320,786	224,004	(151,183)	6,386,558
Raw materials and consumables										
Purchase of electricity	37,277	2,386,353	33,600	120,511		486,530			(58,745)	3,005,526
Fuel costs	465,527		38,270	1,056					(39,326)	465,527
Other materials	4,377	80,121	190	1,128	3,314	3,979	53,378	31,640	37,917	216,044
	507,182	2,466,474	72,060	122,695	3,314	490,509	53,378	31,640	(60,155)	3,687,097
Gross Margin	955,114	1,071,734	76,277	41,280	8,225	178,088	267,408	192,364	(91,028)	2,699,461
Other operating income / (costs)										
Supplies and services	(72,963)	(209,157)	(14,491)	(26,859)	(1,538)	(36,038)	(293,736)	(75,121)	54,833	(675,070)
Personnel costs	(119,559)	(380,554)	(9,358)	(8,013)	(954)	(39,569)	(89,691)	(75,470)	98,398	(624,771)
Own work capitalized	26,183	161,777	(385)	2,866	173	793	30,225	12,633	7,503	241,769
Concession and power-generating rents	(3,664)	(154,008)							(504)	(158,176)
Other operating income / (costs)	5,393	8,832	42	433	92	(6,293)	5,685	862	(9,368)	5,678
	(164,610)	(573,110)	(24,193)	(31,574)	(2,227)	(81,107)	(347,516)	(137,096)	150,862	(1,210,570)
Gross Operating Margin	790,504	498,624	52,084	9,705	5,999	96,981	(80,108)	55,268	59,833	1,488,890

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Depreciation and amortization	228,231	333,619	17,103	7,515	2,251	34,227	66,852	18,924	30,819	739,541
Provisions	11,612	65,331	2,283	291	279	1,393	7,881	781	10,793	100,645
Operating Margin	550,661	99,674	32,697	1,899	3,468	61,362	(154,841)	35,563	18,221	648,704
Financial income / (expense)	(90,135)	(47,164)	(16,184)	(5,497)	(1,718)	2,755	(26,579)	(8,503)	35,611	(157,413)
(Amortization of goodwill and concession rights)			(5,692)	(6,326)	(2,325)		(16,012)	(5,353)	(29,724)	(65,431)
Current results	460,526	52,510	10,822	(9,924)	(574)	64,117	(197,432)	21,707	24,108	425,860
Extraordinary gains / (losses)	7,066	85,660	(3,366)	(1,739)	(90)	(23,688)	(259,328)	(6,890)	63,436	(138,939)
Profit before taxes	467,592	138,170	7,456	(11,663)	(664)	40,429	(456,760)	14,817	87,544	286,921
Income taxes	170,643	41,836	1,558	(2,711)	(618)	(29,772)	(33,483)	6,617	17,668	171,739
Minority interests			(391)			24,338	(230,066)	394	(14,309)	(220,034)
Net attributable profit	296,949	96,334	6,289	(8,951)	(47)	45,862	(193,212)	7,806	84,185	335,216
Other information :										
Tangible fixed assets	4,324,116	4,329,978	721,619	212,378	49,647	673,956	242,869	85,464	564,210	11,204,237
Intangible fixed assets	5,877	143	148,667	209,204	569	12,403	219,646	9,259	498,395	1,104,164
Current assets	842,134	811,182	96,099	76,259	11,440	812,274	347,794	169,594	(530,905)	2,635,871
Shareholders equity	3,862,590	1,519,190	412,067	195,503	56,786	344,281	(86,287)	67,779	(877,727)	5,494,182
Current liabilities	726,865	2,477,066	198,193	105,604	26,785	294,985	1,076,689	183,107	(231,822)	4,857,472
Investment in fixed assets	238,365	384,823	55,216	33,258	13,880	25,382	228,619	28,199	47,911	1,055,653

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

(b) Profit and loss account of Hidrocarbónico Group included in EDP Group's accounts by the proportional method with a 40% interest shareholding

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	Portugal		Brazil		Services		EDP
	Generation ^(a)	Distribution + Supply	Distribution + Supply	Telecoms	Information Technology	and Other Adjustments	Group
Turnover							
Sales of electricity	1,267,922	3,282,544	690,509			(39,701)	5,201,275
Other sales	12,361	1,620		30,893	39,149	13,944	97,967
Services rendered	14,600	19,895		157,031	149,883	9,722	351,132
	<u>1,294,883</u>	<u>3,304,060</u>	<u>690,509</u>	<u>187,924</u>	<u>189,032</u>	<u>(16,034)</u>	<u>5,650,374</u>
Raw materials and consumables							
Purchase of electricity	3,653	2,060,291	497,387			(37,038)	2,524,293
Fuel costs	377,192						377,192
Other materials	3,909	107,544	2,785	20,683	34,164	8,294	177,379
	<u>384,754</u>	<u>2,167,836</u>	<u>500,172</u>	<u>20,683</u>	<u>34,164</u>	<u>(28,744)</u>	<u>3,078,864</u>
Gross Margin	<u>910,129</u>	<u>1,136,224</u>	<u>190,337</u>	<u>167,241</u>	<u>154,868</u>	<u>12,710</u>	<u>2,571,510</u>
Other operating income / (costs)							
Supplies and services	(69,595)	(215,878)	(36,367)	(219,072)	(65,665)	(44,654)	(651,230)
Personnel costs	(113,481)	(368,621)	(43,876)	(75,885)	(65,398)	75,288	(591,973)
Own work capitalized	23,900	153,756		38,535	21,680	(5,351)	232,519
Concession and power-generating rents	(3,437)	(145,659)				(18)	(149,114)
Other operating income / (costs)	3,644	18,132	(4,743)	5,930	4,400	15,134	42,498
	<u>(158,969)</u>	<u>(558,270)</u>	<u>(84,986)</u>	<u>(250,492)</u>	<u>(104,983)</u>	<u>40,399</u>	<u>(1,117,300)</u>
Gross Operating Margin	<u>751,161</u>	<u>577,954</u>	<u>105,351</u>	<u>(83,251)</u>	<u>49,885</u>	<u>53,110</u>	<u>1,454,210</u>
Depreciation and amortization	225,182	327,827	35,827	48,868	17,796	9,191	664,691
Provisions	9,805	54,730	4,911	3,742	960	41,839	115,986
Operating Margin	<u>516,175</u>	<u>195,397</u>	<u>64,613</u>	<u>(135,861)</u>	<u>31,129</u>	<u>2,080</u>	<u>673,533</u>
Financial income / (expense)	(92,414)	(25,076)	32,793	(31,842)	(4,235)	(84,559)	(205,333)
(Amortization of goodwill and concession rights)				(9,861)	(5,250)	15,111	

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Current results	423,761	170,321	97,406	(177,565)	21,644	(67,367)	468,200
Extraordinary gains / (losses)	6,448	90,427	(10,769)	4,470	(795)	36,208	125,989
Profit before taxes	430,209	260,748	86,637	(173,095)	20,849	(31,159)	594,189
Income taxes	141,631	73,297	19,242	(51,526)	7,716	12,593	202,953
Minority interests	(151)			(62,918)	3,285	226	(59,559)
Net attributable profit	288,729	187,451	67,395	(58,651)	9,848	(43,978)	450,795

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	Brazil							Spain		
	2003				2002			2001	2003	2002
	Distribution + Supply				Distribution			Distribution		
	Bandeirante	Escelsa	Enersul	Enertrade	Bandeirante	Escelsa	Enersul	Bandeirante	HC Group ^(a)	HC Group ^(a)
Turnover										
Sales of electricity	467,235	255,768	159,779	46,181	567,781	68,036	32,780	690,509	542,228	295,128
Other sales									105,310	20,048
Services rendered	16,834	17,055	3,154	566					15,007	6,176
	484,069	272,823	162,933	46,747	567,781	68,036	32,780	690,509	662,545	321,351
Raw materials and consumables										
Purchase of electricity	356,965	167,728	83,334	42,899	429,063	39,316	18,151	497,387	358,245	154,054
Fuel costs	265								85,513	39,326
Other materials	2,029	2,497	3,371		2,866	469	644	2,785	6,301	2,190
	359,259	170,225	86,705	42,899	431,929	39,785	18,795	500,172	450,059	195,570
Gross Margin	124,810	102,598	76,228	3,848	135,852	28,251	13,985	190,337	212,486	125,781
Other operating income / (costs)										
Supplies and services	(21,742)	(12,428)	(10,307)	(1,073)	(27,683)	(4,322)	(4,033)	(36,367)	(33,369)	(41,068)
Personnel costs	(26,689)	(20,531)	(15,410)	(811)	(31,769)	(4,372)	(3,428)	(43,876)	(37,100)	(18,325)
Own work capitalized					793				3,996	2,654
Concession and power-generating rents										
Other operating income / (costs)	(2,749)	(10,341)	(4,683)	(48)	(4,759)	(1,534)		(4,743)	(2,608)	(1,254)
	(51,180)	(43,300)	(30,400)	(1,932)	(63,418)	(10,228)	(7,461)	(84,986)	(69,081)	(57,993)
Gross Operating Margin	73,630	59,298	45,828	1,916	72,434	18,023	6,524	105,351	143,405	67,789
	21,053	17,097	15,787	17	26,304	3,981	3,942	35,827	60,101	26,869

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Depreciation and amortization										
Provisions	1,623	5,174	4,242			1,393		4,911	1,080	2,853
Operating Margin	50,954	37,027	25,799	1,899	46,130	12,649	2,582	64,613	82,224	38,066
Financial income / (expense)	(22,770)	19,746	(10,930)	(272)	(34,517)	38,659	(1,387)	32,793	(34,397)	(23,399)
(Amortization of goodwill and concession rights)		(1)							(27,990)	(14,342)
Current results	28,184	56,772	14,869	1,627	11,614	51,308	1,195	97,406	19,837	325
Extraordinary gains / (losses)	1,359	18,774	(5,919)	136	(6,489)	(2,573)	(14,626)	(10,769)	663	(5,194)
Profit before taxes	29,543	75,546	8,950	1,763	5,125	48,735	(13,431)	86,637	20,500	(4,870)
Income taxes	1,021	30,018	5,568	250	(5,290)	(24,482)		19,242	2,896	(1,771)
Minority interests	998	20,597	1,177	53	(162)	33,137	(8,637)		5,215	(391)
Net attributable profit	27,524	24,931	2,205	1,460	10,576	40,080	(4,794)	67,395	12,389	(2,708)
Other information :										
Tangible fixed assets	248,828	224,633	191,589	131	307,581	195,301	171,074		1,088,364	983,644
Intangible fixed assets	14,921	8,700	5,745	37	4,163	8,240			354,274	358,441
Current assets	300,381	325,005	145,383	10,449	333,317	335,755	143,202		148,284	183,798
Shareholders equity	197,033	105,668	120,535	5,496	170,073	59,055	115,153		676,210	664,356
Current liabilities	317,934	183,305	110,919	6,828	167,226	93,979	33,780		165,987	330,582
Investment in fixed assets	37,580	17,596	15,279		25,413				70,528	102,354

(a) Profit and loss account of Hidrocantábrico Group included in EDP Group's accounts by the proportional method with a 40% interest shareholding

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****37. Commitments**

As at December 31, 2003, 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 Euro 000</u>
Guarantees of a financial nature	
Guarantees provided by Group entities - Portugal	
to domestic banks	80,672
to foreign banks	154,521
to other domestic entities	68,231
to other foreign entities	7,942
Guarantees provided by Group entities - Spain	
to foreign banks	38,363
to other foreign entities	9,198
Guarantees provided by Group entities - Brazil	
to foreign banks	52,211
	411,138
Guarantees of an operational nature	
Guarantees provided by group entities - Portugal	
to other domestic entities	59,246
to foreign banks	16,976
to other foreign entities	32,434
Guarantees provided by group entities - Spain	
to foreign banks	63,925
to other foreign entities	577
	173,158
	584,296
Bank guarantees provided for operational activities are as follows:	
	Group Euro 000
Domestic banks	16,356

Foreign banks

87,757

104,113

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

	Group			
	2003		2002	
	Assets Euro 000	Liabilities Euro 000	Assets Euro 000	Liabilities Euro 000
Interest rate swaps :				
EUR	3,057,371	3,450,753	3,152,203	3,545,585
GBP	200,000		200,000	
JPY	8,000,000		8,000,000	

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

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 has already been started, and hedge accounting will commence during 2004.

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 2003			
	Nominal Value Euro 000	Total Euro 000	Market Value	
			Assets Euro 000	Liabilities Euro 000
Interest-rate contracts:				
Interest-rate swaps	3,057,371	224,362	264,175	(39,813)
Options bought and sold	3,735,697	(8,520)		(8,520)
		215,843	264,175	(48,332)
Interest-rate and exchange-rate contracts:				
CIRS (currency and interest rate swaps)	393,382	(49,127)		(49,127)
		166,716	264,175	(97,459)

The maturity of these derivatives instruments is as follows:

Group 2003

	Up to 3 months Euro 000	3 months to 1 year Euro 000	1 year to 5 years Euro 000	More than 5 years Euro 000	Total Euro 000
Interest-rate contracts:					
Interest-rate swaps		2,940	216	221,205	224,362
Options bought and sold		(2,612)	(3,229)	(2,679)	(8,520)
		328	(3,013)	218,526	215,842
Interest-rate and exchange-rate contracts:					
CIRS (currency and interest rate swaps)		(8,707)	(5,819)	(34,601)	(49,127)
		(8,379)	(8,832)	183,925	166,715

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

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

	Group 2003				
	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	2.5810%	2.5260%	0.7000%	0.2550%
CIRS (currency and interest rate swaps)	EUR / GBP	3.5410%		6.6250%	

	Value	
	Euro 000	Group 2003
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 (CAP sale)	3 735 697	3.50% 2.27%

38. 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.

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

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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 .

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

Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

39. 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 21.

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

Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

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.

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. During 2001, 2002 and 2003 the Group collected Eur 1,156,628 and Eur 3,081,748 and Eur 3,654,098 related to those agreements. 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.

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

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At the time of the disposal of the Central do Pego to Tejo Energia in 1993, the estimated construction cost of the plant under Portuguese GAAP was equal to the proceeds of disposal. However, the construction costs included capitalized foreign exchange differences and general and administrative costs which under U.S. GAAP would have been expensed as periodic costs prior to the disposal. These capitalized costs would have resulted in a gain on disposal of approximately Eur 48,592,891 which, because of the PPAs, would not have been recognized in 1993. The U.S. GAAP adjustments presented below reflect the reversal of the capitalization of the foreign exchange differences and general and administrative overheads as if they had been expensed prior to 1995.

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) Investments

Under Portuguese GAAP, investments in publicly traded equity securities, other than those of subsidiaries and those that are accounted for under the equity method, were carried at historical cost until 2001. From January 1, 2002 under Portuguese GAAP these investments are stated at fair value and the changes therein, net of income taxes, are recorded in shareholders' equity, however any permanent loss in the carrying value is recognized in the income statement.

Under U.S. GAAP for all years presented, these available for sale securities would be stated at fair value and the changes therein, net of income taxes, would be recorded in a separate component of shareholders' equity and included in the determination of comprehensive income. Any other than temporary impairment would be recognized in the income statement, therefore in 2002 an amount of Eur 247,751 thousand before tax benefit and 165,933 thousand net of tax has been reflected in the determination of U.S. GAAP net income.

k) 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.

l) 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. The gain on the disposal, in the amount of Eur 342,046 thousand, and the related deferred tax in the amount of Eur 120,400 thousand, were charged directly to shareholders' equity (with a net effect of Eur 221,646 thousand).

m) 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.

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December 31, 2003, 2002 and 2001

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 and FAS 138, 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 order to qualify for hedge accounting. From January 1, 2003 (as discussed at note 2 d) IAS 39 was adopted on Portuguese GAAP.

Therefore no difference arise in the current year as all derivatives are marked to market both U.S. GAAP and IAS 39.

The EDP Group has chosen not to apply the hedge accounting provision of FAS 133, and accordingly all changes in the fair value of derivative instruments are recorded in the income statement.

n) Depreciation 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 2002 and 2003 the goodwill amortization charged to the profit and loss account was adjusted under U.S. GAAP in the amount of Eur 11,896 thousand and Eur 20,653 thousand.

o) Equity Method vs Proportional consolidation

The investment in Hidroantábriço 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 k).

p) Tariff adjustments and accounting for rate regulated entities

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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.

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q) Guarantees

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.

r) Regulatory assets

During the current year the Company set up a restructuring plan, which is intended to be completed by 2006. The plan consists of a reduction of approximately 500 employees, in EDP Distribuição, most of them through a pre-retirement scheme. 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, in 2003 the Company recorded a regulated asset against a provision for restructuring (no effect on equity) in the amount of Eur 148,4 million. During the current year EDP recorded restructuring costs of Eur 14,9 million and recorded regulatory income of the same amount, associated with the tariff adjustment accepted by the regulator. 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. Expense of Eur 14,9 million was recorded for both Portuguese GAAP and U.S.GAAP.

s) 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.

t) Operating income

Under U.S. GAAP, except for losses resulting from discontinued operations which would be presented separately, substantially all the amounts in Note 34 would be included in the determination of operating income.

u) Impact of Recently Issued Accounting Standards

FASB Interpretation Number (FIN) 46 (revised December 2003) Consolidation of Variable Interest Entities

FIN 46 was issued in January 2003, was revised in December 2003 and has been interpreted in various FASB staff positions. It is effective immediately for all variable interests in variable interest entities (VIE) created after January 1, 2003. For VIEs created before that date, the requirements are effective for EDP Group from January 1, 2004. FIN 46 requires certain transitional disclosures to be made immediately if it is reasonably possible that an entity will consolidate or disclose information about VIEs when FIN 46 becomes effective. FIN 46 defines a VIE as an entity where either the total equity investment at risk is not sufficient to permit the entity to finance its activities, without additional subordinated financial support; or the equity investors lack any one of the following: (1) the ability to make decisions about an entity's activities; (2) the obligation to absorb losses of the entity; or (3) the right

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December 31, 2003, 2002 and 2001

to receive residual returns of the entity. VIEs are required to be consolidated by the primary beneficiary, which is the party that absorbs the majority of the entity's expected losses, expected gains, or both. It is not expected that this standard will have a material impact on the EDP Group's U.S. GAAP financial statements.

SFAS 149 - Amendment of Statement 133 on Derivative Instruments and Hedging Activities

SFAS 149 was issued in April 2003. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement 133, Accounting for Derivative Instruments and Hedging Activities. This statement is effective prospectively for contracts entered into or modified after June 30, 2003 and prospectively for hedging relationships designated after June 30, 2003. Adoption of this statement has not had a material impact on EDP Group's U.S. GAAP financial statements.

SFAS 150 - Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

SFAS 150 was issued in May 2003. The statement amends the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity and requires that these instruments be classified as liabilities in statements of financial position. This statement is effective prospectively for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. This statement shall be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the statement and still existing at the beginning of the interim period of adoption and not expected to have a material impact on EDP Group financial statements.

SFAS 132 - Employers' Disclosures about Pensions and Other Retirement Benefits (revised 2003)

In December 2003 the FASB issued a revision to SFAS 132 which requires enhanced disclosures about the EDP Group's defined benefit pension plans. Adoption of this statement has not had, and is not expected to have a material impact on EDP Group's U.S. GAAP financial statements although additional disclosure have been added.

EITF 03-1 - The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments

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In November 2003 the EITF reached a consensus on certain additional disclosure requirements in connection with holding losses on investment securities. This standard is not expected to have a material impact on EDP Group's U.S. GAAP financial statements.

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The effect on net income and shareholders' equity is as follows:

Net income

	2003	2003	2002	2001
	US\$	Euro 000	Euro 000	Euro 000
Net income as reported under Portuguese GAAP	463,810	381,109	335,216	450,795
U.S. GAAP adjustments increase (decrease) due to:				
a. Depreciation of revaluation of fixed assets	232,760	191,257	200,973	204,504
b. Capitalized overheads	(17,614)	(14,473)	(35,650)	(2,283)
c. Depreciation of exchange differences	21,549	17,707	19,297	23,408
d. Deferred costs	95,639	78,586	20,870	(89,989)
e. Hydrological correction adjustments	13,256	10,892	12,685	(26,906)
f. Distribution to management and employees	(29,928)	(24,592)	(22,989)	(22,634)
g. Pension and other post-retirement benefits	(50,795)	(41,738)	(61,876)	(61,876)
h. Accounts receivable - municipalities	4,447	3,654	3,082	1,157
i. Power purchase agreements - after REN disposal	(14,845)	(12,198)	(15,507)	(20,124)
j. Investments			(247,751)	
k. Equity accounting on investments - REN	28,127	23,112	(26,283)	43,256
k. Equity accounting on investments - Hidrocontábrico	4,548	3,737	(6,734)	
m. Derivative instruments			99,890	42,285
n. Depreciation of goodwill	66,252	54,439	11,896	
p. Tariff adjustments	(94,827)	(77,919)	(49,996)	
r. Regulatory assets	(48,012)	(39,451)		
Other	(1,003)	(824)	(531)	
u. Income taxes	(67,289)	(55,291)	63,396	(22,385)
Net adjustments	142,265	116,898	(35,228)	68,413
Net income in accordance with U.S. GAAP	606,075	498,007	299,988	519,208
Basic and diluted net income per share	0.20	0.17	0.10	0.17

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	2003	2003	2002
	US\$	Euro 000	Euro 000
Shareholders equity as reported under Portuguese GAAP	6,447,675	5,298,007	5,494,182
U.S. GAAP adjustments increase (decrease) due to:			
a. Revaluation of fixed assets	(1,144,057)	(940,063)	(1,131,320)
b. Capitalized overheads	(854,374)	(702,033)	(687,560)
c. Exchange differences capitalized	(331,376)	(272,289)	(289,996)
d. Deferred costs	(59,690)	(49,047)	(127,633)
e. Hydrological correction adjustments	384,073	315,590	304,697
f. Distribution to management and employees	(27,406)	(22,519)	(22,989)
g. Pension and other post-retirement benefits	25,545	20,990	62,728
g. Additional minimum pension liability	(357,572)	(293,814)	(216,418)
h. Accounts receivable municipalities	(83,809)	(68,865)	(72,519)
i. Power purchase agreements after REN disposal	(270,991)	(222,671)	(210,473)
k. Equity accounting on investments - REN	38,104	31,310	8,198
k. Equity accounting on investments - Hidrocontábrico	(3,647)	(2,997)	(6,734)
l. Gain on disposal of REN	(178,401)	(146,591)	(146,591)
m. Derivative instruments			131,181
n. Depreciation of goodwill	80,730	66,335	11,896
p. Tariff adjustments	(155,673)	(127,915)	(49,996)
q. Guarantees	(12,309)	(10,114)	
r. Regulatory assets	(48,012)	(39,451)	
Other	(1,682)	(1,382)	(531)
s. Deferred income taxes on Portuguese books	113,323	93,117	571
t. Income taxes	695,807	571,739	835,571
Net adjustments	(2,191,417)	(1,800,670)	(1,607,918)
Shareholders equity in accordance with U.S. GAAP	4,256,258	3,497,337	3,886,264

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

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	<u>2003</u>	<u>2002</u>
	<u>Euro 000</u>	<u>Euro 000</u>
Fixed assets	7,172,209	6,601,644
Total assets	17,730,012	16,922,182
Total current liabilities	3,279,785	2,550,817
Total long-term liabilities	10,891,738	10,419,900
Total liabilities	14,171,523	12,970,717
Shareholders' equity:		
Share capital	2,950,980	2,956,507
Other comprehensive income	(773,711)	(559,329)
Reserves and retained earnings	1,320,068	1,489,088
	<u>3,497,337</u>	<u>3,886,266</u>
Total liabilities and shareholders' equity	<u>17,730,012</u>	<u>16,922,182</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****Accounts receivable**

The amount of accounts receivable, trade and long-term receivables in accordance with U.S. GAAP are as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Accounts receivable, trade (Note 6)		
Accounts receivables	765,936	703,300
PPA receivables, short-term (less than 1 year)	121,527	110,072
	<u>887,463</u>	<u>813,372</u>
Long-term receivables (Note 8)		
Long-term receivables	435,842	370,656
PPA receivables, long-term (over 1 year)	3,190,154	3,312,681
	<u>3,625,996</u>	<u>3,683,337</u>

Income taxes

The components of the income tax provision and deferred income tax assets and liabilities in accordance with U.S. GAAP is as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Current	239,255	171,168	244,012

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Deferred	55,291	(63,396)	22,385
	<u>294,546</u>	<u>107,772</u>	<u>266,397</u>

The reconciliation of the expected income tax provision computed using the Company's Portuguese statutory income tax rate of 32% in 2001, 30% in 2002 and 2003 to the actual income tax provision is as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Net income before income taxes under U.S. GAAP	696,356	190,460	684,987
Expected income tax expense at the statutory rate	208,907	57,138	219,196
Municipal income taxes	20,891	5,714	21,920
Change in tax rate and in estimates	(13,069)	(22,863)	
Equity method investments	(10,419)	(25,985)	(4,090)
Goodwill amortization	115,113	71,945	30,947
Other	(26,877)	21,823	(1,576)
	<u>294,546</u>	<u>107,772</u>	<u>266,397</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

Components of deferred income tax assets and liabilities:

	Group	
	2003	2002
	Euro 000	Euro 000
Deferred tax assets:		
Fixed assets:		
Revaluation	155,110	224,001
Overheads capitalized	193,059	226,895
Exchange differences capitalized	74,879	95,699
Deferred costs capitalized	13,488	42,119
Pension and other post-retirement benefits	159,685	221,425
Power purchase agreements	61,235	69,456
Investments		81,758
Provision for various contingencies	40,207	65,349
Provision for doubtful accounts	4,716	2,325
Tariff adjustments	35,177	
Regulatory assets	10,849	
	<u>748,405</u>	<u>1,029,027</u>
Deferred tax liabilities:		
Hydrological correction account investments	86,787	100,550
Deferred in associates		7,300
Shareholder's equity reserve	9,079	11,974
Pension minimum liability	80,800	71,418
Tariff adjustments		2,214
	<u>176,666</u>	<u>193,456</u>
Total deferred tax assets	<u>748,405</u>	<u>1,029,027</u>
Total deferred tax liabilities	<u>176,666</u>	<u>193,456</u>
Total net deferred tax assets	<u>571,739</u>	<u>835,571</u>

Pensions

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EDP uses a December 31, 2003 measurement date for all of its plans. The components of the net periodic pension cost under U.S. GAAP include the following:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Service cost	12,240	13,222	14,525
Interest cost	84,849	88,824	74,710
Expected return on plan assets	(50,086)	(56,031)	(57,531)
Worker s contributions	(552)		
Amortization of net actuarial losses	19,892	72,431	61,212
Amortization of transition obligation	5,826	6,130	6,130
	72,169	124,576	99,047
Net periodic pension cost	72,169	124,576	99,047

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The following table sets forth the changes and the funded status of the pension plan under U.S. GAAP:

	Group	
	2003	2002
	Euro 000	Euro 000
Change in benefit obligation		
Benefit obligation at beginning of year	1,448,733	1,433,183
Service cost	12,240	13,222
Interest cost	84,849	88,824
Actuarial losses/(gains)	72,036	96,242
Estimated benefits paid	(140,975)	(144,277)
Exchange losses/(gains)	407	(38,461)
	<u>1,477,290</u>	<u>1,448,733</u>
Benefit obligation at end of year	1,477,290	1,448,733

	Group	
	2003	2002
	Euro 000	Euro 000
Change in plan assets		
Fair value of plan assets at beginning of year	749,945	781,286
Actual return of plan assets	59,690	60,877
Worker's contributions	552	
Actual company contributions	58,287	52,669
Benefits paid	(51,856)	(53,597)
Actuarial (losses)/gains	(413)	(77,613)
Exchange losses/(gains)	297	(13,677)
	<u>816,502</u>	<u>749,945</u>
Fair value of plan assets at end of year	816,502	749,945
Funded status of plan (underfunded)	(660,789)	(698,788)
Unrecognized net actuarial losses/(gains)	532,458	560,246
Unrecognized transition obligation	50,678	23,319
	<u>(77,653)</u>	<u>(115,223)</u>
Prepaid (accrued) benefit cost	(77,653)	(115,223)

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Additional minimum pension liability	(344,492)	(272,922)
Prepaid (accrued) benefit cost / pension liability	(422,145)	(388,145)

The accumulated benefit obligation in excess of plan assets, is as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Projected benefit obligation	1,477,290	1,448,733
Accumulated benefit obligation	1,207,234	1,405,025
Fair value of plan assets	749,945	781,286

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

As of December 31, 2002 and December 31, 2003 plan assets consisted of:

	Group	
	2003	2002
	Euro 000	Euro 000
Portuguese State bonds	51,248	51,970
Foreign public bonds	133,380	89,097
Bonds	201,452	274,606
Investment fund units	138,139	128,891
Shares	91,149	24,291
Buildings	185,894	179,517
Cash and equivalents	45,693	19,403
Commercial paper	3,994	2,984
Other	(3,772)	7,599
	847,177	778,358
Plan assets relating to others (REN)	(30,675)	(28,413)
	816,502	749,945

Following an asset - liability modelling study concluded in 2003, the EDP Group and the Consultants and the Asset Managers considered the target asset allocation mentioned below to be the appropriate for the stability and security of Pension Fund assets, level of periodic contributions and of the financing of the projected liabilities, taking into account investments restrictions, a risk profile and a level of returns:

a) Investment strategy for three years, except actual property in the amount of 180 million Euros, currently rented to the Associates that should be reduced :

Bonds : 70% (min. 50%, max. 85%)

Equities: 30% (min. 15%, max.40%)

Property: max. 5%.

b) Asset returns measures against strategic benchmark.

c) Risk diversification policies.

A summary of the assets of the plan, classified into its major assets classes, is shown below as at December 31, 2003:

	Rates
Total Bonds	45.60%
Total Cash	5.60%
Total Equities	23.70%
Property	25.10%
	<hr/> 100.00% <hr/>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

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

	2003		
	Pension Benefits		Other benefits
	Portugal	Brazil	Portugal
	Euro 000	Euro 000	Euro 000
Assumptions			
Discount rate	5.20%	10.24%	5.20%
Long term rate of return on assets	5.70%	10.24%	n.a.
Wage growth rate	3.30%	7.12%	n.a.
Pension growth rate	2.25%	7.12%	n.a.
Inflation rate	2.00%	4.00%	n.a.
Medical trend rate	n.a.	n.a.	4.50%
	2002		
	Pension Benefits		Other benefits
	Portugal	Brazil	Portugal
	Euro 000	Euro 000	Euro 000
Assumptions			
Discount rate	6.00%	10.24%	6.00%
Long term rate of return on assets	6.50%	10.24%	n.a.
Wage growth rate	3.30%	7.12%	n.a.
Pension growth rate	2.25%	7.12%	n.a.
Inflation rate	2.00%	5.00%	n.a.
Medical trend rate	n.a.	n.a.	4.50%

The assumptions to determine the overall expected, Rate of return on assets, was determined with reference to EDP's target allocation and the best expectations for the long term returns on each of the following assets classes:

Weight	Real return
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			Weight return
European Equities	16.00%	7.40%	1.20%
Global ex.European Equities (unhedged)	6.00%	7.80%	0.50%
Euro Gov.Bonds-Fixed Rate	31.00%	2.30%	0.70%
Euro Corp.Bonds-Fixed Rate	6.00%	2.90%	0.20%
Euro Variable Rate	15.00%	0.50%	0.10%
Property	26.00%	5.00%	1.20%
Euro inflation	n.a.	1.80%	1.80%
Total	100.00%		5.70%

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The following is a summary of the significant assumptions used in the determination of the pension obligation:

	2003	2002	2001
	Rates	Rates	Rates
	<u> </u>	<u> </u>	<u> </u>
Weighted average discount rate	5.2%	6.0%	6.5%
Rate of increase in compensation	3.3%	3.3%	3.5%
Expected rate of return on plan assets	5.7%	6.5%	7.5%
Expected percentage of eligible staff electing early retirement	*	*	*

* During 2002 it was estimated that employees applying for early retirement would be 70% of the eligible employees. From 2003 and on, it was estimated that only 40% of eligible employees will apply for early retirement.

Other post-retirement benefits

EDP provides comprehensive medical coverage, in addition to that provided by the Portuguese national health system, for retired employees (including those who have taken early retirement) and their dependents. Additionally, the Company provides a death benefit to its retirees survivors. The Company administers the program internally and assumes the full cost of funding the program net of employee contributions amounting to approximately 10% of the total medical expenses covered.

A summary, of the components of the net periodic post-retirement benefit cost under U.S. GAAP, is presented in the following table:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
	<u> </u>	<u> </u>	<u> </u>
Service cost	5,942	6,540	6,714
Interest cost	29,049	30,095	28,781
Amortization of transition obligation	5,022	4,873	4,873
	<u> </u>	<u> </u>	<u> </u>
Net periodic post-retirement benefit cost	40,013	41,508	40,368
	<u> </u>	<u> </u>	<u> </u>

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The following table sets forth the changes and the funded status of the plan under U.S. GAAP as of December 31, 2002 and December 31, 2003:

	Group	
	2003	2002
	Euro 000	Euro 000
Change in benefit obligation		
Benefit obligation at beginning of year	496,201	474,371
Service cost	5,942	6,540
Interest cost	29,049	30,095
Actuarial losses	153,162	7,929
Benefits paid	(24,099)	(22,735)
Benefit obligation at end of year	660,255	496,200
Unfunded status of plan	(660,255)	(496,200)
Unrecognized (gains)/losses	205,251	52,237
Unrecognized transition obligation	42,377	47,251
Accrued benefit cost	(412,627)	(396,712)

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The assumed medical cost trend rate used in measuring the accumulated post-retirement benefit obligation as of December 31, 2003 was 4.5% for the next nine years and 4% after. The health cost trend rate assumption has a significant effect on the amounts reported.

The assumed discount rate and salary growth rate used in determining the accumulated post-retirement benefit obligation was 5.2% and 3.3%, respectively, as of December 31, 2003 and 6% and 3.3%, respectively as of December 31, 2002.

FAS 106 allows recognition of the cumulative effect of the liability in the year of adoption or the amortization of the obligation over a period of up to 20 years. The Company has elected to recognize the initial post-retirement benefit obligation of Eur 101,455 thousand as of January 1, 1995, over a period of 17.7 years, the average remaining service period of the employee group.

The table below shows the expected benefit payments projections for the next ten years, based on the same assumptions used in the current year and in accordance with FAS 132:

	Expected benefit payments	
	Pension	Other
2004	149,982	26,414
2005	141,491	27,390
2006	133,195	28,375
2007	124,254	29,391
2008	114,853	30,420
2009	105,496	31,430
2010	97,308	32,464
2011	88,925	33,564
2012	81,720	34,708
2013	76,252	36,094
2014	73,505	37,507

Defined Contribution Plans

Hidrocantábrico has social benefits Defined contribution plans that complement those benefits granted by the Social Welfare Systems to the companies' employees, under which they pay a contribution to these plans each year, calculated in accordance with the rules established in each

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case. The payments were Eur 20,568 thousand and Eur 17,912 thousand in 2003 and 2002 respectively

Research and development expenses

Research and development expenses under U.S. GAAP amounted to Eur 76,021 thousand in 2001, Eur 44,180 thousand in 2002 and Eur 15,523 thousand in 2003.

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

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

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 each of the three years in the period ended December 31, 2001, 2002 and 2003 is as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Net income in accordance with U.S. GAAP	498,007	299,988	519,208
Change in currency translation adjustment	(193,032)	(300,028)	(48,819)
Unrealized gains (losses) on investments	47,947	(21,223)	(19,436)
Tax effect of unrealized gains (losses) on investments	(13,185)	6,791	6,842
Additional minimum pension liability	(77,396)	(216,418)	
Tax effect on additional minimum liability	21,284	71,418	
Comprehensive income	283,625	(159,472)	457,795

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		
	2003	2002	2001

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	<u>Euro 000</u>	<u>Euro 000</u>	<u>Euro 000</u>
Net income Portuguese GAAP	381,109	335,216	450,795
Net income - U.S. GAAP	498,007	299,988	519,208
net income from continuing operations:			
Net income Portuguese GAAP	381,109	779,216	450,745
Net income - U.S. GAAP	498,007	743,988	519,208
Weighted average Ordinary Shares outstanding	2,978,569,036	2,982,571,074	2,988,273,791
Weighted average ADS outstanding	297,856,904	298,257,107	298,827,379

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

Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

		<u>Group</u>		
		<u>2003</u>	<u>2002</u>	<u>2001</u>
		<u>Euro</u>	<u>Euro</u>	<u>Euro</u>
Net income per Ordinary Share				
Basic and diluted	Portuguese GAAP	0.13	0.11	0.15
Basic and diluted	U.S. GAAP	0.17	0.10	0.17
-net income from continuing operations:				
Basic and diluted	Portuguese GAAP	0.13	0.26	0.15
Basic and diluted	U.S. GAAP	0.17	0.25	0.17
Net income per ADS:				
Basic and diluted	Portuguese GAAP	1.28	1.12	1.51
Basic and diluted	U.S. GAAP	1.67	1.01	1.74
-net income from continuing operations:				
Basic and diluted	Portuguese GAAP	1.28	2.61	1.51
Basic and diluted	U.S. GAAP	1.67	2.49	1.74

Goodwill

For U.S. GAAP purposes, the goodwill for each reportable segment is as such:

		<u>Group</u>					
		<u>Electricity</u>				<u>TOTAL</u>	
		<u>Spain</u>	<u>Brazil</u>	<u>Telecom</u>	<u>IT</u>	<u>Other business</u>	
December 31, 2001				287,480	67,560	1,488	356,528
Entries/(exits) of subsidiaries				0	0	14,598	14,598
Additions				2,742	455	228	3,425
Disposals				-5,533	0	0	-5,533
Impairment losses				-170,507	0	0	-170,507
December 31, 2002				114,182	68,015	16,314	198,511
Transfers from concession rights		706,226					706,226
Additions			3,806	1,064	241	34,717	39,828

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Disposals			-7,433		-5,069	-12,502
December 31, 2003	706,226	3,806	107,813	68,256	45,962	932,063

The impairment loss in 2002 is due to the discontinuation of Oniway business, with a total loss of Eur 444 million, including the impairment of goodwill of Eur 170 million. The results of Oni way prior to discontinuation were not material. In 2001 the amortization expense of Goodwill was Eur 16,668 thousand. Since then, the goodwill amortization is adjusted and presented in the US reconciliation, due to the fact that U.S. GAAP requires that goodwill is not amortized but tested for impairment.

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

From January 1, 2002, goodwill is no longer amortized under U.S. GAAP but reviewed annually for impairment under FAS 142 Goodwill and Other Intangible Assets . Goodwill amortization of Eur 11,896 thousand in 2002 and Eur 54.439 thousand in 2003 are charged against Portuguese GAAP earnings and added back in the U.S. GAAP reconciliation.

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Reported net income under U.S.GAAP	498,007	299,988	519,208
Goodwill amortization			16,668
Adjustment net income	498,007	299,988	535,876
Basic and diluted earnings per share:			
Reported net income	0.17	0.10	0.16
Goodwill amortization			0.01
Adjustment net income	0.17	0.10	0.17

Intangible assets

For concession rights and other intangible assets, subject to amortization under U.S. GAAP, the aggregate amortization expense for the current year and estimated aggregate amortization expense for each of the five succeeding fiscal years are:

<i>Aggregate amortization expense</i>	
2003	72,940
<i>Estimated amortization expense</i>	
2004	72,940
2005	62,952
2006	57,795
2007	47,315
2008	40,501

Unrealized losses in investments available for sale, classified as temporary losses.

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	Acquisition Cost/Balance sheet value	Market value At December 31, 2003	Loss charged to equity in 2003
CERJ	97,767	88,717	(9,050)
BCP	305,038	277,149	(27,889)
Optep	315,000	314,749	(251)
	<u>717,805</u>	<u>680,615</u>	<u>(37,190)</u>

All investments are in common stock. These losses results from valuations reports performed by independent specialists (CERJ and Optep), and from a decrease in the publicly traded shares of BCP (listed company in the Lisbon stock exchange).

In the previous year the loss in BCP was charged to the income statement (Eur 247,751 thousand) because that loss was considered other than temporary. In the first months of 2004 BCP started to recover its value in the stock market, and as such the 2003 loss is considered temporary. By the end of May 2004, BCP has recovered a significant part of the 2003 loss. The BCP listed price at December 31, 2003 was Eur 1.77, and by the end of the first quarter was Eur 2.01.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****Equity investments**

EDP's investments in associates accounted for under the equity method are presented in note 9 of these consolidated financial statements. The summarized financial information of the most relevant are presented below:

	2003			2002		
	REN	HC	Other	REN	HC	Other
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
Fixed assets	1,422,362	4,385,891	1,290,596	1,380,797	3,852,993	1,281,738
Current assets	221,993	376,429	161,511	222,323	421,456	81,375
Non current assets	696,422	53,749	10,465	342,901	619	61,661
Total Assets	2,340,777	4,816,069	1,462,572	1,946,021	4,275,068	1,424,774
Loans	280,000	1,969,187	722,184	326,667	2,041,585	642,535
Current liabilities	1,193,071	472,238	161,788	523,443	321,698	165,540
Non current liabilities	20,297	247,977	123,808	308,024	238,605	115,588
Total Liabilities	1,493,368	2,689,402	1,007,780	1,158,134	2,601,889	923,663
Minority interest		437,817			12,290	
Equity	847,409	1,688,850	454,792	787,887	1,660,889	501,111
Total Equity	847,409	2,126,667	454,792	787,887	1,673,179	501,111
Net Revenue	2,359,587	1,660,055	559,545	2,302,868	1,462,082	579,489
Operating Costs	(2,004,361)	(1,528,064)	(299,052)	(2,278,753)	(1,316,360)	(311,652)
Other operating income	(227,287)	25,210	(90,441)	92,423		(133,543)
Non operating costs, net	(34,451)	(103,847)	(127,789)	(51,113)	(133,291)	(92,740)
Minority interest		(13,038)			2,135	
Net income	93,488	40,316	42,263	65,425	14,565	41,553
Percentage owned by EDP:	30.00%	40.00%		30.00%	40.00%	

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

	2001		
	REN	HC	Other
	Euro 000	Euro 000	Euro 000
Fixed assets	1,352,585	1,922,000	37,593
Current assets	223,693	425,000	6,588
Non current assets	406,364	76,000	
Total Assets	1,982,642	2,423,000	44,181
Loans	350,000	847,000	7,554
Current liabilities	579,204	93,000	4,902
Non current liabilities	307,443	445,000	5,829
Total Liabilities	1,236,647	1,385,000	18,285
Minority interest			
Equity	745,995	1,038,000	25,896
Total Equity+Minority interest	745,995	1,038,000	25,896
Net revenue	2,209,104	1,180,000	17,172
Operating costs	(2,126,601)	(1,033,000)	(7,552)
Other operating income	15,682	7,000	(6,298)
Non operating costs, net	(53,685)	(81,000)	(1,759)
Minority interest		1,000	
Net income	44,500	74,000	1,563
Percentage owned by EDP:	30.00%	9.50%	

Proportional consolidation

As mentioned in note 2c, the Company consolidates interests in jointly controlled entities, using the proportional method, namely Hidrocantábrico (HC). For U.S. GAAP purposes, investments in jointly controlled entities must be accounted for 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.

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

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

	HC 2003	HC 2002
	Euro 000	Euro 000
Balance sheet information		
Tangible and intangible fixed assets	1,870,271	1,657,112
Current assets	150,572	168,582
Non current assets	21,500	248
Total assets	2,042,343	1,825,942
Loans	787,675	816,634
Current liabilities	188,895	128,679
Non-current liabilities	99,191	95,442
Total liabilities	1,075,761	1,040,755
Minority interests	175,127	4,916
EDP's investment	791,455	780,271
Statement of income information		
Net revenue	664,022	321,351
Operating costs, net	-601,142	-295,194
Other operating income (costs)	-41,539	-29,257
Minority interests	-5,215	391
Net income	16,126	-2,709

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.

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A summary of the status of the Company's two fixed stock option plans as of December 31, 2002 and 2003, 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, 2001	16,413,750	2,286,250	
Options forfeited			
Options granted			
Balance December 31, 2002	16,413,750	2,286,250	
Options forfeited		(353,992)	
Options granted ⁽¹⁾		490,000	
Balance December 31, 2003	16,413,750	2,422,258	

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

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 following table summarizes information about stock options outstanding and exercisable as of December 31, 2003.

Options outstanding	Weighted average exercise price	Weighted average remaining contractual life	Options exercisable
2,422,258	3.35	1.3 years	

40. Relevant and subsequent events***EDP and Hidrocontábrico constitute a European Economic Interest Group***

On January 12, 2004, EDP - Electricidade de Portugal, through CPPE - Companhia Portuguesa de Produção de Electricidade, and Hidrocontábrico agreed to set up a European Economic Interest Group (EEIG) with a view to developing and putting into practice a process of contracting and adjudicating equipment to reduce emissions of sulphur dioxide into the atmosphere at their Sines, Aboño and Soto de Ribera power stations. Both companies will participate in the EEIG on equal footing.

Both parties will look into the possibility of extending the present agreement to the management and execution of contracts to be awarded on the basis of this process. The EEIG, which will be headquartered in Oviedo, is a type of company association created under an EEC regulation dated 1985 and is governed in Spain by a law dating from 1991. This type of association, with its own legal personality, is designed to simplify inter-company cooperation within the European Union. The option taken - involving a single adjudication process - means that the process must be governed by one of the applicable national laws; in this case the decision was taken to opt for Spanish law.

The joint installed power covered by the contracting and adjudication process totals around 2,166 MW and - in an average year - the three power stations in question burn about 7.5 million tons of coal. In accordance with the European Directive, the new equipment is expected to be

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operational during the last quarter of 2007, leading to sulphur dioxide emissions by the respective groups of these three power stations in accordance with the figures established by the directive (400 mg/Nm³).

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

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

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

Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

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 will make a start as from this time to talks concerning the contracts to structure the operation and to define the corporate governance of GDP, to be concluded by March 31, 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 by April 20, 2005.

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1,200,000,000

EDP Energias de

Portugal, S.A.

Offering of 656,537,715 Ordinary Shares

including in the form of

American Depositary Shares

November 8, 2004

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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: November 8, 2004

EDP- ENERGIAS DE PORTUGAL, S.A.

By: */s/ RUI HORTA E COSTA*
Name: Rui Horta e Costa
Title: Chief Financial Officer