EDP Finance B.V.

Annual Report

31 December 2018

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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;

3. That the managing director's report gives a true and fair review of the development and the performance of the business of EDP Finance B.V. during the financial year to which the report relates.

Amsterdam, 11 March 2019

The Managing Directors

EDP – Energias de Portugal, S.A.

de Kanter, H. P.

Nagelmaker, A. G. M.

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 31st December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

General

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

Activities

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

Results

During the year ended 31st December 2018, the Company recorded a loss of EUR 13.6 million.

The decrease in results during 2018 is essentially due to the decrease on the average interest rate of assets (resulting mostly from long-term assets that matured during 2018 and were replaced by other assets with lower rates as per improved market conditions) that was greater than the YoY decrease on the average interest rate of debt (resulting from refinancing transactions conducted in recent years).

Major Developments

In March 2018, EDP Finance B.V. prepaid and cancelled a Syndicated Loan of EUR 2,000 million that was due to mature in February 2020 and which consisted of a Term Loan (fully disbursed) of EUR 1,500 million and a Revolving Credit Facility (RCF) of EUR 500 million (undrawn). On the same date, EDP signed a syndicated RCF of EUR 2,240 million with a term of 5 years, extendable for an additional 2 years, subject to the authorization of each bank in the Syndicate.

In September, the Company exercised the option to extend to October 2023 the EUR 3,300 million RCF, having received approval from all Banks in the Syndicate. The RCF remained undrawn during the year, as per its role of back-up Facility.

During 2018, EDP Finance B.V. issued two Eurobonds, 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 5): in June, a long Seven-Year EUR 750 million Eurobond; in October, a Seven-Year EUR 600 million Greenbond, with Use of Proceeds in line with EDP Group Green Bond Framework.

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

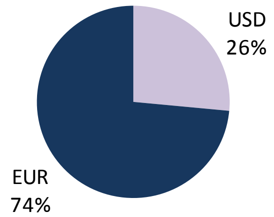
In 2018, EDP Finance B.V.’s (nominal) debt totaled EUR 13,314 million. When compared to December 2017, the company’s debt decreased by nearly EUR 1,942 million, mostly due to the repayment of debt that matured in 2018, in addition to the debt that was early repaid during the year.

Debt - EDP Finance B.V. EUR millions

	Dec 2018	Dec 2017	Change
Debt - Short term	**2,660**	**2,871**	**-7%**
Bonds	1,689	940	80%
Bank loans	400	30	1234%
Intercompany loans	571	1,901	-70%
Debt - Long term	**10,652**	**12,385**	**-14%**
Bonds	10,271	10,443	-2%
Bank loans	381	1,942	-80%
Nominal debt	**13,312**	**15,257**	**-13%**
Interest accrued	209	223	-6%
Fair value hedge adjustments	62	81	-23%
Debt under IFRSs	**13,583**	**15,560**	**-13%**

In terms of currencies of EDP Finance B.V. external debt, the USD financing contracted to fund the purchase and capex of EDP Renewables North America justifies the Company's USD denominated debt (26% of EDP Finance B.V.'s debt). The Euro continues to be the main funding currency of the Company's debt (74%).

Debt by currency



Rating

In December 2018, Fitch Ratings ("Fitch") affirmed EDP S.A. and the Company's long-term rating at "BBB-" and its outlook as Stable.

Ratings by Moody's and S&P also remained unaltered at Baa3 and BBB-, respectively, both with Stable Outlook.

Risk Management

Please see Note 5 of the Notes to the Financial Statements.

Headcount

As at 31 December 2018 and 2017, the Company has one employee.

Management Board

As a general guidance for Dutch public limited companies, in accordance with art. 166, Title 4, Book 2 Dutch Civil Code, certain major companies must aim for a balanced distribution between men and women with respect to their positions on the Management Board. During 2018, the Company's Board included a woman, who resigned in April 2018, and, indirectly, two more women who are members of the Board of EDP SA, a Managing Director of the Company. The Company appoints directors based on quality over gender and will continue to ensure the diversity in the Board of Management through their experience, expertise, background and qualifications in order to comply with their responsibilities and properly execute their duties keeping in mind, nevertheless, the guidance of the Dutch Civil Code in future appointments of Managing Directors.

Expectations for 2019

Given the cash flow generated by the Group as well as the available liquidity, the Company's refinancing needs are covered beyond 2020. The Company expects to continue its normal course of business in 2019, raising funding in the international loan and capital markets so as to refinance debt that matures as well as to provide the necessary funding to EDP Group companies.

Audit Committee

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

Luís Filipe Marques Amado: President

João Carvalho das Neves: Vice-President

Clementina Maria Dâmaso de Jesus Silva Barroso: Member

Maria del Carmen Rozado: Member

Maria Celeste Ferreira Lopes Cardona: Member

Amsterdam, 11 March 2019

The Managing Directors:

EDP Energias de Portugal, S.A.

de Kanter, H. P.

Nagelmaker, A. G. M.

TMF Netherlands B.V.

EDP Finance B.V.

Financial Statements

31 December 2018

EDP Finance B.V.

Company Income Statement
for the years ended 31 December 2018 and 2017

Thousand Euros	Notes	2018	2017
Interest income			
Amortized cost	7	335,945	466,932
Fair value through profit or loss	7	99,199	108,577
Interest expenses			
Amortized cost	7	-423,840	-497,224
Fair value through profit or loss	7	-51,788	-54,710
Net interest (expenses) / income		-40,484	23,575
Net other financial income and expenses	8	24,140	2,442
Net financial (expenses) / income		-16,344	26,017
Other operating (expenses) / income			
Services rendered	9	800	1,003
Supplies and services	10	-2,584	-2,197
Personnel costs		-35	-34
(Loss) / Profit before income tax		-18,163	24,789
Income tax (benefit) / expense	11	4,521	-6,187
Net (loss) / profit for the year		-13,642	18,602

EDP Finance B.V.

Company Statement of Other Comprehensive Income for the years ended 31 December 2018 and 2017

Thousand Euros	2018	2017
Net (loss) / profit for the year	-13,642	18,602
Items that are or may be reclassified to profit or loss		
Cash flow hedge reserve	-50	-846
Tax effect from the cash flow hedge reserve	13	212
Other comprehensive income for the year (net of income tax)	-37	-634
Total comprehensive income for the year	-13,679	17,968

EDP Finance B.V.

Company Statement of Financial Position as at 31 December 2018 and 2017
(before proposed appropriation of profit)

Thousand Euros	Notes	2018	2017
Assets			
Loans to and receivables from group entities	12	10,684,127	5,960,631
Derivative financial instruments	20	146,051	77,410
Deferred tax assets	13	772	-
Total Non-Current Assets		10,830,950	6,038,041
Loans to and receivables from group entities	12	2,592,033	9,466,291
Derivative financial instruments	20	65,328	65,863
Debtors and other assets		3,095	2,870
Tax receivable		9,652	5,049
Cash and cash equivalents	14	432,703	301,738
Total Current Assets		3,102,811	9,841,811
Total Assets		13,933,761	15,879,852
Equity			
Share capital	15	2,000	2,000
Share premium	15	11,980	11,980
Reserves and retained earnings	16	125,508	106,943
(Loss) / profit for the year		-13,642	18,602
Total Equity		125,846	139,525
Liabilities			
Debt securities	17	10,331,930	10,522,529
Loans and credit facilities from third parties	17	381,030	1,942,285
Derivative financial instruments	20	21,590	45,738
Total Non-Current Liabilities		10,734,550	12,510,552
Debt securities	17	1,896,712	1,160,475
Loans and credit facilities from third parties	17	401,872	34,207
Loans from group entities	18	571,452	1,900,641
Amounts owed on commercial paper	19	150,000	115,000
Derivative financial instruments	20	52,173	12,615
Trade and other payables		1,096	2,987
Tax payable		60	3,850
Total Current Liabilities		3,073,365	3,229,775
Total Liabilities		13,807,915	15,740,327
Total Equity and Liabilities		13,933,761	15,879,852

EDP Finance B.V.

Company Statement of Changes in Equity for the years ended 31 December 2018 and 2017

Thousand Euros	Total Equity	Share capital	Share premium	Cash flow hedge reserve	Retained earnings	Profit for the year
Balance as at 1 January 2017	**121,557**	**2,000**	**11,980**	**671**	**83,059**	**23,847**
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
Balance as at 31 December 2017	**139,525**	**2,000**	**11,980**	**37**	**106,906**	**18,602**
Impact of IFRS 9 adoption	-	-	-	-	-	-
Balance as at 1 January 2018	**139,525**	**2,000**	**11,980**	**37**	**106,906**	**18,602**
Prior year profit	-	-	-	-	18,602	-18,602
Comprehensive income:						
Net loss for the year	-13,642	-	-	-	-	-13,642
Changes in the cash flow hedge reserve net of taxes	-37	-	-	-37	-	-
Total comprehensive income for the year	-13,679	-	-	-37	-	-13,642
Balance as at 31 December 2018	**125,846**	**2,000**	**11,980**	**-**	**125,508**	**-13,642**

EDP Finance B.V.

Company Statement of Cash Flows for the years ended 31 December 2018 and 2017

Thousand Euros	2018	2017
Cash flows from operating activities		
(Loss) / Profit for the year	-13,642	18,602
Adjustments for:		
Net interest income / (expenses)	40,484	-23,575
Net other financial income and expenses	-38,617	-26,297
Tax (expense) / income	-4,521	6,187
	-16,296	-25,083
Changes in:		
Loans to and receivables from group entities	-1,197,120	265,787
Debtors and other assets	-3,169	-2,740
Amounts owed on commercial paper	35,000	30,000
Loans from group entities	2,247,968	-356,250
Trade and other payables	1,051	2,932
	1,067,434	-85,354
Interest received	329,794	313,821
Interest paid	-443,374	-490,412
Tax received	-4,724	25
Net cash generated from / (used in) operating activities	949,130	-261,920
Cash flows from financing activities (*)		
Proceeds from issued debt securities	1,339,125	1,972,896
Redemption of debt securities	-910,897	-1,081,547
Proceeds of loans and credit facilities from third parties	-1,222,828	-350,000
Redemption of loans and credit facilities from third parties	-	-209,950
Net cash flow (used in) / generated from financing activities	-794,600	331,399
Net increase / (decrease) in cash and cash equivalents	154,530	69,479
Cash and cash equivalents at the beginning of the year	301,738	219,037
Effect of exchange rate fluctuations on cash and cash equivalents held	-23,565	13,222
Cash and cash equivalents at the end of the year (**)	432,703	301,738

(*) 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 17 to the Financial Statements.
(**) See details of "Cash and cash equivalents" in note 14 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.

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 5)

As at 31 December 2018 and 2017, the Company has one employee, working in The Netherlands.

The financial statements only comprise 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 7 March 2019.

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 2018 and 2017.

As described in note 3, the Company adopted in the preparation of the financial statements as at 31 December 2018, the accounting standards issued by IASB and IFRIC interpretations effective since 1 January 2018. 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 4 (Critical accounting estimates and judgments in preparing the financial statements).

The financial statements have been prepared on a going concern basis and under the historical cost convention, modified by the application of the fair value accounting to derivative financial instruments and financial assets and liabilities at fair value through profit or loss. Assets and liabilities that are hedged under hedge accounting are stated at fair value in respect of the hedged risk.

Accounting policies have been applied consistently in all years presented in 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 income statement.

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 2018 and 2017:

Currency		2018 Closing rates	2017 Closing rates
Dollar	USD	1.145	1.199
Pound Sterling	GBP	0.895	0.887
Swiss Franc	CHF	1.127	1.170
Japanese Yen	JPY	125.850	135.010

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.

As permitted by IFRS 9, EDP Finance BV decided to continue to apply the hedge accounting requirements of IAS 39 in 2018, instead of the requirements of IFRS 9.

For 2019, after an assessment performed during this year, the Company has changed the accounting perspective and will apply prospectively the hedge accounting requirements in IFRS 9 as from 1 January 2019. As at 31 December 2018, EDP Finance BV expects no significant impacts on its statement of financial position and equity, resulting from the adoption of the hedge accounting requirements of IFRS 9.

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 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 year;
(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

IFRS 9 introduced a model for the classification of financial assets based on the business model for managing the financial assets ("business model test") and their contractual cash flow characteristics ("SPPI test"), replacing prior requirements which determined the classification in the categories present in IAS 39.

EDP Finance B.V. classifies its financial assets, at initial recognition, in accordance with the aforementioned requirements introduced by IFRS 9, on the following categories:

Financial assets at amortised cost

A financial asset is measured at amortised cost if: (i) it is held within a business model whose objective is to hold assets in order to collect its contractual cash flows; and (ii) the contractual cash flows represent solely payments of principal and interest. Financial assets included within this category are initially recognised at fair value and subsequently measured at amortised cost. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

All of the Company's Loans and Debt Securities are measured at amortised cost, since all are held to collect the contractual cash flows, and these represent solely payments of principal and interest.

Financial assets at fair value through other comprehensive income (FVOCI)

A financial asset is measured at fair value through other comprehensive income if: (i) the objective of the business model is achieved by both collecting contractual cash flows and selling financial assets; and (ii) the asset's contractual cash flows represent solely payments of principal and interest. Financial assets included within this category are initially recognised and subsequently measured at fair value, with the changes in the carrying amount booked in other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that do not meet the criteria to be classified under the previously referred categories, are classified at fair value through profit or loss, deemed to be a residual category under IFRS 9.

Regardless of the business model assessment, EDP Finance B.V. can elect to classify a financial asset at fair value through profit or loss if doing so reduces or eliminates a measurement or recognition inconsistency ("accounting mismatch")

Changes in the business model assessment over time

Financial assets are not reclassified subsequent to their initial recognition. However, if the Company changes its business model for managing financial assets, it will classify newly originated or newly purchased financial assets under the new business model, but will keep the classification of existing assets under the old business model.

Recognition and derecognition of financial assets

Purchases and sales of financial assets are recognised on the trade date, which is the date on which the Company commits to purchase or sell these financial assets.

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

Until 1 January 2018, at each statement of financial position date an assessment was 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.

IFRS 9 establishes a new impairment model based on the expected credit losses (ECL), which replaces the previous impairment model based on the incurred credit losses set out in IAS 39. Thus, a loss event will no longer need to occur before the recognition of an impairment allowance. This model is the basis for the recognition of impairment losses on held financial assets that are measured at amortised cost or at fair value through other comprehensive income (which includes cash and cash equivalents, trade receivables, loans and debt securities).

The impairment methodology applied depends on whether there has been a significant increase in credit risk. If the credit risk on a financial asset does not increase significantly since its initial recognition, EDP Finance B.V. measures the loss allowance for that financial asset at an amount equal to 12-month expected credit losses. If the credit risk increases significantly since its initial recognition, EDP Finance B.V. measures the loss allowance for that financial asset at an amount equal to lifetime expected credit losses.

Regardless of the above, a significant increase in credit risk is presumed if there is an objective evidence that the financial asset is impaired, including if there is 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 in terms that it would not consider otherwise; a breach of contract, such as a default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

As soon as the loss event occurs (what was previously defined in IAS 39 as "objective evidence of impairment"), the impairment allowance would be allocated directly to the financial asset affected, which provides the same accounting treatment, from that point, as previously by IAS 39, including the treatment of interest revenue. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent year, 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

Credit risk on other receivables has no significant financing component, so the loss allowance is measured at initial recognition and throughout the life of the receivable, by the simplified approach, at an amount equal to lifetime ECL, which is not significant. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, no significant impairment loss was identified

From 1 January 2018, EDP Finance B.V. assesses the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. On making its assessment, the Company has to make assumptions about risk of default and expected loss rates, which requires judgement. The inputs used for risk assessment and for calculation of the loss allowances for financial assets include: (i) credit ratings (as far as available) from external credit rating companies such as Standard and Poor, Moody's and Fitch; (ii) significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower; (iii) Public market data, namely on probabilities of default and loss given default expectations; (iv) Internal credit risk assessments on the credit profiles of EDP Group subsidiaries; and (v) macroeconomic information (such as market interest rates or growth rates).

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) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest rate includes 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 years.

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 (including accrued interest of trading derivatives) and changes in the fair value of the hedged items (including the ineffective portion).

i) Other operating income and expenses

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 Other assets or other liabilities.

j) 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 cash flow hedge derivatives recognised in equity are recognised in the income statement in the year the results that originated the deferred taxes are recognised.

Current tax is the tax expected to be paid on the taxable income for the year, 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

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. RECENT ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED

Standards, amendments and interpretations issued effective for the Company

The amendments to standards already issued and effective and that the EDP Finance, B.V. applied in the preparation of its financial statements, can be analysed as follows:

- IFRS 9 - Financial Instruments

IFRS 9 was endorsed by European Commission Regulation 2067/2016, on 22 November 2016, with an effective date of adoption for years beginning on or after 1 January 2018, with early adoption permitted. Except for hedge accounting, retrospective application is required but the restatement of comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

IFRS 9 brings together all five aspects of the accounting for financial instruments: recognition, classification and measurement, impairment of financial assets, hedge accounting and derecognition.

EDP Finance B.V. has adopted the new standard on the required effective date and has not restated comparative information, as provided by IFRS 9. As permitted by IFRS 9, the Company decided to continue to apply the hedge accounting requirements of IAS 39 in 2018, instead of the requirements of IFRS 9. Despite this, EDP Finance B.V. has performed an assessment during this year and has changed its accounting perspective. Accordingly, the Company has decided to apply prospectively the hedge accounting requirements of IFRS 9 for years beginning on 1 January 2019. As at 31 December 2018, EDP Finance B.V. expects no significant impacts on its statement of financial position and equity, resulting from the adoption of the hedge accounting requirements of IFRS 9

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, there are no classification changes regardless the new requirements provided by IFRS 9 and the Company has concluded that there are no significant quantitative impacts resulting from the adoption of this standard

- IFRS 15 - Revenue from Contracts with Customers (object of clarification issued on 12 April 2016)

The International Accounting Standards Board (IASB) issued, on 28 May 2014, IFRS 15 Revenue from Contracts with Costumers, which was changed in April 2016 and was endorsed by EU Commission Regulation 1905/2016, of 22 September 2016. This standard replaces existing revenue recognition guidance and is effective for years beginning on or after 1 January 2018, with early application permitted.

The new standard presents the principles that shall be applied by an entity in order to provide more useful information to users of financial statements about the nature, amount, term and uncertainty of revenue and cash flows arising from a contract with a customer. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, as provided in the 5 steps methodology, namely: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to performance obligations; and (v) recognise revenue when (or as) the entity satisfies a performance obligation.

EDP Finance B.V. has analised the changes resulting from the adoption of IFRS 15 in order to assess qualitative and quantitative impacts. Accordingly, the Company has concluded that there no impacts resulting from the adoption of this standard.

The new standards that have been issued and that are already effective and that the EDP Finance, B.V. has applied on its financial statements, with no significant impacts are the following:

- IFRIC 22 - Foreign Currency Transactions and Advance Payments;
- IFRS 2 (Amended) - Classification and Measurement of Share-based Payment Transactions;
- IAS 40 (Amended) - Transfers of Investment Property;
- IFRS 4 (Amended) - Applying IFRS 9 - Financial Instruments with IFRS 4 - Insurance Contracts; and
- "Annual Improvement Project (2014-2016)".

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

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 bellow.

- IFRS 16 - Leases

  The International Accounting Standards Board (IASB) issued, in January 2016, IFRS 16 - Leases, with effective date of mandatory application for years beginning on or after 1 January 2019, with earlier adoption permitted for entities that have also adopted IFRS 15 - Revenue from Contracts with Customers. A Company is permitted to adopt the standard retrospectively or follow a modified retrospective approach, under which it does not restate comparative information.

  This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and supersedes IAS 17 - Leases and its associated interpretative guidance. The objective is to ensure that lessees and lessors provide relevant information to the users of financial statements, namely about the effect that leases have on the financial position, financial performance and cash flows of the entity.

  EDP Finance B.V. will adopt the new standard on the required effective date in accordance with the modified retrospective transition approach, without adjusments to opening balance nor restatement of comparative information.

  During 2018, EDP Finance B.V. has performed an assessment of the impact on all the aspects of IFRS 16. Based on the analysis performed, the Company has not identified any contract that are under this Standard, thus it does not expect any impacts on its financial statements.

The standards, amendments and interpretations issued but not yet effective for the Company (whose effective application date has not yet occurred or, despite their effective dates of application, they have not yet been endorsed by the UE) with no estimated significant impact are the following:

- IFRS 9 (Amended) - Amendments to IFRS 9: Prepayment Features with Negative Compensation;
- IFRS 17 - Insurance Contracts;
- IAS 28 (Amended) - Long-term Interests in Associates and Joint Ventures;
- IFRIC 23 - Uncertainty over Income Tax Treatments;
- "Annual Improvement Project (2015-2017)";
- IAS 19 (Amended) - Plan Amendment, Curtailment or Settlement;
- Amendments to References to the Conceptual Framework in IFRS;
- IFRS 3 (Amended) - Definition of a business; and
- IAS 1 (Amended) and IAS 8 (Amended) - Definition of material.

4. 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 aspects, 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 22).

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 accounting estimate (see note 2 d)).

For 2018, no impairment loss was recognised.

5. 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 has an overall low risk appetite and therefore aims to minimise 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, measured and controlled, 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 status of 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.

The Board of Directors of the Company is made aware of the exposure to the different risks on an ongoing basis and considers that the existing risk management policies and controls are appropriate to achieve the desired mitigation and low risk exposure

Exchange-rate risk management

EDP Finance B.V. has very low appetite to exchange-rate risk. The Company is exposed to exchange rate risk through its debt denominated in US Dollars (USD), British Pounds (GBP) and Japanese Yen (JPY). The Group's objective is to maintain a matched position between assets and liabilities in each currency un order to mitigate balance sheet exposure to foreign exchange risks. Any residual exposure is closely monitored and hedged with derivatives instruments, hence not generating relevant net exchange gains nor 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 issued to hedge the EDP Group investments in the USA. EDP Finance B.V. issued USD loans and debt securities (bonds) as well as executed 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 and JPY bonds issued under the Medium Term Notes Program has also 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. Such instruments and structures have critical terms similar to those of the hedged asset or liability. The operations are revalued and monitored throughout their lives and, periodically, their effectiveness in controlling and hedging the risk that gave rise to them is duly assessed.

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

EDP Finance B.V. has moderate appetite to interest-rate risk. The Company's interest rate risk management policy aim is to reduce exposure to interest rate changes which may affect the value of financial instruments, namely debt. EDP Finance BV mitigates this risk by maintaining an aligned fixed-floating ratio between its assets and liabilities and also through the use 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.

As the Company provides funding to different Group Companies according to their requirements (timing, amounts and tenor) and raises funding from the market according to refinancing needs and market conditions (timing, tenor and spread wise), interest rates applied to assets and liabilities may differ. The Company tries to manage such risk by refinancing its debt under the best possible conditions the market allows, extending the average life of its debt portfolio and lending to Group companies according to arms-length principles.

Sensitivity analysis - Interest rates

Based on the financial instruments with exposure to interest rate risk as at 31 December 2018 and 2017, 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.:

	Dec 2018			
	Results		Equity	
Thousand Euros	50 bp increase	50 bp decrease	50 bp increase	50 bp decrease
Assets				
Cash flow effect:				
Unhedged loans	23,950	-23,950	-	-
	23,950	-23,950	-	-
Liabilities				
Cash flow effect:				
Hedged debt	-14,052	14,052	-	-
Unhedged debt	-7,241	7,241	-	-
	-21,293	21,293	-	-
Fair value effect:				
Trading derivatives (accounting perspective)	-2,222	1,406	-	-
	-2,222	1,406	-	-
	-23,515	22,699	-	-

	Dec 2017			
	Results		Equity	
Thousand Euros	50 bp increase	50 bp decrease	50 bp increase	50 bp decrease
Assets				
Cash flow effect:				
Unhedged loans	42,141	-42,141	-	-
	42,141	-42,141	-	-
Liabilities				
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	-	-

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

Counterparty credit risk management

The Company has a low risk appetite for counterparty risk. 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, external to EDP Group, 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 2018 and 2017, 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 2018 and 31 December 2017 no past due nor impairment triggers were identified with respect to loans issued to group companies. EDP – Energias de Portugal, S.A. is rated Baa3/BBB-/BBB- by Moody's/S&P/Fitch, reflecting a low credit risk.

The maximum credit exposure equals the amount of total assets deducted by tax receivable as per 31 December 2018 and 31 December 2017 being 13.9 billion Euros and 15.9 billion Euros, respectively.

Liquidity risk management

The Company has a very low appetite for liquidity risk. Liquidity risk is managed by engaging and maintaining credit lines and financing facilities with a firm underwriting commitment with international financial institutions with sound credit ratings, as well as term deposits, allowing immediate access to funds and covering refinancing needs for the next 12 to 18 months. 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 14 and 17).

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.

6. 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 7.

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, 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.

7. INTEREST INCOME AND EXPENSES

Interest income and expenses are analysed as follows:

Thousand Euros	Dec 2018	Dec 2017
Interest income		
Amortized cost		
Loans and receivables to group entities	335,562	465,009
Interest income from term deposits (Note 14)	383	1,923
Fair value through profit or loss		
Derivative financial instruments	99,199	108,577
	435,144	575,509
Interest expenses		
Amortized cost		
Bank loans	28,420	47,352
Medium term notes	395,420	449,872
Fair value through profit or loss		
Derivative financial instruments	51,788	54,710
	475,628	551,934

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

Thousand Euros	Dec 2018	Dec 2017
Portugal	212,667	241,783
Spain	122,895	223,226
	335,562	465,009

8. NET OTHER FINANCIAL INCOME AND EXPENSES

Net other financial income and expenses are analysed as follows:

Thousand Euros	Dec 2018	Dec 2017
Other financial income		
Derivative financial instruments - Trading	183,062	50,442
Hedge ineffectiveness (see note 20)	5,687	5,752
	188,749	56,194
Other financial expenses		
Derivative financial instruments - Trading	78,595	52,985
Foreign exchange losses	85,985	493
Other	29	274
	164,609	53,752
	24,140	2,442

As mentioned in note 5, the amounts recorded in the P&L on foreign exchange gains or losses are partially off-set by the exchange gains or losses recorded in other P&L captions due to the different natures of the items denominated in foreign currencies, mainly by the mark-to-market of the derivatives. The remaining amount results from the net interest of new cross currency interest rate swaps with Group companies entered by the Company during 2018.

9. SERVICES RENDERED

Services rendered are analysed as follows:

Thousand Euros	Dec 2018	Dec 2017
Debt portfolio management	800	1,003
	800	1,003

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

10. SUPPLIES AND SERVICES

Supplies and services are analysed as follows:

Thousand Euros	Dec 2018	Dec 2017
EDP, S.A. Services	1,005	1,206
Specialised works - Consulting services	645	376
Specialised works - Legal services	551	316
Other	383	299
	2,584	2,197

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.

11. INCOME TAX (BENEFIT) / EXPENSE

This caption is analysed as follows:

Thousand Euros	Dec 2018	Dec 2017
Tax (benefit) / expense	4,521	-6,187
Profit / (Loss) before income tax	-18,163	24,789
Effective tax rate of the Company	25%	25%

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 (benefit) / expense are the following:

Thousand Euros	Dec 2018	Dec 2017
Current tax (benefit) / expense in the year	4,521	-6,187
	4,521	-6,187

12. LOANS TO AND RECEIVABLES FROM GROUP ENTITIES

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

Thousand Euros	Dec 2018	Dec 2017
Non-Current:		
EDP Energias de Portugal, S.A.	8,850,000	4,350,000
EDP Renováveis Servicios Financieros, S.L.	1,013,864	836,710
EDP, S.A. Sucursal en España	66,297	199,336
EDP Servicios Financieros (España), S.A.	133,000	172,618
EDP Renováveis, S.A.	578,392	365,081
Other	42,574	36,886
	10,684,127	5,960,631
Current:		
EDP Energias de Portugal, S.A.	2,455,629	7,421,896
EDP, S.A. Sucursal en España	27,144	1,561,687
EDP Servicios Financieros (España), S.A.	39,618	167,525
Other	7,050	181,522
Accrued interest	62,592	133,661
	2,592,033	9,466,291
	13,276,160	15,426,922

In 2018 two bonds totalled 4,500 million Euros were issued by EDP Energias de Portugal, S.A., which were fully subscribed by EDP Finance B.V., replacing two existing bond in the same amount at maturity.

The financial assets disclosed in this caption are measured at amortised cost.

As at 31 December 2018, these assets have an average maturity of 3.7 years (31 December 2017: 2.8 years) and bear interest at an average rate of 1.74% (31 December 2017: 2.53%).

For 31 December 2018, the maturity of loans to group entities split in different currencies, is analysed as follows:

Thousand Euros	2019	2020	2021	2022	2023	Following years	Total
Loans to and receivables from group entities:							
Euro	2,567,725	1,079,133	1,512,738	1,500,000	3,000,000	2,000,000	11,659,596
US Dollar	24,308	-	-	-	1,399,082	193,174	1,616,564
	2,592,033	1,079,133	1,512,738	1,500,000	4,399,082	2,193,174	13,276,160

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

Thousand Euros	2018	2019	2020	2021	2022	Following years	Total
Loans to and receivables from group entities:							
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
	9,466,291	179,707	1,079,133	-	1,500,000	3,201,791	15,426,922

Loans to group entities are not collateralised.

13. DEFERRED TAX ASSETS

The deferred tax assets of 772 thousand Euros refers to the tax losses that can be deducted to the taxable income assessed in the following years.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are analysed as follows:

Thousand Euros	Dec 2018	Dec 2017
Bank deposits:		
Current deposits	432,703	151,208
Term deposits	-	150,530
	432,703	301,738

Cash and cash equivalents are freely disposable to be used by the Company. The interest received for the current or term deposits amounts to 383 thousand Euros (31 December 2017: 1,923 thousand Euros) (see note 7).

15. 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 2018 and 2017, no movements occurred in Share capital and Share premium.

16. RESERVES AND RETAINED EARNINGS

This caption is analysed as follows:

Thousand Euros	Dec 2018	Dec 2017
Cash flow hedge reserve	-	37
Retained earnings	125,508	106,906
	125,508	106,943

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 loss for the financial year ended 31 December 2018 of 13,642 thousand Euros to the retained earnings.

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

This caption is analysed as follows:

Thousand Euros	Dec 2018	Dec 2017
Non-Current:		
Debt securities	10,271,263	10,443,355
Fair value of the issued debt hedged risk	60,667	79,174
	10,331,930	10,522,529
Loans and credit facilities from third parties	381,030	1,942,285
	10,712,960	12,464,814
Current:		
Debt securities	1,688,790	940,482
Fair value of the issued debt hedged risk	1,133	1,653
Accrued interest	206,789	218,340
	1,896,712	1,160,475
Loans and credit facilities from third parties	400,000	29,990
Accrued interest	1,872	4,217
	401,872	34,207
	2,298,584	1,194,682
	13,011,544	13,659,496

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 2,240 million Euros for liquidity management needs in US Dollars and Euros, maturing in 2023 and used at 31 December 2018 in the amount of 206 million US Dollars and 50 million Euros. Furthermore, it has a RCF of 3,300 million Euros maturing in 2023 and a RCF of 75,000 thousand Euros maturing in 2019, both totally available at 31 December 2018.

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-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	91,327	XS0433235800
Sep-09	Fixed rate USD 4.90 %	n.a.	n.a.	Oct-19	873,362	XS0454935395
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	655,022	XS1014868779
Apr-14	Fixed rate EUR 2.625% (ii)	Fair Value	IRS	Apr-19	650,000	XS1057345651
Jun-14	Variable rate (iii)	n.a.	n.a.	Jun-19	87,336	XS1074659019
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	655,022	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	873,362	XS1638075488
Nov-17	Fixed rate EUR 1.50%	n.a.	n.a.	Nov-27	500,000	XS1721051495
Jun/18	Fixed rate EUR 1.625%	n.a.	n.a.	Jan-26	750,000	XS1846632104
Oct/18	Fixed rate EUR 1.875%	n.a.	n.a.	Oct/25	600,000	XS1893621026

(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.

For 31 December 2018, 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	2019	2020	2021	2022	2023	Following years	Total
Debt securities							
Euro (i)	803,584	1,064,121	597,301	1,194,152	1,303,905	3,999,963	8,963,026
US Dollar (iii)	1,093,128	653,879	651,697	-	-	866,912	3,265,616
	1,896,712	1,718,000	1,248,998	1,194,152	1,303,905	4,866,875	12,228,642
Loans and credit facilities from							
Euro	401,540	-	-	164,794	36,722	-	603,056
US Dollar	332	-	-	-	179,514	-	179,846
	401,872	-	-	164,794	216,236	-	782,902
	2,298,584	1,718,000	1,248,998	1,358,946	1,520,141	4,866,875	13,011,544

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

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

For 31 December 2018, 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	Dec 2017	Cash Flows	Foreign exchange movement	Fair value changes	Deferred discount	Dec 2018
Debt securities	11,464,664	428,228	116,317	-19,027	31,671	12,021,853
Loans and credit facilities from third parties	1,972,275	-1,222,828	23,738	-	7,845	781,030
	13,436,939	**-794,600**	**140,055**	**-19,027**	**39,516**	**12,802,883**

For 31 December 2017, 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	Dec 2016	Cash Flows	Foreign exchange movement	Fair value changes	Deferred discount	Dec 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
	13,561,163	**331,399**	**-507,923**	**9,614**	**42,686**	**13,436,939**

18. LOANS FROM GROUP ENTITIES

This caption is analysed as follows:

Thousand Euros	Dec 2018	Dec 2017
Current:		
EDP Servicios Financieros (España), S.A.	566,212	1,900,641
Other	5,240	-
	571,452	1,900,641

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

The financial liabilities disclosed in this caption are measured at amortised cost

For 31 December 2018, the changes in Loans from group entities are as follows:

Thousand Euros	Dec 2017	Additions	Repayments	Foreign Exchange Differences	Dec 2018
EDP Servicios Financieros (España), S.A.	1,900,641	5,547,061	-6,867,027	-14,463	566,212
Other	-	24,728	-19,781	293	5,240
	1,900,641	**5,571,789**	**-6,886,808**	**-14,170**	**571,452**

For 31 December 2017, the changes in Loans from group entities are as follows:

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

19. AMOUNTS OWED ON COMMERCIAL PAPER

As at 31 December 2018, this caption refers to a trade of commercial paper of 150,000 thousand Euros which was settled on January 2nd 2019 (31 December 2017: trade of commercial paper of 115,000 thousand Euros which was settled on January 2nd 2018).

20. 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). Derivatives that do not qualify for hedge accounting are recorded under derivatives held for trading.

In 2018 the fair value and the maturity of the derivative financial instruments are analysed as follows

	Fair value		Notional			
Thousand Euros	Assets	Liabilities	Up to 1 year	From 1 to 5 years	Over 5 Years	Total
Fair value hedges						
Interest rate swaps	92,416	-	350,000	1,500,000	600,000	2,450,000
Cross currency interest rate swaps	27,354	-1,593	-	-	410,314	410,314
Derivatives held for trading						
Cross currency interest rate swaps	88,928	-70,975	263,703	2,005,677	250,000	2,519,380
Foreign exchange forwards	2,681	-1,195	988,644	-	-	988,644
	211,379	-73,763	1,602,347	3,505,677	1,260,314	6,368,338

In 2017 the fair value and the maturity of the derivative financial instruments are analysed as follows

	Fair value		Notional			
Thousand Euros	Assets	Liabilities	Up to 1 year	From 1 to 5 years	Over 5 Years	Total
Fair value hedges						
Interest rate swaps	96,117	-1,706	-	1,850,000	600,000	2,450,000
Cross currency interest rate swaps (i)	43,679	-	103,922	-	410,314	514,236
Cash flow hedges						
Cross currency interest rate swaps (i)	3,287	-	103,922	-	-	103,922
Derivatives held for trading						
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 were being used both as Cash flow and Fair value hedges. This CIRS matured in November 2018.

In 2018, the undiscounted cash flow of the derivative financial instruments, per maturity, is as follows:

Thousand Euros	2019	2020	2021	2022	Following years	Total
Fair value hedges						
Interest rate swaps	33,242	28,375	16,521	26,548	15,996	120,682
Cross currency interest rate swaps	15,847	15,741	15,867	15,825	-6,158	57,122
Derivatives held for trading						
Cross currency interest rate swaps	13,158	81,545	42,359	62,898	-49,998	149,962
Foreign exchange forwards	1,486	-	-	-	-	1,486
	63,733	125,661	74,747	105,271	-40,160	329,252

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 22) and no changes of level were made during the year. These entities use generally accepted discounted cash flow techniques and data from public markets.

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

			Thousand Euros 2018 Changes in fair value		2017 Changes in fair value	
Type of hedge	**Hedging instrument**	**Hedged risk**	**Instrument**	**Risk**	**Instrument**	**Risk**
Fair value	Interest rate swap	Interest rate	-1,870	1,897	-34,578	34,523
Fair value	Cross currency interest rate swaps	Interest and exchange rate	-11,471	17,131	49,944	-44,137
Cash flow	Cross currency interest rate swaps	Interest and exchange rate	6,075	-6,125	-10,621	9,775
			-7,266	12,903	4,745	161

Considering that hedging derivative financial instruments are contracted with a high correlation of critical terms, namely in the same currency and at the same indexes, the hedge ratio between the hedging instruments and the hedged instruments is 1:1.

During 2018 and 2017 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 2018 and 2017 were as follows:

Thousand Euros	**Dec 2018**	**Dec 2017**
Balance at the beginning of the year	50	896
Fair value changes	6,075	-10,621
Recycling FX results from cash flow hedge reserve to income statement	-6,125	9,775
Balance at the end of the year	-	50

The gains and losses on the financial instruments portfolio booked in the profit and loss in 2018 and 2017 are as follows:

Thousand Euros	**Dec 2018**	**Dec 2017**
Derivatives held for trading	104,467	-2,543
Fair value hedges:		
Derivatives	-13,341	15,366
Hedged liabilities	19,028	-9,614
Cash flow hedges:		
Recycling FX results from cash flow hedge reserve to income statement	6,125	-9,775
	116,279	-6,566

The effective interest rates of the derivative financial instruments relating to financing operations at 31 December 2018 are as follows

Thousand Euros	**Notional Thousand Euros**	**Currency**	**EDP Pays**	**EDP Receives**
Interest rate contracts				
Interest rate swaps (i)	2,450,000	EUR	[2,88% - -0,27%]	[4,88% - 0,45%]
Currency interest rate				
CIRS (currency interest rate swaps) (ii)	410,314	EUR / GBP	3.67%	8.63%
CIRS (currency interest rate swaps) (iii)	79,460	USD / JPY	6.80%	3.11%
CIRS (currency interest rate swaps) (v)	2,439,920	EUR / USD	[4,32% - -0,32%]	[2,38% - 1,36%]

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

	Notional Thousand Euros	**Currency**	**EDP Pays**	**EDP Receives**
Interest rate contracts				
Interest rate swaps (i)	2,450,000	EUR	[2.87% - -0.27%]	[4.88% - 0.45%]
Currency interest rate				
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%]

(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.

21. 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. fulfils 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 19,360 Euros (2017: 24,488 Euros) with no outstanding balances as at 31 December 2018 and 2017.

Other management services

The charges regarding Other management services amount to 319,347 Euros (2017: 334,241 Euros) with no outstanding balances as at 31 December 2018 and 2017. The Other management services are the consulting provided by TMF Netherlands B.V.

Balances and transactions with related parties

As at 31 December 2018, the outstanding assets with related parties are analysed as follows:

Thousand Euros	Loans Granted	Derivatives	Other assets	Total
EDP - Energias de Portugal, S.A.	11,341,447	92,511	-	11,433,958
EDP Renováveis Servicios Financieros, S.L.	1,031,520	-	-	1,031,520
EDP, S.A. Sucursal en España	93,455	-	2,145	95,600
EDP Servicios Financieros (España), S.A.	174,455	-	212	174,667
EDP Renováveis, S.A.	585,044	88,929	546	674,519
Other	50,239	-	188	50,427
	13,276,160	181,440	3,091	13,460,691

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 Servicios 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

The changes in Loans Granted are analysed as follows:

	Loans Granted	
Thousand Euros	2018	2017
Balance at beginning of the year	15,426,922	14,042,858
Loans advanced	5,789,811	3,284,342
Loan repayments received	-7,955,483	-1,409,523
Interest charged	343,141	433,223
Interest received	-414,210	-436,261
Foreign exchange	85,979	-487,717
Balance at the end of year	13,276,160	15,426,922

As at 31 December 2018, the outstanding liabilities with related parties are analysed as follows:

Thousand Euros	Loans Obtained	Derivatives	Other liabilities	Total
EDP - Energias de Portugal, S.A.	979,267	58,058	151,005	1,188,330
EDP Servicios Financieros (España), S.A.	566,212	1,195	-	567,407
Other	5,240	-	-	5,240
	1,550,719	59,253	151,005	1,760,977

In December 2018, EDP S.A. concluded a "Tender Offer" targeting EDP Finance B.V.'s "2.6250% NOTES DUE APRIL 15, 2019", "4.1250% NOTES DUE JUNE 29, 2020", "4.8750% NOTES DUE SEPTEMBER 14, 2020" and "4.125% NOTES DUE JANUARY 20, 2021", limited to a total value of 500,000 thousand Euros. As a result of the offer, EDP S.A. acquired 98,909 thousand Euros of the "2.6250% NOTES DUE APRIL 15, 2019", 66,628 thousand Euros of the "4.1250% NOTES DUE JUNE 29, 2020", 287,778 thousand Euros of the "4.8750% NOTES DUE SEPTEMBER 14, 2020" and 46,783 thousand Euros of the "4.125% NOTES DUE JANUARY 20, 2021". As at 31 December 2018, this operation totalled 509,251 thousand Euros in EDP Finance B.V. liabilities

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 2018, this operation totalled 443,019 thousand Euros in EDP Finance B.V. liabilities (31 December 2017: 422,960 thousand Euros).

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 2018, this operation totalled 26,997 thousand Euros in EDP Finance B.V. liabilities (31 December 2017: 426,943 thousand Euros).

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

Income and expenses related to transactions with related parties as at 31 December 2018, are as follows:

Thousand Euros	Interest on Intra-Group Financial Mov.	Other	Total
EDP - Energias de Portugal, S.A.	173,683	-1,005	172,678
EDP Servicios Financieros (España), S.A.	32,275	-123	32,152
EDP, S.A. Sucursal en España	34,200	690	34,890
EDP Renováveis, S.A.	156,605	321	156,926
Other	56,915	-88	56,827
	453,678	-205	453,473

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 Servicios 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

Other includes the expenses related with the service agreement with EDP, S.A (see note 10) as well as the services rendered to EDP Group companies (see note 9).

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 5.

22. 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 2018 and 2017 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 2018		31 December 2017	
	Currency		Currency	
	EUR	USD	EUR	USD
3 months	-0.31%	2.81%	-0.37%	1.69%
6 months	-0.24%	2.88%	-0.27%	1.84%
1 year	-0.12%	3.01%	-0.19%	2.11%
2 years	-0.17%	2.66%	-0.15%	2.08%
3 years	-0.07%	2.59%	0.01%	2.17%
4 years	0.06%	2.57%	0.17%	2.21%
5 years	0.20%	2.57%	0.31%	2.24%
6 years	0.34%	2.60%	0.44%	2.28%
7 years	0.47%	2.62%	0.56%	2.31%
8 years	0.59%	2.65%	0.67%	2.34%
9 years	0.71%	2.68%	0.78%	2.37%
10 years	0.81%	2.71%	0.89%	2.40%

Fair value of assets and liabilities as at 31 December 2018 and 31 December 2017 is analysed as follows:

	Dec 2018			Dec 2017		
Thousand Euros	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Financial assets						
Loans and receivables to group entities	13,276,160	13,559,929	283,769	15,426,922	15,509,897	82,975
Derivative financial instruments	211,379	211,379	-	143,273	143,273	-
Cash and cash equivalents (assets)	432,703	432,703	-	301,738	301,738	-
	13,920,242	14,204,011	283,769	15,871,933	15,954,908	82,975
Financial liabilities						
Debt securities	12,228,642	12,787,390	558,748	11,683,004	12,590,664	907,660
Loans and credit facilities from third parties	782,902	797,293	14,391	1,976,492	2,026,640	50,148
Loans from group entities	571,452	571,452	-	1,900,641	1,900,641	-
Amounts owed on purchased debt securities	150,000	150,000	-	115,000	115,000	-
Derivative financial instruments	73,763	73,763	-	58,353	58,353	-
	13,806,759	14,379,898	573,139	15,733,490	16,691,298	957,808

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 2018 and 2017, is included in Level 2, described above.

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

23. SUBSEQUENT EVENTS

No significant events occurred.

24. AUDIT AND NON AUDIT FEES

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

Thousand Euros	Dec 2018	Dec 2017
Audit and statutory audit of accounts:		
- PricewaterhouseCoopers Accountants N.V.	115	105
- KPMG	-	60
Other audit procedures	-	-
Tax services	-	-
Other non-audit services	-	-
Total	**115**	**165**

PricewaterhouseCoopers Accountants N.V. has audited the financial statements of EDP Finance B.V. for 2018 and 2017. However, during 2017, KPMG has still reviewed the interim financial information for reporting purposes for the first three quarters

Amsterdam, 11 March 2019

The Managing Directors

EDP – Energias de Portugal, S.A.

de Kanter, H. P.

Nagelmaker, A. G. M.

TMF Netherlands B.V.

OTHER INFORMATION

1. Statutory Information

1.1 Proposed appropriation of result

In accordance with Article 20 – Profits, of the Articles of Association of the Company, the result for the year is at the disposal of the General Meeting of Shareholders. Dutch law stipulates that distributions may only be made to the extent the Company's equity is in excess of the reserves it is required to maintain by law and its Articles of Association. Moreover, no distributions may be made if the Management Board is of the opinion that, by such distribution, the Company will not be able to fulfil its financial obligations in the foreseeable future.

The Managing Directors propose to add the loss for the financial year ended 31 December 2018 of 13,642 thousand Euros to retained earnings. Such proposal shall be deliberated at the General Meeting of Shareholders.

1.2 Independent Auditor's opinion

The independent auditor's report is included on the next page.

Independent auditor's report

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

Report on the financial statements 2018

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 2018, 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 2018 of EDP Finance B.V., Amsterdam ('the Company').

The financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the following statements for 2018: the income statement, the statements of other comprehensive income, changes in equity and cash flows; and
- the notes, comprising the significant accounting policies and other explanatory information.

The financial reporting framework 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.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards 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.

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.

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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).

Our audit approach

Overview and context

The Company's main activity is the financing of group companies, through bond offerings on the international capital markets. The Company has derivative 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 4 of the financial statements, the Company describes the areas of judgement 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 measurement of expected credit losses and derivative valuation, we considered these matters as key audit matters as set out in the section 'Key audit matters' of this report. Furthermore, we identified the existence of the loans issued and hedge accounting as key audit matters because of the importance of existence for users of the financial statements and the detailed requirements for hedge accounting.

Another area of focus, that was not considered as key audit matter, was the implementation of IFRS 9. 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 teams included the appropriate skills and competences, which are needed for the audit of a finance company. We therefore included specialists in the areas of valuation and accounting in our team.

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 judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out 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.

Based on our professional judgement, we determined the materiality for the financial statements as a whole at €139,000,000 (2017: €159,000,000). As a basis for our judgement, 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 are the most important ones.

Inherent to the nature of the Company's business, the amounts in the statement of financial position are large in proportion to the income statement line items services rendered, supplies and services, personnel costs and income tax (benefit)/expense. Based on qualitative considerations we performed audit procedures on those income statement line items, applying a benchmark of 10% of the total of those expenses.

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 €6,950,000 (2017: €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 managing directors. The key audit matters are not a comprehensive reflection of all matters 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.

We addressed the key audit matters 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 made on the results of our procedures should be read in this context.

Due to the nature of the Company, key audit matters do not change significantly year over year. As compared to last year, one key audit matter was changed due to the introduction of IFRS 9.

Key audit matter	***How our audit addressed the matter***
Measurement of expected credit losses *Note 12* We consider the valuation of the loans issued, as disclosed in note 12 to the financial statements for a total amount of €13,276,160,000, to be a key audit matter. This is due to the size of the loan portfolio and the impairment rules introduced by IFRS 9. The basis for determining any expected credit loss pursuing to IFRS 9 is the classification and measurement of financial instruments. The Company has performed an assessment to conclude whether the cash flows from financial instruments fulfil the requirements of the SPPI test (solely of payment of principal and interest). IFRS 9 requires an entity to 'look through' a financial instrument and to identify any cash flow mismatches or reduced cash flow variabilities. As a result, the assessment is complex and creates a high hurdle to demonstrate that an instrument meets the SPPI test.	We performed the following procedures to test the managing directors' assessment of the expected credit loss to support the valuation of the loans issued to EDP S.A. group companies: • We assessed on a sample basis the data input used to calculate the initial fair value of the loans, including cash flows, based on underlying contracts, credit spread and market interest. • For the initial fair value calculation, we determined that the valuation methodology and model applied by the Company are in accordance with the requirements of IFRS 13. • We recalculated the amortised cost value based on the effective interest method. • In connection with classification and measurement, we paid specific attention to the SPPI test performed by the entity for the loans issued.

Key audit matter	***How our audit addressed the matter***
The managing directors have determined that all loans issued are categorised as stage 1 loans, hence only a 12-month expected credit loss (‘ECL’) has been recognised. The new impairment rules in IFRS 9 lead to increased complexity and increased degree of judgement required to calculate the ECL. Amongst other things, this applies to choices and judgements made in the impairment methodology, including the determination of the probability of default (‘PD’), the loss given default (‘LGD’) and the exposure at default (‘EAD’). With the introduction of IFRS 9, these calculations must also take into account forward-looking information (‘FLI’) of macro-economic factors considering multiple scenarios. Mainly with respect to the PD and LGD used in the determination of the expected credit losses, the managing directors have applied significant judgement given the low default character of the entity’s loan portfolio. As a result, there is limited internal historical data to support and back-test the PD and LGD.	We reperformed a sample of SPPI and business model tests performed by the managing directors and in addition, performed an independent SPPI test on a sample of financial instruments. Our sample was risk based and covered a range of different types of financial assets. As part of our testing we analysed supporting documents (mainly loan documentation such as loan agreements and term sheets) to evaluate whether the SPPI requirements in IFRS 9 are met. • With respect to the ECL calculation, we determined that the loans qualify as stage 1 loans by assessing the actual performance of the loans (i.e. no significant deterioration of credit risk). • We evaluated the financial position of the counterparties of loans issued by assessing observable data from rating agencies, developments in credit spreads, the latest available financial information and other publicly available data in order to assess if there are no adverse conditions present suggesting to classify the loans as stage 2 or stage 3 loans. • For the expected credit loss, we assessed, with assistance of our specialists, that the impairment methodology and model applied by the entity were in accordance with the requirements of IFRS 9. We assessed that the FLI used by the client as part of the impairment methodology was appropriate considering the characteristics of the loan portfolio of EDP Finance B.V. • We assessed for a sample of financial instruments that the PD and LGD, applied by the managing directors, were based upon data from external data source providers and we have recalculated the impairment recorded in the financial statements. We found the managing directors’ assessment to be sufficiently rigorous. Our procedures as set out above did not indicate material differences.
Existence of the loans issued *Note 12* We consider the existence of the loans issued, as disclosed in note 12 to the financial statements for a total amount of €13,276,160,000, to be a key audit matter.	We performed the following procedures to support the existence of the loans issued to EDP S.A. group companies: • We confirmed the existence of the loans with the counterparties on a sample basis.

Key audit matter	How our audit addressed the matter
Significant auditor's attention is necessary because of the size of the loan portfolio and the importance of the loans' existence for users of the financial statements.	• We performed a substantive analytical procedure on the relationship between the interest expenses versus interest income, taken into consideration the applicable spread. • We compared interest receipts with bank statements. Based on the procedures as set out above, we found no material differences.
Derivative valuation *Note 20* We consider the fair value of the derivatives portfolio of €211,379,000 positive and €73,763,000 negative, as disclosed in note 20 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 and therefore valuation is a complex area.	We performed the following procedures to support 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 testing the input of contracts in the Company's valuation system on a sample basis. • We reconciled the interest rate curves and other market data with independent sources. • We assessed whether the settings used in the valuation system and the models are in line with market practice. • We also tested the mathematical accuracy of the models used and reconciled the outcome of the valuation system with the general ledger. 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 20* We consider the application of hedge accounting to be a key audit matter. Refer to note 20 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 support 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 the managing directors met the requirements of IAS 39 *Financial Instruments*, 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.

Report on the other information included in the annual report

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

- 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;
- 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.

The 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.

Report on other legal and regulatory requirements

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. Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of two years.

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

The services, in addition to the audit, that we have provided to the Company for the period to which our statutory audit relates, are disclosed in note 24 to the financial statements.

Responsibilities for the financial statements and the audit

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.

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, 11 March 2019
PricewaterhouseCoopers Accountants N.V.

Original has been signed by L.H.J. Oosterloo RA

Appendix to our auditor's report on the financial statements 2018 of EDP Finance B.V.

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.