

Annual Report 2015

EDP Finance BV

**Annual Report
31 December 2015**

**Adopted by the General
Meeting of Shareholders on:**

8 March 2016

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EDP FINANCE BV

CONTENTS

Responsibility Statement	4
Report of the Managing Directors	5
Annual financial statements	7
Company Income Statement for the years ended 31 December 2015 and 2014	8
Company Statement of Other Comprehensive Income as at 31 December 2015 and 2014	9
Company Statement of Financial Position as at 31 December 2015 and 2014	10
Company Statement of Changes in Equity as at 31 December 2015 and 2014	11
Company Statement of Cash flows as at 31 December 2015 and 2014	12
Notes to the financial statements for the years ended 31 December 2015 and 2014	13
Other information	29

EDP FINANCE BV

RESPONSIBILITY STATEMENT

The Managing Directors of the Company wish to state:

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

Amsterdam, 3 March 2016

The Managing Directors

EDP – Energias de Portugal, S.A.

de Kanter, H. P.

Gortzen, M. M. L.

TMF Netherlands B.V.

REPORT OF MANAGING DIRECTORS

The Managing Directors of EDP Finance BV (hereinafter "the Company") submit the annual report and the financial statements of the Company for the year ended 31st December 2015.

PRINCIPAL ACTIVITIES AND BUSINESS

REVIEW

General

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

Activities

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

Results

During the year ended 31st December 2015, the Company recorded a loss of EUR 45.9 million. The decrease in results during 2015 is essentially due to a decrease on the average interest rate of assets that was higher than the decrease on the average interest rate of debt.

The decrease on the average interest rate of assets is mainly due to the decrease on the short term market interest rates, that affected negatively the variable rate assets which constitute nearly 50% of the average amount of assets. Also contributing to this effect was the repayment during 2015 of older loans (at higher rates) and granting of new loans, at lower rates reflecting the decline of interest rates in the market.

Although there was a decrease on the average interest rate of debt during 4Q2015, resulting from the refinancing transactions that were conducted during 2015, this was not sufficient to offset the increase on the interest expenses until the end of 3Q2015, mostly due to the one-off impacts from the early recognition of up-front costs of loans that were prepaid in 2015 and which were being specialized throughout the life of such loans.

Major Developments

In April 2015, EDP Finance BV issued a ten-year EUR 750 million Eurobond, under the EDP SA and EDP Finance BV's "Programme for the Issuance of Debt Instruments" (EMTN) which includes a Keep Well agreement with EDP SA (see Note 4).

Regarding the loan markets, the Company replaced in February the EUR 1,600 million Revolving Credit Facility, dated 31st January 2013 with maturity date 31st January 2018, with a new five-year Facility, in the amount of EUR 2,000 million and including a syndicate of 16 banks. The facility is drawn in the amount of EUR 1,500 million at year end.

These transactions 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. In particular, the Company prepaid EUR 500 million of a EUR 1,000 million loan that matures in August 2017 and repaid a EUR 75 million bilateral loan that matured in November 2015.

During 2015 the Company continued not to have Research and Development activities.

Subsequent Events

There are no subsequent events.

Debt

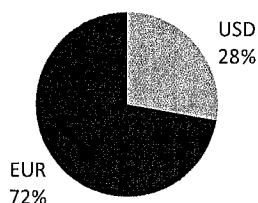
In 2015, EDP Finance BV's (nominal) consolidated debt totalled EUR 14,096 million. When compared to December 2014, the Company's debt decreased by nearly EUR 1,624 million, mostly due to the repayment of debt that matured in 2015.

IFRS Debt - EDP Finance BV EUR millions

	Dec 2015	Dec 2014	Change
Debt - Short term	2,484	2,756	-10%
Bonds	2,250	1,581	42%
Bank loans	200	797	-75%
Intercompany loans	34	378	-91%
Debt - Long term	11,612	12,965	-10%
Bonds	9,276	10,321	-10%
Bank loans	2,336	2,644	-12%
Nominal debt	14,096	15,720	-10%
Interest accrued	286	298	-4%
Fair value hedge adjustments	94	150	-37%
Debt under IFRSs	14,476	16,169	-10%

In terms of currencies of EDP BV external debt, the USD financing contracted to fund the purchase and capex of EDP Renewables North America justifies the Group's USD denominated debt (28% of EDP Finance BV's debt). The Euro continues to be the main funding currency of the EDP Group (72%).

Debt by currency



Rating

In January 2015, Standard & Poor's Ratings Services ("S&P") affirmed its "BB+" long-term and "B" short-term corporate credit ratings on EDP, S.A. and the Company and revised the outlook from Stable to Positive. In October 2015, S&P reaffirmed EDP, S.A. and the Company's credit ratings as well as the outlook.

In February 2015, Moody's Investors Service Limited ("Moody's") upgraded EDP, S.A. and the Company's long term credit rating to "Baa3". Concurrently, Moody's upgraded the short-term ratings of EDP, S.A and the Company to "Prime-3" from "Not-Prime". The assigned outlook on all ratings is stable. In February 2016, Moody's maintained EDP S.A. and the Company's rating and its outlook stable.

In November 2015, Fitch Ratings ("Fitch") maintained EDP S.A. and the Company's long-term rating at "BBB-" and its outlook as Stable.

Risk Management

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

Headcount

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

Expectations for 2016

Given the cash flow generated by the Group as well as the available liquidity, the company's refinancing needs are covered beyond 2017. The Company expects to continue its normal course of business in 2016, raising funding in the international loan and capital markets so as to refinance debt that matures as well as to provide the necessary funding to EDP Group companies.

Audit Committee

The company makes use of the exemption to establish its own Audit Committee, based on Article 3a of the Royal Decree of 26 July 2008

implementing Article 41 of the EU Directive 2006/43/EG. The Audit Committee of the parent company, EDP – Energias de Portugal, SA, will act as Audit Committee for the Company. This Committee is composed as follows:

António Gomes Mota: President

João Carvalho das Neves: Vice-President

Alberto Barbosa: Member

Maria del Carmen Rozado: Member

Maria Celeste Ferreira Lopes Cardona: Member

Amsterdam, 3 March 2016

The Managing Directors:

EDP Energias de Portugal, S.A.

de Kanter, H. P.

Gortzen, M. M. L.

TMF Netherlands B.V.

EDP Finance BV

Financial Statements

31 December 2015

EDP Finance, BV

Company Income Statement for the years ended 31 December 2015 and 2014

Thousands of Euros	Notes	2015	2014
Interest income	6	705,667	787,198
Interest expenses	6	-747,647	-771,703
Net interest income / (expense)		-41,980	15,495
Net other financial income and expenses	7	-18,564	6,028
Net financial income / (expense)		-60,544	21,523
Other operating income / (expenses)			
Services rendered	8	2,055	1,768
Supplies and services	9	-2,660	-3,598
Personnel costs		-39	-1
Profit / (Loss) before Income tax		-61,188	19,692
Tax expense / (benefit)	10	15,297	-4,913
Net profit for the year		-45,891	14,779

EDP Finance, BV

Company Statement of Other Comprehensive Income as at 31 December 2015 and 2014

Thousands of Euros	2015	2014
Net profit for the year	-45,891	14,779
Items that are or may be reclassified to profit or loss		
Cash flow hedge reserve	927	645
Tax effect from the cash flow hedge reserve	-232	-161
Other comprehensive income for the year (net of income tax)	695	484
Total comprehensive income for the year	-45,196	15,263

EDP Finance, BV

Company Statement of Financial Position as at 31 December 2015 and 2014 (before proposed appropriation of profit)

Thousands of Euros	Notes	2015	2014
Assets			
Loans to and receivables from group entities	11	12,931,757	11,857,845
Derivative financial instruments	19	203,998	178,373
Deferred tax assets	12	10,005	-
Total Non-Current Assets		13,145,760	12,036,218
Loans to and receivables from group entities	11	1,631,137	4,333,366
Derivative financial instruments	19	84,587	80,239
Debtors and other assets		1,789	1,548
Tax receivable		5,075	3,175
Cash and cash equivalents	13	806	193,365
Total Current Assets		1,723,394	4,611,693
Total Assets		14,869,154	16,647,911
Equity			
Share capital	14	2,000	2,000
Share premium	14	11,980	11,980
Reserves and retained earnings	15	130,129	114,655
Profit / (loss) for the year		-45,891	14,779
Total Equity		98,218	143,414
Liabilities			
Debt securities	16	9,369,836	10,466,159
Loans and credit facilities from third parties	16	2,336,111	2,643,765
Derivative financial instruments	19	190,781	124,685
Total Non-Current Liabilities		11,896,728	13,234,609
Debt securities	16	2,524,513	1,851,318
Loans and credit facilities from third parties	16	211,250	829,588
Loans from group entities	17	34,268	377,832
Amounts owed on commercial paper	18	110,000	210,000
Derivative financial instruments	19	-6,201	-3,926
Trade and other payables		378	27
Tax payable		-	5,049
Total Current Liabilities		2,874,208	3,269,888
Total Liabilities		14,770,936	16,504,497
Total Equity and Liabilities		14,869,154	16,647,911

EDP Finance, BV

Company Statement of Changes in Equity as at 31 December 2015 and 2014

Thousands of Euros	Total Equity	Share capital	Share premium	Cash flow hedge reserve	Retained earnings	Profit for the year
Balance as at 31 December 2013	128,151	2,000	11,980	-	123,666	-9,495
Prior year profit	-	-	-	-	-9,495	9,495
Comprehensive income:						
Net profit for the year	14,779	-	-	-	-	14,779
Changes in the cash flow hedge reserve net of taxes	484	-	-	484	-	-
Total comprehensive income for the year	15,263	-	-	484	-	14,779
Balance as at 31 December 2014	143,414	2,000	11,980	484	114,171	14,779
Prior year profit	-	-	-	-	14,779	-14,779
Comprehensive income:						
Net profit for the year	-45,891	-	-	-	-	-45,891
Changes in the cash flow hedge reserve net of taxes	695	-	-	695	-	-
Total comprehensive income for the year	-45,196	-	-	695	-	-45,891
Balance as at 31 December 2015	98,218	2,000	11,980	1,179	128,950	-45,891

EDP Finance, BV

Company Statement of Cash Flows as at 31 December 2015 and 2014

Thousands of Euros	Dec 2015	Dec 2014
Cash flows from operating activities		
Profit / (loss) for the year	-45,891	14,779
Adjustments for:		
Net interest income / (expense)	42,178	-9,249
Net other financial income and expenses	241	-77,772
Supplies and services	-64	-
Tax income	-15,297	4,913
	-18,833	-67,329
Changes in:		
Loans to and receivables from group entities	1,181,282	-1,379,809
Debtors and other assets	-241	924
Amounts owed on commercial paper	-100,000	-70,000
Loans from group entities	898,187	2,021,571
Trade and other payables	379	-1,586
	1,960,774	503,771
Interest received	318,832	336,751
Interest paid	-669,126	-692,053
Tax received / (paid)	-1,889	1,771
Net cash used in operating activities	1,608,591	150,240
Cash flows from financing activities		
Proceeds from issued debt securities	744,893	2,836,571
Redemption of debt securities	-1,582,366	-1,377,911
Proceeds of loans and credit facilities from third parties	1,489,980	514,177
Redemption of loans and credit facilities from third parties	-2,471,767	-2,175,976
Net cash flow from financing activities	-1,819,260	-203,139
Net increase / (decrease) in cash and cash equivalents	-210,669	-52,899
Cash and cash equivalents at the beginning of the year	193,365	238,173
Effect of exchange rate fluctuations on cash and cash equivalents held	18,110	8,091
Cash and cash equivalents at the end of the year (*)	806	193,365

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

1. ECONOMIC ACTIVITY OF EDP FINANCE

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

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

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

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

As at 31 December 2015 and 2014, the Company has one employee.

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU-IFRS) and with the applicable sections of Part 9 of Book 2 of the Netherlands Civil Code. The Company's Managing Directors approved the financial statements (referred to as financial statements) on 3 March 2016.

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 2015 and 2014.

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

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

As described in note 23, the Company adopted in the preparation of the financial statements as at 31 December 2015, the accounting standards issued by IASB and IFRIC interpretations effective since 1 January 2015. The accounting policies used by the Company in preparing the the financial statements described in this note were adopted in accordance.

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

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

b) Foreign currency transactions

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

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

The following exchange rates have been applied as at 31 December 2015 and 2014:

Currency		Exchange rates at Dec 2015		Exchange rates at Dec 2014	
		Closing rates	Average exchange-rate	Closing rates	Average exchange-rate
Dollar	USD	1.089	1.110	1.214	1.329
Sterling	GBP	0.734	0.726	0.779	0.806
Swiss Franc	CHF	1.084	1.068	1.202	1.215
Yen	JPY	131.070	134.318	145.230	140.306

c) Derivative financial instruments and hedge accounting

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

Hedge accounting

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

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

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

Fair value hedge

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

Cash flow hedge

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

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

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

Effectiveness

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

Offsetting

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

d) Other financial assets

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

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

Impairment

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

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

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

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

e) Cash and cash equivalents

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

f) Other financial liabilities

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

g) Provisions

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

h) Interest income and expense

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

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

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

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

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

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

i) Net other financial income and expenses

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

j) Income tax

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

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

k) Statement of cash flows

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

l) Determination of operating segments

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

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

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

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

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

Fair value of financial instruments

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

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

Impairment of financial assets measured at amortised cost

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

4. FINANCIAL-RISK MANAGEMENT POLICIES

Financial risk management

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

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

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

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

Exchange-rate risk management

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

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

Sensitivity analysis - exchange rate

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

Interest rate risk management

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

In the floating rate financing context, EDP Finance BV uses, when appropriate, interest rate derivative financial instruments to hedge cash flows associated with future interest payments, which have the effect of converting floating interest rate loans into fixed interest rate loans. Long-term loans contracted at fixed rates are, when appropriate, converted into floating rate loans through interest rate derivative financial instruments.

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

Sensitivity analysis - Interest rates

Based on the financial instruments with exposure to interest rate risk as at 31 December 2015 and 2014, a 50 basis points change in the reference interest rates would lead to the following increases / (decreases) in equity and results of EDP Finance BV:

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

EDP Finance BV
Notes to the Financial Statements
for the years ended 31 December 2015 and 2014

Thousands of Euros	Dec 2014			
	Results		Equity	
	50 bp increase	50 bp decrease	50 bp increase	50 bp decrease
Liabilities				
Cash flow effect:				
Hedged debt	-18,421	18,421	-	-
Unhedged debt	-23,603	23,603	-	-
	-42,024	42,024	-	-
Fair value effect:				
Cash flow hedging derivatives	-	-	-	-
Trading derivatives (accounting perspective)	83	-70	-	-
	83	-70	-	-
	-41,941	41,954	-	-
Assets				
Cash flow effect:				
Unhedged loans	41,942	-41,942	-	-
	41,942	-41,942	-	-

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

Counterparty credit risk management

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

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

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

The credit risk arising from loans granted to EDP Group companies is mitigated by the control that EDP – Energias de Portugal, S.A. has over the management of those companies. As at 31 December 2015 and 2014, all loans granted by EDP Finance BV had as counterparties companies controlled by EDP – Energias de Portugal, S.A. As per 31 December 2015 and 31 December 2014 no past due nor impairment triggers were identified with respect to loans issued to group companies.

The maximum credit exposure equals the amount of total assets deducted by tax receivable as per 31 December 2015 and 31 December 2014 being Eur 14.9 billion and Eur 16.6 billion, respectively.

Liquidity risk management

Liquidity risk is managed by engaging and maintaining credit lines and financing facilities with a firm underwriting commitment with international financial institutions, as well as term deposits, allowing immediate access to funds. These lines are used to complement and backup commercial paper programmes, allowing for a diversification of EDP Finance BV's short-term financing sources (see note 12 and 15).

5. OPERATING SEGMENT REPORT

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

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

6. INTEREST INCOME AND EXPENSES

Interest income and expenses are analysed as follows:

Thousands of Euros	Dec 2015	Dec 2014
Interest income		
Loans and receivables to group entities	574,499	651,791
Derivative financial instruments	131,035	129,161
Other interest income	133	6,246
	<u>705,667</u>	<u>787,198</u>
Interest expenses		
Bank loans	113,648	179,864
Medium term notes	565,199	522,334
Derivative financial instruments	68,800	67,715
Other interest expenses	-	1,790
	<u>747,647</u>	<u>771,703</u>

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

7. NET OTHER FINANCIAL INCOME AND EXPENSES

Net other financial income and expenses are analysed as follows:

Thousands of Euros	Dec 2015	Dec 2014
Other financial income		
Derivative financial instruments - Trading	62,096	29,960
Foreign exchange gains	35,581	65,070
Other	-	16,338
	<u>97,677</u>	<u>111,368</u>
Other financial expenses		
Derivative financial instruments - Trading	102,605	98,351
Hedge ineffectiveness - Fair value hedge (see note 19)	13,454	6,737
Other	182	252
	<u>116,241</u>	<u>105,340</u>
	<u>-18,564</u>	<u>6,028</u>

8. SERVICES RENDERED

Services rendered are analysed as follows:

Thousands of Euros	Dec 2015	Dec 2014
Debt portfolio management	2,055	1,768
	<u>2,055</u>	<u>1,768</u>

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

9. SUPPLIES AND SERVICES

Supplies and services are analysed as follows:

Thousands of Euros	Dec 2015	Dec 2014
EDP, S.A. Services	1,789	2,059
Specialised works - Consulting services	500	733
Specialised works - Legal services	112	298
Other	259	508
	<u>2,660</u>	<u>3,598</u>

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

10. TAX EXPENSE / (BENEFIT)

This caption is analysed as follows:

Thousands of Euros	Dec 2015	Dec 2014
Tax expense / (benefit)	15,297	-4,913
Profit / (Loss) before income tax	-61,188	19,692
Effective tax rate of the company	25.00%	24.95%

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

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

Thousands of Euros	Dec 2015	Dec 2014
Current tax expense / (benefit) in the year	15,297	-4,913
Adjustments for prior years	-	-
	15,297	-4,913

11. LOANS TO AND RECEIVABLES FROM GROUP ENTITIES

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

Thousands of Euros	Dec 2015	Dec 2014
Non-Current:		
EDP Energias de Portugal, S.A.	7,850,000	5,350,000
EDP Renováveis Servicios Financieros, S.L.	1,276,106	2,354,343
EDP, S.A. Sucursal en España	2,497,923	1,529,974
EDP Servicios Financieros (España), S.A.	172,618	1,389,618
EDP Renováveis, S.A.	410,952	368,506
Hidroeléctrica del Cantabrico, S.A.	521,852	521,852
Other	202,306	343,552
	12,931,757	11,857,845
Current:		
EDP Energias de Portugal, S.A.	1,160,113	2,973,674
EDP, S.A. Sucursal en España	-	719,051
EDP Servicios Financieros (España), S.A.	119,903	239,081
Hidroeléctrica del Cantabrico, S.A.	-	198,397
EDP Gas Iberia, S.L.	213,552	70,407
Accrued interest	137,569	132,756
	1,631,137	4,333,366
	14,562,894	16,191,211

For 31 December 2015, these assets have an average maturity of 3.7 years and bear interest at an average rate of 3.7%.

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

Thousands of Euros	Dec 2015	Dec 2014
Up to 1 year	1,631,137	4,333,366
From 1 to 5 years	10,431,757	10,808,425
More than 5 years	2,500,000	1,049,420
	14,562,894	16,191,211

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

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

Loans to group entities are not collateralized.

12. DEFERRED TAX ASSETS

The deferred tax assets of 10,005 thousands of Euros refers to the tax losses that can be deducted to the taxable income assessed in the following years.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are analysed as follows:

Thousands of Euros	Dec 2015	Dec 2014
Bank deposits:		
Current deposits	806	1,513
Term deposits	-	191,852
	806	193,365

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

14. SHARE CAPITAL AND SHARE PREMIUM

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

Share capital and Share premium are analysed as follows:

	Share capital	Share premium
Balance as at 31 December 2013	2,000	11,980
Movements during the year	-	-
Balance as at 31 December 2014	2,000	11,980
Movements during the year	-	-
Balance as at 31 December 2015	2,000	11,980

15. RESERVES AND RETAINED EARNINGS

This caption is analysed as follows:

Thousands of Euros	Dec 2015	Dec 2014
Cash flow hedge reserve	1,179	484
Retained earnings	128,950	114,171
	130,129	114,655

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

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

This caption is analysed as follows:

Thousands of Euros	Dec 2015	Dec 2014
Non-Current:		
Debt securities	9,202,141	10,320,906
Fair value of the issued debt hedged risk	167,695	145,253
	9,369,836	10,466,159
Loans and credit facilities from third parties	2,336,111	2,643,765
	11,705,947	13,109,924
Current:		
Debt securities	2,248,970	1,581,236
Fair value of the issued debt hedged risk	-	4,553
Accrued interest	275,543	265,529
	2,524,513	1,851,318
Loans and credit facilities from third parties	199,789	796,733
Accrued interest	11,461	32,855
	211,250	829,588
	2,735,763	2,680,906
	14,441,710	15,790,830

EDP Finance BV has a medium term Revolving Credit Facility "RCF" of 3,150,000 thousands of Euros for liquidity management needs in USD and EUR, with a firm underwriting commitment and 3.5 years of remaining maturity. Furthermore, it has three RCF totaling 675,000 thousands of Euros also for liquidity management needs in EUR, with a firm underwriting commitment, of which 175,000 thousands of Euros mature in 2016 and 500,000 thousands of Euros in 2020. All RCF were fully available as at 31 December 2015.

EDP Finance BV also has short term assets with other Group companies, mainly with EDP S.A., in a total amount of 1,631 millions of Euros that may not be renewed, in whole or in part, upon maturity. EDP Finance BV also expects to raise funds in the debt capital market and / or bank loan markets during 2016, depending on market conditions.

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

Date issued	Interest rate	Type of hedge	Conditions / Redemption	Nominal amount Euro'000
Aug/02	Fixed rate GBP 6.625% (i)	Fair Value	Aug/17	320,000
Dec/02	Fixed rate EUR (iii)	n.a.	Dec/22	93,357
Jun/05	Fixed rate EUR 4.125%	n.a.	Jun/20	300,000
Jun/06	Fixed rate EUR 4.625%	n.a.	Jun/16	500,000
Nov/07	Fixed rate USD 6.00 %	n.a.	Feb/18	918,527
Nov/08	Fixed rate GBP 8.625% (i)	Fair Value	Jan/24	410,314
Nov/08	Zero coupon (iii)	n.a.	Nov/23	160,000
Jun/09	Fixed rate JPY (i), (iii)	n.a.	Jun/19	76,295
Jun/09	Fixed rate EUR 4.75%	n.a.	Sep/16	1,000,000
Sep/09	Fixed rate USD 4.90 %	n.a.	Oct/19	918,527
Feb/11	Fixed rate EUR 5.875%	n.a.	Feb/16	750,000
Sep/12	Fixed rate EUR 5.75%	n.a.	Sep/17	750,000
Nov/12	Fixed rate CHF 4.00% (i)	Fair Value	Nov/18	103,922
Sep/13	Fixed rate EUR 4.875% (ii)	Fair Value	Sep/20	750,000
Nov/13	Fixed rate EUR 4.125%	n.a.	Jan/21	600,000
Jan/14	Fixed rate USD 5.25%	n.a.	Jan/21	688,895
Apr/14	Fixed rate EUR 2.625% (ii)	Fair Value	Apr/19	650,000
Sep/14	Fixed rate EUR 2.625% (i)	Fair Value	Jan/22	1,000,000
Nov/14	Fixed rate USD 4.125%	n.a.	Jan/20	688,895
Apr/15	Fixed rate EUR 2.00% (ii)	Fair Value	Apr/25	750,000

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

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

Thousands of Euros	2016	2017	2018	2019	2020	Following years	Total
Debt securities							
Euro (i)	2,460,457	1,027,745	117,186	652,675	1,078,639	3,128,942	8,465,644
US Dollar (ii)	64,056	-	917,129	1,082,114	684,508	680,898	3,428,705
	<u>2,524,513</u>	<u>1,027,745</u>	<u>1,034,315</u>	<u>1,734,789</u>	<u>1,763,147</u>	<u>3,809,840</u>	<u>11,894,349</u>
Loans and credit facilities from third parties:							
Euro	208,880	198,028	179,631	-14,230	1,491,636	-	2,063,945
US Dollar	2,370	-	-	481,046	-	-	483,416
	<u>211,250</u>	<u>198,028</u>	<u>179,631</u>	<u>466,816</u>	<u>1,491,636</u>	<u>-</u>	<u>2,547,361</u>
	<u>2,735,763</u>	<u>1,225,773</u>	<u>1,213,946</u>	<u>2,201,605</u>	<u>3,254,783</u>	<u>3,809,840</u>	<u>14,441,710</u>

For 31 December 2014, the remaining maturity of debt securities and loans and credit facilities from third parties, as well as interest, by currency are analysed as follows:

Thousands of Euros	2015	2016	2017	2018	2019	Following years	Total
Debt securities							
Euro (i)	1,720,251	2,245,831	1,019,989	103,149	651,187	3,432,278	9,172,685
US Dollar (ii)	131,067	-	-	821,854	969,781	1,222,090	3,144,792
	<u>1,851,318</u>	<u>2,245,831</u>	<u>1,019,989</u>	<u>925,003</u>	<u>1,620,968</u>	<u>4,654,368</u>	<u>12,317,477</u>
Loans and credit facilities from third parties:							
Euro	578,602	74,527	389,397	1,767,130	412,711	-	3,222,367
US Dollar	250,986	-	-	-	-	-	250,986
	<u>829,588</u>	<u>74,527</u>	<u>389,397</u>	<u>1,767,130</u>	<u>412,711</u>	<u>-</u>	<u>3,473,353</u>
	<u>2,680,906</u>	<u>2,320,358</u>	<u>1,409,386</u>	<u>2,692,133</u>	<u>2,033,679</u>	<u>4,654,368</u>	<u>15,790,830</u>

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

17. LOANS FROM GROUP ENTITIES

This caption is analysed as follows:

Thousands of Euros	Dec 2015	Dec 2014
Current:		
EDP Servicios Financieros (España), S.A.	34,268	377,832
	<u>34,268</u>	<u>377,832</u>

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

18. AMOUNTS OWED ON COMMERCIAL PAPER

As at 31 December 2015, this caption refers to a trade of commercial paper of 110,000 thousands of Euros which was settled on January 5th 2016 (31 December 2014: trade of commercial paper of 210,000 which was settled on January 2nd 2015).

19. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

In 2014 the fair value and the maturity of the derivative financial instruments are analysed as follows:

Thousands of Euros	Fair value		Notional			
	Assets	Liabilities	Up to 1 year	From 1 to 5 years	Over 5 Years	Total
Fair value hedges						
Interest rate swaps	111,241	-	1,000,000	350,000	1,500,000	2,850,000
Cross currency interest rate swaps	138,637	-35,640	-	423,922	410,314	834,236
Cash flow hedges						
Cross currency interest rate swaps	931	-	-	103,922	-	103,922
Derivatives held for trading						
Cross currency interest rate swaps	-	-85,119	-	253,099	298,123	551,222
Foreign exchange forwards	7,803	-	227,743	-	-	227,743
	<u>258,612</u>	<u>-120,759</u>	<u>1,227,743</u>	<u>1,130,943</u>	<u>2,208,437</u>	<u>4,567,123</u>

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

Fair value of derivative financial instruments is based on quotes indicated by external entities. These entities use generally accepted discounted cash flow techniques and data from public markets. As such, according to IFRS13 requirements, the fair value of the derivative financial instruments is classified as of Level 2 (note 20), and no changes of levels were made during this year.

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

			Thousands of Euros			
Type of hedge	Hedging instrument	Hedged risk	2015		2014	
			Changes in fair value		Changes in fair value	
			Instrument	Risk	Instrument	Risk
Fair value	Interest rate swap	Interest rate	-19,976	18,633	44,607	-45,340
Fair value	Cross currency interest rate swaps	Interest and exchange rate	24,410	-36,521	102,641	-108,645
Cash flow	Cross currency interest rate swaps	Interest and exchange rate	11,866	-10,939	931	-286
			16,300	-28,827	148,179	-154,271

During 2015 and 2014 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 2015 and 2014 were as follows:

Thousands of Euros	Dec 2015	Dec 2014
Balance at the beginning of the year	645	-
Fair value changes	11,866	931
Recycling FX results from cash flow hedge reserve to income statement	-10,939	-286
Balance at the end of the year	1,572	645

The gains and losses on the financial instruments portfolio booked in the profit and loss in 2015 and 2014 are as follows:

Thousands of Euros	Dec 2015	Dec 2014
Derivatives held for trading	-40,509	-68,391
Fair value hedges:		
Derivatives	4,434	147,248
Hedged liabilities	-17,888	-153,985
Cash flow hedges:		
Recycling FX results from cash flow hedge reserve to income statement	10,939	286
	-43,024	-74,842

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

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

The effective interest rates of the derivative financial instruments relating to financing operations at 31 December 2014 were as follows:

	Notional EUR'000	Currency	EDP Pays	EDP Receives
Interest rate contracts				
Interest rate swaps	2,850,000	EUR	[3.28% - 0.95%]	[4.88% - 2.63%]
Currency interest rate				
CIRS (currency interest rate swaps)	730,314	EUR / GBP	[4.07% - 1.80%]	[8.63% - 6.63%]
CIRS (currency interest rate swaps)	68,856	USD / JPY	6.80%	3.11%
CIRS (currency interest rate swaps)	103,922	EUR / CHF	[4.37% - 4.21%]	4.01%
CIRS (currency interest rate swaps)	482,366	EUR / USD	[2.13% - 0.26%]	[1.94% - 0.01%]

20. RELATED PARTIES

Main shareholders and shares held by company officers

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

Other Related Parties

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

Remuneration of directors

The charges regarding remuneration of directors and former directors amounts to 27,423 Euros (2014: 29,896 Euros) with no outstanding balances as at 31 December 2015 and 2014.

Other management services

The charges regarding Other management services amounts to 346,873 Euros (2014: 496,833 Euros) with no outstanding balances as at 31 December 2015 and 2014.

Balances and transactions with related parties

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

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

As at 31 December 2014, the outstanding assets with related parties are analysed as follows:

Thousands of Euros	Loans Granted	Derivatives	Other assets	Total
EDP - Energias de Portugal, S.A.	8,396,069	81,902	154	8,478,125
EDP Renováveis Serviços Financieros, S.L.	2,355,025	-	-	2,355,025
EDP, S.A. Sucursal en España	2,282,402	-	56	2,282,458
EDP Servicios Financieros (España), S.A.	1,642,020	7,803	10	1,649,833
EDP Renováveis, S.A.	368,600	-	1,330	369,930
Hidroeléctrica del Cantabrico, S.A.	727,349	-	-5	727,344
EDP Gas Iberia, S.L.	216,303	-	-	216,303
Other	203,443	-	1	203,444
	16,191,211	89,705	1,546	16,282,462

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

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

As at 31 December 2014, the outstanding liabilities with related parties are analysed as follows:

Thousands of Euros	Loans Obtained	Derivatives	Other liabilities	Total
EDP - Energias de Portugal, S.A.	-	59,975	210,000	269,975
EDP Servicios Financieros (España), S.A.	377,832	-	-	377,832
	377,832	59,975	210,000	647,807

EDP Finance BV
Notes to the Financial Statements
for the years ended 31 December 2015 and 2014

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

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

Income and expenses related to transactions with related parties as at 31 December 2014, are as follows:

Thousands of Euros	Interest on		Total
	Intra-Group Financial Mov.	Other	
EDP - Energias de Portugal, S.A.	250,331	-2,059	248,272
EDP Renováveis Serviços Financieros, S.L.	136,812	-	136,812
EDP Servicios Financieros (España), S.A.	53,063	11	53,074
EDP, S.A. Sucursal en España	140,103	627	140,730
EDP Renováveis, S.A.	16,134	693	16,827
Hidroeléctrica del Cantabrico, S.A.	76,259	418	76,677
Other	29,203	19	29,222
	701,905	-291	701,614

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

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

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

21. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

As at 31 December 2015 and 2014 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 2015		31 December 2014	
	Currency		Currency	
	EUR	USD	EUR	USD
3 months	-0.13%	0.61%	0.08%	0.26%
6 months	-0.04%	0.85%	0.17%	0.36%
1 year	0.06%	1.18%	0.33%	0.63%
2 years	-0.03%	1.18%	0.18%	0.90%
3 years	0.06%	1.42%	0.22%	1.30%
4 years	0.19%	1.59%	0.28%	1.58%
5 years	0.33%	1.74%	0.36%	1.78%
6 years	0.48%	1.85%	0.44%	1.93%
7 years	0.62%	1.95%	0.53%	2.05%
8 years	0.76%	2.04%	0.62%	2.14%
9 years	0.89%	2.12%	0.72%	2.21%
10 years	1.00%	2.19%	0.81%	2.28%

Fair value of assets and liabilities as at 31 December 2015 and 31 December 2014 is analysed as follows:

Thousands of Euros	Dec 2015			Dec 2014		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Financial assets						
Loans and receivables to group entities	14,562,894	15,177,521	614,627	16,191,211	16,995,110	803,899
Derivative financial instruments	288,585	288,585	-	80,239	80,239	-
Cash and cash equivalents (assets)	806	806	-	193,365	193,365	-
	14,852,285	15,466,912	614,627	16,464,815	17,268,714	803,899
Financial liabilities						
Debt securities	11,894,349	12,485,646	591,297	12,317,477	13,012,342	694,865
Loans and credit facilities from third parties	2,547,361	2,547,299	-62	3,473,353	3,707,405	234,052
Loans from group entities	34,268	34,268	-	377,832	377,832	-
Amounts owed on purchased debt securities	110,000	110,000	-	210,000	210,000	-
Derivative financial instruments	184,580	184,580	-	120,759	120,759	-
	14,770,558	15,361,793	591,235	16,499,421	17,428,338	928,917

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

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

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

The fair value of EDP Finance BV financial assets and liabilities, in 2015 and 2014, is included in Level 2, described above

The Company does not transfer financial assets nor liabilities between categories

22. SUBSEQUENT EVENTS

There are no subsequent events to mention for the year end of 2015.

23. RECENT ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED

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

- Annual Improvement Project (2011-2013)

The standards, amendments and interpretations issued but not yet effective for the Company can be analysed as follows:

- IFRS 9 - Financial instruments

The International Accounting Standards Board (IASB) issued in November 2009, IFRS 9 - Financial Instruments part I: Classification and measurement, with effective date of mandatory application for periods beginning on or after 1 January 2018, being allowed its early adoption. This standard has not yet been endorsed by the European Union.

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

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

The Company is evaluating the impact of adopting this standard.

- IAS 1 (Amended) - Initiative Disclosures

The International Accounting Standards Board (IASB), issued in December 2014, IAS 1 - Presentation of Financial Statements, with effective date of mandatory application for periods beginning on or after 1 January 2016, being allowed its early adoption. This amendment has not yet been adopted by the European Union.

The following narrow scope amendments have been made to IAS1:

- Materiality and aggregation: clarifies that an entity should not obscure useful information by aggregating or disaggregating information; and that materiality considerations apply to the primary statements, notes and any specific disclosure requirements in IFRSs, i.e. disclosures specifically required by IFRSs need to be provided only if the information is material;
- Statement of Financial Position and Statement of Profit or Loss and Other Comprehensive Income: clarifies that the list of line items specified by IAS 1 for these statements can be disaggregated as relevant. Additional guidance has been on the presentation of subtotals in these statements;
- Presentation of items of Other Comprehensive Income ("OCI"): clarifies that an entity's share of OCI of equity-accounted a in associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss;
- Notes: clarifies that entities have the flexibility when designing the structure of the notes and provides guidance on how to determine a systematic order of the notes.

The Company is evaluating the impact of adopting this amendment.

The standards, amendments and interpretations issued but not yet effective for the Company with no significant impact are the following

- Annual Improvement Project (2010-2012); and
- Annual Improvement Project (2012-2014)

24. AUDIT AND NON AUDIT FEES

KPMG has audited the financial statements of EDP Finance B.V. for 2015 and 2014. Fees and expenses incurred for professional services are rendered as follows (VAT excluded):

Thousands of Euros	Dec 2015	Dec 2014
Audit and statutory audit of accounts	160	124
Other services	5	16
Total	165	140

Amsterdam, 3 March 2016

The Managing Directors

EDP – Energias de Portugal, S.A.

de Kanter, H. P.

Gortzen, M. M. L.

TMF Netherlands B.V.

EDP FINANCE BV

OTHER INFORMATION

Statutory provisions concerning appropriation of results

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

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

Proposed appropriation of result

The Managing Directors proposes to add the profit for the financial year ended 31 December 2015 in the amount of EUR 45,891,338.79 to the accumulated results.



Independent auditor's report

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

Report on the audit of the annual financial statements 2015

Opinion

In our opinion the financial statements give a true and fair view of the financial position of EDP Finance B.V. (the 'Company') as at 31 December 2015, and of its result and its cash flows for 2015 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited

We have audited the financial statements 2015 of EDP Finance B.V., based in Amsterdam. The financial statements comprise:

- 1 the statement of financial position as at 31 December 2015;
- 2 the following statements for 2015: the income statement, the statements of comprehensive income, changes in equity and cash flows; and
- 3 the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

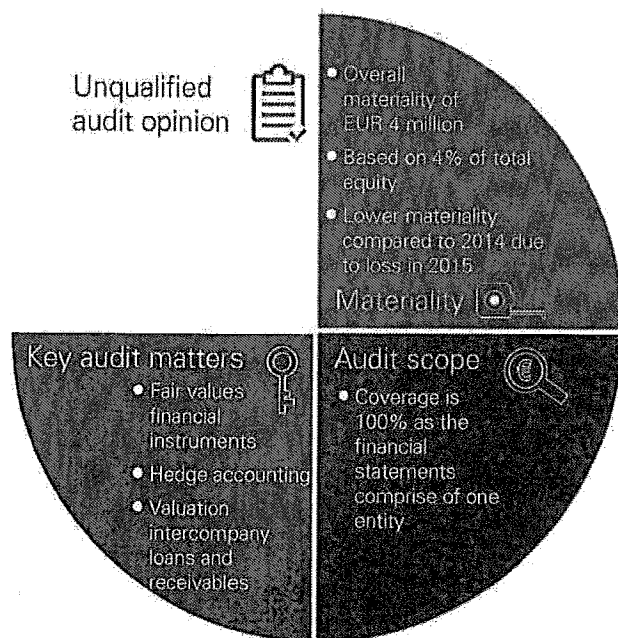
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of EDP Finance B.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' ('VIO') and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' ('VGBA').

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

Audit approach

Summary



Materiality

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

Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 4 million (2014: EUR 5 million). The materiality is determined with reference to the Company's total equity (4%) as solvency is considered more relevant than the profit before tax given the activities of the Company as financing entity for the group headed by EDP – Energias de Portugal, S.A. ('EDP S.A.'). We have lowered the materiality in absolute terms compared to last year's audit responding to the loss recorded by the Company for the year ended 31 December 2015.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

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

Our key audit matters

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

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

Estimation uncertainty for financial instruments measured as fair value

Description

Financial instruments are measured either at amortised cost or at fair value in the statement of the financial position of the Company. In Note 20 to the financial statements the fair values of all financial instruments held by the Company are disclosed, including those measured at amortised cost in the statement of financial position. The note also includes the fair value hierarchy for each of the fair values disclosed.



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

Our response

The Company applied a model based approach in the absence of identical instruments traded on an active market.

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



Our observation

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

We found that the assumptions for assumed credit, interest and exchange rate risks applied for the fair values of financial instruments recorded at amortised cost as included in Note 20 are derived from observable market data for listed debt of EDP Group entities and are within an acceptable range of supportable outcomes.



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

Uncertainty in respect of the application of hedge accounting

Description

The Company manages its exposure to interest rate and foreign currency risk by means of derivative financial instruments. To avoid an accounting mismatch in its financial statements, the Company applied hedge accounting.

As set out in Note 2, the accounting treatment of the hedged item and the hedging instrument is dependent on whether the hedge relationship qualifies for hedge accounting or not. Qualifying hedges are designated as either fair value hedges or cash flow hedges. The Company applies fair value hedge accounting for hedging its exposure to changes in fair value of the hedged item due to interest rate and foreign exchange differences and cash flow hedge accounting to mitigate its exposure to uncertainties in future cash flows in foreign currencies.



In accordance with IAS 39, hedge effectiveness testing is performed both prospectively and retrospectively for each reporting period. Any ineffectiveness is included in the income statement in the period in which it occurs. An overview of the Company's hedging activities is included in Note 18.

Given the significance of the application of hedge accounting for the financial position as a whole and the inherent complexity we have paid specific attention during our audit to the application of hedge accounting.

Uncertainty in respect of the application of hedge accounting

Our response

We have evaluated the Company's hedge documentation and identification process for new hedge relationships. Our procedures included assessing the calculation method of the defined hedged risk. We evaluated the Company's hedge effectiveness testing, also by involving valuation experts and determined that the strict accounting requirements were met for each hedge relationship. We also assessed whether the disclosure requirements were met in the financial statements.



Our observation

Based on our procedures we conclude that the Company applied hedge accounting appropriately and the related disclosures in the financial statements in Note 15 and 18 have been prepared in accordance with the requirements of IAS 39.



Estimation uncertainty in respect of the valuation of Loans and receivables Group entities

Description

The Company is a financing entity entering into financing arrangements to fund EDP S.A. and its subsidiaries. The Company has no substantial assets other than the loans and receivables from Group entities and is therefore mainly exposed to the credit risk of the Group.



The Company is therefore interrelated and dependent on the performance of the Group as a whole for repayment of its debt securities and meeting its financial obligations. This is highlighted in Note 4 of the financial statements.

Our response

To address this credit risk, our audit procedures included an assessment of the financial robustness of the financial position and liquidity of the Group to assess whether the respective Group entities are able to meet their contractual obligations. To this end we have performed the following procedures with respect to the exposure on Group entities:

- Inspect the audited 2015 financial statements of EDP Group entities with an intragroup balance with the Company;
- Determined that all interest payments have been made in accordance with the contractual agreements;
- Inquire and discussed with the Group auditor KPMG Portugal recent developments in the financial position and cash flows of the Group and whether any conditions existing as at, or subsequent to the reporting date that may lead to the Group's inability to meet its contractual obligations.



Our observation

Based on our procedures we found that the loans and receivables to Group entities of EDP S.A. are measured in accordance with the requirements of IAS 39.



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

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



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

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

Our responsibilities for the audit of financial statements

Our objective is to plan and perform the audit to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud. For a further description of our responsibilities in respect of an audit of financial statements we refer to the website of the professional body for accountants in the Netherlands (NBA) www.nba.nl/standardtexts-auditorsreport.

Report on other legal and regulatory requirements

Report on the report of Managing Directors and the other information

Pursuant to legal requirements of Part 9 of Book 2 of the Netherlands Civil Code (concerning our obligation to report about the report of Managing Directors and other information):

- We have no deficiencies to report as a result of our examination whether the report of Managing Directors, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code, and whether the information as required by Part 9 of Book 2 of the Netherlands Civil Code has been annexed.
- We report that the report of the Managing Directors, to the extent we can assess, is consistent with the financial statements.

Engagement

We were engaged by the Managing Directors as auditor of EDP Finance B.V. as of the year 2005. We have been re-engaged for the audit for the year 2015 on 10 April 2015.

Amstelveen, 3 March 2016

KPMG Accountants N.V.

M.J. Kooyman RA