

# **Annual Report 2017**

## **EDP Finance B.V.**

**Annual Report  
31 December 2017**

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## **EDP FINANCE B.V.**

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## **EDP FINANCE B.V.**

### **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 B.V.;
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 B.V. in the annual financial statements, together with a description of principal risks it faces.

Amsterdam, 1 March 2018

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 B.V. (hereinafter "the Company") submit the annual report and the financial statements of the Company for the year ended 31<sup>st</sup> December 2017.

### PRINCIPAL ACTIVITIES AND BUSINESS

#### REVIEW

##### General

The Company was incorporated under the laws of The Netherlands on 1<sup>st</sup> 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 S.A.") and the Company for Group subsidiaries.

##### Results

During the year ended 31<sup>st</sup> December 2017, the Company recorded a profit of EUR 18.6 million.

The decrease in results during 2017 is essentially due to the decrease on the average interest rate of assets (resulting mostly from exposure to floating rates on about 52% of the assets) that was greater than the decrease on the average interest rate of debt (resulting from refinancing transactions conducted in the past two years).

##### Major Developments

In 2017, EDP Finance B.V. issued two Eurobonds and one USD Bond, under the EDP S.A. and EDP Finance B.V.'s "Programme for the Issuance of Debt Instruments" (EMTN) which includes a Keep Well agreement with EDP S.A. (see Note 4): in January, a long Six-Year EUR 600 million Eurobond; in June, a Seven-Year USD 1,000 million bond and in November a Ten-Year EUR 500 million Eurobond.

In October, the company cancelled an existing EUR 3,150 million Revolving Credit Facility ("RCF") that was due to mature in June, 2019, replacing it with a new 3,300 million RCF with a 5-Year tenor, extendable for 2 additional years, subject to lenders authorisation.

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.

##### Subsequent Events

There are no subsequent events.

##### Debt

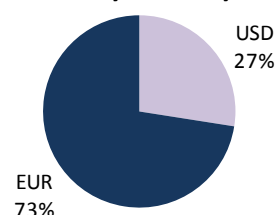
In 2017, EDP Finance B.V.'s (nominal) debt totaled EUR 15,256 million, having increased from EUR 13,827 million in December, 2016. Considering external debt only, the Company's debt decreased by EUR 472 million during 2017.

**Debt - EDP Finance B.V.** EUR  
millions

	Dec 2017	Dec 2016	Change
<b>Debt - Short term</b>	<b>2,871</b>	<b>1,600</b>	<b>79%</b>
Bonds	940	1,063	-12%
Bank loans	30	199	-85%
Intercompany loans	1,901	338	462%
<b>Debt - Long term</b>	<b>12,385</b>	<b>12,227</b>	<b>1%</b>
Bonds	10,443	9,868	6%
Bank loans	1,942	2,359	-18%
<b>Nominal debt</b>	<b>15,256</b>	<b>13,827</b>	<b>10%</b>
Interest accrued	223	229	-3%
Fair value hedge adjustments	81	71	14%
<b>Debt under IFRSs</b>	<b>15,560</b>	<b>14,127</b>	<b>10%</b>

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

**Debt by currency**



##### Rating

In April 2017, Moody's Investors Service Limited ("Moody's") reaffirmed EDP, S.A. and the Company's long term credit rating at "Baa3" with Stable outlook.

In August 2017, Standard & Poor's Ratings Services ("S&P") upgraded EDP, S.A. and the Company's long term rating from "BB+" to "BBB-" and at the same time raised from "B" to

"A-3", the short-term corporate credit ratings with Stable outlook.

Amsterdam, 1 March 2018

In December 2017, Fitch Ratings ("Fitch") affirmed EDP S.A. and the Company's long-term rating at "BBB-" and its outlook as Stable.

The Managing Directors:

### **Risk Management**

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

EDP Energias de Portugal, S.A.

### **Headcount**

As at 31 December 2017 and 2016, the Company has one employee.

### **Expectations for 2018**

de Kanter, H. P.

Given the cash flow generated by the Group as well as the available liquidity, the Company's refinancing needs are covered beyond 2019. The Company expects to continue its normal course of business in 2018, 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.

Gortzen, M. M. L.

### **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, S.A., will act as Audit Committee for the Company. This Committee is composed as follows:

TMF Netherlands B.V.

António Gomes Mota: President

João Carvalho das Neves: Vice-President

Alberto Barbosa: Member

Maria del Carmen Rozado: Member

Maria Celeste Ferreira Lopes Cardona: Member

# **EDP Finance B.V.**

**Financial Statements**

**31 December 2017**

## EDP Finance B.V.

### Company Income Statement for the years ended 31 December 2017 and 2016

Thousand Euros	Notes	2017	2016
Interest income	6	575,509	638,919
Interest expenses	6	-551,934	-609,781
Net interest income / (expenses)		23,575	29,138
Net other financial income and expenses	7	2,442	3,929
Net financial income / (expenses)		26,017	33,067
Other operating income / (expenses)			
Services rendered	8	1,003	1,214
Supplies and services	9	-2,197	-2,460
Personnel costs		-34	-38
Profit / (Loss) before income tax		24,789	31,783
Income tax expense	10	-6,187	-7,936
<b>Net profit for the year</b>		<b>18,602</b>	<b>23,847</b>



## EDP Finance B.V.

### Company Statement of Other Comprehensive Income for the years ended 31 December 2017 and 2016

Thousand Euros	2017	2016
<b>Net profit for the year</b>	18,602	23,847
<b>Items that are or may be reclassified to profit or loss</b>		
Cash flow hedge reserve	-846	-676
Tax effect from the cash flow hedge reserve	212	168
<b>Other comprehensive income for the year (net of income tax)</b>	-634	-508
<b>Total comprehensive income for the year</b>	17,968	23,339

## EDP Finance B.V.

### Company Statement of Financial Position as at 31 December 2017 and 2016 (before proposed appropriation of profit)

Thousand Euros	Notes	2017	2016
<b>Assets</b>			
Loans to and receivables from group entities	11	5,960,631	12,942,089
Derivative financial instruments	19	77,410	156,700
Deferred tax assets	12	-	2,239
<b>Total Non-Current Assets</b>		<b>6,038,041</b>	<b>13,101,028</b>
Loans to and receivables from group entities	11	9,466,291	1,100,769
Derivative financial instruments	19	65,863	69,077
Debtors and other assets		2,870	1,865
Tax receivable		5,049	5,075
Cash and cash equivalents	13	301,738	219,037
<b>Total Current Assets</b>		<b>9,841,811</b>	<b>1,395,823</b>
<b>Total Assets</b>		<b>15,879,852</b>	<b>14,496,851</b>
<b>Equity</b>			
Share capital	14	2,000	2,000
Share premium	14	11,980	11,980
Reserves and retained earnings	15	106,943	83,730
Profit / (loss) for the year		18,602	23,847
<b>Total Equity</b>		<b>139,525</b>	<b>121,557</b>
<b>Liabilities</b>			
Debt securities	16	10,522,529	10,021,509
Loans and credit facilities from third parties	16	1,942,285	2,359,359
Derivative financial instruments	19	45,738	77,377
<b>Total Non-Current Liabilities</b>		<b>12,510,552</b>	<b>12,458,245</b>
Debt securities	16	1,160,475	1,202,056
Loans and credit facilities from third parties	16	34,207	206,890
Loans from group entities	17	1,900,641	337,678
Amounts owed on commercial paper	18	115,000	85,000
Derivative financial instruments	19	12,615	83,630
Trade and other payables		2,987	1,795
Tax payable		3,850	-
<b>Total Current Liabilities</b>		<b>3,229,775</b>	<b>1,917,049</b>
<b>Total Liabilities</b>		<b>15,740,327</b>	<b>14,375,294</b>
<b>Total Equity and Liabilities</b>		<b>15,879,852</b>	<b>14,496,851</b>

## EDP Finance B.V.

### Company Statement of Changes in Equity as at 31 December 2017 and 2016

Thousand Euros	Total Equity	Share capital	Share premium	Cash flow hedge reserve	Retained earnings	Profit for the year
<b>Balance as at 31 December 2015</b>	<b>98,218</b>	<b>2,000</b>	<b>11,980</b>	<b>1,179</b>	<b>128,950</b>	<b>-45,891</b>
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
<b>Balance as at 31 December 2016</b>	<b>121,557</b>	<b>2,000</b>	<b>11,980</b>	<b>671</b>	<b>83,059</b>	<b>23,847</b>
Prior year profit	-	-	-	-	23,847	-23,847
Comprehensive income:						
Net profit for the year	18,602	-	-	-	-	18,602
Changes in the cash flow hedge reserve net of taxes	-634	-	-	-634	-	-
Total comprehensive income for the year	17,968	-	-	-634	-	18,602
<b>Balance as at 31 December 2017</b>	<b>139,525</b>	<b>2,000</b>	<b>11,980</b>	<b>37</b>	<b>106,906</b>	<b>18,602</b>

## EDP Finance B.V.

### Company Statement of Cash Flows for the years ended 31 December 2017 and 2016

Thousand Euros	2017	2016
<b>Cash flows from operating activities</b>		
Profit / (loss) for the year	18,602	23,847
Adjustments for:		
Net interest income / (expenses)	-23,575	-29,138
Net other financial income and expenses	-26,297	-43,106
Tax income	6,187	7,936
	-25,083	-40,461
Changes in:		
Loans to and receivables from group entities	265,787	1,198,901
Debtors and other assets	-2,740	-457
Amounts owed on commercial paper	30,000	-25,000
Loans from group entities	-356,250	-148,172
Trade and other payables	2,932	1,793
	-85,354	986,604
Interest received	313,821	325,082
Interest paid	-490,412	-605,673
Tax received	25	-
<b>Net cash used in operating activities</b>	-261,920	706,013
<b>Cash flows from financing activities (*)</b>		
Proceeds from issued debt securities	1,972,896	1,595,476
Redemption of debt securities	-1,081,547	-2,250,000
Proceeds of loans and credit facilities from third parties	-350,000	365,000
Redemption of loans and credit facilities from third parties	-209,950	-206,566
<b>Net cash flow from financing activities</b>	331,399	-496,090
<b>Net increase / (decrease) in cash and cash equivalents</b>	69,479	209,923
Cash and cash equivalents at the beginning of the year	219,037	806
Effect of exchange rate fluctuations on cash and cash equivalents held	13,222	8,308
<b>Cash and cash equivalents at the end of the year (**)</b>	301,738	219,037

(\*) See changes in Debt securities and Loans and credit facilities from third parties arising from financing activities, including cash and non-cash changes, in note 16 to the Financial Statements.

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

## 1. ECONOMIC ACTIVITY OF EDP FINANCE B.V.

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 (EDP Finance B.V. is registered in the Dutch Chamber of Commerce under the number 34121496). The ultimate parent company of EDP Finance B.V., is EDP - Energias de Portugal, S.A. ("EDP S.A."), Lisbon, Portugal, which is also its ultimate controlling party.

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 B.V. borrows funds from both markets and lends the funds to several EDP Group Companies. The financing of EDP Group activities is determined in accordance with 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 Financial Statements of EDP Group can be consulted in [www.edp.com](http://www.edp.com).

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 2017 and 2016, the Company has one employee, working in The Netherlands.

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 1 March 2018.

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 2017 and 2016.

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 2017, the accounting standards issued by IASB and IFRIC interpretations effective since 1 January 2017. The accounting policies used by the Company in preparing 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 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 2017 and 2016:

		2017	2016
		Closing rates	Closing rates
Dollar	USD	1.199	1.054
Sterling	GBP	0.887	0.856
Swiss Franc	CHF	1.170	1.074
Yen	JPY	135.010	123.400

### 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.

Derivative financial instruments are derecognised at settlement date or by an early termination agreement

#### 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. Gains and losses arising from changes in fair value are 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 initial 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 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 recognised 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 amortised 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 relate 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) Other operating income and expenses**

Costs and revenues are recognised in the period to which they relate 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 Other assets or other liabilities.

## **K) Income tax**

Income tax recognised in the income statement includes current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is also recognised in equity.

Deferred taxes arising from the revaluation of available-for-sale investments and cash flow hedge derivatives recognised in equity are recognised in the income statement in the period the results that originated the deferred taxes are recognised.

Current tax is the tax expected to be paid on the taxable income for the period, using tax rates enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred taxes are calculated in accordance with the balance sheet liability method, considering temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax basis, using the tax rates enacted or substantively enacted at the balance sheet date for each jurisdiction and that are expected to be applied when the temporary difference is reversed.

Deferred tax liabilities are recognised for all taxable temporary differences except for goodwill not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not be reversed in the future. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available to absorb deductible temporary differences for taxation purposes.

EDP Finance, B.V. offsets, as established in IAS 12, the deferred tax assets and liabilities if, and only if:

- (i) the entity has a legally enforceable right to offset current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in future periods in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

When accounting for interest and penalties related to income taxes, EDP Finance, B.V. considers whether a particular amount payable or receivable is, in its nature, an income tax and, if so, applies IAS 12 to this amount. Otherwise, IAS 37 is applied.

## **I) 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.

## **m) 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 B.V., 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 an annual accounting estimate (see note 2 d)).

For 2017, no impairment loss was recognised financial assets measured at amortised cost.



#### 4. FINANCIAL-RISK MANAGEMENT POLICIES

##### Financial risk management

EDP Finance B.V.'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. The Company's aim is to minimize these market risks arising from its relevant activities.

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 B.V. 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 B.V.

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 B.V. is exposed to exchange rate risk through its debt denominated in US Dollars (USD), British Pounds (GBP), Japanese Yen (JPY) and Suisse Francs (CHF). The Group's objective is to maintain a matched position between assets and liabilities in each currency. Any residual exposure is closely monitored 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 USD debt finance issued to hedge the EDP Group investments in the USA. EDP Finance B.V. 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 B.V.'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.

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 B.V.'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 2017 and 2016, a 50 basis points change in the reference interest rates would lead to the following increases / (decreases) in equity and results of EDP Finance B.V.:

Thousand Euros	Dec 2017			
	Results		Equity	
	50 bp increase	50 bp decrease	50 bp increase	50 bp decrease
<b>Assets</b>				
Cash flow effect:				
Unhedged loans	42,141	-42,141	-	-
	42,141	-42,141	-	-
<b>Liabilities</b>				
Cash flow effect:				
Hedged debt	-14,821	14,821	-	-
Unhedged debt	-19,854	19,854	-	-
	-34,675	34,675	-	-
Fair value effect:				
Cash flow hedging derivatives	-	-	-	-
Trading derivatives (accounting perspective)	-171	163	-	-
	-171	163	-	-
	-34,846	34,838	-	-
Thousand Euros	Dec 2016			
	Results		Equity	
	50 bp increase	50 bp decrease	50 bp increase	50 bp decrease
<b>Assets</b>				
Cash flow effect:				
Unhedged loans	31,525	-31,525	-	-
	31,525	-31,525	-	-
<b>Liabilities</b>				
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	-	-

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 B.V. 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 2017 and 2016, all loans granted by EDP Finance B.V. had as counterparties companies controlled by EDP – Energias de Portugal, S.A. None of the amounts receivable from related parties are past due or impaired and repayments have been received regularly and on time historically. So, as per 31 December 2017 and 31 December 2016 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 2017 and 31 December 2016 being 15.9 billion Euros and 13.4 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 B.V.'s short-term financing sources (see notes 13 and 16).

## Capital management

EDP Finance, B.V. is not an entity subject to regulation in terms of capital or solvency ratios. Therefore, capital management is carried out within the financial management process of the entity.

The company's goal in managing equity is to safeguard the capacity to continue operating as a going concern, grow steadily to meet established objectives and maintain an optimum capital structure to reduce equity cost.

In conformity with other companies operating in this sector, EDP Finance, B.V. controls its financing structure based on several control mechanisms and ratios.

## 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. Income by geographic market is presented in note 6.

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

## 6. INTEREST INCOME AND EXPENSES

Interest income and expenses are analysed as follows:

Thousand Euros	Dec 2017	Dec 2016
<b>Interest income</b>		
Loans and receivables to group entities	465,009	522,880
Derivative financial instruments	108,577	115,741
Other interest income	1,923	298
	<u>575,509</u>	<u>638,919</u>
<b>Interest expenses</b>		
Bank loans	47,352	58,564
Medium term notes	449,872	491,457
Derivative financial instruments	54,710	59,760
	<u>551,934</u>	<u>609,781</u>

Loans and receivables to group entities, by geographic market, is analysed as follows:

Thousand Euros	Dec 2017	Dec 2016
Portugal	241,783	250,430
Spain	223,226	272,450
	<u>465,009</u>	<u>522,880</u>

## 7. NET OTHER FINANCIAL INCOME AND EXPENSES

Net other financial income and expenses are analysed as follows:

Thousand Euros	Dec 2017	Dec 2016
<b>Other financial income</b>		
Derivative financial instruments - Trading	50,442	20,030
Hedge ineffectiveness (see note 19)	5,752	11,136
Foreign exchange gains	-	20,368
	<u>56,194</u>	<u>51,534</u>
<b>Other financial expenses</b>		
Derivative financial instruments - Trading	52,985	47,328
Foreign exchange losses	493	-
Other	274	277
	<u>53,752</u>	<u>47,605</u>
	<u>2,442</u>	<u>3,929</u>

## 8. SERVICES RENDERED

Services rendered are analysed as follows:

Thousand Euros	Dec 2017	Dec 2016
Debt portfolio management	1,003	1,214
	<u>1,003</u>	<u>1,214</u>

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 2017	Dec 2016
EDP, S.A. Services	1,206	1,646
Specialised works - Consulting services	376	422
Specialised works - Legal services	316	161
Other	299	231
	<u>2,197</u>	<u>2,460</u>

The Company has signed a service agreement with 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 2017	Dec 2016
Tax expense / (benefit)	-6,187	-7,936
Profit / (Loss) before income tax	24,789	31,783
Effective tax rate of the Company	<u>25.0%</u>	<u>25.0%</u>

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

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

Thousand Euros	Dec 2017	Dec 2016
Current tax expense / (benefit) in the year	-6,187	-7,936
	<u>-6,187</u>	<u>-7,936</u>

## 11. LOANS TO AND RECEIVABLES FROM GROUP ENTITIES

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

Thousand Euros	Dec 2017	Dec 2016
<b>Non-Current:</b>		
EDP Energias de Portugal, S.A.	4,350,000	7,850,000
EDP Renováveis Servicios Financieros, S.L.	836,710	972,754
EDP, S.A. Sucursal en España	199,336	2,577,517
EDP Servicios Financieros (España), S.A.	172,618	172,618
EDP Renováveis, S.A.	365,081	424,441
EDP España, S.A.U.	-	521,852
EDP Gas Iberia, S.L.	-	213,552
Other	36,886	209,355
	<u>5,960,631</u>	<u>12,942,089</u>
<b>Current:</b>		
EDP Energias de Portugal, S.A.	7,421,896	964,070
EDP, S.A. Sucursal en España	1,561,687	-
EDP Servicios Financieros (España), S.A.	167,525	-
Other	181,522	-
Accrued interest	133,661	136,699
	<u>9,466,291</u>	<u>1,100,769</u>
	<u>15,426,922</u>	<u>14,042,858</u>

For 31 December 2017, these assets have an average maturity of 2.8 years and bear interest at an average rate of 2.53%.

For 31 December 2017, the maturity of loans to group entities split in different currencies, is analysed as follows:

Thousand Euros	2018	2019	2020	2021	2022	Following years	Total
<b>Loans to and receivables from group entities:</b>							
Euro	7,689,408	73,812	1,079,133	-	1,500,000	2,000,000	12,342,353
US Dollar	1,776,883	105,895	-	-	-	1,201,791	3,084,569
	<u>9,466,291</u>	<u>179,707</u>	<u>1,079,133</u>	<u>-</u>	<u>1,500,000</u>	<u>3,201,791</u>	<u>15,426,922</u>

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
<b>Loans to and receivables from group entities:</b>							
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
	<u>1,100,769</u>	<u>8,397,449</u>	<u>781,791</u>	<u>1,049,297</u>	<u>213,552</u>	<u>2,500,000</u>	<u>14,042,858</u>

Loans to group entities are not collateralised.

## 12. DEFERRED TAX ASSETS

As at December 2017, the variation occurred in this caption is explained by the deduction to Company's taxable income of the tax losses generated in the past, with the corresponding reduction in the amount of deferred tax assets of 2,239 thousand Euros.

## 13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are analysed as follows:

Thousand Euros	Dec 2017	Dec 2016
<b>Bank deposits:</b>		
Current deposits	151,208	25,401
Term deposits	150,530	193,636
	<u>301,738</u>	<u>219,037</u>

Cash and cash equivalents are free disposable to be used by the company. The interest received for the current or term deposits amounts to 1,923 thousand Euros (31 December 2016: 298 thousand Euros) (see note 6).

## 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.

During 2017 and 2016, no movements occurred in Share capital and Share premium.

## 15. RESERVES AND RETAINED EARNINGS

This caption is analysed as follows:

Thousand Euros	Dec 2017	Dec 2016
Cash flow hedge reserve	37	671
Retained earnings	106,906	83,059
	<u>106,943</u>	<u>83,730</u>

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 its 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 propose to add the profit for the financial year ended 31 December 2017 of 18,601,658 Euros to the retained earnings.

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

This caption is analysed as follows:

Thousand Euros	Dec 2017	Dec 2016
<b>Non-Current:</b>		
Debt securities	10,443,355	9,868,345
Fair value of the issued debt hedged risk	79,174	153,164
	10,522,529	10,021,509
Loans and credit facilities from third parties	1,942,285	2,359,359
	12,464,814	12,380,868
<b>Current:</b>		
Debt securities	940,482	1,062,764
Fair value of the issued debt hedged risk	1,653	-81,951
Accrued interest	218,340	221,243
	1,160,475	1,202,056
Loans and credit facilities from third parties	29,990	199,482
Accrued interest	4,217	7,408
	34,207	206,890
	1,194,682	1,408,946
	13,659,496	13,789,814

EDP Finance B.V. has various credit facilities it uses for liquidity management, all with firm underwriting commitment: a medium term Revolving Credit Facility (RCF) of 3,300 million Euros maturing in 2022; a RCF of 500,000 thousand Euros maturing in 2020; and a RCF of 75,000 thousand Euros maturing in 2019, at 31 December 2017 all facilities are totally available.

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

Date issued	Interest rate	Type of hedge	Type of instrument	Conditions/ Redemption	Nominal amount Euro'000	ISIN
Dec-02	Fixed rate EUR (iii)	n.a.	n.a.	Dec-22	93,357	XS0160258280
Jun-05	Fixed rate EUR 4.125%	n.a.	n.a.	Jun-20	300,000	XS0223447227
Nov-07	Fixed rate USD 6.00 %	n.a.	n.a.	Feb-18	449,380	US26835PAB67
Nov-08	Fixed rate GBP 8.625% (i)	Fair Value	CIRS	Jan-24	410,314	XS0397015537
Nov-08	Zero coupon (iii)	n.a.	n.a.	Nov-23	160,000	XS0399353506
Jun-09	Fixed rate JPY (i), (iii)	n.a.	CIRS	Jun-19	87,192	XS0433235800
Sep-09	Fixed rate USD 4.90 %	n.a.	n.a.	Oct-19	821,160	XS0454935395
		Fair Value/ Cash Flow				
Nov-12	Fixed rate CHF 4.00% (i)	(iv)	CIRS	Nov-18	103,922	CH0197841551
Sep-13	Fixed rate EUR 4.875%	Fair Value	IRS	Sep-20	750,000	XS0970695572
Nov-13	Fixed rate EUR 4.125%	n.a.	n.a.	Jan-21	600,000	XS0995380580
Jan-14	Fixed rate USD 5.25%	n.a.	n.a.	Jan-21	635,270	XS1014868779
Apr-14	Fixed rate EUR 2.625% (ii)	Fair Value	IRS	Apr-19	650,000	XS1057345651
Sep-14	Fixed rate EUR 2.625% (i)	Fair Value	IRS	Jan-22	1,000,000	XS1111324700
Nov-14	Fixed rate USD 4.125%	n.a.	n.a.	Jan-20	635,270	XS1140811750
Apr-15	Fixed rate EUR 2.00% (i)	Fair Value	IRS	Apr-25	750,000	XS1222590488
Mar-16	Fixed rate EUR 2.375%	n.a.	n.a.	Mar-23	600,000	XS1385395121
Aug-16	Fixed rate EUR 1.125%	n.a.	n.a.	Feb-24	1,000,000	XS1471646965
Jan-17	Fixed rate EUR 1.875%	n.a.	n.a.	Sep-23	600,000	XS1558083652
Jun-17	Fixed rate USD 3.625%	n.a.	n.a.	Jul-24	847,027	XS1638075488
Nov-17	Fixed rate EUR 1.50%	n.a.	n.a.	Nov-27	500,000	XS1721051495

- (i) These issues by EDP Finance B.V. 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.
- (iv) FV Hedge designation: the variability in the fair value of the Hedged Item relative to Interest rate changes; and  
CF Hedge designation: the variability in the cash flows of the Hedged Item relative to foreign currency changes (CHF/EUR).

For 31 December 2017, the remaining maturity of debt securities and loans and credit facilities from third parties (including accrued interest and fair value of the issued debt hedged risk), by currency, is as follows:

Thousand Euros	2018	2019	2020	2021	2022	Following years	Total
<b>Debt securities</b>							
Euro (i)	253,175	649,194	1,070,299	596,102	1,183,316	3,963,563	7,715,649
US Dollar (ii)	907,300	989,323	623,269	620,755	-	826,708	3,967,355
	<u>1,160,475</u>	<u>1,638,517</u>	<u>1,693,568</u>	<u>1,216,857</u>	<u>1,183,316</u>	<u>4,790,271</u>	<u>11,683,004</u>
<b>Loans and credit facilities from third parties:</b>							
Euro	32,223	-	1,495,662	155,039	-	-	1,682,924
US Dollar	1,984	291,584	-	-	-	-	293,568
	<u>34,207</u>	<u>291,584</u>	<u>1,495,662</u>	<u>155,039</u>	<u>-</u>	<u>-</u>	<u>1,976,492</u>
	<u>1,194,682</u>	<u>1,930,101</u>	<u>3,189,230</u>	<u>1,371,896</u>	<u>1,183,316</u>	<u>4,790,271</u>	<u>13,659,496</u>

For 31 December 2016, the remaining maturity of debt securities and loans and credit facilities from third parties (including accrued interest and fair value of the issued debt hedged risk), by currency, is as follows:

Thousand Euros	2017	2018	2019	2020	2021	Following years	Total
<b>Debt securities</b>							
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
	<u>1,202,056</u>	<u>1,066,402</u>	<u>1,775,184</u>	<u>1,786,853</u>	<u>1,299,666</u>	<u>4,093,404</u>	<u>11,223,565</u>
<b>Loans and credit facilities from third parties:</b>							
Euro	204,997	169,683	-	1,858,116	-	-	2,232,796
US Dollar	1,893	-	331,560	-	-	-	333,453
	<u>206,890</u>	<u>169,683</u>	<u>331,560</u>	<u>1,858,116</u>	<u>-</u>	<u>-</u>	<u>2,566,249</u>
	<u>1,408,946</u>	<u>1,236,085</u>	<u>2,106,744</u>	<u>3,644,969</u>	<u>1,299,666</u>	<u>4,093,404</u>	<u>13,789,814</u>

(i) These issues include CHF and GBP bonds that were converted into EUR through cross currency swaps.

(ii) These issues include a JPY bond that was converted into USD through cross currency swaps.

The changes in Debt securities and Loans and credit facilities from third parties (excluding accrued interest) arising from financing activities, including cash (see Statement of Cash Flows) and non-cash changes, are as follows:

Thousand Euros	2016	Cash Flows	Foreign exchange movement	Fair value changes	Deferred discount	2017
Debt securities	11,002,322	891,349	-467,772	9,614	29,151	11,464,664
Loans and credit facilities from third parties	2,558,841	-559,950	-40,151	-	13,535	1,972,275
	<u>13,561,163</u>	<u>331,399</u>	<u>-507,923</u>	<u>9,614</u>	<u>42,686</u>	<u>13,436,939</u>

## 17. LOANS FROM GROUP ENTITIES

This caption is analysed as follows:

Thousand Euros	Dec 2017	Dec 2016
<b>Current:</b>		
EDP Servicios Financieros (España), S.A.	1,900,641	337,678
	<u>1,900,641</u>	<u>337,678</u>

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

The changes in Loans from group entities are as follows:

Thousand Euros	2016	Additions	Repayments	Foreign Exchange Differences	2017
EDP Servicios Financieros (España), S.A.	337,678	5,374,471	-3,789,670	-21,838	1,900,641
	<u>337,678</u>	<u>5,374,471</u>	<u>-3,789,670</u>	<u>-21,838</u>	<u>1,900,641</u>

## 18. AMOUNTS OWED ON COMMERCIAL PAPER

As at 31 December 2017, this caption refers to a trade of commercial paper of 115,000 thousand Euros which was settled on January 2nd 2018 (31 December 2016: trade of commercial paper of 85,000 thousand Euros which was settled on January 3rd 2017).

## 19. DERIVATIVE FINANCIAL INSTRUMENTS

In accordance with IAS 39, EDP Finance B.V. 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 2017 the fair value and the maturity of the derivative financial instruments are analysed as follows:

Thousand Euros	Fair value		Notional			
	Assets	Liabilities	Up to 1 year	From 1 to 5 years	Over 5 Years	Total
<b>Fair value hedges</b>						
Interest rate swaps	96,117	-1,706	-	1,850,000	600,000	2,450,000
Cross currency interest rate swaps (i)	43,679	-	103,922	-	410,314	514,236
<b>Cash flow hedges</b>						
Cross currency interest rate swaps (i)	3,287	-	103,922	-	-	103,922
<b>Derivatives held for trading</b>						
Cross currency interest rate swaps	36	-46,164	-	779,207	-	779,207
Foreign exchange forwards	154	-10,483	721,172	-	-	721,172
	143,273	-58,353	929,016	2,629,207	1,010,314	4,568,537

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

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

Thousand Euros	Fair value		Notional			
	Assets	Liabilities	Up to 1 year	From 1 to 5 years	Over 5 Years	Total
<b>Fair value hedges</b>						
Interest rate swaps	126,199	-138	-	850,000	1,600,000	2,450,000
Cross currency interest rate swaps	83,636	-81,646	320,000	103,922	410,314	834,236
<b>Cash flow hedges</b>						
Cross currency interest rate swaps	13,908	-	-	103,922	-	103,922
<b>Derivatives held for trading</b>						
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

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.

The 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 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:

Type of hedge	Hedging instrument	Hedged risk	Thousand Euros			
			2017		2016	
			Changes in fair value		Changes in fair value	
			Instrument	Risk	Instrument	Risk
Fair value	Interest rate swap	Interest rate	-34,578	34,523	40,078	-39,823
Fair value	Cross currency interest rate swaps	Interest and exchange rate	49,944	-44,137	-125,425	136,305
Cash flow	Cross currency interest rate swaps	Interest and exchange rate	-10,621	9,775	1,112	-1,788
			4,745	161	-84,235	94,694

During 2017 and 2016 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 2017 and 2016 were as follows:

Thousand Euros	Dec 2017	Dec 2016
Balance at the beginning of the year	896	1,572
Fair value changes	-10,621	1,112
Recycling FX results from cash flow hedge reserve to income statement	9,775	-1,788
Balance at the end of the year	50	896

The gains and losses on the financial instruments portfolio booked in the profit and loss in 2017 and 2016 are as follows:

Thousand Euros	Dec 2017	Dec 2016
Derivatives held for trading	-2,543	-27,298
<b>Fair value hedges:</b>		
Derivatives	15,366	-85,347
Hedged liabilities	-9,614	96,482
<b>Cash flow hedges:</b>		
Recycling FX results from cash flow hedge reserve to income statement	-9,775	1,788
	-6,566	-14,375

The effective interest rates of the derivative financial instruments relating to financing operations at 31 December 2017 are as follows:

	Notional EUR'000	Currency	EDP Pays	EDP Receives
<b>Interest rate contracts</b>				
Interest rate swaps (i)	2,450,000	EUR	[ 2.87% - -0.27% ]	[ 4.88% - 0.45% ]
<b>Currency interest rate</b>				
CIRS (currency interest rate swaps) (ii)	410,314	EUR / GBP	3.66%	8.63%
CIRS (currency interest rate swaps) (iii)	74,069	USD / JPY	6.80%	3.11%
CIRS (currency interest rate swaps) (iv)	103,922	EUR / CHF	[ 3.96% - 3.80% ]	4.01%
CIRS (currency interest rate swaps) (v)	705,138	EUR / USD	[ 3.26% - -0.33% ]	[ 2.08% - 1.36% ]

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

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

- (i) EDP Finance BV pays floating rate and receives fixed rate;
- (ii) EDP Finance BV pays floating rate and receives fixed rate;
- (iii) EDP Finance BV pays and receives fixed rate;
- (iv) EDP Finance BV pays floating rate and receives fixed rate;
- (v) EDP Finance BV pays and receives floating rate.

## 20. RELATED PARTIES

### Main shareholders and shares held by company officers

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

### Other Related Parties

TMF Netherlands B.V. 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 amount to 24,488 Euros (2016: 21,114 Euros) with no outstanding balances as at 31 December 2017 and 2016.

### Other management services

The charges regarding Other management services amount to 334,241 Euros (2016: 315,147 Euros) with no outstanding balances as at 31 December 2017 and 2016.

## Balances and transactions with related parties

As at 31 December 2017, the outstanding assets with related parties are analysed as follows:

Thousand Euros	Loans Granted	Derivatives	Other assets	Total
EDP - Energias de Portugal, S.A.	11,850,810	97,661	-	11,948,471
EDP Renováveis Serviços Financieros, S.L.	851,209	-	-	851,209
EDP, S.A. Sucursal en España	1,790,403	-	1,454	1,791,857
EDP Servicios Financieros (España), S.A.	341,987	-	334	342,321
EDP Renováveis, S.A.	371,408	34	801	372,243
Other	221,105	-	277	221,382
	15,426,922	97,695	2,866	15,527,483

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 Serviços 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
EDP España, S.A.U.	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 2017, the outstanding liabilities with related parties are analysed as follows:

Thousand Euros	Loans Obtained	Derivatives	Other liabilities	Total
EDP - Energias de Portugal, S.A.	849,903	35,764	2,943	888,610
EDP Servicios Financieros (España), S.A.	1,900,641	2,811	-	1,903,452
EDP Renováveis, S.A.	-	4,170	-	4,170
	2,750,544	42,745	2,943	2,796,232

In December 2017, EDP S.A. concluded a "Tender Offer" targeting EDP Finance B.V.'s "4.9000% NOTES DUE OCTOBER 1, 2019," and "4.125% NOTES DUE JANUARY 15, 2020", limited to a total value of 500,000 thousand Dollars. As a result of the offer, EDP S.A. acquired 332,924 thousand Dollars of the "4.9000% NOTES DUE OCTOBER 1, 2019" and 167,076 thousand Dollars of the "4.125% NOTES DUE JANUARY 15, 2020". As at 31 December 2017, this operation totaled 422,960 thousand Euros in EDP Finance B.V. liabilities.

In December 2016, EDP S.A. concluded a "Tender Offer" targeting EDP Finance B.V.'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 S.A. 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, 2019". As at 31 December 2017, this operation totaled 426,943 thousand Euros in EDP Finance B.V. liabilities (31 December 2016: 485,753 thousand Euros).

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

Income and expenses related to transactions with related parties as at 31 December 2017, are as follows:

Thousand Euros	Interest on Intra-Group Financial Mov.	Other	Total
EDP - Energias de Portugal, S.A.	231,941	-1,206	230,735
EDP Renováveis Serviços Financieros, S.L.	43,812	-	43,812
EDP Servicios Financieros (España), S.A.	-8,216	-400	-8,616
EDP, S.A. Sucursal en España	130,910	841	131,751
EDP Renováveis, S.A.	14,981	492	15,473
Other	17,349	70	17,419
	430,777	-203	430,574

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 Serviços 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
EDP España, S.A.U.	32,198	226	32,424
Other	23,844	17	23,861
	572,024	-432	571,592

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 B.V. 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 2017 and 2016 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 2017		31 December 2016	
	Currency		Currency	
	EUR	USD	EUR	USD
3 months	-0.37%	1.69%	-0.32%	1.00%
6 months	-0.27%	1.84%	-0.22%	1.32%
1 year	-0.19%	2.11%	-0.08%	1.69%
2 years	-0.15%	2.08%	-0.16%	1.45%
3 years	0.01%	2.17%	-0.10%	1.69%
4 years	0.17%	2.21%	-0.02%	1.85%
5 years	0.31%	2.24%	0.08%	1.98%
6 years	0.44%	2.28%	0.19%	2.08%
7 years	0.56%	2.31%	0.31%	2.16%
8 years	0.67%	2.34%	0.44%	2.23%
9 years	0.78%	2.37%	0.56%	2.29%
10 years	0.89%	2.40%	0.66%	2.34%

Fair value of assets and liabilities as at 31 December 2017 and 31 December 2016 is analysed as follows:

Thousand Euros	Dec 2017			Dec 2016		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
<b>Financial assets</b>						
Loans and receivables to group entities	15,426,922	15,509,897	82,975	14,042,858	14,643,757	600,899
Derivative financial instruments	143,273	143,273	-	225,777	225,777	-
Cash and cash equivalents (assets)	301,738	301,738	-	219,037	219,037	-
	15,871,933	15,954,908	82,975	14,487,672	15,088,571	600,899
<b>Financial liabilities</b>						
Debt securities	11,683,004	12,590,664	907,660	11,223,565	11,712,246	488,681
Loans and credit facilities from third parties	1,976,492	2,026,640	50,148	2,566,249	2,572,994	6,745
Loans from group entities	1,900,641	1,900,641	-	337,678	337,678	-
Amounts owed on purchased debt securities	115,000	115,000	-	85,000	85,000	-
Derivative financial instruments	58,353	58,353	-	161,007	161,007	-
	15,733,490	16,691,298	957,808	14,373,499	14,868,925	495,426

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 B.V. 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 market for assets and liabilities;
- Level 2 – Fair value based on 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 B.V.'s financial assets and liabilities, in 2017 and 2016, is included in Level 2, described above.

The Company does not transfer financial assets nor liabilities between categories.

## **22. SUBSEQUENT EVENTS**

No significant events occurred.

## **23. RECENT ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED**

### **Standards, amendments and interpretations issued but not yet effective for the Group**

Certain standards, amendments and interpretations that have been published are not yet effective for the Company. The preliminary analysis on the impacts of these new standards and interpretations is set out below.

- IFRS 9 - Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting, and is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

EDP Finance B.V. will adopt the new standard on the required effective date and will not restate comparative information.

During 2017, EDP Finance B.V. has performed a detailed impact assessment of all aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes until its adoption, since EDP Finance B.V. has not yet finalised the testing and assessment of controls over its new accounting policies, which are subject to change until the Company presents its first financial statements that include the date of initial application.

Overall, EDP Finance B.V. expects no significant impacts on its statement of financial position and equity. The Company will implement the required changes in classification of certain financial instruments as further described in the following paragraphs.

EDP Finance B.V. has reviewed its financial assets and liabilities in order to assess qualitative and quantitative impacts on the adoption of the Standard. Accordingly, the main impacts are the following:

(a) Classification and measurement

IFRS 9 determines that the classification and measurement of financial assets shall be based on the business model used to manage them and on the characteristics of the contractual cash flows. IFRS 9 contains three main classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. In regard to the classification and measurement of financial liabilities, the changes to IAS 39 introduced by IFRS 9 are residual.

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at amortised cost mostly all financial assets currently held at amortised cost.

Loans to and receivables from group entities are generally held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. EDP Finance B.V. analysed the contractual cash flow characteristics of these instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

IFRS 9 replaces the impairment recognition model based on the incurred credit losses by a forward looking expected credit loss (ECL) model. In summary, the new model foresees: (i) the recognition of expected credit losses at each reporting date, considering changes in the counterparty credit risk inherent to each financial instrument; (ii) the measurement of expected losses using models based on past events, actual and forecast of future conditions; and (iii) the increase in the relevance of the financial information to be disclosed, namely in terms of expected losses and counterparty credit risk.

IFRS 9 requires EDP Finance B.V. to record expected credit losses on all of its financial assets carried at amortised cost, either on a 12-month or lifetime basis. Considering the type of assets held, the Company will apply the general approach and record 12 month expected losses on all financial assets carried at amortised cost. The Company has determined that, due to the fact that all of its counterparties are part of the same consolidation Group (EDP Group), and also to the Keep Well Agreement between EDP Finance B.V. and EDP S.A., along with the historical fact that there has never been a default in an EDP Group Company, no loss allowance would be recorded, as the risk of default in these particular counterparties is not significant.

(c) Hedge accounting

When initially applying IFRS 9, the Company may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9. In order to avoid a partial application of IFRS hedge accounting premises, EDP Finance B.V. decided to continue to apply IAS 39 until the IASB ongoing project on the accounting for macro hedging is completed. Therefore, the Company will maintain its accounting policy, as described in note 2 c).

IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on EDP Finance, B.V.'s financial statements.

**Standards, amendments and interpretations issued and effective for the Group**

• IAS 7 (Amended) - Disclosure Initiative

The International Accounting Standards Board (IASB) issued, in January 2016, amendments to IAS 7 - Statement of Cash Flows, with effective date of mandatory application for periods beginning on or after 1 January 2017. This standard has been endorsed by the European Union.

These amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, such as:

- Changes from financing cash flows;
- Changes arising from obtaining or losing control of subsidiaries or other businesses;
- The effect of changes in foreign exchange rates; or
- Changes in fair values.

These disclosures may be presented by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. This reconciliation is disclosed in note 16.

## 24. AUDIT AND NON AUDIT FEES

Fees and expenses incurred for professional services are rendered as follows (VAT excluded):

Thousand Euros	Dec 2017	Dec 2016
Audit and statutory audit of accounts:		
- PWC	105	-
- KPMG	60	130
<b>Total</b>	<b>165</b>	<b>130</b>

PriceWaterhouseCoopers Accountants N.V. has audited the financial statements of EDP Finance B.V. for 2017 and KPMG for 2016. However, during 2017, KPMG has still reviewed the interim financial information for reporting purposes for the first three quarters.

**Amsterdam, 1 March 2018**

The Managing Directors

EDP – Energias de Portugal, S.A.

de Kanter, H. P.

Gortzen, M. M. L.

TMF Netherlands B.V.

## **OTHER INFORMATION**

### 1. Statutory Information

#### 1.1 Proposed appropriation of result

The Managing Directors propose to add the profit for the financial year ended 31 December 2017 of 18,601,658 Euros to retained earnings.

#### 1.2 Auditors opinion

The independent auditors report is included on the next page.



## *Independent auditor's report*

To: the general meeting of EDP Finance B.V.

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### *Report on the financial statements 2017*

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#### *Our opinion*

In our opinion EDP Finance B.V.'s financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

#### *What we have audited*

We have audited the accompanying financial statements 2017 of EDP Finance B.V., Amsterdam ('the Company').

The financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the following statements for 2017: the income statement, the statements of other comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

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#### *The 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 section 'Our responsibilities for the audit of the financial statements' of our report.

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

CRV6ACHH3HF6-907832430-33

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## *Independence*

We are independent of EDP Finance B.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

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## *Our audit approach*

### *Overview and context*

The company's main activity is the financing of group companies, raising funds mainly through bond offerings on the international capital markets. The company has financial instruments in place to mitigate interest rate risk and currency risk. We paid specific attention to the areas of focus driven by the operations of the Company, as set out below.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the managing directors made important judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

In note 2 of the financial statements the company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the impairment assessment of assets, we considered these to be key audit matters as set out in the section 'Key audit matters' of this report. Furthermore, we identified the valuation of financial derivatives and hedge accounting as key audit matter because of the high level of judgement involved.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the managing directors that may represent a risk of material misstatement due to fraud.

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a financing company. We therefore included specialists in the area of financial instruments in our team.

### *First year audit consideration*

After being appointed as the Company's auditors, we developed and executed a comprehensive transition plan. As part of this transition plan we carried out a process of understanding the strategy of the Company, its business, its internal control environment and IT systems. We looked at where and how this all impacted the Company's financial statements and internal control framework.

Additionally we reviewed the predecessor auditor's files and discussed the outcome thereof to confirm our understanding of the opening balances and internal controls within the company. Based on these procedures, we have prepared our risk assessment and audit strategy and prepared our audit plan which has been discussed with the managing directors and the audit committee.

## Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

As a basis for our judgment we used 1% of total assets. We used total assets as the primary benchmark, a generally accepted auditing practice, based on our analysis of the information needs of the common stakeholders, of which we believe the shareholders and bondholders to be the most important stakeholders. Inherent to the nature of the company's business, the amounts in the financial statements are large in proportion to the income statement line items net other financial income and expenses, services rendered, supplies and services, personnel costs and income tax expenses. Based on qualitative considerations we performed audit procedures on those income statement line items, applying a benchmark of 5% of profit before tax.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the managing directors that we would report to them misstatements identified during our audit above €7,900,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the audit committee. The key audit matters are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we make on the results of our procedures should be read in this context.

Key audit matter	How our audit addressed the matter
<b>Valuation and existence of the loans issued</b> <b>Note 11</b> We consider the valuation and existence of the loans issued, as disclosed in note 11 to the financial statements for a total amount of €15,426,922,000, to be a key audit matter. This is due to the size of the loan portfolio in combination with the fact that the managing directors' assessment of objective evidence of impairment is very important and judgmental. As a result, any impairment may have a material effect on the financial statements.	We performed the following procedures to test the existence of the loans issued to EDP S.A. group companies and to test the managing directors' assessment of possible loss events to address the valuation: <ul style="list-style-type: none"> <li>We evaluated the financial situation of the group companies to which loans have been provided by analysing their respective current financial data (such as result and equity) and their ability to repay the notional and interest payments to the company.</li> </ul>

### **Key audit matter**

The managing directors did not identify any objective evidence that a loan is impaired.

### **How our audit addressed the matter**

- We evaluated the financial position of EDP S.A. group by verifying observable data from rating agencies, developments in credit spreads and other publicly available data.
- We performed a margin analysis.
- We recalculated the amortised cost value based on the effective interest method.
- We have reconciled data input such as projected cash flow, interest rates and maturities with underlying contracts, We have reconciled credit spreads and market interest with data from external data providers.
- We compared interest receipts with bank statements.
- We performed confirmation procedures with the counterparties of the loans.

### **No objective evidence of impairment**

We found the managing directors' assessment to be sufficiently rigorous. Our procedures as set out above did not indicate material differences.

### **Derivative valuation**

#### **Note 19**

We consider the fair value of the derivatives portfolio of €143,273,000 and negative €58,353,000 as disclosed in note 19 to the financial statements and used in the company's hedge effectiveness testing to be a key audit matter. This is due to the nature of the portfolio that includes longer-dated interest rate swaps and cross-currency interest rate swaps. The market for these swaps is not fully liquid and therefore valuation is a complex area.

We performed the following procedures to address the valuation of derivatives:

- We tested the valuation of derivatives as well as the valuation of hedged items in hedge accounting relationships (when relevant) by revaluing the derivatives on a sample basis.
- We reconciled the interest rate curves and other market data with independent sources.

Based on these procedures we found the managing directors' assumptions used in the valuation of derivatives to be reasonable compared to market data and the chosen models to be in line with market practice. Based on the procedures as set out above we found no material differences.

### **Hedge accounting**

#### **Note 19**

We consider the application of hedge accounting to be a key audit matter. Refer to note 19 to the financial statements. This is because of the detailed formal and technical requirements that are relevant to the application of hedge accounting and because inappropriate application of these requirements can lead to a material effect on the financial statements.

We performed the following procedures to assess the appropriateness of the application of hedge accounting: We tested on a sample basis whether the hedge documentation and hedge effectiveness testing as prepared by management met the requirements of IAS 39, and whether the hedge effectiveness test was mathematically correct.

We reconciled the outcome of the effectiveness testing for the derivative portfolio as a whole to the financial statements. Based on the procedures as set out above we found the application of hedge accounting to be appropriate.

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## ***Report on the other information included in the annual report***

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

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

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

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

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

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

Managing directors are responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

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## ***Report on other legal and regulatory requirements***

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### ***Our appointment***

We were appointed as auditors of EDP Finance B.V. following the passing of a resolution by the audit committee at the annual meeting held on 1 June 2017 representing a total period of uninterrupted engagement appointment of one year.

### ***No prohibited non-audit services***

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

### ***Services rendered***

We have not provided any services to the company, in addition to the audit, for the period to which our statutory audit relates.

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## ***Responsibilities for the financial statements and the audit***

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### ***Responsibilities of the managing directors***

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 Dutch Civil Code; and 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 fraud or error.



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 frameworks 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.

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### ***Our responsibilities for the audit of the financial statements***

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 1 March 2018  
PricewaterhouseCoopers Accountants N.V.

Original signed by L.H.J. Oosterloo RA



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## ***Appendix to our auditor's report on the financial statements 2017 of EDP Finance B.V.***

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In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

### ***The auditor's responsibilities for the audit of the financial statements***

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the managing directors.
- Concluding on the appropriateness of the managing directors use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going-concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going-concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the managing directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect we also issue an additional report to the audit committee in accordance with article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the managing directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with the managing directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.