

Annual Report 2013

# EDP Finance BV

Annual Report

31 December 2013

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## RESPONSIBILITY STATEMENT

The Managing Directors of the Company wish to state:

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

Amsterdam, 27 February 2014

The Managing Directors

EDP — Energias de Portugal, S.A.

Burg, J. C. W. van.

Gortzen, M. M.

TMF Netherlands B.V.



## REPORT OF MANAGING DIRECTORS

The Managing Directors of EDP Finance BV (hereinafter "the Company") submit the annual report and the financial statements of the Company for the year ended 31<sup>st</sup> December 2013.

## 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 SA") and the Company for group subsidiaries.

### Results

During the year ended 31<sup>st</sup> December 2013, the Company recorded a loss of EUR 9.50 million. The decrease in results during 2013 is due to a decrease of the margin between the average rates of the assets and of the liabilities during the first half of 2013 which was not totally offset by the increase of the margin during the second half of the year.

The increase of the average interest rate of debt is primarily due to the maturing of older debt during 2013 and replacement with new debt raised at a higher all-in cost (interest rates and fees), reflecting different market conditions. This was partially offset by the increase of the average interest rate of assets, which resulted from an increase in the rate earned in short term assets, as well as from the investment, in the second half of the year, in three bonds issued by EDP SA in the total amount of EUR 5,350 million.

### Major Developments

In 2013, EDP Finance BV took advantage of some windows of opportunity in the international capital markets to issue three Eurobonds, under the EDP SA and EDP Finance BV's "Programme for the Issuance of Debt Instruments" (EMTN) which includes a Keep Well agreement with EDP SA (see Note 4). A seven-year EUR 750 million Eurobond was issued on 5<sup>th</sup> September and on 13<sup>th</sup> November the Company issued a long seven-year EUR 600 million Eurobond. On 30<sup>th</sup> December, the Company issued a one-year Eurobond in the amount of EUR 200 million. Regarding the loan markets, the Company entered into a new Term Loan Facility in January, in the amount of EUR 1,600 million with a tenor of five years and involving a syndicate of 16 banks. The facility was fully drawn during the year mostly to refinance two facilities that had been raised in 2008 and 2006 and matured in April and November, respectively.

These transactions allowed the Company and EDP Group to reach different markets and investors and strengthen its liquidity position, ahead of refinancing needs for the following years. In particular, the Company was able to

fully repay drawdowns under the EUR 2,000 million Revolving Credit Facility, dated 3<sup>rd</sup> November 2010, making it fully available at year end.

### Subsequent Events

On the 7<sup>th</sup> January 2014, EDP Finance BV issued a seven-year USD 750 million Bond under EDP SA and EDP Finance BV's EMTN which includes a keep well agreement with EDP SA and will be used for general corporate purposes (see Note 24).

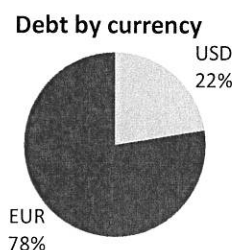
### Debt

In 2013, EDP Finance BV's (nominal) consolidated debt totalled EUR 15,276 million. When compared to December 2012, the Company's debt increased by nearly EUR 313 million, mostly in order to fund the EDP's group subsidiaries through intercompany loans, which increased nearly EUR 493 million in 2013, partly compensated by the EUR/USD negative exchange variation of EUR 147 million.

#### IFRS Debt - EDP Finance BV EUR millions

	Dec 2013	Dec 2012	Change
<b>Debt - Short term</b>	<b>3.128</b>	<b>2.656</b>	<b>18%</b>
Bonds	1.378	350	294%
Bank loans	1.637	2.206	-26%
Intercompany loans	113	100	13%
<b>Debt - Long term</b>	<b>12.148</b>	<b>12.307</b>	<b>-1%</b>
Bonds	8.743	8.654	1%
Bank loans	3.405	3.653	-7%
<b>Nominal debt</b>	<b>15.276</b>	<b>14.963</b>	<b>2%</b>
Interest accrued	292	271	8%
Fair value hedge adjustments	-4	96	-104%
<b>Debt under IFRSs</b>	<b>15.564</b>	<b>15.330</b>	<b>2%</b>

In terms of currencies of EDP BV external debt, the USD financing contracted to fund the purchase and capex of [EDP Renewables North America, formerly known as] Horizon Wind Energy (a company based in the US that develops, constructs and operates wind power electricity generating facilities) justifies the Group's USD denominated debt (22% of EDP Finance BV's debt). The Euro continues to be the main funding currency of the EDP Group (78%).



### Rating

In March 2013, following the revision of the sovereign rating, Standard & Poor's ("S&P") affirmed the Company's rating at "BB+" revising its outlook from negative to stable. In September, S&P placed the "BB+" long-term rating on the Company on CreditWatch with negative implications, mirroring that on the Republic of Portugal, on 18<sup>th</sup> September, since by S&P's rating criteria, sovereign risk is a key factor that influences utilities' credit strength.

In June and again in November 2013 Moody's Investors Service Limited ("Moody's") affirmed the Company's rating at "Ba1" with negative Outlook.

In July 2013, Fitch Ratings ("Fitch") placed all utilities with sizeable exposure to Spain, including EDP SA and the Company, on Rating Watch Negative ("RWN")., following the Spanish Government's announcement, on July 12th, of proposed new regulatory measures to permanently resolve the excess cost or tariff deficit generated by the Spanish electricity system.

The Company's credit rating stands as of December 2013 two notches above the Republic of Portugal by Moody's and one notch by Standard and Poor's and by Fitch.

#### December 2013

	S&P	Moody's	Fitch
EDP SA, BV	BB+/CWN/B	Ba1/OUT-/NP	BBB-/ RWN / F3

After year end, in January 2014, S&P affirmed the 'BB+' long-term and 'B' short-term corporate credit ratings on the Company and removed the long-term ratings from CreditWatch with negative implications. The outlook is stable.

#### Risk Management

Please see Note 4 of the Notes to the Financial Statements for a description of the main risks facing the Company and applicable management policies.

#### Expectations for 2014

Given the cash flow generated by the Group as well as the available liquidity, the management considers having the company's refinancing needs covered beyond 2014 and expects to continue its normal course of business in 2014, as in the previous years, despite the still volatile market conditions.

#### Audit Committee

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

Eduardo de Almeida Catroga: President

Víctor Fernando da Conceição Gonçalves: Vice-President

António Sarmiento Gomes Mota: Member

Manuel Fernando de Macedo Alves Monteiro: Member

Maria Celeste Ferreira Lopes Cardona: Member

Amsterdam, 27 February 2014

The Managing Directors:

EDP Energias de Portugal, S.A.

Burg, J. C. W. van.

Gortzen, M. M.

TMF Netherlands B.V.

Annual Report 2013

# EDP Finance BV

Financial Statements

31 December 2013

## EDP Finance, BV

### Company Statement of comprehensive income for the years ended 31 December 2013 and 2012

Thousands of Euros	Notes	2013	2012
Interest income	6	704,702	633,054
Interest expenses	6	-707,516	-608,718
Net interest income / (expense)		-2,814	24,336
Net other financial income and expenses	7	-8,448	-10,476
Net financial income / (expense)		-11,262	13,860
Other operating income / (expenses)			
Services rendered	8	1,778	705
Supplies and services	9	-3,256	-1,577
Provisions	10	-	1,400
Profit / (Loss) before income tax		-12,740	14,388
Tax expense / (benefit)	11	3,245	-3,609
<b>Profit / (Loss) for the year</b>		<b>-9,495</b>	<b>10,779</b>
<b>Total comprehensive income for the year</b>		<b>-9,495</b>	<b>10,779</b>
<b>Profit / (Loss) for the year attributable to owners of the company</b>		<b>-9,495</b>	<b>10,779</b>
<b>Total comprehensive income for the year attributable to the owners of the company</b>		<b>-9,495</b>	<b>10,779</b>

## EDP Finance, BV

### Company Statement of financial position as at 31 December 2013 and 2012 (before proposed appropriation of profit)

Thousands of Euros	Notes	2013	2012
<b>Assets</b>			
Loans to and receivables from group entities	12	11,704,152	7,959,801
Derivative financial instruments	19	48,663	141,930
<b>Total Non-Current Assets</b>		<b>11,752,815</b>	<b>8,101,731</b>
Loans to and receivables from group entities	12	3,975,605	7,508,470
Derivative financial instruments	19	84,039	77,256
Debtors and other assets		2,471	711
Tax receivable	20	4,971	-
Cash and cash equivalents	13	238,173	343,585
<b>Total Current Assets</b>		<b>4,305,259</b>	<b>7,930,022</b>
<b>Total Assets</b>		<b>16,058,074</b>	<b>16,031,753</b>
<b>Equity</b>			
Share capital	14	2,000	2,000
Share premium	14	11,980	11,980
Retained earnings	15	123,666	112,887
Profit / (loss) for the year		-9,495	10,779
<b>Total Equity</b>		<b>128,151</b>	<b>137,646</b>
<b>Liabilities</b>			
Debt securities	16	8,728,180	8,750,028
Loans and credit facilities from third parties	16	3,404,831	3,653,295
Derivative financial instruments	19	63,937	41,654
<b>Total Non-Current Liabilities</b>		<b>12,196,948</b>	<b>12,444,977</b>
Debt securities	16	1,642,504	591,304
Loans and credit facilities from third parties	16	1,675,430	2,235,300
Loans from group entities	17	113,492	100,111
Amounts owed on commercial paper	18	280,000	480,000
Derivative financial instruments	19	19,935	7,019
Trade and other payables		1,614	1,510
Tax payable	20	-	33,886
<b>Total Current Liabilities</b>		<b>3,732,975</b>	<b>3,449,130</b>
<b>Total Liabilities</b>		<b>15,929,923</b>	<b>15,894,107</b>
<b>Total Equity and Liabilities</b>		<b>16,058,074</b>	<b>16,031,753</b>

**EDP Finance, BV**  
**Company Statement of cash flows for the years ended**  
**31 December 2013 and 2012**

Thousands of Euros	Notes	Dec 2013	Dec 2012
<b>Operating activities</b>			
Profit / (loss) for the year		-9,495	10,779
<b>Adjustments for:</b>			
Net Interest Income		2,814	-24,336
Net Other Financial Income and Expenses		-2,712	-42,522
Tax income		-3,245	3,609
		-12,638	-52,470
<b>Changes in:</b>			
Loans to and Receivables from Group Entities		-6,629	-2,003,571
Debtors and Other Assets		-1,759	172
Amounts owed on commercial paper		-200,000	480,000
Loans from Group Entities		13,381	-16,725
Trade and Other Payables		356	-2,087
Tax payable		-	31,987
Provisions		-	-32,481
		-207,289	-1,595,175
Interest received		273,185	400,866
Interest paid		-573,778	-517,702
Tax paid		-35,611	-3,204
<b>Net cash used in operating activities</b>		-543,493	-1,715,215
<b>Cash flows from financing activities</b>			
Proceeds from issued debt securities		1,531,023	1,718,430
Redemption of debt securities		-350,000	-1,607,920
Proceeds of loans and credit facilities from third parties		1,709,410	1,932,679
Redemption of loans and credit facilities from third parties		-2,456,000	-375,000
<b>Net cash flow from financing activities</b>		434,433	1,668,189
<b>Net increase / (decrease) in cash and cash equivalents</b>		-109,060	-47,026
Cash and cash equivalents at the beginning of the year	13	343,585	403,883
Effect of exchange rate fluctuations on cash and cash equivalents held		3,647	-13,272
<b>Cash and cash equivalents at the end of the year (*)</b>	13	238,172	343,585

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

# EDP Finance, BV

## Company Statement of Changes in Equity for the years ended 31 December 2013 and 2012

Thousands of Euros	Notes	Attributable to shareholders of the Company				
		Total Equity	Share capital	Share premium	Retained earnings	Profit for the period
<b>Balance as at 1 January 2012</b>		<b>126,867</b>	<b>2,000</b>	<b>11,980</b>	<b>72,076</b>	<b>40,811</b>
Prior year profit		-	-	-	40,811	-40,811
Total comprehensive income: Profit for the year		10,779	-	-	-	10,779
Total comprehensive income for the year		10,779	-	-	-	10,779
<b>Balance as at 31 December 2012</b>	14, 15	<b>137,646</b>	<b>2,000</b>	<b>11,980</b>	<b>112,887</b>	<b>10,779</b>
Prior year profit		-	-	-	10,779	-10,779
Total comprehensive income: Profit / (loss) for the year		-9,495	-	-	-	-9,495
<b>Balance as at 31 December 2013</b>	14, 15	<b>128,151</b>	<b>2,000</b>	<b>11,980</b>	<b>123,666</b>	<b>-9,495</b>

**EDP Finance BV**  
**Notes to the Financial Statements**  
**for the years ended 31 December 2013 and 2012**

**1. ECONOMIC ACTIVITY OF EDP FINANCE**

EDP Finance B.V. ("the Company"), a corporation with limited liability, having its statutory seat in Amsterdam, The Netherlands, was incorporated under the laws of The Netherlands on 1 October 1999 with registered office at Luna ArenA, Herikerbergweg 238, 1101 CM Amsterdam Zuidoost, the Netherlands. The ultimate parent company of EDP Finance BV, is EDP - Energias de Portugal, S.A. ("EDP S.A."), Lisbon, Portugal.

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

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

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

These financial statements are of an individual 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 27 February 2014.

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 2013 and 2012.

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.

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

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

**b) Foreign currency transactions**

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

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

The following exchange rates have been applied as at 31 December 2013 and 2012:

Currency		Exchange rates at Dec 2013		Exchange rates at Dec 2012	
		Closing rates	Average exchange-rate	Closing rates	Average exchange-rate
Dollar	USD	1.379	1.328	1.319	1.285
Pound Sterling	GBP	0.834	0.849	0.816	0.811
Swiss Franc	CHF	1.228	1.231	1.207	1.205
Japanese Yen	JPY	144.720	129.663	113.610	102.456

**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.

The fair value of derivative financial instruments corresponds to their market value as provided by an exchange, or is determined by using net present value techniques.



### 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.

A hedge relationship exists 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.

### 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 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 profit and loss on the moment it occurs.

### 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 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) 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.

### f) 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.

**g) Interest income and expense**

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

Interest income and interest expense presented in the statement of comprehensive income include:

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

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

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

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

**h) 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 and changes in the fair value of the hedged items.

**i) Income tax**

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

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

**j) Cash and cash equivalents**

Cash and cash equivalents include balances with a maturity of less than three months from the reporting date, 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.

**k) Statement of cash flows**

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

**l) Determination of operating segments**

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

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

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

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

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

**Fair value of financial instruments**

Fair values are based on listed market prices, if available, otherwise fair value is determined either by the price of similar recent transactions under market conditions or by pricing models based on net present value of estimated future cash flows techniques considering market conditions, time value, yield curves and volatility factors. These methodologies may require the use of assumptions or judgements in estimating fair values (see detailed information in note 23).

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

**Impairment of financial assets measured at amortised cost**

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

#### 4. FINANCIAL-RISK MANAGEMENT POLICIES

##### Financial risk management

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

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

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

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

##### Exchange-rate risk management

EDP Finance BV is exposed to exchange rate risk through its debt denominated in US Dollars (USD), British Pounds (GBP), Japanese Yen (JPY) and Swiss 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. Currently, the exposure to EUR/USD exchange rate risk results essentially from the investments by the EDP Group in the USA through its subsidiary EDP Renewables, North America. EDP Finance BV issued USD loans as well as foreign exchange derivative financial instruments that convert the issued debt 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 have been hedged as from their issuing date.

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

##### Sensitivity analysis - exchange rate

Though the Company has loans to EDP Group companies and issued 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 the financial charges and to reduce exposure to interest rate risk from market fluctuations through the settlement of derivative financial instruments.

In the floating rate financing context, EDP Finance BV uses, when appropriate, interest rate derivative financial instruments to hedge cash flows associated with future interest payments, which have the effect of converting floating interest rate loans into fixed interest rate loans. Long-term loans contracted at fixed rates are, when appropriate, converted into floating rate loans through interest rate derivative financial instruments designed to reduce interest cost. In addition to these operations, to mitigate exposure of debt cash flows to market rate fluctuations, structured caps and floors are contracted, as necessary.

All hedging operations are undertaken on liabilities of EDP Finance BV's debt portfolio and mainly involve perfect hedges, resulting in a high level of correlation between the changes in the fair value of the hedging instrument and the changes in fair value of the interest rate risk or future cash flows.

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#### Sensitivity analysis - Interest rates

Based on the financial instruments with exposure to interest rate risk as at 31 December 2013 and 2012, a 100 basis points change in the reference interest rates would lead to the following increases / (decreases) in equity and results of EDP Finance BV:

Thousands of Euros	Dec 2013			
	Results		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
<b>Liabilities</b>				
Cash flow effect:				
Hedged debt	-27,621	27,621	-	-
Unhedged debt	-54,637	54,637	-	-
	-82,258	82,258	-	-
<b>Assets</b>				
Cash flow effect:				
Unhedged debt	80,553	-80,553	-	-
	80,553	-80,553	-	-
<b>Dec 2012</b>				
Thousands of Euros	Results		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
<b>Liabilities</b>				
Cash flow effect:				
Hedged debt	-20,121	20,121	-	-
Unhedged debt	-65,648	65,648	-	-
	-85,769	85,769	-	-
<b>Assets</b>				
Cash flow effect:				
Unhedged debt	69,619	-69,619	-	-
	69,619	-69,619	-	-

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

#### Counterparty credit risk management

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

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

EDP Finance BV documents its financial operations in accordance with international standards. Therefore, derivative financial instruments are contracted under ISDA Master Agreements, facilitating the transfer of the instruments in the market and ensuring compliance and consistency with EDP Group's 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 2013 and 2012, all loans granted by EDP Finance BV had as counterparties companies controlled by EDP — Energias de Portugal, S.A. As per 31 December 2013 and 31 December 2012 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 as per 31 December 2013 and 31 December 2012 being Eur 16.1 billion and Eur 16.0 billion, respectively.

#### Liquidity risk management

Liquidity risk is managed by engaging and maintaining credit lines and financing facilities with a firm underwriting commitment with national and international financial institutions allowing immediate access to funds. These lines are used to complement and backup national and international commercial paper programmes, allowing for a diversification of EDP Finance BV's short-term financing sources. The quantitative information for liquidity risk is included in the notes 12, 16 and 19.

Among the key sources of liquidity of EDP Finance BV, there are a medium term Revolving Credit Facility (RCF) of 2,000,000 thousand Euros and a RCF of 1,500,000 thousand USD, both with a firm underwriting commitment. As at 31 December 2013 the former was totally available and the latter was fully drawn.

#### 5. SEGMENT REPORTING

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

These EDP Group companies are EDP - Energias de Portugal, S.A. (group parent company), EDP Renováveis, S.A., EDP Renováveis Servicios Financieros, S.L., EDP, S.A Sucursal en España, Hidroeléctrica del Cantabrico, S.A., EDP Investments and Services, S.L. and Millennium Energy S.L.

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6. INTEREST INCOME AND EXPENSES

Interest income and expenses are analysed as follows:

Thousands of Euros	Dec 2013	Dec 2012
<b>Interest income</b>		
Loans and receivables to group entities	597,485	530,932
Derivative financial instruments	99,320	91,162
Other interest income	7,897	10,960
	<u>704,702</u>	<u>633,054</u>
<b>Interest expenses</b>		
Bank loans	191,311	89,235
Medium term notes	465,767	464,665
Derivative financial instruments	50,438	53,368
Other interest expenses	-	1,450
	<u>707,516</u>	<u>608,718</u>

7. NET OTHER FINANCIAL INCOME AND EXPENSES

Net other financial income and expenses are analysed as follows:

Thousands of Euros	Dec 2013	Dec 2012
<b>Other financial income</b>		
Derivative financial instruments - Trading	27,532	27,455
Derivative financial instruments - Ineffectiveness	-	6,476
Foreign exchange gains	20,789	-
Other	5	8
	<u>48,326</u>	<u>33,939</u>
<b>Other financial expenses</b>		
Derivative financial instruments - Trading	49,133	27,553
Derivative financial instruments - Ineffectiveness	7,352	-
Foreign exchange losses	-	15,488
Other	289	1,374
	<u>56,774</u>	<u>44,415</u>
	<u>-8,448</u>	<u>-10,476</u>

8. SERVICES RENDERED

Services rendered are analysed as follows:

Thousands of Euros	Dec 2013	Dec 2012
Debt portfolio management	1,778	705
	<u>1,778</u>	<u>705</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:

Thousands of Euros	Dec 2013	Dec 2012
<b>Supplies and services:</b>		
EDP, S.A. Services	1,959	705
Specialised works - Consulting services	604	474
Specialised works - Legal services	340	331
Other	353	67
	<u>3,256</u>	<u>1,577</u>

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

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10. PROVISIONS

Provisions are analysed as follows:

Thousands of Euros	
<b>Balance at 1 January 2012</b>	32,481
Provisions reversed during the year	-1,400
Provisions used	-31,081
<b>Balance at 31 December 2012</b>	-
Provisions reversed during the year	-
Provisions used	-
<b>Balance at 31 December 2013</b>	-

In 2012 the tax provision was used through "Current liabilities - tax payable" in order to reflect the tax due regarding fiscal years 2010 to 2012 which was paid in 2013 (see note 20).

11. TAX EXPENSE / (BENEFIT)

Thousands of Euros	Dec 2013	Dec 2012
Tax expense / (benefit)	3,245	-3,609
Profit / (Loss) before income tax	-12,740	14,388
Effective tax rate of the company	25%	25%

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

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

Thousands of Euros	Dec 2013	Dec 2012
Current tax expense / (benefit) in the year	3,175	-3,609
Adjustments for prior years	70	-
Effective tax rate of the company	3,245	-3,609

12. LOANS TO AND RECEIVABLES FROM GROUP ENTITIES

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

Thousands of Euros	Dec 2013	Dec 2012
<b>Loans to and receivables from group entities - Non current:</b>		
EDP Energias de Portugal, S.A.	5,350,000	-
EDP Renováveis Serviços Financieros, S.L.	2,458,435	-
EDP, S.A. Sucursal en España	2,437,092	3,006,023
EDP Renováveis, S.A.	324,417	2,843,114
Hidroeléctrica del Cantabrico, S.A.	850,250	1,791,237
Other	283,958	319,427
	<b>11,704,152</b>	<b>7,959,801</b>
<b>Loans to and receivables from group entities - Current:</b>		
EDP Energias de Portugal, S.A.	2,599,562	6,862,128
EDP, S.A. Sucursal en España	15,737	218,677
Hidroeléctrica del Cantabrico, S.A.	1,070,987	130,000
Other	142,831	222,234
Accrued interest	146,488	75,431
	<b>3,975,605</b>	<b>7,508,470</b>
	<b>15,679,757</b>	<b>15,468,271</b>

These assets have an average maturity of 4 years and bear interest at an average rate of 3.2%.

Loans to and receivables from group entities by maturity, are analysed as follows:

Thousands of Euros	Dec 2013	Dec 2012
<b>Loans to and receivables from group entities:</b>		
Up to 1 year	3,975,605	7,508,470
From 1 to 5 years	9,189,504	2,491,476
More than 5 years	2,514,648	5,468,325
	<b>15,679,757</b>	<b>15,468,271</b>



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The maturity of loans to group entities split in different currencies, are analysed as follows:

Thousands of Euros	2014	2015	2016	2017	2018	Following years	Total
<b>Loans to and receivables from group entities:</b>							
Euro	3,911,694	268,803	454,551	-	6,042,127	1,709,632	12,386,807
US Dollar	63,911	633,022	-	-	1,791,001	805,016	3,292,950
	3,975,605	901,825	454,551	-	7,833,128	2,514,648	15,679,757

Loans to group entities are not collateralized.

### 13. CASH AND CASH EQUIVALENTS

**Cash and cash equivalents** are analysed as follows:

Thousands of Euros	Dec 2013	Dec 2012
<b>Bank deposits:</b>		
Current deposits	670	1,259
Term deposits	237,503	342,326
	238,173	343,585

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

### 14. SHARE CAPITAL AND SHARE PREMIUM

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

**Share capital and Share premium** are analysed as follows:

	Share capital	Share premium
<b>Balance as at 31 December 2012</b>	2,000	11,980
Movements during the year	-	-
<b>Balance as at 31 December 2013</b>	2,000	11,980

### 15. RETAINED EARNINGS

This caption is analysed as follows:

Thousands of Euros	Dec 2013	Dec 2012
Accumulated results	123,666	112,887
	123,666	112,887

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

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

This caption is analysed as follows:

Thousands of Euros	Dec 2013	Dec 2012
<b>Debt securities and Loans and credit facilities from third parties - Non Current</b>		
Debt securities	8,743,467	8,654,038
Fair value of the issued debt hedged risk	-15,287	95,990
	8,728,180	8,750,028
Loans and credit facilities from third parties	3,404,831	3,653,295
	12,133,011	12,403,323
<b>Debt securities and Loans and credit facilities from third parties - Current</b>		
Debt securities	1,376,628	348,231
Fair value of the issued debt hedged risk	11,292	-
Accrued interest	254,584	243,073
	1,642,504	591,304
Loans and credit facilities from third parties	1,636,170	2,205,915
Accrued interest	39,260	29,385
	1,675,430	2,235,300
	3,317,934	2,826,604
	15,450,945	15,229,927

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

Date issued	Interest rate	Type of hedge	Conditions / Redemption	Nominal amount Euro'000
Aug-02	Fixed rate GBP 6.625% (i)	Fair Value	Aug/17	320,000
Dec/02	Fixed rate EUR (iii)	n.a.	Dec/22	93,357
Jun/05	Fixed rate EUR 3.75%	n.a.	Jun/15	500,000
Jun/05	Fixed rate EUR 4.125%	n.a.	Jun/20	300,000
Jun/06	Fixed rate EUR 4.625%	n.a.	Jun/16	500,000
Nov/07	Fixed rate USD 6.00 %	n.a.	Feb/18	725,111
Nov/08	Fixed rate GBP 8.625% (i)	Fair Value	Jan/24	410,314
Nov/08	Zero coupon (iii)	n.a.	Nov/23	160,000
Feb/09	Fixed rate EUR 5.5% (ii)	n.a.	Feb/14	1,000,000
Jun/09	Fixed rate JPY (i), (iii)	n.a.	Jun/19	69,099
Jun/09	Fixed rate EUR 4.75%	n.a.	Sep/16	1,000,000
Sep/09	Fixed rate USD 4.90 %	n.a.	Oct/19	725,111
Feb/10	Floating rate USD (iii)	n.a.	Feb/15	72,511
Mar/10	Fixed rate EUR 3.25% (i)	Fair Value	Mar/15	1,000,000
Feb/11	Fixed rate EUR 5.875%	n.a.	Feb/16	750,000
Feb/11	Fixed rate CHF 3.5% (i)	Fair Value	Feb/14	177,911
Sep/12	Fixed rate EUR 5.75%	n.a.	Sep/17	750,000
Nov/12	Fixed rate CHF 4.00% (i)	Fair Value	Nov/18	103,922
Sep/13	Fixed rate EUR 4.875% (ii)	Fair Value	Sep/20	750,000
Nov/13	Fixed rate EUR 4.125%	n.a.	Jan/21	600,000
Dec/13	Floating rate EUR (iii)	n.a.	Dec/14	200,000

(i) These issues by EDP Finance BV have associated interest rate swaps and/or currency swaps.

(ii) Part of this loan has associated interest rate swaps.

(iii) These issues correspond to private placements.

Debt securities and Loans and credit facilities from third parties by maturity, are analysed as follows:

Thousands of Euros	Dec 2013	Dec 2012
<b>Debt securities:</b>		
Up to 1 year	1,642,504	591,304
From 1 to 5 years	5,670,967	6,069,238
More than 5 years	3,057,213	2,680,790
	10,370,684	9,341,332
<b>Loans and credit facilities from third parties:</b>		
Up to 1 year	1,675,430	2,235,300
From 1 to 5 years	3,404,831	3,653,295
	5,080,261	5,888,595
	15,450,945	15,229,927

Future payments of principal and interests are detailed in note 21.

The remaining maturity of debt securities and loans and credit facilities from third parties and interest by currency are analysed as follows:

Thousands of Euros	2014	2015	2016	2017	2018	Following years	Total
<b>Debt securities</b>							
Euro (i)	1,615,437	1,518,434	2,243,555	1,010,363	103,034	2,268,012	8,758,835
US Dollar (ii)	27,067	72,511	-	-	723,070	789,201	1,611,849
	1,642,504	1,590,945	2,243,555	1,010,363	826,104	3,057,213	10,370,684
<b>Loans and credit facilities from third parties:</b>							
Euro	581,168	94,773	-	935,395	1,613,587	-	3,224,923
US Dollar	1,094,262	761,076	-	-	-	-	1,855,338
	1,675,430	855,849	-	935,395	1,613,587	-	5,080,261
	3,317,934	2,446,794	2,243,555	1,945,758	2,439,691	3,057,213	15,450,945

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

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



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17. LOANS FROM GROUP ENTITIES

Loans from Group entities are analysed as follows:

Thousands of Euros	Dec 2013	Dec 2012
<b>Loans from Group entities - Current:</b>		
EDP, S.A. Sucursal en España	-	100,098
EDP Servicios Financieros (España), S.A.	113,492	-
Other	-	13
	113,492	100,111

18. AMOUNTS OWED ON COMMERCIAL PAPER

As at 31 December 2013, this caption refers to a trade of commercial paper of 280,000 thousands of Euros which was settled on January 2nd 2014 (31 December 2012: trade of commercial paper of 480,000 which was settled on January 3rd 2013).

19. DERIVATIVE FINANCIAL INSTRUMENTS

In accordance with IAS 39, EDP Finance BV classifies derivative financial instruments as fair value hedges of a recognised asset or liability (Fair value hedge).

In 2013 the fair value and the maturity of the derivative financial instruments are analysed as follows:

Thousands of 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	58,315	-	-	1,000,000	500,000	1,500,000
Cross currency interest rate swaps	62,393	-60,056	177,911	423,922	410,314	1,012,147
<b>Derivatives held for trading</b>						
Interest rate swaps	11,994	-7,858	500,000	-	-	500,000
Cross currency interest rate swaps	-	-13,860	-	-	69,099	69,099
Foreign exchange forwards	-	-2,098	113,040	-	-	113,040
	132,702	-83,872	790,951	1,423,922	979,413	3,194,286

In 2012 the fair value and the maturity of the derivative financial instruments are analysed as follows:

Thousands of 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	68,234	-	-	1,000,000	-	1,000,000
Cross currency interest rate swaps	131,981	-38,028	-	497,911	514,235	1,012,146
<b>Derivatives held for trading</b>						
Interest rate swaps	18,923	-10,645	-	500,000	-	500,000
Cross currency interest rate swaps	48	-	-	-	79,255	79,255
	219,186	-48,673	-	1,997,911	593,490	2,591,401

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

Fair value of derivative financial instruments is based on quotes indicated by external entities. These entities use generally accepted discounted cash flow techniques and data from public markets. As such, according to IFRS13 requirements, the fair value of the derivative financial instruments is classified as of Level 2 (note 23).

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

			Thousands of Euros			
Type of hedge	Hedging instrument	Hedged risk	2013		2012	
			Changes in fair value		Changes in fair value	
			Instrument	Risk	Instrument	Risk
- Fair value	Interest rate swap	Interest rate	-14,600	14,371	11,443	-9,965
- Fair value	Cross currency interest rate swaps	Interest and exchange rate	-90,860	83,737	30,990	-25,992
			-105,460	98,108	42,433	-35,957

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During 2013 and 2012 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; and exchange rates: EUR/CHF, EUR/GBP 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 gains and losses on the financial instruments portfolio booked in the profit and loss in 2013 and 2012 are as follows:

Thousands of Euros	Dec 2013	Dec 2012
Derivatives held for trading	-19,704	2,483
<b>Fair value hedges:</b>		
- Derivatives	-105,460	42,433
- Hedged liabilities	98,108	-35,957
	<b>-27,056</b>	<b>8,959</b>

The effective interest rates of the derivative financial instruments relating to financing operations at 31 December 2013 are as follows:

	EUR'000	Currency	EDP Pays	EDP Receives
<b>Interest rate contracts</b>				
Interest rate swaps	2,000,000	EUR	[ 3.85% - 1.10% ]	[ 5.5% - 2.74% ]
<b>Currency interest rate</b>				
CIRS (currency interest rate swaps)	730,314	EUR / GBP	[ 4.22% - 1.84% ]	[ 8.63% - 6.63% ]
CIRS (currency interest rate swaps)	69,099	USD / JPY	6.80%	3.11%
CIRS (currency interest rate swaps)	281,833	EUR / CHF	[ 4.52% - 2.93% ]	[ 4.01% - 3.51% ]

The effective interest rates of the derivative financial instruments relating to financing operations at 31 December 2012 were as follows:

	Notional EUR'000	Currency	EDP Pays	EDP Receives
<b>Interest rate contracts</b>				
Interest rate swaps	1,500,000	EUR	[ 3.85% - 1.10% ]	[ 4.01% - 3.51% ]
<b>Currency interest rate</b>				
CIRS (currency interest rate swaps)	730,314	EUR / GBP	[ 4.21% - 2.15% ]	[ 8.63% - 6.63% ]
CIRS (currency interest rate swaps)	79,255	USD / JPY	6.80%	3.11%
CIRS (currency interest rate swaps)	281,832	EUR / CHF	[ 4.48% - 2.91% ]	[ 4.01% - 3.51% ]

## 20. TAX RECEIVABLE AND TAX PAYABLE

As at 31 December 2013, Tax receivable refers to (i) the refund of the excess preliminary tax payments made regarding fiscal year 2013 according to an estimation of the 2013 taxable basis, and (ii) the loss carry back against the 2012 taxable profit, under the terms foreseen in the Dutch tax law.

As at 31 December 2012, Tax payable refers to the tax due regarding fiscal years 2010 to 2012 which was paid during 2013.

## 21. COMMITMENTS

The contractualised commitments relating to short and medium/long term financial debt and respective interest are disclosed, as at 31 December 2013 and 2012, by maturity, as follows:

Thousands of Euros	Dec 2013				
	Contractual Commitments outstanding by maturity				
	Total	Less than 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years
Short and long term financial debt (including interest)	17,944,898	3,723,685	5,924,782	4,784,308	3,512,123
	17,944,898	3,723,685	5,924,782	4,784,308	3,512,123

Thousands of Euros	Dec 2012				
	Contractual Commitments outstanding by maturity				
	Total	Less than 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years
Short and long term financial debt (including interest)	17,691,722	3,156,425	6,321,012	4,891,971	3,322,314
	17,691,722	3,156,425	6,321,012	4,891,971	3,322,314

The short and long term debt corresponds to the balance of borrowings and related interest, contracted by the EDP Finance BV with bank entities, non-convertible bonds, commercial paper and other borrowings. Interest was calculated based on interest rates in force at the year-end.

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As mentioned on the subsequent events, in January 2014 EDP Finance BV issued a seven year US \$750,000,000 Bond at fixed rate of 5,25%. The remaining short term commitments are ensured by the term deposits available and the 2,000 million of Euros revolving credit facility which is completely available. Additionally, EDP Finance BV has short term assets with other Group companies, mainly with EDP SA, in a total amount of EUR 3,976 million that may not be renewed, in whole or in part, upon maturity. EDP Finance BV also expects to raise funds in the debt capital market and / or bank loan market during 2014, depending on market conditions.

## 22. RELATED PARTIES

### Main shareholders and shares held by company officers

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

### Other Related Parties

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

### Remuneration of directors and other management services

The charges regarding remuneration of directors and former directors and other management services amounts to 486,889 Euros (2012: 337,352 Euros) with no outstanding balances as at 31 December 2013 and 2012.

### Balances and transactions with related parties

As at 31 December 2013, the **outstanding receivables** with related parties are analysed as follows:

Thousands of Euros	Loans Granted	Other Receivables	Total
EDP - Energias de Portugal, S.A.	8,024,182	10,372	8,034,554
EDP Renováveis Serviços Financieros, S.L.	2,459,163	-	2,459,163
EDP, S.A. Sucursal en España	2,482,304	696	2,483,000
EDP Renováveis, S.A.	324,499	637	325,136
Hidroeléctrica del Cantabrico, S.A.	1,956,887	1,106	1,957,993
Other	432,722	3	432,725
	15,679,757	12,814	15,692,571

As at 31 December 2012, the **outstanding receivables** with related parties are analysed as follows:

Thousands of Euros	Loans Granted	Other Receivables	Total
EDP - Energias de Portugal, S.A.	6,862,128	-	6,862,128
EDP, S.A. Sucursal en España	3,250,779	-	3,250,779
EDP Renováveis, S.A.	2,963,160	-	2,963,160
Hidroeléctrica del Cantabrico, S.A.	1,956,794	678	1,957,472
Other	435,410	33	435,443
	15,468,271	711	15,468,982

As at 31 December 2013, the **outstanding payables** with related parties are analysed as follows:

Thousands of Euros	Loans Obtained	Other Payables	Total
EDP - Energias de Portugal, S.A.	-	287,184	287,184
EDP Servicios Financieros (España), S.A.	113,492	2,098	115,590
	113,492	289,282	402,774

As at 31 December 2012, the **outstanding payables** with related parties are analysed as follows:

Thousands of Euros	Loans Obtained	Other Payables	Total
EDP - Energias de Portugal, S.A.	-	482,419	482,419
Other	13	1	14
	13	482,420	482,433

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**Income** and **expenses** related to transactions with related parties as at 31 December 2013, are as follows:

Thousands of Euros	Interest on Intra-Group Financial Mov.	Other	Total
EDP - Energias de Portugal, S.A.	156,061	-1,959	154,102
EDP Renováveis Serviços Financieros, S.L.	134,490	-	134,490
EDP, S.A. Sucursal en España	162,724	696	163,420
EDP Renováveis, S.A.	15,984	637	16,621
Hidroeléctrica del Cantabrico, S.A.	111,991	428	112,419
Other	20,662	17	20,679
	601,912	-181	601,731

**Income** and **expenses** related to transactions with related parties as at 31 December 2012, are as follows:

Thousands of Euros	Interest on Intra-Group Financial Mov.	Other	Total
EDP - Energias de Portugal, S.A.	47,227	-705	46,522
EDP, S.A. Sucursal en España	182,288	-	182,288
EDP Renováveis, S.A.	168,173	-	168,173
Hidroeléctrica del Cantabrico, S.A.	112,322	678	113,000
Other	22,724	27	22,751
	532,734	-	532,734

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

## 23. 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 internal models, which are based on cash flow discounting techniques and option valuation models or through quotations supplied by third parties. 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 and Reuters). The credit risk factor in the data is based on the credit spread of similar companies in the market.

As at 31 December 2013 and 2012 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 2013		31 December 2012	
	Currency		Currency	
	EUR	USD	EUR	USD
3 months	0.29%	0.25%	0.19%	0.31%
6 months	0.39%	0.35%	0.32%	0.51%
1 year	0.56%	0.58%	0.54%	0.84%
2 years	0.52%	0.48%	0.38%	0.39%
3 years	0.73%	0.86%	0.44%	0.48%
4 years	1.00%	1.31%	0.60%	0.64%
5 years	1.25%	1.75%	0.77%	0.83%
6 years	1.48%	2.12%	0.95%	1.06%
7 years	1.68%	2.43%	1.12%	1.27%
8 years	1.85%	2.67%	1.29%	1.47%
9 years	2.01%	2.87%	1.43%	1.65%
10 years	2.15%	3.03%	1.57%	1.81%

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Fair value of assets and liabilities as at 31 December 2013 and 31 December 2012 is analysed as follows:

Thousands of Euros	Dec 2013			Dec 2012		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
<b>Financial assets</b>						
Loans and receivables to group entities	15,679,757	16,159,042	479,285	15,468,271	14,927,761	-540,510
Derivative financial instruments	132,702	132,702	-	219,186	219,186	-
Cash and cash equivalents (assets)	238,173	238,173	-	343,585	343,585	-
	16,050,632	16,529,917	479,285	16,031,042	15,490,532	-540,510
<b>Financial liabilities</b>						
Debt securities	10,370,684	10,757,359	386,675	9,341,332	9,466,978	125,646
Loans and credit facilities from third parties	5,080,261	4,509,230	-571,031	5,888,595	5,840,325	-48,270
Loans from group entities	113,492	113,492	-	100,111	100,111	-
Amounts owed on purchased debt securities	280,000	280,000	-	480,000	480,000	-
Derivative financial instruments	83,872	83,872	-	48,673	48,673	-
	15,928,309	15,743,953	-184,356	15,858,711	15,936,087	77,376

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

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

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

The fair value of EDP Finance BV financial assets and liabilities, in 2012 and 2013, is included in Level 2, described above.

## 24. SUBSEQUENT EVENTS

### EDP issues U.S.\$ 750,000,000 of notes

On 7 of January 2014, EDP Finance launched and priced an offering of a total of U.S.\$ 750,000,000 of Rule 144A and Regulation S notes, maturing in January 2021 with a coupon of 5.25%.

The Notes will be issued under EDP and EDP Finance B.V.'s Programme for the Issuance of Debt Instruments (MTN), and an application will be made for the Notes to be admitted to official listing on the Irish Stock Exchange.

The proceeds of the offering will be used to fund EDP's general corporate purposes.

Morgan Stanley, RBS, Société Générale Corporate & Investment Banking, UBS Investment Bank and Espírito Santo Investment Bank acted as Joint Lead Managers on the transaction.

## 25. RECENT ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED

The new standards and interpretations that have been issued and are already effective and the Company has applied on its financial statements can be analysed as follows:

### IFRS 7 (Amendment) - Financial instruments: Disclosures for offsetting of financial assets and financial liabilities

The International Accounting Standards Board (IASB), issued in December 2011, the IFRS 7 (Amendment) - Financial instruments: Disclosures for offsetting of financial assets and financial liabilities, with effective application date to years beginning on or after 1 January 2013, early adoption being allowed.

The amendment will require disclosures to include information that will allow the evaluation of the effect or potential effect of netting arrangements, including rights of set-off associated with recognition of financial assets and financial liabilities on the financial position of the company.

No significant impact in the Company's disclosures resulted from the adoption of this amendment.

### IFRS 13 - Fair value measurement

The International Accounting Standards Board (IASB), issued in May 2011, the IFRS 13 - Fair value measurement, with effective application date to years beginning on or after 1 January 2013, early adoption being allowed.

This standard defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. However, does not include requirements on when fair value measurement is required and it prescribes how fair value is to be measured if another standard requires it.

No significant impact in the Company resulted from the adoption of this standard.

#### **IAS 1 (Amendment) - Presentation of items of other comprehensive income**

The International Accounting Standards Board (IASB), issued in June 2011, the IAS 1 (Amendment) - Presentation of items of other comprehensive income, with effective application date to years beginning on or after 1 July 2012, early adoption being allowed.

The amendment requires the following issues:

- Option to present profit or loss and other comprehensive income in either a single continuous statement or in two separate but consecutive statements;
- Items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss;
- Tax on items of other comprehensive income is required to be allocated on the same basis.

No significant impact in the Company resulted from the adoption of this amendment.

#### **Annual Improvement Project (2009-2011)**

In May 2012, IASB published the Annual Improvement Project that implied changes to the standards in force. However, the effective date of the referred changes is 1 January 2013, being early adoption allowed.

- Amendment to IAS 1 - Presentation of Financial Statements. This change clarifies the difference between voluntary additional comparative information and the minimum required comparative information in cases of retrospective statements, reclassifications and changes in accounting policies. Generally, the minimum required comparative information is the previous period.

No significant impact in the Company resulted from the adoption of this amendment.

- Amendment to IAS 32 - Financial Instruments: Presentation. The amendment clarifies that income taxes arising from distributions to equity holders are accounted in accordance with IAS 12 Income taxes.

No significant impact in the Company resulted from the adoption of this amendment.

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

A number of new standards, amendments to existing standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in these financial statements. The Company does not plan to adopt these standards early.

#### **IFRS 9 - Financial instruments**

The International Accounting Standards Board (IASB) issued in November 2009, IFRS 9 - Financial instruments part I: Classification and measurement, with effective date of mandatory application for periods beginning on or after 1 January 2015, being allowed its early adoption. This standard has not yet been endorsed by the European Union.

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

- The financial assets can be classified in two categories: at amortised cost or at fair value. This decision will be made upon the initial recognition of the financial assets. Its classification depends on how the entity presents these financial assets and the contractual cash flows associated to each financial asset in the business;
- Debt instruments model can be measured at amortised cost when the contractual cash-flows represent only principal and interest payments, which means that it contains only basic loan features, and for which an entity holds the asset to collect the contractual cash flows. All the other debt instruments are recognised at fair value;
- Equity instruments issued by third parties are recognised at fair value with subsequent changes recognised in the profit and loss. However an entity could irrevocably elect equity instruments at initial recognition for which fair value changes and the realised gain or loss are recognised in fair value reserves. Gains and losses recognised in fair value reserves cannot be recycled to profit and loss. This is a discretionary decision, and does not imply that all the equity instruments should be treated on this basis. The dividends received are recognised as income for the year.

The Company is evaluating the impact of adopting this standard after endorsement by the EU.

#### **IAS 32 (Amendment) - Offsetting financial assets and financial liabilities**

The International Accounting Standards Board (IASB), issued in December 2011, the IAS 32 (Amendment) - Offsetting financial assets and financial liabilities, with effective application date to years beginning on or after 1 January 2014, early adoption being allowed.

The amendment clarifies: (i) criterion that an entity "currently has a legally enforceable right to set off the recognised amounts"; and (ii) criterion that an entity "intends to settle on a net basis, or to realised the asset and settle the liability simultaneously.

No significant impact in the Company resulted from the adoption of this standard is expected.



**IAS 36 (Amended) - Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets**

The International Accounting Standards Board (IASB) issued in May 2013, IAS 36 (Amended) Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets, with effective date of mandatory application for periods beginning on or after 1 January 2014, being allowed its early adoption.

This amendment remove the requirement to disclose recoverable amounts when there was been no impairment or reversal of impairment. When an impairment is recognised or reversed and recoverable amount is based on fair value less costs of disposal, should be disclosed the following:

- the level of the IFRS 13 fair value hierarchy within which the fair value measurement of the asset or cash-generating unit has been determined;
- for fair value measurements at level 2 or 3 of the fair value hierarchy: (ii) a description of the valuation techniques used and any changes in that valuation technique; and
- (iii) key assumptions used in the measurement of fair value, including the discount rate(s) used in the current measurement and previous measure if fair value less costs of disposal is measured using a present value technique.

No significant impact in the Company is expected from the adoption of this amendment.

**IAS 39 (Amended) -Financial Instruments: Novation of Derivatives and Continuation of Hedge Accounting**

The International Accounting Standards Board (IASB) issued in June 2013, IAS 39 (Amended) -Financial Instruments: Novation of Derivatives and Continuation of Hedge Accounting, with effective date of mandatory application for periods beginning on or after 1 January 2014, being allowed its early adoption.

This amendment clarifies that the novation of a hedging instrument should not be considered an expiration or termination resulting of the discontinuation of hedge accounting when is novated:

- as a consequence of laws and regulations, or the introduction of laws and regulations, one or more clearing counterparties replace the original counterparty; and
- and any changes in terms of the novated derivative are limited to those necessary to effect the replacement of the counterparty (for example: changes in all collateral requirements, rights to offset receivables and payables balances and charges levied).

Any changes to the derivative's fair value arising from the novation would be reflected in its measurement and therefore in the measurement and assessment of hedge effectiveness.

No significant impact in the Company is expected from the adoption of this amendment.

**Annual Improvement Project (2010-2012)**

- Amendment to IFRS 13 - Fair Value Measurement. This amendment clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

No significant impact in the Company is expected from the adoption of this amendment.

- Amendment to IAS 24 - Related Party: Disclosures. The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

No significant impact on the financial statement disclosures in the Company, is expected from the adoption of this amendment.

**Annual Improvement Project (2011-2013)**

- Amendment to IFRS 13 - Fair Value Measurement. This amendment clarifies that the scope of the portfolio exception includes all contracts accounted for within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32.

No significant impact in the Company is expected from the adoption of this amendment.

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Amsterdam, 27 February 2014

The Managing Directors

EDP — Energias de Portugal, S.A.

Burg, J. C. W. van.

Gortzen, M. M.

TMF Netherlands B.V.



## EDP FINANCE BV

### OTHER INFORMATION

#### Statutory provisions concerning appropriation of results

Subject to the provision under Dutch law that no dividends can be declared until all losses have been recovered, retained earnings are at the disposal of the shareholders in accordance with article 20 of the Articles of Association of the company.

Furthermore, Dutch law prescribes that a company may take distributions to the shareholders and other persons entitled to distributable profits only to the extent that is shareholders' equity exceeds the sum of the amount of the paid and called up part of the capital and the reserves which must be maintained under the law or the articles.

#### Proposed appropriation of result

The Managing Directors proposes to add the loss for the financial year ended 31 December 2013 in the amount of EUR 9,495,093.13 to the accumulated results.



## **Independent auditor's report**

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

### **Report on the financial statements**

We have audited the accompanying financial statements 2013 of EDP Finance B.V., Amsterdam, which comprise the company statement of financial position as at 31 December 2013, the company statements of comprehensive income, cash flows and changes in equity for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information.

### ***Management's responsibility***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Report of Managing Directors in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements give a true and fair view of the financial position of EDP Finance B.V. as at 31 December 2013 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 and with Part 9 of Book 2 of the Netherlands Civil Code.

**Report on other legal and regulatory requirements**

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the Report of Managing Directors, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the Report of Managing Directors, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 27 February 2014

KPMG Accountants N.V.

L.H.A.Kreuze RA