EDP Finance BV

Annual Report

31 December 2016

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EDP FINANCE BV

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EDP FINANCE BV

RESPONSIBILITY STATEMENT

The Managing Directors of the Company wish to state:

1. That the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of EDP Finance BV;

2. That the annual report gives a true and fair view of the position as per the balance sheet date, the development during the financial year of EDP Finance BV in the annual financial statements, together with a description of principal risks it faces.

Amsterdam, 2 March 2017

The Managing Directors

EDP – Energias de Portugal, S.A.

de Kanter, H. P.

Gortzen, M. M. L.

TMF Netherlands B.V.

REPORT OF THE MANAGING DIRECTORS

The Managing Directors of EDP Finance BV (hereinafter "the Company") submit the annual report and the financial statements of the Company for the year ended 31st December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

General

The Company was incorporated under the laws of The Netherlands on 1st October 1999.

Activities

The principal activity of the Company is to act as a finance company to EDP Group. The policy of the group is to centralize financing in EDP – Energias de Portugal S.A. ("EDP SA") and the Company for group subsidiaries.

Results

During the year ended 31st December 2016, the Company recorded a profit of EUR 23.8 million. The increase in results during 2016 is essentially due to a decrease on the average interest rate of debt (resulting from refinancing transactions conducted in the past two years) that was greater than the decrease on the average interest rate of assets (resulting mostly from exposure to floating rates on about 50% of the assets).

Major Developments

In 2016, EDP Finance BV issued two Eurobonds, under the EDP SA and EDP Finance BV's "Programme for the Issuance of Debt Instruments" (EMTN) which includes a Keep Well agreement with EDP SA (see Note 4). In March, the Company issued an EUR 600 million Eurobond that will mature in 2023 followed by an EUR 1,000 million Eurobond issued in August that will mature in 2024.

The financing transactions concluded in the year allowed the Company and EDP Group to reach different markets and investors, obtaining the necessary funding for current and next year's redemptions as well as to strengthen the liquidity position, ahead of refinancing needs for the following years.

During 2016, as in prior years, the Company had no Research and Development activities.

Subsequent Events

In January 2017, EDP Finance BV issued an EUR 600 million Eurobond maturing in September 2023. Also in January 2017, EDP Finance BV repaid a EUR 200 million utilization of the EUR 500 million RCF that matures in 2020, becoming totally available as of that date.

Debt

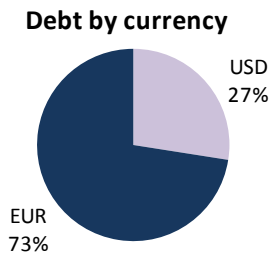
In 2016, EDP Finance BV's (nominal) consolidated debt totalled EUR 13,828 million. When compared to December 2015, the Company's debt decreased by nearly EUR 268 million, mostly due to the repayment of debt that matured in 2016.

IFRS Debt - EDP Finance BV

EUR millions

	Dec 2016	Dec 2015	Change
Debt - Short term	**1,600**	**2,484**	**-36%**
Bonds	1,063	2,250	-53%
Bank loans	199	200	-1%
Intercompany loans	338	34	894%
Debt - Long term	**12,227**	**11,612**	**5%**
Bonds	9,868	9,276	6%
Bank loans	2,359	2,336	1%
Nominal debt	**13,827**	**14,096**	**-2%**
Interest accrued	229	286	-20%
Fair value hedge adjustmen	71	94	-24%
Debt under IFRSs	**14,127**	**14,476**	**-2%**

In terms of currencies of EDP BV external debt, the USD financing contracted to fund the purchase and capex of EDP Renewables North America justifies the Group's USD denominated debt (27% of EDP Finance BV's debt). The Euro continues to be the main funding currency of the EDP Group (73%).



Rating

In February 2016, Moody's Investors Service Limited ("Moody's") affirmed EDP, S.A. and the

Company's long term credit rating at "Baa3" with Stable outlook. This rating affirmation followed a review of EDP's and other European utility companies' exposure to the power price environment, reflecting EDP's low exposure to lower power prices, as well as its financial flexibility.

In October 2016, Fitch Ratings ("Fitch") affirmed EDP S.A. and the Company's long-term rating at "BBB-" and its outlook as Stable.

In November 2016, Standard & Poor's Ratings Services ("S&P") affirmed the "BB+" long-term and "B" short-term corporate credit ratings on EDP, S.A. and the Company. The outlook remained Positive.

Risk Management
Please see Note 4 of the Notes to the Financial Statements.

Headcount

As at 31 December 2016, the Company has one employee.

Expectations for 2017

Given the cash flow generated by the Group as well as the available liquidity, the company's refinancing needs are covered beyond 2018. The Company expects to continue its normal course of business in 2017, raising funding in the international loan and capital markets so as to refinance debt that matures as well as to provide the necessary funding to EDP Group companies.

Audit Committee

The company makes use of the exemption to establish its own Audit Committee, based on Article 3a of the Royal Decree of 26 July 2008 implementing Article 41 of the EU Directive 2006/43/EG. The Audit Committee of the parent company, EDP – Energias de Portugal, SA, will act as Audit Committee for the Company. This Committee is composed as follows:

António Gomes Mota: President

João Carvalho das Neves: Vice-President

Alberto Barbosa: Member

Maria del Carmen Rozado: Member

Maria Celeste Ferreira Lopes Cardona: Member

Amsterdam, 2 March 2017

The Managing Directors:

EDP Energias de Portugal, S.A.

de Kanter, H. P.

Gortzen, M. M. L.

TMF Netherlands B.V.

EDP Finance BV

Financial Statements

31 December 2016

EDP Finance, BV

Company Income Statement
for the years ended 31 December 2016 and 2015

Thousand Euros	Notes	2016	2015
Interest income	6	638,919	705,667
Interest expenses	6	-609,781	-747,647
Net interest income / (expense)		29,138	-41,980
Net other financial income and expenses	7	3,929	-18,564
Net financial income / (expense)		33,067	-60,544
Other operating income / (expenses)			
Services rendered	8	1,214	2,055
Supplies and services	9	-2,460	-2,660
Personnel costs		-38	-39
Profit / (Loss) before income tax		31,783	-61,188
Income tax expense	10	-7,936	15,297
Net profit for the year		23,847	-45,891

EDP Finance, BV

Company Statement of Other Comprehensive Income as at 31 December 2016 and 2015

Thousand Euros	2016	2015
Net profit for the year	23,847	-45,891
Items that are or may be reclassified to profit or loss		
Cash flow hedge reserve	-677	927
Tax effect from the cash flow hedge reserve	169	-232
Other comprehensive income for the year (net of income tax)	-508	695
Total comprehensive income for the year	23,339	-45,196

The following notes form an integral part of these financial statements

EDP Finance, BV

Company Statement of Financial Position as at 31 December 2016 and 2015
(before proposed appropriation of profit)

Thousand Euros	Notes	2016	2015
Assets			
Loans to and receivables from group entities	11	12,942,089	12,931,757
Derivative financial instruments	19	156,700	203,998
Deferred tax assets	12	2,239	10,005
Total Non-Current Assets		13,101,028	13,145,760
Loans to and receivables from group entities	11	1,100,769	1,631,137
Derivative financial instruments	19	69,077	84,587
Debtors and other assets		1,865	1,789
Tax receivable		5,075	5,075
Cash and cash equivalents	13	219,037	806
Total Current Assets		1,395,823	1,723,394
Total Assets		14,496,851	14,869,154
Equity			
Share capital	14	2,000	2,000
Share premium	14	11,980	11,980
Reserves and retained earnings	15	83,730	130,129
Profit / (loss) for the year		23,847	-45,891
Total Equity		121,557	98,218
Liabilities			
Debt securities	16	10,021,509	9,369,836
Loans and credit facilities from third parties	16	2,359,359	2,336,111
Derivative financial instruments	19	77,377	190,781
Total Non-Current Liabilities		12,458,245	11,896,728
Debt securities	16	1,202,056	2,524,513
Loans and credit facilities from third parties	16	206,890	211,250
Loans from group entities	17	337,678	34,268
Amounts owed on commercial paper	18	85,000	110,000
Derivative financial instruments	19	83,630	-6,201
Trade and other payables		1,795	378
Total Current Liabilities		1,917,049	2,874,208
Total Liabilities		14,375,294	14,770,936
Total Equity and Liabilities		14,496,851	14,869,154

EDP Finance, BV

Company Statement of Changes in Equity as at 31 December 2016 and 2015

Thousand Euros	Total Equity	Share capital	Share premium	Cash flow hedge reserve	Retained earnings	Profit for the year
Balance as at 31 December 2014	**143,414**	**2,000**	**11,980**	**484**	**114,171**	**14,779**
Prior year profit	-	-	-	-	14,779	-14,779
Comprehensive income:						
Net profit for the year	-45,891	-	-	-	-	-45,891
Changes in the cash flow hedge reserve net of taxes	695	-	-	695	-	-
Total comprehensive income for the year	-45,196	-	-	695	-	-45,891
Balance as at 31 December 2015	**98,218**	**2,000**	**11,980**	**1,179**	**128,950**	**-45,891**
Prior year profit	-	-	-	-	-45,891	45,891
Comprehensive income:						
Net profit for the year	23,847	-	-	-	-	23,847
Changes in the cash flow hedge reserve net of taxes	-508	-	-	-508	-	-
Total comprehensive income for the year	23,339	-	-	-508	-	23,847
Balance as at 31 December 2016	**121,557**	**2,000**	**11,980**	**671**	**83,059**	**23,847**

EDP Finance, BV

Company Statement of Cash Flows as at 31 December 2016 and 2015

Thousand Euros	Dec 2016	Dec 2015
Cash flows from operating activities		
Profit / (loss) for the year	23,847	-45,891
Adjustments for:		
Net interest income / (expense)	-29,138	42,178
Net other financial income and expenses	-43,106	241
Supplies and services	-	-64
Tax income	7,936	-15,297
	-40,461	-18,833
Changes in:		
Loans to and receivables from group entities	1,198,901	1,181,282
Debtors and other assets	-457	-241
Amounts owed on commercial paper	-25,000	-100,000
Loans from group entities	-148,172	898,187
Trade and other payables	1,793	379
	986,604	1,960,774
Interest received	325,082	318,832
Interest paid	-605,673	-669,126
Tax received / (paid)	-	-1,889
Net cash used in operating activities	706,013	1,608,591
Cash flows from financing activities		
Proceeds from issued debt securities	1,595,476	744,893
Redemption of debt securities	-2,250,000	-1,582,366
Proceeds of loans and credit facilities from third parties	365,000	1,489,980
Redemption of loans and credit facilities from third parties	-206,566	-2,471,767
Net cash flow from financing activities	-496,090	-1,819,260
Net increase / (decrease) in cash and cash equivalents	209,923	-210,669
Cash and cash equivalents at the beginning of the year	806	193,365
Effect of exchange rate fluctuations on cash and cash equivalents held	8,308	18,110
Cash and cash equivalents at the end of the year (*)	219,037	806

(*) See details of "Cash and cash equivalents" in note 13 to the Financial Statements.

1. ECONOMIC ACTIVITY OF EDP FINANCE

EDP Finance B.V. ("the Company"), a corporation with limited liability, having its statutory seat in Amsterdam, The Netherlands, was incorporated under the laws of The Netherlands on 1 October 1999 with registered office at Herikerbergweg 130, 1101 CM Amsterdam, The Netherlands. The ultimate parent company of EDP Finance BV, is EDP - Energias de Portugal, S.A. ("EDP S.A."), Lisbon, Portugal.

The principal activity of the Company is to act as a finance company.

The Company's objective is to raise funds in the debt capital market and bank loan market to fund EDP Group (EDP) activities and investment plan. EDP Finance BV borrows funds from both markets and lends the funds to several EDP Group Companies. The financing of EDP Group activities is determined in accordance to the business plan approved for EDP, its debt maturity schedule and its conservative liquidity profile, considering the existing market conditions and the Group's strategic lines.

The company is managed prudently, taking into consideration the need to comply with its obligations and to fulfill the requirement of maintaining a positive Tangible Net Worth as agreed on the Keep-well agreement with EDP, S.A. (see paragraph in note 4).

As at 31 December 2016 and 2015, the Company has one employee.

The financial statements only comprises the separate financial statements of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU-IFRS) and with the applicable sections of Part 9 of Book 2 of the Netherlands Civil Code. The Company's Managing Directors approved the financial statements (referred to as financial statements) on 2 March 2017.

The accompanying financial statements of the Company reflect the results of the Company's operations and the financial position for the years ended 31 December 2016 and 2015.

The financial statements of the Company have been prepared on the historical cost basis except for derivative financial instruments that have been measured at fair value. In addition, financial assets and liabilities subject to amortised cost measurement which form part of a qualifying hedge relationship have been measured at their relevant fair values in accordance with hedge accounting rules.

Accounting policies have been applied consistently in all periods presented in the financial statements.

As described in note 23, the Company adopted in the preparation of the financial statements as at 31 December 2016, the accounting standards issued by IASB and IFRIC interpretations effective since 1 January 2016. The accounting policies used by the Company in preparing the the financial statements described in this note were adopted in accordance.

The financial statements are presented in Euros, which is the Company's functional currency, rounded to the nearest thousand

The preparation of financial statements in conformity with EU-IFRS requires the Company to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and related assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The issues involving a higher degree of judgment or complexity, or where assumptions and estimates are considered to be significant, are presented in note 3 (Critical accounting estimates and judgments in preparing the financial statements).

b) Foreign currency transactions

Foreign currency transactions are translated at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated into Euros at the exchange rates at the statement of financial position date. These exchange differences arising on translation are recognised in the profit and loss.

Foreign currency non-monetary assets and liabilities accounted for at historical cost are translated using the exchange rates at the dates of the transactions. Foreign currency non-monetary assets and liabilities stated at fair value are translated into Euros at the exchange rates at the dates the fair value was determined.

The following exchange rates have been applied as at 31 December 2016 and 2015:

		Exchange rates at Dec 2016		Exchange rates at Dec 2015	
Currency		Closing rates	Average exchange-rate	Closing rates	Average exchange-rate
Dollar	USD	1.054	1.107	1.089	1.110
Sterling	GBP	0.856	0.819	0.734	0.726
Swiss Franc	CHF	1.074	1.090	1.084	1.068
Yen	JPY	123.400	120.179	131.070	134.318

c) Derivative financial instruments and hedge accounting

Derivative financial instruments are recognised on the trade date at fair value. Subsequently, the fair value of derivative financial instruments is remeasured on a regular basis, and changes therein are generally recognised in profit or loss. Recognition, in profit or loss, of the resulting gains and losses on remeasurement of derivatives depends on the nature of the risk being hedged and of the hedge model used.

Hedge accounting

The Company uses financial instruments to hedge interest rate risk and exchange rate risk resulting from its financing activities. Derivatives not qualifying for hedge accounting under IAS 39 are accounted for as held for trading.

Hedging derivatives are recorded at fair value, being the gains and losses recognised in accordance with the hedge accounting model applied by the Company. Hedge relationship exist when:

(i) At the inception of the hedge there is formal documentation of the hedge;
(ii) The hedge is expected to be highly effective;
(iii) The effectiveness of the hedge can be reliably measured;
(iv) The hedge is revalued on an on-going basis and is considered to be highly effective throughout the reporting period;
(v) The forecast transaction being hedged must be highly probable and must be exposed to changes in cash flows that could ultimately affect profit or loss.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit and loss, together with any changes in the fair value of the hedged assets and liabilities or group of hedged assets and liabilities that are attributable to the hedged risk. When the hedging relationship ceases to comply with the requirements for hedge accounting, the accumulated gains or losses concerning the fair value of the risk being hedged are amortised over the residual period to maturity of the hedged item.

Cash flow hedge

Changes in the fair value of derivatives qualified as cash flow hedges are recognised in the Cash flow hedge reserve.

The cumulative gains or losses recognised in Cash flow hedge reserve are reclassified to the income statement when the hedged item affects the income statement.

When a hedging relation of a future transaction is discontinued, the changes in the fair value of derivative recognised in reserves remain recognised in reserves until the future hedged transaction occurs. When the future transaction is no longer expected to occur, the cumulative gains or losses recognised in reserves are recorded immediately in the income statement.

Effectiveness

For a hedge relationship to be classified as such, in accordance with IAS 39, its effectiveness must be demonstrated. Therefore, the Company performs prospective tests at the inception date of the hedge and prospective and retrospective tests in each quarter, to demonstrate the effectiveness, showing that any adjustments to the fair value of the hedged item attributable to the risk being hedged are offset by adjustments to the fair value of the hedging instrument. Any ineffectiveness is recognised in the income statement when it occurs.

Offsetting

All derivative transactions entered into with external counterparties are under an ISDA agreement. EDP Finance B.V. has not applied any offsetting in its balance sheet as at reporting date.

d) Other financial assets

Financial assets are initially recognised at fair value plus transaction costs. Subsequently these assets are measured at amortised cost using the effective interest rate method, less any impairment losses.

Financial assets are derecognised when (i) the contractual rights to receive their future cash flows have expired, (ii) the Company has transferred substantially, the risks and rewards of ownership or (iii) although retaining some, but not substantially all the risks and rewards of ownership, the Company has transferred control over the assets.

Impairment

At each statement of financial position date an assessment is performed as to whether there is objective evidence of impairment. A financial asset or a group of financial assets is impaired and impairment losses are recognised only if there is objective evidence of one or more events that occurred after the intitial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably measured. Objective evidence that the financial asset measured at amortised cost is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events, among others:

- Significant financial difficulty of the issuer or obligor;
- Restructuring of an amount due to the Company on terms that it would not consider otherwise;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation

If there is objective evidence of impairment, the recoverable amount of the financial asset is determined, and the impairment loss is recognised in profit or loss. An impairment loss is calculated as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed in profit or loss, if the decrease can be related objectively to an event occurring after the impairment loss was recognised.

e) Cash and cash equivalents

Cash and cash equivalents include balances with a maturity of less than three months from the from the date of acquisition, including cash and deposits at banks. This caption also includes other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

f) Other financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to liquidate capital and/or interests, through delivering cash or other financial assets to extinguish the contractual obligation, regardless of its legal form. Financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest rate method. All financial liabilities are booked at amortised cost, with the exception of the financial liabilities hedged at fair value hedge, which are stated at fair value on risk component that is being hedged.

g) Provisions

Provisions are recognised when: (i) the Company has a present legal or constructive obligation, (ii) it is probable that settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

h) Interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest rate method. The effective interest rate include all fees and points paid or received that are an integral part of the effective interest rate. This includes transaction costs that are directly attributable to the acquisition or issue of financial assets or liabilities.

Interest income and interest expense presented in the Income statement include:

- Interest on financial assets and financial liabilities measured at amortized cost;
- Interest on hedging derivatives.

Interest is recognised in profit and loss on an accrual basis.

Costs and revenues are recognised in the year to which they refer regardless of when paid or received, in accordance with the accrual basis. Differences between amounts received and paid and the corresponding revenue and costs are recognised under the correspondent caption of financial assets or financial liabilities.

Differences between estimated and actual amounts are recorded in subsequent periods.

i) Net other financial income and expenses

Financial results include foreign exchange gains and losses, realised gains and losses, unrealised gains and losses from changes in the fair value of derivatives (including accrued interest of trading derivatives) and changes in the fair value of the hedged items (including the ineffective portion).

j) Income tax

Income tax recognised in profit and loss includes current tax. Income tax is recognised in profit and loss except to the extent that it relates to items recognised directly in equity or Other Comprehensive Income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using the tax rates enacted or substantively enacted at the reporting date.

k) Statement of cash flows

The Statement of cash flows is presented under the indirect method, by which gross cash flows from operating and financing activities are disclosed.

l) Determination of operating segments

The Company determined one operating segment based on the information that is internally provided to the management and the chief operating decision maker.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN PREPARING THE FINANCIAL STATEMENTS

IFRS require the use of judgement and the making of estimates in the decision process about certain accounting treatments, with impact in total assets, liabilities, equity, costs and income. Actual results may differ from these estimates.

The main accounting estimates and judgements used in applying the accounting policies are discussed in this note in order to improve the understanding of how their application affects the Company's reported results and disclosures. A broader description of the accounting policies employed by the Company is disclosed in note 2 to these Financial Statements.

Considering that in many cases there are alternatives to the accounting treatment adopted by EDP Finance, the Company's reported results could differ if a different treatment was chosen. The Company believes that the choices made are appropriate and that the financial statements present fairly, in all material respects, the Company's financial position and results. The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

Fair value of financial instruments

Fair values are based on listed market prices, if available, otherwise fair value is determined either by the price of similar recent transactions under market conditions or by pricing models based on net present value of estimated future cash flows techniques considering market conditions, time value, yield curves and volatility factors. These methodologies may require the use of assumptions or judgements in estimating fair values (see detailed information in note 21).

Consequently, the use of different methodologies or different assumptions or judgements in applying a particular model, could have produced different financial results from those reported.

Impairment of financial assets measured at amortised cost

Impairment of financial assets measured at amortised cost is considered as a annual accounting estimate (see note 2 d)).

4. FINANCIAL-RISK MANAGEMENT POLICIES

Financial risk management

EDP Finance BV's business is exposed to a variety of financial risks, including the effect of changes in foreign exchange and interest rates. The company's exposure to financial risks arises essentially from the loans granted to EDP Group companies and from its debt portfolio, resulting in interest rate, exchange rate, liquidity and counterparty risk exposures.

On 14 March 2001, EDP - Energias de Portugal, S.A. signed a Keep-well agreement with the Company. This agreement states that for as long as the Company has outstanding instruments under an external debt Programme and in case the Company shall have insufficient funds or other liquid assets to meet its payment obligations (including in respect of any Debt Obligations) at any time, EDP - Energias de Portugal S.A. shall make available to the Company funds sufficient to enable the Company to meet such payment obligations in full as they fall due. However, the Keep-well agreement is not a guarantee, direct or indirect, by EDP - Energias de Portugal, S.A. of any Debt Obligations or any other debt of the Company or any instrument issued by the Company.

The management of the financial risks of EDP Finance BV is carried out in accordance with the general risk management principles and exposure limits established for the EDP Group companies by EDP – Energias de Portugal, S.A., with specific adaptations according to the characteristics of each subsidiary. Financial risk management is implemented by the Financial Department of EDP – Energias de Portugal, S.A, under a service agreement signed between the latter and several EDP Group Companies, among which EDP Finance BV.

The unpredictability of the financial markets is analysed on an on-going basis in accordance with the EDP Group's risk management policy. Derivative financial instruments are used to minimise potential adverse effects, resulting from interest rate and/or foreign exchange rate risks on EDP Group's financial performance as further described below.

Exchange-rate risk management

EDP Finance BV is exposed to exchange rate risk through its debt denominated in US Dollars (USD), British Pounds (GBP), Japanese Yen (JPY) and Suiss Francs (CHF). The Group's objective is to mantain a matched position between assets and liabilities in each currency. Any residual exposure is closely monitered and hedged with derivatives instruments, hence not generating relevant net exchange gains or losses. The amounts recorded in the P&L on exchange gains or losses are off-set by exchange gains or losses recorded in other P&L captions due to the different natures of the items denominated in foreign currencies. Currently, the exposure to EUR/USD exchange rate risk results essentially from the investments by the EDP Group in the USA through its subsidiary EDP Renewables, North America. EDP Finance BV issued USD loans and debt securities (bonds) as well as foreign exchange derivative financial instruments that convert the debt issued in currencies such as Eur into USD, with the objective of mitigating the exchange rate risk related to the intercompany loans granted to finance the USD assets of the EDP Group. The exchange rate risk on the GBP, JPY and CHF bonds issued under the Medium Term Notes Program has been hedged as from their issuing date.

Under the aforementioned service agreement, the Financial Department of EDP – Energias de Portugal, S.A. manages EDP Finance BV´s exchange rate risk exposure resulting from foreign currency funding, seeking to mitigate the impact of exchange rate fluctuations on the financial costs of the Company through exchange rate derivative financial instruments and/or other hedging structures. Such instruments and structures have characteristics similar to those of the hedged asset or liability. The operations are revalued and monitored throughout their useful lives and, periodically, their effectiveness in controlling and hedging the risk that gave rise to them is evaluated.

Sensitivity analysis - exchange rate

Though the Company has loans to EDP Group companies and issues debt instruments in currencies other than Euro, the impacts on Equity or P&L due to changes in currency rates are not significant as the risk management policy in place aims to avoid material mismatches between assets and liabilities denominated in currencies other than Euro.

Interest rate risk management

The aim of interest rate risk management policy is to reduce exposure to interest rate risk from market fluctuations through the settlement of derivative financial instruments.

In the floating rate financing context, EDP Finance BV uses, when appropriate, interest rate derivative financial instruments 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 contracted at fixed rates are, when appropriate, converted into floating rate loans through interest rate derivative financial instruments.

All hedging operations are undertaken on liabilities of EDP Finance BV's debt portfolio and mainly involve perfect hedges, resulting in a high level of correlation between the changes in the fair value of the hedging instrument and the changes in the fair value of the hedged item attributable to the risk being hedged.

Sensitivity analysis - Interest rates

Based on the financial instruments with exposure to interest rate risk as at 31 December 2016 and 2015, a 50 basis points change in the reference interest rates would lead to the following increases / (decreases) in equity and results of EDP Finance BV:

	Dec 2016			
	Results		Equity	
Thousand Euros	50 bp increase	50 bp decrease	50 bp increase	50 bp decrease
Assets				
Cash flow effect:				
Unhedged loans	31,525	-31,525	-	-
	31,525	-31,525	-	-
Liabilities				
Cash flow effect:				
Hedged debt	-16,421	16,421	-	-
Unhedged debt	-13,360	13,360	-	-
	-29,781	29,781	-	-
Fair value effect:				
Cash flow hedging derivatives	-	-	-	-
Trading derivatives (accounting perspective)	-171	163	-	-
	-171	163	-	-
	-29,952	29,944	-	-

	Dec 2015			
	Results		Equity	
Thousand Euros	50 bp increase	50 bp decrease	50 bp increase	50 bp decrease
Assets				
Cash flow effect:				
Unhedged loans	33,105	-33,105	-	-
	33,105	-33,105	-	-
Liabilities				
Cash flow effect:				
Hedged debt	-16,421	16,421	-	-
Unhedged debt	-13,270	13,270	-	-
	-29,691	29,691	-	-
Fair value effect:				
Cash flow hedging derivatives	-	-	-	-
Trading derivatives (accounting perspective)	319	-286	-	-
	319	-286	-	-
	-29,372	29,405	-	-

This analysis assumes that all other variables, namely exchange rates and credit risk, remain unchanged.

Counterparty credit risk management

EDP Group's policy regarding the management of counterparty risk on financial transactions involves the analysis of the technical capacity, competitiveness, credit rating and exposure of each counterparty, so as to avoid significant concentrations of credit risk.

Counterparties in derivative financial instruments are credit institutions with strong credit ratings and therefore the risk of counterparty default is not considered to be significant. Guarantees and other collaterals are not required on these transactions.

EDP Finance BV documents its financial operations in accordance with international standards. Therefore, derivative financial instruments are contracted under ISDA Master Agreements, facilitating the transfer of the instruments in the market and ensuring compliance and consistency with EDP Group policies.

The credit risk arising from loans granted to EDP Group companies is mitigated by the control that EDP – Energias de Portugal, S.A. has over the management of those companies. As at 31 December 2016 and 2015, all loans granted by EDP Finance BV had as counterparties companies controlled by EDP – Energias de Portugal, S.A. As per 31 December 2016 and 31 December 2015 no past due nor impairment triggers were identified with respect to loans issued to group companies.

The maximum credit exposure equals the amount of total assets deducted by tax receivable as per 31 December 2016 and 31 December 2015 being 13.4 billion Euros and 14.9 billion Euros, respectively.

Liquidity risk management

Liquidity risk is managed by engaging and maintaining credit lines and financing facilities with a firm underwriting commitment with international financial institutions, as well as term deposits, allowing immediate access to funds. These lines are used to complement and backup commercial paper programmes, allowing for a diversification of EDP Finance BV´s short-term financing sources (see note 13 and 16).

5. OPERATING SEGMENT REPORT

The Company determined one operating segment. The Company generates interest income by providing loans to EDP Group entities as well as through derivative financial instruments concluded with banks to hedge market risks. The loans are provided to EDP Group companies in Portugal and Spain.

These EDP Group companies are EDP - Energias de Portugal, S.A. (group parent company), EDP Renováveis, S.A., EDP Renováveis Servicios Financieros, S.L., EDP, S.A Sucursal en España, Hidroelectrica del Cantabrico, S.A., EDP Servicios Financieros (España), S.A., EDP International Investments and Services, S.L., EDP Gas Iberia, S.L. and Iberenergia, S.A.U.

6. INTEREST INCOME AND EXPENSES

Interest income and expenses are analysed as follows:

Thousand Euros	Dec 2016	Dec 2015
Interest income		
Loans and receivables to group entities	522,880	574,499
Derivative financial instruments	115,741	131,035
Other interest income	298	133
	638,919	705,667
Interest expenses		
Bank loans	58,564	113,648
Medium term notes	491,457	565,199
Derivative financial instruments	59,760	68,800
	609,781	747,647

Other interest expenses relates to EDP - Energias de Portugal, S.A., as included in the amount presented in the note 20 - Related parties.

7. NET OTHER FINANCIAL INCOME AND EXPENSES

Net other financial income and expenses are analysed as follows:

Thousand Euros	Dec 2016	Dec 2015
Other financial income		
Derivative financial instruments - Trading	20,030	62,096
Hedge ineffectiveness (see note 18)	11,136	-
Foreign exchange gains	20,368	35,581
	51,534	97,677
Other financial expenses		
Derivative financial instruments - Trading	47,328	102,605
Hedge ineffectiveness - Fair value hedge (see note 19)	-	13,454
Other	277	182
	47,605	116,241
	3,929	-18,564

8. SERVICES RENDERED

Services rendered are analysed as follows:

Thousand Euros	Dec 2016	Dec 2015
Debt portfolio management	1,214	2,055
	1,214	2,055

The Company is remunerated for arranging, managing and maintaining the debt portfolios of EDP Group companies. Either party may terminate the service agreement by one month notice in writing to the other party. However, no such termination has taken place to date.

9. SUPPLIES AND SERVICES

Supplies and services are analysed as follows:

Thousand Euros	Dec 2016	Dec 2015
EDP, S.A. Services	1,646	1,789
Specialised works - Consulting services	422	500
Specialised works - Legal services	161	112
Other	231	259
	2,460	2,660

The Company has signed a service agreement with the EDP, S.A. This service agreement states that the Company has to pay an annual fee for services that EDP, S.A. provides to the Company by arranging, managing and maintaining all debt portfolios of the Company, based on the total amount of existing debt to manage. Either party may terminate the service agreement by one month notice in writing to the other party. However, no such termination has taken place to date.

10. TAX EXPENSE / (BENEFIT)

This caption is analysed as follows:

Thousand Euros	Dec 2016	Dec 2015
Tax expense / (benefit)	-7,936	15,297
Profit / (Loss) before income tax	31,783	-61,188
Effective tax rate of the company	25.0%	25.0%

The effective corporate income tax rate of EDP Finance BV corresponds to the Dutch statutory tax rate of 25%.

The major components of tax expense / (benefit) are the following:

Thousand Euros	Dec 2016	Dec 2015
Current tax expense / (benefit) in the year	-7,936	15,297
	-7,936	15,297

11. LOANS TO AND RECEIVABLES FROM GROUP ENTITIES

Loans to and receivables from Group entities are analysed as follows:

Thousand Euros	Dec 2016	Dec 2015
Non-Current:		
EDP Energias de Portugal, S.A.	7,850,000	7,850,000
EDP Renováveis Servicios Financieros, S.L.	972,754	1,276,106
EDP, S.A. Sucursal en España	2,577,517	2,497,923
EDP Servicios Financieros (España), S.A.	172,618	172,618
EDP Renováveis, S.A.	424,441	410,952
Hidroeléctrica del Cantabrico, S.A.	521,852	521,852
EDP Gas Iberia, S.L.	213,552	-
Other	209,355	202,306
	12,942,089	12,931,757
Current:		
EDP Energias de Portugal, S.A.	964,070	1,160,113
EDP Servicios Financieros (España), S.A.	-	119,903
EDP Gas Iberia, S.L.	-	213,552
Accrued interest	136,699	137,569
	1,100,769	1,631,137
	14,042,858	14,562,894

For 31 December 2016, these assets have an average maturity of 3.1 years and bear interest at an average rate of 3.72%.

For 31 December 2016, the maturity of loans to group entities split in different currencies, are analysed as follows:

Thousand Euros	2017	2018	2019	2020	2021	Following years	Total
Loans to and receivables from group entities:							
Euro	1,062,689	5,224,158	73,812	1,049,297	213,552	2,500,000	10,123,508
US Dollar	38,080	3,173,291	707,979	-	-	-	3,919,350
	1,100,769	8,397,449	781,791	1,049,297	213,552	2,500,000	14,042,858

For 31 December 2015, the maturity of loans to group entities split in different currencies, are analysed as follows:

Thousand Euros	2016	2017	2018	2019	2020	Following years	Total
Loans to and receivables from group entities:							
Euro	1,593,974	-	5,224,158	66,763	1,049,297	2,500,000	10,434,192
US Dollar	37,163	-	3,071,793	1,019,746	-	-	4,128,702
	1,631,137	-	8,295,951	1,086,509	1,049,297	2,500,000	14,562,894

Loans to group entities are not collateralized.

12. DEFERRED TAX ASSETS

The deferred tax assets of 2,239 thousand Euros (31 December 2015: 10,005 thousand Euros) refers to the tax losses that can be deducted to the taxable income assessed in the following years. As at December 2016, the variation occurred in this caption is explained by the deduction to Company's taxable income of 7,766 thousand Euros of the deferred tax losses.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are analysed as follows:

Thousand Euros	Dec 2016	Dec 2015
Bank deposits:		
Current deposits	25,401	806
Term deposits	193,636	-
	219,037	806

Cash and cash equivalents are free disposable to be used by the company.

14. SHARE CAPITAL AND SHARE PREMIUM

The authorised share capital of the Company consists of 80,000 shares of 100 Euros each, of which 20,000 shares have been issued and fully paid-up.

Share capital and Share premium are analysed as follows:

	Share capital	Share premium
Balance as at 31 December 2014	2,000	11,980
Movements during the year	-	-
Balance as at 31 December 2015	2,000	11,980
Movements during the year	-	-
Balance as at 31 December 2016	2,000	11,980

15. RESERVES AND RETAINED EARNINGS

This caption is analysed as follows:

Thousand Euros	Dec 2016	Dec 2015
Cash flow hedge reserve	671	1,179
Retained earnings	83,059	128,950
	83,730	130,129

These amounts represent the accumulated results before the appropriation of results for the year.

Subject to the provision under Dutch law that no dividends can be declared until all losses have been recovered, retained earnings are at the disposal of the shareholders in accordance with article 20 of the Articles of Association of the company. Furthermore, Dutch law prescribes that a company may take distributions to the shareholders and other persons entitled to distributable profits only to the extent that is shareholders' equity exceeds the sum of the amount of the paid and called up part of the capital and the reserves which must be maintained under the law or the articles.

The Managing Directors proposes to add the profit for the financial year ended 31 December 2016 of 23,847,249.96 Euros to the accumulated results.

16. DEBT SECURITIES AND LOANS AND CREDIT FACILITIES FROM THIRD PARTIES

This caption is analysed as follows:

Thousand Euros	Dec 2016	Dec 2015
Non-Current:		
Debt securities	9,868,345	9,202,141
Fair value of the issued debt hedged risk	153,164	167,695
	10,021,509	9,369,836
Loans and credit facilities from third parties	2,359,359	2,336,111
	12,380,868	11,705,947
Current:		
Debt securities	1,062,764	2,248,970
Fair value of the issued debt hedged risk	-81,951	-
Accrued interest	221,243	275,543
	1,202,056	2,524,513
Loans and credit facilities from third parties	199,482	199,789
Accrued interest	7,408	11,461
	206,890	211,250
	1,408,946	2,735,763
	13,789,814	14,441,710

EDP Finance BV has a medium term Revolving Credit Facility "RCF" of 3,150,000 thousand Euros for liquidity management needs in USD and EUR, with a firm underwriting commitment and 2.5 years of remaining maturity. Furthermore, it has two RCF totaling 575,000 thousand Euros also for liquidity management needs in EUR, with a firm underwriting commitment, of which (i) 75,000 thousand Euros mature in 2017 and are totally available at 31 December 2016, and (ii) 500,000 thousand Euros mature in 2020 and as at 31 December 2016 is available in 300,000 thousand Euros.

EDP Finance BV also has short term assets with other Group companies, mainly with EDP S.A., in a total amount of 1,101 millions of Euros that may not be renewed, in whole or in part, upon maturity. EDP Finance BV also expects to raise funds in the debt capital market and / or bank loan markets during 2017, depending on market conditions.

Debt securities issued under the Euro Medium Term Notes program were as follows:

Date issued	Interest rate	Type of hedge	Conditions / Redemption	Nominal amount Euro'000
Aug-02	Fixed rate GBP 6.625% (i)	Fair Value	Aug/17	320,000
Dec/02	Fixed rate EUR (iii)	n.a.	Dec/22	93,357
Jun/05	Fixed rate EUR 4.125%	n.a.	Jun/20	300,000
Nov/07	Fixed rate USD 6.00 %	n.a.	Feb/18	948,677
Nov/08	Fixed rate GBP 8.625% (i)	Fair Value	Jan/24	410,314
Nov/08	Zero coupon (iii)	n.a.	Nov/23	160,000
Jun/09	Fixed rate JPY (i), (iii)	n.a.	Jun/19	81,037
Sep/09	Fixed rate USD 4.90 %	n.a.	Oct/19	948,677
Sep/12	Fixed rate EUR 5.75%	n.a.	Sep/17	750,000
Nov/12	Fixed rate CHF 4.00% (i)	Fair Value/ Cash Flow	Nov/18	103,922
Sep/13	Fixed rate EUR 4.875%	Fair Value	Sep/20	750,000
Nov/13	Fixed rate EUR 4.125%	n.a.	Jan/21	600,000
Jan/14	Fixed rate USD 5.25%	n.a.	Jan/21	711,507
Apr/14	Fixed rate EUR 2.625% (ii)	Fair Value	Apr/19	650,000
Sep/14	Fixed rate EUR 2.625% (i)	Fair Value	Jan/22	1,000,000
Nov/14	Fixed rate USD 4.125%	n.a.	Jan/20	711,507
Apr/15	Fixed rate EUR 2.00% (i)	Fair Value	Apr/25	750,000
Mar/16	Taxa fixa EUR 2,375%	n.a.	Mar/23	600,000
Aug/16	Taxa fixa EUR 1,125%	n.a.	Feb/24	1,000,000

(i) These issues by EDP Finance BV have associated interest rate swaps and/or currency swaps.
(ii) Part of this issue has interest rate swaps associated.
(iii) These issues correspond to private placements.

For 31 December 2016, the remaining maturity of debt securities and loans and credit facilities from third parties, as well as interest, by currency are analysed as follows:

Thousand Euros	2017	2018	2019	2020	2021	Following years	Total
Debt securities							
Euro (i)	1,135,881	118,500	654,094	1,078,826	594,951	4,093,404	7,675,656
US Dollar (ii)	66,175	947,902	1,121,090	708,027	704,715	-	3,547,909
	1,202,056	1,066,402	1,775,184	1,786,853	1,299,666	4,093,404	11,223,565
Loans and credit facilities from third parties:							
Euro	204,997	169,683	-	1,858,116	-	-	2,232,796
US Dollar	1,893	-	331,560	-	-	-	333,453
	206,890	169,683	331,560	1,858,116	-	-	2,566,249
	1,408,946	1,236,085	2,106,744	3,644,969	1,299,666	4,093,404	13,789,814

For 31 December 2015, the remaining maturity of debt securities and loans and credit facilities from third parties, as well as interest, by currency are analysed as follows:

Thousand Euros	2015	2016	2017	2018	2019	Following years	Total
Debt securities							
Euro (i)	2,460,457	1,027,745	117,186	652,675	1,078,639	3,128,942	8,465,644
US Dollar (ii)	64,056	-	917,129	1,082,114	684,508	680,898	3,428,705
	2,524,513	1,027,745	1,034,315	1,734,789	1,763,147	3,809,840	11,894,349
Loans and credit facilities from third parties:							
Euro	208,880	198,028	179,631	-14,230	1,491,636	-	2,063,945
US Dollar	2,370	-	-	481,046	-	-	483,416
	211,250	198,028	179,631	466,816	1,491,636	-	2,547,361
	2,735,763	1,225,773	1,213,946	2,201,605	3,254,783	3,809,840	14,441,710

(i) These issues include CHF and GBP bonds that were converted into EUR trough cross currency swaps.
(ii) These issues include a JPY bond that was converted into USD trough cross currency swaps.

17. LOANS FROM GROUP ENTITIES

This caption is analysed as follows:

Thousand Euros	Dec 2016	Dec 2015
Current:		
EDP Servicios Financieros (España), S.A.	337,678	34,268
	337,678	34,268

Loans from Group entities refers to the current acount with EDP Servicios Financieros (España), S.A. remunerated on an arm's length terms.

18. AMOUNTS OWED ON COMMERCIAL PAPPER

As at 31 December 2016, this caption refers to a trade of commercial paper of 85,000 thousand Euros which was settled on January 3rd 2017 (31 December 2015: trade of commercial paper of 110,000 thousand Euros which was settled on January 5th 2016).

19. DERIVATIVE FINANCIAL INSTRUMENTS

In accordance with IAS 39, EDP Finance BV classifies derivative financial instruments as fair value hedges of recognised assets or liabilities (Fair value hedge) and as cash flow hedges of recognised liabilities and highly probable future transactions (Cash flow hedge).

In 2016 the fair value and the maturity of the derivative financial instruments are analysed as follows:

	Fair value		Notional			
Thousand Euros	Assets	Liabilities	Up to 1 year	From 1 to 5 years	Over 5 Years	Total
Fair value hedges						
Interest rate swaps	126,199	-138	-	850,000	1,600,000	2,450,000
Cross currency interest rate swaps (i)	83,636	-81,646	320,000	103,922	410,314	834,236
Cash flow hedges						
Cross currency interest rate swaps (i)	13,908	-	-	103,922	-	103,922
Derivatives held for trading						
Cross currency interest rate swaps	-	-79,223	-	265,280	-	265,280
Foreign exchange forwards	2,034	-	201,227	-	-	201,227
	225,777	-161,007	521,227	1,323,124	2,010,314	3,854,665

(i) The 103,922 thousand Euros CIRS are being used both as Cash flow and Fair value hedges

In 2015 the fair value and the maturity of the derivative financial instruments are analysed as follows:

	Fair value		Notional			
Thousand Euros	Assets	Liabilities	Up to 1 year	From 1 to 5 years	Over 5 Years	Total
Fair value hedges						
Interest rate swaps	96,410	-9,007	-	850,000	1,600,000	2,450,000
Cross currency interest rate swaps	159,141	-28,493	-	423,922	410,314	834,236
Cash flow hedges						
Cross currency interest rate swaps	12,797	-	-	103,922	-	103,922
Derivatives held for trading						
Cross currency interest rate swaps	-	-147,080	-	260,538	298,123	558,661
Foreign exchange forwards	20,237	-	389,282	-	-	389,282
	288,585	-184,580	389,282	1,638,382	2,308,437	4,336,101

The company enters into interest rate and cross currency interest rate swaps classified as held for trading to economically hedge exposures to changes in the fair value of its fixed rate debt as well as foreign exchange exposures from debt denominated in other currencies. In addition, the company contracts fx forwards classified as held for trading to economically hedge net exposures in foreign currencies.

Fair value of derivative financial instruments is based on quotes indicated by external entities, which are compared in each date of report to fair values available in common financial information platforms. Therefore, according to IFRS 13 requirements, the fair value of the derivative financial instruments is classified as of level 2 (see note 21) and no changes of level were made during the year. These entities use generally accepted discounted cash flow techniques and data from public markets.

The changes in the fair value of hedging instruments and the hedged risks are analysed as follows:

			Thousand Euros			
			2016		2015	
			Changes in fair value		Changes in fair value	
Type of hedge	Hedging instrument	Hedged risk	Instrument	Risk	Instrument	Risk
Fair value	Interest rate swap	Interest rate	40,078	-39,823	-19,976	18,633
Fair value	Cross currency interest rate swaps	Interest and exchange rate	-125,425	136,305	24,410	-36,521
Cash flow	Cross currency interest rate swaps	Interest and exchange rate	1,112	-1,788	11,866	-10,939
			-84,235	94,694	16,300	-28,827

During 2016 and 2015, the following market inputs were considered for the fair value calculation:

Instrument	Market input
Cross currency interest rate swaps	Fair value indexed to the following interest rates: Euribor 3M, Euribor 6M, Libor 3M, Libor 6M; and exchange rates: EUR/CHF, EUR/GBP, EUR/USD and USD/JPY.
Interest rate swaps	Fair value indexed to the following interest rates: Euribor 3M, Euribor 6M.
Foreign exchange forwards	Fair value indexed to the following exchange rate: EUR/USD.

The changes in the fair value reserve related to cash flow hedges in 2016 and 2015 were as follows:

Thousand Euros	Dec 2016	Dec 2015
Balance at the beginning of the year	1,572	645
Fair value changes	1,112	11,866
Recycling FX results from cash flow hedge reserve to income statement	-1,789	-10,939
Balance at the end of the year	895	1,572

The gains and losses on the financial instruments portfolio booked in the profit and loss in 2016 and 2015 are as follows:

Thousand Euros	Dec 2016	Dec 2015
Derivatives held for trading	-27,298	-40,509
Fair value hedges:		
Derivatives	-85,347	4,434
Hedged liabilities	96,482	-17,888
Cash flow hedges:		
Recycling FX results from cash flow hedge reserve to income statement	1,788	10,939
	-14,375	-43,024

The effective interest rates of the derivative financial instruments relating to financing operations at 31 December 2016 are as follows:

	Notional	Currency	EDP Pays	EDP Receives
Interest rate contracts				
Interest rate swaps	2,450,000	EUR	[2.88% - -0.21%]	[4.88% - 0.45%]
Currency interest rate				
CIRS (currency interest rate swaps)	730,314	EUR / GBP	[3.69% - 1.32%]	[8.63% - 6.63%]
CIRS (currency interest rate swaps)	81,037	USD / JPY	6.80%	3.11%
CIRS (currency interest rate swaps)	103,922	EUR / CHF	[3.98% - 3.82%]	4.01%
CIRS (currency interest rate swaps)	184,243	EUR / USD	2.78%	1.44%

The effective interest rates of the derivative financial instruments relating to financing operations at 31 December 2015 were as follows:

	Notional EUR'000	Currency	EDP Pays	EDP Receives
Interest rate contracts				
Interest rate swaps	2,450,000	EUR	[3.07% - 0.02%]	[4.88% - 0.45%]
Currency interest rate				
CIRS (currency interest rate swaps)	730,314	EUR / GBP	[3.95% - 1.55%]	[8.63% - 6.63%]
CIRS (currency interest rate swaps)	76,295	USD / JPY	6.80%	3.11%
CIRS (currency interest rate swaps)	103,922	EUR / CHF	[4.18% - 4.02%]	4.01%
CIRS (currency interest rate swaps)	482,366	EUR / USD	[2.26% - 0.61%]	[1.68% - -0.20%]

20. RELATED PARTIES

Main shareholders and shares held by company officers

EDP - Energias de Portugal, S.A. holds 100% of EDP Finance, BV's share capital.

Other Related Parties

TMF Netherlands BV fulfills administrative services to the Company and provides three statutory directors to the Company.

Remuneration of directors

The charges regarding remuneration of directors and former directors amounts to 21,114 Euros (2015: 27,423 Euros) with no outstanding balances as at 31 December 2016 and 2015.

Other management services

The charges regarding Other management services amounts to 315,147 Euros (2015: 346,873 Euros) with no outstanding balances as at 31 December 2016 and 2015.

Balances and transactions with related parties

As at 31 December 2016, the outstanding assets with related parties are analysed as follows:

Thousand Euros	Loans Granted	Derivatives	Other assets	Total
EDP - Energias de Portugal, S.A.	8,894,116	141,355	-	9,035,471
EDP Renováveis Servicios Financieros, S.L.	973,001	-	-	973,001
EDP, S.A. Sucursal en España	2,615,269	-	613	2,615,882
EDP Servicios Financieros (España), S.A.	174,451	2,034	735	177,220
EDP Renováveis, S.A.	424,549	-	308	424,857
Hidroeléctrica del Cantabrico, S.A.	528,105	-	186	528,291
EDP Gas Iberia, S.L.	960	-	-	960
Other	432,407	-	21	432,428
	14,042,858	143,389	1,863	14,188,110

As at 31 December 2015, the outstanding assets with related parties are analysed as follows:

Thousand Euros	Loans Granted	Derivatives	Other assets	Total
EDP - Energias de Portugal, S.A.	9,093,405	110,124	80	9,203,609
EDP Renováveis Servicios Financieros, S.L.	1,276,487	-	-	1,276,487
EDP, S.A. Sucursal en España	2,534,628	-	476	2,535,104
EDP Servicios Financieros (España), S.A.	294,364	20,237	423	315,024
EDP Renováveis, S.A.	411,056	-	715	411,771
Hidroeléctrica del Cantabrico, S.A.	528,020	-	158	528,178
EDP Gas Iberia, S.L.	216,215	-	-	216,215
Other	208,719	-	14	208,733
	14,562,894	130,361	1,866	14,695,121

As at 31 December 2016, the outstanding liabilities with related parties are analysed as follows:

Thousand Euros	Loans Obtained	Derivatives	Other liabilities	Total
EDP - Energias de Portugal, S.A.	485,753	56,979	86,737	629,469
EDP Servicios Financieros (España), S.A.	337,678	-	-	337,678
	823,431	56,979	86,737	967,147

In December 2016, EDP SA concluded a "Tender Offer" targeting EDP Finance BV's "6,000% NOTES DUE FEBRUARY 2, 2018" and "4,900% NOTES DUE OCTOBER 1, 2019", limited to a total value of 500,000 thousand Dollars. As a result of the offer, EDP SA acquired 469,462 thousand Dollars of the "6,000% NOTES DUE FEBRUARY 2, 2018" and 30,538 thousand Dollars of the "4,900% NOTES DUE OCTOBER 1, 20192. As at 31 December 2016, this operation amounts to 485,753 thousand Euros in EDP Finance B.V. liabilities.

As at 31 December 2015, the outstanding liabilities with related parties are analysed as follows:

Thousand Euros	Loans Obtained	Derivatives	Other liabilities	Total
EDP - Energias de Portugal, S.A.	-	131,201	110,379	241,580
EDP Servicios Financieros (España), S.A.	34,268	-	-	34,268
	34,268	131,201	110,379	275,848

Income and expenses related to transactions with related parties as at 31 December 2016, are as follows:

Thousand Euros	Interest on Intra-Group Financial Mov.	Other	Total
EDP - Energias de Portugal, S.A.	322,309	-1,646	320,663
EDP Renováveis Servicios Financieros, S.L.	70,101	-	70,101
EDP Servicios Financieros (España), S.A.	-16,624	331	-16,293
EDP, S.A. Sucursal en España	120,963	506	121,469
EDP Renováveis, S.A.	19,233	134	19,367
Hidroeléctrica del Cantabrico, S.A.	32,198	226	32,424
Other	23,844	17	23,861
	572,024	-432	571,592

Income and expenses related to transactions with related parties as at 31 December 2015, are as follows:

Thousand Euros	Interest on Intra-Group Financial Mov.	Other	Total
EDP - Energias de Portugal, S.A.	194,294	-1,789	192,505
EDP Renováveis Servicios Financieros, S.L.	83,458	-	83,458
EDP Servicios Financieros (España), S.A.	74,832	414	75,246
EDP, S.A. Sucursal en España	130,832	600	131,432
EDP Renováveis, S.A.	18,770	729	19,499
Hidroeléctrica del Cantabrico, S.A.	41,577	295	41,872
Other	25,864	17	25,881
	569,627	266	569,893

Other includes the expenses related with the service agreement with EDP, S.A (see note 9) as well as the services rendered to EDP Group companies (see note 8).

In the normal course of its activity, EDP Finance performs business transactions and operations with its related parties based on normal market conditions.

EDP – Energias de Portugal, S.A. and the Company entered into a keep-well agreement on March 14, 2001 which remains applicable, details of which are provided in note 4.

21. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value of financial instruments is based, whenever available, on listed market prices. Otherwise, fair value is determined through quotations supplied by third parties or through internal models, which are based on cash flow discounting techniques and option valuation models. These models are developed considering the market variables which affect the financial instruments, namely yield curves, exchange rates and volatility factors, including credit risk.

Market data is obtained from stock exchange and suppliers of financial data (Bloomberg). The credit risk factor in the data is based on the credit spread of similar companies in the market.

As at 31 December 2016 and 2015 the following table presents the interest rate curves of the major currencies to which the Company is exposed used for cash flow discount (in addition to the rates listed below, the company adjusts discount rates for credit risk):

	31 December 2016		31 December 2015	
	Currency		Currency	
	EUR	USD	EUR	USD
3 months	-0.32%	1.00%	-0.13%	0.61%
6 months	-0.22%	1.32%	-0.04%	0.85%
1 year	-0.08%	1.69%	0.06%	1.18%
2 years	-0.16%	1.45%	-0.03%	1.18%
3 years	-0.10%	1.69%	0.06%	1.42%
4 years	-0.02%	1.85%	0.19%	1.59%
5 years	0.08%	1.98%	0.33%	1.74%
6 years	0.19%	2.08%	0.48%	1.85%
7 years	0.31%	2.16%	0.62%	1.95%
8 years	0.44%	2.23%	0.76%	2.04%
9 years	0.56%	2.29%	0.89%	2.12%
10 years	0.66%	2.34%	1.00%	2.19%

Fair value of assets and liabilities as at 31 December 2016 and 31 December 2015 is analysed as follows:

	Dec 2016			Dec 2015		
Thousand Euros	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Financial assets						
Loans and receivables to group entities	14,042,858	14,643,757	600,899	14,562,894	15,177,521	614,627
Derivative financial instruments	225,777	225,777	-	288,585	288,585	-
Cash and cash equivalents (assets)	219,037	219,037	-	806	806	-
	14,487,672	15,088,571	600,899	14,852,285	15,466,912	614,627
Financial liabilities						
Debt securities	11,223,565	11,712,246	488,681	11,894,349	12,485,646	591,297
Loans and credit facilities from third parties	2,566,249	2,572,994	6,745	2,547,361	2,547,299	-62
Loans from group entities	337,678	337,678	-	34,268	34,268	-
Amounts owed on purchased debt securities	85,000	85,000	-	110,000	110,000	-
Derivative financial instruments	161,007	161,007	-	184,580	184,580	-
	14,373,499	14,868,925	495,426	14,770,558	15,361,793	591,235

The market value of the medium/long term loans is calculated based on the discounted cash flows at market interest rates at the date of the statement of financial position, increased by the best estimate, at the same date, of market conditions applicable to the Company's debt, based on its average term. Regarding short term debt (current account), the market value does not differ substantially from the book value.

According to IFRS 13, EDP Finance BV established the way it obtains the fair value of its financial assets and liabilities. The levels used are defined as follows:

- Level 1 – Fair value based on the available listed price (not adjusted) in the identified markets for assets and liabilities
- Level 2 – Fair value based in market inputs not included in Level 1, but observable in the market for the asset or liability, either directly or indirectly;
- Level 3 – Fair value of the assets and liabilities calculated with inputs that are not based on observable market information

The fair value of EDP Finance BV financial assets and liabilities, in 2016 and 2015, is included in Level 2, described above

The Company does not transfer financial assets nor liabilities between categories

22. SUBSEQUENT EVENTS

In January 2017, EDP Finance BV issued an EUR 600 million Eurobond maturing in September 2023 with a coupon of 1.875%.

Also in January 2017, EDP Finance BV repaid a 200 million Euros utilization of the 500 million Euros RCF that matures in 2020, becoming totally available as of that date.

23. RECENT ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED

The new standards and interpretations that have been issued and are effective and the Company has applied on its financial statements with no significant impact can be analysed as follows:

- IAS 1 (Amended) - Disclosure Initiative;
- Annual Improvement Project (2010-2012);
- Annual Improvement Project (2012-2014).

The standard issued but not yet effective for the Company, which impact is being evaluated, is the following:

- IFRS 9 - Financial instruments

  The International Accounting Standards Board (IASB) issued, in November 2009, IFRS 9 - Financial instruments, changed in July 2014, with effective date of mandatory application for periods beginning on or after 1 January 2018, being allowed its early adoption.

  This standard is included in the IASB's comprehensive project to replace IAS 39 and relates to issues of classification and measurement of financial instruments. The main issues considered are as follows:

  - the financial assets can be classified in two categories: at amortised cost or at fair value. This decision will be made upon the initial recognition of the financial assets. Its classification depends on how the entity presents these financial assets and the contractual cash flows associated to each financial asset in the business;

  - debt instruments can only be measured at amortised cost when the contractual cash-flows represent only principal and interest payments, which means that it contains only basic loan features, and for which an entity holds the asset to collect the contractual cash flows. All the other debt instruments are recognised at fair value;

  - equity instruments issued by third parties are recognised at fair value with subsequent changes recognised in the profit and loss. However, an entity can irrevocably select equity instruments at initial recognition for which fair value changes and the realised gains or losses are recognised in fair value reserves. Gains and losses recognised in fair value reserves can not be recycled to profit and loss. This is a discretionary decision, and does not imply that all the equity instruments should be treated on this basis. The dividends received are recognised as income for the year;

  - the exemption that allows unquoted equity investments and related derivatives to be measured at cost, under IAS 39, is not allowed under IFRS 9; and

  - changes in fair value attributable to own credit risk of financial liabilities classified as fair value through profit or loss, shall be recognised in Other comprehensive income. The remaining fair value changes related to these financial liabilities shall be recognised through profit or loss. The amounts recognised in Other comprehensive income shall not be reclassified/transferred to profit and loss.

The interpretation issued but not yet effective for the Company with no significant impact is the following

- IFRIC 22 - Foreign Currency Transactions and Advance Payments.

24. AUDIT AND NON AUDIT FEES

KPMG has audited the financial statements of EDP Finance B.V. for 2016 and 2015. Fees and expenses incurred for professional services are rendered as follows (VAT excluded):

Thousand Euros	Dec 2016	Dec 2015
Audit and statutory audit of accounts	130	160
Other services	-	5
Total	**130**	**165**

Amsterdam, 2 March 2017

The Managing Directors

EDP – Energias de Portugal, S.A.

de Kanter, H. P.

Gortzen, M. M. L.

TMF Netherlands B.V.

KPMG

Independent auditor's report

To: the General Meeting of Shareholders and the Audit Committee of EDP Finance B.V.

Report on the accompanying financial statements 2016

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of EDP Finance B.V. (the 'Company') as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited

We have audited the financial statements 2016 of the Company, based in Amsterdam. The financial statements comprise:

1 The statement of financial position as at 31 December 2016;
2 the following statements for 2016: the income statement, the statements of other comprehensive income, changes in equity and cash flows; and
3 the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of the Company in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

Audit approach

Summary

Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 4 million (2015: EUR 4 million). The materiality is determined with reference to the Company's total equity (3.3%). We consider total equity as the most appropriate benchmark as solvency is considered more relevant than the profit before tax given the activities of the Company as financing entity for the group headed by EDP – Energias de Portugal, S.A. ('EDP S.A.'). We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Managing Directors that misstatements in excess of EUR 200,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Managing Directors and Audit Committee of EDP S.A. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

Estimation uncertainty for financial instruments measured at fair value

Description

Financial instruments are measured either at amortised cost or at fair value in the statement of the financial position of the Company. In Note 21 to the financial statements the fair values of all financial instruments held by the Company are disclosed, including those measured at amortised cost in the statement of financial position. The note also includes the fair value hierarchy for each of the fair values disclosed.

The determination of fair values requires Managing Directors' judgment and introduces estimation uncertainty. The level of uncertainty varies depending on whether observable market prices or market parameters are available for the respective instruments. Such availability decreases the estimation uncertainty.

Our response

The Company applied a model based approach, in the absence of identical instruments traded on an active market, to determine the fair value of the financial instruments.

For these model based valuations we have tested the appropriateness of the model and the inputs used by the Company by comparing the model based fair values with the values calculated independently by our valuation specialist using publicly available market data such as exchange rates, interest and credit curves. In testing fair values we have also placed emphasis on the incorporation of credit risk in the Company's valuation models. Finally we assessed whether the fair value hierarchy as required by IFRS 7 and set out in Note 2 was appropriate considering non-observable input used by the Company to determine its fair values.

Our observation

Based on our procedures we found that the fair values of the financial instruments are stated within an acceptable range of supportable outcomes in accordance with the Company's accounting policies as set out in Note 2.

We found that the assumptions for assumed credit, interest and exchange rate risks applied for the fair values of financial instruments recorded at amortised cost as included in Note 21 are derived from observable market data for listed debt of EDP Group entities.

The inclusion of all financial instruments in level 2 is acceptable given the insignificant influence of the non-observable input related to the specific credit spread included in the fair valuation of these instruments.

Uncertainty in respect of the application of hedge accounting

Description

The Company manages its exposure to interest rate and foreign currency risk by means of derivative financial instruments. To avoid an accounting mismatch in its financial statements, the Company applied cash flow and fair value hedge accounting. The Company applies fair value hedge accounting for hedging its exposure to changes in fair value of the hedged item due to interest rate and foreign exchange differences and cash flow hedge accounting to mitigate its exposure to uncertainties in future cash flows in foreign currencies. Given the substantial derivatives positions and the complexity of the accounting requirements for cash flow and fair value hedge accounting we assessed the application of hedge accounting as a key audit matter.

In accordance with IAS 39, hedge effectiveness testing is performed both prospectively and retrospectively for each reporting period. Any hedge ineffectiveness is included in the income statement in the period in which it occurs. An overview of the Company's hedging activities is included in Note 19.

Our response

We have inspected the hedge documentation provided by the Company supporting the hedge accounting. Furthermore we have audited the Company's monthly effectiveness testing including the critical terms testing such as nominal value, duration and foreign exchange rates.

Our observation

We have determined that the Company has adequately assessed and recorded the effectiveness and ineffectiveness of the hedge relationships in the financial statements, in accordance with the accounting policies of the Company as at 31 December 2016.

KPMG

Estimation uncertainty in respect of the valuation of Loans and receivables Group entities
Description The Company is a financing entity entering into financing arrangements to fund EDP S.A. and its subsidiaries ('the Group'). The Company has no substantial assets other than the loans and receivables from Group and is therefore mainly exposed to the credit risk of the Group. The Company is therefore interrelated and dependent on the performance of the Group as a whole for repayment of its debt securities and meeting its financial obligations. This is highlighted in Note 4 of the financial statements.
Our response To address this credit risk, our audit procedures included an assessment of the robustness of the financial position and liquidity of the Group to assess whether the respective Group entities are able to meet their contractual obligations. To this end we have performed the following procedures with respect to the exposure on Group entities: • Inspect the audited 2016 financial statements of the Group with an intragroup balance with the Company; • Determined that all interest payments have been made in accordance with the contractual agreements; • Inquire and discussed with the Group auditor KPMG Portugal recent developments in the financial position and cash flows of the Group and whether any conditions existing as at, or subsequent to the reporting date that may lead to the Group's inability to meet its contractual obligations.
Our observation Overall our assessment is that the loans and receivables to the Group are measured in accordance with the requirements of IAS 39.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- report of the managing directors;
- other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Based on the below procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Netherlands Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Netherlands Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management board's report in accordance with Part 9 of Book 2 of the Netherlands Civil Code and other Information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Managing Directors as auditor of EDP Finance B.V. as of the audit for year 2005 and have operated as statutory auditor since then.

KPMG

Description of the responsibilities for the financial statements

Responsibilities of the Managing Directors of EDP Finance B.V. and the Audit Committee of EDP S.A. for the financial statements

The Managing Directors are responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Managing Directors are responsible for such internal control as the Managing Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the Managing Directors are responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Managing Directors should prepare the financial statements using the going concern basis of accounting unless the Managing Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so. The Managing Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Audit Committee of EDP S.A. is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of financial statements

Our objective is to plan and perform the audit to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during the audit.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

For a further description of our responsibilities in respect of an audit of financial statements we refer to the website of the professional body for accountants in the Netherlands (NBA) https://www.nba.nl/Documents/Tools%20Vaktechniek/Standaardpassages/Standaardpassage_nieuwe_controletekst_oob_variant_%20Engels.docx

Amstelveen, 2 March 2017

KPMG Accountants N.V.

M.L.M. Kesselaer RA