# THE LIVING ENERGY BOOK

by edp

ANNUAL REPORT
2017

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## This Report

The Annual report of EDP – Energias de Portugal, S.A. ("EDP"), which incorporates a chapter regarding Corporate Governance, is prepared in accordance with the provisions set out on Portuguese Companies Code and Securities Code and it also complies, more specifically with regard to the Corporate Governance report, with the provisions set out on CMVM's Regulations no. 4/2013 and 5/2008, concerning Corporate Governance and Disclosure Requirements of the public companies. The financial statements presented in the report are prepared in accordance with the International Financial Reporting Standards (IFRS), adopted in the European Union.

Pursuant article 508º-G of the Portuguese Companies Code, in the wording introduced by Decree-Law no. 89/2017, dated 28th July, EDP publishes autonomously the Sustainability Report, in which it will be included sufficient information for understanding the evolution, the performance, the position and the impact of the Group activities regarding the following questions: environmental, social, referent to employees, to gender equality, to non-discrimination, to human rights respect, to corruption combat and to bribery attempts.

Additionally, EDP publishes a set of reports available at www.edp.com:

- Annual Report of the General and Supervisory Board;
- Sectoral reports, in particular: Ethics Ombudsman's Report, Safety Summary and Stakeholders' Report;
- Annual and sustainability reports of the companies Hidroeléctrica del Cantábrico, EDP - Energias do Brasil and EDP Renováveis;
- Management Approach to Sustainability, which endorses the issues set by GRI methodology and explains the relation between organizational processes and material issues for EDP's activities

# THE LIVING ENERGY BOOK

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We are energy in the journey we make every day. Energy that changes, reinvents itself and takes different forms.

Energy that lives within us, that is a universal language, that moves us and takes us further.

A living energy that brings us closer, that innovates and with which, together with small actions, we create change.

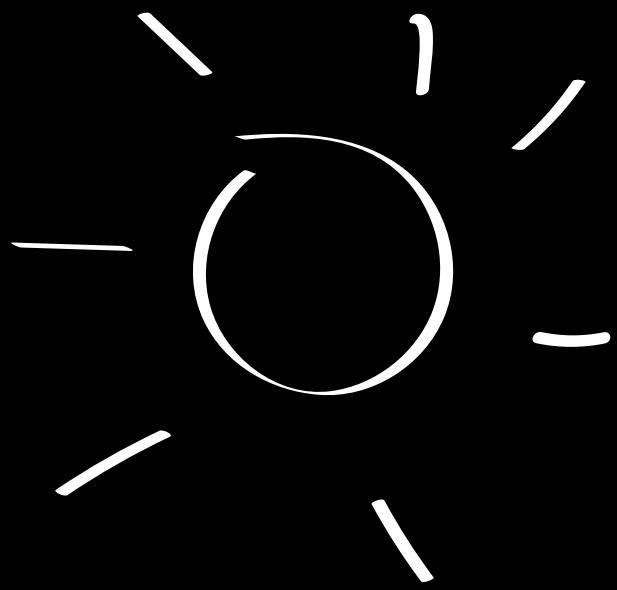
The energy that lives within every one of us is contagious and is everywhere, in a hug, in the lighting of a lamp, in our houses, in the streets or even across them in the sidewalks.

A living energy that together we continue to write in a book that reveals the present and which is also a building block for the future.

The Living Energy Book.

# THE LIVING ENERGY BOOK

by edp



# INDEX


## 01 EDP

Message from the Chairman 9
Our Year 14
EDP Group Profile 20

## 02 STRATEGIC APPROACH

Global Energy Trends 35
Strategic Priorities 39
Risk Management 44

## 03 PERFORMANCE

Group's Financial Analysis 55
Share Performance 58
Markets and Regulation of the Year 63
Business Area's Analysis 73
Risk Management in 2017 83

## 04 CORPORATE GOVERNANCE 87

## 05 FINANCIAL STATEMENTS 205

## 06 ANNEXES 373

# LIVING SUSTAINABILITY

# THE LIVING ENERGY BOOK

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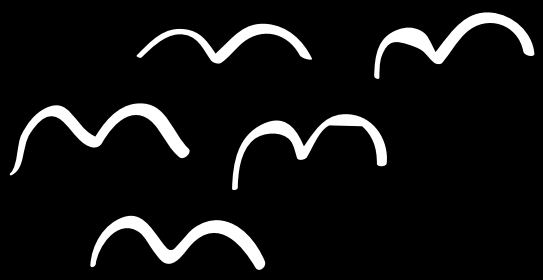


# 01

# EDP


## MESSAGE FROM THE CHAIRMAN 9

## OUR YEAR
Main Events 14
Key Metrics 15
Recognition 18

## EDP GROUP PROFILE
Who We Are 20
Where We Are 22
How We Are Organized
Business Areas 24
Governance, Shareholder's Structure and Corporate Bodies 26
Vision, Values e Commitments 28
Stakeholders 30

LIVING HUMANITY

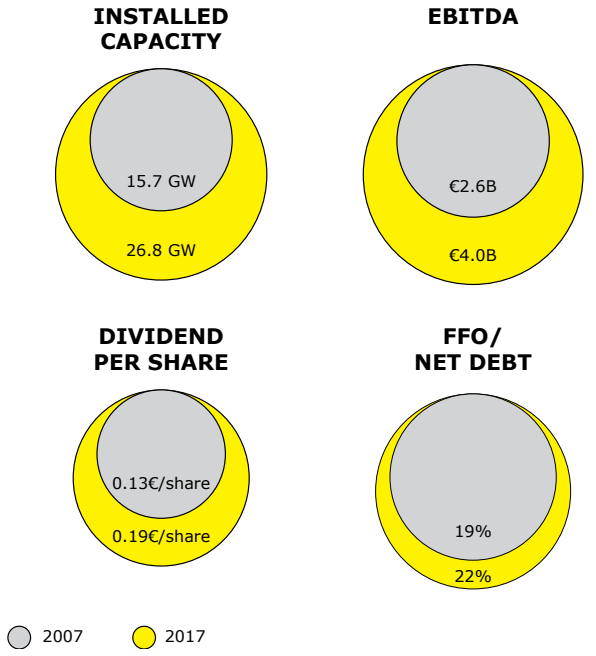
ANTÓNIO MEXIA
CHAIRMAN OF THE EXECUTIVE
BOARD OF DIRECTORS

# MESSAGE FROM THE CHAIRMAN

"IN A TIME OF PROFOUND CHANGE, CONSTANT NEW CHALLENGES AND THE WORLD EVOLVING AT AN UNPRECEDENTED PACE, THE CENTRAL THEME FOR A COMPANY IS HOW TO ANTICIPATE TRENDS AND KNOW HOW TO EXECUTE FLEXIBLY"

**Dear shareholder,**

In the last ten years, EDP has proven capable of positioning itself at the forefront, anticipating the trends of our industry and knowing how to create new opportunities. We have created a differentiating profile and have proven ourselves able to execute our priorities in what has been a constantly changing and challenging sector. The results are in sight, with a decade of growth, delivery of results and value creation.




Today, to talk about the major trends in the energy sector is to talk about a revolution that is characterised by "4Ds":

**Decarbonisation,** a theme evidenced by climate change and supported by the Paris Climate Agreement. Our industry has a key role to play in achieving emissions neutrality, as the solution is to electrify the economy based on renewable energy.

**Digitalisation,** which has had strong implications in all sectors, creating deep disruption in the most traditional business models and with implications throughout our entire value chain, from the operation of our assets to the way we relate to our customers and also in the way we work.

**Downstream,** where we encounter a more informed, more technological and more demanding customer. A customer whose role changes from mere consumer to that of producer and manager of its own electricity. This new paradigm not only has implications for the type of supply but also attracts competitors from other sectors.

**Disclosure** is much more than mere compliance with the relevant mandatory information. In the "information age", society demands total transparency from the companies in the way they act, becoming their way of being.

These are the elements that make up the environment of our sector and for which EDP has been able to position itself: in Decarbonisation, where we were pioneers in focusing on renewables and today enjoy a leading position in the sector; in Digitalisation where EDP has more than 450 digital initiatives in the various Group geographies and units, based on RPAs, use of drones, IoT platforms and Data & Analytics, in Downstream, where we have positioned ourselves on the customer side, an example of this is the process of market liberalisation in Portugal, where, thanks to an innovative, high quality service offer, we have become undisputed leaders in electricity and gas sales, with 84% and 58% of market share, respectively; in Disclosure, where EDP has always acted with total transparency and has been reporting for more than 15 years in accordance with the most respected standards of sustainability, in Environmental, Social, Ethical, Corporate Governance performance or in its relationship with its investors.

This is why we are convinced that the work we have done and the way we have positioned ourselves leaves us ready to face the future.

## RESULTS BASED ON ANTICIPATION

2017 was a year of change in the Group's portfolio following a proactive strategy of creating value and taking advantage of market contexts without compromising our identity.

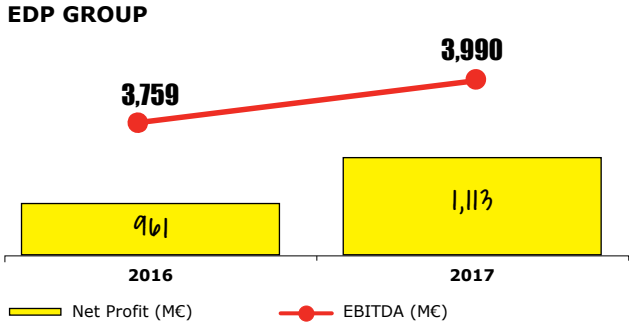
In the Iberia Peninsula, we completed the sale of the gas distribution businesses in Spain and Portugal, allowing the crystallisation of value at attractive multiples and taking the opportunity to execute profitable deals for the Group.

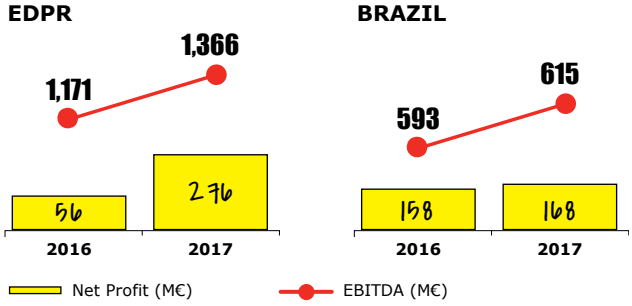
In Brazil, EDP has expanded its operation to two new business segments: transmission and distributed solar generation, which increases our ability to create value in this geography.

In Renewables, EDP launched a takeover bid for EDPR, which resulted in a final stake for our company of 82.5%, allowing the Group to retain more income from this segment, which represented at the end of 2017 ~40% of Group EBITDA. 2017 was also a year in which EDPR was awarded in an auction with an offshore project in UK, a new path of growth in this sector.

These operations, along with the entrance in the peruvian market, a partnership with CTG, have opened new growth options and reinforced the focus on renewable energies and low risk assets, simultaneously contributing to our commitment to deleverage and to deliver results with value creation.

From a financial point of view, EDP reached a reported net profit of 1.113 million euros in 2017, an increase of 16% over 2016.

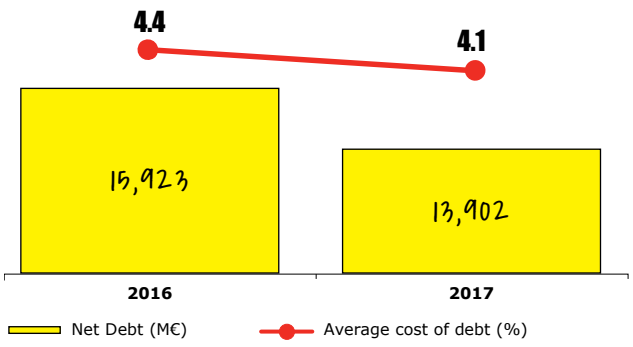



When we analyse the main drivers of this performance, we confirm the long-term vision that characterises us. The strong performance of the EBITDA of EDPR and EDP Brazil are the bases of these results, confirming once again the strategic choice of the focus on renewable energies and the internationalisation strategy in a market with strong growth potential such as Brazil. It should be noted that EDPR alone has installed more than 0.6 GW this year, surpassing today 11 GW of installed capacity, in a year in which the company attained its best results.

EDP's results are also based on the Group's continued operational excellence, having achieved in 2017 OPEX savings 26% above initially planned, once again surpassing expectations.

It is also worth mentioning the decrease of 2 billion euros in net debt to 13.9 billion euros, which puts us at 2008 levels, contributing to EDP's return to investment grade in all of the 3 major rating agencies, also acheived this year.




I would also like to mention that 2017 also marked the end of an investment cycle, the completion of the National Dams Plan, with the start of operations at Venda Nova III and Foz Tua, in which EDP invested a total of about 2 billion euros in Portugal. A period in which our company showed once again the ability to undertake large-scale engineering projects with significant impact on the local and national economy. A cycle is closed and a new one is starting now, focusing on the optimisation and operational excellence of our assets.

These results were achieved in a particularly challenging year for our company due to the 19% drop in operating results in the Iberia Peninsula, arising from the activity in Portugal. It was a year in which the severe drought (2017 was one of the 4 driest years since 1931) and the legislative and regulatory changes implemented in Portugal together had a negative impact on our operating results of around 400 million euros.

We have proved once again that, faced with an adverse environment in one of the geographies, the Group's ability to transform and adapt over the years has enabled us to overcome adversity and maintain the growth and commitments.

**THE CLIENT IN THE CENTRE OF EVERYTHING**

Talking about how the company has adapted also leads us to talk about what is at the heart of everything we do today: our client. It is thanks to our focus on the people we serve that in Portugal, EDP consolidated its leadership position in the last year, with a portfolio of electricity customers that grew to 4.2 million and amounted to 650,000 customers for natural gas. In Spain, the trend was also strong, with more than 1.1 million electricity customers and 883,000 for gas. And with clients who, as I said, are more informed and more demanding, we have been able to continue presenting innovative proposals in the services area as Funciona service and secure invoice. We will evolve with our client betting on the concept of Smart Home, aligning with future trends such as solar energy production, electric mobility, electricity storage and energy management.

But the innovation of the offer to our customers has to be accompanied by a strong discipline and a rigor in the quality of service, and the truth is that we also have reasons to be proud of 2017's results in this front. In the commercial area, we promoted automation initiatives and artificial intelligence that contributed to the generation of sustained savings and a reduction in the number of complaints per customer by 30% compared to 2016: in this, we continue to stand out clearly from our competitors. We also wish to be a model in electricity distribution and we continue to invest in the modernisation of our networks, having reached around two million smart meters installed in the Iberian Peninsula and with one of the best years ever in terms of network reliability in both Portugal and Spain.

**COMMITTED TO SOCIETY**

While we are proud of the figures we have presented, we are also proud of the responsible role that EDP continues to play in society. Proof of this strong commitment with a more sustainable society is that, in 2017, EDP registered the 10th consecutive year in which it was included in the Dow Jones Sustainability Index, being the first among its peers. This year we have also made a commitment to contribute to the achievement of eight of the United Nations 2030 Agenda for Sustainable Development Goals.

In the social component, EDP also stands out with an investment of 30 million euros in 2017 in areas such as the environment, social integration, innovation, education, culture and art. It is worth mentioning that to date, our company has already fulfilled 84% of its commitment to invest 100 million euros in social areas in the period between 2016 and 2020. We continue to be the largest corporate sponsor of culture in Portugal, and in 2017 we also affirmed our position in Brazil as the main private investor supporting the reconstruction of the Museum of the Portuguese Language in São Paulo.

It is this positioning that is embedded in everything we do and EDP will continue to proactively act in key areas of our society by assuming a role of accountability to everyone and everything.

**FOR PEOPLE, WITH OUR PEOPLE**

Our work has a clear focus on creating value for our stakeholders. But this attention is not just dedicated to those who are outside the organisation. There is a similar effort directed to our employees. In this respect, I would like to highlight an interesting fact - 2017 was the year in which the so-called "baby boomers" ceased to be the most representative group in the company, trading places with "Generation X" and the "Millennials". This is the image of a renewing EDP, which knows how to bring together several generations, which knows how to attract talent and is ready to welcome new people with new ideas and new backgrounds. This is a key point in preparing the company for the future, the ability to attract multidisciplinary talent and putting all the experiences and values of a diversified team working for innovation and a culture of excellence.

Looking at our Group, in addition to the age diversity, it is important to mention that today we are a multicultural company, with people of more than 40 nationalities in the 14 countries in which we operate. It is this kind of diversity that we want to promote and our commitment was recognised in 2017 with EDP being awarded the Diversity Management award of the European Excellence Awards in HR 2017.

"IN THE MIDDLE OF A REVOLUTION WITH THE CLIENT AT THE CENTER, WE NEED TALENT, DIVERSITY, INNOVATION AND COURAGEOUS"

Training continues to be one of the pillars of EDP and our teams are constantly learning. In 2017, the Group's training hours amounted to close to 500,000 hours and involved 98% of our employees, and the EDP University was once again honoured in the awards for the best corporate universities in the world.

As I have already mentioned, our teams delivered solid results in 2017. But I would like to draw attention to the cases where people went further. This year was marked by tragic fires in Portugal and Hurricane Harvey in the United States. In these two cases the response of our people was extraordinary, voluntarily mobilising all possible support for the people affected by these events. At the end of the year we counted about 35,000 volunteer hours and registered about 2,300 volunteer employees.

This is a reflection of a company that has a strong commitment to society and an indication of the character of its people.

**VISIBILITY FOR THE FUTURE**

**A future in which we want to continue to grow while maintaining our identity.** We are leaders in Renewables and we want to continue to emphasise these opportunities in markets that have been the Group's main driving force, such as the United States and Brazil. Our investment for the future, as it has been to date, will focus on low-risk businesses with visibility into cash flows.

**A future with a continuous focus on efficiency**. EDP has been an example in cost discipline and is now a benchmark in the sector with a gross margin OPEX below 30%, and implementing its fourth operational efficiency programme, the OPEX IV project. We will continue to launch efficiency initiatives with an increasing focus on Digitalisation.

**A future in which we will continue to put the customer at the centre of our priorities**. Our commitment to our customers has been clear. We want to continue to differentiate ourselves and develop new value propositions, especially in areas such as energy efficiency, decentralised production, electric mobility, and everything else that falls into the Smart Home concept. We also want to grow and "export" our skills and, in that sense, EDP has already identified new markets for new growth paths in energy trading, such as in France, Italy, Poland and Texas, which, in addition to being attractive, enable us to leverage our presence in these geographies.

**A future in which we are leaders in Digitalisation**. Our priorities for the future must be prompted by Digitalisation. EDP has already made great strides in Digital but our ambition is to be the leaders on this front. With this position, EDP aims to optimise its cost base throughout its value chain, improve solutions for its customers and develop business opportunities. In this context, at the end of 2017, we started a Project - EDP X - which aims to significantly accelerate the Group's digitalisation pace and strengthen the underlying pillars such as Organisation, Data, Technology and our Innovation Ecosystem.

"DIGITALISATION, DESPITE BEING TECHNOLOGY, IS MAINLY A MATTER OF PEOPLE, AND MOST OF THE INNOVATIONS IN THIS NEW ERA WILL BE THE RESULT OF A CULTURE OF SHARING AND WORKING TOGETHER"

**A future in which we will continue to create value.** As I said, in the last decade, EDP has proven itself capable of growing and delivering results to our shareholders. This year, the Executive Board of Directors will propose to the General Meeting a dividend per share of €0.19 in line with 2016 and in accordance with our dividend policy. It is in this sense that we will continue to work in the future, focusing on achieving the goals we have committed ourselves to and constantly creating value for our shareholders.

We know there will be significant challenges ahead and that we must adapt to remain relevant in an increasingly competitive sector. But it is with optimism that we look to the next few years because we know we have the structure, the people and the ability to know how to anticipate and execute with flexibility.

Thank you for your support and I invite you to read about this last year's milestones in more detail in the pages that follow.

Thank you.

António Mexia
Chairman of the Executive Board of Directors

# 1.2. OUR YEAR

# 1.2.1. MAIN EVENTS

### 24 JAN

EDP issues €600 million bond maturing in September 2023.

### 27 MAR

EDP sells €574 million of tariff deficit in Portugal.

### 24 APR

EDP Brasil awarded with 4 new electricity transmission concessions.

### 21 JUN

EDP issues U.S.$1,000,000,000 of Notes.

### 27 JUL

Conclusion of sale of 100% of EDP's Gas Distribution in Spain.

### 4 AUG

EDP increases stake in EDP Renováveis to 82.6%.

### 8 AUG

Standard & Poor's upgrades EDP to "BBB-" with stable outlook.

### 4 OCT

Conclusion of sale of 100% of EDP's Gas Distribution in Portugal.

### 30 OCT

EDP signed a 5-year revolving credit facility in the amount of €3,300,000,000.

### 14 NOV

EDP issues €500 million bond maturing in November 2027.

### 22 NOV

EDP sells €584 million in securitization of electricity tariff deficit in Portugal.

### 13 DEC

Notes Buyback by EDP finance BV for an aggregate amount of up to US$ 500,000,000.

### 14 DEC

EDP Renováveis is awarded a long-term RESA for 248.4 MW of wind onshore in Canada.

### 19 DEC

EDP Energias do Brasil celebrates agreement to acquire 14.46% of shares in Celesc.

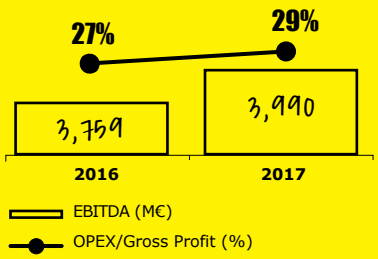
### 20 DEC

EDP Renováveis is awarded long term contracts for 218 MW of wind at Brazilian energy auction.

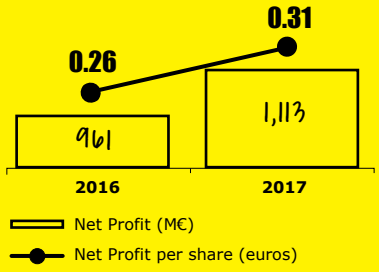
# 1.2.2. KEY METRICS

## FINANCIAL DATA

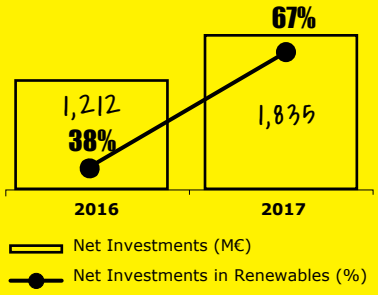
### EBITDA



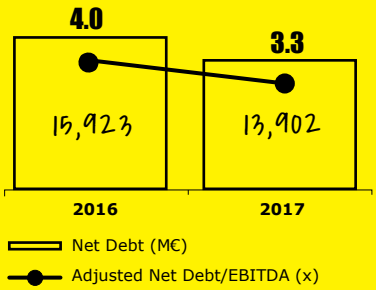

### NET PROFIT[1]




### NET INVESTMENTS[2]




### NET DEBT




## OPERATIONAL DATA

### GENERATION

**26,753 MW** +6% vs 2016
Installed capacity

**70,000 GWh** 0% vs 2016
Net generation

**737 MW** +6% vs 2016
Installed capacity - equity

**828 MW** −35% vs 2016
Capacity under construction

### DISTRIBUTION[3]

**78,788 GWh** +1% vs 2016
Electricity distributed

**10,228 ('000)** +1% vs 2016
Electricity supply points

### SUPPLY

**66,994 GWh** 0% vs 2016
Electricity supplied

**9,886 ('000)** +1% vs 2016
Electricity customers

**18,904 GWh** −21% vs 2016
Gas supplied

**1,585 ('000)** +6% vs 2016
Gas customers

[1] Net Profit attributable to EDP Equity shareholders.
[2] Considers CAPEX of EDP Group (excluding REPSOL assets acquisition in 2016), organic financial investments €134M (31 Dec 2016: €212M) and financial divestments (asset rotation) -€24M (31 Dec 2016: -€964M).
[3] Excludes gas distribution business discontinued in 2017.

# A COMPANY...

## PEOPLE

...HUMAN AND INCLUSIVE

41 h/p — +25% vs 2016
No. of hours of trainning/employee

28 — -7% vs 2016
No. of accidents at work with employees

11,657 — -3% vs 2016
No. of employees

24% female employees

41 — +1 vs 2016
No. of nationalities of employees

25% — 0 p.p. vs 2016
Female employees in management positions

## CLIENTS AND SUPPLIERS

...COMMITTED TO THE COMPETITIVENESS OF ITS CLIENTS AND SUPPLIERS

28% — +5 p.p. vs 2016
Customers with electronic invoice

214 — +38% vs 2016
GWh induced savings by energy services

74% — -3 p.p. vs 2016
Customer satisfaction

100 — -35% vs 2016
No. of accidents at work with suppliers

## COMMUNITY

...WITH AN EYE FOR THE COMMUNITIES' EXPECTATIONS

**24,932** +57% vs 2016
No. of hours of volunteering

**1,573** -12% vs 2016
No. of beneficiary entities

**28** +4% vs 2016
€M of volunteer investment

## INNOVATION

... MORE DIGITAL

**65** +81% vs 2016
€M of investment in RD+i

**28%** +10 p.p. vs 2016
Smart meters in Iberia

**184**
No. of automated activities

**94,116** +82% vs 2016
No. of hours of use of videoconferencing service

## PLANET

**...MORE SUSTAINABLE TO THE ENVIRONMENT**

**334** +23% vs 2016
t/GWh Specific $CO_2$ emissions

**74%** +2 p.p. vs 2016
Renewable installed capacity

**46%** -15 p.p. vs 2016
Recovered waste

**90%** -3 p.p. vs 2016
Certified maximum net installed capacity

# 1.2.3. RECOGNITION

**INTERACTIVE INVOICE**
**AWARDED AT THE EUROPEAN EXCELLENCE AWARDS**

**NUNO ALVES**
**DISTINGUISHED AS THE BEST CFO FOR THE INVESTOR RELATIONS AREA IN 2016,**
DELOITTE AWARDS

**EDP RE:DY**
**WINS ENVIRONMENT & GREEN ENERGY CATEGORY OF THE WORLD SUMMIT AWARD, COMPETITION LAUNCHED BY THE UNITED NATIONS**

**CDP CLIMATE CHANGE**
**LEADERSHIP A-**

TRANSPARENCY AND PERFORMANCE IN CLIMATE AND WATER MANAGEMENT

**CDP WATER**
**B LIST**

**7th IN THE EUROPEAN RANKING**
**OF THE INVESTOR RELATIONS IR MAGAZINE AWARDS**

FTSE4Good

Corporate Responsibility Prime
oekom research

ECPI Sense in sustainability

Member of Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

MSCI 2017 Constituent MSCI ESG Leaders Indexes

**EDPR AWARDED BY AMERICAN WIND ENERGY ASSOCIATION (AWEA) SAFETY AND HEALTH ACHIEVEMENT GOLD AWARD**

**EDP BRASIL IN THE TOP 5 OF INNOVATION IN THE ELECTRIC SECTOR**

VALOR INOVAÇÃO BRASIL

**ANTÓNIO MEXIA WINS CATEGORY WHICH CEO WOULD MOST LIKE TO HAVE?**
PORTUGAL HUMAN RESOURCES AWARDS 2016

**#1 OF THE WORLD**

**OF INTEGRATED UTILITIES WITH THE BEST SCORE EVER IN DOW JONES INDEX**

EDP SPAIN IS A LEADER IN THE CUSTOMER EXPERIENCE STINGA INDEX (ISCX) 2016

**MIGUEL SETAS,**
**EDP BRASIL, IN THE TOP 3 OF THE BEST CEO OF THE ELECTRIC SECTOR IN LATIN AMERICA**
INSTITUTIONAL INVESTOR

EUROPEAN EXCELLENCE AWARDS IN HUMAN RESOURCES

**WINNER IN THE CATEGORY DIVERSITY MANAGEMENT**

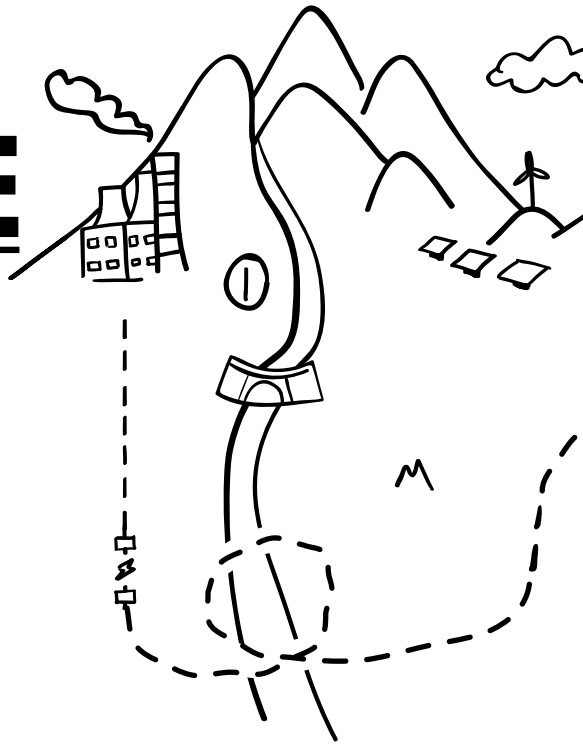
ROBECOSAM Sustainability Award Silver Class 2017

2017 WORLD'S MOST ETHICAL COMPANIES

EURONEXT vigeoeiris

# 1.3. EDP GROUP PROFILE

# 1.3.1. WHO WE ARE



## EDP IS A MULTINATIONAL, VERTICALLY INTEGRATED UTILITY COMPANY

Throughout its 40 years of history, EDP has been building a relevant presence in the world energy scene, being present in 14 countries in 4 continents.

EDP has around 12,000 employees and is present throughout the electricity value chain and in the gas commercialization activity.

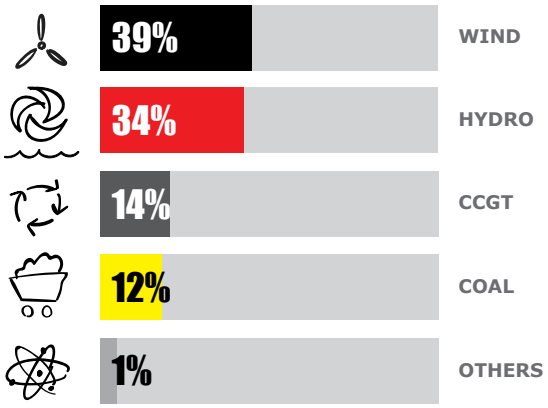
1

**Production** is the first activity in the value chain of the electricity sector. Power plants transform the various energy sources into electricity. These energy sources may be of renewable origin (water, wind and sun) or non-renewable (coal, natural gas, nuclear and cogeneration).

2

In the **transport activity** the energy produced is delivered to the transmission network, which is made up of very high voltage lines and which then channels the energy to the distribution network. This is a new segment in EDP's portfolio, being developed in Brazil, and is still not in operation.

## 27 GW OF INSTALLED CAPACITY

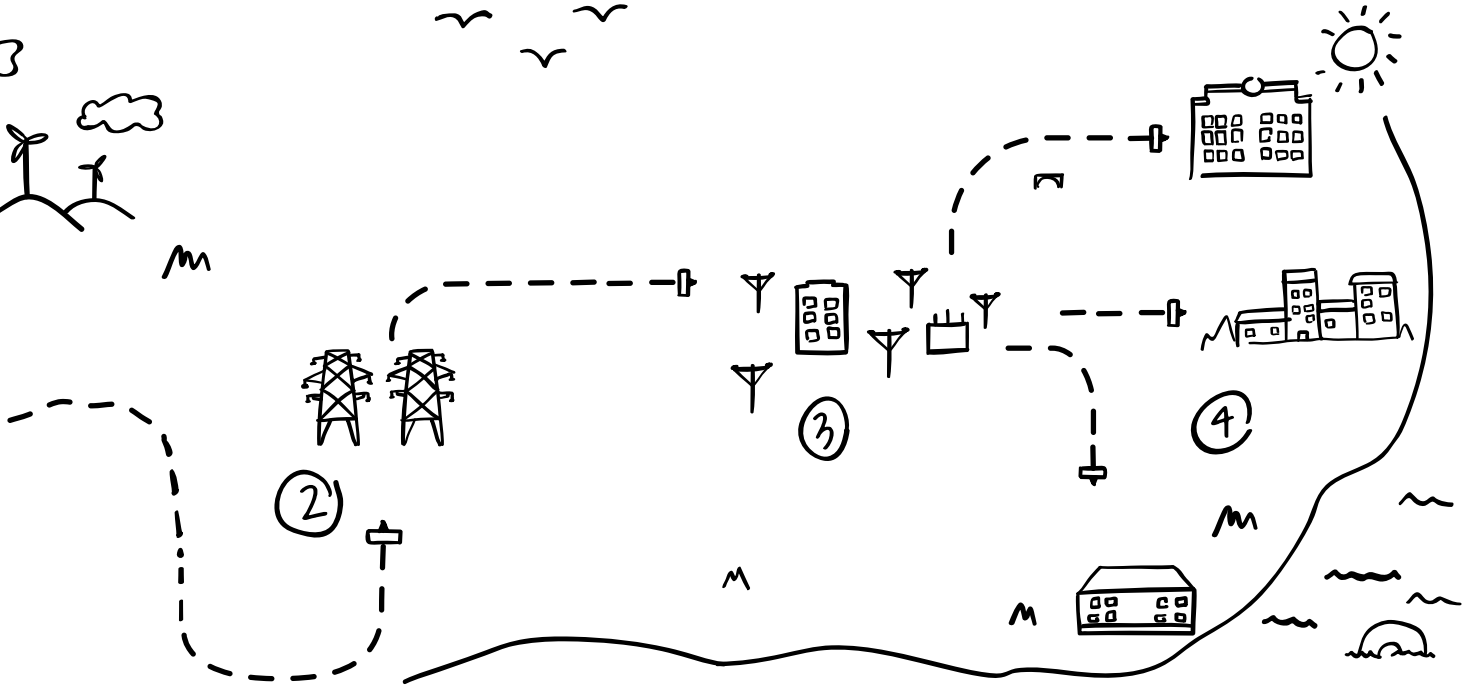



1,297 km

of transport network under construction

## 70 TWH OF NET ELECTRICITY GENERATION

56%
RENEWABLE SOURCES




3

In the **distribution activity** the transported energy is channeled to the distribution grid. The distribution network allows the flow of energy to the supply points. Electricity distribution networks are composed of high, medium and low voltage lines and cables. Substations, processing stations and public lighting installations as well as the necessary connections to consumer installations and power stations are also an integral part of the distribution networks.

**338,179 KM OF NETWORK**

284,309 Km

of distribution overhead lines

53,869 Km

of distribution underground lines

**79 TWh OF ELECTRICITY DISTRIBUTED**

4

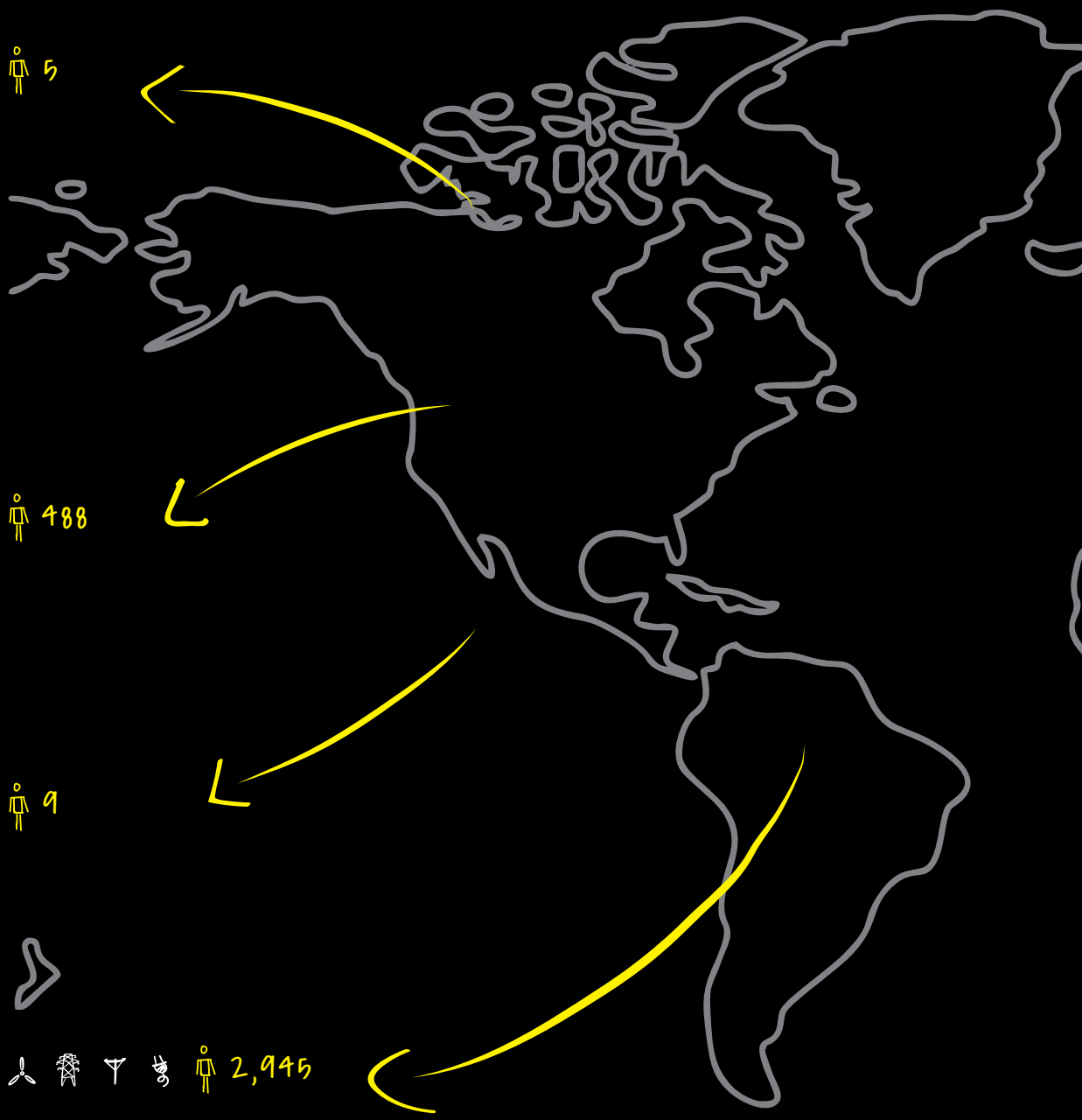
Energy arrives at the **supply** point and is sold by the supplier. Throughout the electricity and gas value chain, supply is the closest activity to the customer and responsible for the relationship with final consumers.

| **ELECTRICITY CUSTOMERS** | 9,885,775 |
|---|---|
| Customers in liberalized market | 5,067,981 |
| Customers in last resort | 4,817,794 |

| **GAS CUSTOMERS** | 1,585,345 |
|---|---|
| Customers in liberalized market | 1,489,079 |
| Customers in last resort | 96,266 |

# 1.3.2. WHERE WE ARE

Generation Renewables Transport Distribution Supply Employees



Portugal 6,326

Spain 1,680

Poland 35

Romania 32

Italy 28

UK 42

Belgium 3

France 60

# 1.3.3. HOW WE ARE ORGANIZED

## BUSINESS AREAS

### 01 IBERIAN GENERATION AND SUPPLY

16%
OF THE GROUP'S EBITDA

#1 GENERATOR AND SUPPLIER IN PORTUGAL

**#3 IBERIAN GENERATOR**

### 02 IBERIAN NETWORKS

26%
OF THE GROUP'S EBITDA

#1 PORTUGUESE DISTRIBUTOR

## 03 BRAZIL

18 %

OF THE GROUP'S EBITDA

#4 PRIVATE SUPPLIER IN THE FREE MARKET

**#5 PRIVATE GENERATOR**

## 04 RENEWABLES

edp renováveis

40 %

OF THE GROUP'S EBITDA

#4 GLOBAL WIND PLAYER

# GOVERNANCE, SHAREHOLDER'S STRUCTURE AND CORPORATE BODIES

## GOVERNANCE

EDP's governance structure is based on the **dual model** and consists of the **General Meeting, Executive Board of Directors, General and Supervisory Board and the Statutory Auditor.**

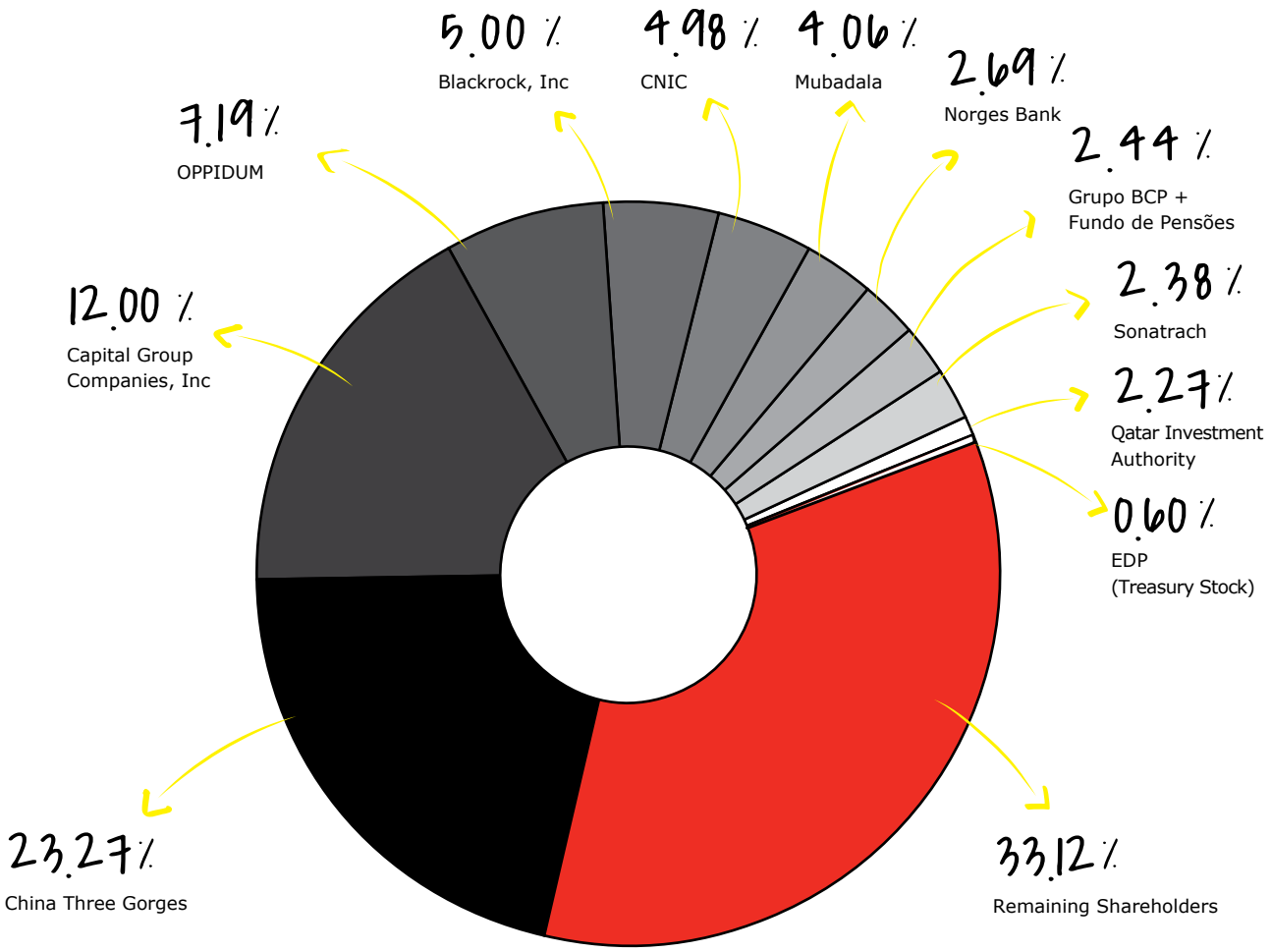
The separation of management and supervision roles is embodied in an Executive Board of Directors, which is responsible for the management of the company's business, and a General and Supervisory Board, the highest supervisory body.

Considering this structure, we can say that the dual model of corporate governance in place in EDP has allowed effective separation of the company's supervision and management in pursuit of the goals and interests of EDP and its shareholders, employees and other stakeholders, thereby contributing to achieving the degree of **trust and transparency** necessary for its adequate functioning and optimisation.

Furthermore, this model has proved appropriate to the company's shareholder structure as it allows supervision by key shareholders on the General and Supervisory Board.

The shareholders elected the members of the General and Supervisory Board and the Executive Board of Directors, as well as the Statutory Auditor and alternate auditor and members of the other corporate bodies, including the Board of the General Meeting, the Remuneration Committee of the General Meeting and the Sustainability and Environment Board at the General Meeting of 21 April 2015, for the three-year period from 2015 to 2017.

## SHAREHOLDER'S STRUCTURE



# EDP CORPORATE BODIES

**BOARD OF THE GENERAL MEETING**

António Manuel de Carvalho Ferreira Vitorino, **Chairman**
Rui Pedro Costa Melo Medeiros, **Vice-Chairman**
Maria Teresa Isabel Pereira, **Company Secretary**

**STATUTORY AUDITOR**

KPMG & Associados, SROC, S.A., represented by Vítor Manuel da Cunha Ribeirinho, Certified Auditor, **Permanent Statutory Auditor**
Susana de Macedo Melim de Abreu Lopes, Certified Auditor, **Deputy Statutory Auditor**

**GENERAL SUPERVISORY BOARD**

Eduardo de Almeida Catroga (in representation of China Three Gorges Corporation), **Chairman**
Luís Filipe Marques Amado, **Vice-Chairman**
Ya Yang (in representation of China Three Gorges New Energy Co. Ltd.)
Guojun Lu (in representation of China International Water & Electric Corp.)
Dingming Zhang (in representation of China Three Gorges (Europe), S.A.)
Shengliang Wu (in representation of China Three Gorges (Portugal), Sociedade Unipessoal, Lda.)
Felipe Fernández Fernández (in representation of DRAURSA, S.A.)
Fernando Maria Masaveu Herrero
Nuno Manuel da Silva Amado (in representation of Banco Comercial Português, S.A.)
Ferhat Ounoughi (in representation of Sonatrach)
Mohamed Ali Ismaeil Ali Al Fahim until October, 30th 2017, being replaced by Mohammed Issa Khalfan AlHuraimel AlShamsi thereafter (in representation of Senfora BV)
António Sarmento Gomes Mota
Maria Celeste Ferreira Lopes Cardona
Ilídio da Costa Leite de Pinho
Jorge Avelino Braga de Macedo
Vasco Joaquim Rocha Vieira
Augusto Carlos Serra Ventura Mateus
João Carvalho das Neves
Alberto Joaquim Milheiro Barbosa
María del Carmen Fernández Rozado
António Manuel de Carvalho Ferreira Vitorino

**EXECUTIVE BOARD OF DIRECTORS**

António Luís Guerra Nunes Mexia, **CEO**
Nuno Maria Pestana de Almeida Alves, **CFO**
João Manuel Manso Neto, **Trading and Renewables**
António Fernando Melo Martins da Costa, **Iberian Networks and Shared services**
João Manuel Veríssimo Marques da Cruz, **Internacional and Labelec**
Miguel Stilwell de Andrade, **Supply and Services, Electricity Spain and Client Services**
Miguel Nuno Simões Nunes Ferreira Setas, **Brazil**
Rui Manuel Rodrigues Lopes Teixeira, **Electricity Generation**

# 1.3.4. VISION, VALUES AND COMMITMENTS

## VISION

A global energy providing company, leader in creating value, innovation and sustainability.

edp

# VALUES

**HUMANITY**
Building genuine and trusting relationships with our customers, partners and communities.

**INNOVATION**
With the aim of creating value in the many areas in which we operate.

**SUSTAINABILITY**
Aiming to improve the quality of life of current and future generations.

# COMMITMENTS

**RESULTS**

- We fulfil the commitments that we embraced in the presence of our shareholders.
- We are leaders due to our capacity of anticipating and implementing.
- We demand excellence in everything that we do.

**SUSTAINABILITY**

- We assume the social and environmental responsabilities that result from our performance thus contributing towards the development of the regions in which we operate.
- We avoid specific greenhouse gas emissions with the energy we produce.
- We ensure the participatory, competent and honest governance of our business.

**CLIENTS**

- We place ourselves in our clients' shoes whenever a decision has to be made.
- We listen to our clientes and answer in a simple and clear manner.
- We surprise our clientes by anticipating their needs.

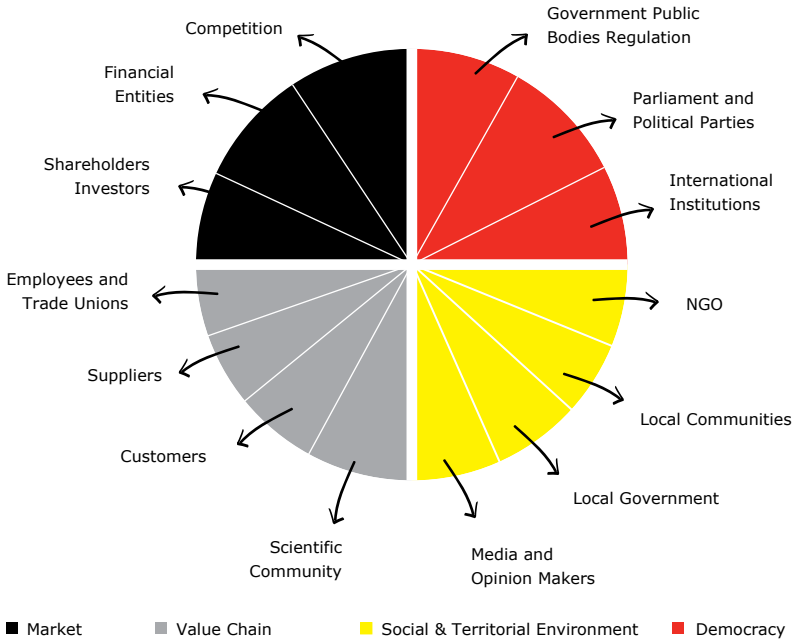
**PEOPLE**

- We join conduct and professional rigour to enthusiasm and initiative, emphasizing team work.
- We promote the development of skills and merit.
- We believe that the balance between private and professional life is fundamental in order to be successful.

# 1.3.5. STAKEHOLDERS

Stakeholder management is a demanding activity, which requires the transparency of businesses in their relationship with society and, in particular, with all those that have an impact on or are being impacted by business activities.

Stakeholder engagement within the EDP Group is a strategic priority for the maintenance of a transparent and open dialogue with all those to whom the business relates to. Building and strengthening relationships of trust, sharing knowledge and relevant information, anticipating challenges and identifying new opportunities for cooperation are the main goals of EDP's Stakeholder Relationship Policy.




**DESPITE THE GROWING EXIGENCE IN THE CRITERIA OF STAKEHOLDER ENGAGEMENT ESTABLISHED BY THE DOW JONES SUSTAINABILITY INDEX 2017 WAS CHARACTERIZED BY THE LEAD ACCOMPLISHED BY EDP IN THAT CRITERIA, ULTIMATELY ACHIEVING THE HIGHEST POSSIBLE SCORE.**

EDP invests in open relationships with its stakeholders, believing that it improves performance, anticipates and manages risks, and creates value for the various stakeholders within all the geographies in which the Group operates. For this purpose, the commitment of EDP Group's various business units, which seek to identify their stakeholders and the relevant critical issues, has been fundamental in guaranteeing relationship channels and drawing up action plans that address the identified risks and that meet the expectations of the relationships.

## COMPREHEND

We have dynamically and systematically identified the Stakeholders that influence and are influenced by the Company, and we analyze and try to understand their expectations and interests in the decisions that directly impact on them.

## COMMUNICATE

We are committed to promoting two-way dialogue with Stakeholders through information and consulting initiatives. We listen, inform and respond to Stakeholders in a consistent, clear, rigorous and transparent manner, with the aim of building strong, durable close relationships.

## TRUST

We believe that the promotion of a climate of trust with our Stakeholders is crucial to establishing stable, long-term relationships. Our relationship with stakeholders is based on values like transparency, integrity and mutual respect.

## COLLABORATE

We aim to collaborate with Stakeholders to build strategic partnerships that bring together and share knowledge, skills and tools, thereby promoting the creation of shared value in a differentiating manner.

# THE LIVING ENERGY BOOK

by edp

# THE LIVING ENERGY BOOK

by edp

# 02

# STRATEGIC APPROACH


**GLOBAL ENERGY TRENDS** 35

**STRATEGIC PRIORITIES**

Strategic Agenda 2016-2020 39

Strategic Guidelines Compliance 43

**RISK MANAGEMENT** 44

LIVING INNOVATION

# THE LIVING ENERGY BOOK

by edp

# 02 STRATEGIC APPROACH

## 2.1 GLOBAL ENERGY TRENDS

### A DECARBONIZATION WORLD

Decarbonisation continues to mark the global agenda, with the world watching in 2016 for the third consecutive year the stagnation of the carbon emissions of the energy sector. However, stagnation in emissions is not sufficient to meet the targets set in the Paris Agreement (December 2015). The Paris Agreement provides for the limitation of the global temperature increase to 1,5°C compared with pre-industrial values. For that to happen, countries should reach the peak of their emissions as quickly as possible and pool efforts to reduce them in the following periods.

The pace of increase in global energy demand will slow down against historical data, but the International Energy Agency (IEA) estimates global energy demand to increase by 30% by 2040, which is equivalent to an increase of 1% per year. This increase is driven by growth of 3.4% per year in the global economy, population growth from 7.4 billion to more than 9 billion in 2040 and the growing urbanization process.

The decoupling between economic growth and increased demand for energy leads to a significant reduction (2.3% per year) in global energy intensity. At the same time, $CO_2$ emissions related to the energy sector are expected to increase by only 0.4% per year, reflecting an improvement in the overall carbon intensity indicator.

Although improvements in the carbon intensity of the global economy are expected in the long term, increasing energy demand continues to raise climate concerns as it hampers the achievement of the objectives proposed under the Paris Agreement.

**THE PATH OF DECARBONISATION IMPLICATES A DEEP CHANGE TO THE ECONOMIC MODEL BASED ON FOSSIL FUELS, A STRONG BET IN ENERGY EFFICIENCY, ELECTRIFICATION BASED IN RENEWABLES AND THE PROMOTION OF INNOVATION.**

### INCREASE IN ENERGY DEMAND

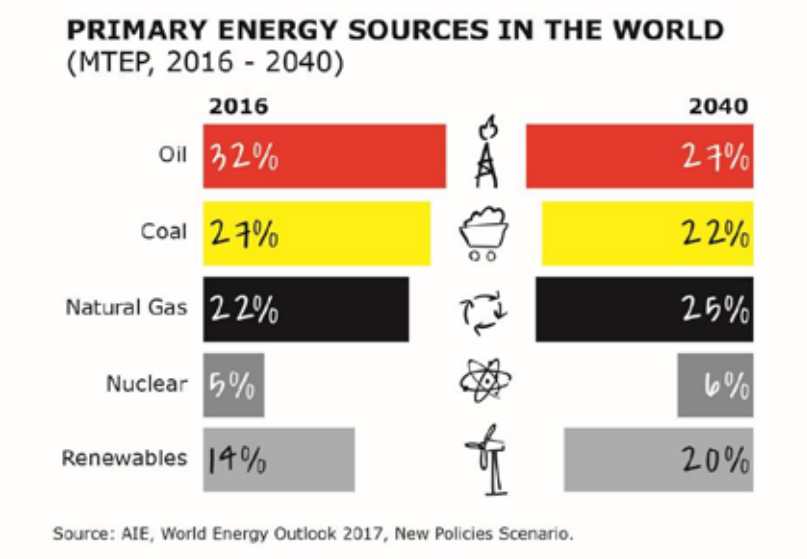
**ENERGY DEMAND 2016-2040**

↗ **EMERGING ECONOMIES**

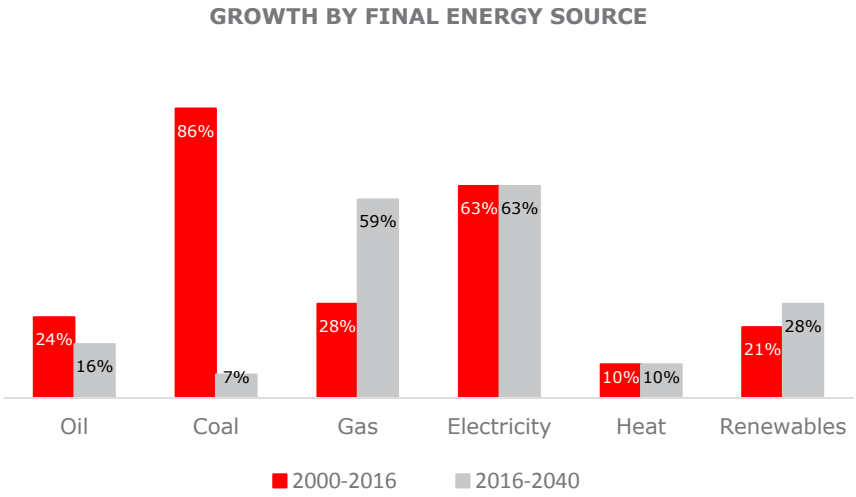
↘ **OECD**

Geographically, the expected increase in demand is due to countries outside the OECD (emerging economies), with China remaining the largest consumer of energy. Emerging economies in Asia will account for two-thirds of this growth, with India accounting for the largest contribution (about 30%). On the other hand, the OECD countries are expected to follow an inverse downward trend in demand, down by 4% by 2040.

At a global level, the demand for different primary energy sources diverges. OECD countries are expected to decrease their dependence on oil (-30% of consumption), while increases of 30% and 100% are anticipated for the regions of China and India respectively. Coal behaves differently, with a 33 per cent fall in the OECD and 13 per cent in China by 2040, while in India it is expected to grow by 114 per cent. The only forms of energy that will grow in all of these geographies will be natural gas and renewable energy, the latter being largely promoted via the electricity sector. China will remain the world's largest renewable energy consumer, followed by the United States, European Union and India.




The weight of fossil fuels in the global energy mix is expected to decline progressively, with each of the three fossil fuels (oil, coal and natural gas) expected to account for about one-fourth of primary energy consumption by 2040. Renewables and nuclear make up the remainder, contributing 20% and 6% respectively, with bioenergy accounting for more than half of the renewable mix.




Source: AIE, World Energy Outlook 2017, New Policies Scenario

At the final energy level, electricity will be the form of energy which is expected to register the greatest relative growth, about 63% by 2040, as a result of increasing urbanization and the penetration of electricity into new sectors such as transport. Natural gas is the fossil fuel that will register a bigger increase, with a growth of almost 60% until 2040.

## INCREASING ELECTRIFICATION OF CONSUMPTIONS

**ELECTRICITY CONSUMPTION**

Electricity will be the final form of energy that will grow the most in the coming decades, keeping the trend that has become clear in recent years. By 2040 electricity will account for 40% of the increase in final energy consumption - equivalent to the oil share in growth over the last twenty-five years.

Much of the growth in electricity consumption by 2040 is concentrated in developing economies, particularly in China and India, which will account for about half of the growth. In sectoral terms, the overall increase in electricity demand is mainly due to industry and heating and cooling. Other forms of energy traditionally used for heating and cooling and transport needs will be progressively replaced by more efficient, competitive and less polluting technologies, in particular heat pumps and mobility solutions based on electrical technologies.

**RENEWABLES**

The technological development and consequent decrease in the costs of renewable energy is the driving force behind these technologies (mainly wind and solar PV), also driven by a set of policies based on environmental concerns and reduction of external dependence (particularly in Europe).

The strong penetration of renewables in the mix has implications at various levels. The intermittent feature of most of these technologies imposes additional challenges in the management of electrical systems and the need for backup capacity to ensure security of supply.

By 2040, an increase in global installed capacity is planned, where part of the new capacity additions are needed to replace plants that will be decommissioned. Overall, the IEA estimates that in the period 2016-2040 it will be necessary to invest $ 19 trillion in the electricity sector, of which more than half will be directed to generation, the rest being allocated to transportation and distribution infrastructure. Of this investment in new capacity, it is estimated that the renewable ones capture about two thirds, given the increasing competitiveness of these technologies.

## DIGITALIZATION AND INNOVATION OF THE SECTOR

**DIGITALIZATION OF THE ENERGY SECTOR**

In the energy sector today there is a growing digitalization and innovation throughout the value chain. On the supply side, it is estimated that the digitalization is responsible for savings of up to 20% in the costs of production and exploitation of gas and oil. In the electricity sector, technological innovation is evident in renewable generation and the implementation of smart meters and networks. On the other hand, the increasing digitalization allows the more active participation of consumers, who become increasingly sophisticated.

**GREAT DEVELOPMENTS IN RENEWABLE ENERGY PERFORMANCE**

In the electricity sector, in 2017, record prices of solar PV and wind energy were reached, as a result of the strong technological development and consequent reduction of renewable costs, coupled with a remuneration mechanism based on auctions of long-term contracts, thus promoting a reduction of the cost of capital. In just two years, compensation for solar and wind projects fell by around 30-40% globally. In countries such as Mexico, Chile and India, record highs for solar projects were achieved, ranging from US $ 20-30 / MWh. Relatively to wind, record low prices were achieved in the Netherlands, Denmark and Germany.

**SMART GRIDS**

In the electricity distribution and transport sector, smart grids are gaining in popularity as they allow for automatic monitoring of electricity flows, adjusting for misalignments in supply and demand. When aggregated with smart meters, these networks provide real-time information to consumers and electricity suppliers. Consumers can thus adapt and optimize - in time and volume - their energy use according to their price throughout the day. Bloomberg estimates that the digitalization of the electricity sector generates about $ 40 billion in 2025, half of which is created by the use of smart meters.

**DISTRIBUTED GENERATION**

At the same time, consumers' sophistication promotes the development of integrated solutions that allow the consumer to install and operate distributed generation systems (eg. solar panels), maximize the use of energy through batteries and control their consumption through applications which promote energy efficiency.

**ELECTRIC MOBILITY**

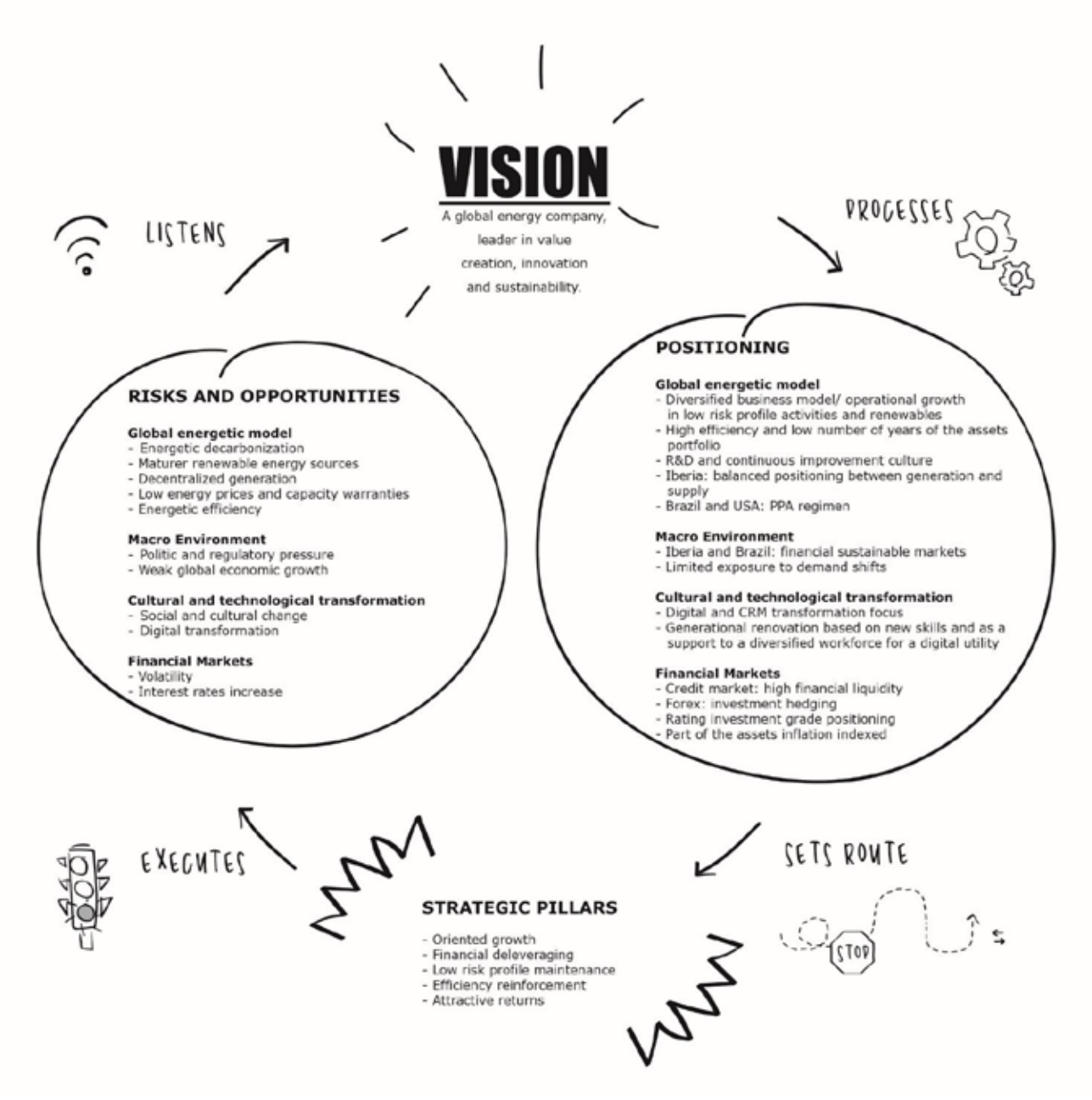
In the transport sector, the continuous reduction of the costs of batteries in the electric vehicle (EV) modules in conjunction with recent regulatory policies will promote its adoption, with 2017 marked by the electrification targets announced by several automobile manufacturers as well as governments. The IEA estimates that in 2040 EV's share corresponds to 14% of the fleet of passenger cars compared to the current 0.2%.

# 2.2 STRATEGIC PRIORITIES

## 2.2.1 STRATEGIC AGENDA 2016-2020

Recent years have introduced significant challenges in the energy sector related to the ongoing energy revolution but also to the changes in companies' processes and human capital stemming from the digital and cultural leap already under way.

These factors give rise to uncertainty and volatility in the business, implying a proactive management of risks and opportunities.



In this sense, EDP strategically positions itself with a low-risk and cross-diversified resilient profile, creating conditions for the execution of a strategy to create value in the face of the challenges of a context of low ecological footprint and behavioral and technological changes of its stakeholders, as well as the expected changes in context.

The strategic architecture communicated by EDP in May 2016 reinforced the commitment of balanced growth with financial deleveraging and the maintenance of an attractive return to shareholders, based on the strategic pillars followed since 2006 and which have proved adequate - controlled risk, superior efficiency and focused growth.

**EDP POSITIONS WITH A RESILIENT LOW-RISK AND CROSS-DIVERSIFIED PROFILE, CREATING CONDITIONS FOR VALUE GENERATION IN A CONTEXT OF LOW ECOLOGICAL FOOTPRINT AND BEHAVIORAL AND TECHNICAL CHANGES IN ITS STAKEHOLDERS**

EDP thus presented the following strategic priorities for the period 2016-2020:

| | | |
|---|---|---|
| FOCUSED GROWTH | EBITDA CAGR 2015[1]-20 | +3% |
| CONTINUE FINANCIAL DELEVERAGING | Net debt/EBITDA 2020 | ~3.0x |
| KEEP LOW RISK PROFILE | % EBITDA Regulated/ LT Contracted | ~75% |
| REINFORCE EFFICIENCY | OPEX/Gross Profit 2020 | 26% |
| DELIVER ATTRACTIVE RETURNS | EPS CAGR 2015[1]-2020 | +4% |
| | DPS Floor at €0.19/share increase vs 2015 | +3% |

EDP's **growth-oriented commitment** is embodied in an expected increase of EBITDA of about 3% per year by 2020[1] driven by the creation of growth opportunities focused on renewables, predominantly comprising wind but also hydro and solar.

Therefore, the BP 2016-20 foresees an average net investment of 1.4 billion euros per year in the period 2016-20, of which 84% relates to regulated and long-term contracted activities, with about 55% visibility, at that date, of the renewables growth target up to 2020.

The **financial deleveraging** effort aims to reinforce the visibility in free cash flow generation in the medium term, establishing the target of a Net Debt/EBITDA ratio of ~3.0x in 2020, supported by a rigorous control over the investment together with EDP Renováveis' asset rotation strategy and the execution of the strategic partnership with CTG.

EDP's preservation of its **low risk business profile** remains a priority, namely in what concerns the recognition as one of the most integrated and regulated European utilities, set on the commitment of maintenance of the weight of its regulated activities around 75% of total EBITDA in 2020. To this end, EDP will aim to ensure, wherever possible, long-term contracts for the sale of energy as well as to diversify its business portfolio.

The commitment towards **efficiency** is even more relevant in the current challenging context of the sector. In this regard, EDP intends to keep its leading position achieved through the development of a culture of continuous

[1] Based on recurrent and weather adjusted EBITDA and Net Profit in 2015

improvement, based on programmes spread across the Group, as well as on the execution of a new efficiency programme, OPEX IV, targeting annual cost savings of 200 million euros per year by 2020 and an accumulated savings amount of 700 million euros in the 2016-2020 period.

Regarding the **shareholders return**, EDP is committed to increase the dividend floor by 3%, to €0.19 per share, from 2016 fiscal year. This commitment is based on the expectation of a Net Profit annual increase of about 4% per year by 2020[2], intending to achieve a payout ratio that is in a range between 65% and 75% of recurrent Net Profit

Following the announcement of the Business Plan 2016-20, purchases and sales of assets were made to optimize the group's portfolio, reinforcing the defined strategic pillars. In particular, sales of the Gas distribution businesses in Spain and Portugal were completed in July and October 2017, respectively - these transactions enabled a 2.7 billion euros inflow and represented an annual EBITDA around 200 million euros, impacting on EDP's regulated EBITDA target for 2020 by -1p.p. On the other hand, EDP acquired an additional 5% stake in EDP Renováveis in August 2017, following a takeover bid, implying a payment of 0.4 billion euros and entered into the electricity transmission business in Brazil, being currently under construction 1,297km of network, in a total investment of 0.8 billion euros and a foreseen EBITDA of 160 million euros when all the network enters in operation. Overall, these transactions positively impact in -0,2x the target of Net Debt/EBITDA in 2020.

In addition, the constant focus on efficiency enabled EDP to successfully anticipate the results of the OPEX IV efficiency programme having been decided to reinforced in 50 million euros/year the efficiency target.

Given the rapid changes in the technological context, EDP reinforced its ambition to remain in 2017 group of the front of the digital transformation reinforcing this objective financially and structurally with the creation of a dedicated team, **EDP X**, involving more than 50 employees and consultant services.

[2] Based on recurrent and weather adjusted Net Profit in 2015

## SUSTAINABILITY PILLARS

The EDP Group's strategy reflects its commitment to sustainable development, fully assuming the structuring role of energy in supporting more balanced growth models from a social and environmental point of view.

In the Business Plan 2016-2020, EDP communicated to the market a strategic sustainability agenda integrated in the maintain a low-risk profile pillar. This profile will also contribute to the maintenance of a leading position and worldwide recognition of its sustainability practices. In this sense, the sustainability strategy was organized around four strategic axes: Creating economic value, Developing our people, Managing climate and environment issues and Strengthening trust.

EDP is committed to ensuring that its activity contributes actively to 8 of the 17 United Nations[3] Sustainable Development Goals (SDGs)[4] to be achieved by 2030. Each of the strategic lines is aligned with the following SDG's:

## STRATEGIC SUSTAINABILITY AXES

**GENERATE ECONOMIC VALUE**

**DEVELOP OUR PEOPLE**

**MANAGE CLIMATE AND ENVIRONMENTAL ISSUES**

**IMPROVE TRUST**

[3] Further information on the SDG's is available on the website of United Nations
http://www.un.org/sustainabledevelopment/sustainable-development-goals/

## 2.2.2 STRATEGIC GUIDELINES COMPLIANCE

| | | TARGET 2020 | STATUS 2017 | OBSERVATIONS |
|---|---|---|---|---|
| FOCUSED GROWTH ✓ | • Net Investments<br>• LT Contracted Renewables[1]<br>• EBITDA CAGR 2015[2]-20 | • Avg. €1,4B/year<br>• +3.9GW<br>• +3% | • €1.5B<br>• +2.8GW<br>• -1% | • See chapter 3 Performance |
| CONTINUE FINANCIAL DELEVERAGING ✓ | • FFO/Net Debt<br>• Average cost of debt<br>• Net Debt/EBITDA | • ~24%<br>• 4.2%<br>• ~3.0x | • ~18%<br>• 4.1%<br>• ~3.3x | • See chapter 3 Performance |
| KEEP LOW RISK PROFILE ✓ | • Renewables installed capacity<br>• Avg. Residual Asset Life<br>• EBITDA Regulated/ LT Contracted | • ~76%<br>• ~21 years<br>• ~75% | • 74%<br>• ~26 anos<br>• 84% | • See chapter 3 Performance |
| REINFORCE EFFICIENCY ✓ | • Opex IV Target Annual Cost Saving<br>• Accumulated Opex Savings<br>• OPEX/Gross Profit | • ~€200M<br>• €700M<br>• 26% | • €141M<br>• ~€246M<br>• 29% | • See chapter 3 Performance |
| DELIVER ATTRACTIVE RETURNS ✓ | • Target Dividend Payout Range<br>• DPS Floor 2016<br>• EPS CAGR 2015[2]-20 | • 65-75%<br>• €0.19/share (+3%)<br>• +4% | • 72%<br>• €0.19/share<br>• 0% | • See chapter 3 Performance |
| ✓ GENERATE ECONOMIC VALUE | • Renewable capacity<br>• Investment in I&D+I (aggregate)<br>• Smart meters (Iberian Pensinsula)<br>• Saved Energy (aggregate) | • ~76%<br>• €200M<br>• 90%[7]<br>• 1 TWh | • 74%<br>• €137M<br>• 28%<br>• 0.5 TWh | |
| ✓ DEVELOP OUR PEOPLE | • Engagement level<br>• Female employees<br>• Certification according to OHSAS 18001[3]<br>• Suppliers with high H&S impacts, certified according to OHSAS 18001<br>• Frequency index (FI)[4] | • ≥ 75%<br>• 27%<br>• 100%<br>• 100%<br>• ≤ 2.00 | • 75%<br>• 24%<br>• 36%<br>• 49%[8]<br>• 2.03 | |
| ✓ MANAGE CLIMATE AND ENVIRONMENTAL ISSUES | • Emissions variation vs 2005<br>• Maximum certified installed net capacity<br>• Certified substations capacity<br>• Certified suppliers with high environmental impacts<br>• Variation in specific waste materials vs. 2015 | • -75%[7]<br>• 100%<br>• 100%<br>• 100%<br>• -20% | • -47%<br>• 90%<br>• 50%<br>• 75%[8]<br>• -9% | |
| ✓ IMPROVE TRUST | • Clients/Users satisfaction<br>• Recognition by the Ethisphere Institute<br>• Protect Human Rights in the supply chain[5]<br>• Implement full stakeholders auscultation[6]<br>• Employees participating in volunteer activities<br>• Hours/year in volunteer activities<br>• Investment in the community (LBG) (aggregate value)<br>• Critical suppliers evaluated according to ESG criteria<br>• Service providers with audited ESG risks | • > 80%<br>• ✓<br>• 4th stage<br>• 4th stage<br>• 20%<br>• 20,000h<br>• €100M<br>• 100%<br>• 100% | • 74%<br>• ✓<br>• 2nd stage<br>• 2nd stage<br>• 20%<br>• 24,932h<br>• €83M<br>• 75%[8]<br>• 44%[8] | |

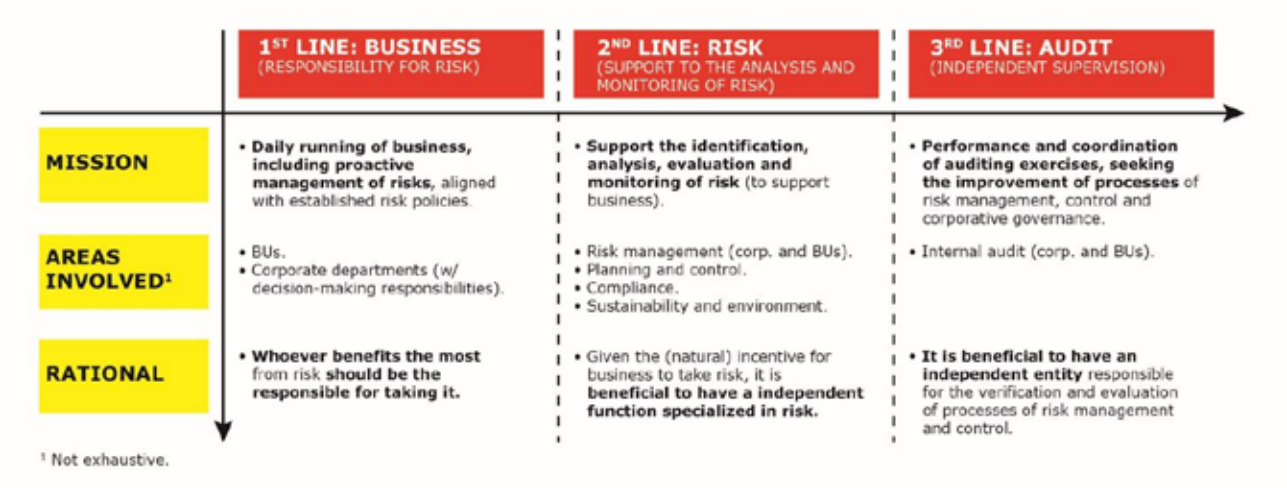
[1] Including installed capacity equity.
[2] Based on recurrent EBITDA and net profit adjusted from weather impact in 2015.
[3] Employees covered by OHSAS 18001.
[4] Accidents with EDP coworkers and outsourcing workers for a million worked hours.
[5] 1st stage - Impact Study; 2nd stage - Supplier's Code of Conduct; 3rd stage - Supplier's assessment in the Human Rights dimensions; 4th stage - Plans for improvement in relevant cases; adjustment of purchasing policies.
[6] 1st stage - Definition of a stakeholder auscultation methodology; 2nd stage - Implementation of the methodology in all Business Units in Portugal; 3rd stage - Implementation of the methodology in all Geographies; 4th stage - Cover all segments of the EDP Group's stakeholders.
[7] Target for 2030.
[8] Status still to be determined. Status presented referring to last year.

# 2.2 RISK MANAGEMENT

## RISK GOVERNANCE MODEL

EDP Group follows a risk governance model based on the concept of 3 lines of defense internal to the organization, which are complemented by an external fourth line of defense, external audit and regulation/ supervision.

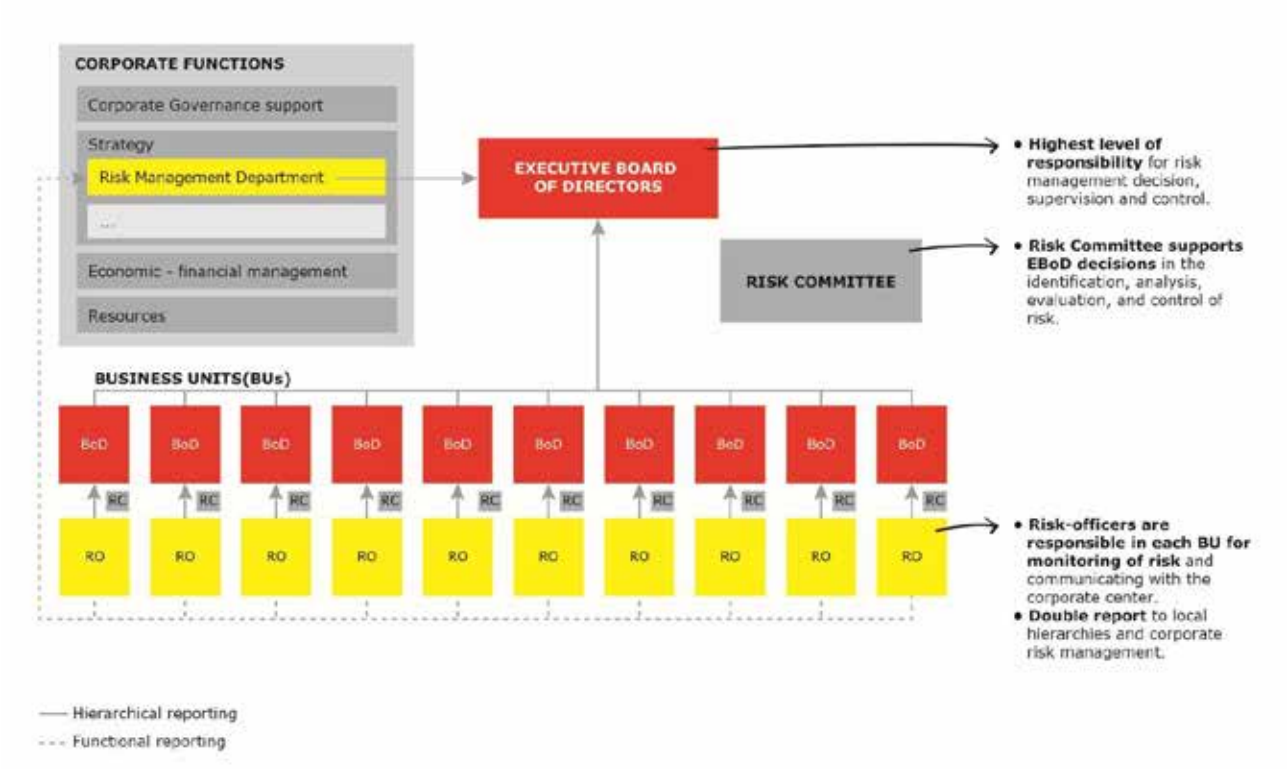
For every line of defense there are clearly defined responsible bodies and forums for debate and decision, formally established to materialize each line of defense at corporate and Business Units levels, avoiding duplication of efforts and/ or the existence of gaps and promoting the cooperation and collaboration between different areas.




**Risk governance model of the 3 lines of defense**

Risk management is represented by the Risk Management Department at corporate level, as well as by several risk units across the Business Units (lead by their respective risk-officer) that functionally report to the corporate Risk Management Department, guaranteeing a fluid articulation and communication concerning key risk sources and mitigation actions.

In addition, Risk Committees are held at corporate level and in key Business Units, gathering top management and relevant specialists for analysis, debate and advice on key risk exposures for the Group, respective limits and other mitigation actions.




**Model for risk function report at EDP Group** (and communication with the corporate center)

A more detailed description about the intervening bodies in the risk governance model at EDP Group, as well as attributed responsibilities, is available in the Corporate Governance Chapter, part I, section 52.

## KEY RISKS

EDP Group seeks to have a comprehensive perspective over the key risks it is exposed to, at strategic, business, financial and operational level, establishing processes to assure follow-ups and proactive management. A more detailed description of each risk is available in the Corporate Governance Chapter, part I, section 53.

| | | **ILLUSTRATION OF TOPICS** (NOT EXHAUSTIVE) | | **RECENT EVOLUTION/ EXPECTED IN THE SHORT-TERM** |
|---|---|---|---|---|
| **STRATEGY** | Surrounding context | • Geopolitical instability.<br>• Social and economic crisis.<br>• Technological disruption.<br>• Change of competitive paradigm. | = | • Growing instability of the global geopolitical context, compensated by a favorable economic context (vs. recent history), namely in Portugal. |
| | Internal strategy | • Investment strategy.<br>• Relationship with stakeholders.<br>• Corporate planning. | = | - |
| **BUSINESS** | Energy markets | • Fluctuations of pool price, commodities and $CO_2$.<br>• Volatility of the generation volume of renewable energies (i.e., hydro and solar).<br>• Volatility of energy consumption.<br>• Changes in sales margins. | ↗ | • Structural rise of market exposure (with the end of CMEC), aggravated cyclically in 2017 by low hydro levels in Iberia and Brazil.<br>• Continuing postponement of needed market design reforms (given the misalignment of marginal market). |
| | Regulation | • Changes in taxes and sectorial charges.<br>• Changes in tariff regimes of regulated activities.<br>• Legislatives amendments.<br>• Changes in regulations (e.g., environmental). | ↗ | • High regulatory uncertainty in 2017, particularly in Portugal (e.g., sectorial charges, final revisibility of CMEC, tariff revision 2018-2020), to some extent already materialized. |
| **FINANCIAL** | Financial markets | • Fluctuation of interest rate.<br>• Fluctuation of exchange rate.<br>• Inflation.<br>• Fluctuation of the value of financial assets held by the Group. | ↗ | • Uncertainty relative to a possible gradual reduction of expansionary monetary policies in the US and Europe.<br>• Political uncertainty and consequent volatility and devaluation of BRL.<br>• Devaluation of USD (positive impact in debt, nagative in EBITDA). |
| | Credit and counterparties (energy and financial) | • Default of financial counterparties.<br>• Default of energy counterparties (contracts to buy/ sell energy).<br>• Default of clients (B2B and B2C). | =↘ | • (Relative) strengthening of the banking system in the Euro Zone (among others with the establishment of resolution mechanisms).<br>• Positive inflexion of the level of non-performing loans and defaults. |
| | Liquidity | • Punctual insufficiencies of treasury.<br>• Downgrade of financial rating (and consequent rise of financing costs). | ↘ | • Ample liquidity and reduced cost of capital, particularly in Europe and US.<br>• Consolidation of rating investment grade. |
| | Other financial responsibilities | • Capitalization of the Pension Fund of Defined Benefit.<br>• Additionel costs with current and anticipated retirements.<br>• Costs with medical expenses. | =↘ | • Transference of additional responsibilities (death and medical subsidy) and respective endowment to the Pension Fund of EDP Group. |
| **OPERATIONAL** | Development/ construction of physical assets | • Delay in commissioning date of assets (COD) and inherent loss of profit.<br>• Deviations in the cost of investment (CAPEX). | =↘ | • Conclusion of the Hydro Plan in Portugal (compensa-ted, partially and over time by the beginning of the investment plan in transmission in Brazil). |
| | Operation of physical assets | • Damages in physical assets and third parties.<br>• Malfunctions by component or installation defect.<br>• Unavailability due to external events (e.g., climatic events, floods, terrorist attacks).<br>• Technical and non-technical losses of distribution grid. | = | • Constant (possible emerging risk associated with the increase of the occurrence and severity of extreme climatic events – to be evaluated). |
| | Processes | • Irregularities in the processes execution (regarding commercial activities, suppliers selection and management, billing, etc.). | = | - |
| | Human resources | • Work accidents.<br>• Unethical conduct.<br>• People management.<br>• Relationship with unions and other stakeholders. | = | - |
| | Information systems | • Unavailability of information and communication systems.<br>• Integrity and security of information. | =↗ | • Higher level of structural exposure (in particular of large scale cyber attacks, data protection directives) partially compensated by a reinforcement of mitigation measures (cyber range, SOC, cyber risk insurance, training sessions). |
| | Legal | • Losses arising from lawsuits related with tax, labor, administrative, civil, or any other legislation (penalties, compensation and agreements). | = | - |

## EMERGING RISKS

Besides closely monitoring key risks inherent to its activity, the Group maps key trends (at global and sectorial level) that may be translated into threats and opportunities, and proactively develops adequate mitigation strategies. Due to their impact throughout the year, one should highlight (1) the challenge of adjustment of the wholesale market design to current market conditions, (2) the changing paradigm of decentralized resources, (3) the industrial revolution and digitalization of the electric sector, (4) the growing threat of cyber risks and (5) the (possible) increasing frequency and severity of extreme climatic events.

| | DESCRIPTION | IMPACT | MITIGATION MEASURES |
|---|---|---|---|
| **WHOLESALE MARKET DESIGN** (IN EUROPE) | • **Uncertainty around the evolution of the wholesale market design, given current challenges:**<br>- Marginal remuneration system not adjusted to the current context of growing penetration of fixed cost technologies (renewables, backup, storage).<br>- Growing penetration of technologies with 0 marginal cost (reducing prices and making them more volatile). | • **Uncertainty around the returns of the conventional generation, in particular as backup capacity** (relevant in a perspective of ensuring security of supply).<br>• **Volatile context, not suitable for long-term investments** necessary to the modernization, decarbonization and security of supply. | • **Active and constructive participation in several forums, at European and national level, for the adoption of adequate and equilibrated market design solutions** for various stakeholders, in particular:<br>- Adoption of energy auctions for long term contracts to promote renewables.<br>- Recognition of the need for capacity remuneration mechanisms.<br>- Support to price signals of $CO_2$ at European level.<br>• **Reinforcement of focus on long-term contracts** (renewable and conventional generation), to reduce risk and increase competitiveness in the supply offer to final clients. |
| **DISTRIBUTED RESOURCES** | • **Growing proliferation of distributed resources,** including:<br>- Decentralized production (in particular solar PV) for self-consumption.<br>- Electric vehicles.<br>- Active demand side management.<br>- Storage. | • **Threat relative to:**<br>- (Possible) **reduction of margins for traditional generation** due to a reduction of the volume of energy generated centrally.<br>- **Reduction of the contribution of consumers in self-consumption for the costs of the system** (grids and others) and consequent need for tariff increases.<br>- **Changing dynamics of energy flows in the grid.**<br>• **Opportunity for the sale of new products and solutions.** | • **Proactive role in the commercialization of innovative products and solutions, with benefit in margin and client retention:**<br>- Sale of solar panels for self-consumption (and batteries).<br>- Commercialization of solutions associated with electric mobility (e.g., green electric mobility).<br>- Solutions of energy efficiency (e.g., EDP Re:dy with application to the electric car, solar generation, heating, control of outdoor spaces.<br>• **Active regulatory management**, in particular related with tariff structure, **enabling the existence of efficient price signals and incentives.** |
| **4TH INDUSTRIAL REVOLUTION** (AND DIGITALIZATION) | • **Proliferation of new technologies with disruptive potential for the electric sector**, including (among others):<br>- Blockchain.<br>- IoT.<br>- AI/ machine learning.<br>- Virtual/ augmented reality.<br>- Robotic Process Automation (RPA). | • **New market entrants such as aggregators, services of design science research** (DSR) **or solutions for clients.**<br>• **Opportunities for operational and business optimization**, e.g.:<br>- Operation and maintenance of assets (generation and grids).<br>- Pricing and segmentation.<br>- Innovation of product and client services.<br>- Optimization of back-office and shared services. | • **Follow-up on best practices and developments at digital level** applicable to the energy sector.<br>• **Release of collaborative program between internal and external specialists to accelerate ideas and test digital solutions:**<br>- Assets/ operations (e.g., predictive maintenance, asset management, task force digitalization, energy/ trading management).<br>- Client (innovation of products and services, namely electrification).<br>- Group (agile/ project-based solutions, optimization/ automation of internal processes). |
| **CYBER RISKS** | • **Exposure to several cyber risks, due to a growing sophistication and integration of technologies.** | • **Financial, operational and reputacional loss**, due to (among others):<br>- Loss/ interruption of operations (dispatch/ plants, billing, client service).<br>- Damage/ destruction of assets (grids, plants, other systems).<br>- Violation/ destruction of data (personal and others). | • **Dedicated Security Operations Center** (SOC) to continuously monitor the security of OT/ IT infrastructure of the Group.<br>• **Internal cyber range to simulate and test the reaction** of employees to cyber attacks.<br>• **Security courses and awareness programs on key principles of information security** (in 2017).<br>• **Cyber insurance** (in 2017). |
| **EXTREME CLIMATIC EVENTS** | • **Structural climate changes** (in particular temperature and precipitation), **with impact in the frequency and severity of extreme climatic phenomena** (e.g., floods, droughts, storms, wildfires). | • **Damage to physical assets and loss of profit.**<br>• **Impact on quality of service** (distribution grid).<br>• (Possible) **structural changes in hydro generation** (average and volatility). | • **Geographic and technological diversification.**<br>• **Active role fighting against climate change** (namely promoting decarbonization and energy efficiency).<br>• **Internal adoption of best-practices in sustainability** (confirmed by a consistent and distinctive classification in DJSI).<br>• **Existence of dedicated areas and plans for Crisis Management and Business Continuity** (at corporate level and for key Business Units). |

## RISK APPETITE

The EDP Group is exposed to a number of risks due to its dimension and diversity of businesses and geographies in which it operates, hence it recognizes risks is an integral and unavoidable component of its activity, both as threats as opportunities.

Acknowledging this fact, the Group establishes explicitly and implicitly its risk appetite for all internal and external stakeholders, both at corporate and Business Units level, as well as for the various categories of risks, through a set of mechanisms:

- The periodical development and approval of the Group's Business Plan by the Executive Board of Directors, which is communicated to all stakeholders, and where key strategic orientations are set for the upcoming 3 to 5 years;

- The rigorous evaluation of risk related to investment and divestment opportunities proposed by the Business Units and approved by the Executive Board of Directors, including the estimation of returns adjusted to risks vs. established hurdles. This evaluation is supported by the opinion of the Investments Committee, which includes specialists from relevant areas of expertise;

- The development of a wide set of risk management policies, both at corporate and Business Unit level, which establish guidelines, methodologies of evaluation and exposure limits for key risks[1];

- The periodical development of risk mapping exercises, based on objective, quantitative and comparable criteria, allowing an analysis of the exposure to key risks, as well as the adoption of preventive treatment actions for excessive exposure to risks (regarding the established tolerance of risk);

- The establishment of a wide set of mechanisms for periodical reporting of key risks, at Group and Business Unit level, thus allowing a regular monitoring of the evolution of actual and emerging risks and comparison of the exposure to different risk profiles within the established limits;

- The adoption of a risk governance model based on 3 independent lines of defense (business, risk/ compliance and internal audit), which guarantees the implementation of the established strategies and alignment with risk appetite, namely:

    - A formally established risk-officers network in all Business Units with material risks;

    - A regular Risk Committee[2], with the participation of the members of the Executive Board of Directors responsible for relevant risks, where key sources of risk are analyzed and mitigation actions are proposed through dedicated dashboards.

In terms of positioning, the Group establishes the maintenance of a controlled risk profile as a fundamental pillar for its strategy, expressed transversally along 3 natures of risk:

- Risks for which the Group has zero tolerance (e.g., health/ safety and ethics);

- Risks for which the Group is constrained externally and are managed proactively within the established tolerances (e.g., counterparties);

- Risks inherent to markets in which the Group operates, and are managed proactively around the established risk appetite to optimize the trade-off risk-return (e.g., energy markets).

[1] Including, among others, the Enterprise Risk Management Policy, Limits Structure from the Energy Management Business Unit, the Financial Management Policy, the Counterparty Policy, the Insurable Risks Management Policy, the Health and Safety Policy, the Information Systems Policy and the Principals, Structures and Procedures of Crisis Management and Business Continuity
[2] Corporate and at Business Units level, when justified

The risk appetite of the Group and key risk indicators (KRIs)/ objectives are reviewed and approved regularly by the Executive Board of Directors.

| | | RISK APPETITE (ASPIRATIONAL) | | KRI (TARGET) |
|---|---|---|---|---|
| STRATEGY | Risk-return profile | **Activity focused mainly in regulated or long-term contracted operations**, guaranteeing a higher level of stability and predictability of cash-flows. | ~75% | EBITDA in regulated or long term contracted activities by 2020. |
| | | **Growth focused on grids and renewable generation with demonstrated medium-long term viability**, complemented by selective bets on innovative high potential generation technologies. Evaluation by Investment Committee of returns adjusted to risk vs. established hurdles. | +55% | Net investment in renewables (acum. 2016-20). |
| | Innovation | **Early adopter of technological solutions and high value added services for the Group** (e.g., off-shore wind and solar), **for clients** (e.g., EDP intelligent house: decentralized solar, electric mobility, batteries and EDP Re:dy) **and remaining stakeholders,** supported by dedicated area (EDP Inovação). | 200M€ | R&D investment of 200 M€ until 2020. |
| | Geographical footprint | **Geographical presence focused in geographies with reduced country risk**, complemented by strategic bets in geographies with accumulated market know-how/ expertise and/ or high structural potential. | | % international EBITDA in 2020 generated in investment grade geographies. |
| | Sustainability | **Reference in sustainability** through the adoption of actions and use of broad, specific and transversal KPIs[1], performance recognized by independent international entities, supported by a dedicated area. | ↓75% | $CO_2$ emissions by 2030 (vs. 2005). |
| | | | ~76% | Wind, hydric and solar installed capacity by 2020. |
| | Reputation | **Systematic and proactive action to minimize likely negative impacts** on the Group's accumulated capital reputation. Reputational performance followed-up using independent references, **scoring aligned or superior to main peers**. Relations with stakeholders supported by dedicated area, in conjunction with Executive Board of Directors. | | Absolute performance vs. peers in reputational indexes (e.g., RepRisk). |
| | Dividends policy | **Predictability and sustainability of dividends policy as a fundamental element of the shareholders' value proposition,** remuneration in line with best peers. | 65-75% | Target payout ratio. |
| | | | 0.19€ | DPS[2] floor. |
| BUSINESS | Energy markets | **Structural position broadly balanced between generation in market and client sales. Presence in energy markets focused on the hedging of the wholesale margin** (with reduced exposure to trading positions), **diversified sourcing based on financial instruments of reduced complexity** (forwards and swaps plain vanilla). Structural and trading risks managed by dedicated BU, framed by a policy stating global as well as individual risk factors' limits, and periodical and systematic monitoring using a dedicated model. | | Wholesale margin coverage risk (P@R[3]). Trading margin risk (V@R[4]). Risk of individual factors. Minimum sourcing stock. |
| | Regulatory approach | **Proactive management of regulatory agenda, promoting the permanent constructive dialogue with public and regulatory entities** to contribute to the development of regulatory and legal frameworks that are fair and stable for all stakeholders. | | - |
| | Client satisfaction | **Agenda focused on ensuring distinctive levels of global client satisfaction** in all markets and segments, as well as minimizing number of complaints. | | Client satisfaction scoring. # complaints per 1000 contracts. |
| FINANCIAL | Debt | **Target of alignment of level of debt with main peers,** adjusting to the weight of regulated or long-term contracted activities. **Proactive management of debt at fixed/ floating rates**, taking into account market conditions and the revenues profile of the Group. **Target to reduce refinancing risk through an increase of the average debt maturity**, constrained by market conditions and considering the risk/ return trade-off. | ~3.0x | Net debt / EBITDA by 2020. |
| | | | >5 years | Average debt maturity. |
| | Liquidity | **Maintenance of enough liquidity reserves to cover short-medium term treasury needs** without refinancing. | 18-24 months | Liquidity without refinancing. |

[1] Regarding economic value, eco-efficiency, environmental protection, innovation, integrity and good governance, access to energy and social development.
[2] Dividends per share.
[3] Profit at Risk.
[4] Value at Risk.

| | | **RISK APPETITE** (ASPIRATIONAL) | **KRI** (TARGET) |
|---|---|---|---|
| **FINANCIAL** | Rating | **Target to maintain rating investment grade for key rating agencies.** | Investment grade rating in internationally recognised agencies. |
| | Exchange rate | **Exposure diversified by the presence in multiple geographies, with net position (assets – liabilities) broadly balanced** through the use of hedging instruments and/ or financing sources in local currencies. Management supported by dedicated areas[5] and framed by financial management policy. | Equity@risk.<br>Net investment exposure (by currency). |
| | Counterparties (energy and financial) | **Proactive management of the exposure to energy and financial counterparty risk,** through the adoption of methodologies to evaluate, monitor and report exposures, framed by policies and global and individual rating limits. | Levels of exposure and energy and financial counterparties loss, by rating and counterparty. |
| | Credit to clients | **Proactive management of client credit risk, quantitative monitoring of exposure and adoption of a wide set of mechanisms,** including scoring and risk-adjusted pricing for B2B clients, promotion of direct debit, collateralization and regulatory compensation. | Expired debt/ commercial revenues. |
| | Pension fund | **Pension plan for new employees under a defined contribution scheme,** heritage of employees and pensioners under a defined benefit scheme. **100% coverage of liabilities under the defined contribution scheme through assets. Diversification of investments** on multiple assets and management entities, follow-up by dedicated Committee. | Level of coverage of the Pension fund. |
| **OPERATIONAL** | Physical assets | Generation: development **prefers well-established technical solutions and suppliers.** Operation strives to strike a **balance between minimizing maintenance costs and programmed unavailability** and the risk of costs or loss of profit associated to unprogrammed unavailability.<br><br>Distribution: development strives **maximization of grid resilience** (and guarantee n-1 redundancy). Operation geared towards **overcoming targets of service quality.** | Average unavailability.<br>QoS indicators (TIEPI, SAIDI). |
| | Insurable risks | **Extensive coverage of insurable risks at Group and BU level,** with coverage, exclusions, premiums, stop-losses and caps suited to each specific context. Relationship with brokers and insurance companies centralized in specialized area. | Gross and net insurance losses associated with risks.<br>Loss ratio. |
| | Suppliers | **Systematic evaluation of suppliers' risks,** including the evaluation based on a broad set of sustainability criteria (including financial), relationship owned by a dedicated BU. | Scoring of key suppliers. |
| | Health and safety | **Zero tolerance for health and safety incidents** with employees, external contractors or other third parties. Development of preventive policies and measures and conduct of awareness actions, supported by dedicated area. | Frequency and severity rate of incidents with employees, external contractors and third parties. |
| | Ethics | **Zero tolerance for any unethical and fraud behavior.** Dedicated channel for independent treatment of any arising incidents. | Ethicis Index scoring. |
| | Information systems | **Continuous monitoring of arising and existing threats** for information systems. Proactive development of **initiatives and internal tests to ensure the integrity and availability of the various systems of the Group and data.** | Disaster recovery tests result.<br># threats detected by SOC (Security Operations Center). |
| | Legal/ Compliance | **Strict compliance with laws, norms and internal and external regulation,** ensured by dedicated compliance area and periodical follow-up of ongoing contingencies by dedicated area. | Volume of legal contingencies by geography.<br>Volume of legal provisions. |
| | Crisis and business continuity | **Preventive action framed by corporate and BU level policies,** including the performance of business impact analysis to prioritize and develop action plans before, during and after-crisis, coordinated by dedicated area. | % BUs with business impact analysis and business continuity plans. |

[5] In EDP Brasil, the local Risk Management Office is responsible for the management of financial risks related to changes of interest and exchange rates, consistent to the principles defined by EDP Group.

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# 03

# PERFORMANCE


GROUP'S FINANCIAL ANALYSIS 55

SHARE PERFORMANCE 58

MARKETS AND REGULATION OF THE YEAR 63

BUSINESS AREA ANALYSIS
Generation and Supply Iberia 73
Regulated Network 76
Renewables 78
Brazil 80

RISK MANAGEMENT IN 2017 83

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# 03 PERFORMANCE

## 3.1 GROUP'S FINANCIAL ANALYSIS

### INCOME STATEMENT

| EUR MILLION | 2017 | 2016 | Δ % | Δ ABS. |
|---|---|---|---|---|
| Gross Profit | 5,391 | 5,738 | -6% | -347 |
| Operating costs | 1,671 | 1,608 | 4% | 63 |
| Other Income/(Costs) | 270 | -370 | - | 640 |
| EBITDA | 3,990 | 3,759 | 6% | 231 |
| EBIT | 2,318 | 2,264 | 2% | 54 |
| Net Profit for the period | 1,441 | 1,200 | 20% | 241 |
| Net Profit attributable to EDP shareholders | 1,113 | 961 | 16% | 152 |
| Non-controlling interests | 328 | 240 | 37% | 88 |

EBITDA
**€3,990M**
+6% VS. 2016

**EBITDA** increased by 6% YoY, to €3,990 million in 2017.

Adjusted for the gain booked in 2016 with the sale of Pantanal's mini-hydro plants, in Brazil, (+€61 million) and by, in 2017, (i) the net impact of the sale of gas distribution businesses in Iberia (+€574 million); (ii) regulatory-driven liabilities with the clawback in Portugal (-€35 million) and in Spain with the recognition of the *lesividad* effect (€42 million); and (iii) costs concerning personnel costs and employee benefits (€30 million), essentially with the program for reduction of workers, EBITDA in 2017 would decrease 5% (-€175 million) to para €3,523 million in 2017, due to:

- **In Iberia**, impacted by the de-consolidation of gas distribution in Iberia and extreme drought in Iberia: hydro resources fell 53% short of the historical long-term average in 2017;
- In **EDP Renováveis**, 17% YoY increase in EBITDA, driven by portfolio expansion;
- In **EDP Brasil**, excluding Pantanal, 16% YoY increase in EBITDA, on favorable ForEx impact and an adequate tackling of the hydro situation through hedging and management of contracted/uncontracted volumes.

**Opex costs** increased €63 million, to €1,671 million in 2017, driven by the abovementioned restructuring costs, by ForEx impact and by the increased costs of operation and maintenance resulting from portfolio expansion.

**Other net operating income/(costs)** varied €640 million YoY, to a net income of €270 million, impacted by the sale of the distribution gas business in Iberia in the current period and by the increase in income with institutional partnerships in the USA (+€28 million vs. 2016), offset by the abovementioned impact of the sale of Pantanal's mini-hydro plants.

EBIT
**€2,318M**
+2% VS. 2016

O **EBIT** was 2% higher YoY, at €2,318 million in 2017, mainly impacted by EBITDA performance and by the wind generation assets' redefinition of the useful life, partly offset by impairments with coal generation assets, but also wind and solar assets (€245 million).

NET PROFIT

(ATTRIBUTABLE TO EQUITY HOLDERS OF EDP)

**€1,113M**

+16% VS. 2016

**Net financial results and Results with joint-ventures and associates** amounted to €797 million in 2017 (€117 million higher vs. 2016), benefitting from a 40bp YoY decline in average cost of debt (to 4.1% in 2017) and lower average net debt.

**Income tax expense** decreased €78 million YoY to €10 million in 2017, mostly due to the sale of the gas distribution business in Spain which is not taxable, but also due to the impact of the differential between the accounting and tax bases of certain gas distribution assets in Spain, following the need for an intragroup restructuring of those assets; due to the positive impact of the revision of the deferred taxes on 'social benefits'; and finally due to the reduction of tax rate in the USA (step-down).

**Non-controlling interests** advanced to €328 million in 2017, mostly due to higher share of minorities at wind farms and higher net profit of EDP Renováveis, partly offset by the increase in the share stake in EDP Renováveis.

**Net profit attributable to EDP shareholders** amounted to €1,113 million in 2017 (vs. €961 million in 2016).

## CAPEX

CAPEX

**€1,725M**

-17% VS. 2016

MAINTENANCE

**€708M**

+2% VS. 2016

EXPANSION

**€1.017M**

-20% VS. 2016

- Capex amounted to €1,725 million in 2017, representing a decrease of 17% vs. 2016.
- Expansion capex was 59% of total capex and was dedicated to the construction of new hydro, wind and solar capacity.
- Capex in wind & solar capacity amounted to €1,051 million in 2017, totalling 624MW, of which 424 MW in North America and 127 MW in Brazil.
- Expansion capex dedicated to hydro capacity in Portugal amounted to €50 million (vs €193 million in 2016). During the year occurred the commissioning of Venda Nova III repowering (780MW) and Foz Tua plant (263MW).
- Maintenance capex amounted to €708 million in 2017, mostly absorbed by regulated networks in Iberia and Brazil.

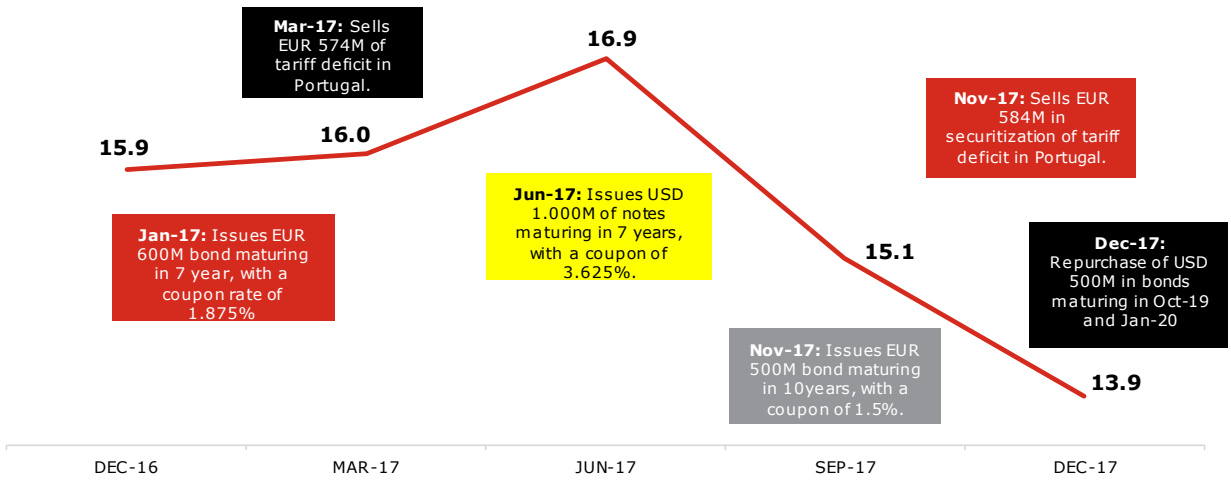
## NET DEBT

NET DEBT
**€13,902M**
-13% VS. 2016

Net debt amounted to €13.9 billion in December 2017, down from €15.9 billion in December 2016, mainly impacted by EDP's operational activity, the devaluation of the USD and BRL against the EUR and by the sale of the gas distribution assets in Spain and Portugal net of the impact of the purchase of EDP Renováveis shares (take over), partly offset by the annual dividend payment (+€0.7 billion), by the investment in property, plant and equipment and intangible assets, by changes in perimeter of consolidation particularly deriving from the full consolidation of new capacity in Mexico (+€0.2 billion) and by a tax payment in the wake of deficit securitisations of regulatory receivables executed during 2016 (+€0.3 billion).

The chart below portrays the net debt's evolution during 2017, highlighting the most important financing operations during the period.

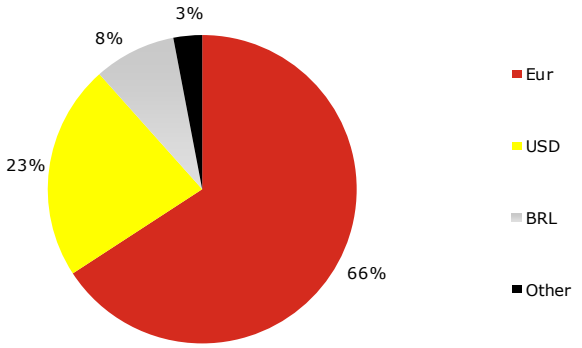
**NET DEBT (€M)**




Main highlights by December 2017:

- Gross debt average maturity at 4,8 years;
- Centralised policy for financial debt at EDP, S.A. and EDP Finance BV (appproximately 85% of gross debt), while the remainder is divided between EDP Brasil and EDP Renováveis;
- During 2017, the average cost of debt stayed at 4.1%, while close to 54% of gross debt is kept at fixed interest rate.

**DEBT BY CURRENCY**

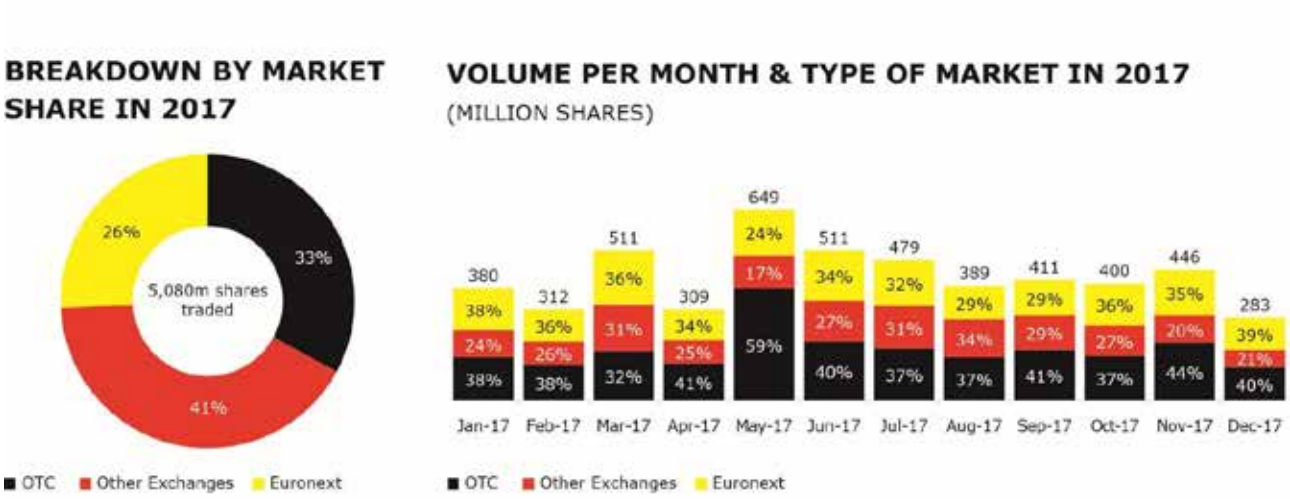



Regarding EDP's rating, it is worth highlighting the upgrade from Standard & Poor's on EDP's long term rating to BBB- occurred in August 2017.

| | LONG-TERM | SHORT-TERM | OUTLOOK | DATE |
|---|---|---|---|---|
| S&P | ↑ BBB- | ↑ A-3 | Stable | 08/08/2017 |
| Moody's | → Baa3 | → P3 | Stable | 03/04/2017 |
| Fitch | → BBB- | → F3 | Stable | 14/12/2017 |

## 3.2 SHARE PERFORMANCE

EDP is a listed company, whose ordinary shares are publicly traded in the "Eurolist by NY SE Euronext Lisbon. In 2017, EDP share was traded in 19 stock exchanges (including Euronext, Turquoise and Chi-X Europe) and 8 OTC markets (including BATS Chi-X Europe and BOAT).



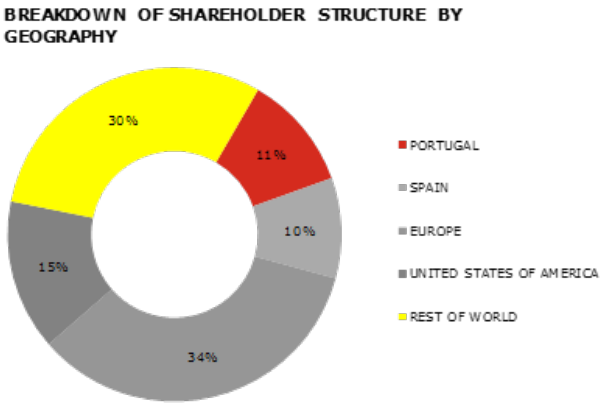

Source: Bloomberg

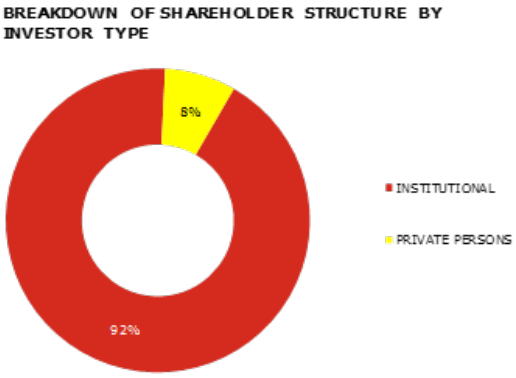
## SHARE

EDP stock price was flat year-on-year. Based on the payment of dividends to shareholders held on May 17th, 2017 (€ 0.19 per share), which implied a dividend yield of 6.6% (considering end of 2016's closing price of €2.894/share), EDP generated a total shareholder return for 2017 of +6%, assuming immediate reinvestment of dividends.

## OWNERSHIP STRUCTURE

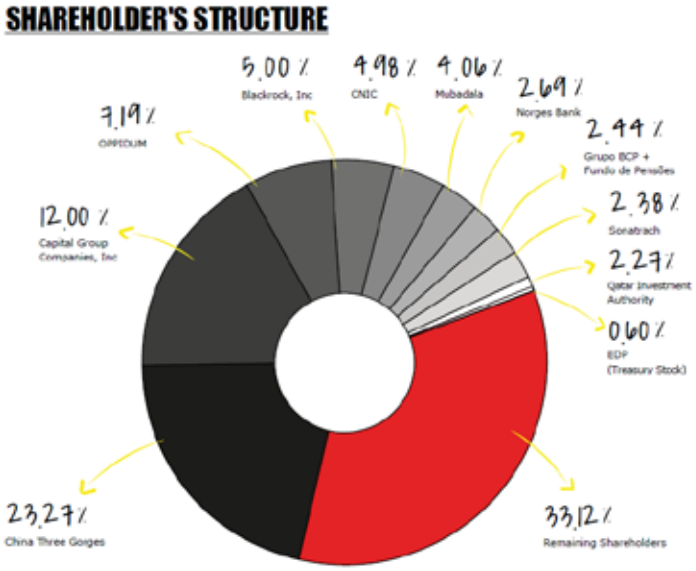
As of 31st December, 2017, the majority of EDP share capital was owned by foreign institutions.




Source: Interbolsa

In terms of shareholder structure changes, it is worth noting that Capital Group decreased its shareholdings by 2 percentual points, while Norges Bank increased its share from 2% to 2.7% of EDP's share capital, as well as CNIC from 3% to 5%.



## SHAREHOLDER VALUE

EDP believes that a transparent relationship with investors and the market involves the definition of clear criteria and reasonable objectives for the dividend distribution policy, as the growing demands of the investor community, faced with the instability of the capital markets in recent years, have made clear.

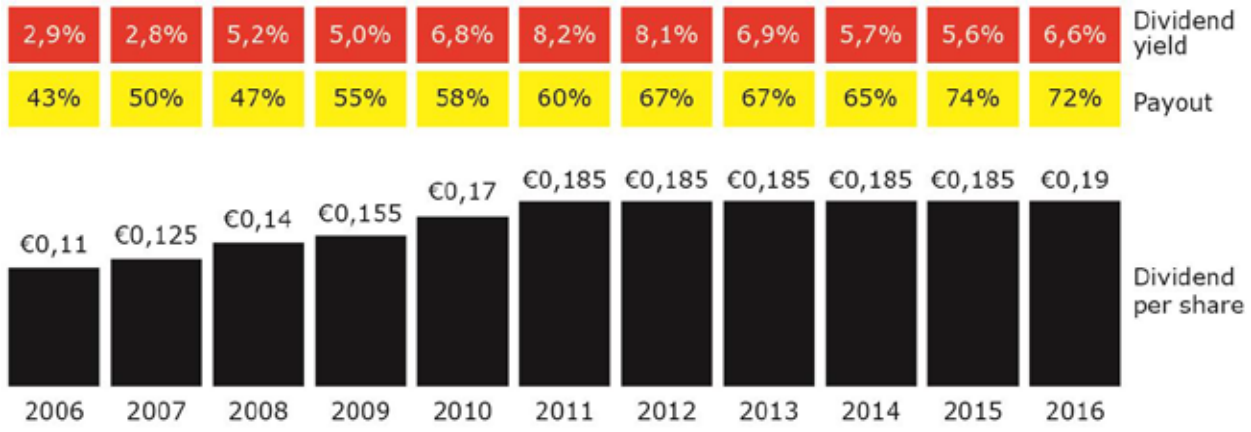
The creation of shareholder value is sustained in the ability of the company to increase its net income, dividends and share prices. It is supported by the sum of strategic decisions affecting the sustainability of the Group's business activities assuming strategic importance the low risk profile of EDP.

## DIVIDEND

EDP has followed a sustained policy of dividend distribution that seeks to reconcile strict compliance with the relevant provisions of the law and Articles of Association and division among all its shareholders of a significant portion of the value created by the Group, in keeping with the specific conditions of the company and market.

On the Capital Markets Day, held on May 5th, 2016, EDP advanced a new dividend policy, comprising a new floor at € 0.19 per share on the dividend going forward, starting from the 2016 dividend. The announced dividend policy dictates that the dividend should continue to evolve in tandem with recurring net profit per share within a payout ratio interval of 65% to 75% .

Accordingly, for the 2016 financial year, the Executive Board of Directors of EDP submitted to the approval of the General Meeting of Shareholders of April 19th, 2017 a proposal for the appropriation of the net profit of €694.7 million to be distributed to shareholders in the form of dividends. The proposal was approved by a majority of votes (100%) at the General Meeting and a gross dividend of € 0.19 per share was paid on May 17th, 2017.



## SHARE & MARKET PERFORMANCE

The year 2017 was marked by an upturn in the equities market in Europe. The Eurostoxx 600 index presented a 11% return, benefitting from a positive macroeconomic environment and of a yet expansionary monetary policy. For European utilities sector, the total shareholder return was above the overall market's at 21%, driven by the increase in commodities prices over the year (mainly gas and coal), as well as by the increase in power prices in the European markets, mainly impacting companies from the north of Europe. In Portugal, the total shareholder return of the PSI20 index stood at 19%, with the sectors most exposed to the economic cycle beneffiting the most from the increase in economic growth domestically and globally, as well as from the reduction from the financing costs.

### TOTAL SHAREHOLDER RETURN

### EDP'S LIQUIDITY IN EURONEXT

| | |
|---|---|
| Average Price (€) | 3.01 |
| Turnover (€ million) | 5,045 |
| Average Daily Turnover (€ million) | 20 |
| Total Volume of Shares (million shares) | 1,675 |
| Daily Average Volume (million shares) | 6.6 |

Source: Bloomberg

## FACTORS INFLUENCING CHANGE IN EDP SHARE PRICE

EDP's 2017 performance was impacted by difficult regulatory, political and operational environment in Portugal, its core market. In fact, 2017 was one of the lowest years on record in terms of hydro volumes (53% below historical long-term average), which impacted the market's perception on the company's results for the period. Additionally, some regulatory decisions were enacted or discussed in Portugal, which coupled with some political noise led to an increased risk perception for the company. These factors were somewhat offset by the sale of the gas networks in Iberia at interesting multiples, which was generally taken positively by the market, as well as some improvements in the credit markets for EDP, although not so much that EDP would not underperfom both the European utilities sector index and the Portuguese PSI20 index.

| | | | |
|---|---|---|---|
| **INTERNAL FACTORS** | • Focused growth: renewables and networks in Brazil | ↗ | • In 2017, EDP continued to focus on renewables, with the addition of +0.6GW in solar and wind capacity, and with the commissioning of Venda Nova III and Foz-Tua plants in Portugal (+0.9GW).<br>• In April 2017, EDP Brasil reinforced its position in the Brazillian electric transmission market, by earning the right to build and operate 4 additional lines in a regulated area, with sound growth prospects for EDP Group. |
| | • Asset Portfolio reshuffling | ↗ | • The market reacted positively to the sale of gas distribution networks in Iberia, concluded with above average transaction multiples.<br>• EDP issued a takeover bid to the capital it did not own from EDP Renováveis, S.A., aiming to simplify the EDP Group's structure. |
| | • Debt reduction and rating upgrade | ↗ | • The Group's debt decreased significantly in 2017, partially due to the disposal of gas distribution assets, which contributed to the rating upgrade by Standard&Poor's in Aug-17 causing a positive effect in the market. |
| | • Regulatory changes in Portugal | ↘ | • The end of CMEC in Jun-17, the changes for the new distribution regulatory period in Portugal, among others, contributed to the increase in political risk perception for EDP's regulated business. |
| **EXTERNAL FACTORS** | • Hydro conditions | ↘ | • Unfavorable hydro conditions in 2017: scarce hydro resources in Portugal, 53% below historical average, and in Spain, 50% below historical average in Spain. |
| | • Energy policy in Portugal | ↘ | • Following the regulatory changes, some political discussion in Portugal led to some adverse legislative decisions for EDP, which unleashed an increase in industry's risk perception for EDP's regulated business |
| | • Sovereign risk in Portugal | ↗ | • Macroeconomic conditions improved in Europe and in the USA, which positively affected GDP's growth, the unemployment reduction and the risk perception in Portugal. |
| | • Credit markets | ↗ | • The low interest rates environment in Europe improved the Group's credit conditions, allowing EDP to achieve lower interest rates than in the past. |
| | • M&A rumors | ↗ | • There were M&A rumors spread across all utilities sector, including EDP, which led to some positive reaction in the stock market. |

# 3.3 MARKETS AND REGULATION OF THE YEAR

## 3.3.1 FUELS IN THE WORLD AND IN EUROPE

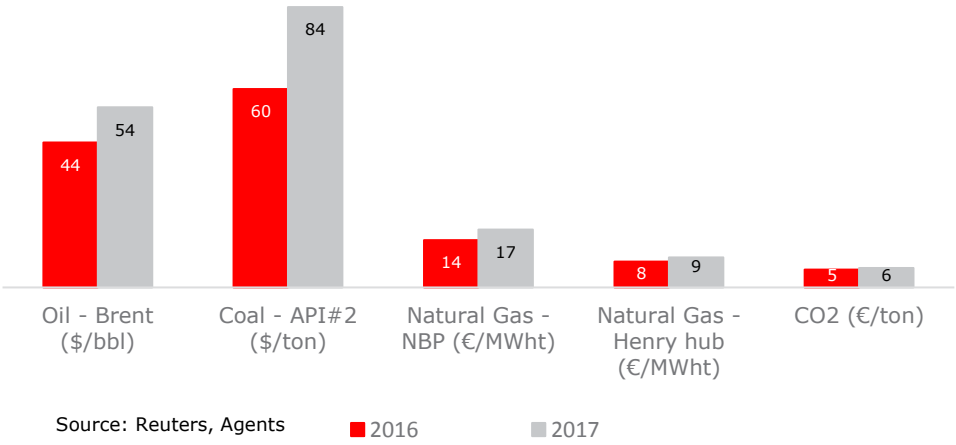
In 2017 several factors influenced oil prices registered in market with each barrel reaching 60 $/bbl in the beginning of the year. Recovery was driven in part by better consumption expectation (particularly in China) but also by the **agreement reached at the end of 2016** to reduce production among the various members of the **Organization of Petroleum Exporting Countries** (OPEC) and the **Russia**. At the end of the year, the more consolidated recovery in oil prices, reaching 65 $/bbl, occurs as a result of greater visibility in production cuts (OPEC agreement will remain until the end of 2018) and geopolitical instability in the Middle East.

Unlike oil prices that results from a global market, natural gas prices continue to be dictated by regional markets. The year 2017 was marked by **a rise in the price of gas in Europe** (NBP), largely triggered by **constraints on gas storage**. In addition, there was a strong correlation between the price of gas and coal, with a **tendency for the gas to reach the cost of replacing coal in the electricity market.**

After several years of low prices, **coal in Europe** averaged 84 $/t in 2017, seeing its price skyrocket above 90 $/ t at the end of the year. Regulatory intervention in China, limiting the number of days of coal mine operation, led to an increase in the country's import needs, promoting the rise of coal prices in global markets. In addition, the possibility of failure of nuclear power plants in Germany and France during the winter triggered an increase in coal prices in Europe.

The average price of $CO_2$ in the European market grew in 2017 when compared to 2016, triggered by the price increase at the end of the year. The price increase partly reflects the **optimism about the emissions trading reform** approved in 2017 by the European Council.

**ANNUAL AVERAGE PRICE EVOLUTION OF FUELS AND CO2**




Source: Reuters, Agents

## 3.3.2 EUROPEAN ENERGETIC POLICY

**$CO_2$ MARKET**

The **restructuring of the European $CO_2$ market** (EU ETS) saw important progress after two years of intensive negotiations, following the European Commission's (EC) proposal in 2015. In November 2017, the triangle between Parliament, the Council and the EC has resulted in an interim agreement on the review and reinforcement of the EU ETS after 2020, which will result in objective and concrete measures. This agreement reflects Europe's commitment to achieve the emission reduction targets set under the Paris Agreement. The measures to be implemented include setting a limit on the total volume of emissions which are intended to be reduced at a rate of 2.2% per year, and at a faster rate than the one originally proposed by the EC for the withdrawal of permits for a market reserve mechanism (24% vs. 12% for the period 2019-2023).

**DECARBONIZATION AND RENEWABLES**

In 2017 the discussion about **"Clean Energy for All Europe"** held in 2016 was extended even further by the EC. The presented package aims to accelerate the European energy transition, mirroring the energy and climate policy objectives set by the European Council in October 2014 into concrete legislative proposals. The Council had established for 2030: (1) a European greenhouse gas reduction target of 40% compared to the 1990's level; (2) a binding target of at least 27% renewable energy; (3) an indicative energy efficiency target of 27%; and (4) an indicative target of 10%/15% for the interconnectors to be achieved by 2020/2030.

One of the issues that has generated more discussion is related with **renewable targets** and governance. Most member states appear to be comfortable with the 27% energy generation coming from renewable sources. However, the **European Parliament (EP)** proposes a more ambitious strategy: **an objective of 35%**, with mandatory targets per country and linear trajectories. This will be a critical issue in the negotiations between the Council and the EP in 2018, and it is expected that the final agreement will be around 30-32%.

**ELECTRICITY MARKET**

The **design of the electricity market** is another issue that has generated controversy, particularly associated to the model of renewable remuneration and the implementation of capacity mechanisms. According to the EC proposal, capacity mechanisms are seen as a solution of last resort to ensure security of supply, rather than being recognized as an integral part of the wholesale market design. The EC therefore continues not to recognize that the so-called marginalist market design (the so-called energy-only market) is not suited to the **objective of decarbonization**, ie to the **promotion of renewables and backup capacity**. As the penetration of renewables increases, the number of hours at zero marginal prices increases too, pushing down wholesale prices and with it penalizing the investment in clean technologies. In this context, the stability and predictability of revenues is essential and the market design should evolve to include **stable long-term contracting** elements for the promotion of renewables and **capacity remuneration mechanisms.**

**ELECTRIC MOBILITY**

In the field of **mobility and transport**, the "**Europe on the Move**" project was launched in May 2017, which covers a set of initiatives based on three pillars: encouraging cleaner, more competitive and more interconnected mobility. The aim of this package is to accelerate the transition of the sector in Europe by 2025 through the implementation of reforms that will act over various issues, such as air pollution associated with traffic, fairer road pricing, transport safety and reducing $CO_2$ emissions.

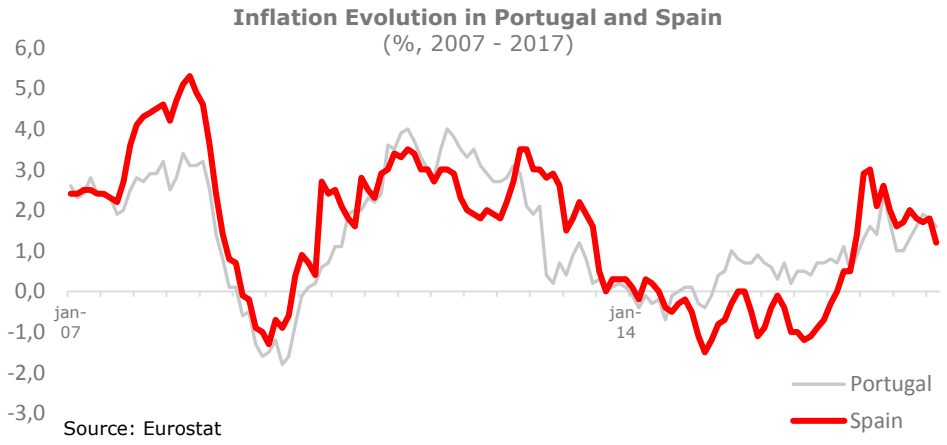
In November 2017, the EC launched the "**Clean Mobility Package**" which reinforces the European objective of leading the transport sector transition by laying down concrete guidelines to meet the commitments made under the Paris Agreement. The aim of this strategy is to develop and manufacture in Europe the best mobility solutions. These measures seek to stimulate innovation in the field of technology and business models, as well as a more rational and cost-effective use of the various forms of transport.

### 3.3.3. IBERIA

### MACROECONOMIC FRAMEWORK

By 2017, the Portuguese economy is expected to grow slightly above Euro Zone economy as a whole, which has not occurred since 1999. Most projections ("Banco de Portugal", IMF, EC) point to a growth of 2.6% in 2017, compared to the **2.5% GDP growth estimate in the Euro Zone** (Eurostat information). In Spain, the growth registered in 2017 is expected to be 3.1%, well above the growth of the aggregate of the Euro Zone. In both countries, the main drivers of growth should be exports, private consumption and investment.

The **average inflation rate** in Portugal this year increased to 1.6% compared to 0.6% in 2016, as a consequence of the good performance of the economy and the positive evolution of the price of energy goods. In Spain, inflation reached 1.1%, mainly due to the rise in fuel prices.




The **labor market** has also developed very favorably in the Iberian economies, with significant increases in employment (around 3% over the same period in both economies) and substantial reductions in the number of unemployed. The unemployment rate in December stood at 7.8% in Portugal and 16.4% in Spain (respectively 10.2% and 18.5% in the previous year).

## ENERGETIC FRAMEWORK

The economic recovery recorded in 2017 was reflected in an increase in electricity consumption in Portugal and Spain compared to 2016:

- **+0.7%** - consumption increase in **Portugal** (+1.4% corrected from temperature and working days effect)
- **+1.1%** - consumption increase in **Spain** (+1.6% corrected from temperature and working days effect)

At the supply level, there has been increasing liberalization of the sector. In 2017:

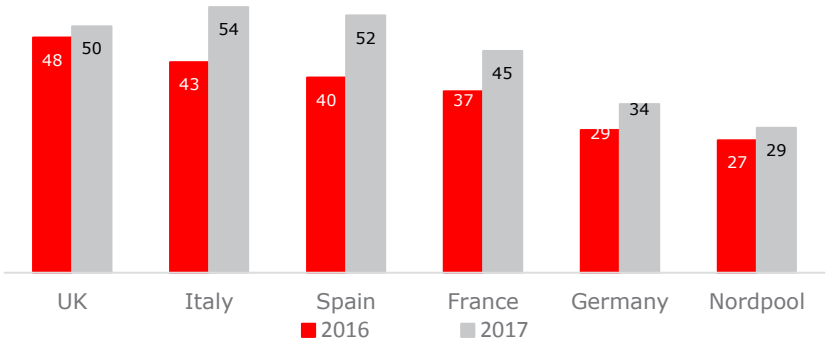
- **94%** of overall amount of energy supplied in liberalized market in Portugal
- **89%** of overall amount of energy supplied in liberalized market in Spain

Final **retail prices** for **domestic customers** remain **above the European Union (EU)** average, both in Portugal and Spain, and this has been true in Portugal since the VAT increase from 6% to 23% in October 2011. For **business customers**, prices in Portugal and Spain have remained **below the EU average.**

The year 2017 was a **dry year** with an hydro capability index (HPI) of **0.47** in **Portugal** and **0.5** in **Spain**, as opposed to 2016 which was a wet year (HPI of 1.33 in Portugal and 1.10 in Spain).

The drought that occurred in Iberia, and consequent **decrease in hydroelectric generation**, coupled with the increase in consumption, caused an increase in the thermal residual demand from 80 TWh in 2016 to 104 TWh in 2017. This increase, combined with an increase in the price of fossil fuels has led to an increase in the wholesale price of electricity in Iberia to around 52 €/MWh, in line with some European markets such as the Italian. In markets with higher penetration of renewables, notably Scandinavia and Germany, Europe's lowest wholesale prices continue to be recorded.

**European Wholesale Electricity Market Prices (€/MWh)**




1 – Includes Norway, Sweden, Finland, Danmark, Estonia, Latvia, Lithuania
Source: Reuters

With regard to the gas sector, **demand for gas in Iberia** increased by **11%** in 2017, strongly driven by the **increase in demand for electricity generation**, which grew 27% in Portugal and 79% in Spain compared to the previous year. Overall, the variation in demand for natural gas in Iberia was:

- **+9%:** consumption increase in Portugal
- **+25%**: consumption increase in Spain

## REGULATORY FRAMEWORK

### PORTUGAL

In 2017, the legal regime ruling the activity of the **logistics operation for switching suppliers** was approved, attributing to ADENE (National Energy Agency), this function that was previously performed by EDP Distribuição and REN. This diploma established a period of 60 days for EDP Distribuição and REN to transfer to ADENE the ownership of the systems developed for this activity, and to deliver the data collected and stored in this scope.

In relation to the regulated market, regulated tariffs for electricity and natural gas were extended for a further 3 years, till December 31, 2020. A regime similar to that of the regulated tariffs was also established in the free market, as well as under what conditions a free market customer may request a return to the regulated market.

On January 27, the **security reserve remuneration regime** for the National Electric System (SEN) was established through availability services provided by electric power producers and other market agents. On March 1, the auction for the remuneration system for the security reserve for the year 2017 was called and the remuneration of the security reserve provided to SEN was established, as well as the specific rules of the auction and the conditions and procedures of the contracts of the service availability. The auction took place on March 30 and the maximum price set was 4,800 €/MW/year. From this auction resulted a contracted power of 1,766 MW at a price of 4,775 €/MW.

The mechanism for restoring the competitive equilibrium in the wholesale market (Clawback) has changed this year, and the Order determining the parameters for calculating the Clawback value was repealed on 25 August. The Clawback mechanism remained in effect, but the necessary parameters for its application were revoked and new parameter values were only defined on November 17, with effect on August 24, 2017, as a unit value for Clawback 4,75 €/MWh (previously 6.5 €/ MWh) and no longer consider the CESE and the Social Tariff as national extramarket events.

With regard to electric tariff debt, compared to 2017, tariffs foresee an ex-ante debt to the electricity sector at the end of 2018 of € 3,654 M, which corresponds to a decrease of € 743 M compared to the previous year.

### SPAIN

In 2017, the regulatory measures taken by the Spanish Government between 2012 and 2014, mainly aimed at ensuring the economic stability of the electricity and natural gas sectors, continued to take effect. Thus, after a decade of creating a tariff deficit, since 2014 there have been surpluses in the electricity sector (550 million euros in 2014, 469 million euros in 2015 and 421 million euros in 2016). It is expected a slight surplus in the system for 2017 as well.

Regarding the **protection of vulnerable electricity customers**, in 2017, Royal Decree 7/2016 was completed, which regulates the new mechanism for financing the cost of social tariff and other measures to protect vulnerable electricity customers. The new mechanism charges the cost of social tariff to business groups operating in the energy sector according to their number of electricity customers, and opens up the possibility that the most vulnerable consumers cannot have their electricity supply interrupted. Thus, in October 2017, Royal Decree 897/2017 was published, which defines discounts according to 3 categories of vulnerable consumers (vulnerable, very vulnerable and at risk of social exclusion). Customers at risk of social exclusion are entitled to a 100% discount and their supply is not allowed to be cut off.

With regard to **sustainable mobility**, we highlight the substantial increase in government subsidies for the purchase of vehicles powered by alternative energy (MOVALT Plan that is added to the existing MOVEA plan). Under the MOVEA Plan, an electric vehicle aid endowed with 14 million euros plan was approved by 2020. It also highlights the aid that will be granted to the development of the charging infrastructure.

Under the **National Energy Efficiency Fund**, energy savings obligations have been allocated to electricity and natural gas traders, wholesale oil product operators and LPG operators. These energy savings targets in 2017 and respective financial contributions for 2017 total 205.4 million euros. EDP has, for 2017, an obligation of financial contribution to this Fund of 6.1 million euros.

In the **natural gas** sector, measures taken during the years 2014 and 2015 to further competition and transparency in the sector were continued, including the introduction in 2017 of the figure of Market Makers. Players such as Endesa and Gas Natural Fenosa, are obliged to sell specific quantities of gas in order to promote the liquidity of the gas market.

In 2017, measures taken to increase security of supply were also highlighted, and a new **Winter Plan** was approved. This plan requires traders to **increase their gas reserves** during the Winter, as well as complementary measures to increase liquidity in the organized gas market (MIBGAS).

## 3.3.4 EDPR MARKETS

## MACROECONOMIC FRAMEWORK

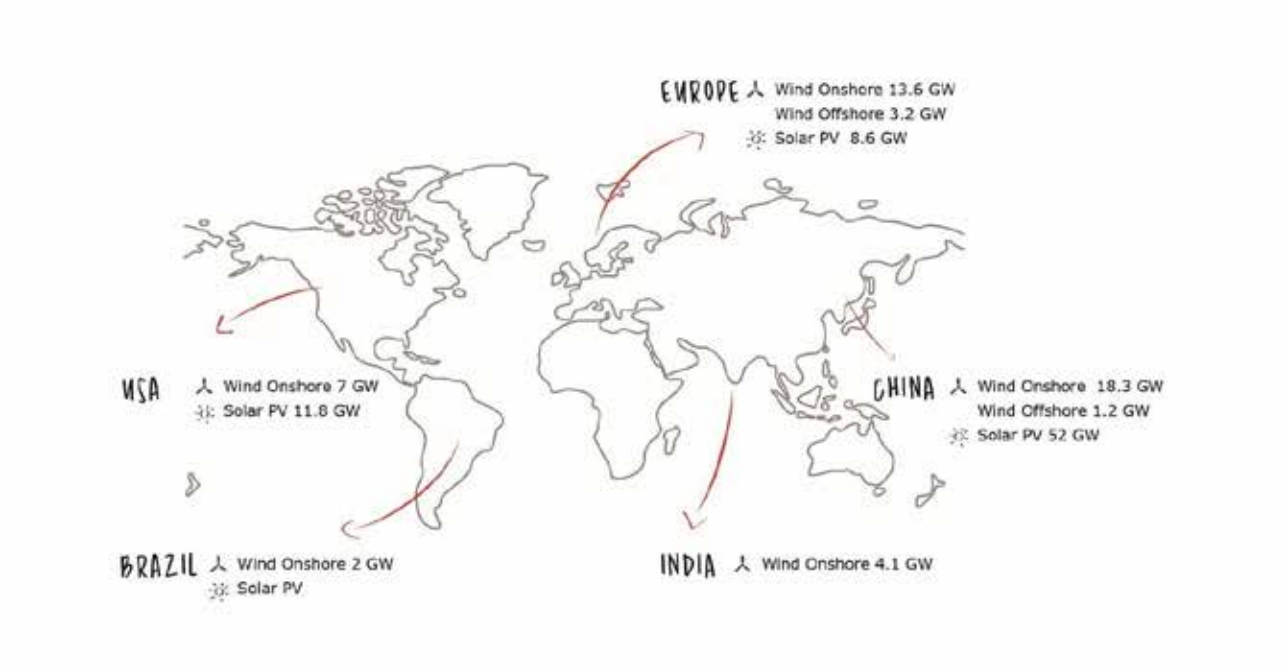
In the European Union (EU), the latest Eurostat estimates for GDP growth in 2017 is 2.5%, exceeding the expectations of most observers (European Commission predicted 2.2% in November). This growth was the highest since 2007 and clearly above the 1.8% in the previous year, due to external factors such as the strong growth trend in international trade and internal factors related to the increase in private consumption and investment. The dilution of the political risks associated with the occurrence of several electoral acts (elections in France, for example), the less intense impact of the Brexit process, and the persistence of very favorable financial conditions for growth also justified this performance.

In the United States (US), growth was slightly lower than in the EU, reaching 2.3% in 2017 according to the first estimates, well above the growth of 1.5% in 2016. As in the EU, the positive trend in economic growth was strongly driven by highly favorable global financial conditions (interest rates at historical lows, abundant liquidity, oil prices at contained levels, reduction of risk premia, etc.) and dilution of political risks, allowing greater synchronization of growth and strengthening of international trade. Among the internal factors is the substantial increase in private consumption driven by the improvement of the labor market, improved levels of investment and increased public spending. The Trump Administration's approval of the tax and investment plan for infrastructures near the end of 2017 has helped boost confidence and sustain growth at the turn of the year.

Inflation in the Eurozone closed 2017 at 1.5%, well below the European Central Bank's target levels of 2%. The factors behind low levels of inflation are essentially the slack in the countries' production capacity, the unemployment rate still above the levels of natural unemployment and the appreciation of the euro, which has an impact on imported prices. In the US, inflation recorded 2.1% at the end of 2017, also remaining relatively low by historical comparison, largely reflecting the very moderate behavior of wages and the reduction in the activity rate - more individuals choose inactivity, either reflecting the aging of the population or discouragement.

## EVOLUTION OF RENEWABLES IN THE WORLD

Wind capacity additions in the world totaled 52.6 GW in 2017, a decrease of 3.7% over 2016, reaching a total capacity of 539.6 GW according to the Global Wind Energy Council (GWEC). Regarding solar, the solar photovoltaic (Solar PV) market in the world had the best year ever growing 26%, with additions of 99 GW according to GTM Research.




## REGULATORY FRAMEWORK

**Portugal**

The government approved in August Dispatch No. 7087/2017 for the authorization process for new repowering and additional capacity, introducing the obligation of the "Direcção Geral de Energia e Geologia" to consult the electricity regulator for impact evaluation on the electrical system.

**Spain**

A first auction was held in May, with most of the capacity being allocated to wind projects (2,979 MW of 3,000 MW) in a very overbooked auction with all winners bidding at maximum discount. The government decided to launch an additional auction for a maximum of 3 GW, carried out in July and exclusively open to wind and solar PV projects, with 5,037 MW being allocated, of which 3,909 MW are solar PV projects and 1,120 MW for wind power.

**France**

A first auction related to the new Contract for Differences Scheme (CfD), approved in December 2016, was held in November. The regulator announced the auction schedule until 2020 and it is expected to auction up to 3 GW of wind power projects in this period, with two auctions of 500 MW each year.

**Italy**

The National Energy Strategy was presented in November after several months of public consultation: the complete discontinuation of coal production was announced until 2025; emphasis was placed on the role of renewables; energy from renewable sources was estimated to reach 28% of the total energy consumed by 2030, from 17.5% in 2015 and it was stressed that electricity from renewable sources should reach 55% in 2030. With regard to support for large-scale renewables, competitive auctions for fixed tariffs appear to be maintained until 2020 and replaced by long-term PPAs after that period.

**Poland**

In August, the new methodology for calculating the replacement rate was approved, which will be calculated each year as 125% of the average market price of the Green Certificate (GC) of the previous year, with a maximum 300 PLN. This methodology implies a reduction in Replacement Rate, previously established at 300 PLN, mainly due to the current low level of GC prices. A new order was also approved in August establishing new GC quotas for 2018 and 2019, defined as 17.5% for 2018 and 18.5% for 2019.

**Romania**

It was published in March EGO 24/2017 which includes, in particular: the extension of the GC scheme until 2031 and the validity of GC until March 2032; the new methodology for calculating the GC quota; the withdrawal of the current indexing of the GC parameters; the extension of the recovery of the GCs for wind power from 2018 to 2025 (inclusive) and the extension of the postponement to the Solar PV until the end of 2024 and its recovery from 2018 to 2025 (inclusive); the creation of an anonymous centralized trading platform and an anonymous market to sell energy in conjunction with the GC.

**United Kingdom**

In September the results of the second round of CfD allocation were published with a total of 3.3 GW of capacity attributed by eleven projects, including three offshore wind projects. The offshore EDPR project in Moray East was awarded a CfD for 15 years for the delivery of 950 MW of wind power at £ 57.50 / MWh (2012 prices) for delivery from 2022-2023.

**Brazil**

Two Dutch-type auctions were carried out also suitable for wind projects: the first allocated 891 MW, of which 791 MW for Solar PV projects and only 64 MW for wind projects, while the second auction awarded 3.8 GW, including 1.4 GW of new wind power to start in January 2023, with an average price of R$ 98.62 / MWh, a new low price record for this technology in the country. EDPR secured 219 MW for two projects over a 20-year period with an initial price of R$ 99 and R$ 97 / MWh (indexed to Brazilian inflation).

**United States**

It was approved the Tax Cuts and Jobs Act of 2017, which reduced the maximum tax rate for corporations from 35% to 21% and introduced the Erosion Anti-Abuse Tax Base ("BEAT"). The final impact of these changes on the renewable energy market is still uncertain: the decrease in the tax rate should boost the after tax profits of new renewable energy projects, but may also reduce the market demand for tax credits produced by new assets renewable energy sources. The final version of the tax reform states that companies can offset up to 80% of their "BEAT" liabilities through the value of the PTC / ITC.

In late 2017, after considering the petition by Suniva and SolarWorld Americas, the U.S. International Trade Commission announced to President Trump a package of recommendations for tariffs on imports of crystalline silicon photovoltaic modules.

**Canada**

Alberta, where EDPR has been awarded a long-term renewable energy support agreement for 248 MW of wind power in the 2017 auction, is pursuing a renewable energy program to develop 5 GW of renewable electricity generation by 2030. SaskPower, Saskatchewan's leading utility aims for 50% renewable capacity by 2030 and Ontario has been launching several large renewable contracts in 2014-2016.

**Mexico**

Energy reforms have made significant progress, with changes being made to establish a remuneration for all forms of production including wind and solar. The key mechanisms for renewables are the implementation of a wholesale electricity market, long-term energy supply auctions and Financial Transmission Rights. Three long-term energy supply auctions were conducted in order to obtain new renewable energy.

## 3.3.5 BRAZIL

## MACROECONOMIC FRAMEWORK

In 2017, the Brazilian economy began to show signs of recovery, with GDP registering growth after two years of recession. In the first nine months of the year GDP increased by 0.6%, household consumption increased by 0.4% and government spending declined by 0.6% compared to the previous year. The recovery in household consumption was due to the fall in inflation, which for the first time since 1998 was less than 3%, totaling 2.95%. The Selic base interest rate reached this year the historical low of 7.0% since the adoption of the inflation targeting regime in 1999. The unemployment rate is still close to the level of the previous year, about 12.0% on the third quarter of 2017.

Even facing political uncertainties, the industry has shown signs of recovery. The industrial index accumulated from January to November 2017, reflected a sector expansion by 2.3%, particularly in automotive (+16.6%) and mining (+ 5.3%) industries. Together these sectors contributed positively to the formation of the industry average.

## ENERGETIC FRAMEWORK

In the electricity sector, 2017 was hydrologicaly adverse and filled with challenges. The wet season was one of the most critical for the Southeast sub-market (SE / CO), resulting in the 7th worst Affluent Natural Energy (ENA) accumulated (from January to April) of an 87-year history. With critical levels of inflows, the recovery of the reservoirs was compromised, closing April with 42% of Stored Energy (EARM), 15% down when compared with the same period in the previous year. Despite some periods of improvement in rainfall, the Southeast (SE / CO) closed the year with 82% of the Long Term Average (LTM) of accumulated ENA and 23% of EARM. In the Northeast, the predominant drought prevented an improvement in inflows, closing as the worst year of history with 30% MLT and 13% of EARM. The country's drought was reflected in the average PLD of the year, which registered 323 R$/MWh for SE / CO and 335 R$/MWh for the Northeast, reaching a maximum of 534 R$/MWh for all sub-markets in October. The average Generation Scaling Factor (GSF) for the year 2017 was 81.5%, reaching a low of 61.8% in the third quarter of 2017.

## REGULATORY FRAMEWORK

The year 2017 was characterized by important milestones in the regulatory environment. On March 28, ANEEL (National Electric Energy Agency) established a means of reimbursing the hydroelectric generator participating in the MRE (Energy Reallocation Market) due to the GFOM - Generation Out of Order of Merit that the ONS (National Electric System Operator) elects to dispatch, whether due to electrical restriction, energy security or import of energy without physical guarantee.

In July CCEE (Electric Energy Trading Chamber) began the New Energy and Energy Clearing Mechanism (MCSD), enabling the negotiation of contractual reductions between distributors and generators, balancing the exchanges with the assignment between distributors declaring leftovers and generators wishing to reduce the amount of energy supplied. In the Distribution segment, in October, ANEEL presented a proposal to improve the tariff flag methodology, with changes

in the amounts charged to consumers and inclusion of new criteria in the calculation, such as costs related to the water deficit. In this way, the values of the yellow and red flags have changed: the red flag has two levels, the additional ones are R$ 3.00 and R$ 5.00, applied to every 100 kWh consumed, and the yellow flag has passed to represent additional costs of R$ 1.00, applied per 100 kWh.

With regard to corporate governance, in November ANEEL regulated the evaluation criteria for distribution agents, classifying distributors as high, medium or insufficient levels of governance. In addition to encourage management efficiency, the standard seeks to improve the quality of service provided to the consumer. Also in November, ANEEL decided the prerequisites for the admissibility of the requests for Periodic Tariff Revision (RTE) of the distributors. The regulation defines the necessary administrative procedure and the minimum admissibility criteria, such as the generating event, evidence of the economic and financial imbalance and the causal link between them.

In December, ANEEL revoked the rule that allowed the republishing of the PLD and established that the ONS, with the support of the CCEE, should make available the preliminary deck of the computational models and documents that subsidize it in a virtual platform, reducing doubts as to the data of input and information regarding the short and medium term models.

# 3.4 BUSINESS AREA ANALYSIS

## 3.4.1 GENERATION AND SUPPLY IBERIA

### 3.4.1.1 FINANCIAL PERFORMANCE

GENERATION AND SUPPLY IBERIA

**EBITDA:**
**€555M**
-48% VS. 2016

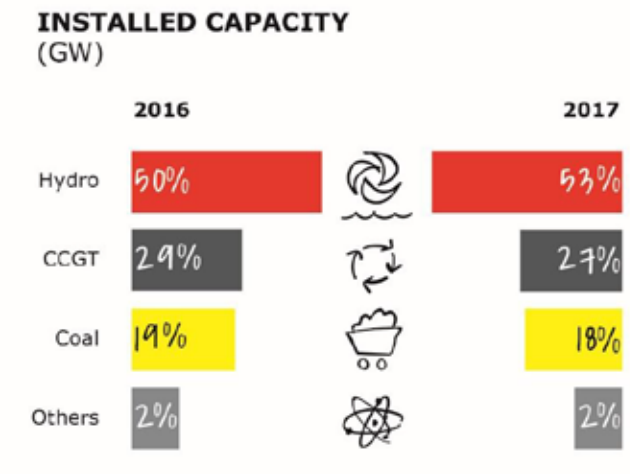
EBITDA from Generation & Supply in Iberia fell 48% YoY mainly reflecting:

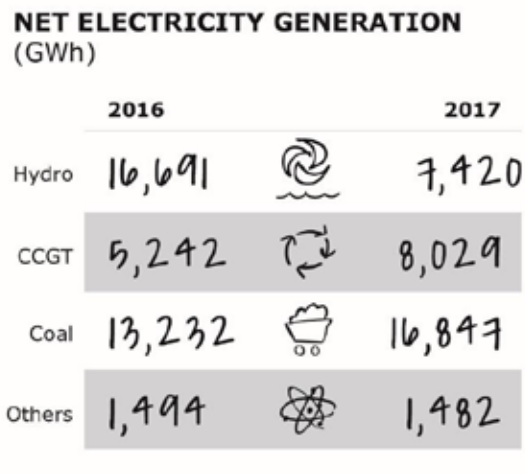
- more expensive generation mix due to the replacement of hydro production (22% weight in generation mix in 2017 vs. 46% in 2016) by coal and natural gas;
- due to the adverse impact of high-pool price context on energy management results;
- due to the increase in regulatory costs (higher generation taxes in Spain and higher costs with social tariff in Portugal), namely when compared with 2016.

### 3.4.1.2 OPERATIONAL PERFORMANCE

## GENERATION ACTIVITY

- Following Portugal's hydro investment plan, in 2017, the remaining 2 plants under construction came online, Venda Nova III (780MW) in 1Q17 and Foz-Tua (263MW) in 2Q17.
- Generation output was 8% lower YoY, mainly due to lower hydro output, since hydro resources in Portugal were 53% below the historical long-term average.
- In Portugal, EDP completed the process of decommissioning the Energin cogeneration plant and continue the deactivation of 3 other thermal generation facilities, namely Carregado, Setúbal and Tunes, respecting the plan submitted to the Portuguese Environmental Agency. During 2017, in addition to complete the works in Energin, stands out the works of dismantling Tunes equipments and removal of materials containing asbestos in Setúbal and Carregado.
- In Spain, during 2017 EDP concluded the environmental investments (denitrification) that were carried out since 2014 in the thermal power plants of Aboño 2 and Soto 3.



## SUPPLY ACTIVITY

- As of 31 December, 2017 EDP had a portfolio of 5.3 million electricity customers in Iberia, an increase of 4% over the previous year: +3% in Portugal and +6% in Spain;
- The volume of electricity traded in the liberalized market in 2017 was 32 TWh, a decrease of 8% over the previous year, reflecting a more careful commercial choice and greater weight of the residential and SME sectors in the total portfolio;
- In the gas sector the portfolio reached around 1.5 million customers at the end of 2017, an increase of 7% over the previous year, which was achieved by the 11% growth in the number of customers in Portugal;
- The volume of gas sold in Iberia in 2017 was 18,642 GWh, a decrease of 21% over the previous year, mainly due to the reduction in sales in the wholesale market;
- The customer relationship management is crucial for EDP, which has given strong relevance to the focus on clients and to improve the quality of services provided. EDP has been building up a position of brand awareness in the energy market, aiming to be an engaging company with which customers relate to. As a reflection of this commitment to customer relations, in 2017, EDP achieved a global customer satisfaction level of 75%, in line with the target;
- The energy services segment, focused on energy efficiency and microgeneration (photovoltaic panels), has also been contributing to build strong customer relations. In Iberia, EDP continues to construct its position based on a wide range of products and integrated electricity and gas services for both B2B and B2C customers.

| 2016 | |
|---|---|
| **ELECTRICITY CUSTOMERS** | 5,091,420 |
| Portugal | 4,023,911 |
| Spain | 1,067,509 |
| **ELECTRICITY SUPPLIED** (GWh) | 34,990 |
| Portugal | 18,291 |
| Spain | 16,699 |
| **GAS CUSTOMERS** | 1,446,425 |
| Portugal | 595,535 |
| Spain | 850,890 |
| **GAS SUPPLIED** (GWh) | 23,508 |
| Portugal | 4,379 |
| Spain | 19,129 |

| 2017 | |
|---|---|
| **ELECTRICITY CUSTOMERS** | 5,286,804 |
| Portugal | 4,153,315 |
| Spain | 1,133,489 |
| **ELECTRICITY SUPPLIED** (GWh) | 32,249 |
| Portugal | 18,246 |
| Spain | 14,003 |
| **GAS CUSTOMERS** | 1,540,819 |
| Portugal | 657,619 |
| Spain | 883,200 |
| **GAS SUPPLIED** (GWh) | 18,642 |
| Portugal | 3,628 |
| Spain | 15,014 |

### 3.4.1.3 STRATEGIC ANALYSIS

| | STRATEGIC PILLAR | INDICATOR | GOAL | STATUS |
|---|---|---|---|---|
| 1 | Optimization of maintenance CAPEX in generation | CAPEX 2016-20 | Maintenance €0.5B Expansion €0.3B | Maintenance €0.2B Expansion €0.3B |
| 2 | Further efficiency improvements | OPEX/ Gross Profit (%) 2015-20 | -2 p.p. | +3 p.p. |
| 3 | Risk-controlled approach through hedging leveraging on client base and adequate management of the regulatory agenda | Sales to clients/ own production 2015-20 | >100% | 106% |
| 4 | Strong improvement of free cash-flow generation | EBITDA CAGR 2015'-20 | +1% | -23% |

[1] 2015 EBITDA adjusted for weather and one-off gains.

### 3.4.1.4 RISK OUTLOOK

- **Political/ regulatory risk (Portugal):** final CMEC revision, other governmental/ regulatory decisions
- **Political/ regulatory risk (Spain):** possible new normative about the useful life of generation plants assets, support to the construction of desulphurization installations, legislation about social tariff
- **Market design:** EU directives (namely, regarding capacity remuneration)
- **$CO_2$ regulation and pricing:** evolution of carbon pricing mechanisms and impact over prices and merit order (coal vs. natural gas plants)
- **Hydro volumes:** uncertainty regarding hydro generation levels
- **Retail margin/ quota:** reduction of retail margin or loss of market quota
- **Asset operation and availability:** damage of assets and/ or loss of profit

## 3.4.2 REGULATED NETWORKS

### 3.4.2.1 FINANCIAL PERFORMANCE

REGULATED NETWORKS IBERIA

**EBITDA:**
**€898M**
-9% VS. 2016

In 2017 EDP ceased its gas distribution activities in both Spain and Portugal: (i) in Spain, EDP concluded the sale of Naturgas Energía Distribución; (ii) in Portugal, EDP concluded the sale of its gas distribution assets, alienating its gas distribution networks and solely maintaining the gas supply activity.

EBITDA from regulated networks fell by 9% YoY (-€92 million), to €898 million in 2017, largely impacted by the deconsolidation of gas distribution in Spain and Portugal and by a €42 million provision booked in electricity distribution in Spain (concerning the lesividad correction), partly offset by tight cost control.

### 3.4.2.2 OPERATIONAL PERFORMANCE

- At the end of 2017, the company had around 2 million smart meters installed in all distribution network in Iberia. Portugal had an increase of 83% over the year in the number of smart meters of domestic clients.
- In 2017, for the third consecutive year, levels of electricity distributed registered an increase in Iberia. Despite penalized by milder weather conditions than usual, electricity distributed increased by 1%, resulting in a total of 54TWh.
- The Installed Capacity Equivalent Interruption Time (ICEIT) scored, in Portugal, once again an excellent record, with 53 minutes, being bellow the regulator's reference. In Spain, EDP continues to be a leader in quality of service of the Spanish electricity sector, with an ICEIT of 20 minutes. System Average Interruption Frequency Index (SAIFI) in Portugal also improved its performance compared to 2016, and registered 1.47 interruptions for domestic customers and small businesses and 1.66 interruptions for business customers.
- Regarding electricity grid losses in Portugal, highlight for the increase of this indicator compared to 2016, reaching 10%, above the regulatory target of 9.25%.

| 2016 | |
|---|---|
| **KM OF NETWORK** | 245,916 |
| Distribution overhead lines | 192,567 |
| Distribution underground lines | 53,349 |
| **ELECTRICITY DISTRIBUTED** (GWh) | 53,789 |
| Portugal | 44,599 |
| Spain | 9,190 |

| 2017 | |
|---|---|
| **KM OF NETWORK** | 246,641 |
| Distribution overhead lines | 193,016 |
| Distribution underground lines | 53,625 |
| **ELECTRICITY DISTRIBUTED** (GWh) | 54,084 |
| Portugal | 44,753 |
| Spain | 9,331 |

### 3.4.2.3 STRATEGIC ANALYSIS

| | STRATEGIC PILLAR | INDICATOR | GOAL | STATUS |
|---|---|---|---|---|
| 1 | Selective CAPEX in smart grids | CAPEX 2016-20 | €1.8B | €0.7B |
| 2 | Further efficiency improvements | OPEX/ Gross profit (%) 2015-20 | -2 p.p. | -2 p.p. |

### 3.4.2.4 RISK OUTLOOK

- **Low voltage network concessions (Portugal):** renewal of framework, possible fragmentation and increase in system costs
- **Tariff revisions:** key assumptions and methodologies of tariff revisions
- **Valuation of assets (Spain):** review of the valuation of remunerated assets
- **Smart-grids:** level of regulatory support and initiatives
- **Asset operation and availability:** damage of assets and loss of profit
- **Business continuity:** across-the-board and prolonged interruption of operations by extreme events (e.g., natural disasters, terrorism)

## 3.4.3 RENEWABLES

### 3.4.3.1 FINANCIAL PERFORMANCE

EDP RENOVÁVEIS

**EBITDA:**
**€1,366M**
+17% VS. 2016

EDP Renováveis' EBITDA went up by 17% YoY (+€195 million) to €1,366 million in 2017, mostly impacted by higher average capacity on stream, mainly in North America and Brazil. EBITDA's evolution also translates:

- improvements at core opex costs per average MW;
- lower average selling price at €59.2/MWh (vs. €60.5/MWh in 2016);
- negative Forex impact, mostly reflecting the USD depreciation against EUR and Brazilian real appreciation against EUR.

### 3.4.3.2 OPERATIONAL PERFORMANCE

- Wind and solar power output went up by 13% YoY in 2017 on higher installed capacity as well as higher average load factor.
- EDP Renováveis added in 2017 624MW to its installed capacity: 424MW in the US, which 60MW in solar (Cypress Creek); 127MW in Brazil (JAU and Aventura); and 74MW were installed in Spain (50MW), France (22MW) and Portugal (3MW). At the end of 2017, EDP Renováveis had 828MW under construction related to projects to be delivered in 2018, including 480MW in US (Turtle Creek and Meadow Lake VI) and 137MW in Brazil (Babilonia). It should be noted that all projects have Power Purchase Agreements already secured.

| 2016 | |
|---|---|
| **INSTALLED CAPACITY** (MW) | 10,052 |
| Europe | 4,986 |
| North America | 4,861 |
| Brazil | 204 |
| **NET ELECTRICITY GENERATION** (GWh) | 24,473 |
| Europe | 11,230 |
| North America | 12,576 |
| Brazil | 666 |

| 2017 | |
|---|---|
| **INSTALLED CAPACITY** (MW) | 10,676 |
| Europe | 5,061 |
| North America | 5,284 |
| Brazil | 331 |
| **NET ELECTRICITY GENERATION** (GWh) | 27,621 |
| Europe | 11,669 |
| North America | 15,091 |
| Brazil | 861 |

### 3.4.3.3 STRATEGIC ANALYSIS

| | STRATEGIC PILLAR | INDICATOR | GOAL | STATUS |
|---|---|---|---|---|
| 1 | Selective and profitable growth generating higher production | GWh CAGR 2015-2020 | +10% | +7% |
| 2 | Higher efficiency and accretive capacity additions | EBITDA CAGR 2015-2020[1] | +8% | +9% |
| 3 | Quality portfolio with sound cash-flow generation | RCF[2] 2020E | €0.9B | €1.8B |
| 4 | Increasing profitability for EDPR shareholders | Net profit CAGR 2015-2020[1] | +16% | +29% |
| 5 | Maintaing its dividend policy | Dividend payout | +25-35% | +77% |

[1] EBITDA and Net Profit adjusted by non-current events.
[2] Retained cash-flow. The amount available to pay dividends to shareholders and/or to fund new investments and includes EBITDA after paying interests and tax equity investor's costs and after paying distributions to equity partners and taxes.

### 3.4.3.4 RISK OUTLOOK

- **Prices:** uncertainty regarding wholesale prices (particularly long-term), green certificates and RECs (Renewable Energy Credits)
- **Generation volumes:** annual volatility in wind and solar generation
- **Political/ regulatory support for renewable energies:** uncertainty regarding long-term regulatory frameworks (incentives, capacity)
- **Counterparty**: possible default on contract obligations (long-term contracts of power purchase, etc.)
- **FX:** evolution of key currencies (USD, BRL, CAD, RON, PLN)

## 3.4.4 BRASIL

### 3.4.4.1 FINANCIAL PERFORMANCE

EDP BRASIL

**EBITDA:**
**€615M**
+4% VS. 2016

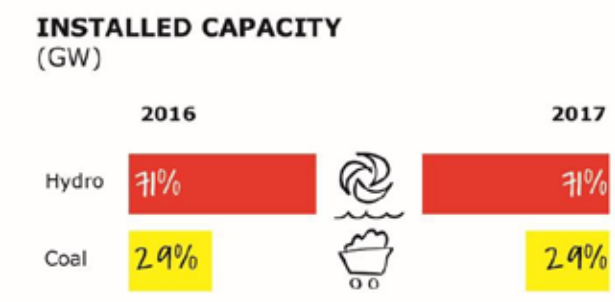
EDP Brasil impact in EDP Group's EBITDA increases 4% to €615 million impacted by the appreciation of the Brazilian real against the EUR. In local currency, EDP Brasil's EBITDA decreased 5% YoY (-R$118 million) to R$2,217 million in 2017, impacted by the gain of R$278 million in 2016 on the sale of Pantanal mini-hydro plants. Adjusted by this effect, EBITDA would have increased 8% YoY (+R$161 million).

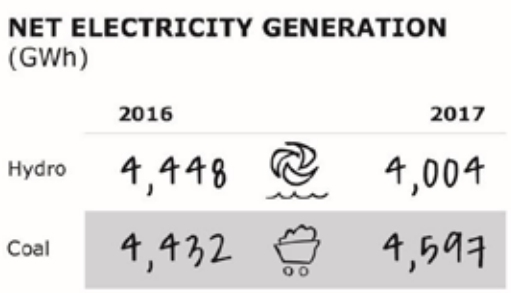
- Generation and supply EBITDA increased by R$91 million to R$1,491 million, reflecting: for supply, the positive impact of higher volumes and margins; for Pecém, the booking of an insurance revenue in 2016 and the negative impact of higher PLD YoY; and for hydro, the negative impact of GSF at 82% and PLD at R$323/MWh in 2017 (vs. R$94/MWh in 2016).
- Distribution EBITDA increased by R$64 million YoY to R$831 million in 2017, mostly due to (i) the positive impact of 2016's tariff revisions on regulated gross profit, (ii) the YoY positive impact of energy overcontracting, partly offset by the YoY impact of a gain in 2016 with the update on the concessions assets' residual value.

### 3.4.4.2 OPERATIONAL PERFORMANCE

**GENERATION ACTIVITY**

- Volumes sold with hydro PPAs were down 6% YoY, mostly due to the end of some PPAs in Peixe Angical hydro plant in January 2016.
- In December 2017, EDP in Brasil concluded group 1 (175MW) of São Manoel (700MW, 33% EDP), partnership with Furnas and CTG. This plant will start its commercial operations in May-18.



**DISTRIBUTION ACTIVITY**

- Electricity distributed increased slightly in 2017 by 1.1% vs. 2016**.** Volumes of electricity sold decreased 7% YoY in 2017, translating a 24% reduction of demand in regulated industrial clients. At the same time, volumes distributed to industrial clients in the free market increased 14% YoY to 11TWh in 2017, reflecting the migration of industrial clients from fully regulated tariffs to the liberalised market.
- As for the quality of service in 2017, EDP São Paulo obtained a DEC of 7.9 hours and a FEC of 5.0 times, which corresponds, respectively, to a decrease of 12% over the year 2016 in both indicators, as a result, essentially, of more favorable atmospheric conditions. EDP Espírito Santo presented a DEC of 8.6 hours, that is, a reduction of 7% in the year, and a FEC of 5.3 times, 7% less than in 2016.

| 2016 | |
|---|---|
| **KM OF NETWORK** | 91,576 |
| Distribution overhead lines | 91,337 |
| Distribution underground lines | 239 |
| **ELECTRICITY DISTRIBUTED** (GWh) | 24,425 |

| 2017 | |
|---|---|
| **KM OF NETWORK** | 91,538 |
| Distribution overhead lines | 91,293 |
| Distribution underground lines | 245 |
| **ELECTRICITY DISTRIBUTED** (GWh) | 24,704 |

**SUPPLY ACTIVITY**

- The number of customers in the regulated market increased by 2% YoY. Despite this increase, the volume sold did not follow this trend, penalized by the migration of customers from the regulated market to the free market and the milder weather conditions.
- In the free market the number of clients rose 24% in the year. In terms of marketed volume, the increase was 37% reflecting better market conditions and the integrated management strategy between generation and marketing activities.

| 2016 | |
|---|---|
| **ELECTRICITY CUSTOMERS** | 3,315,679 |
| Customers in liberalised market | 272 |
| Customers in last resort market | 3,315,407 |
| **ELECTRICITY SUPPLIED** (GWh) | 27,712 |
| Electricity supplied in liberalised market | 12,980 |
| Electricity supplied in last resort market | 14,731 |

| 2017 | |
|---|---|
| **ELECTRICITY CUSTOMERS** | 3,376,425 |
| Customers in liberalised market | 337 |
| Customers in last resort market | 3,376,088 |
| **ELECTRICITY SUPPLIED** (GWh) | 31,501 |
| Electricity supplied in liberalised market | 17,804 |
| Electricity supplied in last resort market | 13,697 |

| | STRATEGIC PILLAR | INDICATOR | GOAL | STATUS |
|---|---|---|---|---|
| A | Commitment to execution | Installed capacity | 3.0GW | 2.8GW |
| B | Operational excellence and superior efficiency | | | |
| C | Regulatory focus | Net debt/EBITDA | < 2.5x | 2.0x |
| D | Portfolio optimization | | | |
| E | Capital discipline and shareholder return | Dividend Policy | ≥ 50% | 25% |

**3.4.4.4 RISK OUTLOOK**

- **Regulatory reform:** ongoing proposal to revise market design (generation, distribution and supply)
- **Hydro volume:** mismatch between (uncertain) energy generation and energy sold in LT contracts, differences settled at volatile spot price (PLD)
- **Price** (Spot PLD)**:** transversal impact to the business of generation, distribution and supply
- **Political/ social risk:** political uncertainty in electoral year with impact at macroeconomic level and in business
- **Climate change:** hydro resources scarcity with impact to the business of generation

## 3.5 RISK MANAGEMENT IN 2017

The risk management at EDP Group looks for acting in an integrated way across 5 fundamental pillars:

| | RECURRENT ACTIVITIES | DEVELOPMENTS IN 2017 | PRIORITIES FOR 2018 |
|---|---|---|---|
| IN-DEPTH KNOWLEDGE AROUND KEY SOURCES OF RISK EXPOSURE | • **Mapping of key risks** (and representation in a structured taxonomy).<br>• **Quantitative analysis of exposures** (based on average and maximum loss). | • **Map of key emerging risks** (in the geopolitical, economic, social, technological and environmental dimensions). | • **Further development of risk map exercises** for key Business Units.<br>• **Further development of selected emerging topics.** |
| DEFINITION OF MANAGEMENT STRATEGY | • **Supporting clarification and reflection around risk-return trade-offs** (and risk appetite) in key management decisions. | • **Formalization of risk appetite** (and respective external disclosure).<br>• **Development and application of risk-return methodologies** (marginal cost of risk). | • **Reflection on risk capacity and tolerance** for EDP Group. |
| ACTIVE PARTICIPATION OF RISK IN KEY DECISIONS AND MANAGEMENT PROCESSES | • **Risk advice/ support for the Business Plan and Budget exercises.**<br>• **Support for investment decisions** (inc. participation in Investment Committee).<br>• **Support the definition of coverage strategies** for key exposures.<br>• **Analysis and advice on topics with possible impact in the risk profile** of the Group.<br>• **Follow-up and control of key exposures** (through periodical reports at Group level and for most relevant BUs).<br>• **Periodical Risk Committees** (for debating key exposures and treatment measures). | • **Standardization of credit risk policies** for credit.<br>• **Risk analysis and asset composition** for the Group's Pension Fund.<br>• **Risk analysis of cyber security and development of mitigation measures** (insurance).<br>• **Supporting the strengthening, standardization and formalization of Crisis Management and Business Continuity practices** in selected areas (EDPD, EDPP, DSI). | • **Support the preparation of the Business Plan.**<br>• **Study of mechanisms to mitigate risk of hydro volume.**<br>• **Study and update of the exchange risk management strategy.**<br>• **Consolidation of Crisis Management and Business Continuity practices** and broadening of scope to the remaining Business Units. |
| FORMALIZATION OF RISK GOVERNANCE MODEL | • **Establishment of policy and principles for risk management** at EDP Group. | • **Update of the Group's risk management policy** (inc. clarification of responsibilities of 3 lines of defense, and enhancement of risk-officers role).<br>• **Development and disclosure of the risk management manual** (repository of transversal best-practices and relevant methodologies for risk management). | • **Supporting the dynamization of risk-officers network** (in BUs with most recent risk governance models). |
| PROMOTION OF A SOLID RISK CULTURE, TRANSVERSAL TO THE ORGANIZATION | • **Development of a wide set of initiatives for awareness,** customized for different audiences:<br>- Sessions for the top management.<br>- Courses at EDP University for senior managers and intermediate managers.<br>- Specialized courses for all employees (regarding ethics, health and safety, cyber security, among others). | • **Development of multiple sessions dedicated** to risk:<br>- Enterprise Risk Management Workshop for top management.<br>- Meeting with all risk-officers (and teams) to share best-practices.<br>- Extension of risk management courses to specialists.<br>- Creation of e-learning model for risk management. | • **Consolidation of the risk culture strengthening program.** |

# THE LIVING ENERGY BOOK

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# 04

# CORPORATE GOVERNANCE


Part I – Information on Ownership Structure, Organization and Corporate Governance 87

A. Ownership Structure 87
I. Capital Structure 87
II. Shareholdings and Bonds Owned 89

B. Corporate Bodies and Committees 93
I. General Meeting 93
Composition of the General Meeting 93
Exercise of Voting Rights 94
II. Management and Supervision 96
Composition 96
Operation 127
Committees of Managing or Supervisory Body 128
III. Supervision 132
Composition 132
Operation 133
Powers and Duties 133
IV. Statutory Auditor 134
V. External Auditor 134

C. Internal Organization 138
I. Articles of Association 138
II. Whistleblowing 138
III. Internal Control and Risk Management 139
IV. Investor Relations 152
V. Website 153

D. Remuneration 155
I. Power to Set Remuneration 155
II. Remuneration Committee 155
III. Remuneration Structure 156
IV. Disclosure of Remuneration 163
V. Agreements Affecting Remuneration 166
VI. Stock Purchase Option Plans or Stock Options 167

E. Transactions with Related Parties 168
I. Mechanisms and Procedures of Control 168
II. Business Information 170

Parte II – Assessment of Corporate Governance 171
1. Corporate Governance Code in Effect 171
2. Compliance with the Corporate Governance Code 171
3. Other Information 184
Annex I. Corporate Bodies' Biography 185
Annex II. Attendance List of the General and Supervisory Board 196
Annex III. Attendence List of the executive Board Of Directors 197
Annex IV. Positions Held in Other Companies 198
Annex V. Attendence List of Financial Matters Committee / Audit Committee 199
Annex VI. Financial Instruments Transactions by EBD and GSB 200

LIVING TECHNOLOGY

# THE LIVING ENERGY BOOK

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# 04 CORPORATE GOVERNANCE

## PART I – INFORMATION ON OWNERSHIP STRUCTURE, ORGANISATION AND CORPORATE GOVERNANCE

## A. OWNERSHIP STRUCTURE

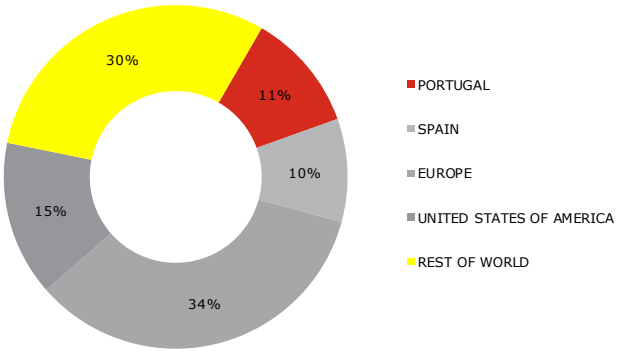
### I. CAPITAL STRUCTURE

### 1. CAPITAL STRUCTURE

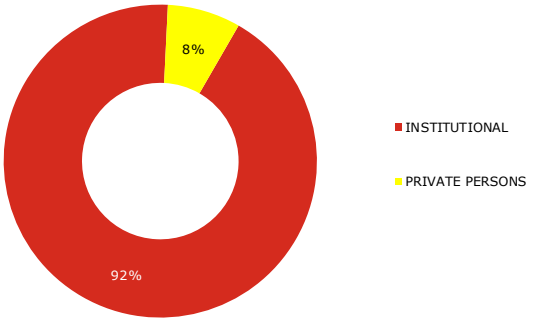
EDP's share capital in the amount of EUR 3,656,537,715.00 and is fully paid up, according to Article 4 (2) of EDP's Articles of Association, being represented by 3,656,537,715 shares, which are ordinary and have a face value of 1 euro each.

The geographical and investor type breakdown of the EDP shareholder structure on 31 December 2017 was as follows:

**BREAKDOWN OF SHAREHOLDER STRUCTURE BY GEOGRAPHY**




**BREAKDOWN OF SHAREHOLDER STRUCTURE BY INVESTOR TYPE**




Source: Interbolsa

### 2. RESTRICTIONS ON SHARE TRANSFERABILITY

In statutory terms the shares are not subject to any limitations in terms of transferability, given that, according to the Portuguese Securities Code, shares traded in the market are fully transferable.

### 3. TREASURY STOCK

As at 31 December 2017, EDP owned 21,906,324 treasury stock shares, corresponding to 0.60% of the share capital and 0.60% of the voting rights.

### 4. CHANGE OF COMPANY CONTROL

EDP is not a party to any significant agreements that come into effect, are amended or cease in the event of a change of company control following a takeover bid (except normal market practice in terms of debt issue).

## 5. DEFENSIVE MEASURES

EDP has not taken any measures to prevent takeover bids that would put the interests of the company and its shareholders at risk. The supplementary rules on this matter remain thus in force.

In this regard, it is important to note that, pursuant to Article 14 (3) of EDP's current Articles of Association, votes cast by a shareholder on his own behalf or representing another will not be considered if they exceed 25% (twenty-five percent) of all the votes corresponding to the share capital.

Although EDP's Articles of Association impose this limitation on the exercise of voting rights, this limitation is not a measure to prevent successful takeover bids.

In fact, the inability of the limitation on voting rights to prevent the success of a takeover bid is the result of EDP's current capital structure and of the compliance of the deliberative quorum of two-thirds of the votes cast, which is set out in EDP's Articles of Association for an amendment to the company agreement on this matter with Article 182 (2) of the Securities Code.

No defensive measures have been taken aimed at or resulting in serious erosion of EDP's assets in the event of transfer of control of the company or a change in the composition of the Executive Board of Directors, thereby prejudicing the free transferability of the shares and free appraisal by the shareholders of the performance of the members of the Executive Board of Directors.

## 6. SHAREHOLDER AGREEMENTS

According to the Article 7 of EDP's Articles of Association, shareholder agreements regarding the company must be communicated in full to the Executive Board of Directors and the General and Supervisory Board by the shareholders that have signed them in the 30 (thirty) days following their conclusion.

According to information provided to the company by the shareholders, the Executive Board of Directors is aware of the existence of a single shareholder agreement, which was entered into on 11 April 2007 by Parpública - Participações Públicas (SGPS), S.A. ("(Parpública"), Caixa Geral de Depósitos, S.A. ("CGD") and Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures ("Sonatrach").

Under the terms of this shareholder agreement, which were announced publically, Parpública and CGD made the following commitments:

- To support the continued membership of Sonatrach (or of a person indicated by it) in EDP’s General and Supervisory Board, provided that Sonatrach maintains a shareholding of at least 2% (two percent) of EDP's share capital and the strategic partnership remains in effect; and
- To refrain from promoting, supporting and/or voting in favour of any change in EDP's Articles of Association that prevents the continued membership of Sonatrach (or of a person indicated by it) in EDP's General and Supervisory Board.

Although Parpública has sold its shareholdings in EDP's share capital and CGD does not own a qualifying shareholding in EDP's share capital, according to information at EDP's disposal this does not represent automatic cessation of the effects of the shareholder agreement. EDP has not been informed of any agreement to revoke or amend the said shareholder agreement.

# II. SHAREHOLDINGS AND BONDS OWNED

## 7. QUALIFYING HOLDINGS

Pursuant to Article 8 (1) (b) of CMVM Regulation 5/2008, we are providing the following information on qualifying holdings owned by EDP shareholders as at 31 December 2017 and attributable voting rights in accordance with Article 20 (1) of the Securities Code.

| SHAREHOLDER | NR. OF SHARES | % CAPITAL WITH VOTING RIGHTS |
|---|---|---|
| CHINA THREE GORGES CORPORATION | | |
| Stakes held by entities in a control or group relationship | | |
| China Three Gorges (Europe), S.A. | 850,777,024 | 23.27% |
| Total | 850,777,024 | 23.27% |

China Three Gorges (Europe), S.A. is fully owned by China Three Gorges (Hong Kong) Co. Ltd , which is fully owned by CWE Investment Co. Ltd. China Three Gorges Corporation directly holds 100% equity of CWE Investment Co. Ltd. China Three Gorges Corporation is in turn fully owned by People Republic of China.

| CNIC CO. LTD. | | |
|---|---|---|
| Stakes held by entities in a control or group relationship | | |
| Orise, S.a.r.l. | 182,081,216 | 4.98% |
| Total | 182,081,216 | 4.98% |

Orise, S.a.r.l. is fully owned by Kindbright Holdings Corp. Limited, which in turn is fully owned by CNIC Co., Ltd (formerly know as Guoxin International Investment Co., Ltd.), which in turn is fully owned by People's Republic of China.

According to paragraph 1(b) of article 20 of the Portuguese Securities Code, which dictates the aggregation of China Three Gorges and CNIC Co., Ltd.'s shares, a total of 28.25% of voting rights are attributable to People's Republic of China.

| CAPITAL GROUP COMPANIES, INC. | | |
|---|---|---|
| Stakes under management by entities in a control relationship | | |
| Capital Research and Management Company | 431,283,656 | 11.79% |
| Capital Income Builder | 199,775,187 | 5.46% |
| Income Fund of America | 73,191,274 | 2.00% |
| Capital World Growth and Income Fund | 105,264,653 | 2.88% |
| Capital Guardian Trust Company | 2,386,687 | 0.07% |
| Capital International Limited | 285,685 | 0.01% |
| Capital International Sárl | 4,930,771 | 0.13% |
| Capital International, Inc. | 17,146 | 0.00% |
| Total | 438,903,945 | 12.00% |

Capital Research and Management Company ("CRMC") is fully owned by Capital Group Companies, Inc. CRMC is an investment consultancy vehicle which manages mutual funds registered in the United States. CRMC manages capital assets for several investment companies through three divisions, Capital Research Global Investors, Capital International Investors and World Investors. CRMC fully owns Capital Group International, Inc. ("CGII"), which in turn controls investment management companies ("fund management companies CGII"): Capital Guardian Trust Company, Capital International, Inc., Capital International Limited and Capital International Sàrl. The fund management companies CGII operate primarily as investment managers for institutional clients. The reported shareholdings are held by mutual investment funds under discretionary investment management.

Capital Group Companies, Inc. latest shareholding update occurred in June 30th, 2017, except for Income Fund of America which informed on its stake in August 21st, 2017.

| OPPIDUM CAPITAL, S.L. | | |
|---|---|---|
| Stakes held directly | | |
| Oppidum Capital, S.L. | 263,046,616 | 7.19% |
| Total | 263,046,616 | 7.19% |

According to paragraph 1(b) of article 20 of the Portuguese Securities Code, the voting rights inherent to the share capital held by Oppidum Capital, SL and Flicka Forestal, SL are imputable to Fernando Masaveu Herrero. Oppidum Capital, SL is 55.9% owned by Masaveu Internacional, S.L. and 44.1% owned by Liberbank, S.A. In turn, Masaveu Internacional, SL is 100% held by Corporación Masaveu, SA. Corporación Masaveu, SA is 41.38% held by Fundación María Cristina Masaveu Peterson, 10.73% by Flicka Forestal, SL and 0.03% by Fernando Masaveu Herrero. Fernando Masaveu Herrero controls Fundación María Cristina Masaveu Peterson, Flicka Forestal, SL and Peña Maria, S.L. Flicka Forestal, SL holds 2,000,000 shares of EDP's share capital, which correspond to 0.05% of the voting rights. Additionally, Fernando Masaveu Herrero's spouse holds 17,020 shares of EDP's share capital, which correspond to 0.000465% of the voting rights. Also, three dependents of Fernando Masaveu Herrero, namely Pedro Masaveu Compostizo, Jaime Masaveu Compostizo and Elias Masaveu Compostizo hold each 500 shares of EDP's share capital. In this sense, in total, 7.25% of the voting rights of EDP, corresponding to 265,065,136 shares of EDP's share capital, should be imputable to Fernando Masaveu Herrero.

| SHAREHOLDER | NR. OF SHARES | % CAPITAL WITH VOTING RIGHTS |
|---|---|---|
| BLACKROCK, INC. | | |
| Stakes under management by entities in a control relationship | | |
| BlackRock (Luxembourg) S.A. | 49,282,565 | 1.35% |
| BlackRock (Netherlands) B.V. | 776,486 | 0.02% |
| BlackRock Advisors (UK) Limited | 1,046,389 | 0.03% |
| BlackRock Advisors, LLC | 3,836,968 | 0.10% |
| BlackRock Asset Management Canada Limited | 1,059,783 | 0.03% |
| BlackRock Asset Management Deutschland AG | 9,606,564 | 0.26% |
| BlackRock Asset Management Ireland Limited | 18,662,688 | 0.51% |
| BlackRock Asset Management North Asia Limited | 9,693 | 0.00% |
| BlackRock Asset Management Schweiz AG | 11,076 | 0.00% |
| BlackRock Financial Management | 45,287 | 0.00% |
| BlackRock Fund Advisors | 32,320,429 | 0.88% |
| BlackRock Fund Managers Limited | 16,462,044 | 0.45% |
| BlackRock Institutional Trust Company, National Association | 32,735,889 | 0.90% |
| BlackRock International Limited | 428,495 | 0.01% |
| BlackRock Investment Management (Australia) Limited | 773,921 | 0.02% |
| BlackRock Investment Management (UK) Limited | 1,132,323 | 0.03% |
| BlackRock Investment Management, LLC | 3,388,710 | 0.09% |
| BlackRock Japan Co Ltd | 3,244,637 | 0.09% |
| BlackRock Life Limited | 6,412,059 | 0.18% |
| iShares (DE) I Investmentaktiengesellschaft mit Teilvermogen | 1,497,174 | 0.04% |
| Total | 182,733,180 | 5.00% |
| Blackrock latest shareholding update occurred in April 20th, 2015. | | |
| MUBADALA INVESTMENT COMPANY | | |
| Stakes held by entities in a control or group relationship | | |
| Senfora BV | 148,431,999 | 4.06% |
| Total | 148,431,999 | 4.06% |
| The company Senfora BV is a company created in the Netherlands, wholly and directly owned by Mubadala, which is a company wholly owned by the government of Abu Dhabi. | | |
| MILLENNIUM BCP | | |
| Fundação Millennium BCP | 350,000 | 0.01% |
| Stakes under management by associated entities | | |
| Fundo de Pensões do Grupo Millennium BCP | 88,776,167 | 2.43% |
| Total | 89,126,167 | 2.44% |
| The management company of the pension fund of Group Millennium BCP exercises independently their voting rights. | | |
| SONATRACH | | |
| Stakes held directly | | |
| Sonatrach | 87,007,433 | 2.38% |
| Total | 87,007,433 | 2.38% |
| QATAR INVESTMENT AUTHORITY | | |
| Stakes held by entities in a control or group relationship | | |
| Qatar Holding LLC | 82,868,933 | 2.27% |
| Total | 82,868,933 | 2.27% |
| The company Qatar Holding LLC is wholly owned by Qatar Investment Authority. | | |
| NORGES BANK[1] | | |
| Stakes held directly | | |
| Norges Bank | 98,397,785 | 2.69% |
| Total | 98,397,785 | 2.69% |
| EDP (TREASURY STOCK) | 21,906,324 | 0.60% |
| REMAINING SHAREHOLDERS | 1,211,257,093 | 33.13% |
| TOTAL | 3,656,537,715 | 100.00% |

Note: Pursuant to Article 14 (3) of the Articles of Association of EDP, votes cast by a shareholder, on its own account or on behalf of another shareholder, that exceed 25% of the votes corresponding to the share capital, shall not be taken into account.

(1) Norges informed in February 15th, 2018 of an increase in its shareholding to 2.75%, divided by shares held directly (1.96%), shares on loan (right to recall) (0.59%) and CFDs (0.20%)

# 8. FINANCIAL INSTRUMENTS OWNED BY MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES

## FINANCIAL INSTRUMENTS OWNED BY MEMBERS OF THE EXECUTIVE BOARD OF DIRECTORS

By December 31st, 2017, the financial instruments held by members of Executive Board of Directors, as required by Article 447 (5) of the Companies Code are shown below.

| | EDP - ENERGIAS DE PORTUGAL, S.A. | | | | EDP RENOVÁVEIS, S.A. | | EDP - ENERGIAS DO BRASIL, S.A. | |
|---|---|---|---|---|---|---|---|---|
| EXECUTIVE BOARD OF DIRECTORS | Nº SHARES 31-12-2017 | Nº SHARES 31-12-2016 | Nº BONDS 31-12-2017 | Nº BONDS 31-12-2016 | Nº SHARES 31-12-2017 | Nº SHARES 31-12-2016 | Nº SHARES 31-12-2017 | Nº SHARES 31-12-2016 |
| António Luís Guerra Nunes Mexia | 91,000 | 91,000 | - | - | 0 | 4,200 | 1 | 1 |
| Nuno Maria Pestana de Almeida Alves | 150,000 | 150,000 | - | - | 0 | 5,000 | 1 | 1 |
| João Manuel Manso Neto | 1,268 | 1,268 | - | - | 0 | 0 | 0 | 0 |
| António Fernando Melo Martins da Costa | 54,299 | 54,299 | - | - | 0 | 1,480 | 0 | 0 |
| João Manuel Veríssimo Marques da Cruz | 79,578 | 81,378 | 200,000 | 200,000 | 0 | 1,200 | 0 | 0 |
| Miguel Stilwell de Andrade | 140,000 | 140,000 | - | - | 0 | 2,510 | 0 | 0 |
| Miguel Nuno Simões Nunes Ferreira Setas | 7,382 | 7,382 | - | - | 0 | 1,690 | 6,000 | 6,000 |
| Rui Manuel Rodrigues Lopes Teixeira* | 31,733 | 8,333 | - | - | 0 | 12,370 | 0 | 0 |

* The shares of EDP - Energias de Portugal, S.A. includes 1,490 held by his spouse, Lina Lago da Silva Dantas Martins.

The operations performed with EDP financial instruments by the members of the Executive Board of Directors in 2017 are set out in Annex VI.

## FINANCIAL INSTRUMENTS OWNED BY MEMBERS OF THE GENERAL AND SUPERVISORY BOARD

The financial instruments owned or imputable to the members of the General and Supervisory Board, as required by Article 447 (5) of the Companies Code, are shown below.

| | EDP - ENERGIAS DE PORTUGAL, S.A. | | | | EDP RENOVÁVEIS, S.A. | |
|---|---|---|---|---|---|---|
| GENERAL AND SUPERVISORY BOARD [1] | N.º SHARES 31-12-2017 | N.º SHARES 31-12-2016 | N.º BONDS 31-12-2017 | N.º BONDS 31-12-2016 | N.º SHARES 31-12-2017 | N.º SHARES 31-12-2016 |
| China Three Gorges Corporation | 850,777,024 | 780,633,782 | 0 | 0 | 0 | 0 |
| Eduardo Catroga (in representation of China Three Gorges Corporation) | 0 | 0 | 0 | 0 | 0 | 0 |
| Luís Filipe Marques Amado | 0 | 0 | 0 | 0 | 0 | 0 |
| China Three Gorges New Energy Co. Ltd. | 0 | 0 | 0 | 0 | 0 | 0 |
| Ya Yang (in representation of da China Three Gorges New Energy Co. Ltd.) | 0 | 0 | 0 | 0 | 0 | 0 |
| China International Water & Electric Corp. | 0 | 0 | 0 | 0 | 0 | 0 |
| Guojun Lu (in representation of China International Water & Electric Corp.) | 0 | 0 | 0 | 0 | 0 | 0 |
| China Three Gorges (Europe) S.A. | 850,777,024 | 780,633,782 | 0 | 0 | 0 | 0 |
| Dingming Zhang (in representation of da China Three Gorges (Europe) S.A.) | 0 | 0 | 0 | 0 | 0 | 0 |
| China Three Gorges (Potugal), Sociedade Unipessoal, Lda. | 0 | 0 | 0 | 0 | 0 | 0 |
| Shengliang Wu (in representation of China Three Gorges (Portugal), Sociedade Unipessoal, Lda.) | 0 | 0 | 0 | 0 | 0 | 0 |
| Draursa, S.A. | 0 | 0 | 0 | 0 | 0 | 0 |
| Felipe Fernández Fernández (in representation of Draursa, S.A.) [2] | 1,350 | 0 | 0 | 0 | 0 | 0 |
| Fernando Maria Masaveu Herrero [3] | 265,065,136 | 265,065,136 | 0 | 0 | 0 | 0 |
| Banco Comercial Português, S.A. | 88,989,949 | 89,342,093 | 0 | 0 | 0 | 0 |
| Nuno Manuel da Silva Amado (in representation of Banco Comercial Português, S.A.) | 0 | 0 | 0 | 0 | 0 | 0 |
| Sonatrach | 87,007,433 | 87,007,433 | 0 | 0 | 0 | 0 |
| Ferhat Ounoughi (in representation of Sonatrach) | 0 | 0 | 0 | 0 | 0 | 0 |
| Senfora BV | 148,431,999 | 148,431,999 | 0 | 0 | 0 | 0 |
| Mohammed Issa Khalfan Alhuraimel Alshamsi (in representation of Senfora BV)[4] | 0 | 0 | 0 | 0 | 0 | 0 |
| António Sarmento Gomes Mota | 0 | 0 | 0 | 0 | 0 | 0 |
| Alberto Joaquim Milheiro Barbosa | 0 | 0 | 0 | 0 | 0 | 0 |
| António Manuel de Carvalho Ferreira Vitorino | 0 | 0 | 0 | 0 | 0 | 0 |
| Augusto Carlos Serra Ventura Mateus | 0 | 0 | 0 | 0 | 0 | 0 |
| Ilídio da Costa Leite de Pinho | 0 | 0 | 0 | 0 | 0 | 0 |
| João Carvalho das Neves | 7,429 | 7,429 | 5 | 5 | 0 | 3,200 |
| Jorge Avelino Braga de Macedo | 0 | 0 | 0 | 0 | 0 | 0 |
| Maria Celeste Ferreira Lopes Cardona | 0 | 0 | 0 | 0 | 0 | 0 |
| María del Carmen Ana Fernández Rozado | 0 | 0 | 0 | 0 | 0 | 0 |
| Vasco Joaquim Rocha Vieira | 3,203 | 3,203 | 0 | 0 | 0 | 380 |

Notes:

[1] The members of the General and Supervisory Board do not hold any shares of Energias do Brasil, S.A.

[2] The shares of EDP - Energias de Portugal are held by his spouse, Maria Teresa Fernández Veja, and were identified following a process of division of an inheritance.

[3] According to paragraph 1(b) of article 20 of the Portuguese Securities Code, the voting rights inherent to the share capital held by Oppidum Capital, SL and Flicka Forestal, SL are imputable to Fernando Masaveu Herrero. Oppidum Capital, SL is 55.9% owned by Masaveu Internacional, S.L. and 44.1% owned by Liberbank, S.A. In turn, Masaveu Internacional, SL is 100% held by Corporación Masaveu, SA. Corporación Masaveu, SA is 41.38% held by Fundación María Cristina Masaveu Peterson, 10.73% by Flicka Forestal, SL and 0.03% by Fernando Masaveu Herrero. Fernando Masaveu Herrero controls Fundación María Cristina Masaveu Peterson, Flicka Forestal, SL and Peña Maria, S.L. Flicka Forestal, SL holds 2,000,000 shares of EDP's share capital, which correspond to 0.05% of the voting rights. Additionally, Fernando Masaveu Herrero's spouse holds 17,020 shares of EDP's share capital, which correspond to 0.000465% of the voting rights. Also, three dependents of Fernando Masaveu Herrero, namely Pedro Masaveu Compostizo, Jaime Masaveu Compostizo and Elias Masaveu Compostizo hold each 500 shares of EDP's share capital. In this sense, in total, 7.25% of the voting rights of EDP, corresponding to 265,065,136 shares of EDP's share capital, should be imputable to Fernando Masaveu Herrero.

[4] Mohamed Al Fahim represented Senfora BV until October, 30th 2017, being replaced by Mohammed Issa Khalfan Alhuraimel Alshamsi from October 31st 2017

The operations performed with EDP financial instruments by the members of the General and Supervisory Board in 2017 are set out in Annex VI.

## 9. SPECIAL POWERS OF THE MANAGING BODY WITH REGARD TO DECISIONS TO INCREASE SHARE CAPITAL

The Executive Board of Directors has the powers enshrined in the law and Articles of Association to perform its duties, which are indicated in detail in point 21.

In what concerns the approval of decisions on share capital increases, and according to Article 4 (3) of the Articles of Association, the Executive Board of Directors has the power to approve one or more share capital increases up to an aggregate limit of 10% of the current share capital in the amount of EUR 3,656,537,715.00, via the issue of shares to be subscribed by new entries in cash, in accordance with the issue terms and conditions that it defines. The draft decision must be submitted to the General and Supervisory Board subject to a majority of two-thirds of votes of the respective members (Article 4 (3) of EDP's Articles of Association). The General Meeting of Shareholders held on 17 April 2012 decided to approve the renewal for five years of the Executive Board of Directors' authorization. The Executive Board of Directors has not yet used this renewed power to increase EDP's share capital.

## 10. SIGNIFICANT BUSINESS RELATIONSHIPS BETWEEN OWNERS OF QUALIFYING HOLDINGS AND THE COMPANY

Attentive to the current reporting obligations, the Executive Board of Directors, during 2017, submitted to the General and Supervisory Board the information concerning transactions between related parties. Such information concerned the transactions listed below:

Thus, with reference to 2017 exercise, it should be pointed out the performance of the following operations between companies of EDP Group and owners of qualifying holdings in EDP's share capital:

- As part of the strategic partnership between EDP and CTG in December 2011, it was concluded tha sale, by EDP Renováveis, of 49% of the share capital and shareholder loans related to a wind energy portfolio of 422 MW located in Portugal, to ACE Portugal Sàrl, which is 100% owned by ACE Investment Fund II LP, entity participated of China Three Gorges Hong Kong Ltd ("CTG HK"), a fully-owned subsidiary of CTG, for a final consideration of €248 million.
- BCP bank provided EDP Group with financial intermediary services, having integrated, notably, the syndicate of banks which acted as *Joint Bookrunners* for the issue of bonds, in January 2017. Also in 2017, BCP was one of the twenty-two banks that participated on the € 3 300 million revolving credit facility. Likewise, in 2017, it was sold to BCP, through an assignment without recourse transaction, part of the extra-cost deficit of Special Regime Production 2017, in the amount of, approximately, € 100 million.
- Sonatrach provided natural gas to EDP Group under long-term supply contracts, for which the amount of € 145.5 million was paid.
- EDP Group provided electricity and gas services to Cementos Tutela Veguín and other companies incorporated in the Masaveu Group in the approximate amount of € 22,5 million (Cementos Tutela Veguín is a subsidiary of Corporación Masaveu which, in turn, holds 55.9% of Oppidum Capital, S.L.). Oppidum Capital holds a 7.19% stake in EDP.
- EDP Group provided electricity and gas services to Liberbank and related companies amounting to approximately € 5.9 million (Liberbank holds 44.1% of Oppidum Capital, S.L.). Oppidum Capital holds a 7.19% stake in EDP.

On July 29, 2010, the General and Supervisory Board approved the first draft of the "Regulations on conflicts of interests", which was revised during 2015, and a new version was approved on October 29, 2015 (Regulation) available on the EDP's website (www.edp.com). These rules for identifying, preventing and resolving potential relevant corporate conflicts of interest have a higher level of exigency than those in the CMVM Corporate Governance Code.

Following a decision made by the General and Supervisory Board, on 17 May 2010 the Executive Board of Directors approved the rules on identification, in-house reporting and procedure in the event of conflicts of interest applicable to all EDP Group employees who play a decisive role in transactions with related parties. These rules are available on EDP's website (www.edp.com).

The Corporate Governance and Sustainability Committee is responsible for supervising enforcement of the aforementioned rules and reports on its work to the General and Supervisory Board.

The General and Supervisory Board noted in relation to 2017 , in view of the cases analysed and the information provided by the Executive Board of Directors, that no evidence was found that the potential conflicts of interest underlying the transactions made by EDP may have been settled contrary to the interests of the Company.

For more information on the matter, see item 3.4.3. of the Annual Report of the General and Supervisory Board.

# B. CORPORATE BODIES AND COMMITTEES

# I. GENERAL MEETING

# A) COMPOSITION OF THE GENERAL MEETING

## 11. NAME AND POSITION OF OFFICERS OF THE GENERAL MEETING AND THEIR TERM OF OFFICE

Pursuant to Article 12 of EDP's Articles of Association, the officers of the General Meeting are a Chairman, a Vice-Chairman and the Company Secretary, who is appointed by the Executive Board of Directors.

At the Annual General Meeting of 21 de Abril 2015 the Chairman and Vice-Chairman of the General Meeting were elected for the 2015-2017 mandate. The Company Secretary was appointed on 23 April 2015 (likewise for the 2015-2017 mandate).

| BOARD OF THE GENERAL MEETING | |
|---|---|
| Chairman | António Manuel de Carvalho Ferreira Vitorino |
| Vice-Chairman | Rui Pedro Costa Melo Medeiros |
| Company Secretary | Maria Teresa Isabel Pereira |

The Chairman of the General Meeting is automatically a member of the General and Supervisory Board, pursuant to Article 21 (2) of EDP's Articles of Association.

The Chairman of the General Meeting has the in-house human and logistic resources appropriate to his/her needs, including the support of the General Secretariat and Legal Department, the Investor Relations Office and the Brand, Marketing and Communication Global Coordination Office, plus external support from a specialised entity hired by EDP to collect, process and count the votes. The logistic and administrative resources for the General Meeting are provided by the Company and the organisation is supervised by the Chairman of the General Meeting.

## B) EXERCISE OF VOTING RIGHTS

## 12. RESTRICTIONS ON VOTING RIGHTS

Pursuant to Article 14 (2) of EDP's Articles of Association, each share corresponds to one vote.

According to Article 14 (9) of EDP's Articles of Association, the holders of rights representing shares under ADR (American Depositary Receipt) programs may instruct the respective depositary bank in order to see their voting rights exercised or, alternatively, grant proxy to a representative designated by EDP for such purpose, in compliance with applicable legal or statutory provisions; the depository contract should regulate terms and ways for exercising the voting rights, as well as for cases in which such instructions do not exist.

EDP's shareholders can only participate and vote at the General Meeting, personally or through a representative, if on the date of registration, 00:00 hours (GMT) of the fifth day of trading prior to that of the General Meeting, they own at least one share (Article 14 (10) of the Articles of Association).

Proof of ownership of the shares is provided by sending the Chairman of the General Meeting, by the fifth day of trading prior to that of the General Meeting, a statement issued, certified and sent by the financial intermediary responsible for registering the shares, indicating the number of shares registered and the date of registration. It may be sent by email (Article 14 (13) of EDP's Articles of Association).

Participation in the General Meeting also requires the shareholder to express this intention to the Chairman of the General Meeting and the financial intermediary at which the individual registration account has been opened, by the end of the sixth day of trading prior to that of the General Meeting. The communication may be sent by email (Article 14 (11) of EDP's Articles of Association).

Shareholders who have expressed their intention to participate in a General Meeting pursuant to the Articles of Association and have transferred ownership of the shares between the fifth day of trading prior to that of the General Meeting and the end thereof, must inform the Chairman of the General Meeting and the CMVM immediately (Article 14 (11) of EDP's Articles of Association).

EDP's shareholders can submit a postal vote on each of the items on the agenda in a letter addressed to the Chairman of the General Meeting, as set out in Article 14 (6) of the Articles of Association.

Pursuant to Article 14 (7) of EDP's Articles of Association, voting rights may also be exercised electronically, in accordance with the requirements necessary to ensure their authenticity, which must be defined by the Chairman of the General Meeting in the invitation to the meeting.

Shareholders can find the necessary forms for postal or electronic votes on EDP's website (www.edp.com).

EDP has taken several measures to encourage shareholders to exercise their voting rights, such as elimination of financial obstacles that may affect their exercise. These measures include:

- General circulation of the notice of meeting of the General Meeting with an express indication of the channels available for the exercise of voting rights and in publications on the CMVM website (on www.cmvm.pt) and EDP website (on www.edp.com), on the NYSE Euronext Lisbon newsletter and in mailings to shareholders;
- Payment of the costs of issuing declarations of ownership of shares for all shareholders who participate in the General Meeting (directly or by post);
- Payment of the costs involved in remote voting, including postal voting.

As per EDP's By-Laws, votes cast by a shareholder in his own name or as a representative of another exceeding 25% (twenty-five percent) of all the votes representing the share capital are not considered. This limitation applies to all decisions of the General Meeting, including those for which the law or EDP's Articles of Association provide for a qualified majority of the company's share capital.

Pursuant to Article 14 (4) of EDP's Articles of Association, votes for which, under Article 20 (1) of the Securities Code or any legal rule that amends or replaces it, he is responsible will be considered cast by the same shareholder.

EDP's shareholders are obliged to provide the Executive Board of Directors, in writing and in a complete, objective, clear, truthful form, and in a manner acceptable to the board, all information that it requests from them on facts concerning them and related to Article 20 (1) of the Securities Code. Noncompliance with this obligation shall result in prevention of the exercise of voting rights pertaining to the shares owned by the shareholder in question (Article 15 (2) and (3) of the Articles of Association).

If the limitation on the counting of votes affects a number of shareholders, it will operate in proportion to the ordinary shares owned by each one (Article 14 (5) of the Articles of Association).

Furthermore, pursuant to Article 20 (1) of the Securities Code, or any legal rule that amends or replaces it, shareholders who become owners of a shareholding of 5% (five percent) or more of the voting rights or share capital, must inform the Executive Board of Directors thereof within five business days of the date on which ownership occurred. They cannot exercise their voting rights until they have made this communication (Article 15 (1) of EDP's Articles of Association).

## 13. MAXIMUM PERCENTAGE OF VOTING RIGHTS THAT CAN BE EXERCISED BY A SINGLE SHAREHOLDER OR SHAREHOLDERS THAT ARE RELATED IN SOME OF THE RELATIONS OF ARTICLE 20 (1)

See Point 12

## 14. DECISIONS OF SHAREHOLDERS WHO, UNDER THE ARTICLES OF ASSOCIATION, CAN ONLY BE MADE BY A QUALIFIED MAJORITY OTHER THAN THOSE PROVIDED FOR BY LAW

Decisions by the General Meeting are taken by a majority of votes cast, unless the law or the Articles of Association require a qualified majority (Article 11 (3) of the Articles of Association).

Article 10 (1) of the Articles of Association defines the performance of functions in any corporate body is incompatible with:

- the status of a legal person that is a competitor of EDP or a company in a control or group relation with EDP;
- the status of a legal person or an individual related to a legal person that is a competitor of EDP;
- the exercise of functions, of any nature or for any reason whatsoever, notably by appointment to a corporate office, by employment contract or by services provision agreement, at a legal person that is a competitor of EDP or at a legal person related to a legal person that is a competitor of EDP.

Nevertheless, Article 10 (4) defines that the incompatibilities set forth in the foregoing paragraphs may also not apply to the performance of functions as a member of the general and supervisory board, to the extent permitted by law, subject to authorization given by prior resolution, with the favor of two thirds of the votes cast at the elective general shareholders' meeting. The competition relation must be expressly referred to and precisely identified in the appointment proposal, and the authorization resolution may be subject to conditions, notably to a holding of no more than 10% of EDP's share capital.

In all other cases, the deliberative quorum set out in Article 383 (2) of the Company Code applies.

# II. MANAGEMENT AND SUPERVISION

## A) COMPOSITION

### 15. CORPORATE GOVERNANCE MODEL

EDP's governance structure is based, since 2006, on the dual model and consists of the General Meeting, Executive Board of Directors, General and Supervisory Board and the Statutory Auditor.

The separation of management and supervision roles is embodied in an Executive Board of Directors, which is responsible for the management of the company's business, and a General and Supervisory Board, the highest supervisory body.

The division of competences, inherent to such model, between the Executive Board of Directors and the General and Supervisory Board, has assured an effective management of the company, benefitted by a constant and attentive supervision. Considering this structure, we can say that the dual model of corporate governance in place at EDP for 12 years has allowed for an effective separation of the company's supervision and management in pursuit of the goals and interests of EDP and its shareholders, employees and other stakeholders, thereby contributing to achieving the degree of trust and transparency necessary for its adequate functioning and optimisation.

Furthermore, this model has proved appropriate to the company's shareholder structure as it allows supervision by key shareholders on the General and Supervisory Board.

According to Article 11 (2) (b) of the Articles of association, it is the responsibility of the General Meeting of EDP to elect and dismiss the members of the Executive Board of Directors and the General and Supervisory Board, as well as their Chairmen and Vice-Chairmen, if any, and the Statutory Auditors, based on a proposal by the General and Supervisory Board (or by delegation to the Financial Matters Committee / Audit Committee). The General Meeting also appoints the members of the Environment and Sustainability Board, on proposal of the Executive Board of Directors, and Remuneration Committee of the General Meeting, which is responsible for setting the remuneration of the members of the corporate bodies (except the Executive Board of Directors, whose remuneration is set by the Remuneration Committee appointed by the General and Supervisory Board).

For a better understanding of EDP's corporate governance, EDP's website (https://www.edp.com/en/investors/corporate-governance/companys-data/by-laws-regulations) allows shareholders and the general public to view the up-to-date Articles of Association in Portuguese and English, the Internal Regulations of the Executive Board of Directors, General and Supervisory Board and its committees.

Worth noting also that EDP has since 2010 a Corporate Governance Manual, whose primary objective consists of registering and sharing the provisions of the Executive Board of Directors and of General and Supervisory Board regarding best practices recommendations applicable to EDP on corporate governance, in reference to CMVM recommendations. The Manual was revised in 2015, as to incorporate recent changes to legislation, having been approved by the General and Supervisory Board and by the Executive Board of Directors in January 2016. Just like the standard recommendations, also the Manual has a dynamic nature. It should therefore continue to be revised periodically, considering the contributions of all interested parties in the continuous development of EDP's governance model.

The Manual for the Corporate Governance of EDP is available to shareholders and general public at its website (www.edp.com).

Considering that good practices of corporate governance are embedded in the company's organizational culture, EDP sought to go beyond the legal requirements and regulations for this area, particularly concerning information reporting, given EDP's meticulousness and goals regarding the quality of its corporate governance practices. The Corporate Governance Manual therefore sought to serve the following purposes, in order to achieve this basic goal:

- To reflect critically on recommendations on best practices set out in the CMVM Corporate Governance Code in order to contribute actively in optimising EDP's practices;
- To select the recommendations deemed most appropriate to EDP's governance model, focusing on measures taken and indicating potential measures for full adoption of good practices;
- To identify recommendations that are not appropriate to EDP's interests and give reasons for this position and indicate other ways of achieving the goals set out in the CMVM Corporate Governance Code;
- To help targets of the recommendations to reflect on the best governance practices to be followed at EDP;
- To draft a formal document that will help compliance with reporting obligations on corporate governance practices, such as the annual report required by law;
- Describe EDP's governance practices that are not set out in the Corporate Governance Code but achieve the goal shared by the General and Supervisory Board and the Executive Board of Directors to develop and increase the quality of EDP's governance processes.

In what concerns prevention and fighting against harassment at work, and complementing the commitments already taken on by EDP in its Code of Ethics, available at EDP's website (https://www.edp.com/en/edp/about-us/ethics), the Good Conduct Code for the Prevention and Fight Against Harassment at Work entered into force as of November 21st, 2017 and it is applicable to all EDP Group's employees. According to this Code, other service providers and suppliers are explicitly required to uphold or adhere to the principles established, in accordance with their obligations under qualification procedures or current contracts

With the publishing of the manual, EDP intends to keep materializing a pioneer role of excellence in terms of corporate governance best practice promotion, hoping that this initiative may also contribute to an enrichment of the debate on these matters, in a context of the overall organization and functioning of companies, particularly in Portugal.

## 16. ARTICLES OF ASSOCIATION RULES ON PROCEDURAL AND MATERIAL REQUIREMENTS FOR THE APPOINTMENT AND REPLACEMENT OF MEMBERS OF THE EXECUTIVE BOARD OF DIRECTORS AND GENERAL AND SUPERVISORY BOARD

It is the role of the General Meeting to elect and remove members of the Executive Board of Directors and the General and Supervisory Board, including their chairmen.

In the event of permanent or temporary absence of any of the members of the Executive Board of Directors, the General and Supervisory Board arranges for his/her replacement and the appointment must be ratified by the next General Meeting.

In the event of permanent absence of any of the members of the General and Supervisory Board, the substitutes on the list submitted to the General Meeting must be summoned by the Chairman of the General and Supervisory Board to replace him/her, following the order on the list. Pursuant to Article 21 (5) of EDP's Articles of Association, the substitutes on the list must all be independent. If there are no substitutes, they will be elected by the General Meeting.

## 17. COMPOSITION OF THE BOARD OF DIRECTORS, EXECUTIVE BOARD OF DIRECTORS AND GENERAL AND SUPERVISORY BOARD

The shareholders elected the members of the General and Supervisory Board and the Executive Board of Directors at the General Meeting of 21 April 2015, for the three-year period from 2015 to 2017. The term of office of these members of the corporate bodies therefore finishes on 31 December 2017, though they may remain in office until a new appointment.

## GENERAL AND SUPERVISORY BOARD

In the exercise of its duties – see Article 441 of the Company Code and Article 22 of EDP's Articles of Association - the main mission of the General and Supervisory Board is to constantly advise, monitor and supervise the management activities of EDP, cooperating with the Executive Board of Directors and the various other corporate bodies in pursuit of the company's interests, pursuant to the Company Code and the company's Articles of Association. It is elected by the shareholders at the General Meeting.

Pursuant to Article 21 (1) of the Articles of Association, the General and Supervisory Board consists of no fewer than nine effective members, but always more than the number of members of the Executive Board of Directors. The majority of the elected members of the General and Supervisory Board must be independent, pursuant to Article 21 (4) of the Articles of Association.

The members of the General and Supervisory Board members, elected to at the General Meeting of Shareholders that was held on 21 April 2015 for the three-year period between 2015 and 2017, are the following:

| GENERAL AND SUPERVISORY BOARD | | INDEPENDENT MEMBERS | FIRST APPOINTMENT DATE |
|---|---|---|---|
| Chairman | China Three Gorges Corporation represented by Eduardo de Almeida Catroga [1] | | 20/02/2012 |
| Vice-Chairman | Luís Filipe Marques Amado | Independent | 21/04/2015 |
| | China Three Gorges New Energy Co. Ltd. represented by Ya Yang | | 20/02/2012 |
| | China International Water & Electric Corp. represented by Guojun Lu | | 20/02/2012 |
| | China Three Gorges (Europe), S.A.) represented by Dingming Zhang | | 20/02/2012 |
| | China Three Gorges (Portugal), Sociedade Unipessoal, Lda. represented by Shengliang Wu | | 21/04/2015 |
| | DRAURSA, S.A. represented by Felipe Fernández Fernández | | 21/04/2015 |
| | Fernando Maria Masaveu Herrero | | 20/02/2012 |
| | Banco Comercial Português, S.A. represented by Nuno Manuel da Silva Amado [2] | | 21/04/2015 |
| | Sonatrach represented by Ferhat Ounoughi | | 12/04/2007 |
| | Senfora BV represented by Mohamed Ali Ismaeil Ali Al Fahim [3] | | 21/04/2015 |
| | António Sarmento Gomes Mota | Independent | 15/04/2009 |
| | Maria Celeste Ferreira Lopes Cardona | Independent | 20/02/2012 |
| | Ilídio da Costa Leite de Pinho | Independent | 20/02/2012 |
| | Jorge Avelino Braga de Macedo | Independent | 20/02/2012 |
| | Vasco Joaquim Rocha Vieira | Independent | 20/02/2012 |
| | Augusto Carlos Serra Ventura Mateus | Independent | 06/05/2013 |
| | João Carvalho das Neves | Independent | 21/04/2015 |
| | Alberto Joaquim Milheiro Barbosa | Independent | 21/04/2015 |
| | María del Carmen Fernández Rozado | Independent | 21/04/2015 |
| | António Manuel de Carvalho Ferreira Vitorino | Independent | 21/04/2015 |

[1] Eduardo de Almeida Catroga was an independent member of the GSB in 2006-2008, 2009-2011 mandates and chairman, also indepedent, in 2012-2014 mandate.
[2] In 2012-2014 mandate, the office was held by Nuno Manuel da Silva Amado, Chaiman of BCP.
[3] Mohamed Al Fahim represented Senfora BV until October, 31th 2017, being replaced . On the same date, by Mohammed Issa Khalfan Alhuraimel Alshamsi. In 2009-2011 and 2012-2014 mandates, the member of the CGS was Senfora S.à.r.l.
The representatives of the companies China Three Gorges Corporation, China International Water & Electric Corp., China Three Gorges New Energy Co., Ltd. and China Three Gorges (Europe) SA, initiated their term of office on 11 May 2012, following the entry into force of the strategic partnership agreement concluded on 30 December 2011.

## EXECUTIVE BOARD OF DIRECTORS

The Executive Board of Directors is responsible for managing the company's activities and representing the company, pursuant to Article 431 of the Company Code and Article 17 of the Articles of Association and was elected by the shareholders at a General Meeting. The Executive Board of Directors is currently made up of eight members.

Pursuant to Article 16 (2) of the Articles of Association of EDP, the Executive Board of Directors must have a minimum of five and a maximum of eight members, having been submitted to the next General Meeting a proposal aimed at increasing this number to nine members.

The members of the Executive Board of Directors may not exercise executive functions in more than two companies not integrating EDP Group, and the exercise of the referred functions shall be subject to prior appraisal by the Executive Board of Directors, according to Article 5°-A of the Regulation of the referred company body.

At the General Meeting of Shareholders, held on 21 April 2015, the following members of the Executive Board of Directors were elected for the 2015-2017 mandate:

| EXECUTIVE BOARD OF DIRECTORS | | FIRST APPOINTMENT DATE |
|---|---|---|
| Chairman | António Luís Guerra Nunes Mexia | 30-03-2006 |
| | Nuno Maria Pestana de Almeida Alves | 30-03-2006 |
| | João Manuel Manso Neto | 30-03-2006 |
| | António Fernando Melo Martins da Costa | 30-03-2006 |
| | João Manuel Veríssimo Marques da Cruz | 20-02-2012 |
| | Miguel Stilwell de Andrade | 20-02-2012 |
| | Miguel Nuno Simões Nunes Ferreira Setas | 21-04-2015 |
| | Rui Manuel Rodrigues Lopes Teixeira | 21-04-2015 |

Members elected at the General Meeting of March 30, 2006 to hold office from June 30, 2006, date of entry into force of new Articles of Association and the two-tier corporate governance model.

## 18. INDEPENDENT MEMBERS OF THE EXECUTIVE BOARD OF DIRECTORS AND GENERAL AND SUPERVISORY BOARD

EDP's Articles of Association (Article 9 (1), Artilce 10 (1), Article 11 (2) (d), Article 21 (4), Article 22 (1) (a), Article 23 and Article 27) and the Internal Regulations of the General and Supervisory Board (Article 7)), both available on its website (www.edp.com), lay down the rules on independence and incompatibilities for members of any of the company's corporate bodies.

The criteria of independence set out in EDP's Articles of Association are in line with those laid down in 414 (5) of the Company Code and determine that independence means an absence of direct or indirect relations with the company or one of its bodies and an absence of any circumstances that might affect impartiality of analyses or decisions, e.g. because the people in question own or are acting on behalf of owners of a qualifying shareholding of 2% (two percent) or more of the share capital of EDP or have been re-elected for more than two terms of office continuously or intermittently.

Pursuant to Article 9 (1) of EDP's Articles of Association, independence is "absence of direct or indirect relations with the company or one of its bodies and an absence of any circumstances that might affect impartiality of analyses or decisions, e.g. because the people in question own or are acting on behalf of owners of a qualifying shareholding of 2% (two percent) or more of the share capital of EDP or have been re-elected for more than two terms of office continuously or intermittently".

In view of the need to clarify the aforementioned Article 414 (5) of the Company Code, as there are diverging legal opinions, Associação de Emitentes de Valores Cotados em Mercado ("AEM") requested an opinion from the CMVM , whose opinion was that the capacity as independent is only lost if, "on the basis of the criterion of number of terms of office, in a situation likely to affect his/her impartiality in analyses or decisions if the members of the supervisory bodies of public limited companies, having been elected for a first term of office and re-elected continuously or intermittently for a second and third term, are re-elected (for the third time, therefore) for a fourth term of office."

Pursuant to its Internal Regulations, the General and Supervisory Board has in place a specific procedure regarding compliance with a large number of rules on incompatibilities and independence applicable to positions on this board (Articles 6 and 7 of the General and Supervisory Board Internal Regulations). This procedure includes the following aspects:

- Acceptance of a position as member of the General and Supervisory Board is subject to a written statement setting out specifically (i) the inexistence of any incompatibility under the law or Articles of Association; (ii) compliance with the independence requirements set out in its Internal Regulations, if the person has been elected as an independent member; (iii) the members' obligation to report to the Chairman of the General and Supervisory Board or, for the Chairman, directly to the board any subsequent event that might generate incompatibility or loss of independence;
- Every year, the members of the General and Supervisory Board must renew their statements as to the inexistence of incompatibility and compliance with the independence requirements, if applicable;

Also every year, the General and Supervisory Board conducts a general assessment of compliance with the rules of incompatibility and independence by its members.

At the same time, the Internal Regulations of the General and Supervisory Board has broadened the independence criteria applicable to its members, going beyond the provisions of Article 414 (5) of the Company Code and Article 9 of EDP's Articles of Association, and so people who directly or through their spouse or relative or similar in a straight line and to the collateral third degree, inclusive, are in one of the following situations cannot have independent status:

- Being holder, director, having contractual ties or acting on behalf or on the account of owners of a qualifying shareholding of 2% (two percent) or more of the share capital or voting rights in EDP or the same percentage in a company of which it is a subsidiary;
- Being a holder, director, having contractual ties or acting on behalf or on the account of owners of a qualifying shareholding of 2% (two percent) or more of the share capital or voting rights in a company that is a competitor of EDP; and
- Having been re-elected for more than two consecutive or non-consecutive terms of office.

The rules of independence covering members of the General and Supervisory Board are particularly important regarding the following requirements:

- The board must consist of a majority of independent members (Article 434 (4) of the Company Code and Article 21 (4) of EDP's Articles of Association);
- The Financial Matters Committee/Audit Committee is entirely composed of independent members of the General and Supervisory Board (Article 23 (2) of EDP By-Laws and Article 2 (1) of the Financial Matters Committee/Audit Committee's Internal Regulations);
- The Remuneration Committee of the General and Supervisory Board must comprise a majority of independent members (Article 27 (1) (b) of the General and Supervisory Board's Internal Regulations).

In compliance with the above procedure, at the start of their terms of office, the members of the General and Supervisory Board stated that they were not in any of the situations of incompatibility set out in the Companies' Code (Article 414-A (1) (a) to (e), (g) and (h) (ex vi Article 434 (4)) and Article 437 (1)) or under the Articles of Association and, where applicable, that they complied with the independence requirements of the Internal Regulations of the General and Supervisory Board. Of the incompatibility situations for the exercise of the role of member of the General and Supervisory Board, pursuant to the Article 414-A of the Companies' Code, it is considered the exercise of functions of administration or supervisory in five companies. Therefore, one may not be elected or designated a General and Supervisory Board member if holds office of administrator or supervisor in five companies.

At the end of 2017, the members of the outgoing General and Supervisory Board renewed their statements on incompatibilities and independence.

The Chairman and Vice-Chairman of the Board of the General Meeting made similar statements of compliance with the criteria of independence and incompatibility for their positions, as set out in Article 414 (5) and Article 414-A (1) of the Company Code and in Articles 9 and 10 of EDP's Articles of Association.

The above statements are available to the public on EDP's website, at https://www.edp.com/en/investors/corporate-governance/companys-data/incompatibility-declaration.

The independent members of the General and Supervisory Board are shown in the table in Point 17 above.

## 19. QUALIFICATIONS OF THE MEMBERS OF THE GENERAL AND SUPERVISORY BOARD AND EXECUTIVE BOARD OF DIRECTORS

See Annex I.

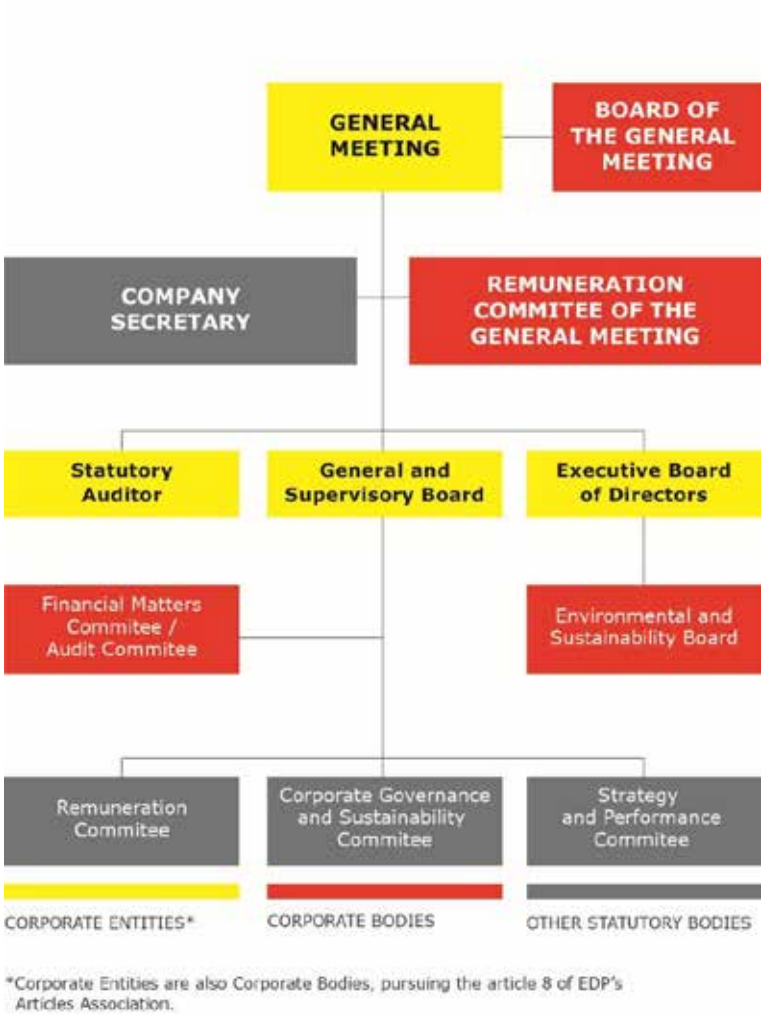
## 20. FAMILY, WORK-RELATED AND BUSINESS RELATIONSHIPS OF THE MEMBERS OF THE GENERAL AND SUPERVISORY BOARD AND EXECUTIVE BOARD OF DIRECTORS WITH SHAREHOLDERS OWNING A QUALIFYING SHAREHOLDING OF OVER 2% OF THE VOTING RIGHTS

The Chairman of the Executive Board of Directors, António Luís Nunes Guerra Mexia, is a director of Banco Comercial Português, S.A. which holds indirectly a 2.44% shareholding in EDP.

As for the General and Supervisory Board, there are professional relationships between Board members and shareholders attributed a qualifying holding of more than 2% of voting rights, as described below:

- The members of the General and Supervisory Board Ya Yang, Guojun Lu, Dingming Zhang, and Shengliang Wu are managers of China Three Gorges Corporation which, through its subsidiary China Three Gorges (Europe), S.A., (formerly CWEI (Europe), S.A.) has a 23.27% shareholding in EDP.
- The member of the General and Supervisory Board Fernando Masaveu Herrero is chairman of the management body of Masaveu International, S.L. which owns 55.9% of Oppidum, S.L., a company with a 7.19% shareholding in EDP. Fernando Masaveu Herrero is also chairman of the administration body of Oppidum, S.L.
- The member of the General and Supervisory Board Felipe Fernández Fernández is a manager of Liberbank, S.A. which owns 44.1% of Oppidum, S.L., a company with a 7.19% shareholding in EDP.
- The member of the General and Supervisory Board Mohamed Al-Shamsi is a manager of Mubadala Investment Company which wholly owns Senfora, BV, a company with a 4.06% shareholding in EDP.
- The member of the General and Supervisory Board Nuno Manuel da Silva Amado is a manager of Banco Comercial Português S.A. which holds indirectly a 2.44% shareholding in EDP.
- The member of the General and Supervisory Board Ferhat Ounoughi is a manager of Sonatrach which has a 2.38% shareholding in EDP.

## 21. ORGANISATION CHART, DELEGATION AND DIVISION OF POWERS




**POWERS OF THE GENERAL AND SUPERVISORY BOARD**

Pursuant to article 22 of the Articles of Association, the General and Supervisory Board is especially responsible for:

- Permanently monitor the management of EDP and its subsidiaries and provide management advice and assistance to the Executive Board of Directors, particularly with regard to strategy, goals and compliance with the law;
- Issue opinions on the annual report and accounts;
- Permanently oversee the work of the statutory auditor and external auditor and, with regard to the former, issue an opinion on their election or appointment, dismissal, independent status and other relations with the company;
- Oversee, on a permanent basis, and evaluate internal accounting and auditing procedures, the efficacy of the risk management system, internal control system and internal auditing system, including the way in which complaints and queries are received and processed, whether originating from employees or not;
- Propose to the General Meeting the removal from office of any member of the Executive Board of Directors;
- Monitor the definition of criteria and responsibilities required or appropriate for the structures and internal bodies of the company or Group and their impact and draft follow-up plans;
- Provide for the replacement of members of the Executive Board of Directors in the event of permanent or temporary absence, as required by law;

- Issue an opinion on their annual vote of confidence in the directors set out in Article 455 of the Company Code, on its own initiative or when requested to do so by the CEO;
- Monitor and assess matters of corporate governance, sustainability, internal codes of ethics and conduct and compliance with these codes and systems for appraising and resolving conflicts of interest, including those associated with the company's relations with its shareholders, and issue opinions on these matters;
- Obtain the financial or other resources that it reasonably deems necessary for its work and ask the Executive Board of Directors to take any measures or make any corrections that it considers pertinent, with the power to hire independent consultants, if necessary;
- Receive regular information from the Executive Board of Directors on significant business relations between the company or its subsidiaries and shareholders with a qualifying holding and persons related to them;
- Appoint the Remuneration Committee and Financial Matters Committee/Audit Committee;
- Represent the company in its relations with the directors;
- Supervise the work of the Executive Board of Directors;
- Oversee compliance with the law and Articles of Association;
- Select and replace the company's external auditor, giving the Executive Board of Directors instructions for engagement or dismissal;
- Monitoring the bookkeeping, accounts and supporting documents and the status of any assets or securities held by the company, as and when it deems appropriate;
- Supervise the preparation and disclosure of financial information
- Call the General Meeting when it deems appropriate;
- Approve internal rules, including rules on relations with the other corporate bodies;
- Exercise any other powers that may be granted by law, the Articles of Association or by the General Meeting.

Under the corporate governance model in place at EDP, the General and Supervisory Board also has a power of particular importance. Although it does not have management powers, pursuant to Article 442 (1) of the Company Code, Article 17 (2) of the Articles of Association lays down that the approval of EDP's strategic plan and performance of the operations indicated below by EDP or its subsidiaries are subject to a prior favourable opinion from this board (see also Article 13 of the Internal Regulations of the General and Supervisory Board):

- Acquisitions and sales of assets, rights or shareholdings of significant economic value;
- Financing operations of significant value;
- Opening and closure of establishments, or important parts thereof, and substantial extensions or limitations of company activity;
- Other transactions or operations of significant economic or strategic value;
- Formation or termination of strategic partnerships or other forms of lasting cooperation;
- Plans for splits, mergers or conversions;
- Amendments to the Articles of Association, including changes of registered office and share capital increases when on the Executive Board of Directors' initiative;
- Approval of the draft decision of the Executive Board of Directors to increase the share capital by means of one or more share capital increases, up to the aggregate limit of 10% of the current share capital by issuing Category A shares to be subscribed by new inputs of cash;
- Formation or termination of strategic partnerships or other forms of lasting cooperation.

The Chairman of the General and Supervisory Board is granted particular powers, and, pursuant to Article 18 of the Rules of Procedure of the General and Supervisory Board, is responsible for:

- Convening and presiding over meetings of the General and Supervisory Board;
- Representing the General and Supervisory Board institutionally;
- Coordinating the work of the General and Supervisory Board and ensuring the correct operation of its committees, being entitled to attend any meeting and being kept informed of their activities;
- Proposing to the plenary General and Supervisory Board the members, the Chairman and, when appropriate, the Vice-Chairman of each committee;
- Ensuring that the members of the General and Supervisory Board punctually receive the information they need for their duties;

- Requesting from the Executive Board of Directors relevant information for the General and Supervisory Board and its committees to perform their duties and ensuring that the members of the General and Supervisory Board receive it in good time;
- Taking the necessary measures to ensure that the General and Supervisory Board adequately monitors the activity of EDP and the Executive Board of Directors in particular;
- Monitoring implementation of the General and Supervisory Board's budget and managing the material and human resources assigned to it;
- Ensuring correct implementation of General and Supervisory Board decisions.

The Chairman of the General and Supervisory Board or, in his/her absence or incapacity, a member delegated by the board for that purpose, may attend meetings of the Executive Board of Directors whenever s/he sees fit and take part in the discussion of matters to be submitted to the General and Supervisory Board, without having any voting rights pursuant to Article 21 (10) of EDP's Articles of Association.

The members of the Financial Matters Committee/Audit Committee have a duty to attend the meetings of the Executive Board of Directors when the accounts are appraised, (see Article 4 (3) (e) of the Rules of Procedure of the Financial Matters Committee/Audit Committee).

Worth also noting that the General and Supervisory Board annually performs:

- A self-assessment of its activity and performance and those of its committees, the conclusions of which are set out in its annual report (see Article 10 of the General and Supervisory Board Internal Regulations);
- An independent assessment of the activity and performance of the Executive Board of Directors, the conclusions of which are submitted to the General Meeting and are presented in an annex to the annual report of the General and Supervisory Board.

EDP, on the initiative of the General and Supervisory Board has voluntarily established a formal, impartial process to assess the activity of this board and of the Executive Board of Directors. Experience of recent years has allowed the General and Supervisory Board to make some changes in the process to make it more effective and efficient. The method used comprises the following stages:

- After the year's end, the Chairman of the General and Supervisory Board sends assessment questionnaires to the members of its Board. The questionnaires are answered individually and are confidential.
- The General and Supervisory Board Support Office statistically processes the data received and prepares the information for consideration at a General and Supervisory Board meeting;
- The General and Supervisory Board issues its assessment opinions and they are included in this board's annual report;
- At the General Meeting, the Chairman of the General and Supervisory Board presents the board's opinion in the item of the agenda for assessment of the Executive Board of Directors.

**POWERS OF THE EXECUTIVE BOARD OF DIRECTORS**

The Executive Board of Directors is a collegial body. No director is allowed to represent more than one other director at each meeting.

According to regulation and EDP's by-laws, the chairman of this body has a casting vote. Anytime the Executive Board of Directors is composed by an even number of directors, in case of his absence or temporary impairment, it shall have a casting vote the member of the Executive Board of Directors to whom such right has been granted in the respective election, which, for the current term of office, has been granted to the director Nuno Maria Pestana de Almeida Alves.

The powers of the Executive Board of Directors, in accordance with the Article 17 (1) of the Articles of Association, include:

- Setting the goals and management policies of EDP and the EDP Group;
- Drawing up the annual business and financial plans;
- Managing corporate business and undertaking all actions and operations associated with the corporate object that do not fall within the responsibilities of other company bodies;
- Representing the company in and out of court, actively and passively, with the power to waive, transact and admit guilt in any legal proceedings and make arbitration agreements;
- Buying, selling or by any other means disposing or encumbering rights or immovable assets;
- Setting up companies and subscribing, purchasing, encumbering and selling shareholdings;
- Deciding on the issue of bonds and other securities in accordance with the law and the Articles of Association, in compliance with the annual quantitative limits set by the General and Supervisory Board;
- Establishing the technical and administrative organisation of EDP and the rules of procedure, particularly in relation to personnel and their remuneration;
- Appointing proxies with such powers as it sees fit, including the power to delegate;
- Appointing the Company Secretary and alternate;
- Hiring and dismissing the External Auditor on recommendation of the General and Supervisory Board;
- Exercising any other powers that may be granted to it by law or by the General Meeting;
- Establishing its own internal rules.

Proposals to amend EDP's Articles of Association regarding share capital increases submitted by the Executive Board of Directors require a favourable prior opinion from the General and Supervisory Board, pursuant to Article 17 (2) (g) of the Articles of Association.

The Chairman of the Executive Board of Directors sends the Chairman of the General and Supervisory Board the notices of meetings, support documents and minutes of the meetings and, on request, provides appropriate, timely information, which is accessible to all the members of the General and Supervisory Board.

When so requested by other members of the corporate bodies, the Executive Board of Directors also provides all the required information in a timely and appropriate fashion. There is an information sharing portal for the Executive Board of Directors and General and Supervisory Board, which is accessible to all their members.

The Chairman of the Executive Board of Directors is granted particular powers by Article 18 of the Articles of Association. These powers are:

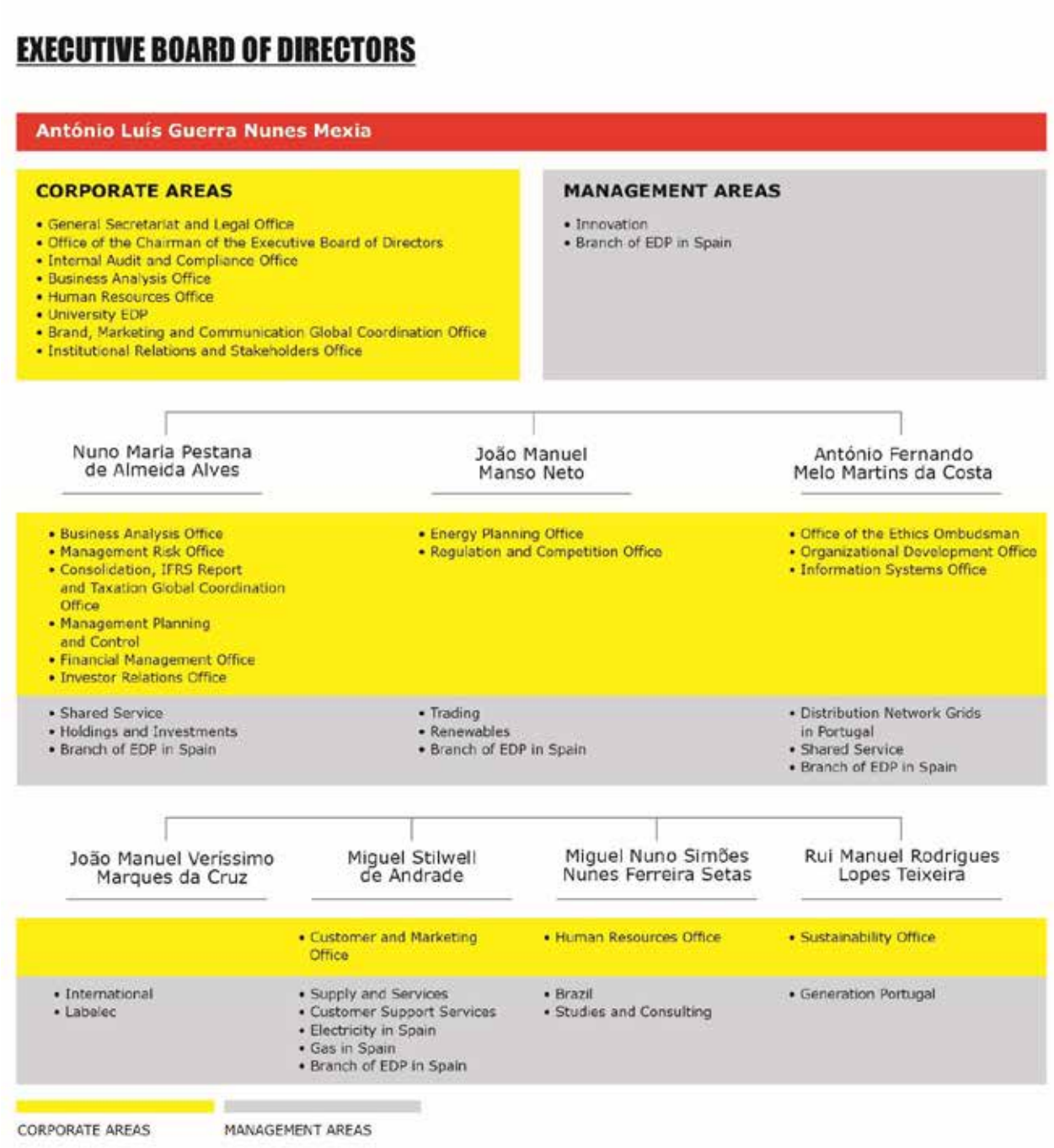
- Representing the Executive Board of Directors;
- Coordinating the work of the Executive Board of Directors and convening and presiding over its meetings;
- Ensuring proper execution of the decisions of the Executive Board of Directors.

The Chairman of the Executive Board of Directors is entitled to attend the meetings of the General and Supervisory Board, whenever considered appropriate, except when these concern decisions on the supervision of the work of the Executive Board of Directors and, in general, any situations that may involve a conflict of interest, pursuant to Article 18 (2) of the Articles of Association.

In the Executive Board of Directors there is a functional division of management areas to each of its members. The college of directors is responsible for making decisions on all matters within its remit. Delegated powers are not granted to directors individually, because of the board's particular nature.

The activity and performance of the Executive Board of Directors are assessed continuously and independently by the General and Supervisory Board on an annual basis.

The members of the Executive Board of Directors were responsible for the following management areas and corporate topics:



## EDP'S FUNCTIONAL STRUCTURE

### GROUP'S ORGANISATIONAL MODEL

The Executive Board of Directors is responsible for defining the EDP Group's organisational model and dividing duties among the different business units, the service company EDP Valor - Gestão Integrada de Serviços, S.A. (EDP Valor) and central structure. This structure consists of a Corporate Centre that provides assistance to the Executive Board of Directors in defining and monitoring the execution of strategies, policies and goals.

The Corporate Centre is divided into departments and business units, allowing for optimisation and greater efficiency of the organisational structure.

The Executive Board of Directors is also assisted by specialised committees, which ensure more effective monitoring of matters and contribute to the decision-making process.

### CORPORATE CENTRE

| CORPORATE CENTRE • BUSINESS UNITS | |
|---|---|
| OFFICES | |
| Support Governance Area | |
| General Secretariat and Legal office | Maria Teresa Pereira |
| Office of the Chairman of the Executive Board of Directors | Pedro McCarthy Cunha |
| Internal Audit and Compliance Department | Azucena Viñuela Hernández |
| Office of the Ethics Ombudsman | José Figueiredo Soares |
| Strategic Area | |
| Energy Planning Department | Ana Margarida Quelhas |
| Business Analysis Department | Pedro Vasconcelos* |
| Risk Management Department | António Castro |
| Regulation and Competition Department | Maria Joana Simões |
| Sustainability Department | António Castro |
| Financial Area | |
| Financial Management Department | Paula Guerra |
| Consolidation, IFRS Reporting Global Coordination Department | Miguel Ribeiro Ferreira |
| Management Planning and Control Department | João Gouveia Carvalho |
| Investor Relations Department | Miguel Henriques Viana |
| Resources Area | |
| Organisational Development Department | José Filipe Santos |
| Information Systems Department | Vergílio Rocha |
| Human Resources Department | Paula Carneiro |
| EDP University | Jorge Cruz Morais* |
| Marketing and Communication Area | |
| Brand, Marketing and Communication Global Coordination Department | Paulo Campos Costa |
| Customer and Marketing Department | José Ferrari Careto |
| Institutional Relations and Stakeholders | Paulo Lopes* |
| Business Units | |
| Energy Management Business Unit | Carlos Mata |

Appointed by the Executive Board of Directors on 26th September 2017 with effects as of 1st October 2017

The current departments and their duties are as follows:

The **General Secretariat and Legal Office** provides administrative and logistical assistance to the Executive Board of Directors and legal advice to EDP and to EDP Group's companies with their head offices in Portugal, in order to ensure the effective operation of the Corporate Centre, compliance with applicable legislation and harmonisation of corporate governance policies in the Group.

The **Office of the Chairman of the Executive Board of Directors** assists the CEO in all matters within his/her remit in order to help maximise the effectiveness of decisions and instructions.

The main mission of the **Internal Audit and Compliance Department** is to conduct internal audits as an independent and objective assurance and consulting activity; to ensure the implementation of the Internal Control System for Financial Reporting ("SCIRF"); and to promote and coordinate the implementation of compliance mechanisms in the Group, as to achieve the improvement and protection of value and Group's operations, contributing to improve the processes of risk management, control and governance.

The **Ethics Ombudsman's Office** is responsible for supporting the General and Supervisory Board and the Executive Board of Directors regarding the definition, communication, implementation and assessment of objectives, policies and management instruments of corporate ethics. Additionally, it manages the processes of claims of ethical nature, regarding the commitments established concerning confidentiality and protect rights associated with these procedures.

The mission of the **Energy Planning Department** is to coordinate studies for the Group's energy portfolio development strategy in order to assist the Executive Board of Directors in building an integrated view of the portfolio and contributing to the planning of its development in the different regions in which EDP operates.

The **Business Analysis Department** coordinates studies to assist with the Group's overall business strategy and performs development operations via investments, divestitures and/or partnerships in order to assist the Executive Board of Directors in optimising EDP's business portfolio and promoting and taking new business opportunities.

The **Risk Management Department** coordinates studies to assess the Group's risk, in order to assist the Executive Board of Directors in monitoring and mitigating risk and to supply integrated analyses of return-risk.

The **Regulation and Competition Department** studies and implements regulatory strategy for the business in the MIBEL and coordinates energy regulation and competition projects for the Group, with the aim of supporting the Executive Board of Directors in decision-making and ensuring regulatory compliance by the companies covered.

The **Sustainability Department**'s mission is to analyse, propose and guarantee the Group's sustainability strategy in order to assist the Executive Board of Directors in policies and goals and to ensure their implementation in the business units.

The remit of the **Financial Management Department** is to propose and implement the Group's financial management policy and analyse and monitor management of its pension fund in order to optimise and guarantee financial sustainability and control financial liabilities in accordance with Group policy.

The **Consolidation, IFRS Reporting and Taxation Global Coordination Office** is in charge of the Group's IFRS reporting in order to ensure compliance with deadlines and accounting and tax processing that is appropriate and consistent in operations at all the Group companies.

The **Management Planning and Control Department** is responsible for the Group's management planning and oversight, to ensure alignment with strategic goals and monitor implementation of the business plan.

The **Investor Relations Department** communicates with analysts and investors in Group companies to ensure the sustainability of EDP's image and reputation and fulfil the information requirements of regulators and financial supervisors.

The **Organisational Development Department** analyses, proposes and coordinates the organisation's development and provides Group-wide programmes for implementing its strategy, in order to optimise the competiveness of EDP's organisation and operation.

The **Information Systems Department** is in charge of managing the Group's information and communication systems in the Iberian Peninsula and analysing and proposing the Group's ICT strategy in order to align it with the business units' strategy and create value by providing solutions that foster efficacy, efficiency and innovation in EDP's processes.

The **Human Resources Department** analyses and proposes the Group's human resource policies and is in charge of group-wide support processes, in order to contribute to the development and value creation for all employees, as well as to align the values and culture that is in line with the corporate values and contributes to the sustainability of the business.

**EDP University** assures availability, retainment and sharing of knowledge in the Group in order to reinforce a common culture, foster employees' vocational development and facilitate the appearance of new talents and full use of their skills.

**Brand, Marketing and Communication Global Coordination Department**, whose competences are analyse, propose, coordinate and assure a strategy of global communication for EDP Group, aimed at maximising the value of the brand through a unique vision of the positioning of communication, independently of operating areas or geographies. This coordination area integrates the competencies of the Client and Marketing Department and Institutional Relations and Stakeholders Department.

The **Customer and Marketing Department** analyses, proposes and monitors the commercial marketing strategy in the Iberian Peninsula, in order to build a competitive market positioning and o maximise the profits of the business units covered.

The **Institutional Relations and Stakeholders** assures an integrated and consistent narrative with EDP's stakeholders, aligned with the adopted vision and strategy, aimed at maximising the potential of communication with stakeholders and in order to contribute to a fluid and systematised information regarding EDP and its actions.

The **Energy Management Business Unit** (UNGE) is responsible for negotiating physical and forward purchases of fuel and contracting maritime transport on behalf of the appropriate EDP Group companies. It is also responsible for spot and forward purchases and sales in the electricity market of a physical or financial nature, such as energy derivatives and foreign exchange operations. It also decides on operation and despatch programmes for the EDP Group power stations whose energy management is its responsibility in order to optimise its portfolio and supply energy to customers of the EDP Group's retailers. It also manages the EDP Group's CO2 allowance operations and green certificates.

**SPECIFIC EDP COMMITTEES (FUNCTIONAL STRUCTURES)**

The EDP organisational model provides for management committees that contribute in two ways to the company's decision-making process:

- They input information to assist the Executive Board of Directors in its decision-making reflecting opinions and information from the areas in the organisation most affected by the proposal in question;
- They are used by an organisational unit (belonging to the Corporate Centre, a business unit or shared service unit to assist in gathering information, alignment, decisions and implementation of policies and practices with an impact on a number of areas in the organization.

Considering the principle of continuous improvement that the EDP Group follows and the committees' importance in the Group's organisational model, the Executive Board of Directors approved, on 21st November 2017, a change in structure of the committees and appointed its members.

On 31 December 2017, the committees structure was as follows:

| STRATEGIC CORPORATE COMMITTEES | FUNCTIONAL CORPORATE COMMITTEES | BUSINESS COMMITTEES |
|---|---|---|
| Risk Committe<br>Sustainability Committee<br>Energy Planning Committee<br>Investments Committee<br>Regulation Committee<br>Prices and Volumes Committee<br>Iberian Commercial and Market Committee | Innovation Committee<br>Ethics Committee<br>Information Disclosure Committee<br>Stakeholder Committee<br>Procurement Committee<br>Accident Prevention and Safety Committee<br>Pension Plan and Fund Committee Management<br>Corporate Development Committee<br>Human Resources and Diversity Committee<br>Information Technology Committee<br>Local Authorities Committee<br>Compliance Committee | Generation Committee<br>Distribution Networks Committee<br>Iberian Commercial Committee<br>Transversal Coordination of |

## I - STRATEGIC CORPORATE COMMITTEES

### RISK COMMITTEE

The main duties of the Risk Committee are:

- Share information on the EDP Group's key risks and risk profile;
- Discuss the result of significant risk assessment projects undertaken in conjunction with the business units;
- Discuss and issue opinions or recommendations on policies, procedures, significant risks, risk limits and extraordinary risk situations;
- Promote and monitor maintenance of the inventory of the most significant risks (risk portal);
- Approve the periodical reporting model to be submitted by the business units or the Risk Management Department and other mechanisms for reporting and monitoring EDP's risks.

The Risk Committee's membership is as follows:

| RISK COMITTEE |
|---|
| Chairman: Chaiman of the EBD |
| Secretary Head of CC Risk Management |
| Members of the EBD (besides the Chairman): |
| Member of the EBD (Risk/Finance) |
| Member of the EBD (Renewables) |
| Member of the EBD (Spain) |
| Member of the EBD (Brazil) |
| CC and BU members (besides the secretary): |
| Head of CC Energy Planning |
| Head of CC Finance Management |
| Head of CC Regulation and Competition |
| Head of CC General Secretariat and Legal Office |
| Head of CC Internal Audit and Compliance |
| Head of UNGE |
| Representative of UNGE (Middle-Office) |
| **Ad-hoc members** : |
| Board member of EDP Produção |
| Board Member of EDP Distribuição |
| Board Member of EDP Comercial |
| Board Member of EDP Internacional |
| Board Member of EDP Valor (insurable risks) |
| General Manager EDP Spain |
| Rep. EDP Renováveis |
| Representative of EDP Brasil |

The Risk Committee held one meeting in 2017.

**SUSTAINABILITY COMMITTEE**

The Sustainability Committee's responsibilities are as follows:

- Share information and discuss the implications of major legislative packages in the field of sustainability;
- Share the Group's environmental performance indicators and benchmarks;
- Discuss and give opinions on the annual Operational Environment and Sustainability Plans (POSA) and the annual consolidated budget;
- Discuss and give opinions on the annual action plans and the EDP Group's goals and targets;
- Monitor the progress of approved action plans and the activities of the EDP Group companies' sustainability management structures.

The Sustainability Committee's membership is as follows:

| SUSTAINABILITY COMMITTEE |
|---|
| Chairman: Chaiman of the EBD |
| Secretary: Head of CC Sustainability |
| Members of the EBD (besides the Chairman): |
| Member of the EBD (Sustainability) |
| CC and BU members (besides the secretary): |
| Board member of EDP Produção (Envir. and Sust.) |
| Board member of EDP Distribuição (Envir. and Sust.) |
| Board member of EDP Soluções Comerciais (Envir. and Sust.) |
| Board member of EDP Valor (Envir. and Sust.) |
| Board member of EDP Inovação |
| Head of CC Risk Management |
| Head of CC Investor Relations |
| Head of CC Human Resources |
| Head of CC EDP University |
| Head of CC Brand, Marketing and Communication Global Coord. Dept. |
| Head of CC Institucional Relations and Stakeholders |
| Head of CC Energy Planning |
| Head of CC Risk Management |
| Rep. EDP Espanha (Envir. Sust. and Stakeholders) |
| Rep. EDP Renováveis |
| Rep. EDP Brasil |
| Rep. EDP Comercial |
| Rep. Fundación EDP |
| Rep. UNGE |

The Sustainability Committee held one meeting in 2017.

**ENERGY PLANNING COMMITTEE**

The main tasks of the Energy Planning Committee are:

- Share up-to-date information on the different markets and businesses in which the EDP Group operates (Iberia, wind, Brazil) and the performance of its portfolio in these areas;
- Analyse the impact of energy and environment policies, as well as different regulatory frameworks with reference to the planning of the sector and portfolio of EDP;
- Inform and propose about stances on several matters regarding strategic planning.

The Energy Planning Committee's membership is as follows:

| Energy Planning Committee |
|---|
| Chairman: Chaiman of the EBD |
| Secretary: Head of CC Energy Planning |
| Members of the EBD (besides the Chairman): |
| Member of the EBD (Renewables) |
| Member of the EBD (Trading, Spain) |
| Member of the EBD (Generation) |
| Member of the EBD (Brazil) |
| CC and BU members (besides the secretary) |
| Board member of EDP Produção |
| Board member of EDP Distribuição |
| Board member of EDP Comercial |
| Board member of EDP Renováveis |
| Board member of EDP Brasil |
| General manager EDP Espanha |
| Head of CC Business Analysis |
| Head of CC Management Planning and Control |
| Head of CC Regulation and Competition |
| Head of CC Risk management |
| Head of CC Investor Relations |
| Head of CC Suatainability |
| Head of UNGE |
| Rep. EDP Renováveis (Regul. and Markets) |
| Rep. EDP Espanha (Regulation) |
| Rep. EDP Brasil (Energy Planning) |
| General Manager EDP Brasil (Energy Planning) |
| Rep. UNGE (Trading) |
| Membros ad-hoc: |
| Adm. EDP Internacional |
| Adm. EDP Inovação |

The Energy Planning Committee held three meetings in 2017.

**INVESTMENTS COMMITTEE**

The Investments Committee discusses and issues opinions on proposed investment and disinvestment projects and WACC proposals for the business units.

The Investments Committee's membership is as follows:

| Investments Committee |
|---|
| Chairman: Member of the EBD (Finance) |
| Secretary: Representative of Head of CC Business Analysis |
| Membros CC (besides the secretary) |
| Head of CC Business Analysis |
| Head of CC Management Planning and Control |
| Head of CC Energy Planning |
| Head of CC Risk Management |
| CC Representative of Regulation and Competition |
| **ad-hoc members** : |
| Responsible for the investment proposals under analysis |

The Investments Committee held forty meetings in 2017.

**REGULATION COMMITTEE**

The remit of the Regulation Committee is as follows:

- Share regulatory practices in the Iberian Peninsula and the rest of Europe and those followed in Brazil;
- Analyse the European Commission's energy strategy and policies and the implementation of directives by the internal market and the competition and policies, legislation, regulations and organisation of the energy sectors in Portugal and Spain;
- Analyse prices and the implications of tariff policies and decisions on regulated activities;
- Discuss the impacts of developments and regulatory changes;
- Discuss and give an opinion on proposals for the definition of positions to be defended by the EDP Group in the Iberian and European market.

The Regulation Committee's membership is as follows:

| Regulation Committee |
|---|
| Chairman: Member of the EBD (Regulation and Competition) |
| Secretary: Head of CC Regulation and Competition |
| Members of the EBD (besides the Chairman): |
| Member of the EBD (Distribution) |
| Member of the EBD (Trading, Spain) |
| CC and BU members (besides the secretary): |
| Board Member of EDP Brasil |
| Head of CC Energy Planning |
| Head of UNGE |
| Rep. UNGE (Fuel markets) |
| Rep. EDP Espanha (Regulation) |
| Rep. EDP Distribuição (Regulation) |
| Rep. EDP Comercial |
| Rep. EDP Brasil (Regulation) |
| Rep. EDP Renováveis (Regulation and markets) |
| Rep. CC Regulacion and Competition (Competition) |
| Rep. CC Regulação e Concorrência (Regulation) |
| Rep. EDP Soluções Comerciais (Regulation) |
| Rep. EDP Serviço Universal (Regulation) |
| Rep. EDP Produção |
| Rep. EDP Gás SU |

The Regulation Committee held nine meetings in 2017.

**PRICES AND VOLUMES COMMITTEE**

The Prices and Volumes Committee's main duties are:

- Share relevant, up-to-date information on recent developments in the Iberian electricity and gas markets;
- Discuss and align historical information and forecasts shared by business areas;
- Issue an opinion on the forward curve representing the EDP Group's best estimate on the growth of the wholesale market for a one to two-year horizon;
- Propose adjustments to management of the Iberian wholesale margin (in terms of risk coverage, commercial activity, placement of gas contracts, etc).

The Prices and Volumes Committee's membership are as follows:

| Prices and Volumes Committee |
|---|
| Chairman: Member of the EBD (Energy Planning) |
| Secretary: Head of CC Energy Planning |
| Members of the EBD (besides the Chairman): |
| Member of the EBD (Trading/Spain) |
| Member of the EBD (Generation) |
| CC and BU members (besides the secretary): |
| Board member of EDP Produção (Regulation andd markets) |
| Boar dmember EDP Produção (Spain) |
| Board member of EDP Comercial (B2C) |
| Board member of EDP Comercial (B2B) |
| Board member of EDP Renováveis |
| General ,anager of EDP Espanha |
| Head of Risk Management |
| Head of Managing and Planning Control |
| Head of regalation and Competition |
| Head of Business Analysis |
| Head of Investor Relations |
| Head of UNGE |
| Head of DMO UNGE |
| Head of DME UNGE |
| Rep. EDP Espanha (Regulation) |
| Rep. EDP Espanha (Projects) |
| Rep. EDP Produção (Planning and Control) |
| Rep. EDP Espanha (Planning, Control and Development of Trading Business) |
| Rep. EDP Renováveis (Regulation and Markets) |
| Rep. EDP Produção (Regulation and Markets) |

The Prices and Volumes Committee held four meetings in 2017.

**MARKET AND COMMERCIAL IBERIAN COMMITTEE**

The Market and Commercial Iberian Committee's responsibilities are as follows:

- Share information on the energy trading market and Iberian business for the supply of electricity, gas and services in all market segments (purchase of natural gas, gas sales balance sheet, customer losses, prices, competition, etc);
- Analyse the market situation and competitiveness of prices in the different electricity and gas market in segments Portugal and Spain;
- Propose preferential segments for the placement of gas and price policies in different segments, strategies for gas auctions, gas placement or purchase goals in gas trading, measures to retain strategic customers, adaptation or correction of current commercial policies and setting or revision of intra-group transfer prices;
- Monitor the implementation of the above measures.

The Market and Commercial Iberian Committee's membership are as follows:

| Market and Commercial Iberian Committee |
|---|
| Chairman: Member of the EBD (UNGE) |
| Secretary: Head of UNGE |
| Members of the EBD (besides the Chairman): |
| Member of the EBD (Trading, Spain) |
| CC and BU members (besides the secretary): |
| Board of Directors of EDP Comercial |
| Board member of EDP Serviço Universal |
| Genaral Manager EDP Espanha (trading) |
| Rep. UNGE (Fuel Markets) |
| Rep. UNGE (Supplies) |
| Rep. EDP Espanha (Sales B2B) |
| Rep. EDP Espanha (Market. e Vendas B2C) |
| Rep. EDP Espanha (Planning, Control and Developement of Trading Business) |
| Rep EDP Comercial (Trading B2B) |
| Rep EDP Comercial (Energy Management) |
| Rep. EDP Sucursal Espanha |

The Market and Commercial Iberian Committee held four meetings in 2017.

## II - FUNCTIONAL CORPORATE COMMITTEES

### INNOVATION COMMITTEE

The responsibilities of the Innovation Committee are as follows:

- Discuss and propose strategic areas of innovation in the EDP Group;
- Follow the governance model and EDP's innovation results Discuss and propose changes;
- Monitor the EDP Group's ongoing innovation initiatives and EDP Group projects in progress and propose corrective action.

The Innovation Committee's membership is as follows:

| Innovation Committee |
|---|
| Chairman: Chaiman of the EBD |
| Secretary: Board member of EDP Inovação |
| CC and BU members (besides the secretary) |
| Board member of EDP Produção |
| Board member of EDP Distribuição |
| Board member of EDP Comercial |
| Board member of EDP Brasil |
| Board member of Fundação EDP |
| General Manager of EDP Spain |
| Board member of Labelec |
| Head of EDP Renováveis (Technical) |
| Head of CC Energy Planning |
| Head of CC Business Analysis |
| Head of CC Brand, Marketing and Communication Global Coordination |
| Head of CC EDP University |
| Head of EDP Spain |
| Rep. Fundação EDP |
| Ad-hoc members: |
| Head of CC Sustainability |
| Head of CC Organisational Development |
| Head of CC IT Systems |
| Head of CC Human Resources |
| Head of CC Customer and Marketing |

The Innovation Committee held one meeting in 2017.

## ETHICS COMMITTEE

The Ethics Committee, which was set up after approval of the EDP Group's Code of Ethics, is appointed by the Corporate Governance and Sustainability Committee of the General and Supervisory Board and its responsibilities are as follows:

- Draft and propose its Internal Regulations to the Corporate Governance and Sustainability Committee of the General and Supervisory Board;
- Submit corporate ethics instruments, policies, goals and targets to the Corporate Governance and Sustainability Committee;
- Receive and examine cases of infringement prepared by the Ethics Ombudsman and issue an opinion on them;
- Issue an opinion, when requested to do so by any of the managing bodies of the EDP Group companies and entities on practices or codes of conduct in the fields of ethics or professional conduct within the framework of specific, legal or regulatory needs;
- Analyse decisions made by the Ethics Committee of EDP Energias do Brasil, S.A. and the Ethics Committee of EDP Renováveis, S.A. referred to it according to 3.3.2 of the Regulations of the Ethics Code;
- Assess the quarterly reports on the EDP Group's or Business Units performance in implementing the Code of Ethics;
- Annually review the Code of Ethics' suitability to the EDP Group's needs of and draw up a report, on proposal of the Ethics Ombudsman and the Sustainability Department of the EDP Corporate Centre.

The Ethics Committee's membership is as follows:

| Ethics Committee |
|---|
| Chairman: Chaiman of the EBD |
| Secretary: Ethics Ombudsman |
| Members of the EBD (besides the Chairman): |
| Member of the EBD (Ethics) |
| CC and BU members (besides the secretary): |
| Board member of EDP Produção |
| Board member of EDP Distribuição |
| Board member of EDP Comercial |
| Board member of EDP Soluções Comerciais |
| Board member of EDP Valor |
| Board member of EDP Renováveis |
| Board member of EDP Serviço Universal |
| Head of CC Human Resources |
| Head of CC Internal Audit and **Compliance** |
| Head of CC IT |
| Head of CC Risk Management |
| Representative of EDP Spain |

The Ethics Committee held four meetings in 2017.

## INFORMATION DISCLOSURE COMMITTEE

The Information Disclosure Committee's has two main duties:

- Analysing and assessing information that is or should be provided periodically by EDP during preparation of reports and other communications for the market;
- Assessing the mechanisms for monitoring and disclosing information about EDP.

The Information Disclosure Committee's membership are as follows:

| Information Disclosure Committee |
|---|
| Chairman: Member of the EBD (Finance) |
| Secretary: Representative of Head of CC Investor Relations |
| CC and BU members (besides the secretary): |
| Head of CC General Secretariat and Legal Office |
| Head of CC Management Planning and Control |
| Head of CC Finance Management |
| Head of CC Coordination of Consolidation, IFRS Report and Tax |
| Head of CC Coordination of Brand, Marketing and Communication Global Coordination |
| Head of CC Coordination of Brand, Marketing and Communication Global Coordination (Brand) |
| Head of CC Coordination of Brand, Marketing and Communication Global Coordination (Communication) |
| Representative of EDP Brasil (Investor Relations) |
| Representative of EDP Brazil (Accounting, Consolidation and Taxation) |
| Representative of EDP Renováveis (Investor Relations) |

The Information Disclosure Committee held one meeting in 2017.

**STAKEHOLDERS' COMMITTEE**

The duties of the Stakeholders' Committee are as follows:

- Evaluate the alignment and consistency of stakeholder relationship strategies in the different markets and geographical areas where the EDP Group operates;
- Discuss priorities and propose guidelines and a management model for the Group's relations with stakeholders;
- Assess compliance with the Group's stakeholder management policy.

The Stakeholders Committees' membership is as follows:

| Stakeholders' Committee |
|---|
| Chairman: Chaiman of the EBD |
| Secretary: Head of CC Institutional Relations and Stakeholders |
| Members of the EBD (besides the Chairman): |
| Member of the EBD (Renewables) |
| Member of the EBD (Generation) |
| Member of the EBD (Distribution Networks) |
| Member of the EBD (Trading, Spain) |
| Member of the EBD (Brazil) |
| Members CC and BU (besides the secretary): |
| Board member of EDP Comercial |
| Board member of EDP Renováveis |
| Board member of Fundação EDP |
| Head of CC Human Resources |
| Head of CC Coordination of Brand, Marketing and Communication Global Coordination |
| Head of CC Communication Coordination |
| Head of CC Coordination of Brand and Communication |
| Head of CC Customer and Marketing |
| Head of CC Sustainability |
| Rep. Of of EDP Spain |
| Manager of EDP Brasil |
| Rep. EDP Renováveis |

The Stakeholders' Committee held one meeting in 2017.

**PROCUREMENT COMMITTEE**

The main responsibilities of the Procurement Committee are:

- Discuss and align strategic guidelines of EDP Group's procurement activity;
- Validate proposals for amendments to policy and the procurement organizational model of the EDP Group;
- Validate the procurement annual plan to be approved by the EBD;
- Promote the alignment of the business units regarding procurement, ensuring the articulation between top management teams;
- Propose Sponsors and members of the categories of groups and committees oversee the implementation of optimization strategies of categories;
- Discuss and propose targets for "Performance indicators" and supervise the performance of the procurement activity at global and local level.

The Procurement Committee's membership are as follows:

| Procurement Committee |
|---|
| Chairman: Member of the EBD (Finance) |
| Secretary: Head of EDP Valor (UPG) |
| Members of the EBD (besides the Chairman): |
| Member of the EBD (EDP Valor) |
| Member of the EBD (Trading, Spain) |
| BU Members (besides the secretary): |
| Board member of EDP Produção |
| Board member of EDP Distribuição |
| Board member of EDP Valor |
| Board member of EDP Brasil |
| Board member of EDP Renewables |
| General Manager EDP Spain |
| General Manager EDP Spain (Supplies) |

The Procurement Committee held one meeting in 2017.

**PREVENTION AND SAFETY COMMITTEE**

The Prevention and Safety Committee has the following main responsibilities:

- Issue an opinion on proposals for setting the EDP Group’s goals in terms of prevention and safety at work;
- Analyse the Annual Report and issue an opinion on the EDP Prevention and Safety Action Plan;
- Assess the main occupational safety indicators and propose ways of improving them;
- Issue opinions on the regulatory documents of the safety management system that cover the EDP Group as a whole or cut across different sectors.

The Prevention and Safety Committee's membership is as follows:

| Prevention and Safety Committee |
|---|
| Chairman: Member of the EBD (EDP Sustainability) |
| Secretary: rep. Head of CC Sustainability |
| CC and BU Members (besides the secretary): |
| Board member of EDP Produção |
| Board member of EDP Distribuição |
| Board member of EDP Valor |
| Board member of EDP Soluções Comerciais |
| Board member of EDP Imobiliária e Participações |
| Head of CC EDP University |
| Head of CC Sustainability |
| Representative of EDP Comercial |
| Representative of Health and Safety (DSS - EDP Valor) |
| Representative of Health and Safety (H2R - EDP Valor) |
| Representative of EDP Spain |
| Representative of EDP Brazil |
| Representative of EDP Renováveis |

The Prevention and Safety Committee held two meetings in 2017.

**PENSION PLAN AND FUND COMMITTEE**

The Pension Plan and Fund Committee's main responsibilities are:

- Share significant information with an impact on management of the pension fund;
- Analyse the performance of assets under management, fund profitability and management mandates and the performance of the different asset managers;
- Monitor the value of the fund's liabilities and level of financing;
- Issue an opinion on investment policy and/or management mandates, actuarial assumptions used in calculating the fund's liabilities and members' contributions to the fund.

The Pension Plan and Fund Committee's membership is as follows:

| Pension Plan and Fund Committee Management |
|---|
| Chairman: Member of the EBD (Finance) |
| Secretary: Head of CC Finance Management |
| CC and BU Members (besides the secretary) |
| Head of Human Resources |
| Head of CC Risk Management |
| Head of CC Consolidation, Control Accounting and Taxation |
| Representative Head of Human Resources (Labour Relations) |

The Pension Plan and Fund Committee held four meetings in 2017.

**CORPORATE DEVELOPMENT COMMITTEE**

The Corporate Development Committee's duties are as follows:

- Promote and monitor group-wide programmes arising from the organisational and operational priorities established at the corporate level;
- Promote and analyse organisational benchmark studies;
- Analyse, discuss and issue opinions on proposed changes to the management model of Group processes and monitor their implementation;
- Coordinate the optimisation of processes of corporate interest;

- Assess and issue opinions on the support tools and organisational efficiency to meet the common needs of the EDP companies in terms of organisation and operation.

The Corporate Development Committee's membership are as follows:

| Corporate Development Committee |
|---|
| Chairman: Member of the EBD (Organisational Development) |
| Secretary: Head of CC Organisational Development |
| Members of the EBD (besides the Chairman): |
| Member of the EBD (Human Resources) |
| CC and BU members (besides the secretary): |
| Board member of EDP Produção (OD) |
| Board member of EDP Distribuição (OD) |
| Board member of EDP Comercial (OD) |
| Board member of EDP Soluções Comerciais (OD) |
| Board member of EDP Brazil (OD) |
| Board member of EDP Renováveis (OD) |
| Board member of EDP Valor (Process) |
| Board member of EDP Labelec |
| General Manager EDP Spain |
| Head of CC Human Resources |
| Head of CC IT Systems |
| Representative of CC Organisational Development (Organization) |
| Representative of CC Organisational Development (Process) |
| Representative of EDP Brazil (OD and Process) |

The Corporate Development Committee held one meeting in 2017.

**HUMAN RESOURCES AND DIVERSITY COMMITTEE**

The Human Resources and Diversity Committee's responsibilities are as follows:

- Discuss and align the definition of people management strategy of the EDP Group;
- Discuss and align policies for best practices in diversity and inclusion, proposing the incorporation and compliance with the Group's policy.
- Analyze key indicators for the different potential segments, and discuss and align development policies and instruments;
- Discuss and share initiatives aimed at cultural alignment and promoting a culture of meritocracy;
- Discuss and issue an opinion on the annual budget of Human Resources EDP Group and monitor its progress;

The Human Resources and Diversity Committee's membership are as follows:

| Human Resources and Diversity Committee |
|---|
| Chairman: Chaiman of the EBD |
| Secretary: Head of CC Human Resources |
| Members of the EBD (besides the Chairman): |
| Member of the EBD (HR and Brazil) |
| Member of the EBD (Finance) |
| Member of the EBD (Renewables) |
| Member of the EBD (Generation) |
| Member of the EBD (Distribution Networks) |
| Member of the EBD (International) |
| Member of the EBD (Trading, Spain) |
| CC and BU members (besides the secretary): |
| Board member of EDP Produção (HR) |
| Board member of EDP Distribuição (HR) |
| Board member of EDP Soluções Comerciais (HR) |
| Board member of EDP Comercial (HR) |
| Board member of EDP Valor (HR) |
| Board member of EDP Renováveis (HR) |
| Head of CC Coordination of brand, Marketing and Communication |
| Head of CC Organisational Development |
| Head of IT |
| Dir. CC Universidade EDP |
| Dir. CC Institutional Relations and Stakeholders |
| Ethics Ombudsman |
| Rep. Fundação EDP |
| Head of CC Institutional Relations and Stakeholders |
| Manager EDP Brazil (HR) |

The Human Resources and Diversity Committee held one meeting in 2017.

**INFORMATION TECHNOLOGY COMMITTEE**

The Information Technology Committee's duties are as follows:

- Discuss and issue opinions on guidelines for the strategic planning of information systems;
- Validate the plan and annual budget for the IT;
- Align priorities related to strategic projects;
- Issue an opinion on the relationship model between DSI and Corporate Business Units;
- Appreciate the performance of projects, systems and associated services, developing recommendations to achieve greater efficiency and availability.

The Information Technology Committee's membership is as follows:

| Information Technology Committee |
|---|
| Chairman: Member of the EBD (Área Sistemas de Informação) |
| Secretary: Head of CC Sistemas de Informação |
| CC and BU members (besides the secretary): |
| Board member of EDP Produção (IT) |
| Board member of EDP Distribuição (IT) |
| Board member of EDP Comercial (IT) |
| Board member of EDP Soluções Comerciais (IT) |
| General Manager EDP Spain (IT) |
| Board member of EDP Brasil (IT) |
| Board member of EDP Valor (IT) |
| Board member of EDP Inovação |
| Board member of EDP Renováveis (IT) |
| Board member of EDP Serviço Universal |
| Head of CC Organisational Development |
| Head of CC Human Resources |
| Head of UNGE |

The Information Technology Committee held six meetings in 2017.

**LOCAL AUTHORITIES COMMITTEE**

The Local Authorities Committee's duties are:

- Share information, events and projects that are important to relations with local authorities and different business areas;
- Analyse strategy for settling disputes, negotiation of specific issues and creation of business opportunities;
- Analyse, discuss and issue opinions on relations between the Group's areas and local authorities and procedure priorities;
- Promote and coordinate promotional events in municipalities to develop relationships or exploit business opportunities;
- Promote a support platform for relations with local authorities for recording contacts with them and other information on their monitoring and relations.

The Local Authorities Committee's membership is as follows:

| Local Authorities Committee |
|---|
| Chairman: Member of the EBD (Distribution) |
| Secretary: Board member of EDP Distribuição |
| Members of the EBD (besides the Chairman): |
| Other EBD's Members (ad-hoc/depending on the matters under discussion) |
| CC and BU members (besides the secretary): |
| Board member of EDP Produção |
| Board member of EDP Serviço Universal |
| Board member of EDP Soluções Comerciais |
| Board member of EDP Comercial |
| Board member of EDP Renováveis |
| Board member of EDP Imobiliária |
| Board member of EDP Gás SU |
| Head of CC Brand, Marketing and Communication Global Coordination |
| Head of CC Communication Coordination |
| Representative of EDP Foundation |
| Head of CC Institutional Relations and Stakeholders |
| Board member Fundação EDP |
| Head of EDP Distribuição (Institutional Relations) |

The Local Authorities Committee held four meetings in 2017.

**COMPLIANCE COMMITTEE**

The Compliance Committee and has the following responsibilities:

- To promote the compliance of the Group's Compliance Governance Model, policies and other compliance internal procedures;
- To support and monitor the process of creation, decision-maketing and implementation of the global programme of compliance;
- To support and monitor the process of creation, decision-maketing and implementation of the local and transversal compliance specific programs in the scope of the compliance global programme;
- To follow the activities of the plan of compliance;
- To follow the handling of complaints and investigation procedures;
- To propose measures to solve the non-compliance cases and monitor its resolution.

The Compliance Committee is composed as follows:

| Compliance Committee |
|---|
| Chairman: Chaiman of the EBD |
| Secretary: Head of CC Internal Audit and Compliance |
| Members of the EBD (besides the Chairman): |
| Member of the EBD (Distribution) |
| Member of the EBD (Finance) |
| Member of the EBD (Renewables) |
| Member of the EBD (EDP Espanha |
| Member of the EBD (International) |
| Member of the EBD (Sustainability) |
| Member of the EBD (EDP Brasil) |
| CC and BU members: |
| Head of CC General Secretariat and Legal Office |
| Head of CC Risk Management |

The Compliance Committee held one meeting in 2017.

## III - BUSINESS COMMITTEES

### GENERATION COMMITTEE

The Generation Committee's main duties are:

- Exchange information on business performance in each region, including the critical environments (regulations, etc);
- Develop a uniform view of the business and maintain multi-region benchmarking (organisation, processes and management information);
- Foster (best) common practices in selected processes or activities;
- Share unique or specialised assets (human, technological, knowledge).

The Generation Committee's membership is as follows:

| Generation Committee |
|---|
| Chairman: Member of the EBD (Generation) |
| Secretary: Rep. EDP Produção (Knowledge Management) |
| Members of the EBD (besides the Chairman): |
| Member of the EBD (Spain) |
| Member of the EBD (Brazil) |
| CC and BU members (besides the secretary) |
| Board of Directors of EDP Produção |
| Board member of EDP Brasil |
| Head of UNGE |
| Head of CC Energy Planning |
| Head of CC Sustainability |
| Rep. Head of EDP Spain (Project) |
| Head of EDP Brasil (Hydroelectric) |
| Head of EDP Brasil (Sustainability) |
| Head of EDP Spain (Coal) |
| Head of EDP Spain (Sustainability) |
| Head of EDP Produção (Natural Gas) |
| Head of EDP Produção (Sustainability) |
| Ad-hoc members: |
| Other, working groups responsible or ad-hoc matters |

The Generation Committee held two meetings in 2017.

## DISTRIBUTION NETWORKS COMMITTEE

The Distribution Networks Committee's duties are as follows:

- Exchange information on business performance in each region, including the critical environments (regulations, etc);
- Develop a uniform view of the business and maintain multi-region benchmarking (organisation, processes and management information);
- Foster (best) common practices in selected processes or activities;
- Share unique or specialised assets (human, technological, knowledge).

The Distribution Networks Committee's membership is as follows:

| Distribution Networks Committee |
|---|
| Chairman: Member of the EBD (Distribution) |
| Secretary: Board member of EDP Distribuição |
| Members of the EBD (besides the Chairman): |
| Member of the EBD (Spain) |
| CC and BU members (besides the secretary) |
| Board of Directors of EDP Distribuição |
| Board member of EDP Brazil (Distribution) |
| Rep. EDP Distribuição |
| Ad-hoc members: |
| Board member of EDP Inivação |
| Board member of Labelec |
| Head of CC EDP University |
| Head of CC Organisational Developemnt |
| Head of CC Energy Planning |
| Head of CC Regulation and Competition |
| Head of CC Sustainability |
| Head of EDP Distribuição (Regulation) |
| Head of EDP Distribuição (Environmental) |
| Head of EDP Distribuição (Human Resources) |
| Rep. Head of EDP Spain (Regulation) |
| Rep. Head of EDP Spain (Environmental) |
| General Manager EDP Brasil (Escelsa) |
| General Manager EDP Brasil (Bandeirante) |

The Distribution Networks Committee held three meetings in 2017.

## IBERIAN COMMERCIAL COMMITTEE

The Iberian Commercial Committee's duties are as follows:

- Exchange information on business performance in each region and in the Iberian Peninsula, including the critical environments (regulations, etc);
- Discuss, align and issue opinions on key matters (such as goals, marketing plan, etc) for approval by the Executive Board of Directors or Board of Directors of supply companies;
- Develop a uniform, integrated view of the Iberian business and maintain the multi-region benchmarking (marketing, products, commercial matters and management information);
- Foster (best) common practices in selected processes or activities;
- Share unique or specialised assets (human, technological, knowledge).

The Iberian Commercial Committee's membership is as follows:

| Iberian Commercial Committee |
|---|
| Chairman: Member of the EBD (Área Comercial) |
| Secretary: General Manager EDP Spain |
| Members of the EBD (besides the Chairman): |
| Member of the EBD (Regulation and Competition) |
| Member of the EBD (Spain) |
| CC and BU members (besides the secretary) |
| Board member of EDP Serviço Universal |
| Board member of EDP Comercial (B2B) |
| Board member of EDP Comercial (B2C) |
| Board of Directors of EDP Soluções Comerciais |
| Head of CC Customer and Marketing |
| Head of CC IT Systems |
| Head of CC Brand, Marketing and Communication Global Coordination |
| Head of UNGE |
| Manager EDP Spain (B2B sales) |
| Rep. EDP Spain (HC/NG) (Marketing and B2C sales) |
| Rep. of EDP Spanish Branch |
| Rep. of CC Coordination of Brand and Communication (Brand) |
| Rep. of CC Coordination of Brand and Communication (Communication) |
| **Ad-hoc** members: |
| Head of EDP Comercial - Marketing GC |
| Head of EDP Comercial - Marketing PME&E |
| Head of EDP Comercial - Marketing B2C |

The Iberian Commercial Committee held four meetings in 2017.

Information Security and Data Governance Committee, meanwhile extinct, held three meetings in 2017. The duties of this Committee were incorporated into the Information Technologies Committee. The Transversal Coordination of Internationalisation Projects Committee, also extinct, held one meeting in 2017.

**CUSTOMER OMBUDSMAN**

The Customer Ombudsman is an independent entity that was created in 2009 to reinforce the EDP Group's customer care policy. Its responsibilities are as follows, pursuant to Article 9 of the EDP Group Companies' Customer Ombudsman Regulations:

- Receive and examine complaints filed by customers and directly related to actions or omissions by EDP Group companies;
- Enter into dialogue with customers making a complaint;
- Arbitrate disputes and conflicts between customers and EDP Group companies;
- Issue opinions on matters relating to the activity of EDP Group companies, if requested to do so by any of their corporate bodies;
- Propose measures to improve quality of service and customer satisfaction;
- Contact third parties to obtain specialist information so that recommendations can be made to the EDP Group companies on measures to be taken to improve their customer relations.

The Customer Ombudsman's term of office is three years, and is renewable twice, for an equal period (Article 5 (2) of the EDP Group Companies' Customer Ombudsman Regulations). In the performance of his duties, the Customer Ombudsman has an independent Customer Ombudsman Office and an annual budget (Article 20 of the EDP Group Companies' Customer Ombudsman Regulations).

**SUBSIDIARY IN SPAIN**

Subsidiary EDP España manages and coordinates the energy interests of the EDP Group's dependent subsidiaries in Spain. Its management and supervisory bodies ensure optimisation of synergies and creation of value in operations and activities in Spain. It is also the organisational platform Iberian integration of support services. To this end, Subsidiary

EDP España owns all the corporate holdings in EDP España, S.A.U. and EDP Servicios Financieros España S.A.U., as well as the stake of 82.56% in EDP Renováveis, S.A.

Subsidiary EDP España has offices in Madrid and Oviedo. It is represented in relations with third parties by permanent representatives, who have been appointed members of the EDP Executive Board of Directors for that purpose.

The company's steering, coordination, management and representation structure consists of an Executive Committee and Management Committee. The Executive Committee is composed of five permanent EDP representatives, one Group Controller for activities in Spain, and front line managers in charge of the business units in Spain. This committee basically serves as the coordinator of the permanent representatives' activities. The Management Committee is chaired by the Group Controller and is a natural extension of the management departments at the EDP Corporate Centre, i.e. the Business Analysis, Legal, Audit, Financial and Management, Commercial Shared Services, Information Systems departments, Human Resources and EDP España Foundation. The committee groups and performs the tasks of these departments in Spain.

The Subsidiary EDP España is represented in Committees in the the EDP Iberian committees, namely: Iberian Commercial and Market Committee and Iberian Commercial Committee.

| **EDP ENERGIAS DE PORTUGAL, SUCURSAL EN ESPAÑA, SOCIEDAD ANONIMA** | |
|---|---|
| ADMINISTRATION, COORDINATION, MANAGEMENT AND REPRESENTATION STRUCTURE | |
| Executive Committee | |
| Permanent EDP Representative | António Mexia (Presidente) |
| Permanent EDP Representative | Nuno Almeida Alves |
| Permanent EDP Representative | João Manso Neto |
| Permanent EDP Representative | António Martins da Costa |
| Permanent EDP Representative | Miguel Stilwell de Andrade |
| Chairman of the Board of EDP España | Manuel Menéndez Menéndez |
| General Corporate - Activities Spain | Miguel Ribeiro Ferreira |
| 1st Line Responsible, HC Energía | Javier Sáenz de Jubera |
| 1st Line Responsible, EDP Renováveis | João Paulo Costeira |
| Management Committee | |
| Legal Department | Pelayo Echavarria |
| Financial and Management Department | Félix Arribas |
| Human Resources Department | Félix Arribas |
| Information Systems Department | José Negueruela |
| Internal Audit Department | Azucena Viñuela |
| Business Analysis Department | João Nicolau |
| Commercial Shared Services Department | Rita Ferreira |
| EDP España Foundation Department | Vanda Martins |
| General Secretary | José Luis Martínez Mohedano |

# B) OPERATION

## 22. LOCATION WHERE THE OPERATING REGULATIONS OF THE GENERAL AND SUPERVISORY BOARD AND EXECUTIVE BOARD OF DIRECTORS CAN SER CONSULTED

The operations of the General and Supervisory Board and Executive Board of Directors are governed by their Internal Regulations, available on EDP's website, at "https://www.edp.com/en/investors/corporate-governance/companys-data/by-laws-regulations".

## 23. MEETINGS AND ATTENDANCE RATE OF EACH MEMBER OF THE GENERAL AND SUPERVISORY BOARD AND EXECUTIVE BOARD OF DIRECTORS

Ordinary meetings of the General and Supervisory Board are held at least once every quarter and extraordinary meetings take place whenever convened by the Chairman, on his/her own initiative or at the request of any of its members, the Executive Board of Directors or its Chairman, pursuant to Article 24 (1) of the Articles of Association and Article 19 (1) of the Internal Regulations of the General and Supervisory Board.

The General and Supervisory Board met 11 times in 2017 and minutes were kept of all the meetings. Information on the attendance of each member of the board is provided in Annex II to this report.

Pursuant to the provisions of Article 20(1) of the Articles of Association and Article 6(1) of the Rules of the Executive Board of Directors, this body will have ordinarily met at least twice a month, as fortnightly meetings were compulsory. Nevertheless, the Executive Board of Directors meets weekly, as a rule.

The Executive Board of Directors met 47 times in 2017 and minutes were kept of all the meetings. Information on the attendance of each member of the board is provided in Annex III of this report.

## 24. COMPANY BODIES WITH POWERS TO EVALUATE PERFORMANCE OF EXECUTIVE DIRECTORS

The Remuneration Committee of the General and Supervisory Board is responsible for, namely, the annual evaluation of the Executive Board of Directors, taking into account, among other factors, the fulfillment of the company's strategy and the previously set goals, plans and budgets for the purpose of considering and determining the variable remuneration of the Chairman and of the other members of the Executive Board of Directors. It also evaluates the individual performance of each member of the Executive Board of Directors, including this evaluation the contribution of each member to the mode of operation of this body and the relationship between the various corporate bodies of the company.

Additionally, the General and Supervisory Board evaluates the Executive Board of Directors accordingly with the abovementioned point 21.

## 25. PRE-DETERMINED CRITERIA FOR PERFORMANCE EVALUATION OF EXECUTIVE DIRECTORS

These criteria for evaluating the performance of the Members of the Executive Board of Directors are set out in points 69 and 71 of the Corporate Governance report.

## 26. POSITIONS HELD AT OTHER GROUP OR NON-GROUP COMPANIES BY EACH MEMBER OF THE GENERAL AND SUPERVISORY BOARD AND EXECUTIVE BOARD OF DIRECTORS

The positions held by members of the General and Supervisory Board and Executive Board of Directors in other EDP Group or non-group companies are shown in Annex I and IV.

# C) COMMITTEES OF THE MANAGING OR SUPERVISORY BODY

## 27. COMMITTEES SET UP IN THE GENERAL AND SUPERVISORY BOARD AND EXECUTIVE BOARD OF DIRECTORS

The Internal Regulations of the General and Supervisory Board provide for the establishment of standing committees and ad hoc committees, composed of some of its members, without prejudice to its responsibility for the exercise of its duties as a corporate body. These committees may be set up whenever it sees fit and appropriate and have specific duties delegated to them.

The main remit of the standing and ad hoc committees is specific, continuous monitoring of the matters entrusted to them, in order to ensure informed decisions by the General and Supervisory Board or provide it with information on certain matters.

The committees' activity is coordinated by the Chairman of the General and Supervisory Board, who ensures proper articulation of the committees with the plenary board through their chairmen, who keep him informed by sending notices and the minutes of meetings.

The General and Supervisory Board believes that the committees are important to the regular functioning of the company as they can perform certain delegated duties, especially monitoring the company's financial information, reflecting on its governance system, assessing the performance of directors and evaluating its own overall performance.

The General and Supervisory Board holds four specialized committees: Financial Matters Committee/Audit Committee, Remuneration Committee, Corporate Governance and Sustainability Committee and Strategy and Performance and Startegy Committee.

## 28. MEMBERSHIP OF THE EXECUTIVE COMMITTEE AND/OR NAME OF MANAGING DIRECTOR(S)

Not applicable to EDP's governance model

## 29. DUTIES OF EACH COMMITTEE AND SUMMARY OF WORK PERFORMED WHILE CARRYING THEM OUT

### A. THE COMMITTEES OF THE GENERAL AND SUPERVISORY BOARD

#### FINANCIAL MATTERS COMMITTEE/AUDIT COMMITTEE

The Financial Matters Committee/Audit Committee is made up of five independent members with the appropriate qualifications and experience, including at least one member with a degree in the area of the committee's duties and specific knowledge of auditing and accounting, as confirmed by the Curriculum Vitae of Chairman, which can be viewed in Annex I of the current Report.

The Financial Committee/Audit Committee had the following members:

| FINANCIAL MATTERS COMMITTEE/AUDIT COMMITTEE | | FIRST APPOINTMENT DATE |
|---|---|---|
| Chairman | António Sarmento Gomes Mota * | 07-05-2009 |
| Vice-Chairman | João Carlos Carvalho das Neves | 22-04-2015 |
| | Alberto Joaquim Milheiro Barbosa | 22-04-2015 |
| | Maria del Carmen Ana Fernández Rozado | 22-04-2015 |
| | Maria Celeste Ferreira Lopes Cardona | 18-04-2012 |

* Appointed as Chairman on 22st April 2015

In accordance with the Internal Regulations of the Financial Matters Committee/Audit Committee, are assigned to this Committee, by delegation from the General and Supervisory Board, the following powers:

- Financial matters relating to the Company.
- The internal procedures for auditing and accounting practices followed by the Company and the Internal Financial Reporting Control System (SCIRF), in coordination with the Internal Audit and Compliance Department.
- Matters relating to the internal financial reporting control system and risk management processes, particularly relating to their fiscal, legal and financial aspects.
- The activity and the independence of the Statutory Auditor and the External Auditor of the Company, with whom it should maintain a close relationship.

As a specialised committee of the General and Supervisory Board, the Financial Matters Committee/Audit Committee also assists it in the hiring and dismissal of the External Auditor, pursuant to Article 10 (1) (k) of the Internal Regulations of the Financial Matters Committee/Audit Committee.

The membership, role and functioning of the Financial Matters Committee/Audit Committee are in line with the European Commission Recommendation of 15 February 2005 (2005/162/EC), supplemented by the European Commission Recommendation of 30 April 2009 (2009/385/EC).

In view of these duties, the Financial Matters Committee/Audit Committee held 14 meetings in 2017, as envisaged in its Activity Plan. The matters addressed in those meetings were: supervision of the financial reporting and business of EDP, monitoring the activity of Internal and Compliance Audit Department, monitoring the activity of the Risk Management Department of the EDP group, monitoring litigation processes in the EDP group, monitoring the activity of IT Department of the EDP Group, monitoring the contractual relationship with the statutory auditor and external auditor, their activities and assessing the objective conditions of their independence, launching of an auscultation for the selection of the Statutory Auditor for the 2018-2020 mandate, and monitoring reports of irregularities (whistleblowing) and the relationship with the Audit Committees of the subsidiaries.

**REMUNERATION COMMITTEE OF THE GENERAL AND SUPERVISORY BOARD**

The Remuneration Committee appointed by the General and Supervisory Board, pursuant to Article 27 of EDP's Articles of Association, defines the remuneration of the Executive Board of Directors as well as any supplements.

According to the Articles of Association, the Remuneration Committee of the General and Supervisory Board must submit a declaration on the remuneration policy followed for the members of the Executive Board of Directors and which it has approved by it.

The Remuneration Committee held two meetings during 2017, considering its duties. The following topics were discussed: (i) definition of the remuneration policy of the Executive Board Members e (ii) definition of the variable annual remuneration regarding 2016 financial year, as well as the multi-annual variable remuneration of the Executive Board Members' the imputable to such year. Although calculated annually, the multi-annual variable remuneration only becomes effective if, by the end of the mandate, 90% of the objectives have been achieved. The calculation was validated and certified by an external entity.

The Remuneration Committee of the General and Supervisory Board is made up of members of the General and Supervisory Board with the appropriate qualifications and experience, who are all independent from the managing body. This committee always has at least one representative at the General Meetings of Shareholders.

The Remunerations Committee then had the following members:

| REMUNERATION COMMITTEE OF THE GSB | | FIRST APPOINTMENT DATE |
|---|---|---|
| Chairman | Yang Ya | 21/04/2015 |
| | Fernando Masaveu Herrero | 21/04/2015 |
| | Ilídio da Costa Leite de Pinho | 22/05/2012 |
| | João Carvalho das Neves | 21/04/2015 |
| | Vasco Joaquim Rocha Vieira | 21/04/2015 |

## CORPORATE GOVERNANCE AND SUSTAINABILITY COMMITTEE

The Corporate Governance and Sustainability Committee is a specialised committee of the General and Supervisory Board. Its purpose is to permanently monitor and supervise all matters related with the following:

- Corporate governance;
- Strategic sustainability;
- Internal codes of ethics and conduct;
- Systems for assessing and resolving conflicts of interests, in particular pertaining to relations between EDP and its shareholders;
- Monitoring of the definition of criteria and duties to be complied with in EDP's bodies or subsidiaries and their repercussions on their membership; and
- Drafting of succession plans.

The topics covered in-depth at the six meetings held in 2017 of the Corporate Governance and Sustainability Committee, in compliance with its specific duties, were the following: reporting of relevant situations in terms of Conflicts of Interest, conduct and ethics, sustainability and corporate governance.

The Corporate Governance and Sustainability Committee is made up of members of the General and Supervisory Board, the majority of whom are independent, with the appropriate qualifications and experience for their duties.

The Corporate Governance and Sustainability Committee then had the following members:

| CORPORATE GOVERNANCE AND SUSTAINABILITY COMMITTEE | | FIRST APPOINTMENT DATE |
|---|---|---|
| Chairman | Luís Filipe Marques Amado | 22/04/2015 |
| | Felipe Fernández Fernández | 22/04/2015 |
| | Jorge Avelino Braga de Macedo | 22/04/2015 |
| | Maria Celeste Ferreira Lopes Cardona | 18/04/2012 |
| | Shengliang Wu | 11/05/2012 |

## STRATEGY AND PERFORMANCE COMMITTEE

The Strategy and Performance Committee is a specialised Committee of the General and Supervisory Board, the purpose of which is to follow and supervise the questions regarding the following matters at all times:

- The short-, medium- and long-term scenarios and strategies.
- The strategic implementation, business planning and the respective budgets.
- The investments and divestments.
- Debt and funding.
- Strategic alliances.
- Market and competitiveness evolution.
- Regulation.
- Analysis of the performance of the Group and the Business Units.
- The benchmarking of the company group performance compared with the companies at the top of the sector.
- The assessment of the competitiveness of the EDP business portfolio.

The Strategy and Performance Committee is composed of the following members:

| STRATEGY AND PERFORMANCE COMMITTEE | | FIRST APPOINTMENT DATE |
|---|---|---|
| Chairman | Eduardo de Almeida Catroga | 18/06/2015 |
| Vice Chairman | Alberto Joaquim Milheiro Barbosa | 18/06/2015 |
| | Augusto Carlos Serra Ventura Mateus | 18/06/2015 |
| | Zhang Dingming | 18/06/2015 |
| | Ferhat Onoughi | 18/06/2015 |
| | Fernando Maria Masaveo Herrero | 18/06/2015 |
| | João Carlos Carvalho das Neves | 18/06/2015 |
| | Jorge Avelino Braga de Macedo | 18/06/2015 |
| | Mohammed Issa Khalfan Alhuraimel Alshamsi [1] | 18/06/2015 |
| | Nuno Manuel da Silva Amado | 18/06/2015 |
| | Shengliang Wu | 18/06/2015 |

1Designated for this Committee in November, 2nd 2017, replacing Mohammed Ali Ismaeli Ali Al- Fahim, who renounced in October 31st, 2017.
Nuno Manuel da Silva Amado was member until November 2nd, 2017

In 2017, the Strategy and Performance Committee held seven meetings with the following themes being discussed: the performance of EDP Group's business units and EDP's share, the relative competitiveness of EDP, the performance of generation, distribution and supply activities, the follow-up of the strategic and business risks of EDP Group, the follow-up of the creation of the budget of EDP for 2018.

## B. OTHER COMPANY BODIES

### ENVIRONMENT AND SUSTAINABILITY BOARD

The Environment Board was set up as a company body in 1991. Its name was changed to Environment and Sustainability Board by decision of the Annual General Meeting of 30 March 2006.

As a company body, the Environment and Sustainability Board has powers to advise the Executive Board of Directors on environment and sustainability matters. In particular, it provides advice and support in defining the company's environmental and sustainability strategy and drafting opinions and recommendations on the environmental impact of projects planned by the EDP Group (Article 28 (1) of EDP's Articles of Association).

The current members of the Environment and Sustainability Board, pursuant to Article 28 (2) of EDP's Articles of Association, have acknowledged competence in the field of environmental protection and sustainability.

The members of the Environment and Sustainability Board were re-elected at the Annual General Meeting of Shareholders on 21 April 2015 for a new term of office for the three-year period between 2015 and 2017.

The Environment and Sustainability Board's membership is as follows:

| ENVIRONMENTAL AND SUSTAINABILITY | |
|---|---|
| Chairman | José Pedro Sucena Paiva |
| | Alberto da Ponte * |
| | António José Tomás Gomes de Pinho |
| | José Manuel Viegas |
| | Maria da Graça Madeira Martinho |

* Ceased functions on January, 21st 2017

The Environment and Sustainability Board held three meetings in 2017.

**REMUNERATION COMMITTEE OF THE GENERAL MEETING**

The remuneration of the corporate bodies, with the exception of the members of the Executive Board of Directors, is defined by the Remuneration Committee elected by the General Meeting (Article 11 (2) (d) of EDP's Articles of Association).

Pursuant to this Article, the majority of the members of the Remuneration Committee of the General Meeting must be independent.

The Remuneration Committee of the General Meeting in force has the following members:

| REMUNARATION COMMITTEE - GENERAL MEETING | |
|---|---|
| Chairman | Luís Miguel Nogueira Freire Cortes Martins |
| | José Gonçalo Maury |
| | Jaime Amaral Anahory |

# III. SUPERVISION

# A) COMPOSITION

## 30. THE SUPERVISORY BODY

EDP's two-tier model of corporate governance has made possible an effective separation between supervision and management of the company. The General and Supervisory Board is the highest supervisory body.

## 31. MEMBERSHIP FINANCIAL MATTERS COMMITTEE - EFFECTIVE MEMBERS AND TERM OF OFFICE

The duties of the Financial Matters Committee /Audit Committee are described in Point 29 of the corporate governance report.

The Financial Matters Committee/Audit Committee is made up of five independent members with the appropriate qualifications and experience, including at least one member with a degree in the area of the committee's duties and specific knowledge of auditing and accounting, as confirmed by the Curriculum Vitae of the Chairman, which can be consulted in Annex I of this report.

The Financial Committee/Audit Committee has the following members:

| FINANCIAL MATTERS COMMITTEE/AUDIT COMMITTEE | | FIRST APPOINTMENT DATE |
|---|---|---|
| Chairman | António Sarmento Gomes Mota * | 07/05/2009 |
| Vice-Chairman | João Carlos Carvalho das Neves | 22/04/2015 |
| | Alberto Joaquim Milheiro Barbosa | 22/04/2015 |
| | Maria del Carmen Ana Fernández Rozado | 22/04/2015 |
| | Maria Celeste Ferreira Lopes Cardona | 18/04/2012 |

* Appointed as Chairman on April 22, 2015, by decision of the General and Supervisory Board

### 32. INDEPENDENT MEMBERS OF THE FINANCIAL MATTERS COMMITTEE

See Point 31.

### 33. QUALIFICATIONS OF MEMBERS OF THE FINANCIAL MATTERS COMMITTEE

See Annex I.

## B) OPERATION

### 34. LOCATION AT WHICH THE OPERATING PROCEDURES OF THE FINANCIAL MATTERS COMMITTEE/AUDIT COMMITTEE CAN BE VIEWED

The Financial Matters Committee/Audit Committee's work is governed by Internal Regulations, available on EDP's website at https://www.edp.com/en/investors/corporate-governance/companys-data/by-laws-regulations.

### 35. MEETINGS AND ATTENDANCE RATE OF EACH MEMBER OF THE FINANCIAL MATTERS COMMITTEE/AUDIT COMMITTEE

In 2017, the Financial Matters Committee/Audit Committee met 14 times and minutes of its meetings were kept. Information on the attendance rate of the committee's members is given in Annex V of this report.

### 36. POSITIONS HELD IN OTHER COMPANIES WITHIN AND OUTSIDE THE GROUP BY EACH FINANCIAL MATTERS COMMITTEE/AUDIT COMMITTEE MEMBER

See Annex I.

## C) POWERS AND DUTIES

### 37. PROCEDURES AND CRITERIA GOVERNING THE SUPERVISORY BODY'S INVOLVEMENT IN HIRING ADDITIONAL SERVICES FROM THE EXTERNAL AUDITOR

The proposal for hiring additional services of the External Auditor and Statutory Auditor is made by the Executive Board of Directors to the Financial Matters Committee/Audit Committee and any contracting requires the prior authorisation of that Committee.

Rules of procedure on the Provision of Services by the Statutory Auditor and External Auditor of EDP are in force, in this regard, and the implications on the hiring of additional services are described in point 46.

There are other rules of procedure adopted by the Executive Board of Directors that ensure all EDP Group companies comply with the rules contained in the referred rules of procedure.

### 38. OTHER DUTIES OF THE SUPERVISORY BODIES AND, IF APPLICABLE, OF THE FINANCIAL MATTERS COMMITTEE/AUDIT COMMITTEE

The duties of the Financial Matters Committee/Audit Committee, delegated to it by the General and Supervisory Board pursuant to the Articles of Association and the Internal Regulations of the Financial Matters Committee/Audit Committee are described in Point 29.

## IV. STATUTORY AUDITOR

### 39. THE STATUTORY AUDITOR AND THE CERTIFIED AUDITOR REPRESENTING IT

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A. (KPMG), represented by Vítor Manuel da Cunha Ribeirinho, was elected EDP's Statutory Auditor for 2015-2017 at the General Meeting of 21 April, 2015.

### 40. NUMBER OF YEARS FOR WHICH THE STATUTORY AUDITOR HAS WORKED CONSECUTIVELY WITH THE COMPANY AND/OR GROUP

The Statutory Auditor has been working with the company since 31 January 2005.

### 41. OTHER SERVICES PROVIDED TO THE COMPANY BY THE STATUTORY AUDITOR

The Statutory Auditor is the company body responsible for the examination of the accounting documents. It is elected by the General Meeting for three year terms, pursuant to Article 25 of EDP's Articles of Association and Article 446 of the Portuguese Company Code.

According to the Company Code and the company's Articles of Association, the Statutory Auditor is responsible for checking (see Article 446 (3) of the Company Code):

- The regularity of the company's books, accounting records and their supporting documents;
- The cash and all assets or securities belonging to the company or received by it as guarantees, deposits or for any other purpose, whenever and however it sees fit;
- The accuracy of the accounting documents;
- Whether the company's accounting policies and valuation criteria result in an accurate assessment of its assets and results.

A description of the services provided by the statutory auditor can be found on Point 46.

## V. EXTERNAL AUDITOR

### 42. THE EXTERNAL AUDITOR AND CERTIFIED AUDITOR PARTNER REPRESENTING IT

EDP's External Auditor is KPMG and Vitor Manuel da Cunha Ribeirinho, manager of auditing at KPMG, is the partner in charge of overseeing and performing audits of the EDP Group's accounts. KPMG is registered with the CMVM under number 9093.

The external auditor performs the necessary audit work to ensure the reliability of the financial reporting and credibility of the accounting documents.

The external auditor's duties include checking compliance with remuneration policies and systems, the efficacy of internal control mechanisms and reporting of any significant deficiencies to the General and Supervisory Board.

EDP takes measures specifically aimed at ensuring the independence of the external auditor, in view of the scope of services provided by audit firms.

## 43. NUMBER OF YEARS FOR WHICH THE EXTERNAL AUDITOR AND CERTIFIED AUDITOR PARTNER REPRESENTING IT HAVE WORKED CONSECUTIVELY WITH THE COMPANY AND/OR GROUP

EDP's external auditor has been KPMG since December 2004 and Vítor Manuel da Cunha Ribeirinho has been the certified auditor partner since 2012.

## 44. POLICY ON AND FREQUENCY OF ROTATION OF EXTERNAL AUDITOR AND CERTIFIED AUDITOR PARTNER REPRESENTING IT

The policy on rotation of the external auditor and certified auditor partner representing it depends on the strict assessment by the Financial Matters Committee/Audit Committee of the independence and quality of the work done and consideration of the independence of the statutory auditor and external auditor and the advantages and costs of replacing them.

Considering the rules referring to the mandatory rotation of the external auditor and of the statutory auditor, pursuant to Article 54 (3)(4) of the New By-Laws of the Association of the Statutory Auditors, and that the current mandate of KPMG finished by December, 31st, 2017, such rotation will be fulfilled for the service provision of statutory auditor and external auditor for the triennium of 2018-2020.

In this sense, and under a Financial Matters Committee/Audit Committee proposal, the GSB resolved to launch a consultation process in order to select the External Auditor of EDP Group for the 2018-2020 term-of-office, as well as to create two specific Committees to develop the consultation process, to know, (i) Accompaniment and Analysis Committee (AAC), with the purpose of accompanying the tender process and analyzing the proposals, as well as to prepare a summary of the respective conclusions, to report to the Assessment Committee and (ii) Assessment Committee (AC), with the purpose of assessing the results presented by the AAC and preparing a proposal to the Financial Matters Committee/Audit Committee.

From the work performed and from the assessment conducted to the presented proposals, both accomplished with autonomy and without third parties influence, the conclusions presented pointed out two entities, in accordance with the selection criteria identified on the consultation program, which are part of the proposals presented to the General Meeting to be held on the next April 5th, 2018, aimed at the appointment of the External Auditor for the mandate 2018-2020.

## 45. BODY RESPONSIBLE FOR ASSESSING THE EXTERNAL AUDITOR AND FREQUENCY OF ASSESSMENT

The Financial Matters Committee/Audit Committee presents annually to the General and Supervisory Board the report on the assessment of the activity and independence of the external auditor and EDP's Statutory Auditor. The result of the appreciation is published in the report of the General and Supervisory Board.

## 46. WORK OTHER THAN AUDITING DONE BY THE EXTERNAL AUDITOR FOR THE COMPANY AND/OR SUBSIDIARIES AND INTERNAL PROCEDURES FOR APPROVING HIRING OF THESE SERVICES AND REASONS FOR HIRING THEM

Proposals to hire additional services from the external auditor and statutory auditor are made by the Executive Board of Directors to the Financial Matters Committee/Audit Committee and their hiring requires prior authorisation from this Committee.

The Regulations on Services Provided by EDP's Statutory Auditor and External Auditor was approved on March, 3rd 2016 and determines, regarding the contracting of additional services, that the Financial Matters Committee/Audit Committee may deny authorisation of additional services if one such service is prohibited and/or one such service involves a possible threat to the independence of the statutory auditor or the external auditor. The above mentioned regulations are available on the EDP website, (https://www.edp.com/en/investors/corporate-governance/external-auditor).

In 2017, the following services were performed by the external auditor:

### AUDIT SERVICES AND STATUTORY AUDIT:

- Necessary services (including internal control procedures required as part of audits) for the issue of the External Auditor's annual on the accounts;
- Services required for compliance with local legislation (including internal control procedures required as part of audits) for the issue of Legal Certifications of Accounts.

### OTHER ASSURANCE OF RELIABILITY SERVICES:

Services with a specific or limited purpose or scope, namely:

- Necessary services for the issue of the interim reports and quarterly information on the accounts;
- Opinion on the internal control system on financial reporting;
- Reports (assurance of reliability and agreed procedures) on specified accounts, accounting elements or items in an EDP financial statement and regulated accounts;
- Comfort letters;
- Opinion regarding Sustainability information;
- Opinion on the Consumption Efficiency Promotion Plan (PPEC);
- Financial information validation to report to ERSE;
- Statements of compliance under contractual agreements.

### OTHER ADDITIONAL SERVICES:

- Technical support on the assets sale process in Spain;
- Technical support on sustainability projects;
- Technical support on reports translations.

The reasons for hiring these services were essentially i) better understanding of the Group's business, ensuring appropriate knowledge of the relevant information, which favours greater agility and efficiency in providing solutions and ii) it was considered that the hiring of said services were not considered a threat to the independence of the External Auditor and did not foster any situation of personal interest in relation to the guarantee of independence given by the External Auditor.

The services that are not related with Legal Revision of Accounts neither External Audit requested by Group entities to the External Auditor and to other entities belonging to the same network, amounted to 1,335,345 Euros.

## 47. ANNUAL REMUNERATION PAID BY THE COMPANY AND/OR SUBSIDIARY OR GROUP COMPANIES TO THE AUDITOR AND OTHER NATURAL OR LEGAL PERSONS BELONGING TO THE SAME NETWORK AND BREAKDOWN OF PERCENTAGE FOR THE FOLLOWING SERVICES

KPMG is responsible for conducting an independent external audit of all the EDP Group companies in Portugal, Spain, Brazil (EDP Renováveis) and USA, as well as in other countries in which the Group operates. In the subgroup of EDP Brasil and in the EDP Finance B.V. independent external auditing is conducted by PriceWaterhouseCoopers.

In 2017, the recognised, specialised costs of the fees of KPMG and PriceWaterhouseCoopers for audit and statutory audit of accounts, other assurance of reliability services, tax consultancy services and other services than auditing for Portugal, Spain, Brazil, United States of America and other countries were as follows:

### KPMG

| EUROS | PORTUGAL | | SPAIN | | BRAZIL | | UNITED STATES OF AMERICA | | OTHER COUNTRIES | | TOTAL | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Audit and statutory audit of accounts | 2,567,137 | | 1,445,315 | | 149,848 | | 942,805 | | 957,346 | | 6,062,451 | |
| Other assurance of reliability services (1) | 771,985 | | 283,791 | | - | | 6,442 | | 9,427 | | 1,071,645 | |
| Total of audit and assurance of reliability services | 3,339,122 | | 1,729,106 | | 149,848 | | 949,247 | | 966,773 | | 7,134,096 | 96% |
| Tax consultancy services | - | | - | | - | | - | | - | | - | |
| Other additional services | - | | 263,700 | | - | | - | | - | | 263,700 | |
| Total of other services | - | | 263,700 | | - | | - | | - | | 263,700 | 4% |
| Total | 3,339,122 | 45% | 1,992,806 | 27% | 149,848 | 2% | 949,247 | 13% | 966,773 | 13% | 7,397,796 | 100% |

(1) Includes assurance of reliability services of the exclusive competence and responsibility of the Statutory Auditor and External Auditor in accordance with the regulations on services provided approved by the General and Supervisory Board.

The audit fees and statutory audit of accounts in Portugal include 1,189,149 Euros related with statutory audit fees, on a company and consolidated basis, of EDP - Energias de Portugal, S.A.

### PRICEWATERHOUSE COOPERS

| EUROS | BRAZIL | | NETHERLANDS | | TOTAL | |
|---|---|---|---|---|---|---|
| Audit and statutory audit of accounts | 779,906 | | 105,000 | | 884,906 | |
| Other assurance of reliability services | - | | - | | - | |
| Total of audit and assurance of reliability services | 779,906 | | 105,000 | | 884,906 | 94% |
| Tax consultancy services | - | | - | | - | |
| Other additional services | 57 659 | | - | | 57,659 | |
| Total of other services | 57,659 | | - | | 57,659 | 6% |
| Total | 837,565 | 89% | 105,000 | 11% | 942,565 | 100% |

# C. INTERNAL ORGANISATION

# I. ARTICLES OF ASSOCIATION

## 48. RULES ON AMENDMENTS TO THE COMPANY'S ARTICLES OF ASSOCIATION

EDP's Articles of Association do not set out special rules on their amendment and the general rule set out in 3 Article 386 (3) of the Company Code therefore applies, i.e. decisions to amend the Articles of Association must be approved at a General Meeting by two-thirds of the votes cast.

EDP's Articles of Association may also be amended under the powers of the Executive Board of Directors to move EDP's registered office (Article 2 (1) of EDP's Articles of Association) and increase EDP's share capital (Article 4 (3) of EDP's Articles of Association). Pursuant to the general rule set out in Article 410 (7) of the Company Code, by reference to Article 433 of this code, these decisions by the Executive Board of Directors must be passed by a majority of the votes of the directors present or represented.

# II. WHISTLEBLOWING

## 49. WHISTLEBLOWING POLICY AND CHANNELS

The EDP Group has consistently implemented measures to ensure the good governance of its companies, including the prevention of incorrect practices, particularly in the areas of accounting and finance and, for this purpose, approved, on 3 March 2016, a new Regulations Whistleblowing Procedures.

EDP provides Group employees with a channel that enables them to report any alleged unlawful practice or accounting or financial irregularity in their company directly and in confidence to the Financial Matters Committee/Audit Committee of the General and Supervisory Board.

With the creation of this channel for reporting irregular accounting and financial practices, EDP aims at:

- Ensuring that any employee can freely communicate his/her concerns in these fields to the Financial Matters Committee/Audit Committee;
- Facilitating the early detection of irregular situations that, if they occurred, might cause serious damage to the EDP Group, its employees, customers and shareholders.

The Financial Matters Committee/Audit Committee can be contacted by email, fax and post and access to information received in this regard is restricted. The members of this committee are authorised to receive these reports.

All complaints sent to the Financial Matters Committee/Audit Committee are treated in strict confidence and the complainant remains anonymous, unless this prevents investigation of the complaint.

Pursuant to the regulations, EDP guarantees that whistleblowing employees will not suffer any reprisals or disciplinary action for exercising their right to report irregularities, provide information or assist in an investigation.

The Financial Matters Committee/Audit Committee informed the General and Supervisory Board of its work as part of the whistleblowing mechanism in 2017. The conclusion was that none of the 26 reports received contained complaints with an impact on accounting, finance, internal control or audit matters. With the exception of 2 complaints currently under process of enquiry, all the complaints have been dealt and closed by the Financial Matters Committee/Audit Committee until the end of 2017, inclusively the 2 complaints that were pending from 2016.

EDP makes available, at its website, greater detail regarding the Whistle Blowing Procedures' Regulation to adopt in what concerns to Communication of Erroneous Procedures (https://www.edp.com/en/investors/corporate-governance/whistle-blowing).

# III. INTERNAL CONTROL AND RISK MANAGEMENT

## 50. PEOPLE, BODIES OR COMMITTEES RESPONSIBLE FOR INTERNAL AUDITS OR IMPLEMENTATION OF INTERNAL CONTROL SYSTEMS

Internal control matters are the responsibility of the Corporate Centre, which plays a structural role in assisting the Executive Board of Directors in defining and overseeing implementation of strategies, policies and goals.

The most important of the Corporate Centre departments and offices in terms of internal control are the Internal Audit and Compliance Department and the Risk Management Department.

The former performs internal audits or ensures that they are performed in the Group. It is also responsible for the financial reporting internal control system (SCIRF) and for the compliance role in the Group, with a view to an independent assessment of the internal control system and implementation of measures to make it more effective by optimising and aligning processes and systems.

The Risk Management Department's main responsibility is to coordinate the Group's risk assessment studies in order to assist the Executive Board of Directors in controlling and mitigating them and provide integrated risk-return analyses.

Under the law, the General and Supervisory Board permanently oversees and evaluates internal accounting and auditing procedures, the efficacy of the risk management system, the internal control system and the internal auditing system, including the way in which complaints and queries from employees and others are handled. This duty has been assigned to the Financial Matters Committee/Audit Committee, which, among other tasks, permanently monitors and supervises:

- EDP's financial affairs;
- Internal auditing procedures, the company's accounting practices and the internal control system for financial information and financial reporting and the compliance function, in coordination with the Internal Audit and Compliance Department;
- Matters relating to the internal control system for financial information and to risk management process, particularly taxation, legal and financial aspects.
- The activity and independence of the Statutory Auditor, with whom it should maintain a close connection.

## 51. DESCRIPTION OF HIERARCHICAL AND/OR FUNCTIONAL DEPENDENCY ON OTHER COMPANY BODIES OR COMMITTEES

The Internal Audit and Compliance Department belongs to the Corporate Centre and although it is answerable to the CEO, it reports in practice to the Financial Matters Committee/Audit Committee. The department's work is supervised by the Financial Matters Committee/Audit Committee, which approves the annual internal audit plan before it is sent to the Executive Board of Directors and monitors its systematic implementation.

## 52. OTHER COMPANY AREAS WITH RISK CONTROL DUTIES

The management of risk is an integral part of the common practices of business management and it is the responsibility of all, from the Executive Board of Directors right down to the individual staff member. Each one is responsible for knowing the risks existing in their area of intervention and for managing them in accordance with their role, expertise and delegated responsibilities.

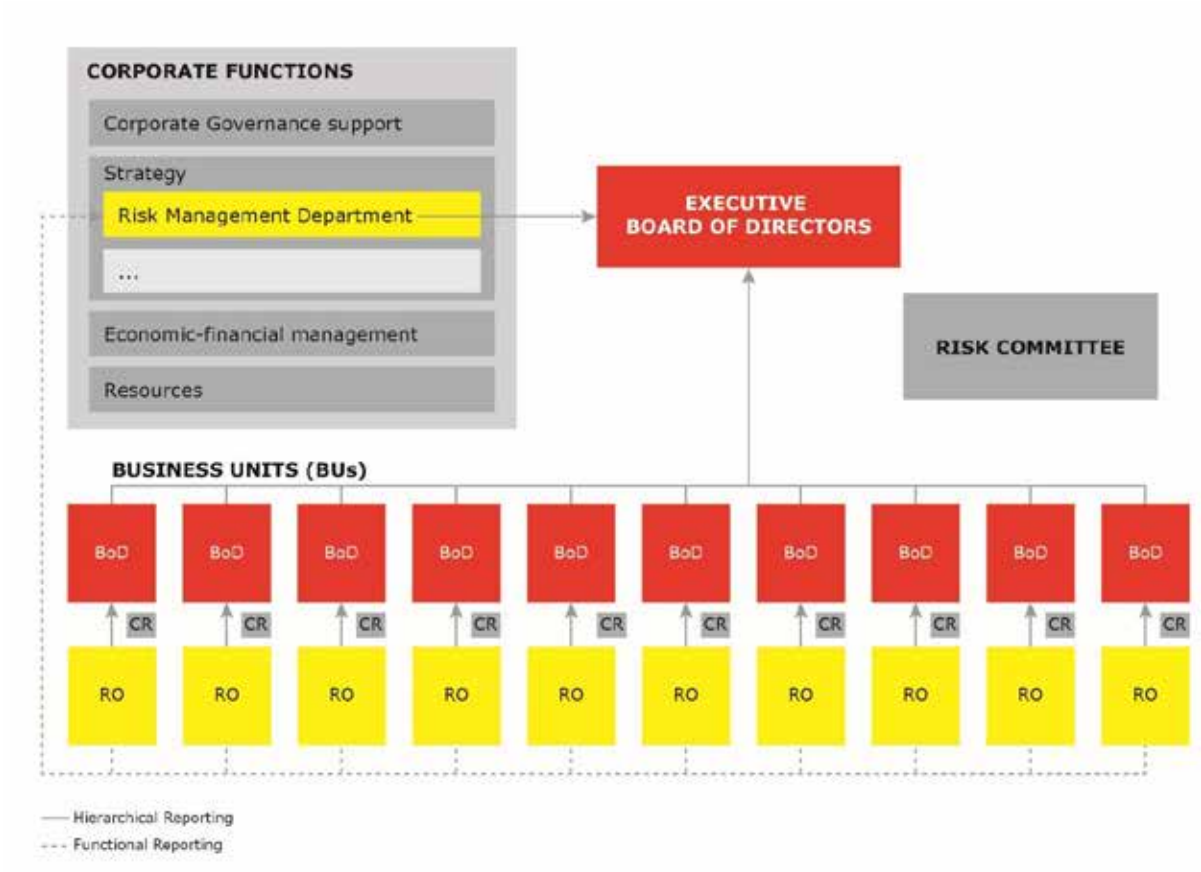
The Group manages its meaningful risks in a portfolio approach, optimizing the risk/ return trade-off transversely across its business areas, aiming to create value and to stand out in the markets where it operates. The Group works towards a permanent progress of its risk management processes in order to reflect the evolution of its needs and to maintain its alignment with international risk management best practices.

The integration of risk management in the most relevant business and decision-making processes is promoted as part of i) strategic development, ii) investment decisions, iii) business plan and iv) operations management, with the purpose of ensuring stability in results and optimize its response to changes in context and opportunities.

The risk management process is structured around 3 lines of defense (business operation, risk management/ compliance and internal and external auditing), each led independently and ensuring an adequate level of segregation relative to one another. The functions of risk identification, analysis, evaluation, treatment and monitoring are followed by a set of bodies with clearly established roles and responsibilities, typified by Group policies that are approved and ratified by the competent bodies of the Group:

- The **General and Supervisory Board** (GSB), in particular the Financial Committee/ Audit Committee, is responsible for monitoring on a permanent basis and evaluating internal procedures for accounting and auditing, in addition to the efficacy of the risk management system, the internal control and the internal auditing systems, including the way in which complaints and queries are received and processed, whether originating from employees or not. The General and Supervisory Board is additionally involved in the Group's Strategic Plan, ensuring, implicitly, an alignment between management and shareholders regarding risk appetite.
- The **Executive Board of Directors** (EBD) is the highest body responsible for risk-related decision-making, supervision and management control. It is responsible for the approval of the business plan, for setting the management objectives and policies of the EDP Group. It is responsible, among other duties, for defining the Group's risk exposure, in line with the best practices in risk management procedures and policies (namely, the respective exposition limits by risk category), as well as the allocation of resources, depending on the risk-return profile of the various options available.
- The **Risk Management Department**, headed by the Chief Risk-Officer, lends an integrated and holistic view of the Group's risk position (top-down perspective), supporting the prioritization and coordination of cross-cutting initiatives, offering a segregated and business-independent view regarding key risks. Its main responsibilities are: i) to maintain and update an inventory of the Group's most significant risks and fostering their implementation in the various Business Units and Corporate Departments; ii) to promote and monitor the implementation of the management and control actions regarding the Group's most significant risks; iii) to systematically measure specific risks and conduct risk-return analyses, noting and reporting adjustment needs when necessary; iv) to define main concepts, methods and risk measures and Key Risk Indicators (KRI), supplementary to the Key Performance Indicators (KPI); v) to develop and support projects and initiatives aimed at the effective improvement of the management process of significant risks; and vi) to support the Executive Board of Directors in the risk management and business continuity areas.
- The **Management of Business Units and Corporate Departments** is the first responsible for an integrated risk management in each of their business areas. Its main responsibilities are: i) to propose and approve (through the respective Board of Directors) the definition of key principles for risk management, aligned with the orientations defined by corporate policies; ii) to ensure that the risks within the scope of their activity are identified, analyzed and evaluated broadly, rigorously and consistently throughout the Group, using established methodologies; iii) to optimize the risk/ return trade-off of their activity, aligned with the orientations established by the Executive Board of Directors, regarding the definition and implementation of risk management strategies, implementation of effective initiatives in treatment costs of key risks, the clear and equilibrated allocation between parties in case of internal or external contract of products or services and the definition of mechanisms and levels of residual risk transference (insurance); iv) to monitor and report periodically their risk position, by the definition and regular monitoring of KRIs, risk reports and the evaluation of existing risk controls; and v) to highlight key aspects of risk management to their respective risk-officers, Risk Management Department and appropriate decision makers.
- **Local structures for risk management** (risk-officers) assume a key role on operationalizing risk management. Typically, they report hierarchically to a member of the respective Board of Directors, and in coordination with EDP Group Chief Risk-Officer, acting independently from business operation. In large and/ or particularly complex Business Units local replicas of risk management corporate structure exist, articulated with the Risk Management

Department. Their responsibilities include: i) to identify and characterize through quantification and qualification the materiality of key risks (both threats and opportunities), within the scope of their activity and in articulation with the business; ii) to perform studies on key strategic issues and associated risks, in close articulation with the business and the Risk Management Department; iii) to support the Board of Directors and Departments on decision making, in the perspective of risk; iv) to advise on mitigation and hedging strategies for key risks; v) to monitor and report key risks to decision makers and Risk Management Department, to implement policies and procedures, including the follow-up of expositions vs. established risk limits, the systematic register of incidents and quasi-incidents, including the characterization of events and its quantitative impact; vi) to develop and promote methodologies to analyze, evaluate and treat actual and emerging risks and support its implementation; vii) to coordinate initiatives regarding crisis management and business continuity; viii) to coordinate the existing Risk Committees (if applicable); and ix) to provide adequate risk related information to the Risk Management Department, decision makers, and remaining relevant stakeholders.




**Model for risk function report at EDP Group** (and communication with the corporate center)

Furthermore, there are a number of regular forums for the discussion, analysis and issue of opinions on risk-related topics:

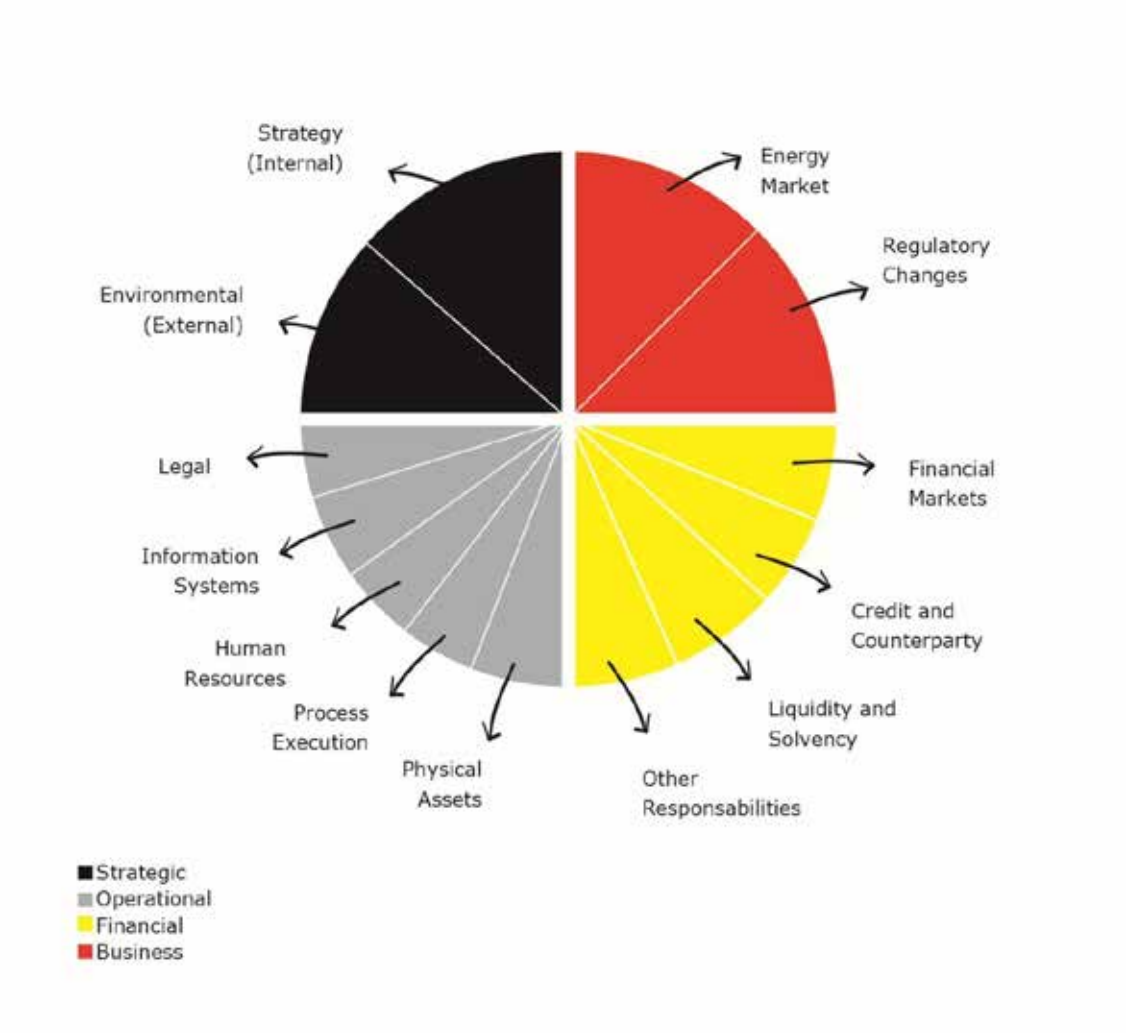
- **EDP Group Risk Committee** has the main objective of supporting the decisions of the Executive Board of Directors in the identification, assessment, management and control of risk, in terms of: i) supporting the identification of significant risks and the characterization of the EDP Group's risk profile; ii) discussing relevant risk analysis and evaluation projects results developed with Business Units and Corporate Departments; iii) advising and/ or recommending risk management strategies (e.g., regarding policies, procedures and limits); and iv) monitoring and controlling the evolution of significant risks. This Committee is held at half-yearly intervals (at least). It is composed of the key decision makers and those responsible for the Group's risk management (the Executive Board of Directors, the Corporate Centre and selected Business Units).

- **The Individual Risk Committees** are set up and held at Business Unit levels when the degree of complexity of risk management justifies such, taking on a structure replicated from the Group's Risk Committee. These Committees are composed of the key decision makers and those responsible for risks of each Business Unit, typically coordinated by the respective risk officer.

## 53. THE MAIN TYPES OF ECONOMIC, FINANCIAL AND LEGAL RISK TO WHICH THE COMPANY IS EXPOSED IN ITS BUSINESS

The taxonomy of risks for the EDP Group combines in an integrated approach and in common language the various mapped risks existing in relation to the Group's different Business Units, structured around four major families: strategic, business, financial and operational.

**EDP GROUP'S RISKS TAXONOMY**



**STRATEGIC RISKS**

The EDP Group closely monitors and reports on strategic risks, since it considers that these risks may have a significant impact if they occur. The strategic risks can be broken down into two different types:

- **Risks of the surrounding context**, associated with external developments that may have a negative material impact on the Group, in particular but not limited to, severe macro-economic, social/ or political crisis in core geographies for the Group, technological disruptions of various kinds, profound changes resulting from climate change and disruptive changes in competitive paradigm.

    - **Regarding the risk of a macro-economic, social and/ or political crisis in the geographies where the Group is present**, believing that the adoption of the quantitative easing program by ECB, the stability of public deficit and of the interest rate of public debt in Portugal and Spain, as well as the stability of political context, suggest a material reduction of the probability of actual occurrence of these risks (compared with previous years).
    - **Regarding technological disruption**, the EDP Group has sought to position itself at the forefront of technological development in the sector, looking at this issue not as a threat but as a central vehicle for promoting growth in the future. The EDP Group has accordingly actively and transversely invested in and investigated the promotion of new technologies in the various stages of the value chain (namely EDP Inovação activity level).
    - **Regarding climate change**, such changes may have a significant and across-the-board impact on the various stakeholders over the medium to long term (e.g., in terms of average temperatures, average sea levels, structural changes in water and/or wind volumes, or the incidence of extreme climatic events). In this regard, the Group has decisively invested over the recent years in strengthening its portfolio of renewable energy as well as in a concerted strategy of environmental sustainability, which has been internationally recognized, not only in order to reduce its ecological footprint, but also to ensure its resilience to the possible materialization of risks deriving from climate change.
    - **Regarding disruptive changes to the competitive paradigm**, the Group recognizes the risks associated with changes to the business model paradigm (e.g., in relation to distributed generation). The EDP Group addresses this risk through meticulous analyses and prospective investments, allowing to proactively anticipate and adapt the business model to possible market development trends.

- **Strategic risks**, associated with investment decisions, relationships with key partners (shareholders and others), internal governance and corporate planning (in its various forms).

    - **Regarding investment decisions**, EDP's growth strategy implies the constant evaluation and decision-making in relation to investment options that allow it to implement the strategy established and approved by its shareholders. Accordingly, a meticulous and consistent process is defined across the Group, with pre-established criteria[1] for analysis, decision-making and monitoring of projects. This process is conducted at the corporate level by the Business Analysis Department, locally supported by the various Business Units. Additionally, Investment Committees regularly meet to discuss, monitor and advice on i) investment analysis and decisions; ii) compliance with investment implementation schedules; and iii) evaluation of impact of detected or potential deviations. These forums are performed both at the Business Unit level and at the corporate level, involving decision-makers and key experts of the Group in the relevant fields.
    - **Regarding the relationship with partners (shareholders and others)**, the EDP Group has a solid and stable core of shareholders, which is aligned with and actively participates in the Group's strategy. On the other hand, the EDP Group is guided by strict criteria at all levels for the selection of its partners in the various countries and business areas in which it operates, the management of which is led by the Executive Board of Directors, Business Units and Institutional Relations and Stakeholders Department.

[1] Particularly related to the definition of minimum return levels, up to date and geography/ business line-specific discount rates as well as to the resilience to multiple adverse scenarios of delays, overruns, fluctuations in key business variables, political environment and regulations

- **Regarding internal governance**, the Group considers that the design and implementation of its various corporate bodies ensures compliance with the best international practices on this topic (see previous section for more information).
- **Regarding corporate planning** (particularly in terms of brand and communication, investor relations, human resources, information systems, business strategy, and others) the Group believes that the current structures and processes allow it to adequately manage these risks.

**BUSINESS RISKS**

The business risks encompass all risk factors intrinsically related with the remuneration of the core activities of the EDP Group in the generation, distribution and sale of energy in the various countries and markets where it operates. The business risks can be broken down into two different types:

- **Energy market risks**, related to electricity prices (pool) and other commodities, renewable energy generating volumes (hydro, wind and solar power), energy consumption (associated with demand) and supply margins.

  - **Regarding price of electricity**, the impact is limited by the fact that a significant share of generation is contracted in the long term, especially in relation to EDP Renováveis and most of the installed capacity in Brazil. Currently, generation subject to market price fluctuations includes: i) all ordinary status generation in Portugal and Spain; ii) generation in Brazil in excess of or in deficit to the PPA; and iii) part of the wind energy farms of EDP Renováveis in Spain, US, Poland and Romania. The Energy Management Business Unit (UNGE) is responsible for proactively acting in the MIBEL[2] and other forward markets (including OTC) in order to optimize the margin of market generation and limit the respective risk, according to the delegation of powers clearly established and ensuring periodic P@R - "Profit at Risk" reporting, based on a proprietary model. Energy Management Business Unit (UNGE)'s operations are adequately framed by a specific risk policy, including exposure limits.
  - **Regarding the price of other commodities** (mostly fuel and CO2), subject to fluctuation due to supply and demand dynamics or changes in international legislation and relevant only to power plants exposed to market risk, this risk is monitored and proactively managed by the Energy Management Business Unit (UNGE), which negotiates and manages coal and gas contracts and CO2 allowances. It is also responsible for mitigation of the fuel prices risk via hedging (including foreign exchange risk in USD, in coordination with the Financial Management Department).
  - **Regarding renewable energy generation volumes**, the EDP Group has a degree of material exposure to this risk, particularly in relation to water volume (Wind Energy Capability Index[3] tends to be less volatile than the Hydroelectric Capability Index[4], on an annual basis), arising from its increasing focus on a generation portfolio with ever greater renewable energy, as well as its hydro portfolio in Portugal and Brazil. It should be noted that although this risk may introduce some volatility in annual results, it has a significantly lower impact on net present value in the lifetime of the hydroelectric power plants, since it i) diversifies inter-annually; ii) diversifies through technologies (lower hydro productivity is, in part, compensated by higher thermal production at typically higher prices) and iii) is uncorrelated with the market. On the other hand, exposure in Brazil is significantly mitigated by i) the fact that there is hydrological diversification throughout the country (through financial coupling mechanisms); as well as ii) the fact that a PPA on fixed energy generation is established; and iii) the fact that the Group joined, in the end of 2015, the hydro risk renegotiation mechanism, which combined with the cap on PLD[5] price limits the exposure to the deficit of allocated energy relative to energy sold in PPA (for the Regulated Environment).
  - **Regarding energy consumption** (electricity and gas), the EDP Group is subject to fluctuations in the amounts of energy sold (depending on factors such as, among others, economic activity and annual temperatures). A trend of falling energy sales has been noted in recent years, as the result of a slowdown in economic activity in Portugal and Spain. Consumption can also be affected, besides such economic cycle fluctuations, by situations of rationing (as happened in Brazil in 2001). Government estimates indicate a

[2] Iberian electricity market
[3] Ratio between the yearly wind energy output vs. reference year
[4] Ratio between the yearly hydro energy output vs. reference year
[5] Of R$ 533,82/MWh in 2017

low probability of rationing in Brazil, due to the progressive normalization of hydro affluences and consequently reservoir levels (figures above homologous periods) as well as a slowdown in demand as a consequence of the current macro-economic context. This risk, like the previous one, is difficult to mitigate by itself. EDP chooses to manage it through diversification across multiple technologies, countries and business lines.

- **Regarding sales margins**, the current customer migration to the free market enhances the aggressiveness of offers from suppliers and can add additional volatility in terms of market shares and unit margins. Moreover, there is risk associated with deviations in actual consumption from the forecasting model adopted by the Group. These risks are managed by the Group's energy sales companies, with particular emphasis on initiatives to i) strengthening the core offer (e.g., through combined electricity and gas products); and ii) introducing innovative products and services (e.g., Funciona and Re:dy). In addition, the Prices and Volumes Committee evaluates and regularly makes recommendations for the dynamic management of this risk.

- **Regulatory risks**, related to changes in legislation and regulations that the Group is required to comply with in the various countries and markets in which it operates (in particular, but not limited to, sectoral packages, regulatory frameworks, environmental legislation and taxes, and other). This risk is managed proactively by the EDP Group, through monitoring and thorough preparation of the various dossiers and adopting a constructive and cooperative attitude in their discussion. This allows the materialization of options out of synch with reality in the different market contexts in which the Group operates to be anticipated and minimized.

**FINANCIAL RISKS**

The financial risks encompass the market risk factors linked to the (non-operational) energy business of the EDP Group in the various countries and markets where it operates. Financial risks can be divided into four different types:

- **Financial variables risks**, associated with fluctuations in international markets in interest rates, exchange rates, inflation and valuation of financial assets held by the Group.

    - **Regarding interest rates**, the risk is mainly associated with the percentage of debt at floating rates, as well as any increases in costs associated with fixed rate debt refinancing needs in a context of rising current interest rates. This risk is managed and mitigated by the Group's Financial Management Department, which ensures compliance with the risk profile, using the procedures and tools provided by the Group's risk policies. Periodic reports on the evolution of these variables and sources of risk are prepared.
    - **Regarding foreign currency exchange rates**, the risk is associated with fluctuations in the cost of the purchase and sale of electricity and fuel and with the cost of investments denominated in foreign currencies, as well as fluctuations in the value of net assets, debt and income denominated in foreign currencies. The EDP Group acts proactively in order to ensure a broadly balanced net structural exposure (assets - liabilities) in USD, GBP and CAD. On the other hand, the geographical diversification (and exposure to multiple currencies) contributes for the reduction of annual result volatility. The remaining risks are managed and mitigated by the Group's Financial Management Department, in conjunction with the Energy Management Business Unit (UNGE), EDP Renováveis and EDP Brasil, in the same way as above.
    - **Regarding inflation**, the risk is mainly associated with the fluctuation of operating revenues and costs in the various countries where the EDP Group operates. In terms of mitigation, the revenue models of regulated activities as well as part of the PPAs include inflation pegging components in order to preserve adequate revenue for the business activity. A significant component of the Group's current business activities is also focused on markets with stable inflation rates. For the remaining risk, as well as active management of the various supply and services contracts, the EDP Group addresses this risk from an integrated perspective, mitigating it through an appropriate debt profile (fixed rate/floating rate) aligned with the revenues profile.
    - **Regarding the valuation of financial assets**, EDP adopts a conservative risk policy with reduced levels of exposure, based on a reduced weight of strategic financial assets and short-term cash investments mainly based on bank deposits (without market risk). This risk mainly results from the possibility of

devaluation of the financial assets that EDP holds (traded on securities markets). It is managed according to the procedures and tools provided by the Group's risk policies.

- **Counterparty and credit risks**, associated with unexpected changes in the compliance capacity with obligations by customers, financial counterparties (mainly associated with deposits in financial institutions and financial derivatives) and energy counterparties.

    - **Regarding financial counterparties**, this risk is managed through: i) a careful selection of counterparties; ii) an appropriate diversification of risk over multiple counterparties; iii) an exposure based on financial instruments of reduced complexity, high liquidity and of a non-speculative nature; and iv) regular monitoring of the positions held.
    - **Regarding energy counterparties**, this risk is reduced for operations in an organized market. For operations in over-the-market markets and fuel purchases, the Energy Management Business Unit (UNGE), which is responsible for monitoring and the interface with wholesale markets, monitors transactions by applying exposure and negotiation limits that have been established and approved in advance by a higher management according to the counterparty rating (external whenever possible, or internally rated if the former is unavailable), and using clearing houses for clearing. The counterparty risk is also associated with the sale of long-term energy agreements (PPA), which is minimized by the fact that a significant proportion of counterparties in this context are sovereign entities (governments or state-owned electricity systems). Meticulous scrutiny and approval criteria are likewise applied for private counterparties.
    - **Regarding customers**, the Group is exposed to default risk in Portugal, Spain and Brazil. The average level of risk in Spain is structurally mitigated in terms of expected loss due to a mix of customers with greater weight of the B2B segment (which has less relative weight of average default). The risk in Brazil is mitigated through financial collateral to mitigate the loss (for the Free Contracting Environment), and through the partial recovery of non-compliance by the regulated tariff (for the Regulated Contracting Environment). This is monitored by EDP Distribuição and EDP Soluções Comerciais (in Portugal) and HC Energía and Naturgas (in Spain), which are responsible for carrying out the meter reading cycles and cutting off the service/taking legal action and debt recovery. In addition, mitigation tools such as credit insurance and setting up bank collateral are used, whenever this is deemed necessary.

- **Liquidity/solvency risk**, associated with specific cash shortfalls, difficulties in access/ cost of credit and rating reduction risk.

    - **Regarding possible sporadic cash shortfalls**, there is a risk of possible default of the EDP Group in meeting all its short-term liabilities in the committed time periods, or just being able to do so under unfavorable conditions. This risk is mitigated through careful liquidity management, by means of: i) centralization (cash pooling) of all the Group's liquidity at the holding company except for Brazil; ii) keeping adequate levels of liquidity (cash and firmly committed credit lines) based on detailed forecasting of cash requirements (reviewed in 2016 to cover two years of refinancing); iii) an appropriate strategy to diversify funding sources; and iv) the diversification of debt type and maturity profiles.
    - **Regarding access to and the cost of credit**, the EDP Group has achieved, despite the adverse economic context, all funding necessary for the usual roll over of debt and to finance the Group's business. EDP's Group has successfully continued with its strategic commitment to reduce leverage (expressed as Net Debt/EBITDA excluding Regulatory Assets) over forthcoming years. Additionally, the Group has acted throughout 2017 towards increasing the average maturity of its debt and reducing its average cost.
    - **Regarding the risk of a ratings decline**, the EDP Group can be impacted in its access to and cost of financing by adverse changes in its rating profile (assigned by international agencies). EDP proactively manages this risk by maintaining a low risk profile and maintaining stable contractual standards, which assure that its liquidity position does not depend on mechanisms as financial covenants or rating triggers.

- **Other liabilities' risk**, associated with obligations relating to the capitalization of the Defined Benefit Pension Fund of the Group for Portugal (which has a risk associated with the market value of its assets), and additional costs associated with early retirement as well as medical expenses. The liabilities for employee social benefits are calculated annually by an Independent Actuary on the basis of IFRS-IAS assumptions (taking various factors into

account, including interest rate, demographic aspects, economic variables and the applicable requirements). The Defined Benefit Pension Fund is regularly monitored by the Pension Fund Committee that meets at an established frequency, in terms of the value of its assets and the variations in terms of its liabilities (e.g., actuarially related).

**OPERATIONAL RISKS**

The operational risks encompass the risk factors other than those linked to the energy and financial business of the EDP Group in the various countries and markets where it operates, associated with the planning, construction and operation of physical assets, implementation of processes, human resources, information systems and litigation. The operational risks can be broken down into five different types:

- **Physical assets risks**, related to unforeseen occurrences in projects under development/construction, damage to physical assets in operation and (technical and non-technical) operating losses, associated with the operation of the assets (mainly in distribution).

    - **Regarding projects under development/construction and assets in operation**, the EDP Group is exposed to incidents derived from external causes (e.g., seismic or atmospheric phenomena, fire, damage to structures, burglary and theft, environmental pollution) or internal causes (e.g., damage caused by defects of origin and/or faulty installation), which can result in, inter alia, threats to the physical integrity of the Group's employees or third parties, repair or replacement costs of equipment, asset unavailability and consequential loss of profit or compensation to third parties.
      These risks are initially managed and mitigated by the various operational areas of the Group's business units, which propose and implement in an articulated manner the best practices in terms of the different policies, standards and operating procedures, inspection and regular preventive maintenance as well as crisis management plans and business continuity for catastrophic events. To this regard, it should be noted the revision of crisis management and business continuity policies in 2015, in order to ensure the continuous alignment with international best practices. Secondly, a significant portion of the remaining risk is mitigated through a comprehensive range of insurance policies (particularly in terms of property damage, civil liability, and the environment), insured in an integrated manner through a special area for this field - the Insurable Risks' Unit. This approach ensures consistency in the risk management policies, guarantees the dissemination of best practices and strengthens the negotiating position of the Group. The existing insurance policies contribute to significantly mitigate the impact of large-scale events (e.g., associated with extreme and comprehensive weather phenomena, non-availability of revenue generating assets or significant compensation to third parties) as well as much less frequent incidents with catastrophic impact (e.g., earthquakes).
    - **Regarding operating losses**, the EDP Group is, firstly, liable for regulatory penalties if it does not meet the objectives set for distribution efficiency (technical losses) and also, on the other hand, for the loss of revenue associated with increased consumption of non-invoiced energy (non-technical losses). The various energy distribution business units (EDP Distribuição, EDP Gás, HC Energía, Naturgas Energía, Bandeirante and Escelsa) are responsible for this risk. Programs are continuously developed to monitor and mitigate this risk (including the launch of comprehensive programs to combat fraud).

- **Process implementation risks**, associated with irregularities in the implementation of various processes (particularly, but not limited to, commercial activities, supplier selection and management, billing and collection from customers, planning and budgeting of activities). This risk is monitored by the various business units. Its mitigation regarding financial reporting is controlled through the group-wide Financial Reporting Internal Control System (SCIRF), which systematically assess both quantitatively and qualitatively the existence and adequacy of the design and documentation of the various existing processes, as well as their internal control mechanisms, based on annual cycles.

- **Personnel risks**, associated with incidents impacting on the physical integrity of employees, the impact of unethical conduct and labor and trade union relations.

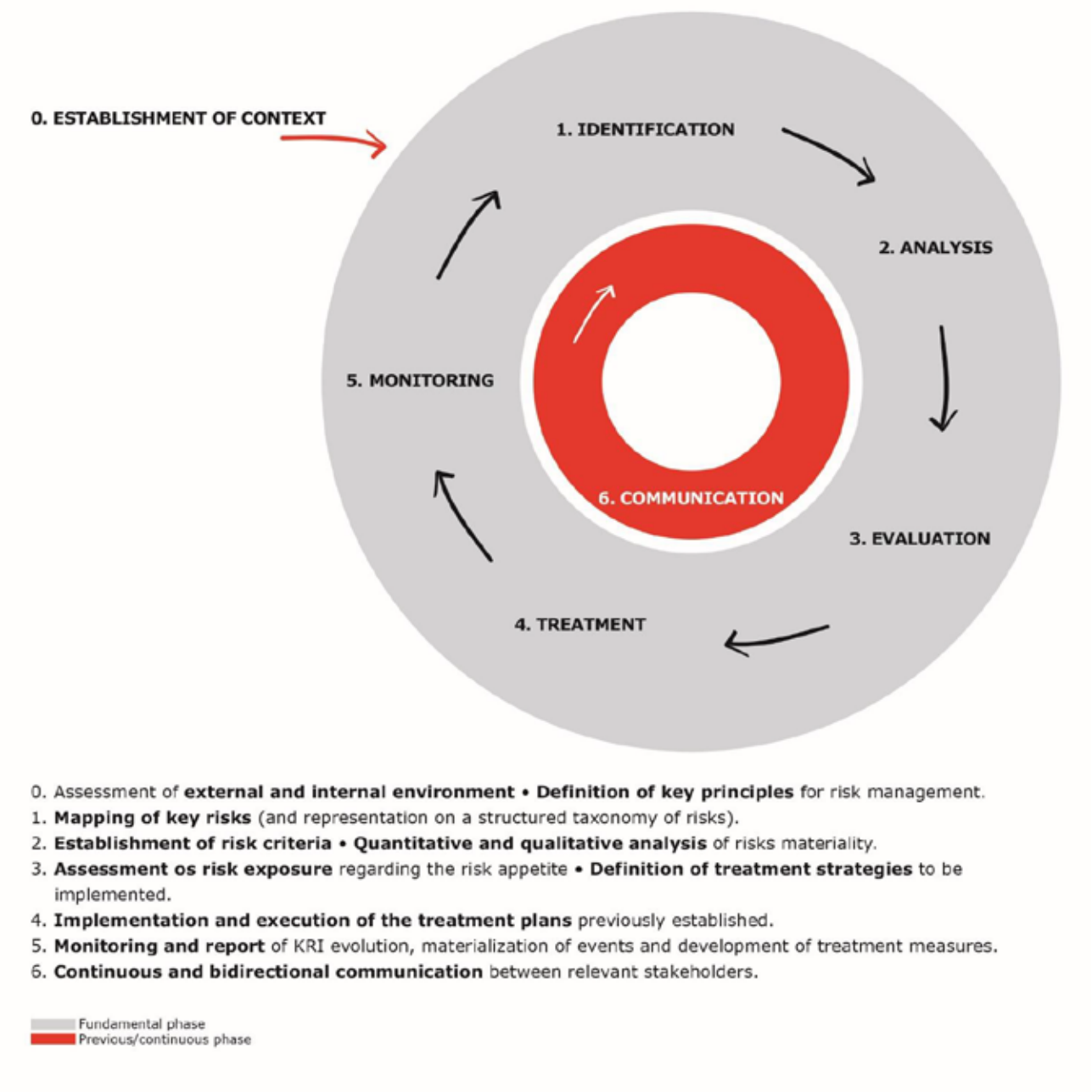
- **Regarding incidents impacting on the physical integrity of employees**, the Group directs its activity around a zero accident culture, with awareness of employees concerning the risks involved in the various activities, as well as continuous identification and implementation of best practices for the prevention and meticulous analysis of incidents.
- **Regarding potentially unethical conduct by employees or other associated entities**, the EDP Group regularly develops a training course (for all employees) on ethical models of conduct and behavior in the presence of transgressions in the ethical domain. This risk is monitored by the Office of the EDP Ethics Ombudsman, which is an independent entity responsible for collecting, analyzing and assessing in the Ethics Committee all allegations of unethical conduct, under strict conditions of confidentiality and protection of the respective sources. Moreover, the EDP Group Ethics Committee is responsible for establishing the action lines to mitigate and penalize unethical conduct, whenever necessary, according to the facts collected and reported by the Ombudsman.

- **Information systems risks**, associated with both the non-availability of information systems, as well as failure in the integrity and security of their data, due to a growing sophistication and integration of the several informatic systems and technologies.
  These risks are managed by dedicated areas within each the business unit (centralized in the Information Systems Department for Portugal and Spain). To mitigate IT risks, there were established in collaboration with Business Units (end-users) critical levels and maximum unavailability timings allowed for each key application. Disaster recovery redundant systems have also been sized and implemented to address the business specifications (particularly strict for critical systems related with, for example, the implementation of financial transactions, communication and grid operation and trading of energy). Business Units with operational information systems (i.e., EDP Produção and EDP Distribuição) have specialized teams to guarantee the security and integrity of systems. Additionally, regarding cyber security there has been developed a number of mitigation measures, namely i) the creation of a Security Operations Center (SOC) dedicated to the continuous monitoring of the security of IT/ OT infrastructures, ii) the creation of a cyber range to simulate and test the reaction of employees in case of cyber-attack, iii) insurance coverage of cyber risks, and iv) the development of training and other awareness initiatives about the key principles of information security.

- **Litigation risks**, associated with losses arising from non-compliance with existing tax, labor, administrative, or civil legislation, or any other, that has an economic (penalties, compensation and agreements) and reputation impact.
  EDP Group analyses, monitors and reports the aggregate exposure and material developments to all relevant bodies, whether at the level of the Board of Directors or the General and Supervisory Board. In addition to overall exposure and by country, all cases deemed to be of a material nature (contingency over EUR 2.5 million) are collected, analyzed and reported individually. All ongoing processes are evaluated and classified individually as probable, possible or remote, according to their probability of resulting in a negative impact on the EDP Group. EDP and its subsidiaries' board of directors, based on the information provided by legal advisors and on the analysis of pending law suits, recognizes provisions to cover the losses estimated as probable, related with litigations in progress. This treatment includes not only ongoing disputes (litigation in courts), but also the main contingencies in dispute and not materialized (and which may also translate into a negative impact, either through decision by the court or by out of court settlement).

## 54. IDENTIFICATION, ANALYSIS, EVALUATION, TREATMENT AND MONITORING OF RISKS

Given the size of EDP Group and its geographical diversity, it is important to define a common process for all Business Units that recognizes and manages the heterogeneity of businesses and activities in which the Group operates. Accordingly, risk management in the EDP Group can be divided into 5 major integrated and structured phases (identification, analysis, evaluation, treatment and monitoring), complemented by a previous phase of establishment of context, and adequate levels of communication between all stakeholders:




EDP Group's Risk Management Process

- **The identification** of risks concerns the survey and update of the main risks associated with the Group's business, as well as their representation in a structured repository - the taxonomy of risks. Each of the Business Unit and Corporate Departments is primarily responsible for this exercise, within their scope. The Risk Management Department, in coordination with risk-officers, is responsible for the validating and integrating the different exercises and for obtaining and maintaining a global perspective (at the EDP Group level). The Group recently updated its top-down global risk map, based on interviews and in conjunction with the Group's main risk-owners. More recently, it also developed a reference taxonomy of risks, promoting a common language and facilitating the structure of different exercises for risk identification across all Business Units.
- **The analysis** of risks concerns the establishment of criteria to assess its nature and order of relative magnitude, as well as the analysis of individual and aggregated exposition according to the defined criteria. Each Business Unit and Corporate Department is primarily responsible for this exercise, within their scope of activity, being supported

by the Risk Management Department, in coordination with risk-officers, namely through the development of adequate methodologies. This standardization and systematization of analysis and assessment criteria helps make risks of a heterogeneous nature comparable, informs the various decision makers of the orders of magnitude of the various risks and guides the prioritization of management and mitigation initiatives and the definition of clear risk management policies at various levels (including the definition of limits). In addition to this perspective, risk-return analyses are performed systematically (based on EBITDA@Risk, CF@Risk or other methods) associated with the main strategic guidelines and decisions of the Group (e.g., regarding the Group's Strategic Plan, key investment decisions or other topics deemed to be relevant).

- **The evaluation** of risks is related to the comparison between the risk profile and the risk appetite, tolerance and capacity of the Group (stated both implicitly or explicitly), as well as on the definition of adequate strategies for treatment, when necessary. This exercise is responsibility of the Executive Board of Directors and Business Units, supported by the risk-officers, who act in coordination with the business operation (or risk-owners) and the Risk Management Department (leaded by the Chief Risk-Officer). It is important to highlight the recent formalization of EDP Group's risk appetite statement, with the external objective of structuring a holistic narrative around the strategic pillar of controlled risk, as well as the internal objective of promoting a reflection on the risk-return trade-off of strategic options.
- **The treatment** of risks concerns the adequate implementation of the risk strategies previously established, including the definition of adequate mechanisms of control. This exercise is responsibility of each Business Unit and Corporate Department, within the scope of their activity.
- **The monitoring** of risks ensures the effectiveness of action on identified risks, both in terms of control and periodic reporting of the Group's position as regards several risk factors, as well as the effective implementation of the policies, standards and procedures established for risk management. This role is ensured by the Boards of Directors of the various Group Business Units. The Risk Management Department and risk-officers are responsible for promoting and enhancing risk control and management measures, disseminating best practices and supporting the disclosure of concepts, methods, risk measures and key risk indicators (KRI). Additionally, the Risk Management Department, supported by the network of risk-officers, develops a set of bi-weekly or quarterly reports sent to the Executive Board of Directors and to the Board of Directors of each Business Unit.

## 55. MAIN FEATURES OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS IN PLACE IN THE COMPANY FOR THE DISCLOSURE OF FINANCIAL INFORMATION

EDP Group has incorporated, into its management, the Internal Control System of Financial Reporting (SCIRF), based on criteria established by the regulatory framework of internal control issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013), in relation to business processes and entity level controls, and the Control Objectives for Information and Related Technologies (COBIT), in relation to the general controls of information technology.

According to the adopted methodology and approved responsibilities model, activities were carried out related to the development, monitoring and maintaining of the internal control system, within the competence of those responsible that participating in it at the corporate level, entrepreneurial units and business units level (business and shared services units companies).

As part of the activities related to evolution, quality and maintenance of the internal control system, the calculation of the materiality used on the scope determination model was revised, using RAI - Earnings before Taxes (normalized from non-current operations) as an alternative to EBIT, in line with the best international practices. It was also promoted the updating of the topics regarding the analysis of financial and fraud risks related to financial reporting were strengthened, in view of the continuous improvement of the system.

In addition, the year of 2017 was marked by the modeling works of the new tool that will support the SCIRF activities and that will be of transversal use in all the geographies.

The monitoring and maintenance work was carried out through: (i) corporate and ii) business and shared services units companies.

(i) The activities at **corporate level** were as follows:

- Planning and monitoring cycle, maintenance and review of reference models, conceptual and methodological support to business and shared services units companies;
- Defining SCIRF 2017 Scope based on the consolidated financial information, supported on materiality and risk criteria on a "top down" (Corporate Internal Audit and Compliance Department) and "bottom up" basis, from which the companies and Corporate Centre departments and respective processes considered relevant were identified. Autonomously, they were covered by the scope, the most relevant companies in Portugal, Spain and Brazil geographies and in aggregate, the units that make up EDP Renewables, SA, EDP Renewables Europe, SL and EDP Renewables North America, LLC;
- Support for business and shared services units companies in the documentation and review of new controls and redesigned of the existing, resulting from the inclusion of new topics, by materiality and/or risk and legal, structural or procedural changes;
- Identification of relevant computer applications that support SCIRF and analysis of "service organizations", for monitoring the issuance of the ISAE 3402 reports corresponding to an independent assessment of the control environment used by EDP's information technology service providers;
- Support and monitoring the cycle evaluation process, by the External Auditor, in terms of work planning, interaction with business and shared services units companies, resolution of identified non-compliances and reporting to those internal responsible and supervisors;
- Launch and monitoring of the self-certification process, through which those responsible for the internal control of the business and shared services units companies, declare their explicit recognition about the sufficiency or insufficiency of the controls documentation in terms of updating and adjustment, its execution and maintenance of evidence, actions approval and implementation related to the resolution of non-compliance and compliance with the Code of Ethics;
- Completion of the self-assessment process for SCIRF 2017 cycle, through which the EBD, represented by the Chairman of the EBD and member of the EBD responsible for the financial areas, emit a responsibility report on the safety and reliability degree of consolidated financial statements preparation and presentation;
- Modelation of the new Governance, Risk and Compliance tool (GRC), to transversal use in all the geographies.

(ii). The activities at **business and shared services units** companies level of EDP Group were as follows:

- Analysis of the results of the scope model application to the financial statements on an individual basis and inclusion of new topics and relevant applications, following the risk analysis bottom up;
- Application of stand alone scope level for the EDP Espanha, EDP Renováveis and EDP Brazil subgroups, with the profile of materiality and risk appropriate to their size, have been published by the Auditors, in their respective annual reports, the corresponding independent reports on the internal control system, in line with the publication made in the annual consolidated report;
- Identification, review and appointment of SCIRF responsible, depending on the result of the Scope model application and on the review and/or update due to organizational, structural, legislative and operational changes in the business and shared services units companies;
- Documentation of new controls and redesign of the controls documented in previous cycles, subject to revision due to changes at different levels of the business and shared services units companies;
- Implementation of actions necessary for the resolution of non-compliances identified in the assessment tests made by the external auditor;
- Self-certification by which the SCIRF leaders assess, at all levels of the chain, the sufficiency and updating of documentation and maintenance of evidence in the execution of control activities;
- Self-assessment by the President of the Board and by the board member in charge of the financial matters of EDP Spain, EDP Renewables and EDP Brazil subgroups, through the issue of responsibility reports on the degree of safety and reliability of the preparation and presentation of financial statements, in line with the issuance of the independent reports, by the External Auditor, at "stand alone" level;
- The SCIRF 2017 evaluation was made by the Group's External Auditor, KPMG, according to the "ISAE 3000 - International Standard on Assurance Engagements" in all geographies covered by the scope model, with the support of Price Waterhouse Coopers, in the specific case of EDP Brazil.

The External Auditor issued an independent report on the Group's Internal Control System of Financial Reporting related to the financial statements of December 31, 2017, without reservations nor qualifications, presented in the annex "Reporting Principles", concluding with a reasonable degree of assurance regarding the effectiveness of internal controls system on financial reporting of EDP Group.

# IV. INVESTOR RELATIONS

## 56. COMPOSITION, DUTIES AND INFORMATION PROVIDED BY THESE SERVICES AND THEIR CONTACT INFORMATION

The essential role of the Investor Relations Department is to act as the interlocutor between EDP's Executive Board of Directors and investors and the financial markets in general. It is responsible for all the information provided by the EDP Group, in terms of disclosure of privileged information and other market communications and publication of periodic financial statements.

In carrying out its duties, the department is in constant contact with investors and financial analysts, providing all the information that they request, while observing the applicable legal and regulatory provisions.

EDP's Investor Relations Department comprises six people and is coordinated by Miguel Viana. It is located at the company's head office:

Avenida 24 de Julho, nº 12, 4º Piso - Poente
1249-300 Lisboa
Telephone: +351 21 001 2834
Fax + 351 21 001 2899
E-mail: ir@edp.pt
Website: www.edp.com

The table following shows the communication channels through which EDP provides its shareholders with information on each type of documentation.

| CHANNELS | IN PERSON[1] | WWW.EDP.COM | E-MAIL | IR PHONE NUMBER[2] | BY MAIL [3] | WWW.CMVM.PT |
|---|---|---|---|---|---|---|
| ELEMENTS REQUIRED BY LAW OR REGULATION [4] | | | | | | |
| Notice of meeting | √ | √ | √ | √ | √ | √ |
| Executive Board of Directors' proposals | √ | √ | - | √ | √ | √ |
| Amendment of the Articles of Association | √ | √ | - | √ | √ | √ |
| Other proposals | √ | √ | - | √ | √ | - |
| Annual Report | √ | √ | √ | - | - | √ |
| Management and supervisory positions held in other Group companies by company officers | √ | √ | - | √ | - | √ |
| ELEMENTOS ADICIONAIS DISPONIBILIZADOS PELA EDP | | | | | | |
| Ballots for voting by proxy | √ | √ | √ | √ | √ | - |
| Ballots for voting by mail | √ | √ | √ | √ | √ | - |
| Ballots for voting by e-mail | √ | √ | √ | √ | √ | - |
| Clarification of any issues | √ | √ | √ | √ | √ | - |
| EDP Articles of Association and Regulations | √ | √ | √ | √ | √ | √ |

[1] At EDP' s headquarters
[2] IR phone number +351210012834;
[3] Written notice from the Chaiman of the Executive Board of Directors regarding Annual General Meetings
[4] Art. 289 of Companies Code ang Regulation of CMVM 5/2008

### 57. REPRESENTATIVE FOR MARKET RELATIONS

The representative for market relations is Nuno Maria Pestana de Almeida Alves, member of the Executive Board of Directors.

### 58. PERCENTAGE OF AND RESPONSE TIME TO QUERIES RECEIVED IN THE YEAR OR PENDING FROM PREVIOUS YEARS

EDP's goal is for communication with the market to consist of objective, transparent information that is understandable to all stakeholders. In order to achieve such intent, and bearing in mind the importance of keeping a trustworthy and sustainable behavior, EDP has adopted a financial reporting policy based on transparent and consistent information properly conveyed to investors and analysts.

The company has therefore made a systematic effort to meet the needs of investors and analysts, which is increasingly difficult, given the complexity of the sector.

In 2017, EDP participated in events with analysts and investors to inform the market of the company's strategy and operational and financial performance. These included roadshows, presentations to analysts and investors, meetings and conference calls.

94 market communications were made in 2017. The Investor Relations Department received 314 requests for information and had 978 meetings with analysts and investors. The average response time to queries was less than 24 hours and no requests were held over into 2018.

The company's efforts have been rewarded at a number of events. In 2017, EDP was nominated for the "IR Magazine Europe Awards 2017", having been considered the best company for investor relations in Portugal, whilst in terms of the global ranking of the "IR Magazine Europe Awards 2017", EDP cemented its position, having been elected in 2017 the 7$^{th}$ best public company in Europe in terms of investor relations for large caps.

## V. WEBSITE

### 59. WEBSITE ADDRESS

EDP's website (https://www.edp.com/en/investors-0) provides comprehensive legal or corporate governance information, updates on the Group's activity and complete financial and operational data in order to facilitate searches and access to information by shareholders, financial analysts and others.

The information made available through this channel in Portuguese and English includes data on the company, financial statements and accounts, privileged information, the Articles of Association and internal regulations of corporate bodies, the Group's shareholder structure, preparatory documentation for General Meetings, historical performance of EDP share prices, a calendar of company events, the names of members of the corporate bodies and the representative for market relations, contact information for the Investor Relations Department and other information of potential interest about the Group. EDP's website also allows visitors to view or request accounting documents for any financial year since 1999.

### 60. LOCATION OF INFORMATION ABOUT THE COMPANY, ITS STATUS AS A PUBLIC LIMITED COMPANY, HEAD OFFICE AND OTHER DETAILS MENTIONED IN ARTICLE 171 OF THE COMPANY CODE

The information set out in Article 171 of the Company Code is available on EDP's website on: http://www.edp.com/en/investors/corporate-governance/companys-data/by-laws-regulations

## 61. LOCATION OF THE ARTICLES OF ASSOCIATION AND REGULATIONS OF BODIES OR COMMITTEES

The Articles of Association and regulations of bodies and committees are available on EDP's website on: https://www.edp.com/en/investors/corporate-governance/companys-data/by-laws-regulations

## 62. LOCATION OF INFORMATION ON THE NAMES OF MEMBERS OF THE CORPORATE BODIES, MARKET RELATIONS REPRESENTATIVE, INVESTOR RELATIONS OFFICE OR EQUIVALENT BODY, THEIR DUTIES AND FORMS OF ACCESS

The names of members of the corporate bodies, market relations representative, investor relations office or equivalent body, their duties and forms of access are available on EDP's website on:

https://www.edp.com/en/investors/corporate-governance/governing-bodies-0

https://www.edp.com/en/investors/corporate-governance/companys-data/by-laws-regulations

## 63. LOCATION OF ACCOUNTING DOCUMENTS, WHICH MUST BE AVAILABLE FOR AT LEAST FIVE YEARS AND THE SIX-MONTHLY CALENDAR OF COMPANY EVENTS DISCLOSED AT THE START OF EACH HALF YEAR, INCLUDING GENERAL MEETINGS, DISCLOSURE OF ANNUAL, SIX-MONTHLY AND, IF APPLICABLE, QUARTERLY ACCOUNTS

The accounting documents and calendar of company events are available on EDP's website on:

https://www.edp.com/en/investors/investor-information/reports-and-accounts

https://www.edp.com/en/investors-0

## 64. LOCATION OF NOTICE OF MEETING FOR GENERAL MEETINGS AND ALL THEIR PREPARATORY AND SUBSEQUENT INFORMATION

The notice of meeting for General Meetings and all their preparatory and subsequent information are available on EDP's website on:

https://www.edp.com/en/investors/general-meetings

## 65. LOCATION OF HISTORY OF DECISIONS MADE AT THE COMPANY'S GENERAL MEETINGS, THE SHARE CAPITAL REPRESENTED AND RESULT OF VOTES FOR THE PREVIOUS THREE 3 YEARS

The history of decisions made at the company's General Meetings, the share capital represented and result of votes are available on EDP's website on:

https://www.edp.com/en/investors/general-meetings

# D. REMUNERATION

## I. POWER TO SET REMUNERATION

### 66. POWER TO SET THE REMUNERATION OF CORPORATE BODIES AND COMPANY DIRECTORS

Pursuant to the Articles of Association, payments to the company officers are fixed by a Remuneration Committee appointed by the General Meeting of Shareholders, with the exception of the remuneration to members of the Executive Board of Directors, which is fixed by a Remuneration Committee appointed by the General and Supervisory Board.

When establishing the remuneration of the members of the General and Supervisory Board and Statutory Auditor, the Remuneration Committee of the General Meeting takes account of its fixed nature and the imperative rules on its determination, in particular Article 440 (2) of the Company Code, which sets out the criteria for setting the remuneration of the General and Supervisory Board, Article 374-A of the Company Code on the remuneration of members of the officers of the General Meeting and Article 60 of Decree-Law 224/2008 of 20 November on the remuneration of the Statutory Auditor.

## II. REMUNERATION COMMITTEE

### 67. MEMBERSHIP OF THE REMUNERATION COMMITTEE, INCLUDING NAMES OF THE NATURAL OR LEGAL PERSONS HIRED TO ASSIST AND DECLARATION ON INDEPENDENCE OF EACH MEMBER AND CONSULTANT

The membership of the Remuneration Committee of the General Meeting and of the Remuneration Committee appointed by the General and Supervisory Board is set out in Point 29.

In 2017, no natural or legal persons were hired to the assist Remuneration Committee of the General Meeting in its functions.

In 2017, the Remuneration Committee of the General and Supervisory Board hired an external consultant – Mercer (Portugal), Lda. – for the provision of support in the validation and certification of the calculation of the annual and multi-annual variable remuneration of the Executive Board of Directors.

In January 2018, the General and Supervisory Board also hired Mercer (Portugal), Lda. for supplying services concerning the certification of the evaluation process of the abovementioned body, of its specialized committees and of the Executive Board of Directors. The referred certifications may be consulted at the 2017 Annual Report of the General and Supervisory Board.

This consultant has not provided in the last three years services to anybody answering to the Executive Board of Directors or the Executive Board of Directors itself or who is currently a company consultant was hired. This statement covers any natural or legal persons that are related to them by an employment or service agreement.

### 68. KNOWLEDGE AND EXPERIENCE OF REMUNERATION POLICY OF THE MEMBERS OF THE REMUNERATION COMMITTEE

The Remuneration Committee of the General and Supervisory Board is composed of members of the General and Supervisory Board with qualifications and experience in remuneration policy, according to Annex I of the current Report.

# III. REMUNERATION STRUCTURE

## 69. REMUNERATION POLICY OF MANAGEMENT AND SUPERVISORY BODIES

### EXECUTIVE BOARD OF DIRECTORS

Remuneration policy for the members of the managing body is set by the Remuneration Committee appointed by the General and Supervisory Board. This committee defined the remuneration of the directors, intending for it to reflect the performance of each member of the Executive Board of Directors in each year of their term of office (annual variable remuneration) and their performance during their term by fixing a variable component that is consistent with maximisation of EDP's long-term performance (variable multi-annual remuneration).

The recommendation uses an undetermined concept whose satisfaction depends on the concrete circumstances of the issuing company and especially on its shareholders' understanding of what is reasonable in these circumstances. Interpretation of the reasonability of the relative weight of the variable remuneration against the fixed remuneration must take account of the other elements in the recommendation, particularly of orientation towards alignment of the remuneration structure with the shareholders' long-term interests. One of the natural consequences of this principle is an increase in the weight of the variable component in order to create appropriate incentives for the company's executive directors to foster sustainable growth.

The remuneration policy statement, as approved by the shareholders, lays down that the total variable component can reach twice the fixed component during a term of office, thereby placing a maximum limit of two-thirds of the remuneration depending on fulfilment of strict company performance goals. Variable remuneration depends on whether the executive directors achieve a performance of 90% of the business plan. Only if they achieve 110% fulfilment will they receive the maximum amounts allowed by the company's remuneration policy.

Variable remuneration is divided into annual, which may only reach 80% of fixed remuneration, and multi-annual, which may reach 120% of the fixed remuneration. The multi-annual remuneration, although calculated annually, it only becomes effective if, at the end of the term, in average, at least 90% of the fixed goals have been achieved, assessed by the performance of the company, by its comparison with strategic benchmarks of reference and by the individual contribution of each member of the EDB for that aim.

If the remuneration goals are fully met in a term of office, 60% of the directors' variable remuneration is deferred for no less than three years.

If we compare this percentage with that set out for credit institutions and financial companies, pursuant to Directive 2010/76/EU of the European Parliament and of the Council of 24 November, as it is a paradigm that was widely analysed and discussed in Europe, we find that EDP's policy on variable remuneration is equivalent to the strictest used by these entities.

In accordance with the remuneration policy of the members of the Executive Board of Directors proposed by the Remuneration Committee of the General and Supervisory Board "a significant part of the variable remuneration" corresponding to the variable multi-annual remuneration may be a maximum of 120% of gross annual remuneration and it will be paid three years after the financial year in question.

Payment of the multiannual variable remuneration is conditional on the non-realization of intentional unlawful acts, known after the completion of the evaluation and that jeopardize the sustainability of the performance of the company, being paid after the clearance and Remuneration Committee of the General and Supervisory Board approval.

The remuneration policy statement approved by the General Meeting on 19 April, 2017 sets out the following:

- **Fixed annual remuneration** – EUR 800,000 gross for the CEO, EUR 560,000 gross for the administrator responsible for finance matters and for the Chief Executive Officer of EDP Renováveis Group and EUR 480,000 for

each of the remaining members of the Executive Board of Directors. Maintenance of directors' retirement savings plans during their term of office, at a net amount of 10% of their fixed annual remuneration. The characteristics of these retirement savings plans are set out in current legislation applicable to these financial products;

- **Annual variable remuneration** – for each member of the Executive Board of Directors its value is limited to 80% of their gross annual fixed remuneration. The amount is determined on the basis of the following indicators for each year in office: performance of the EDP Group's total shareholder return against Eurostoxx Utilities and PSI-20, earning per share, net debt to EBITDA ratio, operational cash flow excluding regulatory receivables, and residual income. The weighted average of these indicators is given an overall weight of 80% for all members of the Executive Board of Directors, when determining their annual variable remuneration. The other 20% is based on an individual assessment by the Remuneration Committee of the General and Supervisory Board;
- **Multi-annual variable remuneration** – also for each member of the Executive Board of Directors, this component may be between 0% and 120% of their fixed annual remuneration based on an annual accumulated assessment of the directors' performance in achieving economic sustainability for the EDP Group. The award of this multi-annual remuneration, although calculated on an annual basis, only takes effect if, at the end of the term of office, at least 90% of the strategic objectives have been achieved. These will be assessed on the basis of performance and comparison with defined strategic benchmarks, as well as the individual contribution of each member of the Executive Board of Directors to such performance. This payment component is fixed on the basis of the following factors: performance of total return for the Group's shareholders against Eurostoxx Utilities and PSI-20 in the term of office, performance of earnings per share in the term of office, performance of Net Debt to EBITDA ration in the term of office, performance of the sustainability index applied to the EDP Group, and performance of operational cash flow excluding regulatory receivables in the term of office. The weighted average of these indicators is given an overall weight of 65% for all members of the Executive Board of Directors, when determining their multi-annual variable remuneration. 35% of the remuneration that is determined by the qualitative internal assessment of the Executive Board of Directors by the Remuneration Committee of the General and Supervisory Board is reserved. Payment of the multiannual variable remuneration is deferred in time, for a period not less than three years, getting the appropriate payment conditional on the non-realization of intentional unlawful acts, known after the completion of the evaluation and that jeopardize the sustainability of the performance of the company, being paid after the clearance and Remuneration Committee of the General and Supervisory Board approval.

**GENERAL AND SUPERVISORY BOARD**

Pursuant to the provision of the Article 440 of the Companies' Code, the remuneration of the members of the General and Supervisory Board is fixed, in view of their duties.

The remuneration of the Chairman of the General and Supervisory Board was fixed on the basis of the almost full-time performance of his duties, unlike the rest of the members of such body.

Considering the study developed by the Remuneration Committee of the General Shareholders' Meeting in 2015, as well as the challenges the Company intended to pursue during 2017, the Commission defined the following remuneration policy guidance for the exercise began on 1st January 2016 until the term of the respective mandates:

- A differentiation between the remuneration of the members of the General and Supervisory Board and those of the members of the Executive Board of Directors shall be maintained, and there will be no variable component or any other remunerative supplement for the General and Supervisoy Board.
- It shall be taken into account the performance merit and the complexity of the functions performed by the members of each body, so that the cohesion, stability and development of the company is not endangered.
- As to the General and Supervisory Board Chairman, it shall be particularly considered (a) the relevant duties exercised in a full-time basis (or, at least, 80% of the available time); (b) that the Chairman is not member of any relevant corporate body in listed companies; (c) that the Chairman office's functions comprehend a strong component of institutional representation; and (d) that it also demands the selection of a public figure with a high-qualified curriculum and with public recognition and prestige;
- In what regards the Deputy Chairman, it shall be considered the duties and works performed by him in other committes, being expected, as mentioned, that throughout the social exercise there will be a higher clarification of the respective functions.

- It is also important to distinguish other specific positions in the General and Supervisory Board, namely the participation of General and Supervisory Board members in other committees, as well as the functions in those committees.
- Finally, it should be considered that, historically, the remuneration of the Chairman of the General Shareholders' Meeting Board is similar to the remuneration attributed to a Committee Chairman. Therefore, the remuneration of the Chairman of the General Shareholders' Meeting Board shall be aligned accordingly.

The shareholders approved the statement of remuneration policy.

## 70. HOW REMUNERATION IS STRUCTURED TO ALLOW ALIGNMENT OF THE INTERESTS OF THE MEMBERS OF THE MANAGING BODY WITH THE COMPANY'S LONG-TERM INTERESTS AND HOW IT IS BASED ON ASSESSMENT OF PERFORMANCE AND DISCOURAGES EXCESSIVE RISK-TAKING

As set out in the remuneration policy described in Point 69, remuneration is structured to allow alignment of the interests of the members of the Executive Board of Directors with the company's long-term interests.

The time period considered for the payment of the variable component of the remuneration (gap of three years regarding the exercise at stake), the subjection of this payment to the non-performance of unlawful willful actions known after the assessment and that jeopardize the sustainability of the company's performance, to which is added i) the utilization of qualitative criteria looking forward for a strategic perspective and of medium term in the development of the company, ii) the existence of a maximum limit for the variable remuneration and iii) the relative weight of this component in the total value of the remuneration, represent decisive elements to promote a performance of the company's management focused not only in short term goals, but also that integrates in its performance the company's and the shareholders' interests in a medium and long term perspective.

The members of the managing body have not concluded any agreements with the company or third parties that have the effect of mitigating the risk of variability of their remuneration fixed by the Remuneration Committee.

## 71. REFERENCE TO A VARIABLE REMUNERATION COMPONENT AND ANY IMPACT OF PERFORMANCE EVALUATION ON THIS COMPONENT

As described above in point 69, remuneration policy in effect for 2015-2017 involves three main components: i) fixed remuneration, ii) annual variable remuneration and iii) multi-annual variable remuneration.

The indicators used to assess the performance of the Executive Board of Directors in order to determine annual and multi-annual variable remuneration are as follows:

**ANNUAL PERFORMANCE INDICATORS**

The annual performance indicators aim to evaluate the Executive Board of Directors in a short term perspective. For such, stock exchange indexes are considered, as well as financial performance indicators, compared against the annual budget proposed by the Executive Board of Directors and approved by the General and Supervisory Board, having each of the budgets the business plan as a starting point. This type of performance evaluation allows the measurement of the level of fulfilment of short term objectives assumed by the Executive Board of Directors towards the shareholders.

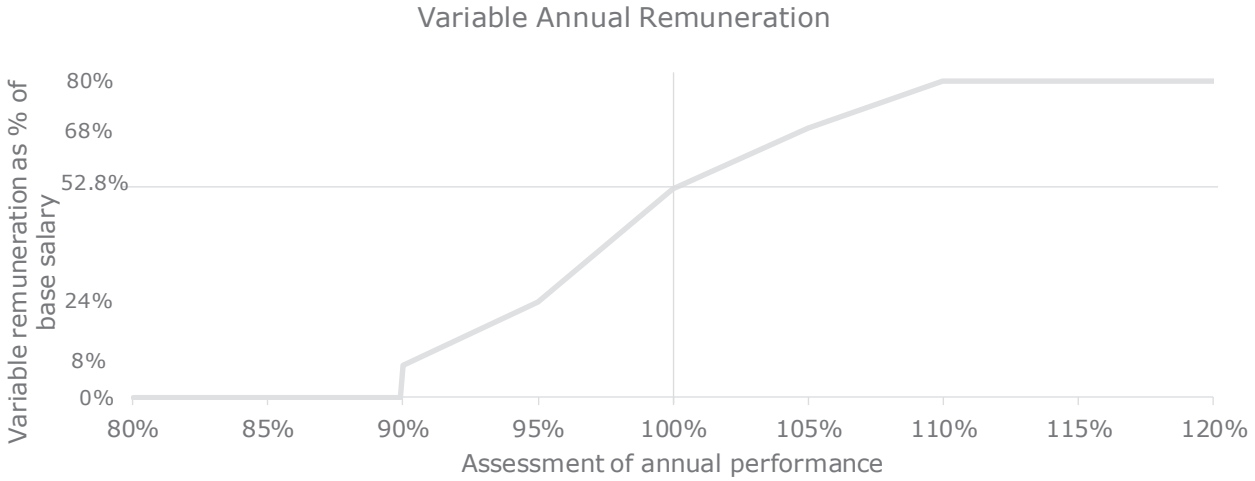
Quantitative and qualitative component and its weight:

| | KPI | WEIGHT | BENCHMARK | DESCRIPTION |
|---|---|---|---|---|
| QUANTITATIVE COMPONENT (80%) | Total shareholder return (TSR) vs Eurostoxx utilities e PSI20 | 25% | 50% - PSI20<br>50% - SX6E | Comparison between EDP's Total Shareholder Return (TSR) and the TSR of two major indexes: the Eurostoxx utilities (SX6E, which encompasses the most important utility companies within the Eurozone); and the PSI20 ( the Portuguese stock market index). The indexes are equally-weighted and the current year-end prices are compared with the previous year year-end prices, including dividends reinvestment. |
| | Earnings Per Share | 20% | 2017 Budget | Comparison between earnings per share of the year under analysis and the one defined in the annual budget previously approved by the General and Supervisory Board. |
| | Net Debt to EBITDA | 15% | 2017 Budget | Comparison between the net debt over EBITDA ratio and the ratio defined in the annual budget approved by the General and Supervisory Board. |
| | Operating cash flow excluding regulatory receivables | 13% | 2017 Budget | Comparison between this year operating cash flow, excluding the impact from regulatory receivables and the one defined in the annual budget approved by the General and Supervisory Board. |
| | Residual Income | 7% | 2017 Budget | Comparison between the net income minus the product between EDP's cost of capital and its net worth, excluding non-controllable interests, and the amount previously defined in the annual budget approved by the General and Supervisory Board. |
| QUALITATIVE COMPONENT (20%) | Individual Performance Assessment | 20% | - | Individual assessment by the Remuneration Commitee of the General and Supervisory Board, based on the individual performance of each member of the executive Board of Directors. |
| | Total | 100% | | |

The resulting amount of the quantitative and qualitative component is then weighted, as mentioned above, by a coefficient of 80% of the annual fixed remuneration, linearly calculated as follows:

- If performance reaches less than 90% of the defined objectives, there will be no annual variable remuneration attribution;
- If the performance is between 90% and 95% of the defined objectives, it is due an amount within the range of 8% and 24% of the fixed remuneration of each member of the EBD;
- If performance is between 95% and 100% of the defined objectives, it is due an amount within the range of 24% and 52,8% of the fixed remuneration of each member of the EBD;
- If performance is between 100% and 105% of the defined objectives, it is due an amount within the range of 52,8% and 68% of the fixed remuneration of each member of the EBD;
- If performance is between 105% and 110% of the defined objectives, it is due an amount within the range of 68% and 80% of the fixed remuneration of each member of the EBD;
- If performance meets the defined objectives in more than 110% of the defined objectives, it's due an amount equal to 80% of the fixed remuneration of each member of the EBD.

Graphically:




**MULTI-ANNUAL PERFORMANCE INDICATORS**

The multi-annual performance indicators aim to evaluate the Executive Board of Directors in a long term perspective. For such, stock exchange indexes are considered, as well as financial performance indicators, compared against the most recent business plan proposed by the Executive Board of Directors and approved by the General and Supervisory Board. This type of performance evaluation allows the measurement of the level of fulfilment of long term objectives assumed by the Executive Board of Directors towards the shareholders. The internal business plan of EDP Group is the document sustaining the mid and long term financial objectives of EDP, presented to the capital markets on its "Investor Days" or "Capital Markets Day". The business plan for the 2016-2020 period was approved by the General and Supervisory Board in May 2016 and was presented to the market in "EDP Capital Markets 2016", concerning the main financial objectives for the company through 2020.

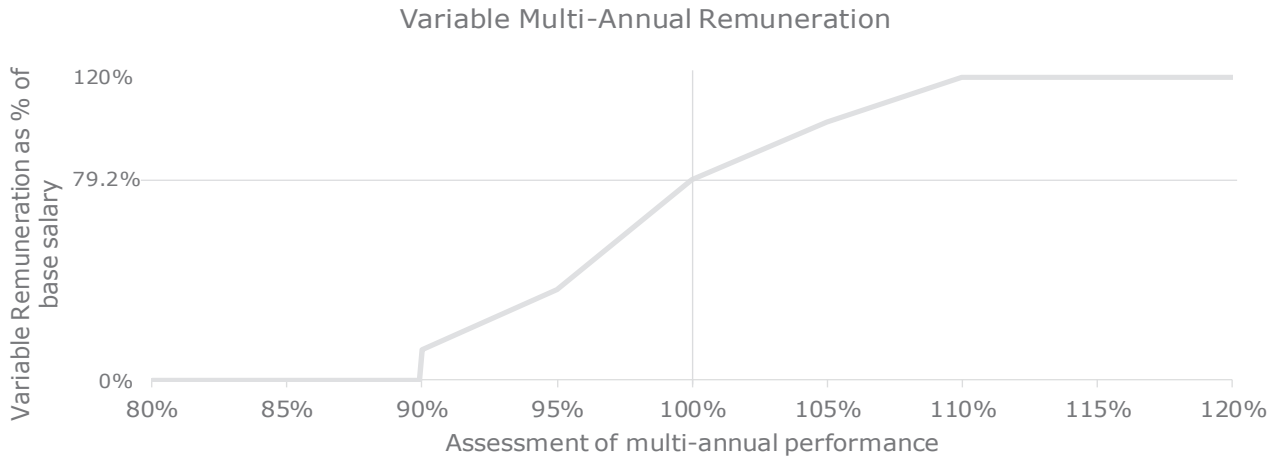
Quantitative and qualitative component and its weight:

| | KPI | WEIGHT | BENCHMARK | DESCRIPTION |
|---|---|---|---|---|
| QUANTITATIVE COMPONENT (65%) | Total shareholder return (TSR) vs Eurostoxx utilities e PSI20 | 18,5% | 50% - PSI20<br>50% - SX6E | Comparisson between EDP's Total Shareholders Return (TSR) and the TSR of two major indexes: the Eurostoxx utilities (SX6E, which encompasses the most important utility companies within the Eurozone); and the PSI20 ( the Portuguese stock market index). The indexes are equally-weighted and the current year-end prices are compared with the previous year year-end prices, including dividends reinvestment. |
| | Earnings Per Share | 18,5% | Business Plan | Comparison between earnings per share of the year under analysis and the one defined in the 2016-2020 business plan previously approved by the General and Supervisory Board. |
| | Net Debt to EBITDA | 15% | Business Plan | Comparison between the net debt over EBITDA ratio and the ratio defined in the 2016-2020 business plan approved by the General and Supervisory Board. |
| | Sustainability Performance Indicator | 8% | Historic; Peers; qualitative | This indicator evaluates EDP sustainability performance taking into account: absolut metrics' evolution over past periods, peer comparison and qualitative performance evaluation of the Remuneration Committee of the General and Supervisory Board. |
| | Operating cash flow excluding regulatory receivables | 5% | Business Plan | Comparison between this year operating cash flow, excluding the impact from regulatory receivables, and the one defined in the 2016-2020 business plan approved by the General and Supervisory Board. |
| QUALITATIVE COMPONENT (35%) | Individual Performance Assessment | 35% | - | Individual assessment by the Remuneration Commitee of the General and Supervisory Board, based on the individual performance for the period of each member of the Executive Board of Directors. |
| | Total | 100% | | |

The resulting amount of the quantitative and qualitative component is then weighted, as mentioned above, by a coefficient of 120% of the annual fixed remuneration, linearly calculated as follows:

- If performance is less than 90% of the defined objectives, there will be no multiannual variable remuneration attribution;
- If performance is between 90% and 95% of the defined objectives, it's due an amount within the range of 12% and 36% of the fixed remuneration of each member of the EBD;
- If performance is between 95% and 100% of the defined objectives, it's due an amount within the range of 36% and 79,2% of the fixed remuneration of each member of the EBD;
- If performance is between 100% and 105% of the defined objectives, it's due an amount within the range of 79,2% and 102% of the fixed remuneration of each member of the EBD;
- If performance is between 105% and 110% of the defined objectives, it's due an amount within the range of 102% and 120% of the fixed remuneration of each member of the EBD;
- If performance meets the defined objectives in more than 110%, it's due an amount equal to 120% of the fixed remuneration of each member of the EBD.

Graphically:




## 72. DEFERRAL OF PAYMENT OF VARIABLE COMPONENT OF REMUNERATION AND ITS LENGTH

The multi-annual variable remuneration is calculated every year and only becomes effective at the end of the term of office if at least 90% of the strategic goals have been achieved, as assessed on the basis of company performance and its comparison with the strategic benchmarks and the individual contribution of each member of the Executive Board of Directors.

All multi-annual eventual variable remuneration is paid three years after the financial year in question.

## 73. CRITERIA ON ALLOCATION OF VARIABLE REMUNERATION IN SHARES AND EXECUTIVE DIRECTORS' MAINTENANCE OF THESE SHARES, ANY AGREEMENTS CONCLUDED CONCERNING THESE SHARES, SUCH AS HEDGING OR RISK TRANSFER CONTRACTS, THEIR LIMIT AND THEIR ASSOCIATION WITH TOTAL ANNUAL REMUNERATION

The members of the Executive Board of Directors do not own company shares under variable remuneration schemes.

## 74. CRITERIA ON ALLOCATION OF VARIABLE REMUNERATION IN OPTIONS, PERIOD OF DEFERRAL AND PRICE OF EXERCISE

EDP has no variable remuneration option schemes.

## 75. MAIN PARAMETERS AND BASIS OF ANY ANNUAL BONUS SYSTEM AND ANY NON-MONETARY BENEFITS

Company directors do not receive any significant remuneration in the form of non-monetary benefits.

### 76. MAIN CHARACTERISTICS OF SUPPLEMENTARY PENSION OR EARLY RETIREMENT SCHEMES FOR DIRECTORS AND DATE OF APPROVAL INDIVIDUALLY AT A GENERAL MEETING

The remuneration fixed by the Remuneration Committee of the General and Supervisory Board sets for a retirement savings plan-type standard financial product for the members of the Executive Board of Directors, through the application of a net amount correspondent to 10% (ten percent) of their fixed annual remuneration. It was granted in accordance with the Remuneration Policy Statement approved by resolution of the General Shareholders' Meeting dated 19 April 2017. This financial product does not entail any cost to EDP in the future, as it is merely a subscription to a financial product while the members of the managing body hold their positions and is not covered by Article 402 (1) of the Company Code.

## IV. DISCLOSURE OF REMUNERATION

### 77. ANNUAL AGGREGATE AND INDIVIDUAL REMUNERATION PAID TO THE MEMBERS OF THE COMPANY'S MANAGING BODY BY THE COMPANY, INCLUDING FIXED AND VARIABLE REMUNERATION AND ITS DIFFERENT COMPONENTS

The total gross amount paid by EDP to the members of the Executive Board of Directors in 2017 was 11,872,021 euros.

The table below shows the gross amounts of remuneration paid individually to the members of the Executive Board of Directors in office in 2017:

| EUROS | GROSS REMUNERATION PAID BY EDP | |
|---|---|---|
| | FIXED | ANNUAL VARIABLE (2016) |
| António Luís Guerra Nunes Mexia (Chairman) | 983,908 | 584,366 |
| Nuno Maria Pestana de Almeida Alves | 688,736 | 406,368 |
| João Manuel Manso Neto | 660,409 | 395,616 |
| António Fernando Melo Martins da Costa | 562,018 | 339,100 |
| João Manuel Veríssimo Marques da Cruz | 296,155 | 198,576 |
| Miguel Stilwell de Andrade | 570,065 | 346,012 |
| Miguel Nuno Simões Nunes Ferreira Setas | 235,788 | 223,145 |
| Rui Manuel Rodrigues Lopes Teixeira | 576,744 | 332,188 |

The remuneration of the Chairman and directors of the Executive Board of Directors include the amounts associated with the retirement savings plan. The amounts of the variable remuneration were fixed on the basis of the tax treatment applicable in the director's country of tax residence. The amounts paid by EDP subsidiaries refer solely to their period of residence abroad.

As results of the policy in force, the compensation is structured to allow the alignment of the EBD members' interests with the long-term interests of the company. In this way, taking into account the objective calculations associated with the remuneration model, the Commission set the multi-annual variable component imputable to the third, and last, year of the 2012/2014 mandate.

| EUROS | GROSS REMUNERATION PAID BY EDP<br>MULTI-ANNUAL VARIABLE (2014)* |
|---|---|
| António Luís Guerra Nunes Mexia (Chairman) | 720,000 |
| Nuno Maria Pestana de Almeida Alves | 576,000 |
| João Manuel Manso Neto | 576,000 |
| António Manuel Barreto Pita de Abreu | 557,769 |
| António Fernando Melo Martins da Costa | 576,000 |
| João Manuel Veríssimo Marques da Cruz | 355,152 |
| Miguel Stilwell de Andrade | 576,000 |

* Multi-annual variable remuneration concerning performance in 2012-2014, year of 2014

## 78. AMOUNTS PAID FOR ANY REASON BY OTHER SUBSIDIARY OR GROUP COMPANIES OR COMPANIES UNDER COMMON CONTROL

The table below shows the gross amounts of remuneration paid by other subsidiary or Group companies or companies to a member of the Executive Board of Directors under common control.

| EUROS | GROSS REMUNERATION PAID BY EDP | | |
|---|---|---|---|
| | FIXED | VARIABLE (2016) | COMPANIES IN A CONTROL RELATIONSHIP |
| João Manuel Veríssimo Marques da Cruz | 240,000 | 0 | EDP Ásia - Soluções Energéticas |
| Miguel Nuno Simões Nunes Ferreira Setas * | 295,906 | 0 | EDP - Energias do Brasil |

* Annual Fixed Remuneration shall be adjusted by the end of April 2018, aiming for the correction of deviations resulting from exchange rates, so that the board member effectively receives the amount defined by the Remuneration Committee of the General and Supervisory Board.

## 79. REMUNERATION IN THE FORM OF PROFIT-SHARING AND/OR PAYMENT OF BONUSES AND REASONS FOR THESE BONUSES OR PROFIT SHARING

EDP has no schemes in place for payment of remuneration in the form of profit-sharing and/or payment of bonuses.

## 80. COMPENSATION PAID OR OWED TO FORMER EXECUTIVE DIRECTORS FOR TERMINATION IN THE FINANCIAL YEAR

There are no agreements between the company and members of the managing and supervisory bodies providing for compensation in the event of termination, as proven by the remuneration policy statement in effect for 2017. As a result no compensation for termination was paid or is owed to former directors.

It should also be noted that there are no contracts for severance payment in force, nor does the remuneration policy provide for such, in the event of dismissal or termination by agreement from the post of director.

In particular, the company does not assign compensation beyond the legally required in case of dismissal from the post of director founded in inadequate performance neither was any payments made in this context during the year 2017.

## 81. ANNUAL AGGREGATE AND INDIVIDUAL REMUNERATION PAID TO THE MEMBERS OF THE COMPANY'S SUPERVISORY BODIES

### 1. GENERAL AND SUPERVISORY BOARD

The total gross amount paid by EDP to the members of the General and Supervisory Board in 2017 was 1,904,000 euros.

The table below shows the remuneration paid in 2017 to the members of the General and Supervisory Board in office:

| EUROS | FIXED GROSS REMUNERATION |
|---|---|
| China Three Gorges Corporation* | 515,000 |
| Luís Filipe Marques Amado | 95,000 |
| China International Water & Electric Corporation | 47,000 |
| China Three Gorges New Energy Corporation | 70,000 |
| CWEI (Europe), S. A. | 57,000 |
| CWEI (Portugal), Sociedade Unipessoal, Lda. | 67,000 |
| Banco Comercial Português, S. A. | 57,000 |
| DRAURSA, S. A. | 57,000 |
| SONATRACH | 57,000 |
| António Sarmento Gomes Mota | 120,000 |
| Mohamed Al Fahim ** | 47,500 |
| Mohammed Issa Khalfan Alhuraimel Alshamsi ** | 9,500 |
| Vasco Joaquim Rocha Vieira | 57,000 |
| Maria Celeste Ferreira Lopes Cardona | 80,000 |
| Jorge Avelino Braga Macedo | 67,000 |
| Ilídio Costa Leite Pinho | 57,000 |
| Fernando Maria Masaveu Herrero | 67,000 |
| Augusto Carlos Serra Ventura Mateus | 57,000 |
| João Carvalho das Neves | 100,000 |
| Alberto Joaquim Milheiro Barbosa | 80,000 |
| María del Carmen Fernández Rozado | 70,000 |
| António Manuel Carvalho Ferreira Vitorino | 70,000 |

* Remuneration paid to representant, Eduardo de Almeida Catroga

** Mohamed Al Fahim represented Senfora BV until Octover, 30th 2017, being replaced by Mohammed Issa Khalfan Alhuraimel Alshamsi from October 31st 2017

**2. OTHER COMPANY BODIES**

**ENVIRONMENT AND SUSTAINABILITY BOARD**

The members of the Environment and Sustainability Board are paid in attendance vouchers of EUR 1,750 per meeting. In 2017, the remuneration paid to the members of the Environment and Sustainability Board was as follows:

| EUROS | FIXED GROSS REMUNERATION |
|---|---|
| José Pedro Silva Sucena Paiva* | 3,500 |
| Alberto Manuel Rosete da Ponte | 0 |
| António José Tomás Gomes de Pinho* | 3,500 |
| José Manuel Viegas ** | 0 |
| Maria Graça Madeira Martinho | 0 |

At the end of January 2018 an attendance voucher was paid regarding the meeting of the Environment and Sustainability Board held on November 29th, 2017 (third meeting held in 2017).

** Resigned remuneration

**REMUNERATION COMMITTEE OF THE GENERAL MEETING**

The members of the Remuneration Committee of the General Meeting received the following remuneration in 2017:

| EUROS | FIXED GROSS REMUNERATION |
|---|---|
| Luís Miguel Nogueira Freire Cortes Martins | 15,000 |
| José Gonçalo Maury | 10,000 |
| Jaime Amaral Anahory | 10,000 |

## 82. REMUNERATION OF THE CHAIRMAN OF THE GENERAL MEETING.

The Chairman and Secretary of the General Meeting do not earn any remuneration in that capacity, given that they are remunerated as a member of the General and Supervisory Board and company Secretary, respectively. The Vice-Chairman of the General Meeting is paid an amount of EUR 3,000 a year.

# V. AGREEMENTS AFFECTING REMUNERATION

## 83. CONTRACTUAL LIMITATIONS FOR COMPENSATION PAYABLE TO DIRECTORS FOR DISMISSAL WITHOUT DUE CAUSE AND THEIR ASSOCIATION WITH THE VARIABLE COMPONENT OF REMUNERATION.

In accordance with the remuneration policy statement in effect for 2017, EDP has no existing contracts providing for payments in the event of dismissal or termination by mutual agreement of directors.

### 84. DESCRIPTION AND AMOUNTS OF AGREEMENTS BETWEEN THE COMPANY AND MEMBERS OF THE MANAGING BODY AND DIRECTORS, AS SET OUT IN ARTICLE 248-B (3) OF THE SECURITIES CODE, PROVIDING FOR COMPENSATION IN THE EVENT OF DISMISSAL WITHOUT DUE CAUSE OR TERMINATION OF EMPLOYMENT FOLLOWING A CHANGE OF COMPANY CONTROL

Considering Article 248-B (3) of the Securities Code, EDP has no directors other than the members of the corporate bodies. In addition to the members of these bodies, there are no managers who have regular access to privileged information and participate in decisions on the company's management and business strategy.

Furthermore, we reiterate that, in accordance with the remuneration policy statement approved at a General Meeting and in effect for 2017, EDP has no existing agreements providing for payments in the event of dismissal or termination by mutual agreement of directors.

## VI. STOCK PURCHASE OPTION PLANS OR STOCK OPTIONS

### 85. PLAN AND ITS BENEFICIARIES

There are no stock options for company employees.

### 86. DESCRIPTION OF THE PLAN (CONDITIONS FOR AWARD, CLAUSES ON NON-SALEABILITY OF SHARES, SHARES PRICE CRITERIA, PRICE OF OPTIONS IN FINANCIAL YEAR, PERIOD IN WHICH OPTIONS CAN BE EXERCISED, CHARACTERISTICS OF SHARES OR OPTIONS, INCENTIVES FOR PURCHASE OF SHARES OR EXERCISE OF OPTIONS)

There are no stock options for company employees.

### 87. STOCK OPTIONS OF COMPANY EMPLOYEES

There are no stock options for company employees.

### 88. CONTROL MECHANISMS SET OUT IN ANY EMPLOYEE SHARE SCHEME SO THAT THEY DO NOT EXERCISE THEIR VOTING RIGHTS DIRECTLY

The company has no such control mechanisms.

# E. TRANSACTIONS WITH RELATED PARTIES

# I. MECHANISMS AND PROCEDURES OF CONTROL

## 89. COMPANY MECHANISMS FOR MONITORING TRANSACTIONS WITH RELATED PARTIES

The General and Supervisory Board approved objective, transparent rules on the identification, prevention and resolution of relevant corporative conflicts of interest called Framework on Handling of Conflicts of Interest, which was revised in late 2009.

Following a decision made by the General and Supervisory Board, on 17 May 2010 the Executive Board of Directors approved the rules on identification, in-house reporting and procedure in the event of conflicts of interest applicable to all EDP Group employees who play a decisive role in transactions with related parties.

These rules are also available on EDP's website.

As part of its improvement of governance practices, on 29 July 2010, the General Supervisory and Board approved EDP's rules on conflicts of interest and transactions between related parties, which was reviewed in 2015 and a new version was approved on 29 October 2015, available on EDP's website (www.edp.com). This set of rules on the prevention, identification and resolution of potential corporate conflicts of interest has a wider scope of application than that set out in CMVM Regulation 4/2013.

The Corporate Governance and Sustainability Committee is responsible for supervising enforcement of the aforementioned rules and reports on its work to the General and Supervisory Board.

For further information on this matter, see Point 3.5.2. of the annual report of the General and Supervisory Board.

## 90. TRANSACTIONS THAT UNDERWENT CONTROLS IN THE YEAR

Attentive to the current reporting obligations, the Executive Board of Directors, during 2017, submitted to the General and Supervisory Board the information concerning the transactions between related parties. Such information concerned the transactions listed below:

- Conclusion of the sale to ACE Poland S.A.R.L. and ACE Italy S.A.R.L., both fully owned by ACE Investment Fund LP, a subsidiary of China Three Gorges Hong Kong Ltd, which, in turn, is a fully subsidiary of CTG, of a 49% participation in the share capital and shareholder loans of a wind energy portfolio of 422 MW of EDP Renováveis, for a final consideration of € 248 million.
- Provision by Banco Comercial Português (BCP) to EDP Group of financial intermediary services, having integrated the syndicate of banks which acted as Joint Bookrunners of the bonds issuance occurred in January 2017.
- Participation of BCP (from among twenty-two banks) on the € 3 300 million revolving credit facility.
- Sale to BCP, through an assignment without recourse transaction, of part of the extra cost deficit of Special Production Regime in 2017, in the amount of approximately, € 100 million.
- Acquisition to Sonatrach of natural gas under EDP Group long term supply agreements, for which the the approximate value of € 145.5 million was paid.
- Provision, by EDP Group, of electricity and gas supply services to Cementos Tutela Veguín and other companies integrated in Masaveu Group in the approximate value of € 22,5 million.
- Provision, by EDP Group, of electricity and gas supply services to Liberbank and related companies in the approximate value of € 5,9 million.

The General and Supervisory Board noted that, with basis on the cases analyzed and information provided by the Executive Board of Directors for 2017, there was no evidence that the potential conflict of interests in EDP operations were resolved contrarily to the company's interests.

At the same time, it is important to highlight Article 17(2) of EDP Articles of Association, that defines a number of matters subject to favourable prior opinion from the General and Supervisory Board. This corporate body has competences to set the parameters for measuring the economic or strategic value of the operations that must be submitted for its opinion, and these were approved by the referred Board on the 18th June 2015.

In this scope, during 2017 exercise, 17 operations were submitted to favourable prior opinion from the General and Supervisory Board with an average value € 722 million and a maximum value of € 2 590 million. Regarding the waiver of prior opinion, were submitted to the General and Supervisory Board 11 operations, with the average value of € 738 million and a maximum value of € 3 300 million.

In what concerns operations subject to favourable prior opinion from the General and Supervisory Board, one of them had inherent a transaction with a related party (in the value of € 248 million). Regarding operations in which there were waivers of prior opinion, only one had inherent a transaction with a related party, with no value associated. Considering the specificities underlined to these operations, previously to the issue of a favourable prior opinion or to the waiver of a prior opinion by the General and Supervisory Board, the Corporate Governance and Sustainability Committee, always as possible, analyzed them and concluded for the non-existence of evidences that the potential conflict of interests subjacent to the operations performed by EDP have been resolved in a way contrary to the company's interests.

## 91. PROCEDURES AND CRITERIA APPLICABLE TO THE SUPERVISORY BODY'S PRIOR ASSESSMENT OF TRANSACTIONS BETWEEN THE COMPANY AND HOLDERS OF QUALIFYING SHAREHOLDINGS OR ENTITIES RELATED TO THEM IN ANY WAY

The current rules on the issue and waiving of a prior opinion from the General and Supervisory Board, as referred previously, were approved on 18 June 2015, along with the procedures for communication and clarifications between it and the Executive Board of Directors.

Pursuant to EDP's Articles of Association, the General and Supervisory Board fixes the parameters for measuring the economic or strategic value of operations submitted to it for an opinion and sets up speedy mechanisms for issuing an opinion in urgent cases or when the nature of the subject so warrants and the situations in which this opinion can be waived (Article 21 (7)). The mechanism for waiving a prior opinion from the General and Supervisory Board may only be used in cases of exceptional urgency or if the nature of the subject so warrants, as set out in EDP's Articles of Association and the regulations of the General and Supervisory Board in effect in 2011 (current Article 13 (5)).

All matters in which a prior opinion is waived are later appraised at meetings of the General and Supervisory Board.

Furthermore, the General and Supervisory Board has set out strict rules on transactions between related parties in order to prevent conflicts of interest.

Within this scope, it should be highlighted what is defined in the Regulation regarding "Conflicts of interests between related parties in EDP" in what concerns the procedures and criteria applicable to the supervision for previous evaluation of business between the company and qualified shareholders or any entities with whom the latter are related:

For legal transactions or situations between related parties that are likely to cause a conflict of interest between those involved that will have an impact on the interests of EDP, the Executive Board has to request the preliminary opinion of the General and Supervisory Board or its waiver, and also has to provide the following information:

- A brief description of the operations and obligations assumed by the parties.
- A statement the procedures adopted for selecting the counterparty, particularly if the operation was based on a tender/consultation or limited tendering procedure.

- In the case of a limited tendering procedure, the reasons for such decision and the measures adopted to mitigate any risks from potential conflicts of interests.
- In the case of a tender/consultation, statement of the type of contact established with potential stakeholders and identify such.
- In the event competitive offers existed, information on the terms of the different proposals and the reason for the choice made.
- Identification of the parameters to measure the operation performed under "normal market conditions for similar transactions".
- Measures taken to prevent or resolve potential conflicts of interests.
- Evidence, if applicable, of the multiannual nature of the operation, in which case the starting date of the selected tender/contract should be reported together with the date on which the supplies and/or services provided shall be provided or carried out.

With respect to legal business or cases that exist between related parties that are likely to give rise to a conflict of interests between those involved, which could impact the interests of EDP, these should be subject to a preliminary opinion from the General and Supervisory Board:

- If the Corporate Governance and Sustainability Committee can meet before the General and Supervisory Board meeting, an opinion from this Committee should be requested, which should be presented to the General and Supervisory Board for decision making purposes.
- If it is not possible for the Corporate Governance and Sustainability Committee to meet, the assessment of the potential conflict of interests must be made directly by the General and Supervisory Board within its decision making authority.

With respect to legal business or cases that exist between related parties that are likely to give rise to a conflict of interests between those involved, which could impact the interests of EDP, which are subject to a request for waiver of the preliminary opinion from the General and Supervisory Board, at least three Members of the Committee should be consulted, and the majority have to be independent.

When considering the request by the Executive Board, in the event of a request to waiver the preliminary report, the Corporate Governance and Sustainability Committee, the General and Supervisory Board or the Chairman of this Board, may recommend to the Executive Board that appropriate measures must be taken to address the potential conflict of interest.

# II. BUSINESS INFORMATION

## 92. LOCATION OF ACCOUNTING DOCUMENTS PROVIDING INFORMATION ON TRANSACTIONS WITH RELATED PARTIES, PURSUANT TO IAS 24, OR REPRODUCTION OF THE INFORMATION

Information on transactions with related parties, pursuant to IAS 24, is set out in Note 46 of the consolidated and individual financial statements.

# PART II - ASSESSMENT OF CORPORATE GOVERNANCE

## 1. CORPORATE GOVERNANCE CODE IN EFFECT

EDP – Energias de Portugal, S.A. (EDP) is a listed company whose securities are admitted to trading on the NYSE Euronext Lisbon stock market.

Pursuant to Article 2 (1) of CMVM Regulation 4/2013 on governance of companies issuing shares admitted to trading in a regulated market located or operating in Portugal, EDP abides by the recommendations set out in the Corporate Governance Code, as approved by the CMVM in July 2013, available on www.cmvm.pt. It has not opted to follow any other code of recommendations in this matter.

This report is structured in compliance with Article 1 (4) of CMVM Regulation 4/2013, and therefore abides by the model in its Annex I, not including the sections not applicable to EDP's corporate governance model.

## 2. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The following table lists the CMVM recommendations on corporate governance established in the referred Corporate Governance Code and indicating whether or not they were adopted, in full or partially by EDP, as well as where more detailed information can be found in this report on the adoption of each specific recommendation.

## STATEMENT OF COMPLIANCE

| RECOMMENDATION | ADOPTION STATUS | COMMENTS | DESCRIPTION IN REPORT |
|---|---|---|---|
| I. VOTING AND CONTROL OF THE COMPANY | | | |
| I.1. Companies must encourage their shareholders to take part and vote in general meetings, for instance by not fixing an excessively large number of shares required to have voting rights and introduce the means necessary for postal and online votes. | Adopted | | Chapter B<br>Title I<br>No. 12<br>Page 94 |
| I.2. Companies must not use mechanisms that hinder decision-making by their shareholders, such as by fixing a deliberative quorum larger than that provided for by law. | Adopted | | Chapter B<br>Title I<br>No. 14<br>page 95 |
| I.3. Companies must not set up mechanisms that result in a time lapse between the right to receive dividends or subscribe new securities and the voting right of each ordinary share, unless this is duly justified by the shareholders' long-term interests. | Adopted | | Chapter B<br>Title I<br>No.12<br>Page 94 |

## STATEMENT OF COMPLIANCE

| RECOMMENDATION | ADOPTION STATUS | COMMENTS | DESCRIPTION IN REPORT |
|---|---|---|---|
| I.4. The articles of association of companies that limit the number of votes that can be held or cast by a single shareholder, individually or with other shareholders, must also set out that the amendment or maintenance of this provision must be submitted to the vote of the general meeting at least every five years – with no increased quorum requirement above that laid down by law – that all the votes cast must be counted without the aforementioned limitation on this decision. | Not Adopted | Over the past five years, the subject of statutory limitation on voting rights has already been discussed by the General Meeting of EDP on two occasions. The limitation of the number of votes set out in Article 14 of the Articles of Association reflects the will of the shareholders of EDP expressed through resolutions of the General Meeting, in the defence of the company's specific interests: (i) a change of the limit from 5% to 20% was approved by the shareholders at the General Meeting of 25 August 2011, involving participation of 72.25% of the capital and approval by a majority of 94.16% of the votes cast; (ii) a later increase to the current 25% was approved at the General Meeting of 20 February 2012, involving participation of 71.51% of the capital and approval by a majority of 89.65% of the votes cast.<br><br>The shareholders have thus been periodically called on to decide on limiting the number of votes. The continued existence of the limitation has prevailed and the reflection on the adjustment of the relevant ceiling for counting voting rights, precisely to progressively increase this level.<br><br>The momentum of shareholders of the Company has thus proven to be perfectly in tune with the sense advocated in the Recommendation and sufficiently apt for pursuing its goals, avoiding rigid formulas for this review set down in the Articles of Association, which has also fostered the particularly intense scrutiny of this clause by shareholders. | Chapter A<br><br>Title I<br><br>No. 4 and 5<br><br>Pages 87 and 88 |
| I.5. No measures must be taken that have the effect of requiring payments or liability for expenses on the part of the company in the event of transfer of control or a change in the membership of the management body that may interfere with the free transmissibility of shares and free appreciation by the shareholders of the members of the management body board. | Adopted | | |

## STATEMENT OF COMPLIANCE

| RECOMMENDATION | ADOPTION STATUS | COMMENTS | DESCRIPTION IN REPORT |
|---|---|---|---|
| II. SUPERVISION, MANAGEMENT AND OVERSIGHT | | | |
| II.1. SUPERVISION AND MANAGEMENT | | | |
| II.1.1. Within the limits of the law and unless the company becomes too small, the board of directors must delegate the everyday running of the company. The powers delegated must be indicated in the annual Corporate Governance Report. | Not Applicable | This recommendation does not apply to the company's current governance model.<br><br>The delegation of powers granted in the Latin model to delegated directors does not exist in the Executive Board of Directors of EDP. It only has an allocation of management areas to each of the members of the Executive Board of Directors, with the college of directors responsible for taking decisions on all matters under its jurisdiction. Moreover, Article 431(3) of the Portuguese Company Code on the powers of the Executive Board of Directors establishes that the powers of management and representation of directors is governed by the scheme provided for in Article 406, 408 and 409 and excludes Article 407 concerning the delegation of management powers. | |
| II.1.2. The Board of Directors must ensure that the company acts in accordance with its goals and must not delegate its powers to: *i*) define the company's general strategy and policies; *ii*) define the group's corporate structure; *iii*) make decisions that must be deemed strategic due to their amount, risk or special characteristics. | Not Applicable | This recommendation does not apply to the company's current governance model.<br><br>According to the two tier model of governance, the Executive Board of Directors does not delegate any of the matters referred to in this Recommendation. However, the supervisory body and management monitoring body issues prior opinions concerning the approval of the strategic plan and certain strategic or significant operations (Article 17(2) of the Articles of Association). | |
| II.1.3. In addition to the exercise of its supervisory duties, the General and Supervisory Board must take full responsibility for the company's governance and so the articles of association or an equivalent provision must enshrine the board's obligation to give its opinion on the company's strategy and main policies, definition of the group's corporate structure and decisions that must be deemed strategic due to their amount or risk. This board must also assess compliance with the company's strategic plan and implementation of its main policies. | Adopted | | Chapter B<br><br>Title II<br><br>No. 21<br><br>Pages 102 |

## STATEMENT OF COMPLIANCE

| RECOMMENDATION | ADOPTION STATUS | COMMENTS | DESCRIPTION IN REPORT |
|---|---|---|---|
| II.1.4. Unless the company becomes too small, the Board of Directors and the General and Supervisory Board, depending on the model used, must set up any necessary committees to:<br><br>a) Make a competent, independent assessment of the performance of the executive directors and their own overall performance and that of the other committees;<br><br>b) Reflect on the system, structure and governance practices used, verify their efficacy and propose improvement measures to the competent bodies. | Adopted | | Chapter B<br>Title II<br>No. 24 and 29<br>page 127 e 128 |
| II.1.5. The Board of Directors or General and Supervisory Board, depending on the applicable model, must set goals for risks and create systems to control them in order to guarantee that risks actually run are consistent with these goals. | | | Chapter B<br>Title II<br>No. 21<br>page 102 |
| II.1.6. The Board of Directors must include a number of non-executive members to guarantee its effective capacity to monitor, supervise and assess the work of the remaining members of the management body. | Not Applicable | This recommendation does not apply to the company's current governance model. | |

## STATEMENT OF COMPLIANCE

| RECOMMENDATION | ADOPTION STATUS | COMMENTS | DESCRIPTION IN REPORT |
|---|---|---|---|
| II.1.7. The non-executive directors must include an appropriate proportion of independents, depending on the company's governance model, size, shareholder structure and free float.<br><br>The independence of the members of the General and Supervisory Board and of the Audit Committee will be measured in accordance with current legislation. Where the other members of the Board of Directors are concerned, independent directors are persons who are not associated with any group with specific interests in the company and who are not in a situation liable to affect their impartial analysis or decision, due, for example, to:<br><br>a. Having been employees of the company or a subsidiary or group company in the last three years;<br><br>b. Having provided services or done significant business with the company or a subsidiary or group company directly or as an owner, director or manager of a legal person in the last three years;<br><br>c. Receiving remuneration paid by the company or a subsidiary or group company in addition to the remuneration from their position as director;<br><br>d. Living in a common-law marriage or being the spouse, relative or similar in a direct line to the third degree, inclusive, in the collateral line of directors or natural persons directly or indirectly owning qualifying shareholdings;<br><br>e. Owning qualifying shareholdings or being the representative of a shareholder owning qualifying shareholdings. | Adopted | | Chapter B<br><br>Title II<br><br>No. 18<br><br>page 99 |
| II.1.8. Directors who perform executive duties when asked to do so by other members of the corporate bodies must provide the information requested by these bodies in a timely fashion and in the appropriate form. | Adopted | | Chapter B<br><br>Title II<br><br>No. 21<br><br>pages 102 |
| II.1.9. The chairman of the executive management body or executive committee must send the invitations and minutes of their meetings to the Chairman of the Board of Directors, Chairman of the Supervisory Board, Chairman of the Audit Committee, Chairman of the General and Supervisory Board and Chairman of the Financial Committee, as applicable. | Adopted | | Chapter B<br><br>Title II<br><br>No. 21<br><br>page 102 |

## STATEMENT OF COMPLIANCE

| RECOMMENDATION | ADOPTION STATUS | COMMENTS | DESCRIPTION IN REPORT |
|---|---|---|---|
| II.1.10. If the chairman of the management body performs executive duties, this body must appoint from among its members an independent director to coordinate the work of the other non-executive members and the right conditions for them to make independent, informed decisions or find another equivalent mechanism for this coordination. | Not Applicable | | |
| II.2. OVERSIGHT | | | |
| II.2.1. Depending on the model in question, the chairman of the Supervisory Board, Audit Committee or Financial Committee must be independent in accordance with the applicable legal criterion, and have the appropriate powers for his/her duties. | Adopted | | Chapter B<br>Titles II and III<br>No.s 29, 31 and 33<br>pages 128, 132 and 133 |
| II.2.2. The oversight body must be the main interlocutor with the external auditors and the first recipient of their reports and will be responsible for proposing their remuneration and ensuring that the appropriate conditions exist in the company for the provision of the services. | Adopted | | Chapter B<br>Title II<br>No.s 21 and 29<br>pages 102 and 128 |
| II.2.3. The oversight body must assess the external auditors every year and propose to the competent body their dismissal or termination of their service contract whenever so justified. | Adopted | | Chapter B<br>Title II<br>No.s 21, 29 and 45<br>pages 102, 128 and 135 |
| II.2.4. The oversight body must assess the internal control and risk management systems and propose any necessary adjustments. | Adopted | | Chapter B<br>Title II<br>No.s 21 and 29<br>pages 102 and 128 |

## STATEMENT OF COMPLIANCE

| RECOMMENDATION | ADOPTION STATUS | COMMENTS | DESCRIPTION IN REPORT |
|---|---|---|---|
| II.2.5. The Audit Committee, General and Supervisory Board and the Supervisory Board must give their opinion on work plans and resources allocated to internal audit services and compliance services and must receive these services' reports at least when they cover matters related to rendering of accounts, identification or resolution of conflicts of interest and detection of potential illegalities. | Adopted | | Chapter C<br>Title II<br>No. 49<br>page 138 |
| II.3. FIXING REMUNERATION | | | |
| II.3.1. All members of the Remuneration Committee or equivalent must be independent from the executive members of the management body and include at least one member with knowledge and experience of remuneration policy. | Adopted | | Chapter B<br>Title II<br>No. 29<br>page 128 |
| II.3.2. No natural or legal person who provides or has provided services to any unit answerable to the management body, the company's management body itself or with a current relationship with the company or consultant of the company in the last three years may be hired to assist the Remuneration Committee in its duties. This recommendation also applies to any natural or legal person related to the former under an employment or service agreement. | Adopted | | Chapter D<br>Title II<br>No. 67<br>page 155 |
| II.3.3. The remuneration policy statement by the management and supervisory bodies set out in Article 2 of Law 28/2009 of 19 June must also contain:<br>a) Explicit identification of the criteria used to determine the remuneration paid to the members of the corporate bodies;<br>b) Information on the maximum potential individual amount and the maximum potential aggregate amount payable to the members of the corporate bodies and an indication of the circumstances in which these maximum amounts may be payable;<br>d) Information as to whether payments for dismissal or termination are required or not. | Adopted | | Chapter D<br>Titles III and IV<br>No.s 69, 70, 71, 72 and 80<br>pages 156 to 162 and 164 |

## STATEMENT OF COMPLIANCE

| RECOMMENDATION | ADOPTION STATUS | COMMENTS | DESCRIPTION IN REPORT |
|---|---|---|---|
| II.3.4. The proposal on approval of plans to allocate shares and/or share options or based on variations in share prices to members of the corporate bodies must be submitted to the General Meeting. The proposal must contain all the necessary elements for a proper assessment of the plan. | Not Applicable | There is no share allocation scheme in force. | Chapter D<br>Title VI<br>No. 85<br>page 167 |
| II.3.5. The proposal on approval of any retirement benefit system for members of the corporate bodies must be submitted to the General Meeting. The proposal must contain all the necessary elements for a proper assessment of the system. | Not Applicable | EDP has not set up a specific retirement benefit system for the members of its management and supervisory bodies. Nevertheless, the members of the Executive Board of Directors receive a "standard" retirement savings plan financial product correspondent to 10% of the fixed component of the annual remuneration. Such financial product does not bear any charge for EDP in the future, since its subscription is valid only while the members of its management body hold office. Such provision was assigned in accordance with the Remuneration Policy Statement approved in the general meeting of 19 April 2017. On the referred Remuneration Policy Statement, it is also mentioned that the characteristics of these "standard" retirement savings plan are the ones in force in the legal framework applicable to these financial products. | Chapter D<br>Title III<br>No. 69 and 76<br>Pages 156 and 163 |
| III. REMUNERATION | | | |
| III.1. The remuneration of the management body's executive members must be based on actual performance and discourage excessive risk taking. | Adopted | | Chapter D<br>Title III<br>No.s 69 and 70<br>pages 156 to 158 |

## STATEMENT OF COMPLIANCE

| RECOMMENDATION | ADOPTION STATUS | COMMENTS | DESCRIPTION IN REPORT |
|---|---|---|---|
| III.2. The remuneration of the management body's non-executive members and of the members of the oversight body must not include any component that depends on the company's performance or value. | Partially Applicable and Adopted | The first part of the recommendation is not applicable given the current governance model of the company. | Chapter D<br>Title III<br>No. 69<br>Page 156 |
| III.3. The variable component of remuneration must be generally reasonable in relation to the fixed remuneration component and maximum limits must be set on all components. | Adopted | | Chapter D<br>Title III<br>No. 69<br>page 156 |
| III.4. A significant part of variable remuneration must be deferred for no less than three years and the right to receive it must be dependent on the continued good performance by the company in this period. | Adopted | | Chapter D<br>Title III<br>No. 70 and 72<br>Pages 158 and 162 |
| III.5. The members of the management body must not conclude agreements with the company or with third parties that have the effect of mitigating the risk of variability in remuneration fixed for them by the company. | Adopted | There are no contracts entered into by the members of the management body that include such clauses. | Chapter D<br>Title III<br>No. 70<br>Page 158 |

## STATEMENT OF COMPLIANCE

| RECOMMENDATION | ADOPTION STATUS | COMMENTS | DESCRIPTION IN REPORT |
|---|---|---|---|
| III.6. Up to the end of their term of office, the executive directors must keep the company shares to which they have had access under variable remuneration schemes up to a limit of twice the amount of their total annual remuneration, with the exception of shares that need to be sold to pay taxes resulting from benefits from them. | Not Applicable | There is no share allocation scheme in force. | |
| III.7. If variable remuneration includes share options, the start of the exercise period must be deferred for no less than three years. | Not Applicable | No stock options plan exists. | |
| III.8. If the dismissal of a director is not the result of a serious breach of his/her duties or unfitness for normal performance of his/her job, but is still due to inadequate performance, the company has the appropriate, necessary legal instruments to ensure that no compensation other than that legally payable can be demanded. | Adopted | | Chapter D<br>Title IV<br>No. 80<br>page 164 |
| IV. AUDIT | | | |
| IV.1. As part of his duties, the external auditor must verify compliance with remuneration policies and systems for the corporate bodies and the efficacy and efficiency of internal control mechanisms and report any deficiencies to the company's oversight body. | Adopted | | Chapter B<br>Title III<br>No. 42<br>page 134 |
| IV.2. Neither the company nor any of its subsidiaries must contract services other than audit services from the external auditor or any entities in the same group or network with him. If it is necessary to contract such services (which must be approved by the oversight body and set out in its Annual Corporate Government Report), they must not amount to more than 30% of the total value of the services provided to the company. | Adopted | | Chapter B<br>Title III<br>No. 46<br>page 136 |

## STATEMENT OF COMPLIANCE

| RECOMMENDATION | ADOPTION STATUS | COMMENTS | DESCRIPTION IN REPORT |
|---|---|---|---|
| IV.3. Companies must endeavour to change auditors after two or three terms of office, depending on whether they are for four or three years, respectively. Their continuation beyond this limit must be justified in a specific opinion from the oversight body that expressly indicates the auditor's independence and the advantages and costs of his replacement. | Adopted | | Chapter B<br>Title III<br>No. 44<br>page 135 |
| V. CONFLICTS OF INTEREST AND RELATED-PARTY TRANSACTIONS | | | |
| V.1. The company's business with shareholders owning qualifying shareholdings or with entities in any way related to them, pursuant to Article 20 of the Securities Code must be conducted under normal market conditions. | Adopted | | Chapter A<br>Title II<br>No. 10<br>page 92 |
| V.2. The management or oversight body must establish procedures and criteria for defining the relevant degree of significance of business with shareholders owning qualifying shareholdings (or with entities in any of the relationships set out in Article 20 (1) of the Securities Code) and business deals of substantial importance will require a prior opinion from the body. | Adopted | | Chapter B<br>Title II<br>No. 21<br>page 102<br>Chapter E<br>Title I<br>No. 91<br>page 169 |

## STATEMENT OF COMPLIANCE

| RECOMMENDATION | ADOPTION STATUS | COMMENTS | DESCRIPTION IN REPORT |
|---|---|---|---|
| VI. INFORMATION | | | |
| VI.1. Companies must provide access to information on their progress and current economic, financial and governance situation on their websites in Portuguese and English. | Adopted | | Chapter C<br>Title V<br>No. 59<br>page 154 |
| VI.2. Companies must have an office for investor relations and permanent contact with market to respond to investors' requests in a timely fashion. A record must be kept of requests submitted and how they were handled. | Adopted | | Chapter C<br>Title IV<br>No. 56<br>page 152 |

# 3. OTHER INFORMATION

Attached to this report and considered part of it there are the following documents:

Annex I Corporate Bodie's Biography

Annex II Attendance list of the General and Supervisory Board

Annex III Attendance list of the Executive Board of Directors

Annex IV Positions held by the members of the Executive Board of Directors in other companies belonging or not to the EDP Group

Annex V Attendance list of Financial Matters Committee/Audit Committee

Annex VI Other operations with financial instruments in which EDP's share was used as an underlying asset were also performed

# ANNEX I

## GENERAL AND SUPERVISORY BOARD

### EDUARDO DE ALMEIDA CATROGA, CHAIRMAN

He was born on 14th November 1942. He has a degree in Finance from ISEG of Universidade Técnica de Lisboa (currently ISEG) in 1966 having received the award Alfredo da Silva for the highest course classification as well as a several other scholar awards. He was a professor at ISEF (from 1968 to 1974) and an invitee graduated professor from 1990 onwards. In 1979 he had a post-graduate degree from Harvard Business School (Program for Management Development). In 2012 he obtained the Honoris Causa Degree from Universidade Técnica de Lisboa. He as a long corporate career of over 47 years, mainly in the private sector. He began in 1967 at CUF (by then the larger corporate group in the Iberia) where he was responsible for the finance department, for the planning and control department and, by the age of 31, Chief Financial Officer and member of the Board and of the Executive Committee. Later on, he was Executive Vice-Chairman of Quimigal (sector of chemistry) from 1978 to 1980. In 1981 he became delegate director of Sapec (Belgian holding with a diversified business portfolio) and is now its Chairman. On the 80's he was non-executive director of BP (British Petroleum) Portugal and Chairman of the Board of Directors of CELCAT. Since February 2012, he is the Chairman of EDP General and Supervisory Board, where he has been a Member since 2006. He is also a non-executive director at Nutrinveste (company that is a world leader at the consume products area such as oil and olive oil) and at the Group Banco Financia Holding (investment bank). He is also a member of the Investment Committee of PVCI (Portugal Venture Capital Iniciative), a fund of investment funds connected to Banco Europeu de Investimentos. He was Minister of Finance of the XII Government, as independent, in the last mandate of Cavaco Silve as Prime-Minister, between December 1993 and October 1995. He has also performed, always as independent, two other political missions: in 2010, he led the negotiation group of Partido Social Democrata (PSD) who agreed with the socialist government of José Sócrates the fruition of 2011 State General Budget; in middle 2011, as per PSD invitation, he coordinated the preparation of the proposal for PSD electoral programme for the June 2011 elections. He published Política Económica – 22 Meses no Ministério das Finanças (1995) and Intervenções sobre Política Económica (vol. I, Dicursos and vol. II, Debates e Entrevistas, 1995), beyond several articles in specialty magazines in the areas of economic policy, portuguese economy and corporate strategy. On 9th June 2006 he was granted by the President of Republic, with the Grã-Cruz da Ordem Militar de Cristo. In 2007, he obtained the award Carreira de Economista, attributed by Economists Bar and the distinction of Antigo Aluno do Ano by ISEG.

### LUÍS FILIPE MARQUES AMADO, VICE-CHAIRMAN

He was born on 17th September 1953. Natural from Porto de Mós, with a degree in Economics, auditor of Tribunal de Contas. He was a deputy of Assembleia Regional da Madeira and of Assembleia da República, Secretary of State of Internal Administration and Foreign Affairs, Minister of National Defense and Minister of State and of the Foreign Affairs and Cooperation. He was a "Visiting professor" at Georgetown University. Currently, he is an advisor. He was non-Executive Chairman of Banif and he is non-executive director of SOM. Invitee professor of Instituto Superior de Ciências Sociais e Políticas and of Paris School of International Affairs (PSIA). Curator of Fundação Oriente and Member of the Board of Directors of Fundação Francisco Manuel dos Santos. Member of the European Council of Foreign Relations and of Centre for International Relations and Sustainable Development (CIRSD). He received the Grã-Cruz da Ordem de Cristo and several distinctions from foreign governments. He was elected Vice-Chairman of EDP General and Supervisory Board on the General Shareholders' Meeting held on 21st April 2015.

### YA YANG

He was born on 27th August 1962. He has a Bachelor's degree in Finance from Changsha University of Electricity. He later got his "Diplôme d'Etudes Supérieures Spécialisées" from the Business School of the University of Montreal, Canada and EMBA from HEC Paris. He served a series of posts before devoting to the China Three Gorges Project. He was Project Officer of the Bureau of Hydropower Construction of Ministry of Water Resources & Hydropower and Auditor of Beijing Office of PriceWaterHouseCoopers. Currently, he is the Chief Accountant & Corporate Controller of China Three Gorges Corporation, Member of the Board of China Yantze Power Company Limited and Vice-Chairman of Risk Management

Committee of China Society for Hydropower Engineering. He was appointed member of the General and Supervisory Board of EDP, in representation of China Three Gorges New Energy Co. Ltd, on 20th February 2012 and initiated their term of office on 11th May 2012. He was appointed as representative of China Three Gorges New Energy Co. Ltd, elected as Member of EDP'S General and Supervisory Board on the 21st April 2015 General Shareholders' Meeting.

**GUOJUN LU**

He was born on 12th July 1956. He has a Bachelor's degree in Engineering from East China Institute of Water Resources Engineering and a PhD in Economics from Central University of Finance and Economics in China. He served for China International Water and Electric Corporation from 1982 to 2010, starting as Deputy Chief of the Sri Lanka Office, Manager of the Pakistan Project Department and Deputy Chief of the Hydropower Department 1. He then served as Vice President and President of China International Water and Electric Corporation and Executive Vice President of China Water Investment Group Corporation. Currently, he is Assistant President of China Three Gorges Corporation and Chairman of China Three Gorges International Corporation. He was appointed member of the General and Supervisory Board of EDP, in representation of China International Water & Electric Corp, on 20th February 2012 and initiated their term of office on 11th May 2012. He was appointed as representative of China International Water & Electric Corp, elected as Member of EDP'S General and Supervisory Board on the 21st April 2015 General Shareholders' Meeting.

**DINGMING ZHANG**

He was born on 1st December 1963. He has a Bachelor's degree in Power System and Automation from Huazhong University of Science and Technology in 1984 and his Master's degree in Management from Huazhong University of Science and Technology in 2001. He served as an associate and then Deputy Division Chief in the Key Project Construction Department of the State Planning Commission of China (1984-1994), working in Germany between 1992 and 1993. He then worked as Deputy Division Chief, Division Chief and Deputy Director of Capital Planning Department of the Three Gorges Construction Committee under the State Council (1994-2002), before he became Deputy Director of Power Production Department of China Three Gorges Corporation (2002). He then worked as Executive Vice President of China Yangtze Power Company Limited (2002-2011) and President of Beijing Yangtze Power Capital Co. Ltd. (2008-2011). His past experience also includes Director of the Board of Guangzhou Development Industry (Holding) Co. Ltd. and Director of the Board of Yangtze Three Gorges Technology and Economy Development. From 2011 to 2015, he served as Board Secretary, Director of Strategic Development Department and Director of Marketing Department in China Three Gorges Corporation. Since 2015, he is President of China Yangtze Power Company Limited. He was appointed Vice-Chairman of the General and Supervisory Board of EDP, in representation of China Three Gorges Corporation, on 20th February 2012 and initiated their term of office on 11th May 2012. He was appointed as representative of China Three Gorges (Europe), S.A., elected as Member of EDP'S General and Supervisory Board on the 21st April 2015 General Shareholders' Meeting.

**SHENGLIANG WU**

He was born on 11th March 1971. He received Bachelor's degree in Engineering from Wuhuan University of Hydraulic and Electrical Engineering in 1992. Master's degree in Technical Economics and Management from Chongqing University in 2000. He served as technician and later as an engineer in Gezhouba Hydropower Plant (1992-1998). Secretary of Corporate Affairs Department in Gezhouba Hydropower Plant (1998-2002). Financial Manager of Capital Operating Department of China Yangtze Power Company (2002-2003). Information manager and then Deputy Director of Office of the Board of China Yangtze Power Company (2004-2006). Deputy Director and then Director of Capital Operating Department of China Yangtze Power Company (2006-2011). His past experience includes Director of the Board of Daye Non-ferrous Metals Co., Ltd (2008-2011). Executive Vice President of Beijing Yangtze Power Capital Co. Ltd (2008-2011). In 2011, he was appointed as Deputy Director of Strategic Planning Department in China Three Gorges Corporation. Since 2015, he is Vice President of China Three Gorges International Corporation, President of China Three Gorges (Europe) S.A. He was appointed member of the General and Supervisory Board of EDP, in representation of China Three Gorges International (Europe) S.A. on 20th February 2012 and initiated their term of office on 11th May 2012. He was appointed as representative of China Three Gorges (Portugal), Sociedade Unipessoal, Lda., elected as Member of EDP'S General and Supervisory Board on the 21st April 2015 General Shareholders' Meeting.

**FELIPE FERNÁNDEZ FERNÁNDEZ**

He was born on 21st December 1952. He has a degree in Economics and Management Sciences (1970 - 1975) from the University of Bilbao. His professional career includes the following positions: Professor at the Faculty of Economics and Business, University of Oviedo (1979 - 1984), Director of Regional Economy and Planning of the Principality of Asturias (1984 - 1990), Member of the Board and Executive Committee of the Caja de Ahorros de Asturias (1986 - 1990), Member of the Board of Directors and Vice-President of " Sociedade Asturiana de Estudios Económicos e Industriales" (1986 - 1990), Member of the Board of Directors and Vice-President of the company SEDES , SA (1988 - 1990), President of the Committee for Planing and Urbanism of Asturias (1990 - 1991); Counsel for Planning, Urbanism and Housing in the Principality of Asturias (1990 - 1991); Counsel for Rural and Fishing Affairs in the Principality of Asturias (1991 - 1993), Director of the Department of Management Control of Hidrocantábrico (1993 - 1998), Director of the Department of Management Control, Purchasing and Quality of Hidrocantábrico (1998 - 2001), Chairman of the company Gas Asturias (2001 - 2003), Director of Support Areas and Control of Hidrocantábrico (2001 - 2002); Hidrocantábrico CFO, Chairman of Gas Capital, CEO of Hidrocantábrico Servicios, Board Member of Naturcorp, Gas de Asturias, SINAE, Canal Energía, Telecable and Sociedad Regional de Promoción de Asturias (2002 - 2004). He is currently Board Member of HC Energia, Board Member of Naturgas Energía Grupo, Board Member of Ahorro Corporación, Board Member of Liberbank and Member of its Management Committee (participation in the preparation and approval of Risk Appetite Frame (RAF) and of 2015 Liberbank Recovery Plan, and participation and approval of risk reports Información con Relevancia Prudencial 2014 and Informe de Autoevaluación de Capital 2014 of Liberbank; participation in trainee seminars of Price Waterhouse Coopers: Recovery Pan (November 2015) and Risk Appetite Frame – RAF (May 2015); Board Member of Cementos Tudela Veguín and Masaveu Inmobiliaria. Member of the Patronage of Fundação Princesa das Asturias and Member of the Jurado de la Concordia. He was appointed member of the General and Supervisory Board of EDP, in representation of Cajastur Inversiones SA, on 20th February 2012 and, in representation of DRAURSA, S.A., in 21st April 2015; currently he is a Member of the Corporate Governance and Sustainability Committee.

**FERNANDO MARIA MASAVEU HERRERO**

He was born on 21st May 1966 in Oviedo (Asturias). He received a law degree from the University of Navarra. He started to work at Masaveu Group in 1993 where he played various roles. He currently performs the following positions, among others: Chairman of Masaveu Corporation; Cementos Tutela Veguín; Agrocortex Florestais do Brasil; Masaveu LLC; Masaveu Real Estate US Delaware LLC; Board Member of Hidroelectrica del Cantábrico, S.A.U.; Board Member of Naturgas Enegía Grupo; Board Member of Bankinter; Member of the Bankinter Executive Committee; Board Member of ENEO SGPS; Board Member of Olmea International; Chairman of Fundação Maria Cristina Masaveu Peterson; Chairman of the Fundação San Ignacio de Loyola; Protector of Fundação Princesa das Astúrias; Member of the Executive Committee of Fundação Princesa das Astúrias; Member of the Excutive Committee of Fundação Princesa das Astúrias; Member of the Patrimonial Committee of Fundação Princesa das Astúrias; International Protector of Associação Amigos do Museu do Prado; Honor medal of Escuela Superior de Música Reina Sofia; Patroness of scholarships; Chairman of the Board of Oppidum Capital, S.L. Beyond this, he is a Member of the Board of several companies in Masaveu Group.Member of EDP General and Supervisory Board; Member of EDP Strategy and Performance Committee; Member of EDP Remunerations Committee; he was elected Member of EDP's General and Supervisory Board in 20th February 2012 and in 21st April 2015. In the past, he occupied relevant positions in several areas: I+D: Board Member and Vice-Chairman of Agrupación de Fabricantes de Cemento (OFICEMEN) and joint Board Member of Masaveu Medicina; Furthermore: Chairman of Bodegas Murúa, Bodegas Fillaboa and Bodegas Pagos de Aráiz, Board Member at Rioja Alta; Foundations: Protector and Chairman of Fundação Masaveu, Protector and Secretary at Fundação Virgen de los Dolores, Protector of Fundação Oso; Energia: Chairman of Audit Committee of Hidroeléctrica del Cantábrico; Financial: Board Member of Financiera Interprovincial SINCAV, Board Member of Banco Herrero, Member of the Internation Avisory Board of Santander Group; Transportation: Joint Board Member of Transportes Covadonga, Comercial Iberoamericana de Servicios e Fletamentos y Consgnaciones Marítimas. Environment: Board Member of Teconma; Medical: Board Member of Molypharma and of Medicina Asturiana; Editorials: Vice-Chairman of the Board of Directors and of the Executive Committee of Ediciones Nobel; Real State and Concessions: Joint Board Member of COCANSA, Chairman of the Board of Directors of DRAURSA, Chairman of the Board of Directors of Estacionamentos Iruña, Joint Director of Aparcamientos Asturias y Estacionamientos Noroeste, Vice-Chairman and Board Member of Propriedades Urbanas, Chairman of the Board of Directors of Agüeira e Hoteles y Turismo de la Meseta, Managing Director of Danyson Kft.

**NUNO MANUEL DA SILVA AMADO**

He was born on 14th August 1957. He has a degree in Companies Organization and Management from ISCTE – Instituto Superior das Ciências do Trabalho e da Empresa. He has also complementary executive degree from INSEAD, Fontainebleau (Advanced Management Programme). From 1980 to 1985 he was employee of KPMG Peat Marwick, at the Audit and Consulting Department. From 1985 onwards he worked at Citibank and Banco Fonsecas & Burnay. Afterwards he was Member of the Board of Directors of Deutsche Bank Portugal, Member of the Executive Committee of BCI (Banco de Comércio e Indústria) / Banco Santander, Vice-Chairman of the Executive Committee of Crédito Predial Português, Vice-Chairman of the Executive Committee of Banco Totta & Açores, Member of the Executive Committee of Banco Santander Negócios de Portugal, of Banco Santander Totta, S.A. and of Banco Santander Totta, SGPS. From August 2006 until January 2012 he became CEO and Vice-Chairman of the Board of Directors of Banco Santander Totta, S.A. and of Banco Santander Totta, SGPS. Since February 2012 he is Vice-Chairman of the Board of Directors and CEO of Banco Comercial Português. He is Vice-Chairman of the Supervisory Board of Bank Millennium Polónia. He was appointed Member of the General and Supervisory Board of EDP – Energias de Portugal, S.A. on May 6th 2013. At the General Shareholders' Meeting of the 21st April 2015 he was elected Member of EDP – Energias de Portugal, S.A., as representative of Banco Comercial Português, S.A.

**FERHAT OUNOUGHI**

He was born in 26th April 1967. He has a degree in Finance by the Institute of Economic Sciences of the University of Algiers in 1991. He has also an Executive MBA in Strategy by MDI Algiers and by EDHEC, University of Lille II, France, 2008. He has also professional education in audit and internal control from IFACI, the French Institute of Internal Control and Audit, 2009. He has attended several training courses on accountancy, finance, audit, dispute resolution, project management, production and exploitation of petroleum, leadership and commercial development. After the military service, he joined Sonatrach, the national Algerian company for oil and gas, at the Accountant and Financial Department. In 1999, he assume his first management position as "Order to Pay Manager" at the oil and gas production department. In 2002, he was promoted and became the financial responsible for the engineering and construction of Sonatrach upstream activity. In 2004 he was again promoted and assumed the position of Audit Procedures Head at Sonatrach upstream activity. Between 2006 and 2013, he became Internal Audit Director of Sonatrach upstream activity. While connected to the internal audit, he attended several seminars within the scope of the management risk, namely, "Risk Management" in 2007, "The role of internal Audit in the Risk Management" in 2008 and "Mapping of Major Risks" (in 2009). In 2013, he is appointed Director of Financial Operations in the Head Quarter of Sonatrach, position was assumed until beginning of 2016. In March 2016, he is appointed Executive Central Director of Procurement and Logistic of Sonatrach, position he assumed until the beginning of 2017. In January 2017, he is appointed Executive Director of Subsidiaries and Affiliates of Sonatrach. He was elected Member of EDP – Energias de Portugal, S.A. General and Supervisory Board as Sonatrach's representative on the 21st April 2015.

**MOHAMED ALI AL-FAHIM**

He was born on 4th March 1976. He has a degree in Finance by the University of Suffolk, Boston (1999). He has started his professional career at Abu Dhabi National Oil Company (ADNOC), where he worked from 2000 to 2008. His activity was focused in the identification and in the definition of investment strategies for a balanced investment portfolio of ADNOC, which could be able to meet the Groups requirements for cash flow and returns. During that time, he also had working experience as Corporate Finance Consultant for KPMG-Dubai (2001-2002) and for HSBC Bank at the Project and Export Finance Division-London (2006). Since September 2008, he has been Head of Finance at the Finance & Accounts Department of International Petroleum Investment Company (IPIC). He is a member of the board of directors of several companies as IPIC representative: AABAR Investment PJS (since May 2010) and RHB bank Group (since May 2014). Mr. Al Fahim has attended Risk Management program for corporate leaders at Harvard Business School on December 2013. He was appointed member of the General and Supervisory Board of EDP, in representation of Senfora Sarl, on 16th April 2010 and 20th February 2012 and, as representative of Senfora B.V. on the 21st April 2015.

**MOHAMMED AL HURAIMEL AL SHAMSI**

Mohammed Al Huraimel Al Shamsi is a C-Level professional experienced in strategic planning, business operations leadership, negotiation, and talent management. He has a proven track record in successfully obtaining ROI through successful management of investments and has experience in the private and government sectors. He is currently the Director of Utilities Investments in Mubadala Investments Company, where he is responsible for the Utilities investments portfolio, which includes thermal power generation and district cooling assets. During his tenure at Mubadala, Mohammed has spearheaded the development of Suyadi - a $150M green field joint venture in Mainland China, turned around Tabreed - an UAE provider of distributed cooling services, and was placed as interim Chief Executive of MINESA – a $200M Gold Mine in North East Colombia. He has held board seats in Tabreed District Cooling (UAE), Jiangsu Suyadi (China), Shariket Kahraba Hadjret-En-Nous (SKH) S.A.R.L. (Algeria), and SMN Power Company (Oman). Prior to Mubadala, he was the director of Strategy & Policy at the UAE Prime Minister's Office, where he was responsible for developing the UAE Vision 2021 and the Federal Government Strategy 2011-2013 across 48 government agencies. He has also held roles at McKinsey & Company, Dubai International Capital, and General Motors. Mohammed holds an MBA from the HEC School of Management – Paris and a Bachelors Degree in Business Administration from the American University of Sharjah. He enjoys travelling, where he visited over 60 countries and has lived in six different countries.

**ANTÓNIO SARMENTO GOMES MOTA**

He has born on 10th June 1958. He has a degree in Management by ISCTE, (1981), an MBA by the School of Economics of Universidade Nova de Lisboa (1984) and a PhD in Management by ISCTE. He is a Full Professor of ISCTE Business School which he has been the head (2003 – 2012). He was also the head of INDEG/ISCTE (2005 - 2012); Chairman of the Board of Directors of Grupo Soares da Costa (since 2013), Chairman of the Tax Board of CTT (since 2013) and member of the Remunerations Committee of PT; he is also Vice-Chairman of Instituto Português de Corporate Governance (since 2010); he is also author of a number of books and papers on areas such as corporate governance, financial markets and instruments, strategy and business restructuring. He was appointed member of the General and Supervisory Board of EDP on 15th April 2009 and reappointed on 2th February 2012 and on 21st April 2015.

**MARIA CELESTE FERREIRA LOPES CARDONA**

She was born on 30th June 1951. She holds a degree, a master and a Phd (legal-administrative sciences, specialization in Administrative Law) in law from Faculdade de Direito da Universidade de Lisboa. She was a Member of Centro de Estudos Fiscais of the Minister of Finance. She represented Portugal, on behalf of Minister of Finance, on the Tax Affair Committee of OEDC (Organization for Economic Cooperation and Development). She has been an Assistant Professor in Faculdade de Direito da Universidade de Lisboa and in Universidade Lusíada. She was Deputy at the European Parliament and at the National Parliament. She was Minister of Justice of the XV Constitutional Government. She was graced the degree of Grande Oficial da Ordem do Infante D. Henrique, attributed in 1998, by his Excellency the President of the Portuguese Republic. She was also a non-executive Board Member of Caixa Geral de Depósitos. Mrs. Celeste Cardona published articles and opinions in specialty magazines, namely in "Ciência e Técnica Fiscal". She is also author of several monographs and varied studies, such as "As agências de regulação no Direito Comunitário", "O problema da retroactividade na lei fiscal e na Constituição", "A prescrição da obrigação tributária e a caducidade da liquidação de impostos", e "A natureza e o regime das empresas de serviço público". She is currently a lawyer and a consultant in M. Cardona Consulting, Lda. and also a non-executive member of BCI, headquartered in Maputo, Mozambique, a member of the Fiscal Council of SIBS and a legal and fiscal consultant for several financial and non-financial institutions. She was appointed Member of the General and Supervisory Board of EDP on the 20th February 2012 and on the 21st April 2015.

**ILÍDIO DA COSTA LEITE DE PINHO**

He was born on 19th December 1938. Degree in Electronics and Machinery Engineering. Grã-Cruz Order of Merit, Honorary member of the Industrial Order of Merit. Member of the "Ordens Honoríficas Portuguesas" from 1986 to 1999. Gold Medal and "Honorary citizen" award granted by the city of Vale de Cambra, in 1999. Gold medal and "University Benefactor" award granted by "Universidade Católica Portuguesa". Golden Badge by the Portuguese Association of Voluntary Firemen, in 2002. Between 1986 and 1991 was non-executive Board of Directors Member of ICEP (Instituto do Comércio Externo de Portugal) in representation of the National Industry. President of the City Hall Council of Vale

de Cambra between 1979 and 1983 and President of the City Hall Assembly of Vale de Cambra, between 1993 and 1997. Member of the Administrative Committee of "Universidade Católica" – Oporto and of the Senate of "Universidade do Porto". Member of University Counsel of "Universidade de Aveiro". Member of the board of several business association. Member of the "Trilateral Commission" between 1988 and 1996. Was founder and Chairman of the Board of Directors of COLEP. Was founder of NacionalGás, S.A. and its subsidiaries, LusitâniaGás, EGA, EGL, EMPORGÁS, EDISOFT, S.A. and MEGASIS. Was the main shareholder of Transinsular. Was non-executive Member of the Board of Directors of "Banco Espirito Santo, S.A." between 2000 and 2005. Shareholder of "CEM - Companhia de Electricidade de Macau, SARL". Chairman of the Strategy Committee of "Fomentinvest, S.A.". Founder and Chairman of the Board of Directors and the Board of Trustees of Fundação Ilídio Pinho. Chairman of various companies of Group Ilídio Pinho. He was appointed member of the General and Supervisory Board of EDP on the 20th February 2012 and on the 21st April 2015.

**JORGE AVELINO BRAGA DE MACEDO**

He was born on 1st December 1946. He has a law degree from Universidade de Lisboa in 1971. At Yale University, he completed M.A. in International Relations (1973) and also has PhD in Economics (1979). He aggregated in the Faculty of Economics from Universidade de Lisboa in 1982. Since 1999 to 2003 he belonged to the OECD (Organisation for Economic Cooperation and Development) and the European Commission in Brussels between 1988 and 1991. At a national level, he was Minister of Finance (1991-1993 having chaired ECOFIN) and President of the Parliamentary Commission for European Affairs (1994-1995) and of the Instituto de Investigação Científica e Tropical (2004 – 2015). He has taught in several universities in the USA, Europe and Africa. He was a trainee at International Monetary Fund and has been a consultant at the European Bank for Reconstruction and Development, the United Nations, the World Bank. Currently, he is a Professor and Director of the Center Globalization and Governance (CG & G) at the Nova School of Business and Economics from the Universidade Nova and a researcher at NBER (Cambridge, Mass); CEPR (London) and CIGI (Waterloo, Ont.). He was appointed member of the General and Supervisory Board of EDP on the 20th February 2012 and on the 21st April 2015.

**VASCO JOAQUIM ROCHA VIEIRA**

He was born on 16th August 1939. He has a degree in Civil Engineering. He took several courses and specialties, including General Course of Staff (1969-1970), Complementary Course of General Staff (1970-1972), Course of Command and Direction for Official General (1982-1983) and the Course of National Defense (1984). In 1984 in was promoted to Brigadier and in 1987, he was promoted General. In 1956 he joined the Military College having received the Alcazar of Toledo Award, given to the highest rated finalist of all students from the Military Academy. From 1969 to 1973 he collaborated with Lisbon´s City Hall. He taught at the Military Academy and at the Institute for Advanced Military Studies. He was Deputy Secretary for Communications and Public Works of the Macau Government (1974-1975). Director and of Weapons and Engineering (1975/1976). Chief of Staff of the Army (1976/1978) during the normalization period of the Army role in the democratic regime following 1974 Revolution, of the military reconversion, of the operative and missions of the Army upon the end of Ultramar war and the demobilisation and reorientation of the Army for Portugal responsibilities before NATO. During this period, he was, inherently, member of the Revolution Council. He was national military representative (1978/1984) at Europe Supreme Allied Command – SHAPE/NATO, Minister of Republic for Azores Autonomous Region with chair at Council of Ministers (1986/1991). Appointed as Macao Governor in 1991, he was responsible for the management of this territory during the transition period until the power transference from Portugal to People´s Republic of China in 1999.Currently, he is Member of the Board of Engineers, Member of the Academy of Engineering, Member of the Supreme Council of Associations of the Former Students of the Military College, member of the Supreme Council of SHIP (Sociedade Histórica da Independência de Portugal), member of the Honorary Council of the ISCSP (Instituto Superior de Ciências Sociais e Políticas) andMember of the School Board of the same Institute. He is an honorary associate of Lisbon Geography Society, of Sociedade Histórica da Independência de Portugal and of the Combatants League. He was appointed member of the General and Supervisory Board of EDP on 20th February 2012.

**AUGUSTO CARLOS SERRA VENTURA MATEUS**

He was born on 27th August 1950. He has a degree in Economics from Intituto Superior de Economia e Finanças (ISCEF), da Universidade Técnica de Lisboa. Guest Professor at ISEG with diversified responsibilities in the areas of European and Portuguese Economy, Economic Policy and Industrial and Competitiveness Policy at the level of degrees and masters'

degrees. Researcher and consultant in the areas of macroeconomics, economic policy, industrial competitiveness, business strategy, territorial development, program evaluation, policy and economic development of culture and creativity. Responsible for the coordination of several studies of evaluating programs and policies and for the coordination of several research projects and studies in applied economics. He has held the positions of Secretary of State for Industry (October 1995 until March 1996) and Ministry of Economy (March 1996 until December 1997). He is currently Chairman of the consulting company Augusto Mateus & Associados, founded in 1998, and General Chairman of Instituto Politécnico de Tomar since 2011. He was appointed member of the General and Supervisory Board of EDP on May 6th 2013 and on the 21st April 2015.

**JOÃO CARVALHO DAS NEVES**

Professor in finance and planning and management control, ISEG, Universidade de Lisboa. Director of the master degree in Real Estate Management and Assessement. Advisor at A2ES – Agência de Avaliação e Acreditação do Ensino Superior para as áreas da Gestão, Gestão de Saúde, Banca e Finanças. Manager Advisor (pro bono) of Raríssimas – Associação Nacional de Doenças Mentais e Raras. Independent management consultant. PhD by Manchester Business School, center for Creative Leadership, Kennedy Harvard Governement School), in management control (HEC Paris and Wisconsin Graduate Business School in Madison), in company finances (IMD and Management Center of Europe), in international finances (INSEAD), in analysis and risk management (Stern New York University) and in banks (International Banking Centre from Manchester Business School and the International Center for Monetary and Banking Studies in Geneva). Fellow by RICS Royal Institution Chartered Surveyors (management and assessment of real estate) since January 2008. Statutory Auditor since 1998. Technical Account Admitted since 1981. Approved s Business Coach by the ECA European Coaching Association. Approved as Multi-Health Systems in Emotinal Intelligence Bar-On model. Chairman of ACSS Administração do Sistema Central de Saúde, I.P (2011-2014). Board Member of BPN (2008) and SLN (2008 – 2009) where he was included as member of Miguel Cadilhe team; Judicial administrator (1993 – 1998) of Torralta, TVI and Casino Hotel de Troia, taking part of the recovery process of these companies. Associated Partner of Coopers & Lybrand, now PWC (1992 – 1993), director of CIFAG/IPE (1985 – 1992) and assistant controller of Cometna (1981 – 1984); Member of the Scholar Council ISEG (2014 - …); Chairman of the Audit Board ADVANCE Centro de Investigação em Gestão do ISEG (2009 – 2014); Chairman of the Audit Board of ADVANCE Centro de Investigação em Gestão of ISEG (2009-14); Chairman of the Audit Board of Federação Portuguesa de Judo (1997 – 2013); Member of the Audit Board of SIBS, S.A. (2007 – 2008); Member of the Audit Board of FCCN – Fundação para a Computação Científica Nacional (2009 – 2011); Member of the Scientific Council of INE for the housing prices index (2010 – 2011); Member of ISEG Scientific Coucil (2005 – 2008); Chairman of Management Department at ISEG (2007 – 2008); MBA Director at ISEG (1998 – 2020 and 2014 – 2016) and of the post-graduation and master degree in management and real estate assessment (2001 - …). Relevant experience as consultant, invitee professor abroad and author and co-author of management books. To point out the activity developed in the risk area, namely the attendance of courses, the coordination of projects, the co-authorship on several articles on the matter, the communication in national and international conferences and the guidance in PhD dissertations. He was elected member of the General and Supervisory Board of EDP – Energias de Portugal, S.A. in 21st April 2015.

**ALBERTO JOAQUIM MILHEIRO BARBOSA**

Has more than 35 years of professional experience. After obtaining his degree in Electrical Engineering he taught at the Faculty of Engineering of Porto University as an assistant professor and started his industrial career has an engineer in electrical studies. He enhanced his competences throughout his career with multiple technical and management training programs of both national and international institutions. During several years, he was a member of the Board, overseeing Efacec activities in the fields of Electrical Mobility, amongst others. He has previously held positions of President of Board, Executive Director or General Manager in several national and international companies, within the Efacec and Tech M5 Groups. Currently, he is a member of EDP's General and Supervisory Board. Within the scope of this Board, he is a member of the Strategy and Performance Committee and of the Audit Committee. He is also a board member of the technological start-up "Follow Inspiration". During his career, Alberto Barbosa has headed or been involved in mergers, acquisitions and sale of over 20 companies or business areas (some of them involving several hundred million euros) and has overseen multiple projects including strategic analysis, technical analysis and financial package preparation. He has also gained strong experience in investor relations, as well as in negotiation with financial institutions. He is a member of the Portuguese Academy of Engineering (Academia de Engenharia) and had actively participated in multiple

industry associations and fora, including the IEC, the Portuguese Institution of Engineers (Ordem dos Engenheiros), Animee, UNICE, APDC, APREN, APIEE and ADFER. He has also worked as an Expert for the CEC, advising the Commission on several subjects in the fields of Energy and Information Technology. Over the last 20 years he has participated in multiple conferences and colloquiums, having presented over 100 lectures in technical fields (electricity networks, telecommunications, transportation systems) as well as management areas, and wrote technical and position articles in various magazines and newspapers.

**MARIA DEL CARMEN ANA FERNÁNDEZ ROZADO**

Degree in Economics and Business Administration and Political Science and Sociology in the Complutense University of Madrid. PHD in aforementioned University. MBA in IESE Business School (University of Navarra). Member of State Tax Inspectors Body, by public competition. Account Auditor (Registered in the Auditing and Accounting Institute). During professional career, has participated in more than 50 workshops, international and national workshops and seminars regarding: Finance, Auditing, Taxes, Global Management, Business Strategy, Renewable Energies, International Cooperation. More than 35 years of experience in the field of Finance, Accounting, Taxation and in the Energy Sector. From 1983-1999 she has occupied relevant positions in the Ministry of Economy and Finance (General Tax Inspector Chief in Madrid). In 1999 was appointed member of the Board of the National Energy Commission (Regulatory Body of Spanish Energy System). During this period (1999-2011) she has participated in the Planning of the Sector including authorizations, mergers and acquisitions as well as in the implementation of the retribution model for Electricity distribution in the Spanish Market and other subjects. President during several years of the Renewable Energy TASK FORCE, Sustainability Energy Efficiency and Carbon Market in ARIAE (Latin American Energy Regulators Association). A large part of her professional career has been carried out in Latin America providing technical assistance in the Regulatory Bodies in Peru, Colombia, Dominican Republic, Guatemala, Argentina and Uruguay regarding aspects in implementation of technical norms in the tender of renewable energies. Development of projects in wind, solar and mini hydraulic, energy efficiency, carbon markets (elaboration of PDDs, baseline, follow-up and monitoring of GEI emissions). In the EU, she has been Vice-President of renewable energies in MEDREG (Mediterranean Regulatory Body). Since September 2011 she is International advisor for the development and implementation of business plans in energy and in Infrastructures in Latin America and Asia. Local Support with Institutions and Regulatory Bodies. From 2012-2013 she was a member of the Advisory Board of Ernst & Young (EY) in Madrid. In April 2015 she was appointed member of the General and Supervisory Board and of the Audit Committee of EDP (Energias de Portugal), Lisbon. Professor at several Universities and Business Schools both Spanish and Foreign, developing programs in relation with Fiscal, Account Auditing, financing of Renewable Energy projects and Carbon Markets. Author of numerous articles and publications regarding previously mentioned activities. Member of Several Professional Associations in Spain and Latin American. Patron of the Comillas University Foundation ICAI-ICADE, Madrid. Vice-president of the Club Financiero Genova, Madrid.

**ANTÓNIO VITORINO**

He was born in Lisbon, in 1957. He has a Law degree by Faculdade de Direito da Universidade de Lisboa, in 1981. He has a master degree in legal-political sciences by Faculdade de Direito da Universidade de Lisboa, in 1986. He is a Member of Portuguese Bar Association since 1982. He was an assistant Professor at Faculdade de Direito de Lisboa, since 1982. He was an invitee Professor at Faculdade de Direito da Universidade Nova de Lisboa between 2008 and 2010. He was a deputy at Assembleia da República between 1980 and 2006. He was Secretary of State of Parliamentary Issues (1983 – 1985); he was an Alternate Secretary of Macao Government (1986 – 1987) and a Judge at Constitutional Court (1989 – 1994). He was a Deputy at the European Parliament (1994 – 1995). He was Minister of Presidency and National Defense (1995 – 1997). He was European Commissionaire for the Justice and Internal Affairs (1999 – 2004). He is a non-executive member of the Board of Directors of Banco Santander Totta and Chairman of the General Shareholders' Meeting of Brisa, Auto-Estradas de Portugal, S.A. and EDP – Energias de Portugal, S.A.; he is the Chairman of the Audit Board at Siemens Portugal and Tabaqueira Industria. He is also a non-executive Chairman of Áreas (Portugal). Chairman of Instituto Jacques Delors, Paris (2011/2016). Partner of Cuatrecasas, Gonçalves Pereira from December 2005 onwards. He was elected Member of the General and Supervisory Board of EDP – Energias de Portugal, S.A. on the 21st April 2015.

## EXECUTIVE BOARD OF DIRECTORS

### ANTÓNIO LUIS GUERRA NUNES MEXIA, CHAIRMAN

He is Chairman of the Executive Board of Directors of EDP Energias de Portugal since March 2006. He is also Chairman of EDP Renováveis, S.A. e EDP - Energias de Brasil, S.A. Moreover, since April 2016, he chairs the Business Council for Sustainable Development in Portugal (part of the WBCSD regional network) and the Board of Se4all, within the United Nations organization. He is also member of Millennium BCP Board of Directors. He was born on the 12th of July 1957 in Lisbon. He received a degree in Economics from the University of Geneva (Switzerland) in 1980, where he was Assistant Lecturer in the Department of Economics. He was also a lecturer at Universidade Nova de Lisboa and at Universidade Católica from 1982 to 1995. He served as Assistant to the Secretary of State for Foreign Trade from 1986 until 1988. From 1988 to 1990 he was Vice-Chairman of the Board of Directors of ICEP (Portuguese Institute for Foreign Trade). From 1990 to 1998 he became member of the Board of Directors of Banco Espírito Santo de Investimentos and, in 1998, he entered the Gas sector as Chairman of the Board of Directors of Gás de Portugal and Transgás. In 2000 he joined Galp Energia as Vice-Chairman of the Board of Directors, and became Executive Chairman of the company in 2001. He was President of Eurelectric between June 2015 until June 2017. In 2004, he was appointed Minister of Public Works, Transport and Communication of the Portuguese Government. In 2013 he received the Honoris Causa Graduation from "Instituto Superior de Economia e Gestão" (ISEG) and in 2014 he was honored by The President of the Portuguese Republic with the "Grã-Cruz da Ordem do Mérito Empresarial".

### NUNO MARIA PESTANA DE ALMEIDA ALVES

Born on the 1st of April, 1958. He holds a degree in Naval Architecture and Marine Engineering (1980) and a Master in Business Administration (1985) by the University of Michigan. In 1988, he joins the Planning and Strategy Department of Millennium BCP and, in 1990, becomes an associate director of the bank's Financial Investments Division. In 1991, Mr. Nuno Alves is appointed as the Investor Relations Officer for the Group and, in 1994, he joins the Retail network as Coordinating Manager. In 1996, he becomes Head of the Capital Markets Division of Banco CISF, currently Millennium bcp Investimento, and, in 1997, Co-Head of the bank's Investment Banking Division. In 1999, Mr. Nuno Alves is appointed as Chairman and CEO of CISF Dealer, the brokerage arm of Banco CISF. Since 2000, before his appointment as EDP's Chief Financial Officer in March 2006, Mr. Nuno Alves acted as an Executive Board Member of Millennium BCP Investimento, responsible for BCP Group Treasury and Capital Markets. He is Member of the Board of Directors of EDP Energias do Brasil, EDP Renováveis and Hidroeléctrica del Cantábrico, and CEO of EDP - Imobiliária e Participações and Sãvida. He was appointed on March 30th, 2006 as Member of the Executive Board of Directors, which office began on June 30th, 2006, and reappointed on April 15th, 2009, February 20th, 2012 and April 21st, 2015.

### JOÃO MANUEL MANSO NETO

He was born on April 2nd 1958. He graduated in Economics from Instituto Superior de Economia (1981) and received a post-graduate degree in European Economics from Universidade Católica Portuguesa (1982). He also completed a professional education course through the American Bankers Association (1982), the academic component of the Master's Degree programme in Economics at Faculdade de Economia, Universidade Nova de Lisboa and, in 1985, the "Advanced Management Program for Overseas Bankers" at the Wharton School in Philadelphia. From 1981 to 1995 he worked at Banco Português do Atlântico, occupying several positions, mainly as Head of the International Credit Division, and General Manager responsible for Financial and South Retail areas. From 1995 to 2002, he worked at the Banco Comercial Português, where he held the posts of General Manager of Financial Management, General Manager of Large Corporates and Institutional Businesses, General Manager of the Treasury, member of the Board of Directors of BCP Banco de Investimento and Vice-Chairman of BIG Bank Gdansk in Poland. From 2002 to 2003, he was a member of the Board of Banco Português de Negócios. From 2003 to 2005 he worked at EDP as General Manager and Member of the Board of EDP Produção. In 2005 he was elected CEO at HC Energía, Chairman of Genesa and Member of the Board of Naturgas Energia and OMEL. Currently he is CEO of EDP Renováveis and responsible for Regulation and Energy Management (Gas and electricity) at Iberian level, being also member of the Board of OMIE, OMIP and MIBgás. He was appointed on 30th March 2006 as member of the Executive Board of Directors, which office began on 30th June 2006, and reappointed on 15th April 2009, 20th February 2012 and 21st April 2015.

**ANTÓNIO FERNANDO MELO MARTINS DA COSTA**

Born in Oporto, Portugal on December ,1954, he holds a degree in Civil Engineering from Faculdade de Engenharia do Porto (1976) and a MBA from Porto Business School (1989). He also has complementary Executive degrees from INSEAD (Fontainbleau, France – 1995), PADE from AESE (Lisbon, 2000) and the Advanced Management Program from Wharton School (Philadelphia, USA – 2003). He was a Teacher's Assistant at the Instituto Superior de Engenharia do Porto between 1976 and 1989. In 1981 he joined the Hydro Generation department at EDP where he stayed until 1989. Between 1989 and 2003 he was General Director at the Millennium BCP Bank and Board Member of Insurance, Pensions and Assets Management of several companies of BCP Group. Between 1999 and 2002 he was Executive Director of Eureko BV (The Netherlands), President of Eureko Polska and Vice-President of PZU (Poland). He was the CEO and Vice-Chairman of the Board of Directors of EDP – Energias do Brasil between 2003 and 2007. During this period, he also held positions as Vice-President of the Portuguese Chamber of Commerce in Brazil and President of the Brazilian Association of Electricity Distribution Companies. In 2007, he assumed functions as Chairman and CEO of Horizon Wind Energy in the USA, being also a Member of the Executive Board of EDP Renováveis since its incorporation in 2008 until 2012. He is Chairman of the Board of Directors of EDP Valor, since 2013. He maintains responsibilities for EDP Distribuição at EDP's Executive Board level. He is a Founding Member of the Portuguese Institute for Corporate Governance, Vice-Chairman of American Chamber of Commerce, Director of Hungarian Chamber of Commerce, Vice-Chairman of Proforum, Vice-Chairman of APGEI (Portuguese Association of Mangament and Industrial Engineering) and Member of the Superior and General Board of Porto Business School. He was appointed on 30th March 2006 as member of the Executive Board of Directors, which office began on 30th June 2006, and reappointed on 15th April 2009, 20th February 2012 and 21st April 2015.

**JOÃO MANUEL VERÍSSIMO MARQUES DA CRUZ**

He was born on 23rd May 1961. He holds a degree in Management (1984) from Lisbon's ISE at Instituto Superior de Economia da Universidade Técnica de Lisboa, an MBA (1989) from Universidade Técnica de Lisboa and a Post-Graduation in Marketing and Management of Airlines (1992) from IATA – International Air Travel Association/Bath University, UK. He began his career at the TAP Group in 1984 (Transportes Aéreos de Portugal) having had several positions until becoming General Director. Between 1997 and 1999 he was a Board Member of TAPGER. Between 2000 and 2002, he was a member of the Board of several companies within CP Group – Portuguese Railways, namely EMEF. From 2002 and 2005, became CEO of Air Luxor, an airline company, and from 2005 and 2007 he was chairman and CEO of ICEP - Instituto do Comércio Externo de Portugal. From March 2007 to 2012, he was a board member of EDP Internacional S.A. and in 2009 he was nominated Chairman of the Board of Directors of CEM – Macao Electrical Company. He was appointed as a member of the Executive Board od Directors of EDP Renováveis on May 2012, as Chairman of the Câmara Comércio Luso-Chinesa on April 2012 and Chairman of EDP Internacional on September 2014. He was appointed as member of the Executive Board of Directors on 20th February 2012 and reappointed on 21st April 2015. He was appointed as a member of the Executive Board od Directors of EDP - Energias do Brazil SA on April 10, 2015. He is Chairman of Global Hydro a joint venture between EDP and CTG for hydro projects of small and medium size from 9th April 2015.

**MIGUEL STILWELL DE ANDRADE**

He was born on 6th August 1976. Graduated with an M.Eng with Distinction in Mechanical Engineering in the University of Strathclyde (Glasgow, Scotland) and an MBA by MIT Sloan (Boston, USA). He initiated his career at UBS Investment Bank in London, UK, where he worked primarily in Mergers and Acquisitions in various projects in European countries, including Portugal, as well as in Japan, Thailand and Brazil. Miguel lived between 1994 and 2003 in Scotland, Italy, England, Portugal and the USA. In 2000, he joined EDP in the area of Strategy and Corporate Development / M & A and was the Director of this area between 2005 and 2009. During this period Miguel coordinated and managed various M&A and capital market transactions for EDP, including the acquisition of several companies that gave rise to EDP Renewables, the acquisition of Hidrocantabrico, the different phases of EDP's privatization, EDP's share capital increase in 2004, EDP Energias do Brazil IPO in 2005 and EDP Renováveis IPO in 2008. He was a Member of the Board of EDP Distribuição Energia, from January 2009 to February 2012. Miguel was also Member of the Board of Directors of EDP Inovação, EDP Ventures, EDP Gas Distribuição and Chairman of InovGrid ACE. In 2012 he was appointed CEO of EDP Comercial, as well as CEO and Vice-Chairman of Hidroeléctrica del Cantabrico and Naturgas Energia. Between 2013 and 2015 he was a Member of FAE - Fórum de Administradores de Empresas's Board of Directors. In 2014 he was appointed CEO of EDP

Soluções Comerciais. He was appointed in 2015 as Board Member of the Câmara de Comércio Hispano Portuguesa in Spain. He was elected member of the Executive Board of EDP on the 20th February of 2012 and reelected on 21st April 2015.

**MIGUEL NUNO SIMÕES NUNES FERREIRA SETAS**

He was born on November 12, 1970. In Brasil since 2008, Miguel Setas is currently, since January 2014, the CEO of EDP Energias do Brasil. Between 2010 and 2013, he was the Vice-President responsible for the Distribution business (CEO of EDP Bandeirante and EDP Escelsa, two electricity distribution companies) and previously, between 2008 and 2009, he was the VP responsible for New Business Development, Commercialization and Renewables. He joined EDP in 2006, as the CEO Chief of Staff. In 2007, he was Board Member of EDP Comercial (responsible for the commercialization in the liberalized energy market). He was also Board Member of EDP Inovação, Portgás and Fundação EDP. He holds a BSc. in Physics, and a MSc. in Electrical and Computing Engineering, both granted by IST (Instituto Superior Técnico, Lisbon). He has an MBA from Universidade Nova de Lisboa (Lisbon MBA). He has been working in the energy sector since 1998, when he was Corporate Director in GDP - Gás de Portugal. Since then, he has been connected to the energy sector. Between 1999 and 2001, he was Board Member of Setgás (natural gas distribution company in Setúbal, part of Galp Energia). Between 2000 and 2001, he was Executive Board Member of Lisboagás (natural gas distribution company in Lisbon, part of Galp Energia). He was Strategic Marketing Director of Galp Energia (oil and gas) until 2004. In the transportation sector, he was Executive Board Member of CP - Comboios de Portugal and CEO of CP Lisboa (largest business unit of CP), between 2004 and 2006. He started his career, in 1995, as consultant in McKinsey & Co, developing strategic projects for energy, banking, insurance, retail and industry clients. He was appointed on 21st April 2015 as a member of the Executive Board of Directors.

**RUI MANUEL RODRIGUES LOPES TEIXEIRA**

He was born on October 10, 1972. He was appointed on 21st April 2015 as member of the Executive Board of Directors of EDP. He serves as Chief Executive Officer of EDP – Gestão da Produção de Energia, S.A. He is also Member of the Board of Directors of several subsidiaries of the Company's Group. From 1996 to 1997, he was assistant director of the commercial naval department of Gellweiler— Sociedade Equipamentos Maritimos e Industriais, Lda. From 1997 to 2001, he worked as project manager and ship surveyor for Det Norske Veritas, with responsibilities for offshore structures, shipbuilding and ship repair. Between 2001 and 2004, he was consultant at McKinsey & Company, focussing on energy, shipping and retail banking. From 2004 to 2007, he headed the corporate planning and control division within the EDP Group. In 2007 also served as Chief Financial Officer of EDP Renewables Europe SL. In 2008 became a member of the Board of Directors of EDP Renováveis, S.A., member of the Executive Committee, and the Chief Financial Officer of the Company. He holds a Master of Science degree in Naval Architecture and Marine Engineering from the Institute Superior Técnico de Lisboa, a Master in Business and Administration from the Universidade Nova de Lisboa and is a graduate of Harvard Business School's Advanced Management Program.

# ANNEX II

Meetings of the General and Supervisory Board and each member's attendance:

| NAME | 9-Feb | 2-mar | 27-mar | 20-Apr | 3-May | 5-jun | 27-jul | 28-Sep | 23-Oct | 2-nov | 14-Dec | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Eduardo Almeida Catroga - Chairman | P | P | P | P | P | P | P | P | P | P | P | 100 |
| Luís Filipe Marques Amado - Vice-Chairman | P | P | P | P | P | P | P | P | P | P | P | 100 |
| Alberto Joaquim Milheiro Barbosa | P | P | P | P | P | P | P | P | P | P | P | 100 |
| António Manuel de Carvalho Ferreira Vitorino | P | P | R | P | P | P | P | A | P | P | P | 82 |
| António Sarmento Gomes Mota | P | P | R | R | P | P | P | P | P | P | P | 82 |
| Augusto Carlos Serra Ventura Mateus | P | P | P | P | P | P | P | A | P | P | P | 91 |
| Dingming Zhang | A | P | R | R | P | P | R | R | P | R | P | 45 |
| Felipe Fernández Fernández | P | P | P | R | P | P | P | P | P | P | P | 91 |
| Ferhat Ounoughi | P | P | R | A | A | A | P | A | P | A | P | 45 |
| Fernando María Masaveu Herrero | P | P | P | P | P | R | P | P | P | P | R | 82 |
| Guojun Lu | A | R | P | R | P | P | R | P | P | R | R | 45 |
| Ilídio da Costa Leite de Pinho | P | P | P | P | P | P | P | P | P | P | P | 100 |
| João Carvalho das Neves | P | P | P | P | P | P | P | A | P | P | P | 91 |
| Jorge Avelino Braga de Macedo | P | P | R | P | P | P | P | P | P | P | P | 91 |
| Maria Celeste Ferreira Lopes Cardona | P | P | P | P | R | P | P | P | P | P | P | 91 |
| María del Carmen Fernandez Rozado | P | P | P | P | P | P | P | P | P | P | P | 100 |
| Mohamed Ali Ismaeli Ali Al Fahim | P | P | P | P | P | P | P | P | P | - | - | 100 |
| Mohammed Al-Huraimel Al-Shamsi | - | - | - | - | - | - | - | - | - | P | P | 100 |
| Nuno Manuel da Silva Amado | P | P | P | P | P | P | P | A | P | P | P | 91 |
| Shengliang Wu | P | P | P | P | P | P | P | P | P | P | P | 100 |
| Vasco Joaquim Rocha Vieira | P | P | P | P | P | P | P | P | P | P | P | 100 |
| Ya Yang | R | P | P | P | P | P | P | P | P | P | P | 91 |

P=Attendance; A=Absence; R =Represented

Total of meetings held in 2017: 11
Participation average: 87%

# ANNEX III

Meetings of the Executive Board of Directors and each member's attendance:

| NAME | 10-JAN | 17-JAN | 24-JAN | 31-JAN | 8-FEB | 21-FEB | 24-FEB | 2-MAR | 16-MAR | 21-MAR | 26-MAR | 28-MAR | 7-APR | 17-APR | 18-APR | 27-APR | 2-MAY | 3-MAY | 9-MAY | 16-MAY | 30-MAY | 5-JUN | 9-JUN | 23-JUN |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| António Luís Guerra Nunes Mexia | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P |
| Nuno Maria Pestana de Almeida Alves | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P |
| João Manuel Manso Neto | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P |
| António Fernando Melo Martins da Costa | P | P | P | A | P | P | P | P | P | P | P | P | A | P | P | P | P | P | P | P | P | P | P | P |
| João Manuel Veríssimo Marques da Cruz | P | P | P | P | P | P | P | P | P | A | P | P | P | P | P | P | P | P | P | P | P | P | P | P |
| Miguel Stilwell de Andrade | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | A | P | P | P | P | P | P |
| Miguel Nuno Simões Nunes Ferreira Setas | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P |
| Rui Manuel Rodrigues Lopes Teixeira | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P |

| NAME | 4-JUL | 11-JUL | 24-JUL | 27-JUL | 29-AUG | 5-SET | 26-SEP | 29-SEP | 3-OCT | 10-OCT | 16-OCT | 17-OCT | 30-OCT | 31-OCT | 2-NOV | 7-NOV | 14-NOV | 21-NOV | 29-NOV | 5-DEC | 12-DEC | 14-DEC | 19-DEC | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| António Luís Guerra Nunes Mexia | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | 100 |
| Nuno Maria Pestana de Almeida Alves | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | A | P | P | P | 98 |
| João Manuel Manso Neto | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | 100 |
| António Fernando Melo Martins da Costa | P | P | P | P | P | P | P | P | A | P | P | P | P | P | P | P | P | P | P | P | P | P | P | 94 |
| João Manuel Veríssimo Marques da Cruz | P | P | P | P | P | P | P | P | P | A | P | P | P | P | P | P | P | P | P | P | P | A | P | 94 |
| Miguel Stilwell de Andrade | P | P | P | P | P | P | P | P | P | P | P | P | A | A | A | P | P | P | P | P | P | P | P | 91 |
| Miguel Nuno Simões Nunes Ferreira Setas | P | P | P | P | P | P | P | P | P | P | P | P | P | P | A | P | A | P | P | P | P | P | P | 96 |
| Rui Manuel Rodrigues Lopes Teixeira | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | P | 100 |

P = Attendance; A = Absence

Total of meetings held in 2017: 47
Average attendance: 97%

# ANNEX IV

Positions held by the members of the Executive Board of Directors in other companies belonging or not to the EDP Group:

| | ANTÓNIO MEXIA | NUNO ALMEIDA ALVES | JOÃO MANSO NETO | ANTÓNIO MARTINS DA COSTA | JOÃO MARQUES DA CRUZ | MIGUEL STILWELL ANDRADE | MIGUEL SETAS | RUI TEIXEIRA |
|---|---|---|---|---|---|---|---|---|
| CNET – Centre for New Energy Technologies, S.A. | - | - | - | - | CBD | - | - | - |
| EDP - Ásia Soluções Energéticas Lda. | - | - | - | - | CBD | - | - | - |
| EDP - Energias de Portugal Sociedade Anónima, Sucursal en | PR | PR | PR | PR | - | PR | - | - |
| EDP - Energias do Brasil, S.A. | CBD | D | - | - | D | - | VP | - |
| EDP - Estudos e Consultoria, S.A. | - | - | - | - | - | - | CBD | - |
| EDP - Gestão da Produção de Energia, S.A. | - | - | - | - | - | - | - | CBD |
| EDP - Soluções Comerciais, S.A. | - | - | - | - | - | CBD | - | - |
| EDP Comercial - Comercialização de Energia, S.A. | - | - | - | - | - | CBD | - | - |
| EDP Comercializadora de Último Recurso S.A. | - | - | - | - | - | CBD | - | - |
| EDP Empresa de Servicios Energéticos S.L. | - | - | - | - | - | CBD | - | - |
| EDP Energia Ibérica S.A. | - | - | D | - | - | - | - | - |
| EDP España, S.A.U. | - | C | C | C | - | VP | - | - |
| EDP Espirito Santo Distribuição de Energia S.A. | - | - | - | - | - | - | CBD | - |
| EDP Finance BV | R | R | R | R | R | R | R | R |
| EDP Gás.Com - Comércio de Gás Natural, S.A. | - | - | CBD | - | - | D | - | - |
| EDP Imobiliária e Participações, S.A. | - | CBD | - | - | - | - | - | - |
| EDP Internacional, S.A. | - | - | - | - | CBD | - | - | - |
| EDP International Investments and Services SL | - | - | - | - | CBD | - | - | - |
| EDP IS - Investimentos e Serviços, Sociedade Unipessoal, Lda. | - | M | - | - | - | - | - | - |
| EDP Renewables Europe SL | - | - | CBD | - | - | - | - | - |
| EDP Renováveis Brasil, S.A. | - | - | CBD | - | - | - | - | - |
| EDP Renováveis Servicios Financieros S.A. | - | - | CBD | - | - | - | - | - |
| EDP Renováveis, S.A. | CBD | C | VP/CD | - | - | - | - | - |
| EDP São Paulo Distribuição de Energia S.A | - | - | - | - | - | - | CBD | - |
| EDP Soluciones Comerciales, S.A. | - | - | - | - | - | CBD | - | - |
| EDP Transmissão Aliança SC S.A. | - | - | - | - | - | - | CBD | - |
| EDP Transmissão MA I S.A. | - | - | - | - | - | - | CBD | - |
| EDP Transmissão MA II S.A. | - | - | - | - | - | - | CBD | - |
| EDP Transmissão S.A. | - | - | - | - | - | - | CBD | - |
| EDP Transmissão SP-MG S.A. | - | - | - | - | - | - | CBD | - |
| EDP Valor - Gestão Integrada de Serviços, S.A. | - | - | - | CBD | - | - | - | - |
| Empresa Hidroeléctrica do Guadiana, S.A. | - | - | - | - | - | - | - | CBD |
| Enagás – S.G.P.S, S.A. | - | - | - | CBD | - | - | - | - |
| ENERGEST S.A. | - | - | - | - | - | - | CBD | - |
| Energia Ásia Consultoria, Lda. | - | - | - | - | CBD | - | - | - |
| Energia RE, S.A. | - | CBD | - | - | - | - | - | - |
| Hydro Global Investment Limited | - | - | - | - | CBD | | - | - |
| INVESTCO S.A. | - | - | - | - | - | - | CBD | - |
| Labelec - Estudos, Desenvolvimento e Actividades | - | - | - | - | CBD | - | - | - |
| Lajeado Energia S.A. | - | - | - | - | - | - | CBD | - |
| Pecém Operação e Manutenção de Unidades de Geração | - | - | - | - | - | - | CBD | - |
| Porto do Pecém Geração de Energia S.A. | - | - | - | - | - | - | CBD | - |
| Sãvida - Medicina Apoiada, S.A. | - | CBD | - | - | - | - | - | - |
| SCS - Serviços Complementares de Saúde, S.A. | - | CBD | - | - | - | - | - | - |
| Banco Comercial Português, S.A. | D | - | - | - | - | - | - | - |
| Companhia de Electricidade de Macau - CEM, S.A. | - | - | - | - | CBD | - | - | - |
| Mibgas, S.A. | - | - | D | - | - | - | - | - |
| OMIP – Operador do Mercado Ibérico (Portugal), SGPS, S.A. | - | - | D | - | - | - | - | - |
| Operador del Mercado Ibérico de Energía, Polo Español, S.A. | - | - | D | - | - | - | - | - |

CBD - Chairman of the Board of Directors
CD - Counselor-Delegate
C - Counselor
VP/CD – Vice-President and Counselor-Delegate
D - Director
M - Manager
RP – Permanent Representative
R – Representative
VP – Vice-President

# ANNEX V

Meetings of the Financial Matters Committee/Audit Committee and each member's attendance:

| NAME | 19-jan | 2-feb | 23-feb | 2-mar | 6-apr | 27-apr | 3-may | 8-jun | 24-jul | 27-jul | 11/12-sep | 30-oct | 2-nov | 13-dec | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| António Sarmento Gomes Mota (Chairman) | P | P | P | P | P | P | P | P | P | P | P | P | P | P | 100 |
| João Carvalho das Neves (Vice-Chairman) | P | P | P | P | P | P | P | P | P | P | P | P | P | P | 100 |
| Alberto Joaquim Milheiro Barbosa | P | P | P | P | P | P | P | P | P | P | P | P | P | P | 100 |
| Maria Celeste Ferreira Lopes Cardona | P | P | P | P | P | P | P | P | P | P | P | P | P | P | 100 |
| Maria del Carmen Fernandez Rozado | P | P | P | P | P | P | P | P | P | P | P | P | P | P | 100 |

P=Attendance; A=Absence; R =Represented

Total of meetings held in 2017: 14
'Participation average: 100%

# ANNEX VI

In 2017, the members of the Executive Board of Directors performed the following operations with financial instruments of EDP Group:

| MEMBER OF CORPORATE BODY | COMPANY | SECURITY | DATE | QUANTITY | OPERATION | AVG. PURCHASE PRICE |
|---|---|---|---|---|---|---|
| Rui Manuel Rodrigues Lopes Teixeira | EDP - Energias de Portugal, S.A. | Shares | 30/08/2017 | 7,800 | Purchase | 3.2100 |
| Rui Manuel Rodrigues Lopes Teixeira | EDP - Energias de Portugal, S.A. | Shares | 30/08/2017 | 7,800 | Purchase | 3.2120 |
| Rui Manuel Rodrigues Lopes Teixeira | EDP - Energias de Portugal, S.A. | Shares | 30/08/2017 | 7,800 | Purchase | 3.2140 |
| António Luís Guerra Nunes Mexia | EDP Renováveis, S.A. | Shares | 07/08/2017 | 4,200 | Sale | 6.7500 |
| Nuno Maria Pestana de Almeida Alves | EDP Renováveis, S.A. | Shares | 07/08/2017 | 5,000 | Sale | 6.7500 |
| António Fernando Melo Martins da Costa | EDP Renováveis, S.A. | Shares | 07/08/2017 | 1,480 | Sale | 6.7500 |
| João Manuel Veríssimo Marques da Cruz | EDP Renováveis, S.A. | Shares | 07/08/2017 | 1,200 | Sale | 6.7500 |
| Miguel Stilwell de Andrade | EDP Renováveis, S.A. | Shares | 07/08/2017 | 2,510 | Sale | 6.7500 |
| Miguel Nuno Simões Nunes Ferreira Setas | EDP Renováveis, S.A. | Shares | 07/08/2017 | 1,690 | Sale | 6.7500 |
| Rui Manuel Rodrigues Lopes Teixeira | EDP Renováveis, S.A. | Shares | 07/08/2017 | 12,370 | Sale | 6.7500 |

In 2017, the members of the General and Supervisory Board performed the following operations with financial instruments of EDP Group:

| MEMBER OF CORPORATE BODY | COMPANY | SECURITY | DATE | QUANTITY | OPERATION | AVG. PURCHASE PRICE (EUROS) |
|---|---|---|---|---|---|---|
| João Carvalho das Neves | EDP Renováveis, S.A. | Shares | 07/08/2017 | 3,200 | Sale | 6.7500 |
| China Three Gorges (Europe) S.A. | EDP - Energias de Portugal, S.A. | Shares | 29/09/2017 | 70,143,242 | Purchase | 2.9637 |

# THE LIVING ENERGY BOOK

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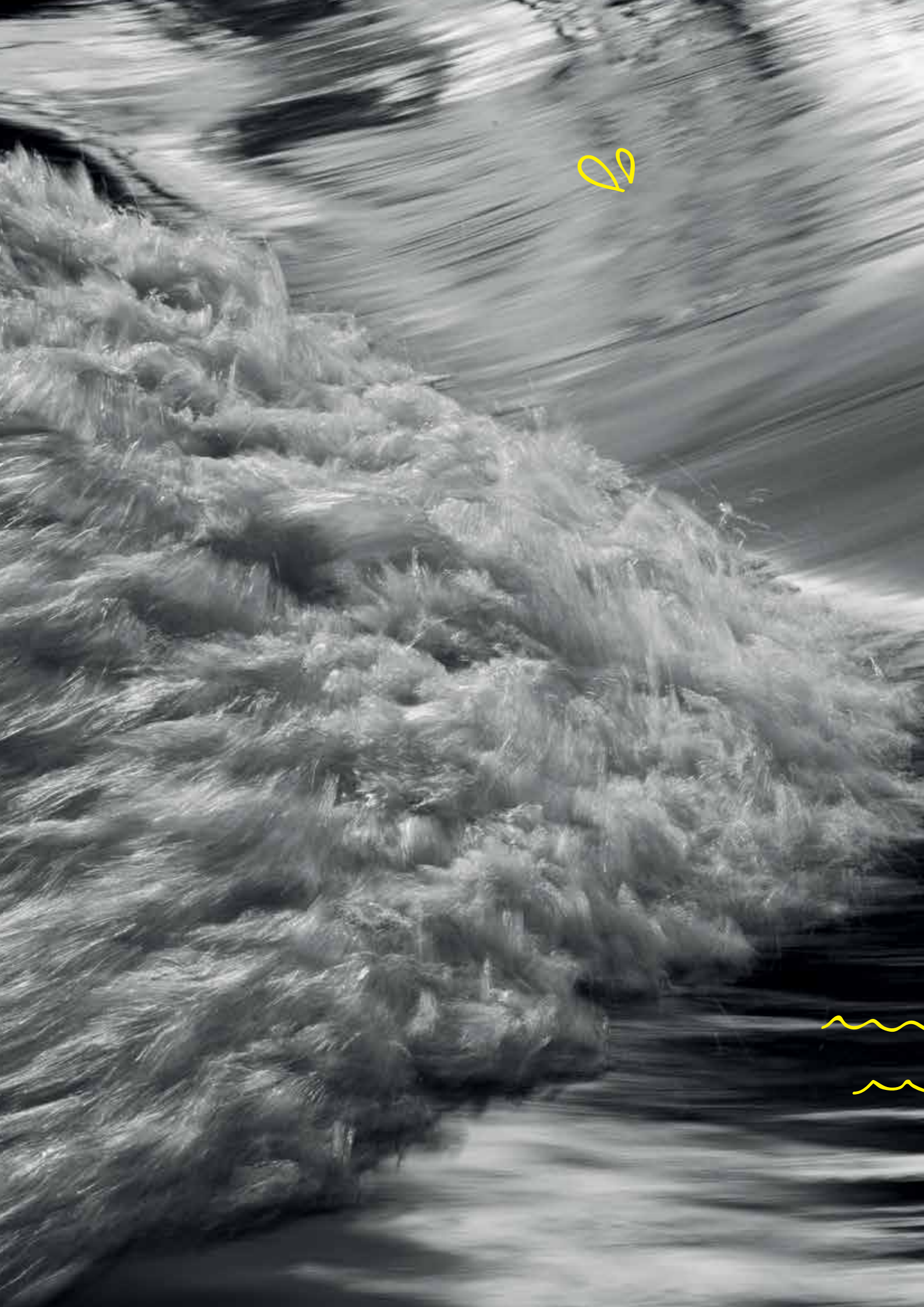
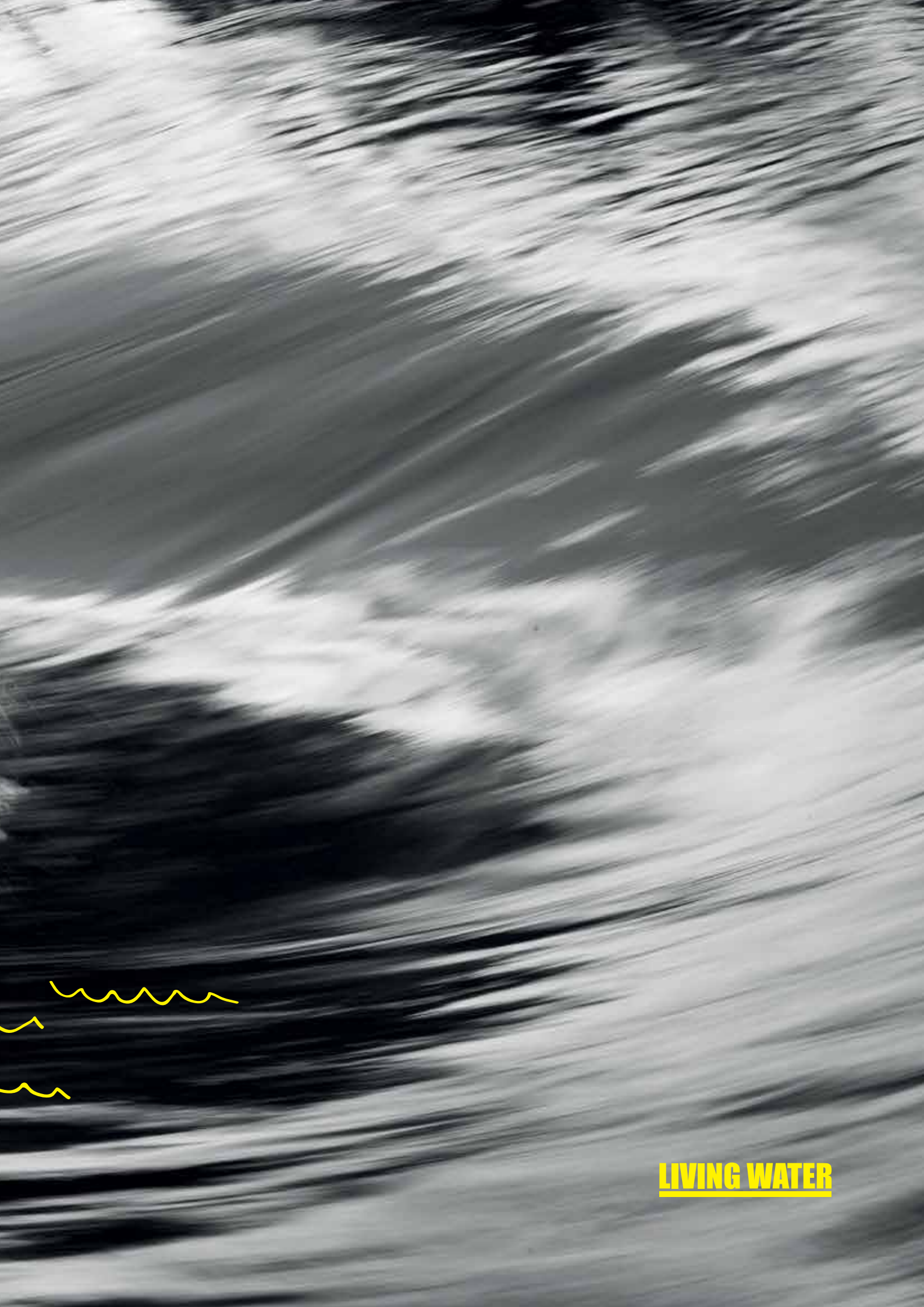
# THE LIVING ENERGY BOOK

by edp

# 05

## FINANCIAL STATEMENTS





# LIVING WATER

# THE LIVING ENERGY BOOK

by edp

**Financial Statements**
**31 December 2017**

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## EDP - Energias de Portugal

**Consolidated Income Statements for the periods ended at 31 December 2017 and 2016**

| Thousand Euros | Notes | 2017 | 2016 |
|---|---|---|---|
| Revenues from energy sales and services and other | 6 | 15,745,987 | 14,595,164 |
| Cost of energy sales and other | 6 | -10,354,909 | -8,857,132 |
| | | 5,391,078 | 5,738,032 |
| Other income | 7 | 1,036,999 | 427,314 |
| Supplies and services | 8 | -990,533 | -947,874 |
| Personnel costs and employee benefits | 9 | -680,833 | -660,616 |
| Other expenses | 10 | -766,762 | -797,549 |
| | | -1,401,129 | -1,978,725 |
| | | 3,989,949 | 3,759,307 |
| Provisions | 36 | 3,627 | 15,076 |
| Amortisation and impairment | 11 | -1,675,659 | -1,510,304 |
| | | 2,317,917 | 2,264,079 |
| Financial income | 12 | 439,636 | 899,323 |
| Financial expenses | 12 | -1,248,089 | -1,790,803 |
| Share of net profit in joint ventures and associates | 20 | 11,521 | -22,062 |
| Profit before income tax and CESE | | 1,520,985 | 1,350,537 |
| Income tax expense | 13 | -10,304 | -88,796 |
| Extraordinary contribution to the energy sector (CESE) | 14 | -69,246 | -61,630 |
| | | -79,550 | -150,426 |
| **Net profit for the period** | | **1,441,435** | **1,200,111** |
| **Attributable to:** | | | |
| **Equity holders of EDP** | | **1,113,169** | **960,561** |
| **Non-controlling Interests** | 32 | **328,266** | **239,550** |
| **Net profit for the period** | | **1,441,435** | **1,200,111** |
| Earnings per share (Basic and Diluted) - Euros | 29 | 0.31 | 0.26 |

LISBON, 1 MARCH 2018

THE CERTIFIED ACCOUNTANT
N.º 17,713

THE MANAGEMENT

THE EXECUTIVE BOARD OF DIRECTORS

The following notes form an integral part of these condensed financial statements

## EDP - Energias de Portugal

### Consolidated Statements of Comprehensive Income for the periods ended at 31 December 2017 and 2016

| Thousand Euros | 2017 | | 2016 | |
|---|---|---|---|---|
| | Equity holders of EDP | Non-controlling Interests | Equity holders of EDP | Non-controlling Interests |
| **Net profit for the period** | 1,113,169 | 328,266 | 960,561 | 239,550 |
| **Items that will never be reclassified to profit or loss (i)** | | | | |
| Actuarial gains/(losses) | -46,326 | -20,048 | -48,533 | -23,224 |
| Tax effect from the actuarial gains/(losses) | 20,597 | 6,818 | 15,091 | 7,888 |
| | -25,729 | -13,230 | -33,442 | -15,336 |
| **Items that are or may be reclassified to profit or loss (i)** | | | | |
| Exchange differences arising on consolidation | -216,158 | -349,829 | 235,662 | 351,294 |
| Fair value reserve (cash flow hedge) | -147,264 | 1,960 | 113,123 | 3,279 |
| Tax effect from the fair value reserve (cash flow hedge) | 41,304 | -858 | -30,764 | -278 |
| Fair value reserve (available for sale investments) | -15,762 | 94 | -9,469 | 546 |
| Tax effect from the fair value reserve (available for sale investments) | -3,396 | - | 188 | - |
| Share of other comprehensive income of joint ventures and associates, net of taxes | -1,006 | 4,644 | -872 | -2,342 |
| | -342,282 | -343,989 | 307,868 | 352,499 |
| **Other comprehensive income for the period, net of income tax** | -368,011 | -357,219 | 274,426 | 337,163 |
| **Total comprehensive income for the period** | 745,158 | -28,953 | 1,234,987 | 576,713 |

(i) See Consolidated Statement of Changes in Equity

LISBON, 1 MARCH 2018

THE CERTIFIED ACCOUNTANT
N.º 17,713

THE MANAGEMENT

THE EXECUTIVE BOARD OF DIRECTORS



The following notes form an integral part of these financial statements

# EDP - Energias de Portugal

**Consolidated Statements of Financial Position**
**as at 31 December 2017 and 2016**

| Thousand Euros | Notes | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 15 | 22,730,615 | 24,193,736 |
| Intangible assets | 16 | 4,747,360 | 5,128,544 |
| Goodwill | 17 | 2,232,668 | 3,414,852 |
| Investments in joint ventures and associates | 20 | 843,082 | 820,565 |
| Available for sale investments | 21 | 124,016 | 165,044 |
| Investment property | 22 | 39,199 | 31,219 |
| Deferred tax assets | 23 | 808,521 | 904,412 |
| Debtors and other assets from commercial activities | 25 | 2,839,379 | 2,448,442 |
| Other debtors and other assets | 26 | 518,772 | 437,028 |
| Non-Current tax assets | 27 | 60,793 | 32,241 |
| Collateral deposits associated to financial debt | 34 | 34,874 | 31,936 |
| Total Non-Current Assets | | 34,979,279 | 37,608,019 |
| | | | |
| Inventories | 24 | 265,775 | 316,577 |
| Debtors and other assets from commercial activities | 25 | 3,325,730 | 3,207,613 |
| Other debtors and other assets | 26 | 304,628 | 354,316 |
| Current tax assets | 27 | 520,500 | 494,504 |
| Financial assets at fair value through profit or loss | 51 | 37,544 | 9,567 |
| Collateral deposits associated to financial debt | 34 | 10,381 | 20,095 |
| Cash and cash equivalents | 28 | 2,400,077 | 1,521,253 |
| Assets held for sale | 41 | 231,135 | 551,802 |
| Total Current Assets | | 7,095,770 | 6,475,727 |
| **Total Assets** | | 42,075,049 | 44,083,746 |
| | | | |
| **Equity** | | | |
| Share capital | 29 | 3,656,538 | 3,656,538 |
| Treasury stock | 30 | -62,957 | -63,528 |
| Share premium | 29 | 503,923 | 503,923 |
| Reserves and retained earnings | 31 | 4,335,265 | 4,348,793 |
| Consolidated net profit attributable to equity holders of EDP | | 1,113,169 | 960,561 |
| Total Equity attributable to equity holders of EDP | | 9,545,938 | 9,406,287 |
| Non-controlling Interests | 32 | 3,934,322 | 4,330,085 |
| **Total Equity** | | 13,480,260 | 13,736,372 |
| | | | |
| **Liabilities** | | | |
| Financial debt | 34 | 15,469,636 | 15,550,273 |
| Employee benefits | 35 | 1,198,362 | 1,410,136 |
| Provisions | 36 | 726,771 | 637,613 |
| Deferred tax liabilities | 23 | 466,532 | 722,401 |
| Institutional partnerships in USA | 37 | 2,163,722 | 2,339,425 |
| Trade and other liabilities from commercial activities | 38 | 1,343,171 | 1,293,133 |
| Other liabilities and other payables | 39 | 874,984 | 761,101 |
| Non-current tax liabilities | 40 | 91,551 | 68,156 |
| Total Non-Current Liabilities | | 22,334,729 | 22,782,238 |
| | | | |
| Financial debt | 34 | 1,448,129 | 2,476,403 |
| Employee benefits | 35 | 323,891 | 316,709 |
| Provisions | 36 | 26,058 | 33,879 |
| Hydrological correction account | 33 | 1,574 | 1,574 |
| Trade and other liabilities from commercial activities | 38 | 3,498,131 | 3,362,421 |
| Other liabilities and other payables | 39 | 284,140 | 345,032 |
| Current tax liabilities | 40 | 563,456 | 953,264 |
| Liabilities held for sale | 41 | 114,681 | 75,854 |
| Total Current Liabilities | | 6,260,060 | 7,565,136 |
| **Total Liabilities** | | 28,594,789 | 30,347,374 |
| **Total Equity and Liabilities** | | 42,075,049 | 44,083,746 |

LISBON, 1 MARCH 2018

THE CERTIFIED ACCOUNTANT
N.º 17,713

THE MANAGEMENT

THE EXECUTIVE BOARD OF DIRECTORS

The following notes form an integral part of these financial statements

## EDP - Energias de Portugal

**Consolidated Statements of Changes in Equity for the periods ended as at 31 December 2017 and 2016**

| Thousand Euros | Total Equity | Share capital (i) | Share premium (i) | Legal reserve (ii) | Reserves and retained earnings | Fair value reserve (Cash flow hedge) (ii) | Fair value reserve (AFS investments) (ii) | Exchange differences (ii) | Treasury stock (iii) | Equity attributable to equity holders of EDP | Non-controlling Interests (iv) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 31 December 2015** | **12,121,493** | **3,656,538** | **503,923** | **698,902** | **4,262,125** | **-56,304** | **59,379** | **-392,097** | **-62,691** | **8,669,775** | **3,451,718** |
| Comprehensive income: | | | | | | | | | | | |
| Net profit for the period | 1,200,111 | - | - | - | 960,561 | - | - | - | - | 960,561 | 239,550 |
| Changes in the fair value reserve (cash flow hedge) net of taxes | 85,360 | - | - | - | - | 82,359 | - | - | - | 82,359 | 3,001 |
| Changes in the fair value reserve (available for sale investments) net of taxes | -8,735 | - | - | - | - | - | -9,281 | - | - | -9,281 | 546 |
| Share of other comprehensive income of joint ventures and associates net of taxes | -3,214 | - | - | - | - | 886 | - | -1,758 | - | -872 | -2,342 |
| Actuarial gains/(losses) net of taxes | -48,778 | - | - | - | -33,442 | - | - | - | - | -33,442 | -15,336 |
| Exchange differences arising on consolidation | 586,956 | - | - | - | - | - | - | 235,662 | - | 235,662 | 351,294 |
| Total comprehensive income for the period | 1,811,700 | - | - | - | 927,119 | 83,245 | -9,281 | 233,904 | - | 1,234,987 | 576,713 |
| Transfer to legal reserve | - | - | - | 40,122 | -40,122 | - | - | - | - | - | - |
| Dividends paid | -672,537 | - | - | - | -672,537 | - | - | - | - | -672,537 | - |
| Dividends attributable to non-controlling interests | -170,602 | - | - | - | - | - | - | - | - | - | -170,602 |
| Purchase and sale of treasury stock | -2,878 | - | - | - | -751 | - | - | - | -2,127 | -2,878 | - |
| Share-based payments | 1,290 | - | - | - | - | - | - | - | 1,290 | 1,290 | - |
| Sale without loss of control of windfarms in the USA | 262,848 | - | - | - | 15,399 | -1,037 | - | 3,845 | - | 18,207 | 244,641 |
| Sale without loss of control of windfarms in Europe | 414,925 | - | - | - | 97,212 | 3,429 | - | 5,246 | - | 105,887 | 309,038 |
| Changes resulting from acquisitions/sales, equity increases/decreases and other | -29,867 | - | - | - | 47,119 | 153 | - | 4,284 | - | 51,556 | -81,423 |
| **Balance as at 31 December 2016** | **13,736,372** | **3,656,538** | **503,923** | **739,024** | **4,635,564** | **29,486** | **50,098** | **-144,818** | **-63,528** | **9,406,287** | **4,330,085** |
| Comprehensive income: | | | | | | | | | | | |
| Net profit for the period | 1,441,435 | - | - | - | 1,113,169 | - | - | - | - | 1,113,169 | 328,266 |
| Changes in the fair value reserve (cash flow hedge) net of taxes | -104,858 | - | - | - | - | -105,960 | - | - | - | -105,960 | 1,102 |
| Changes in the fair value reserve (available for sale investments) net of taxes | -19,064 | - | - | - | - | - | -19,158 | - | - | -19,158 | 94 |
| Share of other comprehensive income of joint ventures and associates net of taxes | 3,638 | - | - | - | - | - | - | -1,006 | - | -1,006 | 4,644 |
| Actuarial gains/(losses) net of taxes | -38,959 | - | - | - | -25,729 | - | - | - | - | -25,729 | -13,230 |
| Exchange differences arising on consolidation | -565,987 | - | - | - | - | - | - | -216,158 | - | -216,158 | -349,829 |
| Total comprehensive income for the period | 716,205 | - | - | - | 1,087,440 | -105,960 | -19,158 | -217,164 | - | 745,158 | -28,953 |
| Dividends paid | -690,637 | - | - | - | -690,637 | - | - | - | - | -690,637 | - |
| Dividends attributable to non-controlling interests | -118,251 | - | - | - | - | - | - | - | - | - | -118,251 |
| Purchase and sale of treasury stock | -869 | - | - | - | - | - | - | - | -869 | -869 | - |
| Share-based payments | 1,364 | - | - | - | -76 | - | - | - | 1,440 | 1,364 | - |
| Sale without loss of control of windfarms in Europe | 210,098 | - | - | - | 72,479 | 1,940 | - | - | - | 74,419 | 135,679 |
| Public Offer for the Acquisition of EDP Renováveis S.A. | -299,620 | - | - | - | 17,338 | -1,608 | 315 | 26 | - | 16,071 | -315,691 |
| Changes resulting from acquisitions/sales, equity increases/decreases and other | -74,402 | - | - | - | -5,855 | - | - | - | - | -5,855 | -68,547 |
| **Balance as at 31 December 2017** | **13,480,260** | **3,656,538** | **503,923** | **739,024** | **5,116,253** | **-76,142** | **31,255** | **-361,956** | **-62,957** | **9,545,938** | **3,934,322** |

(i) See note 29
(ii) See note 31
(iii) See note 30
(iv) See note 32

LISBON, 1 MARCH 2018

THE CERTIFIED ACCOUNTANT
N.º 17,713

THE MANAGEMENT

THE EXECUTIVE BOARD OF DIRECTORS



The following notes form an integral part of these financial statements

**EDP - Energias de Portugal**

**Consolidated and Company Statements of Cash Flows for the periods ended as at 31 December 2017 and 2016**

| Thousand Euros | Group 2017 | Group 2016 | Company 2017 | Company 2016 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Cash receipts from customers | 13,776,871 | 13,369,454 | 2,600,335 | 2,591,628 |
| Proceeds from tariff adjustments sales | 1,192,916 | 2,286,944 | - | - |
| Payments to suppliers | -10,551,653 | -9,475,160 | -2,633,932 | -2,479,093 |
| Payments to personnel | -854,016 | -902,430 | -68,791 | -62,872 |
| Concession rents paid | -279,631 | -278,310 | - | - |
| Other receipts/(payments) relating to operating activities | -390,307 | -330,525 | 51,089 | 24,694 |
| **Net cash flows from operations** | 2,894,180 | 4,669,973 | -51,299 | 74,357 |
| Income tax received/(paid) | -658,587 | -628,153 | -18,397 | -77,725 |
| **Net cash flows from operating activities** | 2,235,593 | 4,041,820 | -69,696 | -3,368 |
| **Investing activities** | | | | |
| Cash receipts relating to: | | | | |
| Sale of assets/subsidiaries with loss of control (i) | 2,764,384 | 95,434 | 32,103 | - |
| Other financial assets and investments (ii) | 50,917 | 34,956 | 50,719 | 139 |
| Held to maturity financial investments | - | - | 26,332 | - |
| Changes in cash resulting from consolidation perimeter variations (iii) | 28,342 | - | - | - |
| Property, plant and equipment and intangible assets | 23,405 | 18,058 | 121,361 | 3,436 |
| Other receipts relating to tangible fixed assets | 17,381 | 10,782 | - | 155 |
| Interest and similar income | 73,746 | 89,240 | 333,999 | 415,836 |
| Dividends | 32,403 | 19,888 | 785,399 | 800,207 |
| Loans to related parties | 32,318 | 49,586 | 1,323,531 | 702,120 |
| | 3,022,896 | 317,944 | 2,673,444 | 1,921,893 |
| Cash payments relating to: | | | | |
| Acquisition of assets/subsidiaries (i) | -308,921 | -139,607 | -319,391 | -18,641 |
| Other financial assets and investments (v) | -170,237 | -140,531 | - | - |
| Held to maturity financial investments | - | - | -446,802 | -500,624 |
| Changes in cash resulting from consolidation perimeter variations (iii) | -34,088 | -7,051 | - | - |
| Property, plant and equipment and intangible assets | -1,920,980 | -2,090,617 | -29,340 | -29,868 |
| Loans to related parties | -18,916 | -74,605 | -1,795,610 | -891,593 |
| | -2,453,142 | -2,452,411 | -2,591,143 | -1,440,726 |
| **Net cash flows from investing activities** | 569,754 | -2,134,467 | 82,301 | 481,167 |
| **Financing activities** | | | | |
| Receipts/(payments) relating to financial debt (include Collateral Deposits) | -440,343 | -1,559,513 | 2,323,319 | -175,750 |
| Interest and similar costs of financial debt including hedge derivatives | -789,930 | -903,826 | -316,700 | -339,132 |
| Receipts/(payments) relating to loans from non-controlling interests | 8,229 | 376,317 | - | - |
| Interest and similar costs relating to loans from non-controlling interests | -25,405 | -22,971 | - | - |
| Receipts/(payments) relating to loans from related parties | - | - | -444,669 | 512,248 |
| Interest and similar costs of loans from related parties including hedge derivatives | - | - | -94,743 | -86,984 |
| Governmental grants received | -16 | - | - | - |
| Share capital increases/(decreases) by non-controlling interests | -87,563 | 86,229 | - | - |
| Receipts/(payments) relating to derivative financial instruments | -90,876 | -23,520 | 34,380 | 59,850 |
| Dividends paid to equity holders of EDP (vi) | -690,637 | -672,537 | -690,924 | -672,817 |
| Dividends paid to non-controlling interests | -140,159 | -175,355 | - | - |
| Treasury stock sold/(purchased) (vi) | -869 | -2,878 | 495 | -1,588 |
| Sale of assets/subsidiaries without loss of control (vii) | 210,098 | 697,881 | - | - |
| Receipts/(payments) from institutional partnerships - USA (viii) | 250,022 | 451,788 | - | - |
| **Net cash flows from financing activities** | -1,797,449 | -1,748,385 | 811,158 | -704,173 |
| **Changes in cash and cash equivalents** | 1,007,898 | 158,968 | 823,763 | -226,374 |
| Effect of exchange rate fluctuations on cash held | -129,074 | 116,836 | -2,758 | 20,859 |
| Cash and cash equivalents at the beginning of the period | 1,521,253 | 1,245,449 | 317,755 | 523,270 |
| **Cash and cash equivalents at the end of the period*** | 2,400,077 | 1,521,253 | 1,138,760 | 317,755 |

(i) Relates to the sale with loss of control of the activity of gas distribution in Spain (on a consolidated basis) and with the buyback of EDP Renováveis, S.A.' shares under the General and Voluntary Public Tender Offer, as disclosed in the note 18;
(ii) Relates essentially with the sale of the financial investment held in REN - Redes Energéticas Nacionais, SGPS, S.A. (referred in note 21);
(iii) On a consolidated basis, refers to the change in the method by which it consolidated Eólica de Coahuila, S.A. de C.V. and the sale of the activity of gas distribution in Spain (see note 5);
(iv) On a company basis, corresponds, mainly, to the amounts received from its subsidiares, under the in-kind contribution made to EDP Medical and Death Subsidy Fund of the Lisbon headquarters (see notes 7 and 15);
(v) On a consolidated basis, includes the capital increase of: (i) Empresa de Energia São Manoel, S.A.; (ii) Companhia Energética do Jari, S.A; (iii) Eoliennes en Mer Dieppe - Le Tréport, S.A.S.; (iv) Eoliennes en Mer Iles d'Yeu et de Noirmoutier; and (v) Hydro Global Investment Limited. (referred in note 20);
(vi) See Consolidated and Company Statement of Changes in Equity;
(vii) On a consolidated basis, relates to the sale without loss of control by EDP Renewables, SGPS, S.A. of part of shareholding in several portuguese companies as disclosed in the note 5;
(viii) On a consolidated basis, refers to the receipts and payments net of transaction costs (transactions included in note 37).

* See details of Cash and cash equivalents in note 28 and the Consolidated and Company Reconciliation of Changes in the responsabilities of Financing activities in note 54 of the Financial Statements.

LISBON, 1 MARCH 2018

THE CERTIFIED ACCOUNTANT N.º 17,713 | THE MANAGEMENT MANAGEMENT | THE EXECUTIVE BOARD OF DIRECTORS

The following notes form an integral part of these financial statements

# EDP - Energias de Portugal, S.A.

**Company Income Statements for the periods ended at 31 December 2017 and 2016**

| Thousand Euros | Notes | 2017 | 2016 |
|---|---|---|---|
| Revenues from energy sales and services and other | 6 | 2,706,749 | 2,608,187 |
| Cost of energy sales and other | 6 | -2,553,398 | -2,362,389 |
| | | 153,351 | 245,798 |
| Other income | 7 | 37,216 | 15,398 |
| Supplies and services | 8 | -166,502 | -166,462 |
| Personnel costs and employee benefits | 9 | -73,509 | -65,780 |
| Other expenses | | -11,682 | -18,521 |
| | | -214,477 | -235,365 |
| | | -61,126 | 10,433 |
| Provisions | 36 | -2,131 | -414 |
| Amortisation and impairment | 11 | -23,022 | -20,092 |
| | | -86,279 | -10,073 |
| Financial income | 12 | 2,093,354 | 2,331,796 |
| Financial expenses | 12 | -1,306,072 | -1,563,981 |
| Profit before income tax | | 701,003 | 757,742 |
| Income tax expense | 13 | 64,424 | 289 |
| Net profit for the period | | **765,427** | **758,031** |

LISBON, 1 MARCH 2018

THE CERTIFIED ACCOUNTANT
N.º 17,713

THE MANAGEMENT

THE EXECUTIVE BOARD OF DIRECTORS



The following notes form an integral part of these financial statements

## EDP - Energias de Portugal, S.A.

### Company Statements of Comprehensive Income for the periods ended at 31 December 2017 and 2016

| Thousand Euros | 2017 | 2016 |
|---|---|---|
| **Net profit for the period** | 765,427 | 758,031 |
| **Items that will never be reclassified to profit or loss (i)** | | |
| Actuarial gains/(losses) | 33 | -1,642 |
| Tax effect from the actuarial gains/(losses) | -125 | 487 |
| | -92 | -1,155 |
| **Items that are or may be reclassified to profit or loss (i)** | | |
| Fair value reserve (cash flow hedge) | -46,721 | 62,433 |
| Tax effect from the fair value reserve (cash flow hedge) | 14,308 | -18,418 |
| Fair value reserve (available for sale investments) | -20,190 | -1,572 |
| Tax effect from the fair value reserve (available for sale investments) | -2,741 | 458 |
| | -55,344 | 42,901 |
| **Other comprehensive income for the period (net of income tax)** | -55,436 | 41,746 |
| **Total comprehensive income for the period** | 709,991 | 799,777 |

(i) See Company Statement of Changes in Equity

LISBON, 1 MARCH 2018

THE CERTIFIED ACCOUNTANT
N.º 17,713

THE MANAGEMENT

THE EXECUTIVE BOARD OF DIRECTORS

# EDP - Energias de Portugal, S.A.

**Company Statements of Financial Position**
**as at 31 December 2017 and 2016**

| Thousand Euros | Notes | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 15 | 156,347 | 191,959 |
| Intangible assets | | 12,311 | 2,074 |
| Investments in subsidiaries | 18 | 11,501,702 | 11,190,176 |
| Held to maturity financial investments | 19 | 451,257 | 477,018 |
| Investments in joint ventures and associates | 20 | 6,597 | 6,597 |
| Available for sale investments | 21 | 1,556 | 52,134 |
| Investment property | 22 | 51,496 | 52,579 |
| Deferred tax assets | 23 | 78,258 | 45,115 |
| Debtors and other assets from commercial activities | | 586 | 748 |
| Other debtors and other assets | 26 | 6,623,831 | 6,863,324 |
| Total Non-Current Assets | | 18,883,941 | 18,881,724 |
| | | | |
| Held to maturity financial investments | 19 | 419,946 | 29,985 |
| Debtors and other assets from commercial activities | 25 | 609,630 | 551,098 |
| Other debtors and other assets | 26 | 2,907,222 | 2,975,295 |
| Current tax assets | 27 | 185,256 | 40,011 |
| Cash and cash equivalents | 28 | 1,138,760 | 317,755 |
| Total Current Assets | | 5,260,814 | 3,914,144 |
| **Total Assets** | | 24,144,755 | 22,795,868 |
| | | | |
| **Equity** | | | |
| Share capital | 29 | 3,656,538 | 3,656,538 |
| Treasury stock | 30 | -56,862 | -57,433 |
| Share premium | 29 | 503,923 | 503,923 |
| Reserves and retained earnings | 31 | 2,575,543 | 2,563,948 |
| Net profit for the period | | 765,427 | 758,031 |
| **Total Equity** | | 7,444,569 | 7,425,007 |
| | | | |
| **Liabilities** | | | |
| Financial debt | 34 | 5,785,760 | 9,426,907 |
| Employee benefits | 35 | 5,763 | 4,655 |
| Provisions | 36 | 8,902 | 7,599 |
| Trade and other liabilities from commercial activities | | 2,048 | 2,578 |
| Other liabilities and other payables | 39 | 391,408 | 2,761,843 |
| Total Non-Current Liabilities | | 6,193,881 | 12,203,582 |
| | | | |
| Financial debt | 34 | 7,702,537 | 1,766,359 |
| Employee benefits | 35 | 376 | 291 |
| Provisions | 36 | 1,553 | 724 |
| Hydrological correction account | 33 | 1,574 | 1,574 |
| Trade and other liabilities from commercial activities | 38 | 686,463 | 586,792 |
| Other liabilities and other payables | 39 | 2,094,629 | 543,538 |
| Current tax liabilities | 40 | 19,173 | 268,001 |
| Total Current Liabilities | | 10,506,305 | 3,167,279 |
| **Total Liabilities** | | 16,700,186 | 15,370,861 |
| **Total Equity and Liabilities** | | 24,144,755 | 22,795,868 |

LISBON, 1 MARCH 2018

THE CERTIFIED ACCOUNTANT
N.º 17,713

THE MANAGEMENT

THE EXECUTIVE BOARD OF DIRECTORS



The following notes form an integral part of these financial statements

## EDP - Energias de Portugal, S.A.

**Company Statements of Changes in Equity for the periods ended as at 31 December 2017 and 2016**

| Thousand Euros | Total Equity | Share capital (i) | Share premium (i) | Legal reserve (ii) | Reserves and retained earnings | Fair value reserve (Cash flow hedge) (ii) | Fair value reserve (AFS investments) (ii) | Treasury stock (iii) |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 31 December 2015** | **7,299,635** | **3,656,538** | **503,923** | **698,902** | **2,478,655** | **-5,832** | **24,045** | **-56,596** |
| Comprehensive income: | | | | | | | | |
| Net profit for the period | 758,031 | - | - | - | 758,031 | - | - | - |
| Changes in the fair value reserve (cash flow hedge) net of taxes | 44,015 | - | - | - | - | 44,015 | - | - |
| Changes in the fair value reserve (available for sale investments) net of taxes | -1,114 | - | - | - | - | - | -1,114 | - |
| Actuarial gains / (losses) net of taxes | -1,155 | - | - | - | -1,155 | - | - | - |
| Total comprehensive income for the period | 799,777 | - | - | - | 756,876 | 44,015 | -1,114 | - |
| Transfer to legal reserve | - | - | - | 40,122 | -40,122 | - | - | - |
| Dividends paid | -672,817 | - | - | - | -672,817 | - | - | - |
| Purchase and sale of treasury stock | -2,878 | - | - | - | -751 | - | - | -2,127 |
| Share-based payments | 1,290 | - | - | - | - | - | - | 1,290 |
| **Balance as at 31 December 2016** | **7,425,007** | **3,656,538** | **503,923** | **739,024** | **2,521,841** | **38,183** | **22,931** | **-57,433** |
| Comprehensive income: | | | | | | | | |
| Net profit for the period | 765,427 | - | - | - | 765,427 | - | - | - |
| Changes in the fair value reserve (cash flow hedge) net of taxes | -32,413 | - | - | - | - | -32,413 | - | - |
| Changes in the fair value reserve (available for sale investments) net of taxes | -22,931 | - | - | - | - | - | -22,931 | - |
| Actuarial gains / (losses) net of taxes | -92 | - | - | - | -92 | - | - | - |
| Total comprehensive income for the period | 709,991 | - | - | - | 765,335 | -32,413 | -22,931 | - |
| Dividends paid | -690,924 | - | - | - | -690,924 | - | - | - |
| Purchase and sale of treasury stock | -869 | - | - | - | - | - | - | -869 |
| Share-based payments | 1,364 | - | - | - | -76 | - | - | 1,440 |
| **Balance as at 31 December 2017** | **7,444,569** | **3,656,538** | **503,923** | **739,024** | **2,596,176** | **5,770** | **-** | **-56,862** |

(i) See note 29
(ii) See note 31
(iii) See note 30

LISBON, 1 MARCH 2018

THE CERTIFIED ACCOUNTANT
N.º 17,713

THE MANAGEMENT

THE EXECUTIVE BOARD OF DIRECTORS

The following notes form an integral part of these financial statements

**Notes to the Condensed Consolidated and Company Financial Statements**


| | | |
|---|---|---|
| **1.** | Economic activity of EDP Group | 217 |
| **2.** | Accounting policies | 239 |
| **3.** | Critical accounting estimates and judgements in preparing the financial statements | 253 |
| **4.** | Financial risk management policies | 260 |
| **5.** | Consolidation perimeter | 265 |
| **6.** | Revenues from energy sales and services and other | 268 |
| **7.** | Other income | 269 |
| **8.** | Supplies and services | 270 |
| **9.** | Personnel costs and employee benefits | 270 |
| **10.** | Other expenses | 271 |
| **11.** | Amortisation and impairment | 271 |
| **12.** | Financial income and expenses | 272 |
| **13.** | Income tax | 273 |
| **14.** | Extraordinary contribution to the energy sector (CESE) | 276 |
| **15.** | Property, plant and equipment | 277 |
| **16.** | Intangible assets | 280 |
| **17.** | Goodwill | 282 |
| **18.** | Investments in subsidiaries (Company basis) | 286 |
| **19.** | Held to maturity financial investiments | 287 |
| **20.** | Investments in joint ventures and associates | 287 |
| **21.** | Available for sale investments | 292 |
| **22.** | Investment property | 293 |
| **23.** | Deferred tax assets and liabilities | 293 |
| **24.** | Inventories | 295 |
| **25.** | Debtors and other assets from commercial activities | 295 |
| **26.** | Other debtors and other assets | 298 |
| **27.** | Current tax assets | 299 |
| **28.** | Cash and cash equivalents | 300 |
| **29.** | Share capital and share premium | 300 |
| **30.** | Treasury stock | 301 |
| **31.** | Reserves and retained earnings | 302 |
| **32.** | Non-controlling interests | 303 |
| **33.** | Hydrological account | 304 |
| **34.** | Financial debt | 305 |
| **35.** | Employee benefits | 308 |
| **36.** | Provisions | 318 |
| **37.** | Institutional partnerships in USA | 323 |
| **38.** | Trade and other liabilities from commercial activities | 324 |
| **39.** | Other liabilities and other payables | 325 |
| **40.** | Tax liabilities | 326 |
| **41.** | Assets and liabilities held for sale | 327 |
| **42.** | Derivative financial instruments | 328 |
| **43.** | Commitments | 331 |
| **44.** | Related parties | 334 |
| **45.** | Fair value of financial assets and liabilities | 340 |
| **46.** | $CO_2$ licenses | 341 |
| **47.** | Relevant or subsequent events | 341 |
| **48.** | Recent accounting standards and interpretations issued | 343 |
| **49.** | EDP Branch in Spain | 348 |
| **50.** | Environmental matters | 349 |
| **51.** | Transfers of financial assets - Tariff adjustments | 350 |
| **52.** | Investigation process about CMEC and DPH | 351 |
| **53.** | Operating segments | 352 |
| **54.** | Consolidated and Company Reconciliation of Changes in the responsabilities of Financing activities | 359 |
| **55.** | Explanation added for translation | 360 |
| | Annex I - Companies in the Consolidation perimeter | 361 |




The following notes form an integral part of these financial statements

**EDP - Energias de Portugal, S.A.**
**Notes to the Consolidated and Company Financial Statements as at and for the periods ended 31 December 2017 and 2016**

## 1. Economic Activity of EDP Group

The Group's parent company, EDP - Energias de Portugal, S.A. (EDP, S.A.), was incorporated in 1976 as a result of the nationalisation and merger of the major Portuguese companies in the electricity sector operating in mainland Portugal. EDP S.A.'s head office is located in Lisbon at Avenida 24 de Julho, 12. During 1994, as established by Decree-laws 7/91 and 131/94, the EDP Group (EDP Group or Group) was set up following the split of EDP, S.A., which led to a number of directly or indirectly wholly owned subsidiaries of EDP, S.A.

The Group's businesses are currently focused on the generation, distribution and supply of electricity and distribution and supply of gas. Although complementary, the Group also operates in related areas such as engineering, laboratory tests, vocational training, energy services and property management.

The EDP Group operates essentially in the European (Portugal, Spain, France, Poland and Romania) and American (Brazil and the United States of America) energy sectors.

**Activity in the energy sector in Portugal**

**Electricity - Portugal**

The National Electricity System (SEN) basis of organization and operation, as well as the general basis applicable to the production, transportation, distribution, supply activities of electricity, change of supplier logistics operation, and organisation of organised electricity markets, are established by the Decree-Law (DL) 29/2006 of 15 February, this DL was developed by the DL 172/2006 of 23 August. The DL 29/2006 and 172/2006 were updated by the DL 215-A/2012 and B/2012 of 8 October, incorporating essentially the principles of the European Parliament and Council's Directive 2009/72/CE of 13 July 2009, establishing common rules for the electricity internal market.

The National Electricity System includes the activities of generation and supply of electricity under free market competition conditions (through licensing in generation and through prior registration in supply), and the activities of transmission and distribution provided through exclusive public service concessions. The management activity exercise of organised electricity markets is free, subject to authorization. The activity of logistic operation to change the electricity supplier must be independent of the other SEN entities - the Entidade Reguladora dos Serviços Energéticos - ERSE (Energy Sector Regulator) determined that, until it is developed the logistic and the legislation for this activity, it should be performed by the distribution operator of medium and high voltage, currently EDP Distribuição. The DL 38/2017, of 31 March, established that this activity will be perform by ADENE (Energy Agency).

The transmission, distribution and supply of electricity (including last resort activities and market facilitator), as well as the logistics of changes of supplier and organized markets management are subject to regulation by ERSE, which is responsible for the preparation, issuance and enforcement of regulations and for establishing the tariffs and prices related to network usage - access tariffs - and electricity supply for clients in the regulated market - electricity tariffs charged by the Supplier of Last Resort.

For transmission, distribution and supply of last resort activities, the law establishes a remuneration right fixed by ERSE, under the tariff regulations, to ensure economic and financial balance under an efficient management.

Electricity transmission is ensured by the National Transportation Network (RNT) and is carried out under public service concessions, exclusively by REN - Redes Energéticas Nacionais, SGPS, S.A., for a period of 50 years.

The Law 83-C/2013, Law of the State Budget 2014 ("Lei do Orçamento de Estado 2014"), approved by the Portuguese Government on 31 December 2013, introduced an extraordinary contribution applicable to the energy sector (CESE), with the objective of financing mechanisms that promote the energy sector systemic sustainability, through the establishment of a fund which aims to contribute for the reduction of tariff debt and to finance social and environmental policies in the energy sector. This contribution focuses generally on the economic operators that develop the following activities: (i) generation, transport or distribution of electricity; (ii) transport, distribution, storage or wholesale supply of natural gas; (iii) refining, treatment, storage, transport, distribution and wholesale supply of crude oil and oil products.

CESE is calculated based on the companies' net assets as at 1 January, which comply, cumulatively, to: (i) tangible assets; (ii) intangible assets, except industrial property elements; (iii) financial assets assigned to concessions or licensed activities. In the case of regulated activities, CESE focuses on the value of regulated assets if it is higher than the value of those assets.

The applicable rate is 0.85% for natural gas combined cycle power plants with an equivalent annual utilisation of installed capacity greater than or equal to 3,000 hours, 0.565% for power plants with an equivalent annual utilization of installed capacity greater than or equal to 1,500 and less than 3,000 hours and 0.285% for power plants with an equivalent annual utilisation of installed capacity less than 1,500 hours.

The exemptions include assets of wind generation, mini-hydric power plants, and power plants with licenses granted following a public tender and land comprising the public domain.

The CESE system has been extended for the years 2015, 2016, 2017 and 2018 by the Law 82-B/2014, of 31 December, Law 159-C/2015 of 30 December, Law 42/2016 of 28 December and Law 114/2017 of 29 December. Note that, in the assumptions used in the Stability Programme 2017-2021, published in April 2017 by the Portuguese Government, is implied that CESE will continue until 2021.

Additionally, as defined in the State Budget for 2018, the consumption of coal used in the electricity generation activity is subject to the Petroleum Products Tax (ISP) and CO2 Emission Rate. The application of these two rates will gradually evolve until 2022 (10% in 2018, 25% in 2019, 50% in 2020, 75% in 2021 and 100% in 2022). It was also established that 50% of this revenue will be assigned to the SEN or to reduce the tariff deficit (through the Systemic Sustainability Fund for the Energy Sector).

*Generation*

The generation of electricity covers generation under ordinary and special regimes. Under the ordinary regime, where EDP Group is represented by EDP Gestão da Produção, S.A., electricity is generated and sold under free market conditions, in organised markets or through bilateral agreements, being subject only to licensing.

The special regime (PRE) allows producers to deliver electricity to the network, through bilateral agreements with the Supplier of Last Resort (CUR), being subject to specific legislation, namely to promote the use of endogenous renewable resources, cogeneration or micro generation. With the publication of Decree-Law No. 215-A/2012, of 8 October, the PRE begins to integrate beside the production subject to special legal regime the entire generation of electricity from indigenous, renewable and non-renewable resources, even if not covered by a special legal regime, or even not having guaranteed remuneration, it can be remunerated by the market. The EDP Group is present in this segment through its subsidiaries EDP Gestão da Produção, S.A. and EDP Renováveis Portugal, S.A., among others.

Following the publication of Decree-Law 240/2004 of 27 December, which established the creation of a compensation mechanism to maintain the contractual balance (CMEC), in January 2005 the EDP Group signed the early termination of contracts for the Power Purchase Agreements (PPAs) related to the binding electricity production plants of the EDP Group, effective as of 1 July 2007, date of the launch of the Iberian Electricity Market (MIBEL).

With the publication of Decree-Law 199/2007, of 18 May, the Portuguese Government confirmed its decision to early terminate the PPAs and implement the CMEC mechanism and defined the rules to calculate the compensations due to the power generators for such early termination, which essentially consisted in an adjustment of the reference market price of electricity used to calculate the CMEC initial compensation amount. On 15 June 2007, EDP and REN agreed on the early termination of the PPAs, effective as of 1 July 2007. The CMEC regulation sets the compensation due at 833,467 thousand Euros, which in accordance with the legislation can be subject to securitisation.

In June 2007, Decree-Law 226-A/2007 of 31 May, which approved the legal regime for using hydric resources under the terms of the Water Law (Lei da Água), came into force. This Decree-Law in article 91, foresees the transfer of concession rights of public hydric resources of RTN to the companies holding the rights, and being subject to the payment of an economic and financial equilibrium value. The article 92 defines the calculation formula for the economic and financial equilibrium value, which was determined based on the value identified in two assessements conducted by highly reputed independent entities: Caixa - Banco de Investimento, S.A. and Credit Suisse First Boston. On that basis, the Government (INAG), REN and EDP Produção signed on 8 March 2008, several service concession arrangements related to the ex- SEP plants for which EDP Produção paid approximately 759 million Euros (corresponding to the contractual compensation following the Dispatch 16982/07) for the extension of the period to operate the public hydric domain for an additional average period of 26 years.

On 20 August 2012, the Administrative Order 251/2012 was published. This regulation replaced the previous mechanisms and established a new incentive scheme to energy generators. Capacity payments should contribute decisively and rationally to maintain the production capacity of electricity (availability incentive) and to perform future investment in new production capacity (investment incentive), and therefore, to ensure security supply levels that are not guaranteed by the operation of the normal market mechanisms. The availability incentive is applicable to thermoelectric power plants until the end of the operating license, beginning in the calendar year following the date of termination of the PAF ("Programa de Apoio Financeiro"). This incentive corresponds to an annual compensation of 6,000 Euro/MW/year. Investment incentive is applicable to new hydroelectric power plants and power enhancement projects, during the first 10 years after the formal recognition of their eligibility to receive the incentive.

On 27 February 2013, the Administrative Order 85-A/2013 was published, approving the nominal tariff applicable to the tariff repercussion of the yearly fixed amount of the costs for maintenance of the Contractual Stability Compensation (CMEC), setting the rate at 4.72%. This rate is applicable between 1 January 2013 and 31 December 2027 and reflects a costs reduction for the system of approximately 13 million Euros per year, which corresponds to a present value of 120 million Euros. This adjustment results from the application of the calculating mechanism of the interest rate related with the fixed portion set out in Decree-Law 240/2004, of 27 December, amended by Decree-Law 32/2013, of 26 February (point iv) of paragraph b) n.4 of article 5.º).

The Portuguese Government published on 28 February 2013, the Decree Law 35/2013, that modifies the remuneration applicable to the production of electricity by mini hydro plants (PCH). Establishes that the PCH that were framed by a remuneration scheme prior to Decree-Law 33-A/2005, of 16 February, benefit from that remuneration scheme for a period of 25 years from the grant date of the exploration license or until the expiration date of their water use license, whichever occurs first. After this 25-year period and as longer as the above mentioned license remains valid, electricity produced by these plants will be sold at market prices.

Law 74/2013 of 4 June, established a regulatory scheme in order to ensure the balance of competition in the wholesale electricity market, determining that the costs of general economic interest (CIEG) of the global use of the system tariff (UGS) should also be supported by the producers under the ordinary regime and other producers not included in the guaranteed return system.

On 30 July 2015, the Administrative Order 225/2015 was published, which change the Law 74/2013 implementing rules. The impact of the designated "extra market rules" is now determined by Order of the Government member responsible for the energy.

On 15 October 2015, the Office of the Secretary of State for Energy (SEE) published the Order 11566-A / 2015, with the valuation of the parameters for calculation of the formula in Article 3 of Ordinance 288/2013, of 20 September, as amended by Decree 225/2015 of 30 July.

On 14 September 2016, ERSE published in the Official Gazette 177, 2nd series, the Directive 15/2016 on the competitive balance scheme of the wholesale market, which determines the information that producers must send to ERSE in order to allow it to calculate the values associated with non-market events occurred in the Portuguese market, as well as the values of installed capacity contained in the operating licenses or production for the determination of the social tariff cost to be supported by each power-generating plant. This Directive also defines the treatment to be given either in billing for the concept of net production of pumping or the billing related to the natural gas combined cycle plants for which it is provided that the application of the net power will only be made from the moment it reaches the operating threshold defined in Ordinance 225/2015 of 30 July.

In 2016, the criteria of social tariff attribution was amended by Law 7-A/2016 of 30 March, "Law on State Budget 2016". This amendment allows the extension of the current number of effective beneficiaries, pursuant to Decree-Law 138-A/2010 of 28 December, as amended by Decree-Law 172/2014, of 14 November, and Decree-Law 102/2011, of 30 September, without reducing the applicable current discount.

The existing social discounts, until the entry into force of this regulatory change, comprise the regime of extraordinary social support to the energy consumer (ASECE) and social tariff of 13.8% and 20% of the invoice, respectively. On 8 April 2016, Order 5138-A/2016 repeal ASECE and approved that the social tariff started to include this component. Therefore, the social discount rate supported by the social tariff was 33.8 % of the invoice from 1 July 2016. On 24 June, it was published in the Official Gazette 120, series 2, the Directive 12/2016 of ERSE that approves the social tariff in force from 1 July to 31 December 2016. Order 11946-A/2016, of 17 October, maintains the application of the social discount amount supported by the social tariff discount of 33.8% of the invoice for 2017. The social tariff is supported by the electricity suppliers under the ordinary regime and by the hydroelectric plants with capacity greater than 10MW, in proportion of the installed capacity in each electric power plant.

The Order 9081-C/2017 of the Office of the Secretary of State for Energy, dated 13 October, determines the discount of tariffs for access to electricity network, applicable as of 1 January 2018. The published dispatch reiterates that: (i) the social tariff is borne by the producers; and ii) its direct or indirect repercussion on tariffs for the use of transmission, distribution or other regulated electricity assets is prohibited. The discount to be applied in tariffs for access to electricity networks, applicable from 1 January 2018 onwards, should correspond to a value that allows a discount of 33.8% on transitional electricity tariffs to final customers, excluding VAT, other taxes, contributions, fees and default interest.

On 8 March 2016, ERSE Directive 6/2016 was published in the Official Gazette 47, series 2, concerning the booking and reporting of power transactions by market participants in specific remuneration schemes. Such measure establishes that the producers of electricity covered by CMEC in accordance with the Commercial Relations Regulation ("Regulamento das Relações Comerciais" (RRC)) and the Tariff Regulation ("Regulamento tarifário") shall to send to ERSE information on trading transactions and orders.

Following the Order 4694/2014, it was published on 5 September 2016, in the Official Gazette 170, series 2, the Order 10840/2016 of the State Energy Secretary's Office, with the audit conclusions on the determination of an overcompensation risk in the CMEC revisibility calculation in relation to the power plants covered by this mechanism in the system services market. Given the audit conclusions, this Order determines the following:
i) Maintain, until the end of the annual revisibility mechanism of CMEC, the mechanism for the calculation of the system services prices and the proportion of energy generated by CMEC power plants, established in articles 2 and 3 of the Order 4694/2014 of 21 February, from the State Energy Secretary;
ii) Forward the audit report and the Monitoring Committee's opinion to ERSE for monitoring purposes regarding the above mentioned prices and, if appropriate given the results obtained in these reports, find the best regulatory and punitive ways to treat them;
iii) Forward the audit report and the Monitoring Committee's opinion to the Portuguese Authority of Energy and Geology (DGEG).

The Order 12378-A/2016, of 13 October, launches the review process of the remuneration model of power guarantee in order to create a market mechanism that exclusively remunerates the availability services provided by electric power producers, in line with the guidelines given by the European Commission in 2016 for capacity compensation mechanisms.

The Article 169 of the Law 42/2016 of 28 December, which approves the State Budget for 2017, suspends as from 1 January 2017, the capacity payments in the modality of incentive to availability by creating a mechanism which remunerates exclusively the availability services provided by electricity generators. In addition the article 170, of the above mentioned law, determines that the final adjustment of CMEC will be determined and based on a study prepared and presented by ERSE, until the end of the first half of 2017. The value of the adjustment shall be determined in accordance with Decree-Law 240/2004, of 27 December, as amended by Decree-Law 199/2007, of 18 May, 264/2007 of 24 July, and by 32/2013 of 26 February.

DGEG performed an investigation for the evaluation of public policies regarding the energy sector, in which it has come to the conclusion that the renewable energy generators with feed-in tariff have received, apart from this tariff incentive, public support for the promoting and development of renewable energy. DGEG's investigation estimated an amount of 140 million Euros as an excess over what they should have received.

On 13 October 2016, Ordinance 268-B/2016 was published, determining the recovery to SEN of the amount allegedly received in excess, through feed-in tariff reduction granted by the Last resource supplier (CUR).

On 28 December 2016, Law 46/2016 was published. The article 171, determined that the public support for the promoting and development of renewable energy received by the elegible energy generators with feed-in tariff (at this date) should not be cumulative with the administratively fixed remuneration received by those generators. In this sense, this article determines the adoption, through an ordinance, of a mechanism for deduction or replacement of the public support received under these conditions. Thus, on 16 February 2017, Ordinance 69/2017 was published determining the recovery to SEN of the amount allegedly received in excess, through feed-in tariff reduction granted by the Last resource supplier (CUR). This ordinance repeals and replicate the content of the Ordinance 268-B/2016.

The publishing of orders from the State member responsible for the energy sector is expected, that will identify the producers and the amounts which one of them shouldn't have received, in order to calculate the new feed-in tariff that allows this amount to be recovered as fast as it is possible.

For Renewable energy generators under this situation, which have already lost their right to feed-in tariffs, it establishes that it is the CUR who has the responsability to recover the amounts identified by DGEG, though it is not clear in what way will they recover these amounts. Half of the amount recovered under this mechanism will reduce tarif deficit, being the other half allocated to future yearly tariffs.

Order 41/2017, of 27 January, establishes the security reserve remuneration regime for SEN through the availability services provided by electric producers and other market agents. On 1 March, Dispatch 1823-A/2017 was published, with the conditions of the 2017 auction: the auction reserve price of 4,800 Euros/MW, which corresponds to an equivalent price of 3,600 Euros/MW; the SEN security reserve is of 1,766 MW; the maximum annual cost to be borne by SEN electricity consumers with this auction is 8,476,800 Euros, which corresponds to a cost of 6,357,600 Euros for the settlement period; and the last resort supplier (EDP Serviço Universal) is authorised to participate in the auction with a capacity of 180 MW.

On 10 March, Dispatch 2078-B/2017 was published, approving: generic information to be made available to participants in the prequalification phase for the auction of the security reserve remuneration regime for the year 2017 (in its Annex I); the administrative and technical information to OMIP by all participants in the prequalification phase (in its Annex II); and the terms of the draft contract for the availability of the security reserve remuneration regime provided to SEN by the power generation plants and by the CUR (in its Annex III).

In compliance with regulations approved, an auction was held on 30 March 2017 for the allocation of 1,766 MW of security reserve provided through availability services. This auction closed at the price of 4,775 Euros/MW, with a total of 1,168 MW out of 1,766 MW allocated to EDP Group. The total estimated revenue for the EDP Group is approximately 4.2 million Euros.

On 16 March, Dispatch 2258/2017 was issued, regarding the creation and composition of the working group for the hydrological studies, with the mission to study the hydrological mechanism, so that it can be revised and implemented in an harmonisation approach in Iberia, considering, in particular, the need to implement mechanisms to limit the remuneration of hydroelectric energy.

On 10 June 2017 and following Dispatch 10840/2016 on the audit conclusions on the determination of an overcompensation risk in the CMEC revisibility calculation, ERSE clarifies that continues to monitor the market for system services in accordance with its skills and that will incorporate the conclusions of the mentioned audit, in the parts that shall be taken into account, in the opinion on the calculation of the 2016 annual revisibility. EDP Group is not foreseeing any significant impact, once it has always complied with the legal and regulatory frameworks.

On 20 July 2017, the Assembly of the Republic publishes Resolution 158/2017, recommending the Government to reflect the amount of the final adjustment of costs for the maintenance of contractual equilibrium (CMEC) in electricity tariffs for the year 2018 and eliminate it as a excessive revenues.

On 22 June, Dispatch 5443/2017 was published, determining the creation and composition of the working group for the extinction of the hydrological correction account. The working group was extinct by Dispatch 11246/2017, dated 22 December.

The Dispatch 7557-A/2017, of 25 August, from the Office of the Secretary of State for Energy, revokes the full contents of Dispatch 11566-A/2015, of 3 October 2015 by: i) determining the discount to be applied on access tariff for BTN networks for 2016; ii) allocating to costs of general economic interest (CIEG) the amount to be allocated to the reduction of the tariff debt; and iii) defining the parameters for calculating the formula to be paid by each of the power generation centers covered by Decree-Law 74/2013, of 4 June, for each MWh injected into the network.

The General Direction of Energy and Geology (DGEG) through Dispatch 15/2017, of 26 July, performs the quarterly update of the generation reference tariff for the third quarter of 2017.

Dispatch 7875/2017, dated of 7 September, from the Office of the Secretary of State for Energy, declares the invalidity of Article 35-B of the Ordinance 243/2013, of 2 August 2013 , introduced by Ordinance 133/2015, of 15 May 2015(changeability of primary energy source, for conversion of water projects to photovoltaic).

As at 21 September, Decision 2017/1592 of the European Commission was published, dated 15 May 2017, which considers that an extension of the hydroelectric concessions granted by Portugal to EDP does not involve state aid.

Dispatch 9955/2017, of 17 November, defines a new amount for the estimate of the off-market events' impact in EU, which is 4.75€/MWh, with retroactive effects as at 24 August.

*Distribution*

Electricity distribution is carried out through the National Distribution Network (RND) and consists of a medium and high-tension network and a low-tension distribution network, exclusively under public service concessions.

The distribution of electricity in medium and high-tension has been concessioned to EDP Distribuição by the Portuguese Government pursuant to article 70 of Decree-Law no. 29/2006, as a result of converting the licence held by EDP Distribuição under the former regime into a concession agreement, which was signed on 25 February 2009, for a period of 35 years. The terms of the concession are set forth in Decree-Law no. 172/2006.

In accordance with specific legislation (Decree-law 344-B/82, with the amendments set out in Decree-law 297/86 of 19 September, Decree-law 341/90 of 30 October and Decree-law 17/92 of 5 February), the right to distribute low-tension electricity in Portugal is attributed to the municipalities (local authorities). However, Service Concession Arrangements were celebrated generally with a 20 year term between each of mainland Portugal municipalities and EDP Distribuição. These concessions are in return for payment of a rent to the respective municipalities, determined in accordance with Decree-Law 230/2008 of 27 November. The low-voltage concessions of the 278 municipalities end between 2016 and 2026, with the majority expected to end in 2021 and 2022. Although the existing concession agreements were maintained pursuant to Decree-Law 172/2006, the terms for the new concessions will be established after a competition process to be implemented by the relevant municipalities. Law 31/2017 of 31 May, approved the rules on the organisation of public tendering procedures for the award of these concessions, established that these tenders will be launched in 2019.

The principles for the public tender will be as follows:

a) Safeguarding financial neutrality for the consumers and for State Budget;
b) Promotion of the economic efficiency and conditions for the effective performance of the concessioned system;
c) Promotion of territorial cohesion with regard to the sustainability of the concessions and the level of service provided;
d) Safeguarding tariff uniformity in the country;
e) Leveling of the structural conditions for the development of the electricity distribution activity;
f) Promotion of energy management and energy efficiency by municipalities;
g) Ensuring that there is no increased cost to consumers;
h) Protection of employment stability, safeguarding jobs and the rights of employees assigned to the concessions.

The public tender procedures for the award of the concessions will be launched in 2019, by simultaneous publication of the respective announcements and notices under the terms of the Public Procurement Code and the definition of coincident dates for the submission of proposals.

The concession of the distribution activity is remunerated through the payment, by the concessionaire, of an annual rent, included in the tariffs for the use of low voltage distribution networks, being this rent calculated in the terms of the Decree-Law 230/2008 amended by Law 7-A/2016.

The area covered by each tender will fulfill the principle of territorial coherence, and the definition of the territorial area will be decided by the municipalities or inter-municipal entities, on ERSE proposal.

This law also determines that municipalities whose current concession contracts reach their end before 2019 and do not opt for direct management, must have a written agreement with the extension of the term of the respective concessions until the entry into force of the new contracts. This Law also provides that, within six months of its entry into force, the Council of Ministers shall adopt a program of actions and studies to be developed by ERSE in conjunction with the DGEG and ANMP (National Association of Portuguese Municipalities) of the acts to be approved, deadlines and responsible entities.

Additionally, it was published on 11 January 2018 the Resolution of the Council of Ministers 5/2018 that approves the program of studies to be carried out by ERSE along with the Portuguese Authority of Energy and Geology (DGEG) and the National Association of Portuguese Municipalities (ANMP), in order to ensure the launching of the public tender procedures for the awarding concessions at the beginning of 2019. The most significant steps are as follows:

a) By the end of the second quarter of 2018, ERSE will make public the proposal for the delimitation of the territorial area of each tender procedure to be launched, together with the studies on which it was based;
b) By the end of the second quarter of 2018, ERSE will present to the Minister of the Economy a study with the parameters and specifications to be set in the standard tender program for the award of the concessions. After this presentation the government will have 60 days to approve the mentioned programs;
c) By the end of the third quarter of 2018, the municipal or inter-municipal bodies must decide on the definition of their territorial area or on the possible intention to exploit directly;
d) By the end of 2018, the respective entities should approve the corresponding procedures and, if the territorial area is different from the ERSE proposal, the specifications and the technical and economic studies that served as a basis should be published.

Logistics Operator for Switching Suppliers

The figure of the Logistics Operator for Switching Suppliers is an objective introduced by Decree-Laws 29/2006 and 30/2006, both of 15 February. Decrees-Law 140/2006, of 26 July and 172/2006, of 23 August, determined that the Logistics Operator for Switching Suppliers should be common to SEN and to SNGN.

By determination of Regulatory Entity of Energy Services (ERSE), this supplier management change had been temporarily carried out by the medium and high voltage electricity distribution network operator and by the national transmission and natural gas network operators. Decree-Law 38/2017 of 31 March, determined that this activity shall be carried out by a single entity, with Energy Agency (ADENE) having been entrusted for its exercising from 2016.

*Supply*

The Electricity supply market is open to competition, subject only to a licensing regime. Suppliers have the right of access to the national transmission and distribution networks upon payment of the access charges set by ERSE. The activity of free supply, in EDP Group, is developed by EDP Comercial, S.A. The activity of supply of last resort (CUR), including universal public service obligations, is subject of license and is guaranteed by EDP Serviço Universal, S.A., a company wholly owned by EDP Distribuição S.A.

*Electric Energy Price Regime*

In the non-regulated market, electricity tariffs are defined by an agreement between each supplier and its customers. In the regulated market the tariffs charged by the supply of last resort are defined by ERSE. ERSE also establishes social tariffs for sales to final customers to be applied by the last resort suppliers to the economically vulnerable customers, pursuant to Decree-Law 138-A/2010 of 28 December, amended by Decree-Law 172/2014 of 14 November and by Law 7-A/2016 of 30 March. The procedures, model and the conditions for the application of the social tariff were established by Decree 178-B/2016 from 1 July.

The Decree-Law 104/2010 of 29 September (amended by Decree-Law n.º 78/2011, of 20 June, 75/2012 of 26 March, 256/2012 of 29 November and 13/2014, of 22 January), establishes the end of customers regulated tariffs for very high, high, medium and low-tension from 1 January 2011. The DL 13/2014 has established that the suppliers of last resort shall, until the date to be set by ordinance, and by applying transitional rates continue to supply electricity to customers who have not hired on the open market their supply. Ordinance n.º 27/2014 has defined as the termination date of the transitional rates for this type of supplies on 31 December 2014.

At 30 March 2015, Ordinance 97/2015 defined a new termination date of the transitional rates for this type of supplies on 31 December 2017, and the Ordinance 364-A/2017 of 4 December, defined the date on 31 December 2020.

For the low-voltage segment, the Decree-Law 75/2012 of 26 March, establishes the extinction of the regulated tariffs for sales to final customers with contracted power higher or equal to 10.35 kVA from 1 July 2012, and from 1 January 2013, for customers with contracted power less than 10.35 kVA. This law also establishes a transitional tariffs system set by ERSE: (i) final customers with contracted power between 10.35 and 41.4 kVA can take advantage of this rate until 31 December 2014 ; (ii) final customers with contracted power lower to 10.35 kVA can take advantage of this rate until 31 December 2015. The Decree-Law 75/2012, also establishes, for the economically vulnerable customers, the right to join the contract on the open market or choose to keep the supply by the supplier of last resort, benefiting, in any case from discounts in the tariff access provided by law.

In order to postpone the extinction of the transitional rules for the supply of natural gas and electricity to final customers with annual consumption lower or equal to 10,000 m3 and in the standard low voltage, was published the Decree-Law 15/2015, of 30 January, which predicts that the date of extinction of the transitional tariff for the standard low voltage would be set by an ordinance. Consenquently, Ordinance 97/2015, like happened for the others voltage levels, defined the extinction date for the transitional tariff as 31 December 2017. Law 42/2016, of 28 December, determined that during 2017, the Government will proceed to the extension of the deadline for the termination of these tariffs to 31 December 2020. Ordinance 39/2017, of 26 January, changed the Ordinance 97/2015, of 30 March, in order to confirm the deadline determined in Law 42/2016. Finally, Law 05/2017, of 30 August, determined that domestic electricity consumers may opt for a regime similar to the regulated tariffs, amending Decree-Law 75/2012, and determines that will be approved an ordinance to define this regime. Ordinance 348/2017, of 14 November defined the access to this regime similar to the regulated tariffs.

Decree-Law 138-A/2010, of 28 December, amended by Decree-Law 172/2014 of 14 November, defined the social tariff for the supply of electric energy to be applied to customers economically vulnerable.

Ordinance 178-B/2016, of 1 July, defined the procedures for applying and allocating this tariff.

*Public Domain Assets*

In Portugal some fixed assets relating to electricity generation and distribution in the regulated market are subject to the public domain regime. These assets are directly related with the Group's activity, which can freely manage them, but cannot dispose of them for private commercial purposes while they are related with the public domain regime.

**Gas - Portugal**

The National Natural Gas System (SNGN) basis of organization and operation, were established by the Decree-law 30/2006 of 15 February. This DL was developed by the DL 140/2006 of 26 July, that established the general basis applicable to the SNGN activities. The DL 231/2012 of 26 October, proceeds to the third amendment of DL 140/2006, changed by the DL 65/2008 of 9 April and by the DL 66/2010 of 11 June, incorporating essentially the principles of the European Parliament and Council's Directive 2009/73/CE of 13 July, establishing common rules for the natural gas internal market.

In the distribution activity for natural gas, EDP Group develops its activity in Portugal through its subsidiary EDP Gás Distribuição, S.A. EDP Group is present in the commercialization of natural gas, both in the regulated market (EDP Gás Serviço Universal) and the free market (EDP Comercial). Additionally, the Group develops the supply business of propane gas, through EDP Gás GPL, S.A.

Since 1 January 2013 the retail rates published by ERSE have a transitory character, being susceptible to quarterly reviews, according to DL 74/2012, of 26 March. This transitional period ends: (i) at 30 June 2014, for customers with annual consumption over 10,000 m3; (ii) 31 December 2014, for customers with annual consumption over 500 m3 and less than or equal to 10,000 m3; and (iii) 31 December 2015 for customers with annual consumption of less than or equal to 500 m3.

Decree-Law 15/2015, of 30 January, amending Decree-Laws 74/2012, of 26 March, 66/2010, of 11 June, and 104/2010 of 29 September, in order to change the way of fixing the period of application of transitional tariffs for natural gas supplies to final customers with annual consumption lower or equal to 10,000 m3. The date for the tariffs application shall be set by a governmental order of the office responsible for the energy sector, after ERSE been heard.

Therefore, according with Ordinance 97/2015 of 30 March, the extinction of the transitional tariffs for the natural gas supply to final customers with annual consumption lower or equal to 10 000 m3 was set at 31 December 2017. This ordinance, also proceeds to the alteration of the extinction date of the transitional tariffs for the natural gas supply to final customers with annual consumption over to 10 000 m3, from 30 June 2015 to 31 December 2017 (amending the Ordinance 127/2014 of 25 June).

The Resolution of the Council of Ministers 33-A/2016 published in Official Gazette 111/2016, 1st Supplement, Series I of 9 July 2016, creates the conditions for the automatic application of the social tariff on electricity and natural gas, determining the exchange of information between the competent services of the Public Administration. As of 1 July 2016, the social tariff is automatically applied by the suppliers.

On 3 March 2017, was published the Decree-Law 25/2017 that establishes the necessary dispositions for the State Budget execution for 2017, approved by Law 42/2016 of 28 December, which may change the subsoil repercussion model of occupation rates in force.

On 16 June 2017, the tariffs set by ERSE were published for the years 2017-2018. The income allowed for EDP Gás Distribuição, S.A. include the initial revaluation of its assets (with reference to 31 December 2007), approved by the Finance Ministry.

**Activity in the energy sector in Spain**

**Electricity - Spain**

In Spain, EDP-España, S.A.U. (EDP-España) operates in the electricity and gas sectors. In the electricity sector generates, distributes and supplies electricity. Production is based essentially on traditional coal thermal power plants and, on a smaller scale, on hydroelectric and nuclear power plants.

*Electric Sector Regulation*

On 27 November 1997 the Electric Sector's Law 54/1997 was approved, which (i) implements the principles included in the Protocol signed on 11 December 1996 between the Ministry of Industry and the major electric power companies regarding greater liberalization and competition in the electricity sector and (ii) incorporates into Spanish law the provisions contained in Directive 96/92/EC on common rules for the internal electricity market. Additionally, on 6 July 2007 the Law 17/2007 of 4 July came into force, amending the Law 54/1997, to adapt it to the Directive 2003/54/EC of the European Council and Parliament of 26 June 2003 on common rules for the internal market of electricity. Law 54/1997 was updated by the Royal Decree 13/2012 of 30 March, incorporating the principles of the European Parliament and Council's Directive 2009/72/CE of 13 July that revokes the Directive 2003/54/CE. On 27 December 2013, was published in the Official State Gazette the Law 24/2013 which replaces Law 54/1997 maintaining the principles established in previous legislation but with particular emphasis on economic and financial sustainability of the electricity sector.

*Generation*

Since 1 January 1998 electricity generation operates on a free market competition basis, which covers the purchase and sale of energy and other services related to the supply of electricity.

The market structure for electricity generation has been widened by Law 17/2007 of 4 July, in order to include the forward market and the intraday market, as well as technical issues, complementary services, deviations management and non-organised markets. The organisation and regulation of the market for electric power generation is defined by Royal Decree 2019/1997 of 26 December, and its implementing standards.

Electricity is paid at the system's marginal price plus a component for the adjustment services necessary to ensure an adequate supply. Additionally, the Order ITC/2794/2007 of 27 September, which revised the electricity tariffs from 1 October 2007, replaced the concept of "power availability" remuneration of electricity generation by the concept of "capacity payments" stated in article 14.5 of the Law 24/2013, which sets a remuneration of the availability service - for the procurement of capacity in the medium term developed on the Order ITC/3127/2011 - and the incentive to invest in long-term capacity.

The set-up of new generation units is liberalised, subject to obtaining the necessary permits.

Producers have the right to use primary energy sources in their generation units as deemed most appropriate, with the applicable environmental restrictions. As at 1 October 2010, the Royal Decree Law 1221/2010 was approved (which changed the Royal Decree Law 134/2010 of 12 February) that establishes the procedure for guarantee supply restrictions, as a protective measure to promote the consumption of local coal. As at 23 December of the same year entered into force the Royal Decree Law 14/2010, which obliges the producers to pay for the use of the transmission and distribution grids. On 27 January 2012, the promulgation of the Law 1/2012, temporarily suspended the new facilities' right to benefit from the specific remuneration regime of the facilities which use renewable energy sources, waste or cogeneration (applicable to the facilities that, since 28 January 2012, do not fulfil the administrative requirements referred in this standard). From 1 January 2013, the amounts of the premiums applicable to the remuneration of all facilities of the special regime were also eliminated, leaving only the tariff option or market price (Royal Decree-Law 2/2013).

The Royal Decree-Law 9/2013 and the Law 24/2013, change the remuneration scheme for facilities that use cogeneration, renewable energy sources and waste (former special regime) and, in addition of the price market sale, can be charged a specific fee to cover the costs not recovered in the market, calculated based on the efficient company criteria. This scheme does not exceed the minimum necessary to cover the costs that allow equal competition between facilities and other technologies on the market generating a return, before tax, equal to the rate of the 10-year Spanish state bonds, plus a spread. This spread, since July 2013, is 300 basis points. The above mentioned Royal Decree-Law was developed in: (i) the Royal Decree 413/2014, which replaced the previous rules governing the remuneration model used mainly contained in Royal Decree 661/2007; (ii) the Order IET/1045/2014, approving the remuneration parameters applicable to the plants which are using renewable energy sources, waste or cogeneration; and (iii) Order ETU/555/2017 of 15 June, which establishes the new remuneration parameters for the standard installations for the purine treatment and reduction approved in Order IET/1045/2015 and updates them for the period 2017/2019.

*Transmission*

Red Eléctrica de España, S.A. performs the activities of Transmission Manager and System Operator, being responsible for its technical management, to ensure the continuity of supply and efficient management of the generation and transmission systems. The responsibility for the economic management of the system is guaranteed by OMI - Polo Español, S.A.

The entities and qualified consumers have free access to the transmission and supply grids, setting out a system of "tariffs" for traffic. The remuneration for the transmission and distribution activities is set by the regulatory entity.

The Royal Decree 325/2008 of 29 February, established a new fee regime applicable to electricity transportation facilities, that entered into service from 1 January 2009. However, since the adoption of the Royal Decree 9/2013, the retribution will be calculated based on the Spanish Government ten year bond yield, plus 200 basis points. These assumptions were developed in Royal Decree 1047/2013 (repealing the Royal Decree 325/2008), which was amended by Royal Decree 1073/2015 of 27 November and developed by Order IET/2659/2015 of 11 December, which approved, among others, the reference unit values for the calculation of the remuneration of transmission facilities of energy.

According to the Law 24/2013 the transmission activity is performed by a single entity. There is also a distinction made between the primary transmission system (facilities superior or equal to 380 kV with international networks and with extra-peninsular and insular systems) and the secondary transmission system (facilities superior or equal to 220 kV other than primary transmission systems and the facilities below 220kV with transmission functions).

*Distribution*

Law 54/1997 established that the remuneration for each company must respect criteria based on the costs needed to develop the activity, taking into account a model of characterization of distribution areas and other parameters. On 19 March 2008, the Royal Decree 222/2008 of 15 February entered into force, establishing a new system of remuneration for the electricity distribution activity and modified the system of "Acometidas" (system that regulates the installation that connects the distribution grid to the point of delivery of energy to the customers). This remuneration system is based on investments and increased demand of each distributor. On 1 April 2012, came into force the Royal Decree 13/2012, amending the remuneration criteria of the distribution activity related to the assets in use that are not amortised, taking as basis for their financial retribution their net amount. Additionally, the return on assets in use in the year t shall be initiated at 1 January t+2. However, since the adoption of the Royal Decree 9/2013, the distribution activity remuneration will be calculated based on the Spanish Government ten year bond yield, plus 100 basis points. during the second quarter of 2013 and 200 b.p. from 2014 forward. These principles were embodied in the new Law 24/2013 and developed in Royal Decree 1048/2013, repealing the Royal Decree 222/2008.

The application of the new methodology adopted in the Royal Decree 1048/2013 was conditioned by the approval of the standard facilities list and unit investment values and operation and maintenance, which occurred with the publication of the Order IET/2660/2015 of 11 December.

On 10 June 2016, the Spanish Government has published the Ministerial Order IET/980/2016, that has set the final compensation amount from EDP España's electricity distribution business for 2016. In addition, new regulation has set the regulatory average remaining life of EDP España's existing assets as at 31 December 2014 at 25.13 years. Consequently, EDP España evaluated the accounting criteria of the regulated activity, starting to recognise income according to the amortisation pace of its assets, considering the limit of 25.13 years.

The BOE 223/2017 published on 15 September 2017 opened the hearing process of the Order of the Minister of Energy, Tourism and Digital Agenda, introducing a "lesividad" declaration procedure for the public interest Order IET/980/2016, which established the remuneration for the electricity distribution companies until 2016. The allegation of injury to the public interest comes from the fact that this Order does not consider the penalty or reduction of the remuneration per client that was established under the Royal Decree 1048/2013 article 13 for failures in energy meters readings and measuring instruments, as well as different criteria for calculating the residual value of the assets depending on the dimension of the distribution company.

*Supply*

Law 54/1997 established a progressive liberalisation of electricity supply and the introduction of supply activities to enable customers to progressively choose their suppliers and liberalising the supply market from 1 January 2003. Additionally, since 1 July 2009, distributors can no longer act as suppliers (sell electricity) acting strictly as grid operators. Law 24/2013 determines that certain consumers are entitled to be provided with voluntary prices for small consumers and last resort tariffs for reference traders. The reference traders are determined according to the criteria established in Royal Decree 216/2014.

*Electricity Tariffs Regime*

The electrical system costs are described in Article 13.3 of Law 24/2013. These costs will be financed through the revenue from the electrical system, including access fees (which are intended to cover the remuneration of the transmission and distribution), charges for the payment of the cost of other items that are not covered by other income, may be compensated for any financial mechanism legally established, including the state budget.

Access fees, equal in all the Spanish territory, must be determined with the methodologies defined by the National Markets and Competence Commission (CNMC) considering the costs of the system as defined in the Law 24/2013. Charges applicable to consumers and producers are determined by calculation methods adopted by the Government and CNMC that will serve to cover certain costs of the system, without prejudice of what is in force for the access fees of the transport and distribution networks.

Temporarily, and while these methodologies are not approved, fees and charges are defined by the Ministry of Industry, Energy and Tourism.

On the other hand, on 1 July 2009 the system of electricity tariffs became extinct and all consumers were transferred to the liberalised market. However, the Royal Decree 485/2009 of 3 April, provided that the consumers of low-tension, with contract capacity not exceeding 10 kW, were eligible for last resort tariff, which determines the maximum price of supply. These tariffs will be applicable by the suppliers of last resort, where EDP Comercializadora Último Recurso, S.A. is included.

Law 24/2013 replaces the concept of "last resort tariff" by "voluntary price for the small consumer" and the concept of "CUR" by "reference supplier", leaving the term tariff of last resort reserved for reducing the rate to be applied to vulnerable consumers or rate disincentive for consumers who are temporarily without supplier. The Royal Decree 216/2014 sets out the methodology for the calculation of the voluntary price for small consumer and their legal framework of contracting, already updated by the Real Decree 469/2016 of 18 November.

*Vulnerable Consumers*

The previous legislation on social allowance, which imposes its financing on vertically integrated companies, was overruled by a verdict of the Supreme Court of 24 October 2016. As a consequence of the judicial decision, on 25 December 2016 entered into force the Royal Decree-Law 7/2016, of 23 December, which regulates a new financing mechanism for the cost of social allowance and other measures to protect vulnerable electricity consumers, modifying Law 24/2013.

Royal Decree 897/2017 and Order ETU/943/2017, both of 6 October, proceeded to the regulatory development of the measures adopted by Royal Decree-Law 7/2016. The application of the new social allowance is now based on an income criteria and certain personal circumstances (large family, disability, pensioners with minimal retirement, victims of gender violence or victims of terrorism), which will determine the discount applicable to the electricity bill as vulnerable consumer or consumer at risk of social exclusion. The new financing of social allowance will be assumed by the parent companies of the groups of companies that carry out the activity of electricity sale or by the companies that do so if they are not part of any corporate group and in proportion to the customers to whom they supply electricity.

On 28 September and 22 December 2017, the Ministry of Energy published the Orders ETU/929/2017 and ETU/1282/2017, respectively, which determine the refund by the Spanish State of the amount that the electricity companies contributed to the financing of the social tariff between 2014 and 2016.

**Gas - Spain**

Law 34/1998, approved on 7 October and amended by Law 12/2007 of 2 July identifies the following operators in the context of the supply of natural gas by pipeline:

§ Gas transport companies, owners of facilities for regasification of liquefied natural gas, transport or storage of natural gas. After the publication of Royal Decree 13/2012, companies that hold the equipment from the main grid of transport must operate and manage their own grids or hand over their management to an independent operator, in the cases referred by legislation;

§ Distribution companies, owners of distribution facilities, whose function is to distribute natural gas by pipeline, as well as to build, maintain and operate such facilities in order to bring natural gas to the consumption points;

§ Suppliers, companies that have access to the facilities owned by third parties, which purchase natural gas for sale to consumers or other suppliers for the purpose of international exchanges;

§ Final consumers, who purchase natural gas for own consumption and direct consumers in the market, who have direct access to third party facilities.

The Royal Decree 6/2000 of 23 June, also creates the figure of Technical Manager of the System, which is responsible for the technical management of the basic gas and secondary transmission grids, attributed to ENAGÁS, S.A.

Law 34/1998 of the hydrocarbons sector was amended by Law 8/2015 of 21 May, with the aim of creating an organised gas market and providing greater flexibility and lower costs for traders in the management of security minimum stocks.

The system of provisioning and supplying based on tariffs for natural gas distribution companies expired on 1 July 2008. Since then, new last resort tariffs have been set, that can benefit consumers who are covered by the regulation (from July 2009 defined as those consuming less than 50,000 kWh/year), and which will be implemented by the suppliers that, in accordance with Article 82 of Law 34/1998, have an obligation as suppliers of last resort. EDP Comercializadora Último Recurso, S.A. is one of the trading companies designated by the Ministry.

For suppliers of last resort, the Royal Decree 485/2009 makes it possible for groups of companies that have the obligation to provide last-resort electricity and gas, to aggregate in a single company both obligations (EDP Comercializadora de Último Recurso, S.A. currently covers suppliers obligations of last resort for gas and electricity).

The Royal Decree 104/2010 of 5 February, regulates the supplier of last resort in the natural gas sector and establishes that the last resort tariff (TUR) became the only tariff from 1 January 2010 on, denying to suppliers of last resort the application of discounts over customers with TUR.

On 4 July 2014, the Spanish Government approved the Royal Decree-Law 8/2014, subsequently amended by Law 18/2014, of 15 October. Thus, urgent measures were approved for growth, competitiveness and efficiency in the energy sector, in accordance with european directives. For the gas sector, the objective of this reform is to design an economical stable system, minimizing costs to consumers and eliminating the structural tariff deficit.

The main measures are: i) creation of a National Energy Efficiency Fund, for which the gas and electricity suppliers companies and petroleum products traders will have to make mandatory contributions until 2020. This fund will also be provided with resources from EU funds (FEDER) and other resources allocated by the state budget; ii) definition of the mechanism of gas deficit recovery generated until 31 December 2014 for a period of 15 years and the deficit generated from 1 January 2015 for a period of 5 years; iii) aligning remuneration of regulated activities with the demand trends; iv) elimination of the distribution remuneration update based on price and review of the compensation units; and v) cut in the remuneration of regulated activities since 5 June 2014. The parameters of the remuneration of the regasification, storage, transportation and distribution of natural gas activities will be determined by regulatory periods of 6 years, subject to adjustments every 3 years.

Law 2/2015 of 30 March, on the indexation of the Spanish economy, aims to establish a new index system, in order to monetary values of regulated prices do not be amended as a result of price index or formulas, affecting the determination of price updates related to the hire of meters, royalties, and periodic inspections. Until the approval of the Royal-Decree that will detail how these updates will be revised, the reference prices as the industrial index price and the consumer index price will be zero.

Law 8/2015 of 21 May, which among other modifies the Law 34/1998 of 7 October, liberalize the periodic inspection service in the hydrocarbon sector, that until now was performed exclusively by the distributor, considers the connections of transport-distribution as distribution' assets and enables the Corporation of Strategic Reserves of Oil Products (CORES) to constitute strategic reserves of natural gas and promote the development of the organised market. These aspects are regulated in more detail in Royal Decree 984/2015 of 30 October.

Additionally, Royal Decree 984/2015 amends the Royal Decree 949/2001 in relation to third party access regime to the natural gas system facilities allowing independent procurement of inputs and outputs for the transmission and distribution system that allows users to change the gas introduced without any restriction, which is essential for the development of the organized market of natural gas.

The regulation of the natural gas organised market is complete with the Resolution of 4 December 2015, of the Secretary of State for Energy, approving: (i) the market rules that determine the technical and economic management of the organized market; (ii) the accession agreement that the agents have to subscribe to operate in the market; and (iii) the resolutions relating to the operation of the market, as well by the resolution of the State Secretary of 23 December 2015, that developed the procedure for operation gas acquisition, and two other resolution of 2 August, which approved the management rules of the gas system guarantee and the structure access to the installations of the Spanish gas system.

Order ETU/1977/2016, of 23 December, established the tariffs and revenues associated with access to the gas sector installations by third parties and the remuneration of regulated activities for 2017, maintaining in general the current values.

Upon the sale of Naturgás Energia in 2017, EDP Group is no longer present in natural gas distribution sector in Spain.

**Activity in the energy sector in Brazil**

**Electricity - Brazil**

In Brazil, the EDP Group generates, distributes, transmits and supplies electric energy through its subsidiary EDP Energias do Brasil, S.A. (EDP Energias do Brasil).

In early 90s, the Brazilian electricity sector has undergone major structural and institutional changes, having migrated from a monopoly run by the State to a market model, involving private capital. This market model includes the existence of two distinct systems, the regulated system and the liberalised system.

*Regulated System*

The Regulated Contracting Environment is for the sale of electricity between generators, energy importers or retailers, selling energy to distributors who in turn, acquire energy to ensure supply to consumers.

Since 2004, the main form of contracting by a distributor concessionaire is through the realization of public auctions regulated by National Electricity Agency (ANEEL). The rules of these auctions are designed so that the winner is the one with the lowest price.

The distribution companies must estimate the amount of electricity to contract in auctions and they are obliged to purchase 100% of their needs respecting the condition that, market increases must be met by energy from new ventures, contracted 3 years (Auction A-3) or 5 years (Auction A-5) in advance. Failure to comply with the supply of energy to its markets may result in severe fines.

*Liberalised system*

In the liberalised market, electricity is traded among production concessionaires, independent power producers, auto-producers, agents and free consumers. In this market, the contractual conditions, such as price, duration and amount of the contract are traded freely and negotiated between the parties (Decree No. 5,163/04). Free consumers can return to the regulated system under certain conditions.

*Regulatory changes*

The Federal Government has defined changes in the electric sector through Provisional Measures. The Provisional Measure 577, published on 31 August 2012, addresses the termination of public service concessions of electricity and the temporary service, and the intervention for the suitability of the public service of electricity. This measure results in the Law 12,767 of 27 December 2012.

Several significant changes in regulation regarding the electric sector occurred during 2012, such as the Provisional Measure 579/2012, in which the Federal Government presented measures to reduce electric energy bill to the consumer. The expected average reduction for Brazil amounted to 20.2% due to government actions: Concession Renewals (13%) and changes of Sector charges (7%). This measure results in the Law 12,783 of 11 January 2013.

Regarding concessions renewal, the generation concessionaires in which contracts expire between 2015 and 2017 may antecipate the renewal of their concessions and shall make available their physical energy guarantee for the quotas system to be distributed proportionally to the market share of each distributor, affecting the energy acquisition contracts. The transmission concessionaires in which contracts expire between 2015 and 2017 may renew their concessions and, considering that the assets bounded to the electricity transmission service are totally depreciated, only the operation and maintenance costs will be considered for the annual allowed revenues calculation.

Some concessions attributed to distribution companies have been anticipated, so they had to enter into a new contract. Others, including EDP São Paulo (ex-Bandeirante) and EDP Espírito Santo (ex-Escelsa), regardless of the maturity of the contracts, may join the amendment proposed by ANEEL, using the methodology that is being evaluated in the Public Hearing 58/2016. This amendment brings changes in the calculation of portions A and B, namely: i) calculation of portion B shall be determined by the market of the test-year and by the tariff prevailing in the last tariff process, ceasing to be obtained by the difference between the verified revenue and portion A; ii) unrecoverable revenues, demand surplus, exceeding demand and other income are now part of Portion A; iii) ONS becomes part of portion B; iv) DIT losses will be allocated to the technical losses; and v) neutral energy and transportation.

The hydro concessions held by EDP Group - Energias do Brasil have been granted after February 1995, corresponding to the date of the entry into force of Law 8,987, thus they are not covered by the regulatory changes introduced. Still, these changes will influence the rules that will be applied on the renewal of these concessions in the future, in the following conditions:

§ Each hydro plant should be remunerated by a tariff calculated by the ANEEL;

§ Power selling (Physic guarantees) defined through production quotas dedicated exclusively to the regulated sector, that is to the distributors;

§ Compliance with the quality service standards determined by ANEEL.

On 24 January 2013, ANEEL approved the Extraordinary Tariff Review - RTE specific for the adjustment of energy costs, transmission costs and sectorial charges, from all energy distributors. Thus, the unmanageable costs and supply tariffs will be reduced, with no impact in the distributors margin. These effects were noticeable by consumers, from the end of January 2013.

On 23 January 2013, it was published the Provisional Measure 605, whose objective was to increase the scope of application of the resources of the CDE (Energy Development Account), which began promoting resources to cover the discounts applied to the tariffs and involuntary exposure of distributors resulting from the non-adherence to the extension of part of the generation concessions. This measure amended the Law 10,438/2002 which established the application of CDE resources.

The Decree 7,891, of 23 January 2013, established more options for the implementation of CDE resources, which can be used to compensate the discount on the electricity tariffs established by law, such as the social tariff of low income, rural, water, sewage and sanitation, among others. Thus, the difference the revenue due to the discounts no longer will be reimbursed through the tariffs of other consumers. This decree was amended on 7 March 2013, by the Decree 9,745, which increased the costs that can be incurred with funds from the Energy Development Account - CDE.

Eletrobrás, the managing company of the sector funds, among them the CDE, is responsible for monthly transferring to the distribution utilities of the costs related to: generation allocated under the Energy Relocation Mechanism - ERM (Hydrological Risk Quotas); replacement amount not covered by quotas (Involuntary Exposure) and the additional cost of the thermal power plants activation outside the order of merit (ESS - Energy Security), occurred from January to December 2013 and the annual amounts approved by ANEEL to cover, entirely or partially, the positive balances in "Conta de Compensação de Variação de Valores de Itens da Parcela A - CVA", arising from the cost of purchasing electricity and System Services Charge - ESS.

Following the tariff readjustment process of EDP Espírito Santo (ex-Escelsa), on 30 July 2013, Resolution 1,576/13 approved the amount of 90,670 thousand Reais. For EDP São Paulo (ex-Bandeirante) this process occurred on 23 October 2013 and Resolution 1,641/13 approved the amount of 237,874 thousand Reais. These values were transferred by Eletrobrás, as a lump sum to cover the positive balances of CVAs corresponding to the acquisition of electricity and the ESS, as established in Decree 7,891, with redaction of the Decree 7,945.

On 12 February 2014, ANEEL, after examining the administrative appeal filed by EDP Espírito Santo (ex-Escelsa), reviewed by the Order 287/2014, the Regulatory Remuneration Base (BRR) part of the 6th Periodic Tariff Review, incorporating 32 million Reais to the Gross BRR and 24 million Reais to the Net BRR. The amount was incorporated into the tariff and the values that were not received in 2013 were adjusted by the SELIC (overnight rate of the Sistema Especial de Liquidação e de Custódia) and added as financial component in the tariff adjustment of 2014.

On 7 March 2014, the Decree 8,203/2014 was published, which authorizes the transfer of funds from CDE to pay the exposure costs to the spot market in the Electricity Trading Chamber - CCEE in January 2014. The amount of 1.2 million Reais were allocated to Brazilian distribution companies, according to ANEEL's calculations published in Order 515/2014.

On 13 March 2014, the Ministries of Mines and Energy (MME) and Treasury announced the following measures to support the national electricity sector: (i) Establishment of Centralized Account (Account-ACR), managed by the CCEE (Electricity Trading Chamber) with the aim of preserving the consumer tariff volatility, besides relieving distributors cash flow for 2014 expenses; (ii) 4 billion Reais of additional Financial Contribution from the National Treasury in the Energy Development Account (CDE); and (iii) performance of Existing Energy Auction of the Year "A", with energy delivery in 2014, expected to be held in April and supply starting from 1 May 2014.

These measures were implemented by Decree 8,221/2014, of 2 April 2014 related with the cover of the extra costs for 2014, with retroactive effects to February, which defines the financing method and the subsequent effect on electricity tariffs. This is a non-refundable contribution cost.

On 25 April 2014, CCEE signed contracts with some banks to finance 11.2 billion Reais for the ACR-Account to cover the disbursements of the electricity distributors with exposure to the spot market and the energy power stations dispatch. The Energy Development Account - CDE was incharge for the funds for the loan payment, present in the energy tariffs and the reimbursement was made starting on November 2015. The ACR-Account resources obtained through bank loans sold out in April 2014. Therefore, in August 2014 a new loan of 6.5 billion Reais was approved. EDP Espírito Santo (ex-Escelsa) received 596 million Reais until November, related with the months of February to October 2014, while, for the same period EDP São Paulo (ex-Bandeirante) received 309 million Reais. The value of the Account-ACR was insufficient to cover the November and December deficit, forcing ANEEL to defer payment for 2015. In March 2015, CCEE signed a new loan of 3.4 billion Reais. Thus, EDP Espírito Santo and EDP São Paulo received 104.2 million Reais and 64.4 million Reais, respectively, to cover the deficits of November and December 2014. The amounts received by the ACR-Account to cover the 2014 deficit were considered in the energy tariffs from the 2015 ordinary tariff processes.

The existing energy auction, called Auction "A", held on 30 April 2014, for the purchase of electricity from existing generation projects secured the contracting of approximately 2,046 MW of hydroelectric and thermal power plants of natural gas and biomass. The power supply starts in 1 May 2014 until 31 December 2019. Auction "A" aimed to meet the immediate need for energy contracting by distribution due to involuntary exposure as well as reduce the impact on tariff adjustments.

Following the tariff readjustment process of EDP Espírito Santo (ex-Escelsa), which occurred on 6 August 2014, Resolution 1,768/14 approved an index of 26.54% which 19.61% is from economic adjustment and 6.93% from the financial components adjustment. For EDP São Paulo (ex-Bandeirante) the tariff adjustment process took place on 22 October 2014, and was approved by Resolution 1,809/14 an index of 22.34% rate, being 15.05% the economic adjustment and 7.29% the financial components adjustment.

Through Normative Resolution 613/2014 of May of 2014, ANEEL establishes the criteria for the allocation of the exceeding funds of the Reserve Energy Account - CONER, which has been allocated to distributors in order to reduce the tariff deficit.

From January 2015, entered into force the Flags Tariff System. This system signals to consumers the real costs of electricity generation, and consists on three flags: green, yellow and red. The green flag indicates that the cost of energy production is lower and, therefore no changes are applied to the energy tariffs. The yellow and red flags represent the increase in energy production cost, and is added an additional amount to the energy tariff. Only consumers classified as low income residential subcategory will have discount on the additional amount applied by the yellow and red flags. On a monthly basis, the operating system conditions are reassessed by the National Electric System Operator - ONS, which defines the best strategy for power generation over demand.

On 4 February 2015, the Tariff Flag Resource Account was established, through the Decree 8,401. Distributors should collect the proceeds from the application of this system to this account, managed by the CCEE. Proceeds are allocated to cover the costs that are not included in the distribution tariff, such as: Energy Security of the System Service Charge - ESS, thermal dispatch, Itaipu hydrological risk and quotas, exposure to spot market and the Power Reserve Account - CONER surplus.

ANEEL should approve on a monthly basis, the transfers to the distribution companies. Any costs not covered by revenue will be considered in the next tariff process.

On 27 February 2015, through Ratifying Resolution 1,859, ANEEL established the new criteria for the additional tariff and the operation of the Flags Tariff System:

a) Green Flag: used in the months in which the value of the Variable Unit Cost - CVU of the last plant to be dispatched is less than the amount of 200 R$/MWh;

b) Yellow Flag: used in the months in which the value of the Variable Unit Cost - CVU of the last plant to be dispatched is equal to or greater than 200 R$/MWh and lower than the maximum value of the Differences Settlement Price - PLD, currently at 388.48 R$/MWh. For the period of 1 January to 1 March 2015, the consumption proportional increase is 1.5 R$ per 100 KWh. From 2 March 2015, the consumption proportional increase is 2.5 R$ per 100 KWh;

c) Red Flag: used in the months in which the value of the Variable Unit Cost - CVU of the last plant to be dispatched is equal to or greater than the maximum value of the PLD. For the period from 1 January to 1 March 2015, the consumption proportional increase is 3 R$ per 100 KWh. From 2 March 2015, the consumption proportional increase is 5.5 R$ per 100 KWh. After 1 September 2015, as determined by ANEEL Ratifying Resolution 1,945 of 28 August 2015, occured the approval of the red flag amount redution to 4,5 R$ per 100 KWh.

At the same time, ANEEL accepted the request of Extraordinary Tariff Review - RTE from the distributors and defined the applicable methodology. The results of the RTEs Dealers of Electricity Distribution were approved, through the Resolution 1,858. For EDP São Paulo (ex-Bandeirante) the application of new tariffs, from 2 March, resulted in an average increase in its customers of 25.12% and for EDP Espírito Santo (ex-Escelsa) the effect was 26.83%.

As at 26 January 2016, ANEEL approved the division of the red flag in two price levels, into force from 1 February. The first level will have a value of 3 R$ per 100 kWh consumed and will be used when the CVU of the most expensive plant to be dispatched is between 422.56 R$/MWh and 610 R$/MWh; the second level will continue to be 4.50 R$ per 100 kWh consumed and will be used when the CVU of the most expensive plant to be dispatched exceeds 610 R$/MWh.

As at 26 October 2017, ANEEL approved the increase the second level of the red flag at 5 R$ per 100 kWh consumed. The yellow flag decrease to 1 R$ per 100 kWh. The first level of the red flag remained unchange.

On 28 April 2015, through the Normative Resolution 660, ANEEL approved changes in the methodology applicable to the Periodic Tariff Review processes for distributors valid for the processes performed from 6 May 2015. The changes occurred on the following aspects: (i) general procedures; (ii) operating costs; (iii) X factor (productivity gains); (iv) non-technical losses; (v) unrecoverable revenues and (vi) other income, among with:

a) Extinction of the tariff cycle concept, starting to be used methodologies and parameters prevailing at the time of the tariff review. The update of the parameters will occur in periods of 2/4 years while the updating of the methodologies in periods of 4/8 years;

b) The weighted average cost of capital (WACC) increased from 7.5% to 8.09% (after taxes). The points considered in the update were: (i) standardisation of series; (ii) use of average credit risk of companies in the debt capital of third parties; and (iii) recalculation of the cost of capital every 3 years, with methodology review in every 6 years;

c) Remuneration for the risk associated with investment operations carried out with third-party funds (subsidies);

d) For the definition of efficient operating costs, were considered the "quality index" and "losses";

e) To define the level of non-technical losses, it was included the variable "low-income" and the database updated based on 3 statistical models;

f) The level of unrecoverable revenues (%) shall be calculated based on past 60 months of non-compliance of the reference distributors;

g) The percentage share of other revenue has been changed to 30% in the following services: (i) efficiency of energy consumption; (ii) qualified cogeneration facility; and (iii) data communication services. For the other services the share percentage was set at 60%; and

h) The calculation of the X Factor now regards commercial quality.

These changes, which represent an increase in future income, will only impact the tariff review of EDP São Paulo (ex-Bandeirante), that occured at 23 October 2015, and EDP Espírito Santo (ex-Escelsa), that occured at 7 August 2016.

On 4 August 2015, ANEEL approves the Annual Tariff Adjustment of EDP Espírito Santo (ex-Escelsa), through Resolution 1,928. The rates were increased on average by 2.04% and 1.68% for high voltage consumers and 2.29% for low voltage consumers.

On 20 October 2015, ANEEL approved the result of the 4th Periodic Tariff Review of EDP São Paulo (ex-Bandeirante). The average effect for consumers was 16.14%, being 17.09% for high voltage consumers and 15.37% for low voltage consumers. The portion B, designed to cover the costs of the electricity distribution business, was set at 823 million Reais, which deducted from the Other Revenue sharing results in 791 million Reais. For 2016 to 2019, the annual Productivity component (Pd) of factor X was set at 1.14%, while the transition component (T) of the same factor X was set at -0.23%. Technical losses were set at 4.59% and non-technical losses were fixed in a downward trajectory that starts at 9.83% in 2016 and ends at 8.45% in 2019.

On 23 November 2015, ANEEL approved, through Normative Resolution 686/2015, changes to the tariff revision methodology on Regulatory Remuneration Base (BRR). The main changes are the following: (i) the exchange of BRR monetary adjustment index, from IGP-M (General Market Price Index), from FGV (Getulio Vargas Foundation), to the IPCA (Price Index Broad consumer), from IBGE (Brazilian Institute of Geography and Statistics); (ii) the assessment of hand labor costs and smaller components of investment through pre-approved regulatory values by type of equipment; and (iii) update of tariff transfer of systems, vehicles, and rentals.

On 28 March 2016, was published Normative Resolution No. 703, of 15 March 2016, through which ANEEL changed some regulatory procedures affecting the calculation of sectorial assets and liabilities relating to: (i) Variation Compensation Account of the A items amounts (CVA)"; (ii) Energy over contracting and Short Term Market Exposure (MCP); (iii) Other financial components; and (iv) Limits of the Power Purchase Costs Transfer.

The main changes with impact for the distribution companies are: (i) "glosa" calculation of the outstanding balance for power purchase CVA; (ii) exclusion of hydrological risk for the composition of contracts price in the "glosa" calculation, except for availability contracts; (iii) use of the carrying amounts of energy contracts and spot market performance for the calculation of the outstanding balance of the power purchase CVA and for the System Service Charge (ESS) and the Reserve Energy Charge (EER); and (iv) calculation of the spot market results through specific financial component.

On 7 August 2016, ANEEL approved the result of the 7th Periodic Tariff Review of EDP Espírito Santo (ex-Escelsa). The average effect for consumers was -2.80% and -6.18% for high voltage consumers and -0.67% for low voltage consumers. Portion B, designed to cover the costs of the electricity distribution activities was set at 862 million Brazilian Reais, which deducted from Other shared revenues results in 846 million Brazilian Reais. From 2017 to 2019, the annual Productivity component (Pd) of factor X was set at 1.15%, while the transition component (T) of the same factor X has become zero. Technical losses were set at 7.14% under the injected energy and non-technical losses were fixed at 11.45% for low voltage.

On 19 September 2016, ANEEL approved, through Normative Resolution 733/2016, the conditions for the application of a new tariff, the White Tariff.

The White Tariff is a new option that indicates to consumers the variation of the energy value according to the day and time of consumption. This tariff is offered to low voltage consumers, known as group B. With this rate, the consumer will be able to pay different amounts depending on the time and day of the week.

On weekdays, the value of the White Tariff varies depending on three periods: peak, intermediate and off-peak. The peak, intermediate and off-peak periods are approved by ANEEL in the periodic revisions of each distributor. To adhere to the White Tariff, consumers need to formalize their choice with their distributor. Who does not opt for this system, will continue to be charged according with the Conventional Tariffs.

The adherence to this new system can be made since January 2018, as follows: (i) immediately for new connections and for consumers with average annual consumption exceeding 500 kWh/month; (ii) up to 12 months for consumers with average annual consumption exceeding 250 kWh/month; and (iii) up to 24 months for the remaining consumers. Consumers may return to the Conventional Tariff.

The Provisional Measure 735/16, converted in Law 13,360 published on 18 November 2016, restructures the management of the sector funds: Energy Development Account - CDE, Global Reversion Reserve - RGR and Fuel Consumption Account - CCC, whose values today are approximately of 20 billion Brazilian Reais, transferring this management from Eletrobrás to the Electric Energy Trading Chamber - CCEE, until 1 May 2017.

This Law indicates a reduction of the sector charges to determine that the Granting Authority shall submit a Structural Reduction Expenditure Plan for CDE until 31 December 2017 and also limits the fuel reimbursement for the Northern Region distributors to 3.5 billion Brazilian Reais until 2017, which are subject to budgetary and financial availability. From 2030, the cost distribution of the CDE between concessionaires and licensees will be proportional to their markets. The transition between the current allocation, which overloads the regions S/SE/MW, and the markets' proportional allocation, will happen between 2017 and 2030. Additionally, it creates favourable conditions for the transfer of the shareholder's control of concessions, simplifying the bidding process and the terms of the payment to the Union. Finally, it authorizes the transfer of the Union debts to Itaipu for the end-consumers tariffs and it revokes the possibility of concessions extension for companies whose start of operations has been postponed, even if it recognizes the exclusion of the company's responsibility.

In Order 2,777, of 18 October 2016, ANEEL granted the litigation review of the non-technical losses of EDP São Paulo (ex-Bandeirante) by altering the values corresponding to the measured market, adding to it the consumption related to occurrences of fixed invoices and irregularities. So, a financial component, in distributor favour, of 2 million Brazilian Reais was considered in the readjustment to be applied from 23 October 2016.

In the Normative Resolution 2,158, of 18 October 2016, ANEEL approved the 2016 Annual Tariff Adjustment of EDP São Paulo (ex-Bandeirante). The tariffs were readjusted by -23.53%, corresponding to the average tariff effect that will be perceived by consumers as of 23 October, 2016.

Nowadays, the Brazilian electricity sector is in discussion about the redefinition of the sectorial regulatory model. These initiatives, have been discussed by segments of the electricity industry and some associations, materialised in two law projects currently in progress in the national congress.

Among the changes debated, the main ones are: the opening of the liberalised market; the assessement of the supply growth; the separation of "lastro" and energy; and the revision of the sectorial subsidies.

Thus, the Ministry of Mines and Energy published the public consultation (CP 33/17) proposing significant reforms to the sectorial model, namely: self-production; opening of the liberalised market; changes in the contracting obligation; reduction of transmission and production costs; connection between price and operation; separation of "lastro" and energy; involuntary over contracting; distribution tariffs; subsidies to stimulated sources (biomass, solar, wind and small hydropower); rationalisation of discounts; risk and rationalisation of contracts; transmission compensation; quotas' withdraw and privatisation; convergence of the CDE; extension of power plants up to 50MW; hydrological risk; and installment payments of outstanding debts.

EDP Brasil conducted in-depth studies and simulations on the various topics, assisted by the consultant Bain & CO in order to actively contribute to CP 33/17.

After the contribution period, Decree 9158/17 was published, which changes the rules for the extension of power plants up to 50 MW, in line with what was proposed in the public consultation. Thus, power plants between 5 and 50 MW, under a concession or authorisation regime, may be extended, upon discretion of the granting authority, for a period of 30 years through the payment of public property use. In addition to this payment, the extension is subject to the payment of the financial compensation for the use of water resources - CFURH, which reverts to the municipalities affected by the power plant, the reversal of the assets at the end of the period and the waiver of pre-existing rights.

Provisional Measure 814, published on 29 December 2017, covers, among other topics, the electric power services in Isolated Systems and on the expansion of electric power supply, and allows the inclusion of Eletrobrás Group in the National Privatisation Plan, since the measure has the force of law. The hopped solution to the recent judicialisation of the electricity sector that already involves 6 billion Brazilian Reals in amounts not paid in the liberalised market, related to the deficit of generation of hydroelectric energy (GSF) was not an object of this Provisional Measure.

*Generation*

The generation market is based predominantly on the existence of Power Purchase Agreements (PPA) between generators and distributors, with tenders to supply long-term demand, the adjustment of medium and short term and daily market for deviations, or spot market.

Electricity generation in Brazil relies mostly on hydroelectric technology. Power generation plants are the object of concession, permit or registration, according to the type of plant, the power capacity to be installed and the destination of the energy. Depending on the destination of energy, power generation plants can be classified as:

§ Generation companies, producing electricity for public service distribution;

§ Independent producers (which assume the risk of the sale of electricity with distributors or directly with free consumers);

§ Auto-producers (energy generation for own consumption, the excess of which can be sold through an authorisation).

The capacity payments of a generation plant defined by the Ministry of Mines and Energy and set out in the concession agreement or authorization act, correspond to the maximum amount of energy that can be used for commercialization through contracts, in accordance with Decree 5,163 of 2004.

An unfavourable hydrological scenario could damage revenues and the results of hydroelectric production due to the lack of capacity to produce the necessary energy in order to fulfill the contractual obligations.

The systemic production deficit, by national hydroelectric plants related to the Energy Reallocation Mechanism (MRE), cause the reduction of capacity of all hydropower plants in the country, through the factor known as Generation Scaling Factor - GSF. This decrease compels those companies to buy energy in the free market to comply with the agreements with the consequent of a negative exposure in the spot market.

On 18 August 2015, the Federal Government published the Provisional Measure 688 (converted into Law 13,203 at 8 December 2015) on the renegotiation of the production hydrological risk, in order to allow the hydrological risk renegotiation by hydroelectric producers participating in the MRE. The regulation of the renegotiation hydrological risk was carried out by ANEEL, through Normative Resolution REN 684 on 11 December 2015, with retroactive application to January 2015, the access to this system requires regulatory approval.

For producers operating in the regulated system (ACR), it is planned the transfer the of GSF losses for the Tariff Flag account upon a payment of a premium risk. Thus, producers will be reimbursed for losses from 2015 GSF through the exemption from the premium risk from January 2016 until the full compensation of the 2015 losses as ANEEL approval.

For producers operating in the liberalised system (ACL), will also be subject to a premium risk payment, due to the acquisition of the system backup power. The compensation of losses from the 2015 GSF will be made by the extension of the concession contract of the production company that adhere to the agreement in ACL. From 2016 the renegotiation does not exempt the producer of the GSF cost, allows only the mitigation of part of the hydrological risk through the purchase of new energy which will be available in the electrical system.

On 18 December 2015, the companies Lajeado, Investco, Pantanal and the jointly controlled company ECE Participações (Jari) filed the request for the renegotiation of the hydrological risk approval in the regulated system to ANEEL, with effect from 1 January 2015. EDP Brasil failed the renegotiation of the hydrological risk in the liberalised system. Also note that on 29 January 2016, the orders have been published that approved the renegotiation of the hydrological risk in the regulated system for other plants that were upon evaluation of EDP Brasil, namely, Santa Fé and Energest (regarding with Mascarenhas hydro plant). Enerpeixe and part of the energy related to Mascarenhas hydro plant did not had their requests approved for the energy acquired in the Energy Auction A-1. For these cases, Energest and Enerpeixe appealed against the ANEEL decision of 29 March 2016 on Macarenhas, denying the request. On 17 May, ANEEL denied the administrative appeal of Enerpeixe.

On 23 September 2016, Empresa de Energia Cachoeira Caldeirão and ECE Participações filed the request for the renegotiation of the hydrological risk in the regulated system to ANEEL for approval, with effect from 1 January 2017. For the last one, the request was for the average of the additional 20 MW sold in the 15th New Energy Auction. During November and December 2016, the order that approved the renegotiation of the hydrological risk of the power plants was published, in the requested terms, as well as the renegotiation terms, which formalised the adhesion of the producer to the hydrological risk renegotiation.

*Distribution*

The public service concession arrangements for electricity distribution are allocated by tender and establish rules regarding price, regularity, continuity, safety, timeliness and quality of services and supplies provided to consumers and users. These arrangements also define penalties for possible irregularities.

With the publication of the Decree 8,461, of 2 June 2015, the extension of the electricity distribution concessions encompassed in the Law 12,783, of 11 January 2013, may be extended for thirty years, once meet the following criteria: (i) relative efficiency to the service quality; (ii) economic and financial management efficiency; (iii) operating and economic rationality; and (iv) moderate tariffs.

The distribution concessions held by EDP - Energias do Brasil, which were granted after February 1995, date of entry into force of Law 8,987, are not covered by the regulatory changes. Still, these changes are likely to influence the rules that will be applied in the renewal of these concessions.

In most states, mainly in the North and Northeast, the concession area corresponds to the state boundaries. However, mainly in São Paulo and Rio Grande do Sul, the concessions for distribution may cover areas smaller than the state itself. In some cases, the concession area is extended beyond the geographical limits of the state where the distribution company is located.

The distribution activity operates in a fully regulated environment, with tariffs determined in the context of incentive regulation ("price cap") with a remuneration on the basis of the assets used in the distribution energy service (BRR). The tariff also includes a portion to cover the operating costs established from a standard company, the reference company (with costs that would be charged by an efficient operator at the concession area). The regulatory EBITDA has two parts: (i) regulatory depreciation of BRR assets and (ii) return on capital prudently invested multiplied by the regulatory WACC. Finally, the tariffs also consider the costs of acquiring energy, hiring the use of transmission and sector-based charges as costs to be included in the tariff. The tariff portion that includes the regulatory remuneration, the depreciation charge and the value of the operating costs is called portion B. The costs of buying energy, hiring of basic network and charges, set up the portion A of the tariffs as set out in the concession contracts for distribution companies.

Tariffs are adjusted annually based on changes in portion A costs and in the monetary correction of portion B costs, by the Market prices index (IGPM), discounted of productivity gains (factor X). The adjustment index is calculated in such a way to pass the non-controlling cost variations of the portion A and the corrected portion B. Periodically (on average every 4 years), a Periodic Tariff Review occurs, generating the recalculation of all costs, the definition of a new BRR and a new reference company, capturing productivity gains occurred in the period between revisions. At the beginning of 2010 an addendum to the concession contracts of distribution companies was signed to ensure the neutrality of sector costs. On 25 November 2014, ANEEL made addendums to the concession contracts with brazilian electric distribution companies to reduce significant uncertainties regarding to the recognition and realization of regulatory assets/liabilities and, as a consequence, to qualify them to be recognised in the financial statements. After the addendums, it was considered that the conditions are met to recognise regulatory assets/liabilities as assets and liabilities. Therefore, on 10 December 2014, EDP Brasil signed the Fourth and Fifth Addendum to the Concession Agreement with ANEEL.

The Decree 8,828/2016 of 4 August 2016, eliminated the obligation of contracting the installed capacity of the plants that correspond to the maximum load demand ("Lastro de potência") and the penalties associated with their eventual failure. In addition, it removed the limitation of transfer costs to the tariff, when it needs to recontract energy, which volume is less than 96% of the Replacement Amount, for cases when there is an excess of contracts on the supply load measured in year A-1 (Existing Energy). The exclusion of the transfer limit on over contracting situations will bring more flexibility to the distributors, making them able to mitigate - in a very limited way though - the effects of reducing the existing volume of energy in their portfolios.

Additionally, the withdrawal of the mandatory "monômia" tariff for low voltage consumers, allowed the proposal of implementation of the "binômia"(energy and demand) tariff, seeking to encourage the efficient use of the distribution' networks and ensure the expansion and the sustainability of the incentive program for renewable energy and localized production.

As one of the mitigation measures for the problem of the electricity overcontracting felt by the most distributors throughout 2016, ANELL published some normative resolutions. Normative Resolution 711/2016 allowed distributors, in agreement with the production agents: to reduce, postpone or cancel energy trading agreements in the ACR (CCEARs). There is a charge or receipt of bonuses by the distributor for 3 years, depending on the contract price, in relation to the average purchase price of the distributor.

In addition, there was a large number of customers that went to the ACL market, especially due to the high costs of thermoelectric generation that occurred between 2014 and 2015, with a significant impact on the over-contracting of the distributors. In this context, Normative Resolution 726/2016 was published, which made it possible the contracts devolution when the customers are in new energy trading agreements in the ACR.

Normative Resolution 727/2016, in turn, and within the package of measures adopted by ANEEL regarding overcontracting, has improved the use of the New Energy Deficits and Deficit Compensation Mechanism (MCSD), with the possibility of contractual reduction by producers. The reductions will occur from the most expensive contract to the cheapest, without mechanism of charges and bonuses.

With the publication of Normative Resolution 728/2016 in June 2016, the regulation of the phenomena of Voltage Imbalance, Harmonic Distortions, Voltage Fluctuations and Short-Term Voltage Variations were reviewed, with the addition of obligations that will allow the improvement of quality of the product supplied by the distributors, such as the definition of limits and reference values for the indicators, the obligation of quality studies for the energy distribution network access.

In 2016, ANEEL initiated a new methodology for the supervision of electricity distribution services, focused on preventive actions, using analytical intelligence and evidence-based inspection techniques in a context of Responsive Regulation. The objective is the development of Improvement Plans, which will be monitored by the regulator.

In March 2017, Decree 9019/2017 was published, providing for the non-contracting of the reserve energy through the implementation of the competitive mechanism. This will cover plants that have not yet started operations in test mode. The amounts that will not be contracted will be defined by the Ministry of Mines and Energy - MME, based on studies of EPE - Empresa de Pesquisa Energética. The mechanism will consider the payment of a premium and will entail the withdrawal of plants authorisation.

On 28 March 2017, ANEEL decided to republish the Energy Tariffs to reverse the forecast of the Reserve Energy Charge (EER) of Almirante Álvaro Alberto - Unit III (Angra III) nuclear power plant. The new tariffs became effective from 1 April 2017 until the next tariff processes of the country's distributors, scheduled during 2017. Nevertheless, it was decided to anticipate the reversal of the charge, in an extraordinary and exclusively way, in April 2017, of the amounts already collected from tariffs from 2016 until March 2017, since the Angra III nuclear power plant was scheduled to start operating in January 2016, but due to delays in construction work, the new entry forecasted is from 2019.

In April 2017, Decree 9022/2017 was published, establishing standards and guidelines for the Energy Development Account (CDE), the Global Reversion Reserve (RGR) and the National System Operator (ONS). The main reason was the change of the manager of the CDE and RGR accounts, from Eletrobrás to CCEE (Electric Energy Trading Chamber). In the same decree, rules concerning the purpose and budget for CDE and RGR, management, transparency and some provisions related to the change of the account manager were also defined. In addition, ONS received new assignments related to the load forecasting and planning of isolated systems operation.

In May 2017, ANEEL published Normative Resolution 768/2017 (amending Normative Resolution 414/2010), to improve the classification criteria for consumer units, namely the alteration of the registry of public services and public lighting, requiring the segregation of measurement when the public service has more than one activity designated for the same consumer unit.

With the publication of Normative Resolution 759/2017 in February, ANEEL established procedures and requirements for the Invoice Measurement System. The main change is the possibility of using measurement in the secondary of the transformer of the consumer unit, which implies the need for a meter with an algorithm to compensate the losses related to transformation.

With the publication of REN 775 in June 2017, ANEEL amended Regulatory Resolution 414/2010 and Module 7.1 of the Tariff Regulation Procedures - PRORET, introducing Module 11 - Information on the Electricity Invoicing of Distribution Procedures – "PRODIST" . "PRODIST" establishes the procedures that must be observed in the issuance and presentation of electric energy invoices, defining the information that must be included in the electric energy invoices and the relevant aspects on how this information is presented. In addition, it deals with the provision of supplementary information related to the invoicing, the option for the electronic invoice and the option for the invoice summary. PRODIST entered into force on 10 July 2017.

On 30 June 2017, ANEEL established the new Tariffs for Use of the Transmission System - TUST of the National Interconnected System for the period from 1 July 2017 to 30 June 2018, through Resolution 2259/2017.

As at 1 August 2017, ANEEL approved a +9.34% annual tariff readjustment index for EDP Espírito Santo, for the period from 7 August 2017 to 6 August 2018.

Parcel B was readjusted by -2.52%, considering an IGP-M of -1.33% and an X-Factor of 1.20%, which will be shared between "Pd" (productivity gains) of 1.15%, "T" (trajectory to adequacy of operational costs) of 0.00% and "Q" (incentives to quality) of 0.05%. Furthermore, it is worth to mention the impact of the new tariff for the use of transmission system, set forth through ANNEL's resolution 2259/2017, whose incorporation in transmission costs to be collected in the next 12 months explains an increase of 6.68% average effect perceived by consumers.

On October 2017, the Brazilian electricity regulator, ANEEL, approved a 24.37% increase of annual tariff readjustment index for EDP São Paulo, for the period from 23 October 2017 to 22 October 2018.

Parcel B was readjusted by -2.68%, considering an IGP-M of -1.45% and an X-Factor of 1.23%, which is composed by "Pd" (productivity gains) of 1.14%, "T" (trajectory to adequacy of operational costs) of -0.24% and "Q" (incentives to quality) of 0.33%. Furthermore, it is worth mentioning the impact of the new tariff for the use of transmission system, set forth through ANNEL's resolution nr. 2259/2017, which incorporation in transmission costs determined a 10.70% effect on the average tariff increase perceived by consumers. Worth also noting the 14% effect on average tariff related with deviations on previous period costs, mostly related with the unfavourable hydro scenario and consequent impact on energy costs.

On 8 November 2017, ANEEL regulated through Normative Resolution 787, the evaluation of the quality of corporate governance systems to be applied to the electric power distributors. The regulation complies the guidelines for the strengthening of corporate governance in distribution in accordance with the provisions of Decree 8461/2015 and Clause Eight of the concession contracts, and as recommended by the Federal Court of Auditors. This rule, based on an incentive regulation, establishes parameters for the topics of transparency, senior management structure, property relations, internal control and regulatory compliance, resulting in the classification of distributors in high, medium or insufficient level of governance according to adherence to the best practices stated in the regulation.

On 23 November 2017, ANEEL published the Resolution 791/2017, approving sub-module 2.9 of the Tariff Regulation Procedures - PRORET. The publication consists of the admissibility of requests for Extraordinary Tariff Revision - RTE of the concessionaires of electricity distribution.

On 12 December 2017, ANEEL published the Resolution 796/2017, approving version 1.3 of Sub-module 4.4 and version 1.1 of Sub-module 4.4A of Tariff Regulation Procedures - PRORET, which deals with the remaining financial components.

On 19 December 2017, ANEEL approved Normative Resolution 797/2017 explaining the procedures for the sharing of infrastructure of Concessionaires and Permit Holders of Electricity with agents of the same sector, as well as with agents of the Telecommunications, Petroleum, and Gas, with Direct or Indirect Public Administration and with other interested parties. With this publication, Resolution 581/2002 was revoked.

On 22 December 2017, Normative Resolution 794 was published amending Normative Resolution 414 of 9 September 2010, which approves the revision of Modules 1 and 8 of the Procedures for the Distribution of Electricity in the National Electrical System - PRODIST and revokes REN 574/2013. With the publication of the resolution, a specific section was included in PRODIST to establish procedures for the quality of complaint handling, including a methodology for defining the limits for the years following the publication of the resolution. With the publication of the trajectory of the indicators of the distributors EDP São Paulo, the limits will be: i) 25 in 2018; (ii) 24 in 2019; (iii) 21 in 2020; (iv) 17 in 2021; and v) 12 in 2022. For EDP Espírito Santo, the limits will be: i) 23 in 2018; (ii) 23 in 2019; (iii) 21 in 2020; iv) 17 in 2021; and v) 13 in 2022. In addition, Submodules 5.1 and 5.2 of the Tariff Regulation Procedures (PRORET), which regulate the Fuel Consumption Account and the Energy Development Account (CDE) were approved, as provided for in Decree No. 9.022/2017.

On 27 December 2017, ANEEL published Normative Resolution 799/2017, which establishes criteria and procedures in the event of errors identification in the process of formation of the Settlement Price of Differences - PLD and repeals Normative Resolution 568/2013. In case of error identification in the PLD formation process, the National Electric System Operator - ONS and the Electric Energy Trading Chamber - CCEE shall correct it in the operative week following its identification.

The ONS, with the CCEE support, should implement, up to 180 (one hundred and eighty) days from the publication of this resolution, a virtual platform related to the Monthly Operational Program - PMO and its revisions. The CCEE should hold monthly meetings with the agents to address the adequacy of data, procedures and results of the program chain.

*Supply*

The electricity suppliers that do not own electric assets, are authorised to act exclusively in the free market (ACL), selling or buying energy in quantity, conditions and prices freely negotiated. The commercialization of energy with a distributor is only possible through participation in the "Auction set by the distributors", with the negotiation of contracts, for a maximum of two years, and commencement of energy delivery within a period not exceeding two years.

*Public Domain Assets*

In Brazil, fixed assets used in the distribution and the supply activities are bound to these services and cannot be removed, sold, transferred or mortgaged without the prior and express consent of the regulator (ANEEL).

**Activity in the renewable energy sector**

In December 2007 the EDP Group incorporated EDP Renováveis, S.L. in Spain so as to concentrate the Group's subsidiaries in the renewable energies sector. On 18 March 2008, EDP Renováveis was converted into a public limited company.

On 4 June 2008, a share capital increase of EDP Renováveis was made through an Initial Public Offering (IPO) of 196,024,306 shares. This share capital increase was not subscribed by the EDP Group, resulting in a dilution of the interest held in EDP Renováveis from 100% to 77.53%. The share capital increase amounted to 1,566,726 thousand Euros, of which 980,121 thousand Euros relates to the capital increase and 586,605 thousand Euros relates to the share premium.

**Electricity - Renewable**

*Generation*

As at December 2017, EDP Renováveis, the subsidiary of EDP Group for the renewable energies sector, holds the share capital of EDP Renewables Europe, S.L. (EDPR EU, previous designated as Nuevas Energias del Ocidente, S.L.), EDP Renewables North America, LLC. (EDPR NA, previous designated as Horizon Wind Energy, LLC.) and EDP Renováveis Brasil, S.A., operating respectively in Europe, in the United States of America and in Brazil.

EDP Renewables Europe operates through its subsidiaries located in Portugal, Spain, France, Belgium, Poland, Romania, Italy and United Kingdom. EDPR EU's main subsidiaries are: EDP Renováveis Portugal, EDP Renewables España, EDP Renewables France, EDP Renewables Belgium, EDP Renewables Polska, EDP Renewables Romania, EDP Renewables Italia and EDPR UK Limited. As at 31 December 2017, Spain and Portugal are the most relevant geographical markets where EDPR EU operates.

In July 2007 the EDP Group acquired from Goldman Sachs, 100% of the share capital of EDPR NA, which develops, manages and operates wind farms in the United States of America. EDPR NA holds a series of wind farms in operation and a pipeline of projects under development for the construction of wind farms.

*Regulatory framework for the activities in Spain*

On 12 July 2013 the Spanish Council of Ministers approved a comprehensive reform of the energy sector. This energy reform was afterwards implemented by means of a new "Energy Sector Act", a Decree-Law, eight Royal Decrees and three Ministerial Orders.

As a part or this Energy Reform, Royal Decree-Law 9/2013 was approved in July 2013. The purpose of this Royal Decree-Law was to adopt a series of measures to ensure the sustainability of the electricity system, affecting mainly the electricity transport, distribution and renewable sectors. Prior to Royal Decree-Law 9/2013, renewable generators benefited from a feed-in tariff regime in which renewable electricity could be sold at a regulated feed-in tariff or at the Spanish wholesale market price plus a variable premium.

According to the 2013 regulatory framework, renewable energy facilities are entitled to sell the electricity they generate into the Spanish wholesale market and, during their respective regulatory lives, receive additional payments per installed MW from the Spanish electricity system through the "Comisión Nacional de los Mercados y la Competencia (CNMC)" body. This regulatory system is intended to allow each standard wind farm to achieve a pre-tax rate of return (fixed at 7,398% until 2019 YE) over its regulatory life. This reasonable return was determined by reference to the 10-year Spanish government bond plus a spread of 300 basis points.

Regarding the wind sector, Decree Law 413/2014 confirmed that wind farms in operation in 2003 (or before) would not receive any further incentive, while the incentive for the rest of the wind farms would be calculated in order to reach the 7,398% return before taxes. More than 1,300 possible types of renewables installation ("standard facilities") are included in the Decree Law, 23 of them corresponding to wind farms of more than 5 MW classified by the year of first operation (from 1994 to 2016).

In October 2015, the Government approved Royal Decree 947/2015 and a Ministerial Order aimed at allowing the installation of new renewable capacity through competitive tenders.

On 14 January 2016, the first auction of renewables' capacity was held. The auction was designed to provide a similar remuneration scheme that the one that applies to current installations (RD 413/2014). Following this framework, auction participants were requested to bid on the "initial investment" (CAPEX) parameter which would then, by being plugged in the formula set by RD 413/2014 determine the "Rinv" (investment premium) that would eventually be awarded.

Developers were bidding to build 500 MW of wind energy and 200 MW of biomass plants. The auction was very competitive, around 5 times oversubscribed for onshore wind. EDPR was awarded 93 MW of wind energy.

In December 2016, the Energy Ministry (MINETAD) published a draft Royal Decree and a Ministerial Order defining a competitive process for the allocation of new renewable capacity. On 6 and 8 March, two additional draft Resolutions were released including relevant information regarding the auction rules. The Council of Ministers approved on 31 March the RD 359/2017 launching the official call for the auction. The remuneration scheme will be in line with RD 413/2014 scheme. However there will be some differences in the distribution of the remuneration scheme when compared to previous tenders. On the one hand, the tender will be technologically neutral, meaning that projects based on different renewable energy technologies, such as wind, solar and biomass, will be able to compete for contracts.

On 22 February, the Ministerial Order ETU/130/2017 was published, which includes the new remuneration parameters. In 2016 the first semi-regulatory period of RD 413/2014 ended, and therefore, the "Rinv" parameter had to be adjusted in order to consider pool price deviations between the estimated price and the current price and the new pool forecasts.

In 17 May, the "Operador do Mercado Ibérico - Pólo Espanhol" (OMIE) held a tender for the allocation of 3 GW of new renewable capacity. The tender had around 9 GW of competing capacity. 2,979 MW of the 3 GW auctioned were allocated to wind projects.

Following the outcome of this tender, the Spanish government decided to launch one additional tender for a maximum of 3 GW. The new tender held place on 26 July 2017 and was open exclusively to wind and solar PV technologies. The rules governing the new tender was the same as the ones for the tender held on 17 May, except for the maximum possible discount to the standard CAPEX which would be 87.08% for wind and 69.88% for solar PV.

Additionally, the royal decree ruling the tender (RD 650/2017) included the possibility to increase the allocated capacity to all capacity bidding the same discount, provided it would not create an overcost to the system. Following this, all the capacity which offered the maximum allowed discount was awarded (no tiebreaker rule was triggered). Overall, 5.037 MW were awarded, with solar power producers being the biggest winners with 3.909 MW compared to 1.120 MW for wind.

*Regulatory framework for the activities in Portugal*

The Portuguese legal provisions applicable to the generation of power from renewable sources are currently established by Decree-Law 189/88 dated 27 May, (subsequently amended by Decree-Law 168/99 of 18 May, Decree-Law 312/2001 of 10 December and Decree-Law 339-C/2001 of 29 December). Also relevant is Decree-Law 33-A/2005, of 16 February 2005 ("DL 33-A/2005"), which establishes the feed-in tariff remuneration applicable to energy produced by renewable sources.

The Portuguese Government published on 28 February 2013, the Decree Law 35/2013 that maintains the legal stability of the current feed-in tariff contracts (following Decree-Law 33-A/2005) and protects the value of the investments made by wind energy producers. However, this Decree Law granted the possibility to adhere to voluntary changes of the existing feed-in tariff. Indeed, wind generators could extend the support scheme (generally 5 or 7 years) in exchange of upfront payments or discounts on existing tariffs. EDPR chose a 7 year extension of the tariff defined as the average market price of previous twelve months, with a floor of 74€/MWh and a cap of 98€/MWh (values updated with inflation from 2021 onwards) in exchange for yearly payments from 2013 to 2020.

The Environment and Energy Ministry published, on 24 June, the Decree Law 94/2014 that allows the increase of installed capacity of wind farms up to 20%. The additional production generated from the capacity increase will have a fixed remuneration of 60 €/MWh, whilst the remaining production is remunerated at the previous tariff.

*Regulatory framework for the activities in Romania*

In 30 March 2017, the government finally approved the emergency ordinance to amend the renewable law 220/2008. As expected, the Green Certificate (GC) scheme was extended until 2031 (GC will remain valid until March 2032). The Ordinance also confirmed the GC floor would remain fixed at 29.4€ and GC cap will lose indexation and reduced to a level of 35€. Regarding wind energy, the ordinance approves the extension of the GC recovery from 2018 to 2025, while solar PV's GC postponement is extended until the end of 2024 (the recovery will take place from 2025 to 2030).

Following the approval of EGO 24/2017 in March, the energy regulator (ANRE) issued the Order 27/2017 establishing the mandatory quota of estimated green certificates for the period April-December 2017. This new quota is based on a new methodology, which establishes the number of GCs estimated to be issued, instead of a percentage of clean energy. The number of GC for the April-December period was defined to 11,233,667 GCs.

ANRE issued the Order 77/2017 approving the regulation on organisation and functioning of the Green Certificates (GC) market. The Order allows the trade of GCs in two different markets: (i) a centralised anonymous GC market (operational as of 1 September 2017) that comprises platforms for GCs trading (spot and forward transactions) organised by Romanian Electricity and Gas Market Operator (OPCOM), allowing participants to the GCs market to submit firm GCs sale or purchase offers with respect to quantity and price, without revealing their identity to the other participants to the trading sessions; and (ii) a centralised market for electricity from renewable energy sources benefiting from the GCs scheme (not yet operational): market platform to trade bundled GC and electricity of renewable energy sources. The electricity price will be determined competitively by the market mechanisms, while the price of the GCs associated to the sold quantity of electricity will be equal to the closing price for the last trading session on the centralised anonymous GCs market. In both markets, the transactions have a limit of 10,000 GCs per day.

*Regulatory framework for the activities in the United States of America*

The United States federal government and various state governments have been implementing policies to promote the growth of renewable energy, particularly wind power. The main federal renewable energy incentive program is the Production Tax Credit (PTC), which was created by the US Congress as part of 1992 EPACT. Additionally, several states have passed legislation, mainly in the form of renewable portfolio standards (RPS), which require utilities to purchase a certain percentage of their energy supply from renewable sources, similar to the Renewable Energy Directive in the EU.

American Recovery and Reinvestment Act of 2009 includes a number of energy measures related to tax and policy provisions to benefit the development of wind energy generation, namely (i) a three year extension of the PTC until 2012 and (ii) an option to elect a 30% Investment Tax Credit (ITC) that could replace the PTC through the duration of the extension. This ITC allows the companies to receive 30% of the cash invested in projects placed in service or with the beginning of construction in 2009 and 2010. In December 2010, the Tax Relief, Unemployment, Insurance and Reauthorization, and Job Creation Act of 2010 was approved and includes an one year of ITC extension, which allow the companies to receive 30% of the cash invested in projects with beginning of construction until December 2011 as long as placed in service until December 2012.

On 1 January 2013, the US Congress approved "The American Taxpayer Relief Act" that includes an extension of the Production Tax Credit (PTC) for wind energy, including the possibility of a 30% Investment Tax Credit (ITC) instead of the PTC. Congress set 31 December 2013 as the new expiration date of these benefits and changed the qualification criteria (projects will only qualify as long as they are under construction by year-end 2013). The legislation also includes a depreciation bonus on new equipment placed in service which allows the depreciation of a higher percentage of the cost of the project (less 50% of the Investment Tax Credit) in the year that it is placed in service. This bonus depreciation was 100% in 2011 and 50% for 2012.

On 16 December 2014, the US Congress approved the "Tax Increase Prevention Act of 2014" that included an extension of the Production Tax Credit (PTC) for wind energy, including the possibility of a 30% Investment Tax Credit (ITC) instead of the PTC. Congress set a new expiration date of 31 December 2014 and kept the qualification criteria (projects can qualify as long as they are under construction by year-end 2014).

On 15 December 2015, the US Congress approved the "Consolidated Appropriations Act of 2016" that included an extension of the PTC for wind energy, as well as the possibility of a 30% Investment Tax Credit instead of the PTC. Developers had until the end of 2016 to start construction of new wind farms to qualify for 10 years of production tax credits at the full level. Congress introduced a phase out for projects that start construction after 2016 and before 2020. These projects will still qualify for production tax credits, but at reduced levels. The levels are 80% for projects starting construction in 2017; 60% in 2018; and 40% in 2019. Developers of projects that start construction before 2020 may choose to claim 30% investment tax credits instead of production tax credits, subject to a similar phase out. The phase out reduces the value of the 30% investment tax credit to 24% in 2017; 18% in 2018; and 12% in 2019. Neither production tax credits nor investment tax credits are allowed for wind projects that start construction in 2020 or later.

The aforementioned "Consolidated Appropriations Act, 2016" also extended the Investment Tax Credit (ITC) for solar projects. Solar projects that are under construction by the end of 2019 will now qualify for the 30% ITC. The credit is reduced to 26% for projects starting construction in 2020 and to 22% for projects starting construction in 2021. The credit drops to a permanent 10% level for projects that begin construction in 2022 or later or that begin construction before 2022, but are placed in service in 2024 or later. Projects must be placed in service by the end of 2023 to qualify for a credit above 10%.

On 9 February 2016, the US Supreme Court stayed implementation of the Clean Power Plan (CPP) announced by the United States' Environmental Protection Agency (EPA) on 3 August 2015, a rule to cut carbon pollution from existing power plants, which is pending judicial review. On 7 December 2017, EPA Administrator Scott Pruitt announced at a hearing of the U.S. House Energy and Commerce Committee that the EPA will introduce a replacement rule to CPP.

Additionally, on 5 May 2016, the US Internal Revenue Service issued guidance that wind farms have 4 years from their start of construction to be placed in service and qualify for the PTC. As a result, projects that start construction prior to year-end 2019 and are placed in service prior to year-end 2023 will be eligible for the PTC. The IRS ruling also includes a provision that allows developers to secure the PTC if 5% of a project's capital components by US dollar value are safe harbored in a given year and construction is complete within 4 years. Thus, if a developer safe harbors 5% of project Capex in 2016, will be qualified for 100% of the PTC if the construction is concluded until 2020.

With the election of Donald Trump as President of the United States, which together with the Republican Party, gained control of both Houses of Congress, a change in the governing philosophy is expected. In the first 100 days of his term, the President has issued an Executive Order directing the EPA to revert the Clean Power Plan, removed it and replaced it with a new one, eliminate the moratorium on coal in Federal lands, regulations on methane emissions and hydraulic fracturing and eliminated guidance which has incorporated climate change and the "social costs of carbon" into federal projects. On 1 June 2017, President Trump announced that the U.S. would withdraw from The Paris Agreement, an international accord to combat climate change. The ultimate impact of these changes on renewable demand is not yet clear for several reasons: most of these changes will be contested in court; States regulators decide on the energy mix at State level; the most important energy players are already implementing the main elements of the Clean Power Plan; and the Executive Order does not impact ITC/PTC, which is the main development driver for the US renewable energy market.

By the end of 2017, the two most relevant events currently being considered are reforming the US Tax Code and contemplating a Federal plan to promote investment in infrastructures.

The two chambers of Congress then proceeded to pass different versions of the tax reform bill that were then analysed together. On 22 December 2017, President Trump signed the final project for the tax reform law. The law made numerous changes to the U.S. tax code including some that may impact demand and financing for renewable energy. Among these are the Base Erosion Anti-Abuse Tax (BEAT) provision, which seeks to prevent multinational companies from engaging in "earnings stripping", the practice of lowering a company's U.S. tax liability by deducting interest from payments made from a foreign parent company to its U.S. subsidiary. The BEAT provision allows companies to offset up to 80% of BEAT tax payments with energy tax credits such as the PTC and ITC. Because companies are not allowed to offset the entirety of BEAT tax payments with energy tax credits, the provision may negatively impact the tax equity financing market, a key finance driver for renewable energy. The final law also reduced the corporate tax rate from 35% to 21%. This could also decrease the size of the market for tax equity financing. With regards to other new policy initiatives, White House officials have expressed a desire to introduce an infrastructure plan to be passed by Congress. While details of this plan are currently unclear, increased investment in Infrastructure could change the demand for renewables or change the value of production from existing facilities.

*Regulatory framework for the activities in Poland*

On 19 February 2016 the PiS MPs party proposed a draft law on wind investments covering localization, realizations and operation of wind farms, the so-called Wind Turbine Investment Act. After a long approval process in which the renewable sector succeeded in introducing some amendments to the original draft the law was finally approved and published in the Polish Official Gazette in June 2016. The main measures of this new law include minimum distance restrictions for new wind farms and increased real estate tax burden.

On the other hand, and following the delay of implementation of the RES Act Chapter 4 introduced in late December 2015, PiS' government has introduced to Polish parliament a more comprehensive amendment proposal to the RES Act in early May 2016. After having gone through Poland's parliamentary appreciation process the amendments were finally approved and published in late June, in line with the intentions to have the Chapter 4 in force since 1 July 2016. While keeping the core of the new auction system introduced by the new 2015 RES Act these new amendments have also introduced some modifications (namely introducing technology baskets for future tenders and improving the treatment of biomass, biogas and cofiring technologies).

In October 2016 the Polish Government published the Ordinance detailing the amount and value of energy to be auctioned in 2016. Wind energy was not included among the technologies allowed to participate (except for facilities below 1 MW). The auction was held in 30 December 2016.

On 23 November 2016, the Polish Government disclosed a draft ordinance detailing the amount and value of energy planned to be auctioned in 2017. The draft highlights that baseload renewables (dedicated biomass and biogas) remain key to the government as they will be allocated around 50% of the total 2017's auction budget. The new draft proposes the budget to be allocated to the pot in which new onshore wind could compete. This amount could amount up to 150 MW. It is also likely that wind and PV will compete for the same budget.

During the first semester of 2017, the substitution fee was 300.03 PLN. However, with the entry into force of the amendment proposed by the Polisk Government in the third quarter of 2017 the substitution fee changed to 125% of the average market price of the green certificate from the previous year capped at 300 PLN. Given the current low prices of GCs, this rule is expected to involve a even higher price reduction.

Together with the reduction of the substituion fee, the accompanying note of the amendment proposal includes a proposal to set up (and increase) the GC's quotas up to 2020: 17.5% in 2018, 18.5% in 2019; and 19.5% in 2020. However, this specific proposal is not included in the official text of the proposal that has been approved.

On 13 December 2017, the EU Commission (through the Directorate-General for Competition) approved the Polish support scheme for renewables and therefore confirmed that the scheme is in line with the 2014 European State Aid Guidelines.

*Regulatory framework for the activities in France*

On 15 April 2016, the French council of State published a decision ordering the government to start recovering the interests that the feed-in tariff received from 2008 to 2014 would have generated. This decision was based on the grounds that the French Government failed to notify the European Commission of the Ministerial Order approving the feed-in tariff.

A Contract-for-difference (CfD) scheme replacing the feed-in tariff scheme was released in December 2016 for wind farms having requested a PPA in 2016. According to the decree, the strike price would be equal to the value of the current feed-in tariff (similar tenure, indexation and adjustment after year 10), plus a management fee to compensate balancing costs (2.8 €/MWh). The market reference price will be the production weighted average pool price, using a representative production profile of the wind industry in France. The settlement would be done on a monthly basis.

The French Government also disclosed a draft decree for the 2017 CfDs for wind farms below 6 wind turbines. According to the draft, the CfD tenure will be extended to 20 years (instead of 15 years), being the strike price 72€/MWh (plus the management fee). The draft also includes a limitation of the amount of energy to be remunerated under the CfD strike price. Larger wind farms will be awarded CfDs through competitive tenders.

Additionally, on 24 April 2016 the French Government enacted the so-called "Programmation pluriannuelle des Investissements" (PPI) which objective is to set different renewables' capacity targets by technology, in order to achieve the objectives of the "Loi de Transition Énergétique" (decree-law meant to define the long term energetic and climate politic in France, official aproved in August 2015). The PPI provides short-term (2018) and medium-term (2023) renewables' capacity targets and also includes a provisional timetable of the next renewable tenders to be launched between 2017 and 2019.

The French government published on 10 May, the decree for the 2017 Contract-for-Difference (CfD) for wind farms below 6 wind turbines and maximum 3 MW per turbine. These projects will be exempt from tendering.

The regulator has also disclosed the tender rules for onshore wind farms (of more than 7 wind turbines or with over 3 MW per wind turbine) for the period from November 2017 to June 2020. The rules foresee the allocation of 3 GW of wind capacity in six successive 500 MW rounds every 6 months during the next 3 years. The rules also include a calendar with the dates in which the tenders are expected to take place.

## 2. Accounting Policies

### Basis of presentation

The accompanying consolidated and company financial statements of EDP - Energias de Portugal, S.A. reflect the results of the company's operations and its subsidiaries (EDP Group or Group) and the Group's interest in its joint ventures and associated companies, for years ended 31 December 2017 and 2016 and EDP S.A.'s Executive Board of Directors approved them on 1 March 2018. The financial statements are presented in thousand Euros, rounded to the nearest thousand.

In accordance with Regulation (EC) 1606/2002 of the European Council and Parliament, of 19 July 2002, as transposed into Portuguese legislation through Decree-law 35/2005 of 17 February, the company's financial statements and the Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU). IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and their predecessor bodies. The EDP Group's consolidated and company financial statements for the years ended 31 December 2017 and 2016 were prepared in accordance with IFRS as adopted by the E.U. until 31 December 2017.

As described in note 48, the Group adopted in the preparation of consolidated financial statements as at 31 December 2017, the accounting standards issued by IASB and IFRIC interpretations effective since 1 January 2017. The accounting policies used by the Group in preparing the consolidated financial statements described in this note were adopted in accordance. The new standards and interpretations recently issued but not yet effective and that the Group has not yet applied on its consolidated financial statements, are detailed in note 48.

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, financial assets and liabilities at fair value through profit or loss and available-for-sale investments, except those for which fair value is not available. Assets and liabilities that are hedged under hedge accounting are stated at fair value in respect of the hedged risk. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell. Liabilities for defined benefit plans are recognised at the present value of the obligation net of plan assets fair value.

In accordance with IFRS 3 - Business Combinations, if the initial purchase price allocation of assets, liabilities and contingent liabilities acquired is identified as provisional, in the subsequent 12 months after the business combination transaction, the legal acquirer should make the final allocation of the purchase price related to the fair value of the assets, liabilities and contingent acquired. These adjustments with impact on the amount of goodwill determined and booked in previous periods, originates a restatement of the comparative information, which are reflected on the Statement of financial position, with effect from the date of the business combinations transactions liabilities.

The preparation of financial statements in conformity with IFRS requires the Executive Board of Directors 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.

Accounting policies have been applied consistently by all Group companies and in all periods presented in the consolidated financial statements.

*Change in line items on the Consolidated Statement of Financial Position*

As at 31 December 2017, EDP Group separated the lines "Tax liabilities" and "Tax assets" into non-current, previously included in "Other liabilities and other payables" and "Other debtors and other assets", respectively. For comparison purposes, these line items were changed also for the comparative period.

*Change in line items on the Consolidated and Company Statements of Cash Flows*

As at 31 December 2017, EDP Group separated the lines "Receipts/(payments) relating to financial debt (include Collateral Deposits)", "Interest and similar costs of financial debt including hedge derivatives", "Receipts/(payments) relating to loans from non-controlling interests", "Interest and similar costs relating to loans from non-controlling interests", "Receipts/(payments) relating to loans from related parties" and "Interest and similar costs of loans from related parties including hedge derivatives", previously included in "Receipts/(payments) relating to loans" and "Interest and similar costs including hedge derivatives". For comparison purposes, these line items were changed also for the comparative period.

**b) Basis of consolidation**

The accompanying consolidated financial statements reflect the assets, liabilities and results of EDP, S.A. and its subsidiaries (Group or EDP Group) and the equity and results attributable to the Group, through the investments in associates and jointly controlled entities.

As from 1 January 2010 onwards, the EDP Group applied IFRS 3 (revised) for the accounting of business combinations. The changes in accounting policies resulting from the application of IFRS 3 (revised) were applied prospectively.

*Controlled entities*

Investments in subsidiaries where the EDP Group has control are fully consolidated from the date the Group assumes control over their financial and operating activities until the moment that control ceases to exist.

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee, independently of the percentage of voting rights held.

Until 31 December 2009, when the accumulated losses of a subsidiary attributable to non-controlling interests exceed the non-controlling interests in its equity, the excess was attributed to the Group and charged to the income statement as incurred. Profits subsequently reported by the subsidiary were recognised as profits of the Group until the losses attributable to the non-controlling interests previously recognised by the Group have been recovered. As from 1 January 2010, the due proportion of accumulated losses are attributed to non-controlling interests, implying that the Group can recognise negative non-controlling interests.

As from 1 January 2010, on a step acquisition process resulting in the acquisition of control the revaluation of any investee previously held is booked against the income statement when goodwill is calculated. On a partial disposal resulting in loss of control over a subsidiary, any participation retained is revalued at market value on the sale date and the gain or loss resulting from this revaluation is booked against the income statement, as well as any gain or loss resulting from the disposal.

*Jointly controlled entities*

EDP Group classifies an arrangement as a joint arrangement when the jointly control is contractually established. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement.

After determining the existence of joint control, the Group classifies joint arrangements into two types - joint operations or joint ventures.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement, so the assets and liabilities (and related revenues and expenses) in relation to its interest in the arrangement are recognised and measured in accordance with relevant IFRSs applicable.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint ventures) have rights to the net assets of the arrangement, so this investment is included in the consolidated financial statements under the equity method.

The consolidated financial statements include the Group's attributable share of total reserves and profits or losses of joint ventures, included under the equity method. When the Group's share of losses exceeds its interest in a jointly controlled entity, the Group's carrying amount is reduced to zero and recognition of further losses is discontinued, except to the extent that the Group has a legal or constructive obligation to cover such losses on behalf of that entity.

*Entities over which the Group has significant influence*

Investments in associates are included in the consolidated financial statements under the equity method from the date the Group acquires significant influence to the date it ceases. Associates are entities over which the Group has significant influence, but not control, over its financial and operating policies.

The existence of significant influence by the Group is usually evidenced by one or more of the following:
- Representation on the Executive Board of Directors or equivalent governing body of the investee;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Existence of material transactions between the Group and the investee;
- Interchange of managerial personnel; and
- Provision of essential technical information.

The consolidated financial statements include the Group's attributable share of total reserves and profits or losses of associates, included under the equity method. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to zero and recognition of further losses is discontinued, except to the extent that the Group has a legal or constructive obligation to cover such losses on behalf of the associate.

*Accounting for investments in subsidiaries and associates in the company's financial statements*

Investments in subsidiaries and associates not classified as held for sale or not included in a disposal group which is classified as held for sale are accounted for at cost in the company's financial statements, and are subject to periodic impairment tests, whenever indication exists that certain financial investment may be impaired.

*Goodwill*

Following the transition to International Financial Reporting Standards (IFRS) on 1 January 2004 and as permitted under IFRS 1 - First-time Adoption of International Financial Reporting Standards, the EDP Group decided to maintain the goodwill resulting from business combinations that occurred prior to the transition date, calculated in accordance with the Group's previous accounting policies.

Business combinations that occurred after 1 January 2004 are accounted for using the purchase method of accounting. The acquisition cost corresponds to the fair value determined at the acquisition date, of the assets given and liabilities incurred or assumed including the costs directly attributable to the acquisition, for acquisitions up to 31 December 2009.

As from 1 January 2010 onwards, costs directly attributable to the acquisition of a subsidiary are booked directly in the income statement.

As from the transition date to IFRS (1 January 2004), positive goodwill arising from acquisitions is recognised as an asset carried at acquisition cost and is not subject to amortisation. Goodwill arising on the acquisition of subsidiaries and associates is defined as the difference between the cost of acquisition and the corresponding share of the fair value of the net assets acquired.

As from 1 January 2010 onwards, the EDP Group has the possibility to book non-controlling interests at fair value or at cost, implying that the full amount of goodwill can be booked in the financial statements, including the portion attributable to the non-controlling interests, against non-controlling interests, if the first option is chosen. Goodwill arising on the acquisition of subsidiaries and associates is defined as the difference between the cost of acquisition and the total or corresponding share of the fair value of the net assets acquired, depending on the option taken.

Negative goodwill arising on an acquisition is recognised directly in the income statement in the period when the business combination occurs.

The recoverable amount of the goodwill in subsidiaries is assessed annually, regardless of the existence of any impairment triggers. Impairment losses are recognised in the income statement. The recoverable amount is determined based on the value in use of the assets, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks.

Until 31 December 2009, contingent acquisition prices were determined based on the best estimate of probable future payments, being the future changes in the estimate booked against goodwill. As from 1 January 2010, goodwill is no longer adjusted due to changes in the initial estimate of the contingent purchase price and the difference is booked in the income statement.

*Purchases of non-controlling interests and dilution*

Until 31 December 2009, in the acquisition of non-controlling interests, the difference between the fair value of the non-controlling interests acquired and the consideration paid, was accounted against goodwill. The acquisitions of non-controlling interests through written put options related with investments in subsidiaries held by non-controlling interests, were recorded as a financial liability for the present value of the best estimate of the amount payable, against non-controlling interests. The difference between the non-controlling interests acquired and the fair value of the liability, was recorded as goodwill. The fair value of the liability was determined based on the contractual price which may be fixed or variable. In case of a variable price, the changes in the liability were recognised as an adjustment to the cost of the business combination against goodwill and the effect of the financial discount of the liability (unwinding) was recognised as a financial expense in the consolidated income statement. This accounting treatment is maintained for all options contracted until 31 December 2009.

Until 31 December 2009, when an interest in a subsidiary was disposed, without a loss of control, the difference between the sale price and the book value of the net assets held by the Group, plus the carrying value of goodwill in that subsidiary, was recognised in the income statement of the period as a gain or loss resulting from the disposal. The dilution effect occurs when the percentage of interest in a subsidiary decreases without any sale of interest in that subsidiary, for example, if the Group does not participate proportionally in the share capital increase of that subsidiary. Until 31 December 2009, the Group recognised the gains or losses resulting from a dilution of the interest in a subsidiary following a sale or capital increase, in the income statement.

As from 1 January 2010 onwards, in an acquisition (dilution) of non-controlling interests not resulting in a loss of control, the difference between the fair value of the non-controlling interests acquired and the consideration paid, is accounted against reserves. The acquisitions of non-controlling interests through written put options related with investments in subsidiaries held by non-controlling interests, are recorded as a financial liability for the present value of the best estimate of the amount payable, against non-controlling interests. The fair value of the liability is determined based on the contractual price which may be fixed or variable. In case of a variable price, the changes in the liability are recognised against the income statement as well as the effect of the financial discount of the liability (unwinding).

*Investments in foreign operations*

The financial statements of the foreign subsidiaries and associates of the Group are prepared using their functional currency, defined as the currency of the primary economic environment in which they operate. In the consolidation process, the assets and liabilities of foreign subsidiaries are translated into Euros at the official exchange rate at the balance sheet date.

Regarding the investments in foreign operations that are consolidated using the full consolidation method and equity method, the exchange differences between the amount of equity expressed in Euros at the beginning of the period and the amount translated at the official exchange rates at the end of the period, on a consolidated basis, are booked against reserves.

Foreign currency goodwill arising on the acquisition of these investments is remeasured at the official exchange rate at the balance sheet date directly against reserves.

The income and expenses of foreign subsidiaries are translated into Euros at the approximate exchange rates at the dates of the transactions. Exchange differences from the translation into Euros of the net profit for the period, arising from the differences between the rates used in the income statement and those prevailing at the balance sheet date are recognised in reserves.

On disposal of a foreign subsidiary, the related exchange differences previously recognised in reserves, are accounted for in the income statement.

*Balances and transactions eliminated on consolidation*

Inter-company balances and transactions, including any unrealised gains and losses on transactions between Group companies, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising on transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in those entities.

*Business combinations achieved in stages*

In a business combination achieved in stages, on the date of obtaining control, the excess of the aggregate of (i) the consideration transferred, (ii) the amount of any non-controlling interest recognized in the acquiree (iii) the fair value of the previously held equity interest in the acquired business; over the net of amounts of the identifiable assets acquired and liabilities assumed, is recognised as goodwill.

If applicable, the negative difference, after evaluating the consideration transferred, of the amount of any non-controlling interest recognised in the acquiree, the fair value of the previously held equity interest in the acquired business; over the net value of the identifiable assets acquired and liabilities assumed, is recognised in the income statement. The Group recognises the difference between the fair value of the previously held equity interest in the acquired business and the carrying value in consolidated results in Other income. Additionally, the Group reclassifies the deferred amounts in other comprehensive income relating to the previously held equity interest to the income statement or consolidated reserves, according to their nature.

**c) 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 balance sheet 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.

**d) 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, being the gains or losses on re-measurement recognised directly in the income statement, except for derivatives designated as cash flow hedging instruments. Recognition, in the income statement, of the resulting gains and losses on re-measurement of hedging derivatives depends on the hedge model used.

The fair value of derivative financial instruments corresponds to their market value, if available, or to quotes indicated by external entities through the use of valuation techniques, which are compared in each date of report to fair values available in common financial information platforms.

**Hedge accounting**

The Group uses financial instruments to hedge interest rate risk, exchange rate risk and price risk resulting from its operational and financing activities. Derivatives not qualified for hedge accounting under IAS 39 are accounted for as trading instruments.

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

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

*Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, 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 reserves.

The cumulative gains or losses recognised in reserves 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.

*Net investment hedge*

The net investment hedge model is applied on a consolidated basis to investments in subsidiaries in foreign currencies. This model allows that the exchange differences recognised in the exchange differences consolidated reserves to be offset by the foreign exchange differences in foreign currency loans or currency derivatives contracted. The ineffective portion of the hedging relationship is recognised in the income statement.

The accumulated foreign exchange gains and losses regarding the net investment and the related hedging instrument recognised in equity are transferred to the income statement when the foreign entity is sold, as part of the gain or loss resulting from the disposal.

*Effectiveness*

For an hedge relationship to be classified as such, in accordance with IAS 39, its effectiveness must be demonstrated. Therefore, the Group performs prospective tests at the inception date of the hedge and prospective and retrospective tests in each balance sheet date, to demonstrate its 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.

**e) Other financial assets**

The Group classifies its other financial assets at acquisition date, considering the underlying purpose, in the following categories:

*Financial assets at fair value through profit or loss*

This category includes: (i) financial assets at fair value through profit or loss, acquired for the purpose of being traded in the short term, and (ii) other financial assets designated at fair value through profit or loss at inception (fair value option).

*Available-for-sale investments*

Available-for-sale investments are non-derivative financial assets which: (i) the Group intends to hold for an undetermined period of time, or (ii) are designated as available-for-sale on initial recognition.

*Held to maturity investments*

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group intends and has the ability to hold to maturity.

**Initial recognition, measurement and derecognition**

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

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, in which the transaction costs are recognised directly in the income statement.

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

**Subsequent measurement**

After initial recognition, financial assets at fair value through profit or loss are subsequently carried at fair value and gains and losses arising from changes in their fair value recognised in the income statement in the period in which they arise.

Available-for-sale investments are also subsequently carried at fair value. However, gains and losses arising from changes in their fair value are recognised directly in equity until the financial assets are derecognised or impaired. When this occurs, the cumulative gains or losses previously recognised in equity are immediately recognised in the income statement. Foreign exchange differences relating to these assets are also recognised in fair value reserves if arising from shares, and in the income statement if arising from debt instruments. Interest, calculated using the effective interest rate method, as well as dividends received, are recognised in the income statement.

The fair value of listed investments in active markets is based on current bid prices. The Group determines the fair value of unlisted securities through (i) valuation methodologies, such as the price of similar recent arm's length transactions and discounted cash flow techniques, and (ii) valuation assumptions based on market information.

After initial recognition, held to maturity investments are measured at amortised cost using the effective interest method.

The remaining financial assets whose fair value cannot be reliably measured are stated at cost, with any subsequent impairment loss being booked against the income statement.

**Reclassifications between categories**

The Group does not transfer financial instruments into or out of fair value through profit or loss.

**Impairment**

At each balance sheet date, an assessment is performed as to whether there is objective evidence of impairment, including any impairment resulting in an adverse effect on estimated future cash flows of the financial asset or group of financial assets and when it can be reliably measured.

For the financial assets that present evidence of impairment, the respective recoverable amount is determined, and the impairment losses are recognised in the income statement.

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition, such as: (i) in the case of listed securities, a significant or prolonged decline in the listed price of the security, and (ii) in the case of unlisted securities, when that event (or events) has an impact on the estimated amount of the future cash flows of the financial asset or group of financial assets, that can be reliably estimated.

If there is objective evidence of impairment on available-for-sale investments, the cumulative potential loss recognised in fair values reserves, corresponding to the difference between the acquisition cost and the fair value at the balance sheet date, less any impairment loss on that financial asset previously recognised in the income statement, is transferred to the income statement.

For debt instruments, if in a subsequent period the amount of the impairment loss decreases, the previously recognised impairment loss is reversed in the income statement up to the amount of the acquisition cost, if the increase is objectively related to an event occurring after the impairment loss was recognised. In the case of equity instruments, impairment losses cannot be reversed and any subsequent event that results in a fair value increase is recognised in equity under fair value reserves.

**f) Financial liabilities**

An instrument is classified as a financial liability when there is a contractual obligation for the issuer to liquidate capital and/or interests, through delivering cash or other financial asset, 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 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) Equity instruments**

A financial instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or other financial asset to another entity, regardless of its legal form, and there is a residual interest in the assets of an entity after deducting all its liabilities.

Costs directly attributable to the issuance of equity instruments are recognised in equity, as a deduction to the amount issued. Amounts paid or received relating to sales or acquisitions of equity instruments are recognised in equity, net of transaction costs.

Distributions related to equity instruments are deducted from equity, as dividends, when declared.

Preference shares issued by the Group are considered as an equity instrument when there is no contractual obligation to redeem the shares and dividends are paid at the discretion of the Group. Preference shares issued by subsidiaries, classified as equity instruments and held by third parties, are recognised as non-controlling interests.

**h) Property, plant and equipment**

Property, plant and equipment is stated at acquisition cost less accumulated depreciation and impairment losses. On transition to IFRS, on 1 January 2004, the Group decided to consider as deemed cost the revalued amount of Property, plant and equipment in accordance with the Group's previous accounting policy, which was comparable in general terms to the depreciated cost determined in accordance with IFRS.

Subsequent costs are recognised as property, plant and equipment only when it is probable that future economic benefits associated with the item will flow to the Group. Repair and maintenance costs are charged in the income statement as incurred, according to the accrual principle.

The Group carries out impairment tests whenever events or circumstances may indicate that the book value of an asset exceeds its recoverable amount, being any impairment recognised in the income statement.

The recoverable amount is the higher of fair value less costs to sell and value in use, the latter being calculated by the present value of the estimated future cash flows obtained from continued use of the asset and its sale at the end of its useful life.

Land is not depreciated. Depreciation of tangible assets is calculated on a straight-line basis over their estimated useful lives, as follows:

| | Number of years |
|---|---|
| Buildings and other constructions | 8 to 50 |
| Plant and machinery: | |
| - Hydroelectric generation | 30 to 75 |
| - Thermoelectric generation | 25 to 45 |
| - Renewable generation | 30 |
| - Electricity distribution | 10 to 40 |
| - Other plant and machinery | 4 to 25 |
| Transport equipment | 4 to 25 |
| Office equipment and tools | 2 to 16 |
| Other property, plant and equipment | 3 to 50 |

According to IFRS, the estimate of the useful life of assets should be reviewed whenever a change in the expected economic benefits flowing from the assets occurs as well as when the technical use planned for the assets differs from previous estimates. Changes occurring in the depreciation charge for the year are accounted prospectively.

*Capitalisation of borrowing costs and other directly attributable costs*

Borrowing costs that are directly attributable to the acquisition or construction of assets are capitalised as part of the cost of the assets. A qualifying asset is an asset that needs a substantial period of time to be ready for its intended use or sale. The amount of interest costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on those assets. The capitalisation rate corresponds to the weighted average of the borrowing costs applicable to the outstanding borrowings during the period. The capitalisation of borrowing costs begins when expenditure for the assets is being incurred, borrowing costs have been incurred and activities necessary to prepare all or part of the assets for their intended use or sale are in progress. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying assets for their intended use or sale are completed. Other expenses directly attributable to the acquisition and construction of the assets, such as cost of consumed materials and personnel costs, are also capitalised as part of the cost of the assets.

*Government grants*

Government grants are initially booked as deferred revenue, under non current liabilities only when there is reasonable certainty that the grant will be received and that the Group will fulfil the grant term conditions. Grants that compensate the Group for expenses incurred are booked in the income statement on a linear basis, on the same period in which the expenses are incurred. Grants that compensate the Group for the acquisition of assets are recognised in the income statement over the related assets useful life.

*Transfers of assets from customers*

The International Financial Reporting Interpretations Committee (IFRIC) issued in November 2008, the interpretation IFRIC 18 - Transfers of Assets from Customers. This interpretation was approved by the European Commission on 27 November 2009, being applicable for periods beginning after 31 October 2009. For EDP Group, the first period after the approval of this interpretation is the year 2010.

IFRIC 18 is applicable for agreements in which an entity receives from a customer an item of Property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of energy. This interpretation clarifies:
- the conditions in which an asset is under this interpretation;
- recognition of the asset and its initial measurement;
- identification of the services identified (one or more services in exchange for assets transferred);
- income recognition;
- accounting for the transfer of money from customers.

The Group adopted this interpretation for the allowances received from customers, recognising the assets received by its estimated construction cost against operating income. The assets are depreciated based on its useful life.

**i) Intangible assets**

The Group's intangible assets are booked at acquisition cost less accumulated amortisation and impairment losses.

The Group performs impairment tests whenever events or circumstances may indicate that the book value of the asset exceeds its recoverable amount, being any impairment recognised in the income statement. The recoverable amount is the higher of fair value less costs to sell and value in use, the latter being calculated by the present value of the estimated future cash flows obtained from continued use of the asset and its sale at the end of its useful life.

*Acquisition and development of software*

The costs of purchasing software and the costs incurred by the Group to implement it are capitalised and amortised on a straight-line basis over the expected useful life of the asset.

Costs incurred by the Group directly related to the development of software, that are expected to generate economic benefits beyond one year, are recognised as intangible assets. Such costs include employee costs directly associated to the project and are amortised on a straight-line basis over its estimated useful life.

Software maintenance costs are charged to the income statement when incurred.

*Concession rights on distribution of electricity and gas*

The concession rights on distribution of electricity in Brazil and the concession rights related to the distribution of gas in Portugal, are recorded as intangible assets and amortised on a straight-line basis over the concessions period, not exceeding 30 and 40 years, respectively.

*Concession rights to use the public hydric domain*

Portuguese concession rights to use the public hydric domain are booked as intangible assets and depreciated on a straight-line basis over the concession period, which currently does not exceed 47 years. EDP Group records as concession rights the financial compensations for the use of public domain assets, whenever these compensations are paid and for all the Group subsidiaries.

The accounting policy related to intangible assets assigned to concessions in the scope of IFRIC 12 is described in aa), Group concession activities.

*Industrial property and other rights*

Industrial property and other rights are amortised on a straight-line basis over the estimated useful life of the assets, which does not exceed 6 years.

**j) Leases**

The Group classifies its lease transactions as finance leases or operating leases based on the substance of the transaction rather than its legal form. A lease is classified as a finance lease if it transfers to the lessee substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

*Operating leases*

Lease payments under operating lease contracts are recognised as an expense in the period to which they relate.

*Finance leases*

Finance leases are recognised by the lessee, at the inception of the lease, as assets and liabilities at the fair value of the leased assets which is equivalent to the present value of the future lease payments.

Lease payments include the interest charges and the amortisation of the outstanding principal. The interest charges are recognised as costs over the lease period in order to produce a constant periodic rate of interest on the remaining balance of the liability.

Lessors record assets held under finance leases as leased capital, by the net amount invested in the lease.

Lease payments include the financial income and the amortisation of the outstanding principal.

Financial results recognised reflect a constant periodic rate of return on the outstanding net balance of the lessor.

*Determining whether an Arrangement contains a Lease*

Following the issuance by International Financial Reporting Interpretations Committee (IFRIC) of IFRIC 4 - Determining whether an arrangement contains a lease, applicable from 1 January 2006, arrangements including transactions that, although do not take the form of a lease, convey the right to use an asset in return for a payment, are recognised as leases, provided that, in substance, they comply with the requirements defined in the interpretation.

**k) Investment property**

The Group classifies as investment property, property held for capital appreciation and/or for rental purposes.

Investment property is recognised initially at acquisition or production cost, including directly attributable transaction costs, and is subsequently measured at cost less accumulated depreciation and any impairment losses.

Subsequent expenditures on investment property are only added to the cost of the asset when it is probable that additional future economic benefits will arise when compared to initial recognition.

Investment property is amortised on a straight-line basis over the estimated useful life of the assets (between 8 and 50 years).

**l) Inventories**

Inventories are measured at the lower of acquisition cost and net realisable value. The cost of inventories includes purchases, conversion and other costs incurred in bringing the inventories to their present location and condition. The net realisable value is the estimated selling price in the ordinary course of business less the estimated selling costs.

The cost of inventories is determined by using the weighted average cost method.

CO2 Licenses held by the Group for trade purposes are booked as inventories and measured at fair value, at each balance sheet date, against the income statement.

**m) Accounts receivable**

Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost and being presented in the statement of financial position net of impairment losses which are associated.

Impairment losses are recorded based on the regular assessment of the existence of objective evidence of impairment resulting from doubtful accounts receivable as of the balance sheet date. Impairment losses are recognised in the income statement, being subsequently reversed through the income statement if the estimated losses decrease, in a later period.

**n) Employee benefits**

**Pensions**

Some EDP Group companies grant post-retirement benefits to employees under defined benefit and defined contribution plans, namely pension plans that grant complementary retirement benefits for age and early retirement pensions.

*Defined benefit plans*

In Portugal, the defined benefit plan is assured by (i) a closed pension fund managed by an external entity, covering responsibilities with benefits that are complementary to those provided under the Social Security System (namely retirement and early retirement pensions), and (ii) by a complementary specific provision, recognised in EDP Group company's statement of financial position. Benefits are generally determined and assigned through the combination of one or more factors, such as age, years of service and the relevant base retribution (pensionable salary).

In Brazil, EDP São Paulo (ex-Bandeirante) and EDP Espírito Santo (ex-Escelsa) have defined benefit plans managed by a closed complementary welfare entity, external to EDP Group, covering responsibilities associated with retirement and early retirement pensions, according to factors such as age, years of service and the relevant base retribution.

The Group's pension liability for each plan is calculated by independent experts annually, for each plan, at the balance sheet date, using the projected unit credit method. The discount rate used in the calculation is determined based on market interest rates of high quality corporate bonds denominated in the currency in which the benefits will be paid and that have similar maturity to the related pension liability.

Actuarial gains and losses resulting from: (i) differences between financial and actuarial assumptions used and actual amounts; and (ii) changes in the actuarial assumptions are recognised against equity.

The increase in past service costs arising from early retirements (retirements before the normal retirement age) or plan amendments are recognised in the income statement when incurred.

The Group recognises as operational results, in the income statement, current and past service costs. Net interest on the net defined benefit liability (asset) is recognised in financial results.

The assets of the plan comply with the recognition criteria established by IFRIC 14 - IAS 19 and the minimum funding requirements established by law or by contract.

*Defined contribution plans*

In Portugal, Spain and Brazil, some companies have defined contribution social benefit plans that complement those granted by the Social Security System, under which they pay an annual contribution to the plans, calculated in accordance with the rules established in each plan. These contributions represent a percentage of the fixed and variable remuneration of the employees included in this plan and are accounted for as cost for the period in which they are due.

**Other benefits granted**

*Medical benefits*

Some EDP Group companies provide medical benefits under which employees and immediate eligible family members have favourable conditions in medical assistance and health care services, namely:

- Concerning EDP Group companies in Portugal, through the provision of medical assistance that is complementary to the one provided under the National Health System, provided using infrastructures owned and managed internally;

- Concerning EDP Group companies in Brazil, through the share of costs in eligible medical and heath expenses, in an external agreed network.

The medical benefits plans are classified as defined benefit plans.

In Portugal, the medical benefit and death benefits plan is assured by (i) a closed fund managed by an external entity, created in December 2016, and (ii) a complementary specific provision, recognised in EDP Group company's statement of financial position.

In Brazil, the liability being covered by provisions booked in EDP Group company's statement of financial position.

Measurement and recognition of the medical benefits liabilities are similar to the defined benefit pension plans liabilities, explained above.

*Other benefits*

In addition, EDP Group grants other benefits, supporting charges arising from responsibilities for disability benefit's complements, survival benefits, life insurance, antiquity and retirement benefits, power and gas tariff discounts, among others.

Benefits included in each Plan for Portugal and Brazil are detailed in EDP's Collective Labor Agreement, published in the Labor Bulletin of 8 October 2014 and in the website of the Plan management entity Enerprev (www.enerprev.com.br), respectively.

**o) Provisions**

Provisions are recognised when: (i) the Group 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.

*Provisions for dismantling and decommissioning in electric power plants*

The Group accounts for provisions for dismantling and decommissioning of assets when there is a legal, contractual or constructive obligation at the end of the assets' useful life. Therefore, such provisions have been booked for the electric power plants to cover the cost of restoring the location and land to their original condition. The provisions are calculated at the present amount of the expected future liability and are accounted for as part of the cost of the related property, plant and equipment being depreciated on a straight-line basis over the useful life of those assets.

Decommissioning and dismantling provisions are remeasured on an annual basis based on the best estimate of the settlement amount. The unwinding of the discount at each balance sheet date is charged to the income statement.

**p) Recognition of costs and revenues**

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

Revenue in EDP Group arises essentially from electricity generation and energy (electricity and gas) distribution and supply activities.

Revenue related to the sale of energy and access tariffs to energy distribution network is measured at fair value of the consideration received or receivable, net of value added tax, rebates and discounts and after elimination of intra-group sales.

Revenue recognition occurs when the significant risks and rewards of ownership are transferred to the buyer, the entity retains neither continuing managerial involvement to the extent usually associated with ownership nor effective control over the goods sold, the amount of revenue can be reliably measured, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be reliably measured.

The moment when an entity has transferred the significant risks and rewards of ownership to the buyer varies depending on the activities carried out by the Group companies.

Regarding the **electricity generation**, this transfer occurs when the energy is generated and injected into the transport/distribution grids. The electricity generated is sold under free market conditions or through the establishment of medium/long term power purchase agreements.

The **energy distribution** is a regulated activity, which is remunerated through tariffs set by each country Regulatory Body (ERSE in Portugal, CNE in Spain and ANEEL in Brazil).

In Portugal and Spain, revenue arises mainly from the sale of access tariffs, as well as from the recovery, from the commercialisation entities, of the costs related to the global management activity of the system. In Brazil, revenue results from the electricity sales to final consumers, in the regulated market, based on the tariffs determined by ANEEL, which are included the use of the distribution and transport system tariff, among other components. In Portugal and Brazil, these activities are subject to public service concession arrangements (see aa)).

The **energy supply** is carried out in regulated and non-regulated markets. In non-regulated market, revenue is recognised based on commercial agreements. In regulated market, revenue is recognised according to the tariffs determined by each country Regulatory Body.

Revenue recognition includes two components: (i) energy sales already invoiced, based on actual consumption readings and/or in estimated consumption based on the historical data of each consumer; and (ii) estimates of energy supplied and not yet invoiced (energy into energy meter). Differences between estimated and actual amounts are recorded in subsequent periods.

Additionally, it should be noted that, in energy distribution and supply activities, there is a tariff adjustment mechanism through which gains or losses of a certain year are recognised in the period to which they relate and recovered in the future years tariffs – Tariff Adjustments (see x)).

The revenue recognition related with **services rendered** is based on the percentage of completion of the transaction at the reporting date. This occurs when the amount of revenue can be reliably measured, when it is probable the existence of economic benefits associated with the transaction to the entity who sells, when the percentage of completion of the transaction at the reporting date can be reliably measured and the costs incurred with the transaction and the costs to be incurred to complete the transaction can be reliably measured. Whenever it is not possible to reliably measure the completion of a transaction involving services rendered, revenue is only recognised to the extent of the expenses recognised as recoverable.

**q) Financial results**

Financial results include interest costs on borrowings, interest income on funds invested, dividend income, foreign exchange gains and losses, realised gains and losses, as well as gains and losses on financial instruments and changes in the fair value of hedged risks, when applicable.

Interest is recognised in the income statement on an accrual basis. Dividend income is recognised on the date the right to receive is established.

Financial results also include impairment losses on available-for-sale investments.

**r) Income tax**

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

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

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

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

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

The Group 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 Group 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.

**s) Earnings per share**

Basic earnings per share are calculated by dividing the consolidated and the company net profit attributable to the equity holders of EDP, S.A. by the weighted average number of ordinary shares outstanding during the period, excluding the average number of shares held by the Group and by EDP, S.A., respectively.

For the diluted earnings per share calculation, the weighted average number of ordinary shares outstanding is adjusted to consider conversion of all dilutive potential ordinary shares, such as convertible debt and stock options granted to employees. The dilution effect corresponds to a decrease in earnings per share resulting from the assumption that the convertible instruments are converted or the options granted are exercised.

**t) Share based payments**

The stock options remuneration program enables the Group's employees to acquire parent company shares. The exercise price of the options is calculated based on the listed price of the shares at the grant date.

The fair value of the options granted, determined at the grant date, is recognised in the income statement against equity during the vesting period, based on their market value calculated at the grant date.

If the option is exercised, the Group acquires shares in the market to grant them to employees.

Shareholders of EDP Brasil structured and implemented a Share based Compensation Policy, which began in June 2016. The referred policy comprises two types of programs to be assigned to certain employees (incentive and retention programs), being the eligible beneficiaries and assignment requirements subject to the conditions established.

**u) Non-current assets held for sale and discontinued operations**

Non-current assets or groups of non-current assets held for sale (groups of assets and related liabilities that include at least one non-current asset) are classified as held for sale when their carrying amounts will be recovered mainly through sale, the assets or groups of assets are available for immediate sale and the sale is highly probable.

The Group also classifies as non-current assets held for sale, non-current assets or groups of assets acquired exclusively for its subsequent resale, that are available for immediate sale and the sale is highly probable.

The measurement of all non-current assets and all assets and liabilities included in a disposal group, is adjusted in accordance with the applicable IFRS standards, immediately before their classification as held for sale. Subsequently, these assets or disposal groups are measured at the lowest between their carrying amount and fair value less costs to sell.

**v) Cash and cash equivalents**

Cash and cash equivalents include balances with maturity of less than three months from the balance sheet date, including cash and deposits in 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, and specific demand deposits in relation to institutional partnerships that are funds required to be held in escrow sufficient to pay the remaining construction related costs of projects in institutional equity partnerships in USA.

**w) Operating segments**

The Group presents the operating segments based on internal management information.

In accordance with IFRS 8, an operating segment is a Group component:
(i) that engages in business activities from which it may earn revenues and incur expenses;
(ii) whose operating results are reviewed regularly by the entity's chief operating decision maker in order to make decisions about resources to be allocated to the segment and assess its performance;
(iii) for which discrete financial information is available.

**x) Tariff adjustments**

In regulated activities, the regulator establishes, through the tariff adjustment mechanism, the criteria to recognise gains or losses of one period in future periods. The tariff adjustments accounted for in the EDP Group financial statements represent the difference between the amounts invoiced by Portuguese regulated companies (based on the applicable tariffs published by ERSE in December of the previous year) and the regulated revenue calculated based on actual costs. The assets or liabilities resulting from the tariff adjustments are recovered or returned through the electricity and gas tariffs charged to customers in subsequent periods.

Decree-Law 165/2008 of 21 August recognised the unconditional right of the regulated operators of the electric sector to recover the tariff adjustments under a regime identical to the one used for the tariff deficits. Consequently, EDP Group booked under the income statement caption Revenues from energy sales and services and other - Electricity and network access, the effects resulting from the recognition of tariff adjustments, against Debtors and other assets from commercial activities. According to the referred Decree-Law, the tariff adjustments determined annually, will be recovered by the regulated operators even in case of insolvency or cease of operations. ERSE is the entity responsible to establish the method to ensure that the entity entitled to these rights continues to recover the tariff adjustments until its complete payment. The Decree-Law also allows the transfer of the right to receive the tariff adjustment to third parties, in whole or in part, through future electricity tariffs.

Decree-Law 87/2011 of 18 July establishes the unconditional right of regulated operators in the natural gas sector to recover tariff adjustments and related interest expenses, notwithstanding the form of the future payment or situations of insolvency and cessation of operations, and allows the transfer to third parties of the right to receive tariff adjustments. The EDP Group recorded in the income statement, under the caption Revenues from energy sales and services and other - Gas and network access, the effects of the recognition of tariff adjustments of Natural Gas, against Debtors and other assets from commercial activities and Trade and other liabilities from commercial activities.

**y) CO2 Licenses and greenhouse gas emissions**

The Group holds CO2 Licenses in order to deal with gas emissions resulting from its operational activity and Licenses for trading. The CO2 and gas emissions Licenses held for its own use are booked as intangible assets and are valued at the quoted price in the market on the date of the transaction.

The Licenses held by the Group for trading purposes are booked under Inventories, as referred in l).

**z) Statement of Cash Flow**

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

The Group classifies cash flows related to interest and dividends paid as financing activities and interest and dividends received as investing activities.

**aa) Group concession activities in the scope of IFRIC 12**

The International Financial Reporting Committee (IFRIC) issued in July 2007, IFRIC 12 - Service Concession Arrangements. This interpretation was approved by the European Commission on 25 March 2009 and is applicable for the annual periods beginning after that date.

In the case of the EDP Group, the first annual period after the approval date is 2010 and, therefore, the EDP Group adopted IFRIC 12 for comparative purposes as of 1 January 2009. IFRIC 12, was applied prospectively since it was impracticable to apply it retrospectively.

IFRIC 12 is applicable to public-private concession contracts in which the public entity controls or regulates the services rendered through the utilisation of certain infrastructure as well as the price for such services and also controls any significant residual interest in the infrastructure.

According to IFRIC 12, the infrastructures allocated to concessions are not recognised by the operator as tangible fixed assets or as financial leases, as the operator does not control the assets. These infrastructures are recognised according to one of the following accounting models, depending on the type of remuneration commitment of the operator assumed by the grantor within the terms of the contract:

*Financial Asset Model*

This model is applicable when the operator has an unconditional right to receive certain monetary amounts regardless the level of use of the infrastructure within the concession and results in a financial asset recognition, booked at amortised cost.

*Intangible Asset Model*

This model is applicable when the operator, within the concession, is remunerated on the basis of the level of use of the infrastructure (demand risk) and results in an intangible asset recognition.

*Mixed Model*

This model is applicable when the concession includes simultaneously guaranteed remuneration and remuneration based on the level of use of the infrastructure within the concession.

Under the terms of concession contracts of the EDP Group to which IFRIC 12 is applicable, construction activities are outsourced to external specialised entities, and therefore the EDP Group has no margin associated with the construction of assets assigned to concessions. Therefore, the revenue and the expenditure from the acquisition of these assets are equivalent (see note 6).

Intangible assets within concessions are amortised over their respective useful lives during the concession period.

The Group carries out impairment tests to the intangible assets within concessions whenever events or circumstances may indicate that the book value of an asset exceeds its recoverable amount, being any impairment recognised in the income statement.

Grants received from customers related to assets within concessions are delivered to the Group on a definitive basis, and, therefore, are not reimbursable. These grants are deducted from the value of the assets allocated to each concession.

The concession contracts that exist currently in EDP Group are based in the Financial Asset Model, namely in the electricity transmission concessions in Brazil, in the Intangible Asset Model, namely in the electricity special regime production concessions (PRE) in Portugal and in the Mixed Model, namely in the electricity distribution concessions in Portugal and in Brazil.

**ab) Institutional partnerships in USA**

The Group has entered in several partnerships with institutional investors in the United States, through operating agreements with limited liability companies that apportion the cash flows generated by the wind farms between the investors and the Company and allocates the tax benefits, which include Production Tax Credits (PTCs), Investment Tax Credits (ITC) and accelerated depreciation, largely to the investor.

The institutional investors purchase their minority partnership interests for an upfront cash payment with an agreed targeted internal rate of return over the period that the tax credits are generated. This anticipated return is computed based on the total anticipated benefit that the institutional investors will receive and includes the value of PTC's / ITC's, allocated taxable income or loss and cash distributions received.

The control and management of these wind farms are a responsibility of EDPR Group and they are fully consolidated in these financial statements.

The upfront cash payment received is recognised under Institutional partnerships in USA and subsequently measured at amortised cost.

This liability is reduced by the value of tax benefits provided and cash distributions made to the institutional investors during the contracted period. The value of the tax benefits delivered, primarily accelerated depreciation and ITC are recognised as Income from institutional partnerships on a pro-rata basis over the useful life of the underlying projects (see note 7). The value of the PTC's delivered are recorded as generated. This liability is increased by an interest accrual that is based on the outstanding liability balance and the targeted internal rate of return agreed.

After the flip date, the institutional investor retains a non-significant interest for the duration of the structure. This non-controlling interest is entitled to distributions ranging from 2.5% to 6% and taxable income allocations ranging from 5% to 17%. EDPR NA has an option to purchase the institutional investor's residual interest at fair market value during a defined period following the flip date. The financial instruments held by the institutional investors issued by the partnerships represent compound financial instruments as they contain characteristics of both financial liabilities and equity. Post flip non-controlling interests is the portion of equity that is ascribed to the institutional investor in the institutional equity partnership at flip date. This amount is reclassified from the total equity attributable to the Parent to non-controlling interests caption in the period in which the flip date takes place.

## 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 regarding certain accounting treatments, with impact in total assets, liabilities, equity, costs and income. The actual effects may differ from these estimates and judgements, namely in relation to the effect of actual costs and income.

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 its application affects the Group's reported results and disclosures. A broader description of the accounting policies employed by the Group is disclosed in note 2 - Accounting policies.

Considering that in many cases there are alternatives to the accounting treatment adopted by EDP Group, the reported results could differ if a different treatment was chosen. The Executive Board of Directors believes that the choices made are appropriate and that the financial statements present fairly the Group operations in all material respects.

**Financial asset related with infrastructure concession contracts in Portugal**

The caption "Amounts receivable from concessions - IFRIC 12", refers to the financial assets receivable by EDP Group companies that operate infrastructures under concession contracts, and arises from the unconditional right to receive this amount regardless of the utilisation level of the infrastructures covered by the concession. In these companies is included EDP Distribuição as the National Distribution Network's (RND) concessionaire, which comprises the medium and high voltage network (MT and HT), and low voltage distribution networks (LT), being these concessions exercised exclusively through public service concession contracts.

The RND's operation, which is part of the high and medium tension network (HT and MT), is carried out through a public service concessions' attribution, by the Portuguese State. On the other hand, the right to distribute low voltage electricity is attributed to the Portuguese mainland municipalities. The legislation that establishes the basis of each concession sets up that the ownership or possession of the goods assigned to these concessions revert to the concessionaires at the end of their respective concessions. They also establish that in return for the assets returned to grantors, whether State or municipalities, compensation corresponding to the assets' book value assigned to the concession, net of amortisations, financial contributions and non-refundable subsidies will be paid. Therefore, the assets' estimated residual value at the end of each concession constitutes a financial asset, and the remaining fair value component of the concession assets is an intangible asset to be amortised over its useful life. Hence, the end date of each concession is one of the main assumptions for the financial assets' and intangible assets' estimation.

As mentioned in note 1, in May 2017 Law 31/2017 was approved, which lays down the principles and general rules concerning the organisation of public tendering procedures for the awarding, by contract, of the municipal LT concessions' operation in the Portuguese mainland. This Law foresees the simultaneous launch, in 2019, of public tender procedures for all municipalities that do not opt for direct management of the electricity distribution activity, as well as to all municipalities whose current concession contracts reach their end before 2019, and do not opt for direct management. In these cases, both parts shall enter into a written agreement extending the term of their respective concessions until the new concession contracts enter into force. The awarding decisions will be taken by municipalities or by the territorial area's intermunicipal entity attached to the referred proceedings.

Thus, it is expected that this legislation and the concessions renewal proceedings will have a significant impact on EDP Distribuição's estimate of financial and intangible assets, namely through the concessions' termination anticipation, that currently extend beyond 2019. However, at this date it is not possible to predict the end date of the concession contracts currently in force, as the process is still in an initial phase, by doing studies and legislation. With reference to 31 December 2017, financial assets and intangible assets were estimated based on the end dates of each of the contracts currently in force, and do not consider any changes arising from the already mentioned legislation. The use of different assumptions and estimates could result in different amounts of financial and intangible assets, with the consequential impact in the Statement of Financial Position.

**Measurement criteria of the concession financial receivables under IFRIC 12 in Brazil**

In 2012, the Provisional Measure 579/12 was published in Brazil, meanwhile converted into Law 12,783/13, which determines the amount of the indemnisation payable to the distribution companies regarding the assets not amortised or depreciated at the end of each concession, that should be determined based in the methodology of the new replacement value. This methodology determined an increase in the indemnisation amount (financial asset IFRIC 12) of EDP São Paulo (ex-Bandeirante) and EDP Espírito Santo (ex-Escelsa), booked under IFRIC 12 terms. The indemnisation amount variation is booked against Revenues from energy sales and services and other. This amount corresponds to the difference between the new replacement value versus the historical cost.

**Impairment**

*Impairment of available-for-sale investments*

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in their fair value.

Determination of a significant or prolonged decline requires judgement. In making this judgement, the Group assesses, among other factors, the normal share price volatility, assuming as significant a decline of more than 20% in listed shares. In addition, valuations are generally obtained through market prices or determined by external entities, or through valuation models that require assumptions or judgment in making the fair value estimates.

Alternative methodologies and the use of different assumptions and estimates could result in different impairment losses recognised with a consequent impact in results.

*Impairment of long term assets and Goodwill*

Impairment tests are performed whenever there is a trigger that the recoverable amount of property, plant, equipment and intangible assets is less than the corresponding net book value of the assets.

On an annual basis, the Group reviews the assumptions used to assess the existence of impairment in goodwill resulting from acquisitions of shares in subsidiaries. The assumptions used are sensitive to changes in macroeconomic indicators and business assumptions used by management. The investments in subsidiaries, on a company basis, and in associates are reviewed when circumstances indicate the existence of impairment.

Considering the uncertainties regarding the recoverable amount of property, plant and equipment, intangible assets and goodwill as they are based on the best information available, changes in the assumptions could result in changes on the determination of the amount of impairment and, consequently, in results.

*Impairment of receivables*

Impairment losses related to doubtful debts are estimated by EDP based on the estimated recoverable amounts, the date of default, debt write offs and other factors. Certain circumstances and facts may change the estimated impairment losses of doubtful debts, namely changes in the economic environment, economic sector trends, client's credit risk and increases in the rate of defaults. Changes in the estimates and judgement could change the impairment test results, thereby affecting results.

**Fair value and classification 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 determined by external entities, 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.

Consequently, the use of different methodologies and different assumptions or judgements in applying a particular model, could generate different financial results and different financial instruments classification from those reported.

Additionally, financial instruments' classification as debt or equity requires judgement in the interpretation of contractual clauses and in the evaluation of the existence of a contractual obligation to deliver cash or other financial assets.

**Sale of Naturgas Energía Distribución**

Following the acceptance of the main terms and conditions of a formal binding offer to acquire its gas distribution subsidiary in Spain (Naturgas Energía Distribución, S.A.U.) by Nature Investments, at 27 March 2017, with reference to 31 March 2017, the Group considered that the held for sale criteria was satisfied, as its carrying amount would no longer be recovered through continuing use, but through sale instead.

Given the above, during the first and second quarter of 2017, this transaction was disclosed as Assets and liabilities held for sale. The conclusion of the sale transaction occurred at 27 July 2017, after the customary regulatory approvals (see notes 5 and 7).

Considering this activity's reduced weight towards the dimension of Regulated Networks, where it is included in the Operating Segments (see note 53), the Group considered that it is not a significant disposal group nor a major line of business, so, despite have presented as non current assets and liabilities held for sale, it was not considered as a discontinued operation.

**Review of the useful life of the assets**

The Group reviews annually the reasonableness of the assets' useful lives that are used to determine the depreciation rates of assets assigned to the activity, and prospectively changes the depreciation charge of the year based on such review.

At the end of December 2016, EDPR Group changed the useful life of its wind farms from 25 to 30 years. The redefinition of the useful life of the wind generation assets was based on technical, financial and economic studies (performed internally and by an independent expert) and in other considerations such as contractual or regulatory constraints. Based on these studies, it is judged reasonable and accurate to use the standard of 30 years for the entire fleet, although useful life may have some level of discrete asset variation depending on the specific site specificities.

In the first quarter of 2017, the Group reviewed and extended the useful life of the combined cycle gas turbines (CCGTs) from 35 to 40 years based on a technical study conducted by an independent entity that considered the technical and economic availability for an additional period of 5 years. This study covered the CCGTs in Portugal (Lares and Ribatejo) and Spain (Castejon 1 and 3 and Soto 4 and 5).

**Useful lives of generation assets - Hydro independent generator in Brazil**

The hydro generation assets in Brazil for independent generators are amortised during their estimated useful lives, considering the existing facts and circumstances at the date of preparation of the financial statements. This includes, among other issues, EDP's best estimates of the useful lives of such assets, which are consistent with the useful lives defined by ANEEL, the respective contractual residual indemnification values at the end of each concession period, as well as related technical and legal opinions. The remaining period of amortisation and the indemnification values at the end of the concessions may be influenced by changes in the regulatory legal framework in Brazil.

**Tariff adjustments**

*Portugal*

Tariff adjustments in Portugal represent the difference between costs and income of the National Electricity and Gas System, estimated at the beginning of each period for purposes of calculating the tariff, and the actual costs and income of the System established at the end of each period. The tariff adjustments assets or liabilities are recovered or returned through electricity tariffs to customers in subsequent periods.

Decree-Law 237-B/2006 of 19 December, and Decree-Law 165/2008 of 21 August, recognised an unconditional right of the operators of the electricity sector to recover the tariff adjustments and related interest expenses, notwithstanding the form of the future payment or situations of insolvency and cessation of operations. Additionally, the legislation allows the transfer to third parties of the right to receive tariff adjustments. Therefore, under this legislation, regulated companies may provide to third parties, in whole or in part, the right to receive the tariff adjustments through the electricity and gas tariffs. In accordance with the accounting policy in force, the EDP Group books under the caption Revenues from energy sales and services and other - Electricity and network access, the effects of the recognition of tariff adjustments in the electricity sector, against Debtors and other assets from commercial activities and Trade and other liabilities from commercial activities.

Decree-Law 87/2011 of 18 July also establishes the unconditional right of regulated operators in the natural gas sector to recover tariff adjustments and related interest expenses, notwithstanding the form of the future payment or situations of insolvency and cessation of operations, and allows the transfer to third parties of the right to receive tariff adjustments. EDP Group books under the caption Revenues from energy sales and services and other - Gas and network access, the effects of the recognition of tariff adjustments of Natural Gas, against Debtors and other assets from commercial activities and Trade and other liabilities from commercial activities.

*Spain*

Royal Decree Law 6/2009, published on 7 May 2009, established, among other matters: (i) the possibility to securitise the Spanish tariff deficit supported by the electricity sector companies using a State guarantee through the tariff deficit amortisation fund; (ii) the calendar for the elimination of the tariff deficit, such that on 1 January 2013 access tariffs would be sufficient to cover the cost of regulated activities, without the creation of an "ex-ante" tariff deficit and, in order to ease this gradual elimination, Royal Decree Law 6/2009 also provided for the passage of some costs included in the electricity tariff to the Spanish State Budget; (iii) the revocation, as from 1 July 2009, of Royal Decree Law 11/2007, which established the obligation to return the additional revenues obtained from the incorporation of $CO_2$ costs in market prices, and which was to be in force until 2012; (iv) the creation of a social subsidy, which translates to a lower tariff for low income consumers and (v) the charge to electric companies of the costs associated with the management and treatment of radioactive waste from nuclear power plants and fuels consumed. However, Royal Decree Law 29/2012, endorsed on 28 December, abolished the regulatory requirement mentioned in paragraph (ii) above. The direct consequence of this suppression is that access tariffs will not be related to the sufficiency of the tariffs, so there may be temporary imbalances, to be recovered in a single annual fee in subsequent years.

In 2010, Royal Decree Law 14/2010 addressed the correction of the tariff deficit of the electricity sector. Under this decree, the temporal mismatch of the settlements for 2010 tariff deficits came to be considered as a revenue deficit of the electricity system and a set of measures was established so that the various industry players contribute to the reduction of the tariff deficit. These measures included the establishment of generation rates, financing plans energy efficiency savings by the generation companies and various regulatory measures that help reduce the additional costs of certain technologies in the special regime.

In 2012, two decrees were adopted to reduce the tariff deficit in order to reach the limit set by Royal Decree Law 14/2010: (i) Royal Decree Law 1/2012, which temporarily suspended the inclusion of new facilities in the "pre-asignación" registrations maintained by the Minister of Industry, Energy and Tourism before the power plant is entitled to make use of the Spanish special regime; and (ii) Royal Decree Law 13/2012, which provided for reductions in the remuneration for distribution activity and an extraordinary decrease on other regulated activities.

In 2014, Royal Decree Law 1054/2014, establishes the procedures for the transfer of the right to receive the deficit of 2013 from the Spanish system, as well as, the methodology to define the interest rate applicable to this deficit, which main guidelines are:
(i) definition of a 15 years time frame during which the deficit amount will cumulate interest. This time frame consists in two periods: the first, which began in 1 January 2014 ending on the date of the additional liquidation of the provisional liquidation 14 of the year 2013; and the final period, from which the additional liquidation of the provisional liquidation 14 of the year 2013, is made, until 31 December 2028; and
(ii) the rights to receive (base amount plus interests) are expressly recognised, with their respective taxes and will be considered as system costs. These rights can be total or partially assigned, transferred, transmitted, discounted pledged to third parties, if properly communicated to CNMC ("Comisión Nacional de los Mercados y la Competencia").

*Brazil*

On 25 November 2014, ANEEL made addendums to the concession contracts with brazilian electric distribution companies to reduce significant uncertainties regarding to the recognition and realization of regulatory assets/liabilities that existed since 2010, when the IFRS were adopted in Brazil. As a consequence, the CPC issued on 28 November 2014, the OCPC 08 (Recognition of Certain Assets and Liabilities in Accounting and Financial Reports of Electric Distribution) which determines how to treat these regulatory assets/liabilities in the financial statements.

Therefore, on 10 December 2014, EDP Brasil signed the Fourth and Fifth Addendum to the Concession Agreement, where it was established that, in the case of concession termination, the outstanding balances of any failure of payment or reimbursement by the tariff (assets and liabilities), will be considered on the indemnity calculation, based on the regulator pre-established regulations.

EDP Group considers, based on the issued legislation (Portugal, Spain and Brazil), that the requirements for the recognition of tariff deficits as receivables and payables against the income statement have been satisfied.

**Revenue recognition**

Energy sales revenue is recognised when the monthly energy invoices are issued, based on actual meter readings or estimated consumption based on the historical data of each consumer. Revenue relating to energy to be invoiced, regarding consumption up to the balance sheet date but not measured, is booked based on estimates that take into consideration factors such as consumption in prior periods and analysis relating to the energy balance of the operations.

The use of different estimates and assumptions could affect the Group's revenue and, consequently, its reported results.

**Income taxes**

The Group is subject to income taxes in several jurisdictions. Certain interpretations and estimates are required in determining the global amount of income tax.

There are several transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Different interpretations and estimates could result in a different level of income taxes, current and deferred, recognised in the period.

In Portugal, the tax authorities are entitled to review EDP, S.A. and its subsidiaries' determination of their annual taxable earnings for a period of four years. In case of tax losses carried forward, this period is twelve years for annual periods starting from 2014, five years for 2013 and 2012, four years for 2011 and 2010 and six years for previous annual periods. In Spain the period is four years and in Brazil it is five years. In the United States of America, in general, for the IRS (Internal Revenue Service) to issue additional income tax assessments for an entity, the period is three years from the date that the income tax return is filed by the taxpayer. As a result, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the EDP Group and its subsidiaries do not anticipate any significant changes to the income tax booked in the financial statements.

**Pensions and other employee benefits**

Determining pension and other employee benefits liabilities requires the use of assumptions and estimates, including actuarial projections, estimated rates of return on investments, discount rates and pension and salary growth and other factors that can impact the cost and liability of pension plans, medical plans and other benefits. Changes in the assumptions could materially affect the amounts determined.

**Provisions for dismantling and decommissioning of power generation units**

There are legal, contractual or constructive obligations to dismantle and decommission of property, plant and equipment assets allocated to electricity generation operations. The Group records provisions in accordance with existing obligations to cover the present value of the estimated cost to restore the locations and land where the electricity generation units are located. The calculation of the provisions is based on estimates of the present value of the expected future liabilities.

The use of different assumptions in the estimates and judgement from those referred could lead to different financial results than those considered.

**Entities included in the consolidation perimeter**

In order to determine which entities must be included in the consolidation perimeter, EDP Group evaluates whether it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee ("de facto" control).

This evaluation requires judgement, assumptions and estimates in order to conclude whether the Group is in fact exposed to the variability of returns and has the ability to affect those returns through its control over the investee.

Other assumptions and estimates could lead to a different consolidation perimeter of the Group, with direct impact on the consolidated financial statements.

**Business combination**

Under IFRS 3 (Business Combination) in a business combination, the acquirer shall recognise and measure in the consolidated financial statements the assets acquired and liabilities assumed at fair value at the acquisition date. The difference between the purchase price and the fair value of the assets and liabilities acquired leads to the recognition of goodwill or a gain from a purchase at a low price (bargain purchase).

The fair value determination of the assets acquired and liabilities assumed is carried out internally or by independent external evaluators, using the discounted cash flows method, using the replacement cost or other fair value determination techniques, which rely on the use of assumptions and estimates including macroeconomic indicators such as inflation rates, interest rates, exchange rates, discount rates, sale and purchase prices of energy, cost of raw materials, production estimates and business projections. Consequently, the determination of the fair value and goodwill or gain from a purchase at a low price is subject to numerous estimates and judgments and therefore changes in assumptions could result in different impacts on results.

**Fair value measurement of contingent consideration**

The contingent consideration, from a business combination or a sale of a financial investment is measured at fair value at the acquisition date as part of the business combination or at the date of the sale in the event of a sale of a financial investment. The contingent consideration is subsequently remeasured at fair value at balance sheet date. Fair value is based on discounted cash flows. The main assumptions consider the probability of achieving each objective and the discount factor, corresponding to the best estimates of management at each balance sheet date. Changes in assumptions could have significant impact on the values of contingent assets and liabilities recognised in the financial statements.

**Contractual Stability Compensation - CMEC**

Following a Portuguese Government decision to extinguish the Power Purchase Agreement (PPA), the early termination of the PPAs of EDP Produção had effect from 1 July 2007.

As a result of the PPAs termination and in accordance with the applicable legislation, a contractual stability compensation (CMEC) was granted to EDP Group. The mechanism for granting this compensation includes three types of compensation: initial compensation, compensation resulting from the annual revisable (or adjustment) mechanism and final compensation.

Initial compensation was recognised when the PPAs terminated as an account receivable of 833,467 thousand Euros, booked at its net present value, against deferred income. Part of the initial compensation is recognised as operating income each year against a reduction of the deferred initial compensation. According to the applicable legislation, securitisation of this amount is possible.

**Contractual Stability Compensation – Annual Revisable mechanism**

Period I (2007/2017) of the revisable mechanism consists in correcting on an annual basis, over a 10-year period after the termination of the PPAs, the positive and negative deviations between the estimates made for the initial stability compensation calculation and actual amounts arising from an efficient performance, using the "Valor água" model, as established in the Decree-Law 240/2004. Later, Order 4694/2014 was published to define the guidelines of the revisibility calculation in what concerns the revenues from the system services market, regarding power plants under CMEC.

Consequently, the use of different methodologies and assumptions could lead to different results.

**CMEC Final Adjustment**

The calculation of CMEC's Final Adjustment is, under number 7 of article 3rd and Annex IV of Decree-Law 240/2004, of 27 December, performed by a joint technical group EDP/REN. The State budget for 2017 (Law 42/2016) determined, in its article 170, that the final adjustment amount shall be calculated and justified in a study done and presented by ERSE. This entity had the technical support of the Working Group EDP Produção/REN, legally enforced.

According to this, on 15 September, the technical group EDP/REN has presented to ERSE its report on the CMEC final adjustment calculation, which was achieved by strictly following the calculation methodology described in Decree-Law 240/2004. This calculation, performed by the technical group EDP/REN was presented to ERSE and comes to a range of amounts between 256.5 and 271 million Euros.

At the end of September, ERSE has also presented to the Government its report on the calculation of the CMEC final adjustment, reaching an amount of 154 million Euros, which was provisionally considered in the document of tariffs and prices for 2018. It is important to notice that the CMEC final adjustment has not been officially approved yet.

In the Financial statements as at 31 December 2017, EDP Group has included its best estimate of the CMEC final adjustment, by recognising an asset in the amount 256.6 million Euros against deferred income, based on the document done jointly by EDP and REN and the legal opinions obtained on this subject. The use of a different estimate would result in different asset and deferred income amounts, with the consequent impact in the Statement of Financial Position and Income Statement.

**Clawback**

Following some tax changes occurred in Spain, which affected electricity generators operating in this country, Decree-Law 74/2013 was approved in Portugal, which aimed to rebalance the competition between electricity generators.

This Decree-Law and subsequent regulation have determined a payment for MWh generated by power plants operating on market regime, excluding from this payment power plants operating under CAE/CMEC regime, as long as these subsist.

The amount payable by generators located in Portugal should consider an estimate of the impact that the off-market events in the EU (such as the above-mentioned tax changes in Spain) would have in pool prices, as well as off-market events in Portugal that would affect the competitiveness of electricity generators operating in Portugal. This way, a net competition advantage would allegedly arise to generators operating in Portugal.

Under this mechanism regulation – commonly known as clawback – Social tariff and CESE were approved by Dispatch 11566-A/2015 as off-market events that should be considered as competitive disadvantages of generators operating in Portugal.

Dispatch 7557-A/2017, of 25 August, superseded Dispatch 11566-A/2015, of 3 October, (which defined the variables for the computation formula of the amount to be paid by each of the power-generating plants under Decree-Law 74/2013, of 4 June, for each injected MWh) in its entirety. It states that ERSE, after consulting DGEG, shall present proposals for a new definition of the variables, as well as reference terms for the new study.

Subsequently, in Dispatch 8004-A/2017, of 13 September, the intention to declare the partial nullity of Dispatch 11566-A/2015, of 3 October, was expressed in relation to the decisions presented under its numbers 11 and 12 – elimination of off-market events' deductions (Social tariff and CESE) in the amounts to be paid by each of the power-generating plants for each injected MWh.

In the Dispatch 9371/2017, of 24 October, is declared the partial nullity of Dispatch 11566-A/2015, of 3 October from the Secretary of State for Energy (SEE), in relation to the decisions presented under its numbers 11 and 12 (the deduction of social tariff and CESE costs in the unit price). ERSE was asked to consider in next years' UGS tariffs, the recovery, in benefit of the consumers, of the amounts allegedly unproperly included in previous years' tariffs (2016 and 2017). Dispatch 9955/2017, of 17 November, defines a new amount for the estimate of the off-market events' impact in EU, which is 4.75 €/MWh, with retroactive effects as at August 24. Following these Dispatches, the document of prices and tariffs for 2018 has included a clawback amount of around 90 million Euros to be returned to tariffs, which includes power plants operating under CMEC and estimated generation.

Based on its interpretation of the Law, as well as on legal opinions obtained in the meantime, EDP Group considers that the Decree-Law 74/2013 aims to reestablish a situation of competition balance between generators operating in Portugal and their peers operating in other European countries, what means to consider as off-market events all the taxes and contributions that fall only over generators located outside of Portugal (particularly in Spain), as well as all the taxes and contributions that fall only over generators located in Portugal. Additionally, in the Group's understanding, clawback is not applicable to power plants operating under CMEC regime, therefore, in January 2018, EDP Group has contested Dispatches 9371 and 9955.

In the Financial statements as at 31 December 2017, EDP Group has included the clawback amount as calculated by EDP Produção, regarding the legislation in place in each period, namely Decree-Law 74/2013, Order 225/2015 and Dispatch 9371/2017 from October 24, considering actual generation verified in each period and its belief as to the non-applicability of this mechanism to power plants operating under CMEC regime. The use of different assumptions would result in a different liability amount, with the consequent impact in the Statement of Financial Position and Income Statement.

**System Services**

On 10 June 2017, following Dispatch 10840/2016 on the audit conclusions on the determination of an overcompensation risk in the CMEC revisibility calculation, ERSE clarified that it would continue to monitor the market of system services in accordance with its legal capability and that it would incorporate the conclusions of the referred audit, in all aspects that should be taken into account, in its opinion on the calculation of the 2016 annual revisibility.

On 5 September 2017, EDP Group was notified by DGEG that, following the above-mentioned audit conclusions and ERSE's recommendations, it would submit to the Energy State Secretary a regulation project that pursuits the deduction in tariffs and prices for 2018 the amount of 72.9 million Euros, as a deduction of 2016's revisibility, following the overcompensation in the system services market of the power plants which benefited from this mechanism between 2009 and 2014.

On 20 September 2017, EDP Produção has respond to this notification by reassuring its conviction that the referred audit report has serious flaws and limitations and presenting its reasons for this belief supported on a study performed by an independent entity. It is important to notice that ERSE, in the document of tariffs and prices for 2018, published on 15 December, has not included any deduction to the revisibility amount of 2016, even though it states that the identified overcompensation shall be included in the CMEC Final adjustment to be officially approved.

On 10 June 2017 and following Dispatch 10840/2016 on the audit conclusions on the determination of an overcompensation risk in the CMEC revisibility calculation, ERSE clarifies that continues to monitor the market for system services in accordance with its skills and that will incorporate the conclusions of the mentioned audit, in the parts that shall be taken into account, in the opinion on the calculation of the 2016 annual revisibility.

EDP Group considers that EDP Produção has not benefitted from any overcompensation in the service systems market between 2009 and 2014, that it has always complied with the legal and regulatory framework in place and also that any different strategy from the one adopted would lead to losses for EDP Group. According to this belief, the Group has not registered any effect from this situation in the 2017 financial statements. Nevertheless, in case SEE determines that indeed there was an overcompensation of the power plants under CMEC regime by their participation in system services market, significant corrections may arise to the 2016 annual revisibility or to the CMEC final adjustment amounts recognised in the financial statements as at 31 December 2017, with the consequent impact in the Statement of Financial Position and Income Statement. In any case, if the intention to change the CMEC final adjustment comes into force, it is EDP Group's intention to instigate the appropriate legal processes.

## 4. Financial Risk Management Policies

### Financial risk management

The EDP Group's business is exposed to a variety of financial risks, including the effect of changes in market prices, foreign exchange and interest rates. The Group's exposure to financial risks arises essentially from its debt portfolio and from the volatility of commodity prices, resulting in interest and exchange rate exposures, as well as commodity market prices. The status and evolution of the financial markets are analysed on an on-going basis in accordance with the Group's risk management policy. Derivative financial instruments are used to minimise potential adverse effects, resulting from interest rate, foreign exchange rate and commodity prices risks on EDP Group's financial performance.

The management of financial risks of EDP, S.A. and other EDP Group entities is undertaken centrally by EDP, S.A., in accordance with policies approved by the Executive Board of Directors. The Financial Department and the Energy Management Business Unit identify, evaluate and submit to the Board for approval, hedging mechanisms appropriate to each exposure. The Executive Board of Directors is responsible for the definition of general risk management principles and the establishment of exposure limits.

As for the subsidiaries in Brazil, the management of the financial risks inherent to the variation of interest rates, exchange rates and commodities is carried out locally, according with the principles set by rules of EDP - Energias do Brasil's Management and aligned with the principles/policies set by the EDP Group for this geographical area.

### Exchange-rate risk management

EDP, S.A.'s Financial Department is responsible for managing exchange rate risk exposure resulting from foreign currency financial debt, entered into with the aim of funding the EDP Group's investments in the currency of its respective cash flows. Seeking to mitigate the impact of exchange rate fluctuations on the financial costs of the EDP Group companies and, consequently, on the consolidated results, the Group resorts to exchange rate derivative financial instruments and/or other hedging structures.

The policy implemented by the EDP Group consists of undertaking derivative financial instruments to hedge exchange rate risk with 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.

EDP Group is exposed to exchange rate risk in US Dollars (USD), Brazilian Reais (BRL), Romanian Leu (RON), Polish Zloty (PLN) and Canadian Dollars (CAD). Currently, the exposure to USD/EUR, PLN/EUR, RON/EUR and CAD/EUR exchange rate risk results essentially from investments of EDP Group in wind parks in the USA, Poland, Romania and Canada, respectively. The majority of these investments were financed with debt contracted in the respective local currency which allows to mitigate the exchange rate risk related to these assets.

The Brazilian subsidiaries exposed to the USD/BRL exchange rate risk as a result of their USD debt, use derivative financial instruments to hedge this risk. Additionally, investments in the Brazilian subsidiaries of EDP Energias do Brasil, whose net assets expressed in BRL are exposed to exchange rate risks, are monitored through analysis of the evolution of the BRL/EUR exchange rate. Regarding investments in wind farms of EDP Renováveis in Brazil, the Group also contracted financial derivatives to partial cover exchange rate exposure of these assets.

The exchange rate risk on the Pound Sterling (GBP), Swiss Franc (CHF) and Japanese Yen (JPY) bonds issued by EDP Finance B.V. under the Medium Term Notes Program for the Issuance of Debt Instruments have been hedged as from their issuing date.

### Sensitivity analysis - exchange rate

Regarding the financial instruments that result in an exchange rate risk exposure, a fluctuation of 10% in the EUR/USD exchange rate, as at 31 December 2017 and 2016, would lead to an increase/(decrease) in the EDP Group results and/or equity as follows:

| | Dec 2017 | | | |
|---|---|---|---|---|
| | Profit or loss | | Equity | |
| Thousand Euros | +10% | -10% | +10% | -10% |
| USD | 10,535 | -12,876 | -14,214 | 17,373 |
| | 10,535 | -12,876 | -14,214 | 17,373 |

| | Dec 2016 | | | |
|---|---|---|---|---|
| | Profit or loss | | Equity | |
| Thousand Euros | +10% | -10% | +10% | -10% |
| USD | 11,162 | -13,642 | -31,468 | 38,461 |
| | 11,162 | -13,642 | -31,468 | 38,461 |

This analysis assumes that all other variables, namely interest rates, remain unchanged.

**Interest rate risk management**

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

In the floating rate financing context, the EDP Group enters, when considers necessary, into interest rate derivative financial instruments to hedge the 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 engaged at fixed rates are, when appropriate, converted into floating rate loans through interest rate derivative financial instruments designed to level them to current and expected market conditions.

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

The EDP Group has a portfolio of interest rate derivatives with maturities up to 15 years. The Group's Financial Departments undertake sensitivity analyses of the fair value of financial instruments to interest rate fluctuations. As at 31 December 2017, after the hedging effect of the derivatives 54% of the Group's liabilities are at fixed rate.

**Sensitivity analysis - Interest rates (excluding the Brazilian operations)**

Based on the debt portfolio engaged by the Group, except for Brazil and the related derivative financial instruments used to hedge the related interest rate risk, a 50 basis points change in the reference interest rates at 31 December 2017 and 2016 would lead to an increase/(decrease) in the EDP Group results and/or equity as follows:

| | Dec 2017 | | | |
|---|---|---|---|---|
| | Profit or loss | | Equity | |
| Thousand Euros | 50 bp increase | 50 bp decrease | 50 bp increase | 50 bp decrease |
| **Cash flow effect:** | | | | |
| Hedged debt | -14,821 | 14,821 | - | - |
| Unhedged debt | -13,664 | 13,664 | - | - |
| **Fair value effect:** | | | | |
| Cash flow hedging derivatives | - | - | 10,607 | -12,361 |
| Trading derivatives (accounting perspective) | -105 | -4,754 | - | - |
| | -28,590 | 23,731 | 10,607 | -12,361 |

| | Dec 2016 | | | |
|---|---|---|---|---|
| | Profit or loss | | Equity | |
| Thousand Euros | 50 bp increase | 50 bp decrease | 50 bp increase | 50 bp decrease |
| **Cash flow effect:** | | | | |
| Hedged debt | -16,421 | 16,421 | - | - |
| Unhedged debt | -20,046 | 20,046 | - | - |
| **Fair value effect:** | | | | |
| Cash flow hedging derivatives | - | - | 11,665 | -12,170 |
| Trading derivatives (accounting perspective) | -171 | -6,720 | - | - |
| | -36,638 | 29,747 | 11,665 | -12,170 |

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

**Brazil - Interest rate and exchange rate risk management**

The main tool used to monitor and control market risk in the Brazilian subsidiaries is Value at Risk (VaR).

VaR is the maximum expected loss in the operations portfolio over a specific period of time, resulting from an adverse movement in the market that has a specific confidence interval. The VaR model used is based on a confidence interval of 95% and assumes a 10 day time frame for settlement of positions, based essentially on historical data. Considering the market data for the last 2 years and the observation of the relationship between the different prices and markets, the model generates a series of scenarios for changes in market prices.

The VaR methodology used in Brazil considers a series of stress tests with the objective of monitoring the financial impact of the different market scenarios.

The summary of VaR on the operations of the Brazilian subsidiaries is as follows:

| Thousand Euros | VaR | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| Exchange rate risk | 17 | 27 |
| Interest rate risk | 6,046 | 10,392 |
| Diversification effect | -23 | -39 |
| | 6,040 | 10,380 |

**Counterparty credit risk management**

EDP Group's policy in terms of counterparty risk on financial transactions is managed through an analysis of the technical capacity, competitiveness, credit rating and exposure to each counterparty, avoiding significant concentrations of credit risk. Counterparties in derivative financial instruments are institutions with high credit rating so the risk of counterparty default is not considered to be significant. Therefore, guarantees and other collaterals are not typically required for these transactions.

EDP Group has documented its financial operations in accordance with international standards. Derivative financial instruments are mainly contracted under ISDA Master Agreements.

The amount receivable from customers is mainly generated by operations in Portugal, Spain and Brazil, with a diversified customer base, both geographically and in terms of segments (business clients, private and public sector) and size (Supply companies, Business to Business (B2B) and Business to Consumer (B2C)). EDP is present in 14 countries and has more than 9.9 million customers in the electricity sector and 1.6 million customers in the gas sector, and usually the contractual relationship with the counterparty tends to be

The maximum exposure to customer credit risk by counterparty type is detailed as follows:

| Thousand Euros | Dec 2017 | Dec 2016 |
|---|---|---|
| **Corporate and private sector:** | | |
| Supply companies | 99,284 | 128,203 |
| B2B | 670,483 | 467,224 |
| B2C | 408,901 | 379,706 |
| Other | 122,249 | 43,428 |
| | 1,300,917 | 1,018,561 |
| **Public sector:** | | |
| Debt with payment agreement | 53,420 | 66,646 |
| Debt without payment agreement | 131,916 | 163,613 |
| | 185,336 | 230,259 |
| | 1,486,253 | 1,248,820 |

Trade receivables by geographical market for the Group EDP, is as follows:

| Thousand Euros | Dec 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Portugal | Spain | Brazil | USA | Other | Group |
| Corporate and private sector | 546,871 | 211,438 | 496,392 | 14,076 | 32,140 | 1,300,917 |
| Public sector | 90,656 | 37,503 | 56,541 | - | 636 | 185,336 |
| | 637,527 | 248,941 | 552,933 | 14,076 | 32,776 | 1,486,253 |

| Thousand Euros | Dec 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Portugal | Spain | Brazil | USA | Other | Group |
| Corporate and private sector | 531,421 | 70,608 | 380,560 | 10,056 | 25,916 | 1,018,561 |
| Public sector | 122,596 | 53,171 | 54,492 | - | - | 230,259 |
| | 654,017 | 123,779 | 435,052 | 10,056 | 25,916 | 1,248,820 |

The amounts receivable from supply companies are concentrated mainly in Portugal, Brazil and EDP Renováveis Group, as follows:

- In Portugal, these counterparties present a significantly reduced days sales outstanding, about 20 days, and these entities are subject to the sector regulation that establishes collaterals to reduce credit risk. The collateral provided is updated based on the average of the last quarter monthly sales, which reinforces a low risk profile;

- In Brazil, it refers mainly to: (i) the amounts from sale of electricity to wholesale dealers and supply companies, (ii) accounts receivable relating to energy traded in the Electric Energy Trading Chamber - CCEE; and (iii) charges for the electricity network access;

- In EDPR EU, main customers are operators and distributors in the energy market of their respective countries. Credit risk is not significant due to the limited days sales outstanding and to the quality of its debtors. Counterparty risk comes from the countries that have renewable energy incentives, and is usually seen as a regulatory risk;

- In EDPR NA, main customers are regulated utilities and regional market agents in the USA. As it occurs in Europe, credit risk is not significant due to the limited days sales outstanding and to the quality of the debtors. However, the exposure to customers in long term contracts also arises from the mark-to-market of these contracts. This exposure is managed by a detailed assessment of the counterparty before signing any long term agreement and by a requirement of collaterals depending on the exposure and on the rating.

Regarding the remaining receivables from companies and individual customers, resulting from the current activity of EDP Group, the credit risk is essentially the result of customers defaults, whose exposure is limited to the supply made until the possible date of supply disruption. A very criterious credit risk analysis made for new costumers, as well as the large number of customers and their diversity in terms of sectors of activity are some of the main factors that mitigate the concentration of counterparty credit risk.

Amounts receivable from public sector customers include amounts receivable from renegotiated debt with payment agreements, which, as the counterparty is a public entity and has already recognised the debt through payment protocols, present a lower risk. These amounts also include debt without payment agreements arising from the normal power supply activity similar to that described for the corporate and individual sector.

Regarding the ageing, Trade receivables is as follow:

| Thousand Euros | Dec 2017 | Dec 2016 |
|---|---|---|
| **Past due but not impaired trade receivables:** | | |
| Less than 3 months | 318,938 | 208,335 |
| Between 3 to 6 months | 30,045 | 36,528 |
| Between 6 to 12 months | 9,995 | 14,347 |
| More than 12 months | 14,810 | 10,661 |
| | 373,788 | 269,871 |
| **Impaired trade receivables** | 367,838 | 394,168 |
| **Not past due and not impaired trade receivables** | 1,112,465 | 978,949 |
| | 1,854,091 | 1,642,988 |

Past due but not impaired trade receivables include debt with payment agreements.

The age of trade receivables that are past due but not impaired may vary significantly depending on the type of customer (Corporate and private sector or public sector). EDP Group recognises impairment losses based on a economic case by case analysis, according with the characteristics of the customers.

Regarding third-party receivables generated by the Group's day-to-day business, the credit risk arises essentially from customers default, whose exposure is limited to the energy supplied until the supply interruption occurs. The very criterious credit risk analysis made for new costumers, as well as the large number of customers and their diversity in terms of sectors of activity are some of the main factors that mitigate the concentration of counterparty credit risk.

EDP Group believes that the amount that best represents the Group's exposure to credit risk corresponds to the carrying amount of trade receivables and other debtors, net of the impairment losses recognised. The Group believes that the credit quality of these receivables is adequate and that no significant impaired credits exist that have not been recognised as such and provided for.

**Liquidity risk management**

The EDP Group undertakes management of liquidity risk through the engagement and maintenance of credit lines and financing facilities with a firm underwriting commitment with national and international reliable financial institutions as well as term deposits, allowing immediate access to funds. These credit lines are used to complement and backup national and international commercial paper programmes, allowing the EDP Group's short-term financing sources to be diversified (see note 34).

**Energy market risk management**

In its operations in the non-regulated Iberian electricity market, EDP Group purchases fuel to generate electric energy and sells the electric energy generated by its plants in the organised market (OMIE and OMIP) as well as to third parties. Given this, the Group is exposed, since July 2017, to energy market risks. Previously, some electricity generating plants, despite operating in the market, were subject to the CMEC legislation, and the changes in the operating margins were determined essentially by the difference between the prices in the market and the reference indexes defined in the contracts.

As a result of its energy management operations, EDP Group has a portfolio of operations related to electric energy, carbon emissions (CO2) and fuel (coal and gas). The portfolio is managed through the engagement of operations with financial and physical settlement on the forward energy markets. The objective of the operations is to reduce volatility of the financial impact resulting from the managed positions and also to benefit from arbitration or positioning within the trading limits approved by the Executive Board of Directors. The financial instruments traded include swaps (electricity, coal and gas) and futures to fix prices.

The activity of energy management is subject to a series of variables which are identified and classified based on their common uncertainty characteristics (or risk). Such risks include market price evolution risk (electricity and fuel) and hydroelectric production volume risk (price and volume risk), as well as credit risk of the counterparties.

Monitoring the price, volume and credit risks includes their quantification in terms of positions at risk which can be adjusted through market operations. This quantification is made by using specific models that value positions so as to determine the maximum loss that can be incurred, with a given probability and a determined time frame.

Risks are managed in accordance with the strategies defined by the Executive Board of Directors, which are subject to a periodic review based on the evolution of the operations, in order to change the profile of the positions and adjust them to the established management objectives.

Risks are monitored by means of a series of actions involving daily monitoring of the different risk indicators, of the operations grouped in the systems and the prudence limits defined by management area and risk component, as well as regular backtesting and supplementary validation of the models and assumptions used. This monitoring not only ensures the effectiveness of the strategies implemented, but also provides elements to enable initiatives to be taken to correct them, if necessary.

The principal price and volume risk indicator used is the margin at risk (P@R), which estimates the impact of the variation of the different risk factors (price of electricity and hydrological) on the following year's margin, P@R corresponding to the difference between an expected margin and a pessimistic scenario with a probability to occur of 5% (confidence interval of 95%) considering a time frame of 1 year. Both the volumes which are certain and those, which although uncertain, are expected, namely production of the plants and the corresponding consumption of fuel, are considered. The P@R distribution by risk factor is as follows:

| Thousand Euros | P@R Distribution by risk factor | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| **Risk factor** | | |
| Negotiation | 3,800 | 9,000 |
| Fuel | 64,000 | 50,000 |
| CO2 | 19,000 | 8,000 |
| Electricity | 39,000 | 66,000 |
| Hydrological | 153,000 | 97,000 |
| Diversification effect | -146,000 | -134,000 |
| | 132,800 | 96,000 |

Regarding credit risk, the quantification of exposure considers the amount and type of transaction (e.g. swap or forward), the rating of the counterparty risk that depends on the probability of default and the expected value of credit to recover, which varies depending on the guarantees received or the existence of netting agreements. The EDP Group's exposure to credit risk rating is as follows:

| | Dec 2017 | Dec 2016 |
|---|---|---|
| **Credit risk rating (S&P)** | | |
| A+ to A- | 63.68% | 50.29% |
| BBB+ to BBB- | 31.54% | 38.31% |
| BB+ to B- | 0.93% | 0.17% |
| No rating assigned | 3.85% | 11.23% |
| | 100.00% | 100.00% |

**Capital management**

EDP 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.

Additionally, management describes this aspect of its strategic objectives in the chapters "Strategic Agenda" and "Value Creation to Shareholders".

The Group's goal in managing equity is to safeguard the Group's 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 groups operating in this sector, the Group controls its financing structure based on several control mechanisms and ratios.

## 5. Consolidation Perimeter

During 2017, the following changes occurred in the EDP Group consolidation perimeter:

**Companies acquired:**

- In the second quarter of 2017, EDP Renewables North America LLC acquired 100% of the share capital of Cameron Solar LLC, Estill Solar I LLC and Hampton Solar II LLC from Pine Gate Energy Capital, LLC and acquired 100% of the share capital of Hog Creek Wind Project LLC from RES America Developments Inc. These operations were classified as asset purchases, out of the scope of IFRS 3 – Business Combinations, due to the substance of these transactions, the type of assets acquired and the very early stage of the projects;
- In the third quarter of 2017, EDP Renováveis Brasil, S.A. acquired 100% of the share capital of the company Babilônia Holding, S.A.;
- In the fourth quarter of 2017, EDPR France Holding, S.A.S. acquired 100% of the share capital of the company Parc Eolien Nordex XXVII, S.A.S. from Nordex Windpark Beteiligung GmbH. This operation was classified as an asset purchase, out of the scope of IFRS 3 – Business Combinations, due to the substance of the transaction, the type of assets acquired and the very early stage of the projects.

**Disposal of non-controlling interests without loss of control:**

- In the second quarter of 2017, EDP Renewables, SGPS, S.A. concluded the sale to ACE Portugal S.A.R.L. by 210,098 thousand Euros, equivalent to 247,738 thousand Euros deducted from loans totalling 36,891 thousand Euros and from transaction costs in the amount of 749 thousand Euros, of 49% of its direct and indirect interests in the following companies:
  - EDPR PT - Parques Eólicos, S.A.;
  - Eólica da Coutada, S.A.;
  - Eólica da Terra do Mato, S.A.;
  - Eólica das Serras das Beiras, S.A.;
  - Eólica do Alto da Lagoa, S.A.;
  - Eólica do Alto da Teixosa, S.A.;
  - Eólica do Alto do Mourisco, S.A.;
  - Eólica do Espigão, S.A.;
  - Eólica dos Altos de Salgueiros-Guilhado, S.A.

  This transaction was treated as a disposal of non-controlling interests without loss of control and therefore the positive difference between the book value and the fair value of the non-controlling interests sold, totalling 74,419 thousand Euros, was booked against reserves under the corresponding accounting policy.

**Sale of companies with loss of control:**

- In the third quarter of 2017, Moray Offshore Renewable Power Limited sold to International Power Consolidated Holdings Limited by 6,307 thousand Euros the equivalent of 5,640 thousand Pound Sterling (which corresponds to a sale price of 20,957 thousand Pound Sterling deducted from 15,317 thousand Pound Sterling of loans), of 23.3% of its direct and indirect interests in the following companies:
  - Moray Offshore Windfarm (East) Limited;
  - Telford Offshore Windfarm Limited;
  - MacColl Offshore Windfarm Limited;
  - Stevenson Offshore Windfarm Limited.

  In accordance with the Shareholders Agreement and other relevant contracts, it has been established a shared control of the Company which led to a loss of control over the company and its consolidation by the equity method. This disposal with loss of control genetared a gain on a consolidated basis of 28,548 thousand Euros, which was recorded in the income statement (see note 7 and 41).

**Companies sold and liquidated:**

- EDP Renewables Itália Holding, S.r.l. sold 100% of VRG Wind 149, S.r.l. and VRG Wind 127, S.r.l. by 10 thousand Euros each and also sold 100% of Sarve,S.r.l. by 5 thousand Euros. The acquisition of these companies, in 2016, was recorded as an asset acquisition out of the scope of IFRS 3 – Business Combinations, due to the substance of the transactions, the type of assets acquired and the very early stage of the projects. This sale was also considered as an asset sale, as the companies were still in the same project stage, by not having won their respective auctions;
- EDP Renewables Polska, Sp. z o.o. liquidated Relax Wind Park II, Sp. z o.o., Morska Farma Wiatrowa Gryf, Sp. z o.o. and Morska Farma Wiatrowa Pomorze, Sp. z o.o.;
- EDP Renewables South Africa, Proprietary Limited liquidated Dejann Trading and Investments, Proprietary Limited and Jouren Trading and Investments, Proprietary Limited. Afterwards, EDPR Offshore España, S.L. liquidated EDP Renewables South Africa, Proprietary Limited;
- EDP Iberia, S.L. sold 100% of Naturgás Energía Distribución, S.A.U., EDP España Distribución Gas, S.A., Naturgas Suministro GLP, S.A.U, Inkolan, A.I.E. and Tolosa Gasa, S.A. by 892,163 thousand Euros (equivalent to a sale price of 2,334,984 thousand Euros, which includes the fair value of the contingent prices, deducted from loans in the amount of 1,427,303 thousand Euros and transaction costs in the amount of 15,518 thousand Euros) generated a gain of 590,873 thousand Euros (see notes 7, 26 and 39);
- EDPR Yield, S.A.U. liquidated EDPR Yield Portugal Services, Unip. Lda.;
- EDP Iberia, S.L. sold 100% of EDP Gás - SGPS, S.A., EDP Gás Distribuição, S.A. and EDP Gás GPL - Comércio de Gás de Petróleo Liquefeito, S.A. by 324,623 thousand Euros (equivalent to a sale price of 474,437 thousand Euros, which includes the fair value of the contingent prices, deducted from loans in the amount of 147,153 thousand Euros and transaction costs in the amount of 2,661 thousand Euros) generated a loss of 16,370 thousand Euros (see notes 10 and 39).

**Companies merged:**

- The following companies were merged into EDP Comercializadora, S.A.:
  - EDP Empresa de Servicios Energeticos, S.L.;
  - EDP Soluciones Comerciales, S.A.
- The following companies were merged into Eólica do Sincelo, S.A. (ex Parque Eólico do Planalto, S.A.):
  - Parque Eólico do Cabeço Norte, S.A.;
  - Parque Eólico do Pinhal do Oeste, S.A.
- Parque Eólico de Torrinheiras, S.A. was merged into Eólica da Linha, S.A. (ex Parque Eólico da Serra do Oeste, S.A.);
- The following companies were merged into EDP Renovables España, S.L.U.:
  - Compañía Eólica Campo de Borja, S.A.U.;
  - Desarrollos Catalanes Del Viento, S.L.U.;
  - Desarrollos Eólicos Almarchal, S.A.U.;
  - Desarrollos Eólicos Buenavista, S.A.U.;
  - Desarrollos Eólicos de Corme, S.A.U.;
  - Desarrollos Eólicos de Galicia, S.A.U.;
  - Desarrollos Eólicos de Lugo, S.A.U.;
  - Desarrollos Eólicos de Tarifa, S.A.U.;
  - Desarrollos Eólicos Dumbria, S.A.U.;
  - Desarrollos Eólicos Rabosera, S.A.U.;
  - EDP Renováveis Cantabria, S.L.U.;
  - EDPR Yield Spain Services, S.L.U.;
  - Energías Eólicas de la Manchuela, S.L.U.;
  - Eólica Curiscao Pumar, S.A.U.;
  - Eólica Garcimuñoz, S.L.U.;
  - Eólica Guadalteba, S.L.U.;
  - Eólica Muxía, S.L.U.;
  - Investigación y Desarrollo de Energías Renovables IDER, S.L.U.;
  - Molino de Caragüeyes, S.L.U.;
  - Neo Energía Aragón, S.L.U.;
  - Parc Eòlic Coll de la Garganta, S.L.U.;
  - Parque Eólico Belchite, S.L.U.;
  - Parques de Generación Eólica, S.L.U.;
  - Parques Eólicos del Cantábrico, S.A.U.

**Companies incorporated:**

- 2017 Vento XVII LLC;
- Castle Valley Wind Farm LLC *;
- Dry Creek Solar Park LLC *;
- EDPR Wind Ventures XVII LLC;
- Long Hollow wind Farm LLC *;
- Riverstart Solar Park III LLC *;
- White Stone Solar Park LLC *;
- EDP Transmissão Aliança SC, S.A.;
- EDP Transmissão SP-MG, S.A.;
- EDP Transmissão MA I, S.A.;
- EDP Transmissão MA II, S.A.;
- Les Eoliennes Flottantes du Golfe du Lion, S.A.S.;
- 2017 Sol II LLC;
- Blue Harvest Solar Park LLC *;
- EDPR Solar Ventures II LLC;
- Paulding Wind Farm VI LLC *;
- Renville County Wind Farm LLC *;
- Riverstart Solar Park IV LLC *;
- Riverstart Solar Park V LLC *;
- Sweet Stream Wind Farm LLC *;
- Timber Road Solar Park LLC *;
- EDPR CA Solar Park LLC *;
- EDPR CA Solar Park II LLC *;
- EDPR CA Solar Park III LLC *;
- EDPR CA Solar Park IV LLC *;
- EDPR CA Solar Park V LLC *;
- EDPR CA Solar Park VI LLC *;
- Coldwater Solar Park LLC *;
- Meadow Lake Solar Park LLC *;
- Nine Kings Wind Farm LLC *;
- Nine Kings Transco LLC *;
- EDP Comercialização Varejista, Ltda;
- Wildcat Creek Wind Farm LLC *;

**Companies incorporated (cont.):**

- Indiana Crossroads Wind Farm LLC *;
- Indiana Crossroads Wind Farm II LLC *;
- EDPR Offshore North America LLC *;
- Poplar Camp Wind Farm LLC *;
- Avondale Solar Park LLC *;
- Crittenden Wind Farm LLC *;
- Fundo EDP CleanTech FCR.

* EDP Group holds, through EDP Renováveis and its subsidiaries, a set of subsidiaries legally established in the United States without share capital and that, as at 31 December 2017, do not have any assets, liabilities or any operating activity.

**Other changes:**

- In the first quarter of 2017, EDP Group changed the method by which it consolidated Eólica de Coahuila, S.A. de C.V. from equity method to full consolidation method as a result of the wind farm construction completion and its entry into operation. The control was initially shared with Energía Bal, S.A. de C.V. due to its experience in acquiring finance and construction and EDPR International Investments B.V.'s experience in operating and managing wind farms. The Shareholders Agreement already established that, with the entry into operation, EDPR International Investments B.V. would gain control of the company for its greater experience in the operational management of wind farms.

  Fair value of assets and liabilities identified at the control acquisition date are as follows:

| Thousand Euros | |
|---|---|
| **Assets** | |
| Property, plant and equipment | 327,558 |
| Other debtors and other assets | 26,160 |
| Cash and cash equivalents | 26,498 |
| **Total Assets** | 380,216 |
| | |
| **Liabilities** | |
| Financial debt | 241,553 |
| Other liabilities and other payables | 105,754 |
| **Total Liabilities** | 347,307 |
| | |
| **Net assets** | 32,909 |

- In the third quarter of 2017, EDP Renovables España, S.L. acquired 7.5% of the share capital of the company Eólica Arlanzón, S.A.;
- In the context of the General and Voluntary Public Tender Offer for the acquisition of shares representative of the share capital of EDP Renováveis, S.A. that was concluded on the third quarter of 2017, EDP - Energias de Portugal, S.A. total investment was 296,376 thousand Euros with added transaction costs in the amount of 3,244 thousand Euros. As a result of this transation, EDP - Energias de Portugal, S.A. holds 720,191,372 shares in EDP Renováveis, S.A., increasing its interest in the company from 77.5% to 82.6% and consequently its indirect interest in their subsidiaries (see note 18);
- In the third quarter of 2017, EDP Renovables España, S.L. increased its financial interest in Tébar Eólica, S.A. from 50% to 100% and obtained the control of the company. This transation resulted in a change in its consolidation method from the equity method to the full consolidation method.

  At the acquisition date, EDP Group has determined the fair value of the assets acquired and liabilities assumed based on the discounted cashflow method. Fair value of identifiable assets and liabilities is presented as follows:

| Thousand Euros | Book value at acquisition date | Fair value adjustment | Fair value at acquisition date |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 9,813 | 12,319 | 22,132 |
| Other debtors and other assets | 3,423 | - | 3,423 |
| Cash and cash equivalents | 1,844 | - | 1,844 |
| **Total Assets** | 15,080 | 12,319 | 27,399 |
| | | | |
| **Liabilities** | | | |
| Financial debt | 8,695 | - | 8,695 |
| Other liabilities and other payables | 579 | 3,080 | 3,659 |
| **Total Liabilities** | 9,274 | 3,080 | 12,354 |
| | | | |
| **Net Assets** | 5,806 | 9,239 | 15,045 |
| | | | |
| **Net Assets acquired** | | | 12,142 |
| **Aquisition costs** | | | 7,500 |
| **Goodwill / (Badwil)** (see note 7) | | | -4,642 |

Since the date of acquisition of full control over this company, it has contributed to the consolidated financial statements with Revenues from energy sales in the amount of 2,727 thousand Euros and with a net profit for the period (attributable to Equity holders of EDP) in the amount of 629 thousand Euros. Until the date of the took of control, the shareholding previously held was being consolidated under the equity method, therefore the result was incorporated under this method until this date in the negative amount of 446 thousand Euros.

The companies included in the consolidation perimeter of EDP Group as at 31 December 2017 and 2016 are disclosed in Annex I.

## 6. Revenues from Energy Sales and Services and Other

Revenues from energy sales and services and other, by sector, are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| Thousand Euros | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Electricity and network access | 14,328,626 | 12,992,189 | 2,417,206 | 2,302,619 |
| Gas and network access | 831,090 | 992,883 | 33,159 | 35,460 |
| Sales of CO2 Licenses | - | - | 92,656 | 108,556 |
| Revenue from assets assigned to concessions | 422,801 | 398,059 | - | - |
| Other | 163,470 | 212,033 | 163,728 | 161,552 |
| | 15,745,987 | 14,595,164 | 2,706,749 | 2,608,187 |

Revenues from energy sales and services and other, by geographical market, for the Group, are as follows:

| | Dec 2017 | | | | | |
|---|---|---|---|---|---|---|
| Thousand Euros | Portugal | Spain | Brazil | USA | Other | Group |
| Electricity and network access | 7,197,552 | 2,991,007 | 3,228,983 | 580,646 | 330,438 | 14,328,626 |
| Gas and network access | 234,001 | 597,089 | - | - | - | 831,090 |
| Revenue from assets assigned to concessions | 255,745 | - | 167,056 | - | - | 422,801 |
| Other | 44,436 | 32,163 | 86,203 | - | 668 | 163,470 |
| | 7,731,734 | 3,620,259 | 3,482,242 | 580,646 | 331,106 | 15,745,987 |

| | Dec 2016 | | | | | |
|---|---|---|---|---|---|---|
| Thousand Euros | Portugal | Spain | Brazil | USA | Other | Group |
| Electricity and network access | 7,138,372 | 2,848,984 | 2,205,295 | 521,242 | 278,296 | 12,992,189 |
| Gas and network access | 246,608 | 746,275 | - | - | - | 992,883 |
| Revenue from assets assigned to concessions | 273,471 | - | 124,588 | - | - | 398,059 |
| Other | 47,282 | 29,017 | 133,921 | 32 | 1,781 | 212,033 |
| | 7,705,733 | 3,624,276 | 2,463,804 | 521,274 | 280,077 | 14,595,164 |

The caption Electricity and network access in Portugal, on a consolidated basis, includes a net revenue of 1,427,303 thousand Euros (revenue in 31 December 2016: 1,266,310 thousand Euros) regarding tariff adjustments of the period (see notes 25 and 38). This caption also includes a net profit of 22,637 thousand Euros (31 December 2016: net cost of 186,949 thousand Euros) related to recognition of tariff adjustments for the period in Brazil (see notes 25 and 38).

Additionally, the caption Electricity and network access includes, on a consolidated basis, 177,582 thousand Euros (31 December 2016: 215,589 thousand Euros) related to the contractual stability compensation (CMEC) as a result of the power purchase agreements (PPA) termination, including 37,727 thousand Euros related to the CMEC final adjustment.

The caption Electricity and network access, on a company basis, includes 949,144 thousand Euros (31 December 2016: 973,073 thousand Euros) related with energy sales under the purchase and sale agreement of evolutive energy between EDP, S.A. and EDP Comercial.

The breakdown of Revenues from energy sales and services and other by segment is presented in the Operating segments (see note 53).

Cost of energy sales and other are as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| **Cost of electricity** | 7,990,062 | 6,825,649 | 2,427,577 | 2,218,361 |
| **Cost of gas** | 885,523 | 811,493 | - | - |
| **Expenditure with assets assigned to concessions** | 422,801 | 398,059 | - | - |
| **Changes in inventories and cost of raw materials and consumables used** | | | | |
| Fuel, steam and ashes | 661,539 | 449,551 | - | - |
| Gas | 115,338 | 120,048 | 33,159 | 35,460 |
| CO2 Licenses | 108,137 | 95,312 | 92,656 | 108,543 |
| Own work capitalised | -93,037 | -99,873 | - | - |
| Other | 264,546 | 256,893 | 6 | 25 |
| | 1,056,523 | 821,931 | 125,821 | 144,028 |
| | 10,354,909 | 8,857,132 | 2,553,398 | 2,362,389 |

On a company basis, Cost of electricity includes costs of 1,207,504 thousand Euros (31 December 2016: 1,137,688 thousand Euros) with the purchase of energy under the agreement for management, purchase and resale of energy signed between EDP, S.A. and EDP Gestão da Produção de Energia, S.A.

Under the terms of concession contracts of EDP Group to which IFRIC 12 is applicable, the construction activities are outsourced to external specialised entities. Therefore, EDP Group has no margin in the construction of assets assigned to concessions. The revenue and the expenditure with the acquisition of these assets have equal amounts, are as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| **Revenue from assets assigned to concessions** | 422,801 | 398,059 |
| **Expenditure with assets assigned to concessions** | | |
| Subcontracts and other materials | -329,866 | -300,525 |
| Personnel costs capitalised (see note 9) | -84,820 | -88,866 |
| Capitalised borrowing costs (see note 12) | -8,115 | -8,668 |
| | -422,801 | -398,059 |
| | - | - |

Revenue from assets assigned to concessions include 399,438 thousand Euros (see note 16) relative to electricity distribution concessions in Portugal and in Brazil resulting from the aplication of the mixed model and 14,005 thousand Euros related to revenue generated by EDP Gás Distribuição until the date of its sale. Additionaly, it also includes the revenue related to the financial asset to be received by EDP Group under the transmission concessions in Brazil, resulting from the application of the financial asset model (see note 25).

## 7. Other Income

Other income, for the Group, are as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| Income arising from institutional partnerships - EDPR NA (see note 37) | 225,568 | 197,544 |
| Gains related with business combinations | 4,642 | 3,890 |
| Gains on disposals - electricity and gas business assets | 619,699 | 67,874 |
| Gains from contractual indemnities and insurance companies | 17,711 | 35,106 |
| Other | 169,379 | 122,900 |
| | 1,036,999 | 427,314 |

Income arising from institutional partnerships - EDPR NA relates to income arising from production and investment tax credits (PTC/ITC), mostly from accelerated tax depreciations regarding Vento I to XVII, Sol I, Sol II and Blue Canyon I projects, in wind farms and solar plants in USA (see note 37).

The caption gains on disposals - electricity and gas business assets are related with: (i) the gain on the sale of 100% of Naturgás Energía Distribución, S.A.U. to a Consortium comprising institutional investors in the amount of 590,873 thousand Euros; and (ii) the gain on the sale of 23,3% of Moray Offshore Windfarm (East) Limited to Engie in the amount of 28,548 thousand Euros, which include a gain with the shares held revaluation of 18,666 thousand Euros (see note 5).

On 31 December 2016, the caption gains on disposals - electricity business assets is related with the gain on the sale of 100% of Pantanal Energética, Ltda to Cachoeira Escura Energética, S.A. (60,916 thousand Euros) and with the gain on the sale of 60% of J&Z Wind Farms, Sp. z o.o to Geo Renewables Limited (6,958 thousand Euros).

On a consolidated basis, the caption Other also includes gains on the reinsurance activity, recovery of doubtful debts, gains in the adjustment of the contingent prices of several sale operations and gains on the sale of property, plant and equipment.

In the third quarter of 2017, the Lisbon headquarters building was used as an in-kind contribution to the Medical and Death Subsidy Fund. The transaction price, which is the best estimate of the building and land fair values, is greater than its carrying amount, generating a gain of 30,773 thousand Euros, on a Group basis, and 19,118 thousand Euros, on a Company basis (as the land was originally from EDP Distribuição, its carrying amount was lower on a consolidated basis than it was on an individual basis, as there was a gain in the sale from EDP Distribuição to EDP S.A.). Subsequently to this transaction, EDP celebrated a lease contract for a period of 25 years (see notes 15 and 39). These gains are included in the caption Other.

## 8. Supplies and Services

Supplies and services are as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Consumables and communications | 50,610 | 51,138 | 8,312 | 8,192 |
| Rents and leases | 128,746 | 124,159 | 46,846 | 46,253 |
| Maintenance and repairs | 391,452 | 364,492 | 35,183 | 26,055 |
| Specialised works: | | | | |
| - Commercial activity | 175,425 | 180,938 | 601 | 9,822 |
| - IT services, legal and advisory fees | 50,408 | 54,649 | 9,801 | 19,963 |
| - Other services | 50,948 | 50,139 | 25,087 | 21,779 |
| Provided personnel | - | - | 11,932 | 14,771 |
| Other supplies and services | 142,944 | 122,359 | 28,740 | 19,627 |
| | 990,533 | 947,874 | 166,502 | 166,462 |

## 9. Personnel Costs and Employee Benefits

Personnel costs and employee benefits are as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| **Personnel costs** | | | | |
| Board of Directors remuneration | 16,403 | 16,018 | 6,518 | 6,597 |
| Employees' remuneration | 491,730 | 493,734 | 35,369 | 32,936 |
| Social charges on remuneration | 121,095 | 121,131 | 8,982 | 8,398 |
| Performance, assiduity and seniority bonus | 87,069 | 77,976 | 16,387 | 12,934 |
| Other costs | 25,646 | 24,177 | 342 | 369 |
| Own work capitalised: | | | | |
| - Assigned to concessions (see note 6) | -84,820 | -88,866 | - | - |
| - Other (see note 15) | -59,391 | -55,327 | - | - |
| | 597,732 | 588,843 | 67,598 | 61,234 |
| **Employee benefits** | | | | |
| Pension plans costs | 30,814 | 29,215 | 3,645 | 1,518 |
| Medical plans costs and other benefits (see note 35) | 7,718 | 8,319 | 366 | 676 |
| Past service cost (Curtailment/Plan amendments) | 18,196 | 13,387 | - | - |
| Other | 26,373 | 20,852 | 1,900 | 2,352 |
| | 83,101 | 71,773 | 5,911 | 4,546 |
| | 680,833 | 660,616 | 73,509 | 65,780 |

Pension plans costs include 15,308 thousand Euros (31 December 2016: 13,676 thousand Euros) related to defined benefit plans (see note 35) and 15,506 thousand Euros (31 December 2016: 15,539 thousand Euros) related with defined contribution plans.

As at 31 December 2017, Past service cost (Curtailment/Plan amendments) is related to the increase in liabilities under the permanent employees reduction program that covered 145 portuguese employees (see note 35), from which 90 were considered as a curtailment since weren´t met the pre-retirement conditions foreseen in the ACT of 2014.

During 2017, EDP Group distributed treasury stocks to employees (450,114 shares) totalling 1,364 thousand Euros.

The breakdown by management positions and category of professional staff is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Executive Board of Directors | 8 | 8 | 8 | 8 |
| Senior management | 750 | 733 | 91 | 83 |
| Managers | 766 | 806 | 30 | 32 |
| Specialists | 4.092 | 3.996 | 382 | 348 |
| Support, Operational and Administrative Technicians | 6.041 | 6.450 | 87 | 87 |
| | 11.657 | 11.993 | 598 | 558 |

## 10. Other Expenses

Other expenses are as follows:

| | Group | |
|---|---|---|
| Thousand Euros | Dec 2017 | Dec 2016 |
| Concession rents paid to local authorities and others | 279.279 | 277.018 |
| Direct and indirect taxes | 326.242 | 285.455 |
| Irrecoverable debts | 25.640 | 28.097 |
| Donations | 20.563 | 31.953 |
| Impairment losses: | | |
| - Trade receivables (see note 25) | 19.692 | 75.270 |
| - Debtors (see note 25) | -3.341 | 588 |
| Write-off of tangible assets - EDP Renováveis Group | 5.864 | 5.457 |
| Losses on disposals - gas business assets in Portugal (see note 5) | 16.370 | - |
| Other | 76.453 | 93.711 |
| | 766.762 | 797.549 |

The caption Concession rents paid to local authorities and others includes essentially the rents paid to the local authorities under the terms of the low tension electricity distribution concession contracts and rents paid to city councils where the power plants are located.

The caption Direct and indirect taxes includes a tax of 7% over electricity generation in Spain since 1 January 2013, following the publication of Law 15/2012 of 27 December.

In 2017, the EDPR Group proceeded to the write-off assets under construction, which mainly refers to (i) 3,013 thousands of Euros related to the abandonment of ongoing projects in EDPR Europe (2,368 thousand Euros in 2016); (ii) 335 thousand Euros related to the abandonment of ongoing projects in EDPR NA and EDPR Brazil (949 thousand Euros in 2016); and (iii) 2,502 thousand Euros of additional write-off due to the damage in the met mast of the offshore wind farm of Moray, which was registered previously to the loss of control of the company (see note 15).

On a consolidated basis, the caption Other includes losses on the reinsurance activity and losses on property, plant and equipment.

## 11. Amortisation and Impairment

Amortisation and impairment are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| Thousand Euros | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Amortisation/impairment of Property, plant and equipment (see note 15) | 1.316.557 | 1.147.582 | 21.404 | 20.060 |
| Amortisation/impairment of Intangible assets (see note 16) | 386.361 | 384.085 | 995 | 296 |
| | 1.702.918 | 1.531.667 | 22.399 | 20.356 |
| Amortisation/impairment of Investment property | 567 | 8.067 | 1.068 | 1.072 |
| | 1.703.485 | 1.539.734 | 23.467 | 21.428 |
| Compensation of amortisation Partially-funded property, plant and equipment (see note 38) | -27.826 | -31.247 | -445 | -1.336 |
| Impairment of Goodwill (see note 17) | - | 1.817 | - | - |
| | 1.675.659 | 1.510.304 | 23.022 | 20.092 |

The partially-funded property, plant and equipment is depreciated on the same basis and at the same rates as the Group's remaining assets, being the corresponding cost compensated through the amortisation of the amounts received (booked under Trade and other liabilities from commercial activities) on the same basis and at the same rates as the corresponding partially-funded assets.

The variation of the period includes the impact of the redefinition of the useful life of wind generation assets from 25 to 30 years and the redefinition of the useful life of combined cycle gas turbines (CCGTs) from 35 to 40 years, in the amounts of 120 million Euros and 11 million Euros, respectively.

Considering recent regulatory changes in the polish energy market, EDP Group has reviewed its future estimates for these assets. Following this analysis, the Group has booked an impairment loss in the polish Property, plant and equipment in the amount of 42 million Euros (see notes 15 and 17).

A sensitivity analysis of +0.5% in discount rate would determine an additional impairment loss of around 3 million Euros.

In addition, considering also recent regulatory changes in Portugal related to energy generation activities, with the elimination of the exemption of the oil tax (ISP) to carbon and the surcharge over CO2 from 2018 onwards, as well as the unfavorable revision of other costs, namely clawback, social tariff and CESE extension, EDP Group has reviewed its future estimates for generation assets. Under the impairment tests carried out by EDP Group, sensitivity analyses were performed on some key variables, such as: (i) fuel cost and respective impacts in the pool price; (ii) unfavourable scenario of the regulatory framework; and (iii) discount rates (see notes 17 and 18).

The above-mentioned impairment tests led to an impairment loss of 105 million Euros in Sines carbon thermoelectric plant in Portugal, and 91 million Euros in Soto 3 carbon thermoelectric plant in Spain.

Given the sensitivity of Sines and Soto 3 coal thermoelectric power plants to assumptions' changes, a sensitivity analysis of +0.5% in discount rate would determine an additional impairment loss of around 3 million Euros in Sines and of around 2 million Euros in Soto 3. Additionally, a decrease of 2.5% in pool prices as well as in fuel prices would determine an additional impairment loss of around 17 million Euros in Sines and of around 6 million Euros in Soto 3.

As at 31 December 2016, the caption Amortisation/impairment of Investment property included 7,558 thousand Euros related with impairment (see note 22).

## 12. Financial Income and Expenses

Financial income and expenses, for the Group, are as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| **Financial income** | | |
| Interest income from bank deposits and other investments | 55,376 | 63,120 |
| Interest from derivative financial instruments | 24,510 | 20,295 |
| Interest income on tariff deficit: | | |
| - Portugal - Electricity (see notes 25 and 38) | 11,546 | 40,822 |
| - Brazil - Electricity (see notes 25 and 38) | 7,664 | 46,852 |
| Other interest income | 46,618 | 58,883 |
| Derivative financial instruments | 91,842 | 443,134 |
| Foreign exchange gains | 53,470 | 109,341 |
| CMEC: | | |
| - Interest on the initial CMEC | 29,845 | 25,501 |
| - Financial effect considered in the calculation and final adjustment of CMEC | 13,124 | 13,019 |
| Gains on the sale of financial investments | 29,192 | 13,819 |
| Gains on the sale of the electricity tariff deficit - Portugal (see note 25) | 24,986 | 40,281 |
| Other financial income | 51,463 | 24,256 |
| | 439,636 | 899,323 |
| **Financial expenses** | | |
| Interest expense on financial debt | 745,314 | 844,971 |
| Bonds buyback | 19,145 | 49,655 |
| Capitalised borrowing costs: | | |
| - Assigned to concessions (see note 6) | -8,115 | -8,668 |
| - Other (see note 15) | -25,182 | -49,103 |
| Interest from derivative financial instruments | 6,210 | -710 |
| Interest expense on tariff deficit: | | |
| - Portugal - Electricity (see notes 25 and 38) | 20,718 | 913 |
| - Brazil - Electricity (see notes 25 and 38) | 3,587 | 37,678 |
| Other interest expense | 41,918 | 31,373 |
| Derivative financial instruments | 120,041 | 513,138 |
| Impairment of available-for-sale investments | 1,041 | 31,821 |
| Foreign exchange losses | 60,684 | 57,092 |
| CMEC (see note 38) | 13,756 | 13,426 |
| Unwinding of discounted liabilities | 128,857 | 131,067 |
| Net interest on the net pensions plan liability (see note 35) | 11,642 | 13,736 |
| Net interest on the medical liabilities and other benefits (see note 35) | 33,025 | 30,725 |
| Other financial expenses | 75,448 | 93,689 |
| | 1,248,089 | 1,790,803 |
| **Financial income/(expenses)** | -808,453 | -891,480 |

Capitalised borrowing costs includes the interest capitalised in assets under construction according to Group accounting policy (see note 2h)). Regarding the rate applicable to borrowing costs related with tangible/intangible assets under construction that is used in the determination of the amount of borrowing costs eligible for capitalisation (see notes 15 and 16), it varies depending on the country and currency, since EDP Group incorporates in its scope of consolidation (see Annex I) a significant number of subsidiaries in several geographies with different currencies. Therefore, for the most representative geographies, the weighted average funding rates, in use in 2017, ranged from 2.3% to 4.8% in Portugal, from 3.3% to 7.0% in Spain, from 1.7% to 8.3% in the United States of America and from 9.0% to 11.4% in Brazil, depending on related assets under construction and related financing.

On 28 June 2017, EDP, S.A. sold to qualified investors 3.5% of REN - Rede Eléctrica Nacional, S.A. Under the terms of this operation, 18,690,000 shares have been traded with a unit price of 2.70 Euros per share (net of bank charges), which corresponds to a gain in the company and consolidated financial statements of 20,271 thousand Euros and 24,632 thousand Euros, respectively, included in the caption Gains on the sale of financial investments.

The Unwinding of discounted value liabilities refers essentially to: (i) the unwinding of the dismantling and decommissioning provision for wind generation assets of 5,976 thousand Euros (31 December 2016: 7,650 thousand Euros) (see note 36); (ii) the implied financial return in institutional partnership in USA of 88,561 thousand Euros (31 December 2016: 90,337 thousand Euros) (see note 37); and (iii) the financial expenses related to the discount of the liability associated to the concessions of Alqueva/Pedrógão, Investco and Enerpeixe of 16,741 thousand Euros (31 December 2017: 20,654 thousand Euros).

As at 31 December 2016, the caption Other financial expenses included 26,715 thousand Euros related to early cancellation, optimisation of certain project finance in Europe and 12,807 thousand Euros related to losses on the sale of part of the electricity tariff deficit related to the over cost with the acquisition of electricity from Special Regime Generators in Portugal of 2016.

Financial income and expenses, for the Company, are as follows:

| Thousand Euros | Company | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| **Financial income** | | |
| Interest income from loans to subsidiaries and related parties (see note 44) | 345,933 | 409,225 |
| Interest from derivative financial instruments | 188,263 | 174,650 |
| Derivative financial instruments | 652,925 | 907,148 |
| Income from equity investments | 835,400 | 800,207 |
| Gains on the sale of financial investments | 20,271 | 112 |
| Other financial income | 50,562 | 40,454 |
| | 2,093,354 | 2,331,796 |
| **Financial expenses** | | |
| Interest expense on financial debt | 440,752 | 453,361 |
| Bonds Buyback | - | 27,180 |
| Interest from derivative financial instruments | 146,890 | 139,772 |
| Derivative financial instruments | 634,055 | 927,063 |
| Other financial expenses | 84,375 | 16,605 |
| | 1,306,072 | 1,563,981 |
| **Financial income/(expenses)** | 787,282 | 767,815 |

The caption Other financial income includes 26,736 thousand Euros related to nominal interests from bonds issued by EDP Finance B.V., repurchased by EDP S.A. in 2016 and 2017 (see notes 19 and 44). The effective interest of these instruments amounts to 7,695 thousand Euros (includes the recognition of premium and transaction costs associated with the buyback transaction by the effective interest rate method).

## 13. Income Tax

### Main features of the tax systems of the countries in which EDP Group operates

The statutory corporate income tax rates applicable in the main countries in which EDP Group operates are as follows:

| | Dec 2017 | Dec 2016 |
|---|---|---|
| **Europe:** | | |
| Portugal | 21% - 29.5% | 21% - 29.5% |
| Spain | 25% - 28% | 25% - 28% |
| Netherlands | 25% | 25% |
| **America:** | | |
| Brazil | 34% | 34% |
| United States of America | 38.2% | 38.2% |

The EDP Group companies are taxed, whenever possible, on a Group consolidated basis as allowed by the tax legislation of the respective countries.

As per the applicable legislation, in general terms, tax periods may be subject to review and reassessment by the various tax authorities during a limited number of years. Statutes of limitation differ from country to country, as follows: Portugal 4 years or, if tax losses or credits have been used, the number of years that such tax losses or credits may be carried forward; Spain 4 years; USA and the Netherlands 3 years; and Brazil 5 years.

Tax losses generated in each year are also subject to tax authorities review and reassessment and may be used to offset yearly taxable income assessed in the subsequent periods, as follows: in Portugal 5 years (for tax losses of 2012, 2013 and 2017); and 12 years (for tax losses of 2014, 2015 and 2016); 9 years in the Netherlands; 20 years in the USA and without term in Brazil and Spain. Moreover, in the Netherlands the tax losses of a given year may be used to recover current tax of the previous year and in the USA of the 2 previous years. However, the deduction of tax losses in Portugal, Spain and Brazil may be limited to a percentage of the taxable income of each period.

EDP Group companies may, in accordance with the law, benefit from certain tax benefits or incentives in specific conditions, namely the Production Tax Credits in the USA, which are the dominant form of wind remuneration in this country, and represent an extra source of revenue per unit of electricity, over the first 10 years of the asset's life. Wind facilities that qualify for the application of the Production Tax Credits prior to 1 January 2017, benefit from 100% of the credit ($23/MWh in 2016, $24/MWh in 2017 – the rate is adjusted each year for inflation). The credit amount is reduced by 20% for wind facilities qualifying in 2017, 40% in 2018 and 60% in 2019.

EDP Group's transfer pricing policy follows the rules, guidelines and international best practices applicable in the geographies where the Group operates, in due compliance with the spirit and letter of the applicable Law.

**Changes in the law with relevance to the EDP Group in 2017**

In Portugal, the Budget Law for 2016 (Law 7-A/2016, of 30 March 2016) has reduced the tax losses carry-forward period from 12 to 5 years, for tax losses assessed in tax years beginning on or after 1 January 2017.

Moreover, according to the State Budget Law for 2018 (Law 114/2017, of 29 of December), which entered into force in 1 January 2018, the maximum state surcharge ("derrama estadual"), applicable to the tax basis higher than Euro 35 million, increased from 7% to 9%

In Spain, as per Law 27/2014 of the corporate income tax, the limitation to the utilization of carried forward tax losses for fiscal years starting since 1 January 2017 increases from 60% to 70% of the taxable base, if the company´s net revenues were lower than 20 million Euros during the 12 months prior to the beginning of the fiscal year. The 50% and 25% limits applicable to companies with net revenues equal or greater than 20 million Euros and lower than 60 million Euros, and equal or greater than 60 million Euros, respectively, which is applicable since 2016, remains the same in 2017, as per Royal Decree-Law 3/2016, of 2 December.

In the USA, the "Tax Cuts and Jobs Act" signed into law on 22 December 2017, introduced extensive changes to the US tax system. Although most changes become effective for fiscal years starting after 31 December 2017, they are substantively enacted for accounting purposes in 2017 and should be reflected in the financial statements as at 31 December 2017. The key change of this reform for EDP is the reduction of the US federal corporate income tax rate, from the existing 35% to 21%, effective for fiscal years starting after 31 December 2017. Thus, when combined with average state corporate income taxes, the US combined tax rate drops to 25.75% in 2018. This impacts the net deferred taxes balance of EDP Renewables North America Group as at 31 December 2017.

Furthermore, according to the above mentioned tax reform, the utilization of carried forward tax losses in the USA will be limited to 80% of the taxable income in each year, for fiscal years starting after 31 December 2017. Moreover, tax losses generated after 2017 will be carried forward for an indefinite period, but will not be carried back. There is no change to the rules applied to net operating losses generated before the end of 2017.

**Corporate income tax provision**

Income tax expense are as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Current tax | -178,419 | -824,341 | 34,185 | -21,413 |
| Deferred tax | 168,115 | 735,545 | 30,239 | 21,702 |
| | -10,304 | -88,796 | 64,424 | 289 |

**Reconciliation between the theoretical and the effective income tax expense**

The effective income tax rate are as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Profit before tax | 1,520,985 | 1,350,537 | 701,003 | 757,742 |
| Income tax expense | -10,304 | -88,796 | 64,424 | 289 |
| Effective income tax rate | 0.7% | 6.6% | -9.2% | 0.00% |

The difference between the theoretical and the effective income tax expense results from the application of the law provisions in the determination of the taxable base, as demonstrated below.

The reconciliation between the theoretical and the effective income tax expense for the Group, in 2017, is as follows:

| Thousand Euros | Dec 2017 |
|---|---|
| **Profit before income tax and CESE** | 1,520,985 |
| Nominal income tax rate * | 29.5% |
| **Theoretical income tax expense** | 448,691 |
| | |
| Different tax rates (includes state surcharge) and CIT rate changes | -50,875 |
| Tax losses and tax credits | -23,866 |
| Dividends | -13,636 |
| Tax benefits | -31,920 |
| Differences between accounting and fiscal provisions/depreciations | -52,372 |
| Accounting/fiscal temporary differences on the recognition/derecognition of assets | -240,398 |
| Taxable differences attributable to non-controlling interests (USA) | -37,855 |
| Other adjustments and changes in estimates | 12,535 |
| **Effective income tax expense as per the Consolidated Income Statement** | 10,304 |

* Statutory Corporate Income Tax rate applicable in Portugal (21%), municipal surcharge (1.5%) and the state surcharge (7%)

The caption Different tax rates (includes state surcharge) and CIT rate changes mainly refer to: (i) the difference between the tax rates applicable in the countries in which the EDP Group operates as compared to the tax rate used as reference for the theoretical income tax expense calculation; and (ii) the effect of the CIT rate change over taxable and deductible temporary differences of EDPR NA due to the aforementioned US tax reform. The caption Taxable differences attributable to non-controlling interests (USA) include the effect inherent in the attribution of taxable income to non-controllable interests in EDPR Group in the USA, as determined by the tax legislation of that geography.

The caption Accounting/fiscal temporary differences on the recognition/derecognition of assets mainly includes the impacts inherent to: (i) the differential between the accounting and tax bases of certain gas distribution assets in Spain, following the need for an intragroup restructuring of those assets; and (ii) the non-taxation of the gain on the disposal of the gas distribution business in the same geography, according to the applicable tax law (see notes 5 and 7).

The reconciliation between the theoretical and the effective income tax expense for the Group, in 2016, is as follows:

| Thousand Euros | Dec 2016 |
|---|---|
| **Profit before income tax and CESE** | 1,350,537 |
| Nominal income tax rate * | 29.5% |
| **Theoretical income tax expense** | 398,408 |
| | |
| Different tax rates (includes state surcharge) | 32,646 |
| Tax losses and tax credits | -25,909 |
| Tax benefits | -19,074 |
| Differences between accounting and fiscal provisions/depreciations | -23,370 |
| Fiscal revaluations | -173,904 |
| Exceptional regime for regularisation of debts from fiscal and contributing nature to social security - "PERES" | 57,342 |
| Accounting/fiscal temporary differences on the recognition / derecognition of assets | -121,472 |
| Taxable differences attributable to non-controlling interests (USA) | -27,970 |
| Other adjustments and changes in estimates | -7,901 |
| **Effective income tax expense as per the Consolidated Income Statement** | 88,796 |

* Statutory Corporate Income Tax rate applicable in Portugal (21%), municipal surcharge (1.5%) and the state surcharge (7%)

The caption Fiscal revaluations includes essentially the net effect of the fiscal revaluation of certain eligible EDP assets held in Portugal, in accordance with the Decree-Law 66/2016 of 3 November, which led to an increase in those assets' tax base of 1,185 million Euros. As a consequence, the EDP Group recognised deferred tax assets of 339 million Euros that will be recovered through the tax deduction of the underlying revalued assets, to be amortised in 8 years starting in 2018. The fiscal revaluation reserve was taxed in 2016 at a 14% flat rate (payable in 3 equal instalments, the first having been paid in 20 December 2016 and the remaining two will be due in 15 December 2017 and 15 December 2018) and recognised the corresponding current income tax amount of 165 million Euros. Consequently, the net effect of this revaluation in the net income for the period is of approximately 174 million Euros.

The caption Accounting/fiscal temporary differences on the recognition/derecognition of assets includes the impact of the differential between the accounting and tax bases of certain gas distribution assets in Spain, following the need for an intragroup restructuring of those assets in December 2016. Additionally, includes the effect of the EDP Serviço Universal tariff adjustments sales.

The reconciliation between the theoretical and the effective income tax expense for the Company, in 2017, is as follows:

| Thousand Euros | Dec 2017 |
|---|---|
| **Profit before income tax** | 701,003 |
| Nominal income tax rate (*) | 29.5% |
| **Theoretical income tax expense** | 206,796 |
| | |
| Tax losses and tax credits | -17,075 |
| Dividends | -245,500 |
| Differences between accounting and fiscal provisions/depreciations | -13,835 |
| Accounting/fiscal temporary differences on the recognition / derecognition of assets | -10,796 |
| Other adjustments and changes in estimates | 15,986 |
| **Effective income tax expense as per the Company Income Statement** | -64,424 |

* Statutory Corporate Income Tax rate applicable in Portugal (21%), municipal surcharge (1.5%) and the state surcharge (7%)

The reconciliation between the theoretical and the effective income tax expense for the Company, in 2016, is as follows:

| Thousand Euros | Dec 2016 |
|---|---|
| **Profit before income tax** | 757,742 |
| Nominal income tax rate (*) | 29.5% |
| **Theoretical income tax expense** | 223,534 |
| | |
| Tax losses and tax credits | -18,430 |
| Dividends | -235,118 |
| Differences between accounting and fiscal provisions/depreciations | -14,582 |
| Exceptional regime for regularisation of debts from fiscal and contributing nature to social security - "PERES" | 33,753 |
| Other adjustments and changes in estimates | 10,554 |
| **Effective income tax expense as per the Company Income Statement** | -289 |

* Statutory Corporate Income Tax rate applicable in Portugal (21%), municipal surcharge (1.5%) and the state surcharge (7%)

## 14. Extraordinary Contribution to the Energy Sector (CESE)

The Law 83-C/2013, Law of the State Budget 2014 ("Lei do Orçamento de Estado 2014"), approved by the Portuguese Government on 31 December 2013, introduced an extraordinary contribution applicable to the energy sector (CESE), with the objective of financing mechanisms that promote the energy sector systemic sustainability, through the establishment of a fund which aims to contribute for the reduction of tariff debt and to finance social and environmental policies in the energy sector. This contribution focuses generally on the economic operators that develop the following activities: (i) generation, transport or distribution of electricity; (ii) transport, distribution, storage or wholesale supply of natural gas; (iii) refining, treatment, storage, transport, distribution and wholesale supply of crude oil and oil products.

CESE is calculated based on the companies' net assets as at 1 January, which comply, cumulatively, to: (i) tangible assets; (ii) intangible assets, except industrial property elements; (iii) financial assets assigned to concessions or licensed activities. In the case of regulated activities, CESE focuses on the value of regulated assets if it is higher than the value of those assets.

The applicable rate is 0.85% for power plants with an equivalent annual utilization of installed capacity greater than or equal to 3,000 hours, 0.565% for power plants with an equivalent annual utilization of installed capacity greater than or equal to 1,500 and less than 3,000 hours and 0.285% for power plants with an equivalent annual utilisation of installed capacity less than 1,500 hours.

The exemptions include assets of wind generation, mini-hydric power plants, and power plants with licenses granted following a public tender and land comprising the public domain.

The CESE system has been extended for the years 2015, 2016, 2017 and 2018 by the Law 82-B/2014, of 31 December, Law of the State Budget 2015 ("Lei do Orçamento de Estado 2015"), Law 159-C/2015 of 30 December, Law of the State Budget 2016 ("Lei do Orçamento de Estado 2016"), Law 42/2016 of 28 December, Law of the State Budget 2017 ("Lei do Orçamento de Estado 2017") and Law 114/2017 of 29 December, Law of State Budget 2018 ("Lei do Orçamento de Estado 2018").

Concerning EDP Group's activity, this tax has been paid since 2014, even though, by disagreeing with its legal and constitutional requirements, EDP Group has been disputing this tax payment with the competent authorities.

It should be kept in mind that the extraordinary contribution on the energy sector has emerged as an extraordinary measure introduced in 2014, with a temporary nature, justified by the need for the energy sector to contribute to budget stability in the context of the special economic situation that Portugal was in. Nevertheless, and contrary to what was initially foreseen and stipulated, the CESE has been successively extended by the Portuguese State, being implicit in the assumptions presented in the Stability Program 2017-2021 published in April 2017 by the Portuguese Government, that this contribution will continue until 2021. In this context, EDP Group considers that it should continue to challenge the legality and constitutionality of this tax and shall not proceed with its payment.

As at 31 December 2017, the EDP Group booked under the caption Extraordinary contribution to the energy sector (CESE) in the Consolidated Income Statement, the estimated amount of 69,246 thousand Euros (31 December 2016: 61,630 thousand Euros) concerning to CESE for the period 2017. The liability is booked in Provision for other liabilities and charges - Non-Current (see note 36).

## 15. Property, Plant and Equipment

This caption is as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| **Cost** | | | | |
| Land and natural resources | 94,961 | 105,153 | 7,863 | 21,388 |
| Buildings and other constructions | 500,052 | 565,919 | 80,488 | 112,966 |
| Plant and machinery: | | | | |
| - Hydroelectric generation | 10,742,276 | 9,942,783 | 254 | 254 |
| - Thermoelectric generation | 8,700,510 | 8,714,330 | - | - |
| - Renewable generation | 17,026,048 | 17,009,384 | - | - |
| - Electricity distribution | 1,602,404 | 1,565,655 | - | - |
| - Gas distribution | - | 1,107,336 | - | - |
| - Other plant and machinery | 34,865 | 75,509 | 196 | 196 |
| Other | 1,004,888 | 969,856 | 172,712 | 174,160 |
| Assets under construction | 1,373,994 | 2,338,676 | 37,647 | 25,013 |
| | 41,079,998 | 42,394,601 | 299,160 | 333,977 |
| **Accumulated amortisation and impairment losses** | | | | |
| Amortisation charge of the period (see note 11) | -1,067,814 | -1,147,298 | -21,404 | -20,060 |
| Accumulated amortisation in previous periods | -16,921,858 | -16,927,645 | -116,627 | -117,176 |
| Impairment losses of the period (see note 11) | -248,743 | -284 | - | - |
| Impairment losses in previous periods | -110,968 | -125,638 | -4,782 | -4,782 |
| | -18,349,383 | -18,200,865 | -142,813 | -142,018 |
| **Carrying amount** | 22,730,615 | 24,193,736 | 156,347 | 191,959 |

The movements in Property, plant and equipment, for the Group, for the period ended 31 December 2017, are as follows:

| Thousand Euros | Balance at 1 January | Additions | Disposals/ Write-offs | Transfers | Exchange Differences | Perimeter Variations/ Regulari-sations | Balance at 31 December |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Land and natural resources | 105,153 | 2,949 | -2,616 | -1,329 | -8,770 | -426 | 94,961 |
| Buildings and other constructions | 565,919 | 57,611 | -94,518 | 18,256 | -41,468 | -5,748 | 500,052 |
| Plant and machinery | 38,414,997 | 48,983 | -34,409 | 2,007,686 | -1,504,005 | -827,149 | 38,106,103 |
| Other | 969,856 | 25,289 | -65,426 | 99,526 | -7,958 | -16,399 | 1,004,888 |
| Assets under construction | 2,338,676 | 1,382,945 | -20,066 | -2,136,748 | -94,613 | -96,200 | 1,373,994 |
| | 42,394,601 | 1,517,777 | -217,035 | -12,609 | -1,656,814 | -945,922 | 41,079,998 |

| Thousand Euros | Balance at 1 January | Charge/ Impairment losses | Disposals/ Write-offs | Transfers | Exchange Differences | Perimeter Variations/ Regulari-sations | Balance at 31 December |
|---|---|---|---|---|---|---|---|
| **Accumulated amortisation and impairment losses** | | | | | | | |
| Land and natural resources | 4,032 | - | - | - | - | - | 4,032 |
| Buildings and other constructions | 158,589 | 21,316 | -6,578 | -1,175 | -11,428 | -4,370 | 156,354 |
| Plant and machinery | 17,273,834 | 1,227,526 | -44,265 | -3,571 | -365,293 | -673,331 | 17,414,900 |
| Other | 764,410 | 67,715 | -65,037 | -361 | -5,581 | 12,951 | 774,097 |
| | 18,200,865 | 1,316,557 | -115,880 | -5,107 | -382,302 | -664,750 | 18,349,383 |

Assets under construction are as follows:

| Thousand Euros | Dec 2017 | Dec 2016 |
|---|---|---|
| Wind farms in North America | 513,269 | 531,100 |
| Wind farms in Europe | 321,080 | 251,304 |
| Hydric Portugal | 195,873 | 1,068,538 |
| Other assets under construction | 343,772 | 487,734 |
| | 1,373,994 | 2,338,676 |

The capitalised costs for Property, plant and equipment for the period, except Land and natural resources, are as follows:

| Thousand Euros | Dec 2017 | Dez 2016 |
|---|---|---|
| Subcontracts and other materials | 1,401,856 | 1,563,772 |
| Purchase price allocation | 12,319 | 7,351 |
| Dismantling and decommissioning costs (see note 36) | 16,080 | 176,978 |
| Personnel costs (see note 9) | 59,391 | 55,327 |
| Borrowing costs (see note 12) | 25,182 | 49,103 |
| | 1,514,828 | 1,852,531 |

Additions include the investment in wind farms by the subgroups EDPR NA and EDPR EU, namelly the allocation of the acquisition cost of the American companies Hog Creek Wind Project, LLC, Cameron Solar, LLC, Estill Solar I, LLC and Hampton Solar, II LLC amounting to 34,068 thousand Euros and the French company Parc Éolien de Paudy, S.A.S. amounting to 3,543 thousand Euros due to the nature of the transactions, the type of assets and the initial stage of completion of the projects acquired (see note 5).

Transfers refer mainly to the entry into operation of the Venda Nova III power enhancement and the power plant in Foz Tua in the amount of 427,483 thousand Euros and 506,283 thousand Euros, respectively, as well as wind and solar farms that become operational in the United States of America and wind farms that become operational in Brazil, France and Italy. Additionally, this caption includes the transfer of assets classified as assets held for sale (see note 41) of 5,070 thousand Euros and the transfer of land and building to investment property of 2,432 thousand Euros.

Perimeter Variations/Regularisations includes the impact of the acquisition of control of Eólica de Coahuila, S.A. de C.V. (327,558 thousand Euros) and Tébar Eólica, S.A. (9,813 thousand Euros) (see note 5); the sale of gas distribution assets in Spain and the loss of control of electricity assets in United Kingdom (Moray) by the net amount of 512,099 thousand Euros (cost in the amount of 1,197,412 thousand Euros and accumulated amortisation and impairment losses in the amount of 685,313 thousand Euros) and 86,272 thousand Euros (cost in the amount of 88,655 thousand Euros and accumulated amortisation and impairment losses in the amount of 2,383 thousand Euros), respectively (see notes 5 and 7).

Charge/Impairment losses includes 238,204 thousand Euros related with impairment in termoelectric plants Soto 3 and Sines as well as wind farms in Poland (see note 11).

The movement in Exchange differences in the period results mainly from the depreciation of Brazilian Real and US Dollar, against the Euro.

As at 31 December 2017, the Group has an agreement, which constitutes a financial lease as defined by IFRIC 4, in which the net value of the assets allocated amounts to 16,764 thousand Euros (31 December 2016: 18,167 thousand Euros).

The movements in Property, plant and equipment, for the Group, for the period ended 31 December 2016 are as follows:

| Thousand Euros | Balance at 1 January | Additions | Disposals/ Write-offs | Transfers | Exchange Differences | Perimeter Variations/ Regulari-sations | Balance at 31 December |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Land and natural resources | 99,487 | 563 | -795 | - | 10,404 | -4,506 | 105,153 |
| Buildings and other constructions | 489,377 | 1,093 | -2,225 | 21,958 | 58,318 | -2,602 | 565,919 |
| Plant and machinery | 35,095,040 | 323,515 | -215,958 | 2,346,852 | 786,492 | 79,056 | 38,414,997 |
| Other | 980,409 | 31,316 | -50,786 | 6,093 | 2,820 | 4 | 969,856 |
| Assets under construction | 3,212,012 | 1,496,607 | -5,927 | -2,392,102 | 34,103 | -6,017 | 2,338,676 |
| | 39,876,325 | 1,853,094 | -275,691 | -17,199 | 892,137 | 65,935 | 42,394,601 |

| Thousand Euros | Balance at 1 January | Charge/ Impairment losses | Disposals/ Write-offs | Transfers | Exchange Differences | Perimeter Variations/ Regulari-sations | Balance at 31 December |
|---|---|---|---|---|---|---|---|
| **Accumulated amortisation and impairment losses** | | | | | | | |
| Land and natural resources | 4,032 | - | - | - | - | - | 4,032 |
| Buildings and other constructions | 133,133 | 15,016 | -1,264 | 163 | 14,225 | -2,684 | 158,589 |
| Plant and machinery | 16,208,258 | 1,068,782 | -205,863 | -2,401 | 172,137 | 32,921 | 17,273,834 |
| Other | 757,186 | 63,784 | -50,203 | -8,259 | 2,052 | -150 | 764,410 |
| | 17,102,609 | 1,147,582 | -257,330 | -10,497 | 188,414 | 30,087 | 18,200,865 |

Additions include the investment in wind farms by the subgroups EDPR NA and EDPR EU. In the Portuguese generation activity, the Group is performing hydroelectric investments in the construction of several new power plants and power enhancement projects (Foz Tua and Venda Nova III).

Disposals/Write-offs on Plant and machinery includes 132,249 thousand Euros related to the coal power plant Soto 2 descomissioning.

Transfers refer mainly to wind farms of EDP Renováveis subgroup that become operational in the United States of America, Brazil, Poland and France, and to the entry into operation of the Baixo Sabor upstream hydroelectric plant and the Salamonde II hydroelectric plant. After further analysis, certain items, initially classified as plant and machinery and administrative equipment, were identified as an integrant part of the new headquarters building in Lisbon, and therefore, were transferred to Buildings and other constructions. Additionally, this caption includes the transfer to held for sale of gas distribution assets in Portugal (see note 41) by the net amount of 5,506 thousand Euros.

Perimeter Variations/Regularisations includes the impact of the acquisition of the share capital of Parco Eolico Banzi, S.r.l.

The movement in Exchange differences in the period results mainly from the net effect of the appreciation of Brazilian Real and US Dollar, against the Euro.

As at 31 December 2017, Property, plant and equipment financed through lease contracts, for the Group, amounts to 15,238 thousand Euros (31 December 2016: 15,662 thousand Euros), with accumulated depreciation of 7,453 thousand Euros (31 December 2016: 7,537 thousand Euros) and the respective future lease payments amount to 7,144 thousand Euros (31 December 2016: 7,276 thousand Euros). Property, plant and equipment financed by leasing contracts is detailed as follows:

| | Dec 2017 | | | Dec 2016 | | |
|---|---|---|---|---|---|---|
| Thousand Euros | Principal | Interest | Future lease payments | Principal | Interest | Future lease payments |
| Less than one year | 3,140 | 81 | 3,221 | 3,233 | 128 | 3,361 |
| Between one and three years | 3,513 | 51 | 3,564 | 3,467 | 75 | 3,542 |
| Between three and five years | 357 | 2 | 359 | 370 | 3 | 373 |
| | 7,010 | 134 | 7,144 | 7,070 | 206 | 7,276 |

During 2017, the costs incurred with these assets amounted to 785 thousand Euros and are booked in results under Supplies and services.

The movements in Property, plant and equipment, for the Company, for the period ended 31 December 2017 are as follows:

| Thousand Euros | Balance at 1 January | Additions | Disposals/ Write-offs | Transfers | Regulari-sations | Balance at 31 December |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Land and natural resources | 21,388 | - | -13,525 | - | - | 7,863 |
| Buildings and other constructions | 112,966 | 55,247 | -94,149 | 6,422 | 2 | 80,488 |
| Other | 174,610 | 9,343 | -14,299 | 3,508 | - | 173,162 |
| Assets under construction | 25,013 | 22,620 | - | -9,930 | -56 | 37,647 |
| | 333,977 | 87,210 | -121,973 | - | -54 | 299,160 |

| Thousand Euros | Balance at 1 January | arge/Impairmer losses | Disposals/ Write-offs | Transfers | Regulari-sations | Balance at 31 December |
|---|---|---|---|---|---|---|
| **Accumulated amortisation and impairment losses** | | | | | | |
| Land and natural resources | 4,032 | - | - | - | - | 4,032 |
| Buildings and other constructions | 18,127 | 3,312 | -6,349 | - | - | 15,090 |
| Other | 119,859 | 18,092 | -14,260 | - | - | 123,691 |
| | 142,018 | 21,404 | -20,609 | - | - | 142,813 |

Disposals/Write-offs include 101,082 thousand Euros regarding with the Lisbon headquarters, which was given as an in-kind contribution to the EDP Medical and Death Subsidy Fund (see note 7). Subsequently, was celebrated a lease contract for a period of 25 years with the EDP Medical and Death Subsidy Fund (see note 35).

The movements in Property, plant and equipment, for the Company, for the period ended 31 December 2016 are as follows:

| Thousand Euros | Balance at 1 January | Additions | Disposals/ Write-offs | Transfers | Regulari-sations | Balance at 31 December |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Land and natural resources | 23,877 | - | -2,489 | - | - | 21,388 |
| Buildings and other constructions | 114,411 | - | -1,291 | -154 | - | 112,966 |
| Other | 176,503 | 12,546 | -1,059 | -13,373 | -7 | 174,610 |
| Assets under construction | 15,068 | 17,405 | - | -7,460 | - | 25,013 |
| | 329,859 | 29,951 | -4,839 | -20,987 | -7 | 333,977 |

**EDP - Energias de Portugal, S.A.**
**Notes to the Consolidated and Company Financial Statements as at and for the periods ended 31 December 2017 and 2016**

| Thousand Euros | Balance at 1 January | arge/Impairmer losses | Disposals/ Write-offs | Transfers | Regulari-sations | Balance at 31 December |
|---|---|---|---|---|---|---|
| **Accumulated amortisation and impairment losses** | | | | | | |
| Land and natural resources | 4,032 | - | - | - | - | 4,032 |
| Buildings and other constructions | 14,940 | 3,844 | -990 | 163 | 170 | 18,127 |
| Other | 104,833 | 16,216 | -1,022 | -163 | -5 | 119,859 |
| | 123,805 | 20,060 | -2,012 | - | 165 | 142,018 |

As at 31 December 2017, for the Company, Property, plant and equipment financed by leasing contracts amounts to 4,246 thousand Euros (31 December 2016: 4,076 thousand Euros), with accumulated depreciation of 2,060 thousand Euros (31 December 2016: 1,882 thousand Euros) and the respective future lease payments amount to 1,830 thousand Euros (31 December 2016: 1,945 thousand Euros). Property, plant and equipment financed by leasing contracts is detailed as follows:

| | Dec 2017 | | | Dec 2016 | | |
|---|---|---|---|---|---|---|
| Thousand Euros | Principal | Interest | Future lease payments | Principal | Interest | Future lease payments |
| Less than one year | 830 | 20 | 850 | 897 | 31 | 928 |
| Between one and three years | 900 | 13 | 913 | 895 | 18 | 913 |
| Between three and five years | 67 | - | 67 | 103 | 1 | 104 |
| | 1,797 | 33 | 1,830 | 1,895 | 50 | 1,945 |

During 2017, the costs incurred related to these assets amount to 222 thousand Euros and are booked in results under Supplies and services.

## 16. Intangible Assets

This caption is as follows:

| | Group | |
|---|---|---|
| Thousand Euros | Dec 2017 | Dec 2016 |
| **Cost** | | |
| Concession rights | 13,408,547 | 13,997,403 |
| CO2 Licenses | 110,887 | 98,598 |
| Other intangibles | 311,679 | 293,163 |
| Intangible assets in progress | 495,562 | 600,238 |
| | 14,326,675 | 14,989,402 |
| **Accumulated amortisation and impairment losses** | | |
| Amortisation of concession rights of the period | -377,303 | -378,039 |
| Amortisation of other intangibles of the period | -7,661 | -6,046 |
| Accumulated amortisation in previous periods | -9,167,294 | -9,436,873 |
| Impairment losses of the period | -1,397 | - |
| Impairment losses in previous periods | -25,660 | -39,900 |
| | -9,579,315 | -9,860,858 |
| **Carrying amount** | 4,747,360 | 5,128,544 |

The concession rights over the electricity distribution networks in Brazil, namely EDP São Paulo Distribuição de Energia S.A. (ex-Bandeirante) and EDP Espírito Santo Distribuição de Energia S.A. (ex-Escelsa) are amortised on a straight-line basis over the concession period until 2028 and 2025, respectively. Concession rights in Portugal relate to the public hydric domain for hydroelectric generation (EDP Produção and Hidroeléctrica do Guadiana), which useful life does not exceed 75 years.

The concession rights over electricity production in Brazil, namely for Lajeado Energia and Investco, are amortised over the concession period until 2032.

The movements in Intangible assets during the period ended 31 December 2017, for the Group, are as follows:

| Thousand Euros | Balance at 1 January | Additions | Disposals / Write-offs | Transfers | Exchange differences | Perimeter variations / Regularisa-tions | Balance at 31 December |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Concession rights: | | | | | | | |
| - Distribution and generation Brazil | 1,091,484 | - | - | -4,762 | -52,166 | - | 1,034,556 |
| - Hydric Portugal | 1,419,798 | - | - | -1,206 | - | - | 1,418,592 |
| CO2 licenses | 98,598 | 75,391 | -93,363 | 30,261 | - | - | 110,887 |
| Assigned to concessions (IFRIC 12): | | | | | | | |
| - Intangible assets | 11,486,121 | 193 | -296,870 | 11,036 | -246,609 | 1,528 | 10,955,399 |
| - Intangible assets in progress | 157,909 | 399,245 | 1,042 | -391,535 | -12,681 | -464 | 153,516 |
| Other intangibles | 293,163 | 3,281 | -467 | 2,640 | -20,012 | 33,074 | 311,679 |
| Other intangible in progress | 442,329 | 10,823 | -15,776 | -92,774 | -1,997 | -559 | 342,046 |
| | 14,989,402 | 488,933 | -405,434 | -446,340 | -333,465 | 33,579 | 14,326,675 |

| Thousand Euros | Balance at 1 January | Charge/ Impairment losses | Disposals / Write-offs | Transfers | Exchange differences | Perimeter variations / Regularisa-tions | Balance at 31 December |
|---|---|---|---|---|---|---|---|
| **Accumulated amortisation and impairment losses** | | | | | | | |
| Concession rights: | | | | | | | |
| - Distribution and generation Brazil | 628,329 | 35,516 | - | -2,742 | -20,809 | - | 640,294 |
| - Hydric Portugal | 387,556 | 43,275 | - | -39,606 | - | - | 391,225 |
| Assigned to concessions (IFRIC 12) | 8,772,073 | 298,511 | -287,274 | -130,944 | -183,767 | 5 | 8,468,604 |
| Other intangibles | 72,900 | 9,059 | -14,287 | - | -3,916 | 15,436 | 79,192 |
| | 9,860,858 | 386,361 | -301,561 | -173,292 | -208,492 | 15,441 | 9,579,315 |

The assets allocated to concessions contracts (IFRIC 12) currently in force in EDP Group fall within the Financial Asset Model, in the electricity transmission concessions in Brazil, within the Intangible Asset Model, namely in the electricity special regime production concessions (PRE) in Portugal and within the Mixed Model, namely in the electricity distribution concessions in Portugal and in Brazil, as referred in the Group's accounting policies (see nota 2 aa)).

Additions of CO2 Licenses includes 11,727 thousand Euros refer to CO2 Licenses granted free of charge to EDP Group plants operating in Portugal and Spain and 63,664 thousand Euros of licences purchased in the market for own consumption. The disposals/write-off of CO2 licences correspond, essentially, to the licences consumed during 2016 and delivered to regulatory authorities. Additionally, the transfer amount refers to CO2 licenses held for trading transferred to be used in the generation process.

Disposals/Write-offs of intangible assets assigned to concessions (IFRIC 12) include essentially 208,841 thousand Euros in cost and accumulated amortisations related to extraordinary write-offs since the maximum technical useful life has been exceeded.

The caption Other intangibles in progress includes the concession rights of hydric projects in Portugal namely Fridão, in the amount of 287,343 thousand Euros (31 December 2016: 287,343 thousand Euros). The amount of 90,066 thousand Euros related with Foz Tua hydro project was transfer from Other intangible assets in progress to Concession Rights at 30 June 2017 (see note 15).

Transfers refer to the net transfers of intangible assets in progress assigned to concessions of 184,157 thousand Euros related to increases of the financial assets under IFRIC 12, transfered to Debtors and other assets from commercial activities (see note 25). Additionally, this caption includes the transfer of electricity generation assets in Brazil and Portugal classified as assets held for sale in the net amount of 2,020 thousand Euros and 109,046 thousand Euros, respectively (see note 41); and intangible assets assigned to concessions under IFRIC 12 to investment property in the net amount of 8,087 thousand Euros (see note 22).

Perimeter variations/Regularisations include the sale of gas distribution assets in Spain by the net amount of 38,419 thousand Euros (see notes 5 and 7).

The caption Other intangibles includes 98,317 thousand Euros (31 December 2016: 114,803 thousand Euros) related to wind generation licenses of EDPR NA subgroup and 106,551 thousand Euros related with deferred green certificates in Romania (31 December 2016: 73,123 thousand Euros).

The capitalised costs of the period related to construction of intangible assets are included in own work capitalised in notes 6, 9 and 12.

The movements in Intangible assets during the period ended 31 December 2016, for the Group, are as follows:

| Thousand Euros | Balance at 1 January | Additions | Disposals / Write-offs | Transfers | Exchange differences | Perimeter variations / Regularisa-tions | Balance at 31 December |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Concession rights: | | | | | | | |
| - Distribution and generation Brazil | 1,013,392 | - | - | - | 78,092 | - | 1,091,484 |
| - Gas Portugal | 138,354 | - | - | -138,354 | - | - | - |
| - Hydric Portugal | 1,419,988 | - | -509 | 319 | - | - | 1,419,798 |
| CO2 Licenses | 142,509 | 107,145 | -151,056 | - | - | - | 98,598 |
| Assigned to concessions (IFRIC 12): | | | | | | | |
| - Intangible assets | 12,236,673 | 766 | -875,382 | -213,436 | 363,718 | -26,218 | 11,486,121 |
| - Intangible assets in progress | 134,643 | 397,293 | -863 | -385,598 | 12,585 | -151 | 157,909 |
| Other intangibles | 243,879 | 30,264 | -1,080 | -1,061 | 7,460 | 13,701 | 293,163 |
| Other intangible in progress | 425,910 | 18,340 | -181 | -2,882 | 3,407 | -2,265 | 442,329 |
| | 15,755,348 | 553,808 | -1,029,071 | -741,012 | 465,262 | -14,933 | 14,989,402 |

| Thousand Euros | Balance at 1 January | Charge/ Impairment losses | Disposals / Write-offs | Transfers | Exchange differences | Perimeter variations / Regularisa-tions | Balance at 31 December |
|---|---|---|---|---|---|---|---|
| **Accumulated amortisation and impairment losses** | | | | | | | |
| Concession rights: | | | | | | | |
| - Distribution and generation Brazil | 565,750 | 34,630 | - | - | 27,949 | - | 628,329 |
| - Gas Portugal | 37,733 | 3,144 | - | -40,877 | - | - | - |
| - Hydric Portugal | 345,202 | 42,354 | - | - | - | - | 387,556 |
| Assigned to concessions (IFRIC 12): | 9,215,011 | 297,911 | -867,801 | -120,507 | 266,496 | -19,037 | 8,772,073 |
| Other intangibles | 67,018 | 6,046 | -1,061 | -1,105 | 2,002 | - | 72,900 |
| | 10,230,714 | 384,085 | -868,862 | -162,489 | 296,447 | -19,037 | 9,860,858 |

Additions of CO2 Licences include 42,898 thousand Euros of CO2 licences granted free of charge to the EDP Group plants operating in Portugal and Spain and 64,247 thousand Euros of licences purchased in the market for own consumption.

Transfers include the net transfers of intangible assets in progress assigned to concessions of 138,860 thousands of Euros relate to increases of financial assets under IFRIC 12, included under Debtors and other assets from commercial activities.

## 17. Goodwill

Goodwill for the Group, resulting from the difference between the acquisition price and the fair value of the net assets acquired, at the acquisition date, is as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| EDP España Group | 884,574 | 1,940,712 |
| EDP Renováveis Group | 1,295,515 | 1,384,780 |
| EDP Brasil Group | 45,644 | 48,842 |
| Other | 6,935 | 40,518 |
| | 2,232,668 | 3,414,852 |

The movements in Goodwill, during the period ended 31 December 2017, are as follows:

| Thousand Euros | Balance at 1 January | Increases | Decreases | Impairment | Exchange differences | Balance at 31 December |
|---|---|---|---|---|---|---|
| EDP España Group | 1,940,712 | - | -1,056,138 | - | - | 884,574 |
| EDP Renováveis Group | 1,384,780 | - | -221 | - | -89,044 | 1,295,515 |
| EDP Brasil Group | 48,842 | - | -250 | - | -2,948 | 45,644 |
| Other | 40,518 | - | -33,583 | - | - | 6,935 |
| | 3,414,852 | - | -1,090,192 | - | -91,992 | 2,232,668 |

The movements in Goodwill, during the period ended 31 December 2016, are as follows:

| Thousand Euros | Balance at 1 January | Increases | Decreases | Impairment | Exchange differences | Balance at 31 December |
|---|---|---|---|---|---|---|
| EDP España Group | 1.940.712 | - | - | - | - | 1.940.712 |
| EDP Renováveis Group | 1.361.305 | 131 | - | - | 23.344 | 1.384.780 |
| EDP Brasil Group | 46.053 | - | - | -1.817 | 4.606 | 48.842 |
| Other | 40.518 | - | - | - | - | 40.518 |
| | 3.388.588 | 131 | - | -1.817 | 27.950 | 3.414.852 |

*EDP España Group*

The goodwill held in EDP España Group is as follows:

| Thousand Euros | EDP España Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| Liberalised activities | 592.487 | 592.487 |
| Regulated networks | 292.087 | 1.348.225 |
| | 884.574 | 1.940.712 |

The decrease in goodwill in EDP España Group in the amount of 1,056,138 thousands Euros is due to the sale of the financial investment in Naturgas Energía Distribución S.A.U. (see note 5).

*EDP Renováveis Group*

The goodwill held in EDP Renováveis Group is as follows:

| Thousand Euros | EDP Renováveis Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| Goodwill in EDPR Europe Group | 635.376 | 635.442 |
| Goodwill in EDPR North America Group | 659.144 | 748.187 |
| Other | 995 | 1.151 |
| | 1.295.515 | 1.384.780 |

*EDPR Europe Group*

There are no significant movements during 2017 and 2016 except those related to exchange differences.

*EDPR North America Group*

The goodwill movement in EDPR North America relates with the deppreciation of the US Dollar against the Euro.

*EDP Brasil Group*

During the last quarter of 2017, goodwill related to the company Costa Rica Energética, Ltda, in the amount of 250 thousand Euros, was reclassified to non-current assets held for sale (see note 41).

During 2016, it was recognised an impairment loss in the amount of 1,817 thousand Euros related to EDP - Soluções em Energia, S.A. (former named "APS - Soluções em Energia, S.A."), due to non-compliance with performance indexes (see note 11).

*Others*

During the last quarter of 2017, goodwill related to the company Pebble Hydro - Consultoria, Investimento e Serviços, Lda, in the amount of 33,583 thousand Euros, was reclassified to non-current assets held for sale (see note 41).

*Goodwill impairment test analysis – EDP Group*

The recoverable amount of the goodwill in subsidiaries is assessed annually, as at 30 September, independently of the existence of any indicators of impairment. Impairment losses are recognised in the income statement. The recoverable amount is determined based on the value in use of the assets, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks.

The EDP Group is composed by a significant number of subsidiaries in several locations, as mentioned in its consolidation perimeter. Therefore, the impairment tests at subgroup level are carried out for each cash generating unit (CGU) identified in each country where the EDP Group develops its activities, namely:

- EDP Espanã - Distribution, Generation & Supply of electricity;
- EDPR Europe – Renewable generation;
- EDPR North America and EDPR Brasil - Renewable generation;
- EDP Brasil - Generation, Distribution and Supply of electricity.

At EDP Group level, these cash generating units are subsequently aggregated by business units, ensuring however that goodwill impairment analysis does not exceed a business segment.

For the purposes of these tests, the EDP Group has defined a set of assumptions to determine the recoverable amount of the main investments by each cash generating unit, being presented by aggregation in each business units after the impairment tests carried out at each subgroup/cash generating unit.

*Goodwill impairment test analysis – EDP España Group*

The discount rates after taxes used by EDP España Group in the impairment test analysis range between 3.9% and 4.8% (2016: between 4.0% and 5.1% respectively).

Regarding to generation business, the evaluation of the assets (power plants) considers a portfolio logic based in the future cash flow projection of the remaining useful life. In the electricity distribution business the cash flow projection period considers the perpetuity of the business as assets are operating under a license with no foreseen end date.

The main assumptions on which impairment tests are based are as follows:

- In the generation business, the estimated energy produced by the power plants: consider the best estimate of future market demand and total installed capacity;

- Prices of electricity, gas and coal were defined considering the market expectations regarding future price curves and considering the regulation in force. For gas and coal prices were also used the contracted prices for future long term purchases, namely the acquisition contracts for gas;

- Investment costs: the best available estimates of the future investments were used in order to guarantee a regular use of existing assets, as well as the estimates that resulted from legislative changes;

- Operating costs: operating costs were projected consistent with the company's historical experience and internal models;

- In the regulated business, the distribution of electricity, officially approved asset remuneration was used, considering the regulated mechanisms for the annual remuneration updates. In generation, the elimination of generation taxes has been considered from 2021 onwards and capacity payments have been considered from 2023 onwards;

- The projections for the generation and electricity distribution businesses are based on the long-term estimates of the various assumptions used in the analysis;

- The long-term projections for the electricity supply business were extrapolated through a Margin/EBITDA estimate which changes with the inflation rate;

- Discount rate: the discount rates used reflect EDP Group's best estimate regarding the specific risks associated to each CGU.

The Group has performed a series of sensitivity analyses to the results of impairment tests in some key variables, such as: (i) cost of fuel and respective impact on pool price, (ii) alternative case with a less favourable regulatory context and (iii) discount rates. The sensitivity analysis results show that: (i) a decrease of 5% in the cost of fuel accompanied by the expected impact in the pool prices and operation hours of the generation assets or (ii) alternative case with a less favourable regulatory context or (iii) an increase of 100 bps on the discount rate do not result in any impairment indicators in goodwill.

*Goodwill impairment test analysis – EDP Renováveis Group*

The future cash flows projection used is the useful life of the assets (at the end of December 2016 EDPR Group has changed the useful life of the renewable assets from 25 to 30 years (see note 3)) which is consistent with the current depreciation method.This projection also incorporate the long-term energy sale contracts in place and long-term estimates of energy prices, for the assets with market exposure.

The main assumptions used for the impairment tests are as follows:

- Power produced: net capacity factors used for each CGU utilize the wind studies carried out, which takes into account the long-term predictability of wind output and that wind generation is supported in nearly all countries by regulatory mechanisms that allow for production and priority dispatching whenever weather conditions permit;

- Electricity remuneration: regulated or contracted remuneration has been applied where available, as for the CGUs that benefit from regulated remuneration or that have signed contracts to sell their output during all or part of their useful life; where this is not available, prices were derived using price curves projected by the company based on its experience, internal models and using external data references;

- New capacity: tests were based on the best information available on the wind farms expected to be built in coming years, adjusted by probability of success and by the growth prospects of the company based on the Business Plan Targets, its historical growth and market size projections. The tests considered the contracted and expected prices to buy turbines from various suppliers;

- Operating costs: established contracts for land leases and maintenance agreements were used. Other operating costs were projected consistent with the company's experience and internal models;

- Terminal value: considered as a 15% of the initial investment in each wind farm, considering inflation; and

- Discount rate: the discount rates used are post-tax, reflect EDPR Group's best estimate of the risks specific to each CGU and range as follows:

| | 2017 | 2016 |
|---|---|---|
| Europe | 3.2% - 5.7% | 3.3% - 5.6% |
| North America | 4.5% - 6.5% | 4.7% - 6.7% |
| Brazil | 9.6%-11.4% | 10.4%-12.8% |

Impairment tests were performed taking into account the regulation changes in each country, disclosed in note 1.

A series of sensitivity analysis were performed on the results of impairment tests namely in some of the key variables, such as:

- 5% reduction of Merchant Prices used in the base case. This sensitivity analyses performed for this assumption independently would not suppose any impairment for the goodwill allocated to each country;

- 100 basis points increase of the discount rate used in base case. This sensitivity analyses performed for this assumption independently would not suppose any impairment for the goodwill allocated to each country.

*Goodwill impairment test analysis – EDP Brasil Group*

For EDP Brasil Group, cash flows' projections include the assumption of the extension of concession contracts in generation and distribution businesses. These cashflows are estimated by considering production and consumption volumes, installed capacity, tariff evolution prospects in the different markets and power purchase agreements.

The discount rates used reflect the specific risks for each activities and range between 9.0% to 10.1% for the different business of the Group (2016: between 9.5% and 10.9%).

The terminal value of the generation business corresponds to the present value of the assets at the end of the concession period (Regulatory Asset Base). In the supply business, it is considered the perpetuity of the business.

A sensitivity analysis increasing 100 basis points in the discount rate used has not determined the existence of impairment indicators for goodwill and concession rights in any other subsidiary of EDP Brasil.

For generation companies, the following sensitivity analysis have been performed: (i) a GSF increase of 100 basis points; (ii) a PLD change of 10 Brazilian Reais; (iii) a scenario of non extension of the concession contracts related to the generation business in Brazil; and (iv) 100 basis points increase over the discount rate used in base case. These sensitivity analysis have not determined any existence of impairment in goodwill or concession rights.

For distribution companies, the following sensitivity analysis have also been performed: (i) an increase of 3% in the operating costs component ("glosa") of the remuneration base for all forecast periods; (ii) 100 basis points decrease over expected market growth; (iii) a scenario of non extension of the concession contracts related to the distribution business in Brazil; and (iv) 100 basis points increase over the discount rate used in the base case. These sensitivity analysis have not determined any existence of impairment in goodwill and concession rights.

## 18. Investments in Subsidiaries (Company Basis)

This caption is as follows:

| Thousand Euros | Company | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| Acquisition cost | 12,518,576 | 12,199,194 |
| Effect of equity method (transition to IFRS) | -785,593 | -785,593 |
| Equity investments in subsidiaries | 11,732,983 | 11,413,601 |
| Impairment losses on equity investments in subsidiaries | -231,281 | -223,425 |
| | 11,501,702 | 11,190,176 |

On the date of transition to IFRS, EDP, S.A. ceased to apply the equity method of accounting to its investments in its separate financial statements, having considered this method in the determination of the deemed cost at transition date.

Investments in subsidiaries are as follows:

| Thousand Euros | Company | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| | Net amount | Net amount |
| **Equity investments in subsidiaries:** | | |
| EDP Renováveis, S.A. | 4,154,431 | 3,854,811 |
| EDP Gestão de Produção de Energia, S.A. | 2,156,054 | 2,156,054 |
| EDP España, S.A.U. | 2,105,002 | 2,105,002 |
| EDP Distribuição de Energia, S.A. | 1,686,145 | 1,686,145 |
| EDP Servicios Financieros España, S.A.U. | 482,695 | 482,695 |
| EDP Comercial, S.A. | 299,073 | 299,073 |
| EDP International Investments and Services, S.L. | 281,854 | 281,854 |
| Other | 336,448 | 324,542 |
| | 11,501,702 | 11,190,176 |

In the context of impairment tests carried out at EDP Group, the financial investments held by EDP, S.A. in subsidiaries are reviewed, based on the higher of the value in use and the fair value less costs related to the sale. The main assumptions considered in the valuation models of the main financial holdings in Portugal of EDP, S.A. (EDP Produção, EDP Distribuição and EDP Comercial) are as follows:

- The discount rates used reflect the best estimate regarding the specific risks associated to each subsidiary activity within a range between 4.2% and 5.3% (2016: between 3.9% and 5.8%);

- In regulated business, officially approved asset remuneration was used, considering the regulated mechanisms for the annual remuneration updates, the concession renewals expectation and the best CAPEX and regulatory framework evolution estimates;

- Prices of electricity, brent, gas, coal and CO2 licenses were defined considering the market expectations regarding future price curves and the application of curve prices internal models considering the regulation in force and the best estimate of its future evolution. For gas and coal prices were also used the contracted prices for future long term purchases, namely the acquisition contracts for gas. Assets from generation business were evaluated from a portfolio perspective and an individual analysis of recoverability, based on the market share development estimate.

- The long-term projections for the electricity supply business were extrapolated through a Margin/EBITDA estimate which changes with the inflation rate;

- In generation business, estimates were based on an average hydrologic year over the projection period for hydro plants, estimated demand evolution, market share projections and current installed and under construction capacity, as well as the best estimate for decommissioning plants in the projection period. Additionally, it was considerer other system costs such as: clawback, ISP and the surcharge over CO2, CESE until 2020, social tariff and other income (namely capacity payments);

- Operating costs considered were based on extrapolations of current operating costs (knowledge acquired in each activity).

Sensitivity analysis were performed, such as a 100 basis points increase in the discount rate and a 10% reduction in Merchant prices used in the base case, as well as a reduction of market shares in supply business did not determined the existence of evidence of impairment in EDP S.A.'s financial investments.

The assumptions used in the valuation models of EDP S.A.'s financial holdings in other geographies, as well as the respective sensitivity analyses are described in note 17.

In the context of the General and Voluntary Public Tender Offer for the acquisition of shares representative of the share capital of EDP Renováveis, S.A. that was concluded on the third quarter of 2017, EDP - Energias de Portugal, S.A. total investment was 296,376 thousand Euros accrued with transaction costs in the amount of 3,244 thousand Euros. As a result of this transation, EDP - Energias de Portugal, S.A. now holds 720,191,372 shares in EDP Renováveis, S.A., increasing its interest in the company from 77.5% to 82.6% and consequently its interest in their subsidiaries. The increase in the caption Investments in subsidiaries in EDP, S.A. is mainly due to this transaction.

## 19. Held to maturity financial investiments

This caption is as follows:

| Thousand Euros | Company | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| Held to maturity financial investments - Non-Current | 451,257 | 477,018 |
| Held to maturity financial investments - Current | 419,946 | 29,985 |
| | 871,203 | 507,003 |

On 6 December 2016, EDP, S.A. has bought an amount of 500,000 thousand US Dollars of nominal debt, related to a couple of bonds issued by EDP Finance B.V. in a market operation, in the total amount of 500,624 thousand Euros. This amount includes a premium paid over the nominal debt of 21,101 thousand Euros and accrued interest as at the acquisition date.

On 15 December 2017, EDP, S.A. has bought an amount of 500,000 thousands of Dollars of nominal debt, related to a couple of bonds issued by EDP Finance B.V. in a market operation, in the total amount of 446,802 thousand Euros. This amount includes a premium paid over the nominal debt of 18,016 thousand Euros and accrued interest as at the acquisition date.

For the Company, the caption Held to maturity financial investments comprises the recognition at amortised cost, according to the accounting policy 2 e), of the following above mentioned bonds issued by EDP Finance B.V., acquired in a market operation by EDP, S.A.:

| Issuer | Maturity date | Currency | Interest rate | Nominal Value in Currency '000 | Acquired in Currency '000 |
|---|---|---|---|---|---|
| EDP Finance B.V. | 02 Feb 2018 | USD | 6.00% | 1,000,000 | 469,462 |
| EDP Finance B.V. | 01 Oct 2019 | USD | 4.90% | 1,000,000 | 363,462 |
| EDP Finance B.V. | 15 Jan 2020 | USD | 4.13% | 750,000 | 167,076 |
| | | | | | 1,000,000 |

On a consolidated basis, this operation represents a debt extinction, so the premium paid and the respective transaction costs are recognised as costs (see note 12).

As at 31 December 2017, these investments' fair value amounts to 863,930 thousand Euros (31 December 2016: 498,201 thousand Euros).

## 20. Investments in Joint Ventures and Associates

This caption is as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Investments in joint ventures | 781,327 | 773,682 | 6,597 | 6,597 |
| Investments in associates | 61,755 | 46,883 | - | - |
| | 843,082 | 820,565 | 6,597 | 6,597 |

As at 31 December 2017, for the Group, this caption includes goodwill in investments in joint ventures of 42,226 thousand Euros (31 December 2016: 42,226 thousand Euros) and goodwill in investments in associates of 9,154 thousand Euros (31 December 2016: 9,281 thousand Euros).

The movement in Investments in joint ventures and associates, for the Group, is as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| **Balance as at 1 January** | 820,565 | 664,011 |
| Acquisitions/Entries | 20,605 | - |
| Increases/Decreases of share capital | 148,977 | 122,750 |
| Disposals | -31,835 | -1,167 |
| Share of profit in joint ventures and associates | 11,521 | -22,062 |
| Dividends | -29,865 | -16,250 |
| Exchange differences | -97,458 | 71,898 |
| Hedging reserve in joint ventures and associates | - | 1,143 |
| Other | 572 | 242 |
| **Balance as at 31 December** | 843,082 | 820,565 |

The movement in Investments in joint ventures is mainly explained by: (i) the capital increase in Empresa de Energia São Manoel, S.A. in the amount of 64,731 thousand Euros; (ii) the capital increase in Companhia Energética do Jari, S.A. in the amount of 17,921 thousand Euros; (iii) the capital increase in Empresa de Energia Cachoeira Caldereirão, S.A. no valor de 14,009 thousand Euros; (iv) the capital increase in Hydro Global Investment Limited in the amount of 34,754 thousand Euros; (v) the positive impact of 20,370 thousands Euros due to the sale of 23.3% of the financial investment of Moray Offshore Renewable Power Limited, which began to be treated as a joint venture (see note 5) and the decrese of 13,987 thousand Euros regarding the 53.4% of the financial investment to be sold in 2018 (see note 41); (vi) by the negative impact of 14,367 thousands Euros due to the gain of control of Eólica de Coahuila, S.A. de C.V., which began to be fully consolidated (see note 5); and (viii) negative exchange differences in the amount of 96,876 thousand Euros.

The movement in Investments in associates is mainly explained by the capital increase in Eoliennes en Mer Dieppe - Le Tréport, S.A.S. and in Eoliennes en Mer Iles d'Yeu et de Noirmoutier, S.A.S. in the amount of 7,295 thousand Euros and 8,251 thousand Euros, respectively.

In 2016, the movement in Investments in joint ventures and associates is mainly explained by capital increases in the amount of 122,750 thousand Euros, namely the capital increase in Empresa de Energia São Manoel, S.A. in the amount of 108,608 thousand Euros.

The following table resumes the companies' financial information of joint ventures whose investment is included under the equity method in the Group consolidated accounts, as at 31 December 2017:

| Thousand Euros | Jari Group | Energia Cachoeira Caldeirão | Energia São Manoel | Flat Rock Windpower II | Flat Rock Windpower |
|---|---|---|---|---|---|
| **Companies' financial information of joint ventures** | | | | | |
| Non-Current Assets | 449,117 | 355,769 | 895,741 | 98,446 | 242,890 |
| Current Assets | 17,790 | 23,646 | 48,301 | 898 | 2,278 |
| Cash and cash equivalents | 5,601 | 10,176 | 28,773 | 684 | 1,264 |
| Total Equity | 181,209 | 161,100 | 489,575 | 97,708 | 241,088 |
| Long term Financial debt | 162,144 | 193,712 | 338,946 | - | - |
| Non-Current Liabilities | 230,252 | 198,973 | 355,136 | 1,372 | 3,642 |
| Short term Financial debt | 43,641 | 9,410 | 86,004 | - | - |
| Current Liabilities | 55,446 | 19,342 | 99,331 | 264 | 438 |
| | | | | | |
| Revenues | 66,004 | 36,438 | 687 | 4,050 | 10,813 |
| Tangible and intangible assets amortisations/impairment | -15,397 | -13,452 | -1,957 | -5,499 | -14,057 |
| Other financial expenses | -26,470 | -22,769 | -3,304 | -25 | -56 |
| Income tax expense | -2,769 | 3,529 | 1,480 | - | - |
| Net profit for the period | 5,532 | -7,035 | -2,874 | -6,305 | -17,354 |
| | | | | | |
| **Amounts proportionally attributed to EDP Group** | | | | | |
| Net assets | 136,293 | 80,960 | 163,195 | 48,854 | 131,873 |
| *Goodwill* | - | - | - | - | - |
| Dividends paid | 489 | - | - | - | 14,143 |

| Thousand Euros | EDP Asia Group | Compañía Eólica Aragonesa | Bioeléctrica Group | CIDE HC Energía | Hydro Global Investment | Other |
|---|---|---|---|---|---|---|
| **Companies' financial information of joint ventures** | | | | | | |
| Non-Current Assets | 98,003 | 123,215 | 123,848 | 1,741 | 56,284 | 146,288 |
| Current Assets | 1 | 7,773 | 19,863 | 50,009 | 91,526 | 26,958 |
| Cash and cash equivalents | 1 | 4,652 | 13,145 | 1,277 | 81,943 | 9,943 |
| Total Equity | 98,004 | 105,890 | 32,321 | 11,177 | 68,063 | 22,996 |
| Long term Financial debt | - | - | 43,242 | - | 79,213 | 17,728 |
| Non-Current Liabilities | - | 20,753 | 57,223 | 3,955 | 79,213 | 35,836 |
| Short term Financial debt | - | - | 9,694 | - | 141 | 5,704 |
| Current Liabilities | - | 4,345 | 54,167 | 36,618 | 534 | 114,414 |
| | | | | | | |
| Revenues | - | 21,283 | 48,468 | 246,789 | - | 40,565 |
| Tangible and intangible assets amortisations/impairment | - | -14,444 | -9,250 | -62 | -74 | -3,628 |
| Other financial expenses | - | -145 | -872 | -422 | -2,145 | -770 |
| Income tax expense | - | 1,489 | -1,622 | -412 | 669 | -1,488 |
| Net profit for the period | 21,281 | 618 | 4,987 | 8,367 | -1,108 | -369 |
| | | | | | | |
| **Amounts proportionally attributed to EDP Group** | | | | | | |
| Net assets | 89,727 | 52,734 | 16,158 | 5,573 | 34,041 | 21,919 |
| *Goodwill* | - | 39,558 | - | - | - | 2,668 |
| Dividends paid | 7,380 | 5,000 | - | - | - | - |

The following table resumes the companies' financial information of joint ventures whose investment is included under the equity method in the Group consolidated accounts, as at 31 December 2016:

| Thousand Euros | Jari Group | Energia Cachoeira Caldeirão | Energia São Manoel | Flat Rock Windpower II | Flat Rock Windpower |
|---|---|---|---|---|---|
| **Companies' financial information of joint ventures** | | | | | |
| Non-Current Assets | 535,790 | 420,341 | 770,370 | 117,915 | 291,444 |
| Current Assets | 29,822 | 5,084 | 11,290 | 795 | 2,129 |
| Cash and cash equivalents | 13,548 | 2,433 | 11,142 | 413 | 1,043 |
| Total Equity | 167,485 | 164,523 | 365,950 | 116,973 | 289,096 |
| Long term Financial debt | 234,658 | 200,263 | 380,916 | - | - |
| Non-Current Liabilities | 333,229 | 207,488 | 395,715 | 1,534 | 4,084 |
| Short term Financial debt | 52,122 | 4,507 | 1,145 | - | - |
| Current Liabilities | 64,898 | 53,414 | 19,995 | 203 | 393 |
| | | | | | |
| Revenues | 59,681 | 14,695 | - | 3,681 | 9,763 |
| Tangible and intangible assets amortisations/impairment | -13,554 | -8,270 | -119,297 | -7,361 | -19,051 |
| Other financial expenses | -34,111 | -14,351 | -6,908 | -64 | -214 |
| Income tax expense | 12,708 | 6,078 | 41,514 | - | - |
| Net profit for the period | 9,159 | -11,889 | -80,587 | -7,917 | -22,893 |
| | | | | | |
| **Amounts proportionally attributed to EDP Group** | | | | | |
| Net assets | 138,614 | 82,751 | 121,986 | 58,487 | 158,413 |
| *Goodwill* | - | - | - | - | - |
| Dividends paid | - | - | - | - | 2,615 |

| Thousand Euros | EDP Asia Group | Compañía Eólica Aragonesa | Bioeléctrica Group | CIDE HC Energía | Eólica de Coahuila S.A. de C.V. | Other |
|---|---|---|---|---|---|---|
| **Companies' financial information of joint ventures** | | | | | | |
| Non-Current Assets | 105,331 | 127,055 | 116,600 | 1,516 | 302,602 | 74,784 |
| Current Assets | - | 5,186 | 23,024 | 49,720 | 40,449 | 34,295 |
| Cash and cash equivalents | - | 3,787 | 16,737 | 6,065 | 12,019 | 15,543 |
| Total Equity | 105,331 | 104,595 | 27,334 | 4,333 | 8,737 | 30,886 |
| Long term Financial debt | - | - | 52,839 | - | 239,071 | 16,290 |
| Non-Current Liabilities | - | 24,645 | 63,554 | 1,260 | 262,480 | 29,639 |
| Short term Financial debt | - | - | 9,714 | 15,482 | - | 31,867 |
| Current Liabilities | - | 3,001 | 48,736 | 45,643 | 71,834 | 48,554 |
| | | | | | | |
| Revenues | - | 13,505 | 47,865 | 236,804 | 205 | 33,871 |
| Tangible and intangible assets amortisations/impairment | - | -11,051 | -9,383 | -50 | - | -3,077 |
| Other financial expenses | - | -142 | -1,228 | -292 | -306 | -1,584 |
| Income tax expense | - | 2,328 | -1,923 | -165 | 102 | -601 |
| Net profit for the period | 20,916 | -1,938 | 4,981 | 3,543 | 203 | -1,280 |
| | | | | | | |
| **Amounts proportionally attributed to EDP Group** | | | | | | |
| Net assets | 105,187 | 57,425 | 13,667 | 2,149 | 14,438 | 20,565 |
| *Goodwill* | - | 39,558 | - | - | - | 2,668 |
| Dividends paid | 7,091 | 3,452 | - | - | - | 92 |

The following table resumes the companies' financial information of associates whose investment is included in the Group consolidated accounts under the equity method, as at 31 December 2017:

| Thousand Euros | Mabe Brasil | Les Eoliennes en Mer Noirmoutier | Parque Eólico Belmonte | Parque Eólico Madero | Principle Power Inc. | Other |
|---|---|---|---|---|---|---|
| **Companies' financial information of associates** | | | | | | |
| Non-Current Assets | 2,351 | 35,748 | 20,258 | 50,596 | 12,401 | 99,844 |
| Current Assets | 19,864 | 10,726 | 3,823 | 12,304 | 4,576 | 46,385 |
| Total Equity | -2,152 | 33,823 | 5,873 | 27,230 | 10,409 | 67,360 |
| Non-Current Liabilities | 20,809 | 5,500 | 13,338 | 1,825 | 4,134 | 48,163 |
| Current Liabilities | 3,558 | 7,151 | 4,870 | 33,845 | 2,434 | 30,706 |
| | | | | | | |
| Revenues | -1,153 | - | 4,112 | 10,896 | 841 | 48,101 |
| Net profit for the period | -1,970 | -648 | 1,283 | 3,224 | -4,281 | 6,212 |
| | | | | | | |
| **Amounts proportionally attributed to EDP Group** | | | | | | |
| Net assets | - | 14,544 | 3,482 | 11,437 | 3,341 | 28,951 |
| *Goodwill* | - | - | 1,726 | - | 924 | 6,504 |
| Dividends paid | - | - | - | - | - | 2,853 |

Other include companies with financial statements as of 31 December 2017, with the exception of companies that have no activity or are in liquidation process, and Portsines whose financial statements are for the period ended 30 November 2017, since the accounts as at 31 December 2017 were not timely approved.

The following table resumes the companies' financial information of associates whose investment is included in the Group consolidated accounts under the equity method, as at 31 December 2016:

| Thousand Euros | Mabe Brasil | Les Eoliennes en Mer Noirmoutier | Parque Eólico Belmonte | Parque Eólico Madero | Principle Power Inc. | Other |
|---|---|---|---|---|---|---|
| **Companies' financial information of associates** | | | | | | |
| Non-Current Assets | 3,599 | 25,490 | 21,231 | 52,429 | 18,675 | 91,809 |
| Current Assets | 23,398 | 9,955 | 2,517 | 8,683 | 277 | 36,336 |
| Total Equity | -421 | 15,438 | 4,590 | 24,006 | 16,694 | 57,326 |
| Non-Current Liabilities | 22,657 | 16,943 | 15,105 | 2,455 | 1,512 | 56,634 |
| Current Liabilities | 4,761 | 3,064 | 4,053 | 34,651 | 746 | 14,185 |
| | | | | | | |
| Revenues | 161 | - | 3,592 | 8,401 | 2,375 | 40,045 |
| Net profit for the period | -376 | -687 | 96 | 475 | -2,889 | 3,935 |
| | | | | | | |
| **Amounts proportionally attributed to EDP Group** | | | | | | |
| Net assets | - | 6,638 | 3,098 | 10,082 | 5,219 | 21,846 |
| *Goodwill* | - | - | 1,726 | - | 1,051 | 6,504 |
| Dividends paid | - | - | - | - | - | 3,000 |

Other include companies with financial statements as of 31 December 2016, with the exception of companies that have no activity or are in liquidation process, and Portsines whose financial statements are for the period ended 30 November 2016, since the accounts as at 31 December 2016 were not timely approved.

As at 31 December 2017, the significant companies' financial information of joint ventures and associates presents the following reconciliation of net assets proportionally attributed to EDP Group:

| Thousand Euros | Equity | % EM | Fair Value Adjustments | Goodwill | Other | Net Assets |
|---|---|---|---|---|---|---|
| Companhia Energética do Jari | 181,209 | 50.00% | 45,688 | - | - | 136,293 |
| Empresa de Energia Cachoeira Caldeirão S.A. | 161,100 | 50.00% | 410 | - | - | 80,960 |
| Empresa de Energia São Manoel S.A. | 489,575 | 33.33% | - | - | - | 163,195 |
| Flat Rock Windpower II LLC | 97,708 | 50.00% | - | - | - | 48,854 |
| Flat Rock Windpower LLC | 241,088 | 50.00% | - | - | 11,329 | 131,873 |
| EDP ASIA - Investimento e Consultadoria, Lda | 98,004 | 50.00% | 40,725 | - | - | 89,727 |
| Compañía Eólica Aragonesa, S.A. | 105,890 | 50.00% | -211 | - | - | 52,734 |
| EDP Produção Bioeléctrica, S.A. | 32,321 | 50.00% | - | - | -3 | 16,158 |
| CIDE HC Energía, S.A. | 11,177 | 50.00% | - | - | -16 | 5,573 |
| Hydro Global Investment, Ltda | 68,063 | 50.00% | - | - | 10 | 34,041 |
| Mabe Construções e Administração Projetos, Lda | -2,152 | 50.00% | - | - | 1,076 | - |
| Les Eoliennes en Mer Iles d'Yeu Noirmountier,SAS | 33,823 | 43.00% | - | - | - | 14,544 |
| Parque Eólico de Belmonte, S.A. | 5,873 | 29.90% | - | 1,726 | - | 3,482 |
| Parque Eólico Sierra del Madero S.A. | 27,230 | 42.00% | - | - | - | 11,437 |
| Principle Power, Inc. | 10,409 | 22.72% | - | 924 | 53 | 3,341 |

As at 31 December 2016, the significant companies' financial information of joint ventures and associates presents the following reconciliation of net assets proportionally attributed to EDP Group:

| Thousand Euros | Equity | % EM | Fair Value Adjustments | Goodwill | Other | Net Assets |
|---|---|---|---|---|---|---|
| Companhia Energética do Jari | 167,485 | 50.00% | 54,871 | - | - | 138,614 |
| Empresa de Energia Cachoeira Caldeirão S.A. | 164,523 | 50.00% | 489 | - | - | 82,751 |
| Empresa de Energia São Manoel S.A. | 365,950 | 33.33% | - | - | - | 121,986 |
| Flat Rock Windpower II LLC | 116,973 | 50.00% | - | - | - | 58,487 |
| Flat Rock Windpower LLC | 289,096 | 50.00% | - | - | 13,865 | 158,413 |
| Compañía Eólica Aragonesa, S.A. | 104,595 | 50.00% | 5,128 | - | - | 57,425 |
| EDP Produção Bioeléctrica, S.A. | 27,334 | 50.00% | - | - | - | 13,667 |
| CIDE HC Energía, S.A. | 4,333 | 50.00% | - | - | -18 | 2,149 |
| EDP ASIA - Investimento e Consultadoria, Lda | 105,331 | 50.00% | 52,521 | - | - | 105,187 |
| Eólica de Coahuila, S.A. de C.V. | 8,737 | 51.00% | 9,982 | - | - | 14,438 |
| Mabe Construções e Administração Projetos, Lda | -421 | 50.00% | - | - | 211 | - |
| Les Eoliennes en Mer lles d'Yeu Noirmountier, SAS | 15,438 | 43.00% | - | - | - | 6,638 |
| Parque Eólico de Belmonte, S.A. | 4,590 | 29.90% | - | 1,726 | - | 3,098 |
| Parque Eólico Sierra del Madero S.A. | 24,006 | 42.00% | - | - | - | 10,082 |
| Principle Power, Inc. | 16,694 | 24.65% | - | 1,051 | 53 | 5,219 |

Operating and real guarantees granted by joint ventures, included in the Group consolidated accounts under the equity method, are disclosed as follows:

| Thousand Euros | Dec 2017 | Dec 2016 |
|---|---|---|
| **Operating guarantees** | | |
| Companhia Energética do Jari | 293 | 340 |
| Empresa de Energia Cachoeira Caldeirão S.A. | 186 | 227 |
| Empresa de Energia São Manoel S.A. | 8,427 | 7,800 |
| | 8,906 | 8,367 |
| **Real guarantees** | - | - |

The commitments relating to short and medium-long term financial debt, future lease payments under operating leases and other purchase obligations of joint ventures included in the Group consolidated accounts under the equity method, as at 31 December 2017 and 2016, are disclosed by maturity as follows:

| | Dec 2017 | | | | |
|---|---|---|---|---|---|
| | Capital outstanding by maturity | | | | |
| Thousand Euros | Total | Less than 1 year | From 1 to 3 years | From 3 to 5 years | More than 5 years |
| Short and long term financial debt (inc. falling due interest) | 663,274 | 89,744 | 103,166 | 95,991 | 374,373 |
| Finance lease commitments | 938 | 219 | 263 | 199 | 257 |
| Operating lease commitments | 26,271 | 11,408 | 2,962 | 2,393 | 9,508 |
| Purchase obligations | 541,398 | 187,738 | 56,349 | 39,758 | 257,553 |
| | 1,231,881 | 289,109 | 162,740 | 138,341 | 641,691 |

| | Dec 2016 | | | | |
|---|---|---|---|---|---|
| | Capital outstanding by maturity | | | | |
| Thousand Euros | Total | Less than 1 year | From 1 to 3 years | From 3 to 5 years | More than 5 years |
| Short and long term financial debt (inc. falling due interest) | 933,290 | 92,741 | 177,389 | 120,746 | 542,414 |
| Finance lease commitments | 1,172 | 234 | 371 | 211 | 356 |
| Operating lease commitments | 18,493 | 1,726 | 2,859 | 2,490 | 11,418 |
| Purchase obligations | 620,037 | 178,822 | 166,149 | 21,342 | 253,724 |
| | 1,572,992 | 273,523 | 346,768 | 144,789 | 807,912 |

Significant variation of short and long term financial debt with respect to the previous year mainly refer to: i) the company Eólica de Coahuila S.A. de C.V. that changed from equity method to full consolidation method as a result of the wind farm construction completion and its entry into operation (see note 5) and, ii) to Moray Offshore Windfarm (East) due to the loss of control over the company (see note 5).

The summarised financial information for subsidiaries with material non-controlling interests, namely EDP Brasil and EDP Renováveis, as at 31 December 2017, are disclosed in note 53 and in the Annex I.

## 21. Available for Sale Investments

This caption is as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| REN - Redes Energéticas Nacionais, SGPS, S.A. | - | 50,369 | - | 50,369 |
| Zephyr Fund (Energia RE portfolio) | 77,573 | 72,725 | - | - |
| EDA - Electricidade dos Açores, S.A. | 13,045 | 13,500 | - | - |
| Feedzai - Consultadoria e Inovação Tecnológica, S.A. | 13,565 | 8,304 | - | - |
| Other | 19,833 | 20,146 | 1,556 | 1,765 |
| | 124,016 | 165,044 | 1,556 | 52,134 |

During the first semester of 2017, the financial investment held in REN - Redes Energéticas Nacionais, SGPS, S.A., increased by 94 thousand Euros being the increase booked against fair value reserves (see note 31). On 28 June 2017 EDP, S.A. sold its financial investment held in REN and the consolidated fair value reserve was transferred to profit or loss in the amount of 24,643 thousand Euros (see note 12 and 31).

The Zephyr Fund represents the participation units in a fund of stocks and bonds held by Energia RE, as a result of its reinsurance activity. During 2017, Energia RE increased this participation in by 3,000 thousand Euros, and had a increased by 1,848 thousand Euros being the increase booked against fair value reserves (see note 31).

During 2017, the financial investment held in EDA - Electricidade dos Açores, S.A., decreased by 455 thousand Euros being the decrease booked against fair value reserves (see note 31).

During 2017, the financial investment held in Feedzai - Consultadoria e Inovação Tecnológica, S.A. increased by 5,261 thousand Euros being the increase booked against fair value reserves (see note 31).

Under IFRS 13 (note 45), available for sale investments are classified into three levels of fair value: level 1 includes essentially financial investments that are indexed to market price; level 2 includes the fund of stocks and bonds held by Energia RE; and level 3 covers all other available for sale investments. As at 31 December 2017, there are no available for sale investments within level 1.

In 2017, the movements in Available-for-sale investments are as follows:

| Thousand Euros | Balance at 1 January | Acquisitions | Disposals | Impairment | Change in fair value | Other variations | Balance at 31 December |
|---|---|---|---|---|---|---|---|
| REN - Redes Energéticas Nacionais | 50,369 | - | -50,463 | - | 94 | - | - |
| Zephyr Fund (Energia RE portfolio) | 72,725 | 3,000 | - | - | 1,848 | - | 77,573 |
| EDA - Electricidade dos Açores, S.A. | 13,500 | - | - | - | -455 | - | 13,045 |
| Feedzai - Consultadoria e Inovação Tecnológica, S.A. | 8,304 | - | - | - | 5,261 | - | 13,565 |
| Other | 20,146 | 510 | -1,994 | -1,041 | 2,133 | 79 | 19,833 |
| | 165,044 | 3,510 | -52,457 | -1,041 | 8,881 | 79 | 124,016 |

In 2016, the movements in Available-for-sale investments are as follows:

| Thousand Euros | Balance at 1 January | Acquisitions | Disposals | Impairment | Change in fair value | Other variations | Balance at 31 December |
|---|---|---|---|---|---|---|---|
| Banco Comercial Português | 53,276 | - | - | -31,386 | -6,089 | -15,801 | - |
| REN - Redes Energéticas | 51,920 | - | - | - | -1,551 | - | 50,369 |
| Zephyr Fund (Energia RE portfolio) | 61,277 | 10,000 | - | - | 1,448 | - | 72,725 |
| EDA - Electricidade dos Açores, S.A. | 11,800 | - | - | - | 1,700 | - | 13,500 |
| Feedzai - Consultadoria e Inovação Tecnológica, S.A. | 2,479 | - | - | - | 5,825 | - | 8,304 |
| Other | 19,454 | 714 | -42 | -435 | 603 | -148 | 20,146 |
| | 200,206 | 10,714 | -42 | -31,821 | 1,936 | -15,949 | 165,044 |

Available-for-sale investments are booked at fair value being the changes since the date of acquisition, net of impairment losses, recorded against fair value reserves (see note 31). The fair value reserve attributable to the Group is as follows:

| Thousand Euros | Dec 2017 | Dec 2016 |
|---|---|---|
| REN - Redes Energéticas Nacionais, SGPS, S.A. | - | 24,549 |
| Zephyr Fund (Energia RE portfolio) | 10,203 | 8,355 |
| EDA - Electricidade dos Açores, S.A. | 6,154 | 6,609 |
| Feedzai - Consultadoria e Inovação Tecnológica, S.A. | 13,093 | 7,832 |
| Other | 7,199 | 4,751 |
| | 36,649 | 52,096 |

## 22. Investment Property

This caption is as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Cost | 71,745 | 54,679 | 61,847 | 62,037 |
| Accumulated amortisation and impairment losses | -32,546 | -23,460 | -10,351 | -9,458 |
| **Carrying amount** | 39,199 | 31,219 | 51,496 | 52,579 |

The investment properties are mainly land and buildings held to obtain rents or for capital appreciation and are not materially relevant. The net variation relates essentially with the transfer of property, plant and equipment and intangible assets to investment property of 10,519 thousand Euros (see note 15 and 16).

Accumulated amortisation and impairment losses in 2017 includes 567 thousand Euros related to charges of the period. The Accumulated impairment losses in investiment property amounts to 7,558 thousand Euros, booked during 2016, related to investment properties based on an independent evaluation of the fair value of these assets (see note 11).

## 23. Deferred Tax Assets and Liabilities

EDP Group records the tax effect resulting from temporary differences between the assets and liabilities determined on an accounting basis and on a tax basis, which is as follows:

| Thousand Euros | Net Deferred tax assets | | Net Deferred tax liabilities | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| **Europe** | | | | |
| Tax losses and tax credits | 210,836 | 198,701 | - | - |
| Provisions for social benefits, bad debts and other risks | 489,823 | 518,905 | 17,282 | 15,611 |
| Financial instruments | 41,233 | 19,956 | 7,143 | 43,371 |
| Tangible and intangible fixed assets | 170,786 | 361,803 | 173,932 | 222,756 |
| Reinvested gains | - | - | 3,213 | 6,298 |
| Financial and available-for-sale investments | 565 | 3,102 | 3,902 | 2,722 |
| Tariff adjustments and tariff deficit | 69,788 | 46,509 | 251,679 | 266,113 |
| Allocation of fair value to assets and liabilities acquired | 33,684 | 28,994 | 403,663 | 612,692 |
| Fiscal revaluations | 500,667 | 474,568 | 74,564 | 75,035 |
| Deferred income relating to CMEC | - | - | 185,631 | 174,935 |
| Other temporary differences | 33,478 | 25,578 | 56,722 | 73,420 |
| Assets/liabilities compensation of deferred taxes | -909,068 | -997,863 | -909,068 | -997,863 |
| | 641,792 | 680,253 | 268,663 | 495,090 |
| **Brazil** | | | | |
| Tax losses and tax credits | 124,719 | 149,005 | - | - |
| Provisions for social benefits, bad debts and other risks | 126,860 | 132,133 | - | - |
| Tariff adjustments and tariff deficit | - | 34,767 | - | - |
| Allocation of fair value to assets and liabilities acquired | - | - | 133,108 | 158,359 |
| Use of public property | 25,842 | 34,326 | 8,869 | 14,697 |
| Fair value of financial assets | - | - | 34,717 | 38,206 |
| Other temporary differences | 4,461 | 23,513 | 37,820 | 46,603 |
| Assets/liabilities compensation of deferred taxes | -115,740 | -150,765 | -115,740 | -150,765 |
| | 166,142 | 222,979 | 98,774 | 107,100 |
| **United States of America and Canada** | | | | |
| Tax losses and tax credits (*) | 553,644 | 943,283 | - | - |
| Property, plant and equipment (*) | 3,200 | 4,982 | 253,080 | 435,839 |
| Allocation of fair value to assets and liabilities acquired (*) | - | - | 112,716 | 178,003 |
| Gains from institutional partnerships in USA wind farms (*) | - | - | 291,041 | 456,618 |
| Other temporary differences | 2,909 | 3,968 | 1,424 | 804 |
| Assets/liabilities compensation of deferred taxes | -559,166 | -951,053 | -559,166 | -951,053 |
| | 587 | 1,180 | 99,095 | 120,211 |
| | 808,521 | 904,412 | 466,532 | 722,401 |

(*) Regarding these captions, the variation between the closing amounts at 31 December 2017 and 31 December 2016 is mainly explained by the effect on the deferred taxes stock of EDPR NA Group following the prospective CIT rate change enacted through the US tax reform, approved in December 2017.

In 31 December 2016, the caption Fiscal revaluations includes 326 millions Euros of deferred tax assets recognised on the fiscal revaluation reserve that derived from the revaluation of eligible assets held by certain EDP Group companies in Portugal, under Decree-Law 66/2016 of 3 November (see note 13). In addition, EDP Group assessed the amount of 12.6 million Euros related to gas assets which, with reference to 31 December 2016, were recorded as assets held for sale.

The disposal, during the third quarter of 2017, of the gas distribution business in Spain (see note 5), led to the derecognition, in the closing of the operation, of net amounts of deferred tax assets and liabilities that were part of the balance sheet of the companies sold, totaling 55.7 million Euros. This effect is reflected on the variation of the captions Tangible and intangible fixed assets and Allocation of fair value adjustments to assets and liabilities acquired.

As referred under accounting policies, note 2 r), the compensation between deferred tax assets and liabilities is performed at each subsidiary, and therefore the consolidated financial statements reflect in its assets the total of the deferred tax of subsidiaries that have deferred tax assets and in its liabilities the total of the deferred tax of subsidiaries that have deferred tax liabilities.

On a company basis, EDP, S.A. records the tax effect arising from temporary differences between the assets and liabilities determined on an accounting basis and on a tax basis, which is as follows:

| Thousand Euros | Net Deferred tax assets | | Net Deferred tax liabilities | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Tax losses and tax credits | 75,681 | 69,846 | - | - |
| Provisions for social benefits, bad debts and other risks | 6,432 | 5,482 | - | - |
| Financial instruments | 15 | 20 | 1,687 | 15,994 |
| Financial and available-for-sale investments | 834 | 3,833 | - | - |
| Property, plant and equipment | 4,188 | 5,087 | - | - |
| Fiscal revaluations | - | - | 205 | 278 |
| Other temporary differences | 3,074 | 4,000 | 10,074 | 26,881 |
| Assets/liabilities compensation of deferred taxes | -11,966 | -43,153 | -11,966 | -43,153 |
| | 78,258 | 45,115 | - | - |

The deferred tax movement, for the Group and for the Company, in 2017 and 2016 is as follows:

| Thousand Euros | Deferred taxes Group | | Deferred taxes Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| **Balance at 1 January** | 182,011 | -522,485 | 45,115 | 35,140 |
| Charges to the profit and loss account | 168,115 | 735,545 | 30,239 | 21,702 |
| Charges against reserves | 64,465 | -38,465 | 11,442 | -17,473 |
| Exchange differences and other variations | -72,602 | 7,416 | -8,538 | 5,746 |
| **Balance at 31 December** | 341,989 | 182,011 | 78,258 | 45,115 |

At 31 December 2017, the caption Exchange differences and other variations mainly includes the variation due to the above mentioned derecognition of deferred tax amounts related to the disposal of the gas distribution business in Spain.

Taxes recorded against reserves are as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| **Deferred tax** | | | | |
| Financial instruments and fair value | 40,446 | -31,404 | 14,308 | -18,418 |
| Sale of non-controlling interests without loss of control | - | -30,228 | - | - |
| Actuarial gains and losses | 27,415 | 22,979 | -125 | 487 |
| Changes in fair value of financial assets held for sale | -3,396 | 188 | -2,741 | 458 |
| | 64,465 | -38,465 | 11,442 | -17,473 |

The caption Financial instruments and fair value includes negative 31,042 thousand Euros of deferred tax related to the variation in EDP Group fair value reserve (cash flow hedge) and negative 362 thousand Euros related to the variation of the deferred tax of cash flow hedge reserve of joint ventures and associate companies.

The Group tax losses carried forward are as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| **Expiry date:** | | |
| 2017 | - | 6,623 |
| 2018 | 2,808 | 9,019 |
| 2019 | 11,547 | 15,457 |
| 2020 | 13,108 | 19,151 |
| 2021 | 61,713 | 70,581 |
| 2022 | 21,202 | 17,194 |
| 2023 to 2037 | 2,216,091 | 2,438,639 |
| Without expiry date | 1,273,121 | 1,243,495 |
| | 3,599,590 | 3,820,159 |

Of the total of EDP Group's tax losses available to carry forward as at 31 December 2017, the amount of 622.285 thousand Euros does not have deferred tax asset, in accordance with the applicable accounting standards since, at the present date, there is still not suficient visibility about the future period in which such tax losses will be used.

## 24. Inventories

This caption is as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| Merchandise | 21,982 | 27,162 |
| Finished, intermediate products and sub-products | 37,738 | 30,013 |
| Raw and subsidiary materials and consumables (coal and other fuels) | 100,276 | 120,868 |
| Nuclear fuel | 16,700 | 17,891 |
| CO2 licenses (see note 46) | - | 38,269 |
| Other | 89,079 | 82,374 |
| | 265,775 | 316,577 |

The caption CO2 Licenses, includes licenses held for trading, measured at the lower of acquisition cost and net realisable value, which corresponds to the market quote, as described in accounting policy 2 y).

## 25. Debtors and Other Assets from Commercial Activities

Debtors and other assets from commercial activities - Non-Current, are as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| Trade receivables | 141,517 | 139,398 |
| Accrued income relating to energy sales activity | 8,105 | 29,854 |
| Amounts receivable from tariff adjustments - Electricity - Portugal | 521,062 | 363,130 |
| Amounts receivable from tariff adjustments - Electricity - Brazil | 49,999 | 3,702 |
| Amounts receivable from tariff expenses - Gas - Spain | - | 63,169 |
| Amounts receivable relating to CMEC | 806,014 | 658,197 |
| Amounts receivable from concessions - IFRIC 12 | 1,229,370 | 1,114,941 |
| Sundry debtors and other operations | 148,423 | 144,236 |
| | 2,904,490 | 2,516,627 |
| Impairment losses on trade receivables | -61,929 | -64,956 |
| Impairment losses on debtors | -3,182 | -3,229 |
| | -65,111 | -68,185 |
| | 2,839,379 | 2,448,442 |

Debtors and other assets from commercial activities - Current, are as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Trade receivables | 1,712,574 | 1,503,590 | 306,651 | 182,424 |
| Accrued income relating to energy sales activity | 1,007,007 | 1,025,872 | 226,500 | 269,031 |
| Amounts receivable from tariff expenses - Electricity - Spain | - | 4,489 | - | - |
| Amounts receivable from tariff adjustments - Electricity - Portugal | 348,990 | 538,948 | - | - |
| Amounts receivable from tariff adjustments - Electricity - Brazil | 27,384 | 17,100 | - | - |
| Receivables relating to other goods and services | 18,328 | 25,656 | 24,516 | 36,662 |
| Amounts receivable relating to CMEC | 218,748 | 164,705 | - | - |
| Amounts receivable from concessions - IFRIC 12 | 60,978 | 54,024 | - | - |
| Sundry debtors and other operations | 250,046 | 223,851 | 62,450 | 73,916 |
| | 3,644,055 | 3,558,235 | 620,117 | 562,033 |
| Impairment losses on trade receivables | -305,909 | -329,212 | -9,699 | -9,935 |
| Impairment losses on debtors | -12,416 | -21,410 | -788 | -1,000 |
| | -318,325 | -350,622 | -10,487 | -10,935 |
| | 3,325,730 | 3,207,613 | 609,630 | 551,098 |

The geographical market Trade receivables' breakdown and the credit risk analysis are disclosed in note 4, under the Counterparty credit risk management.

As at 31 December 2017 and 2016, on a company basis, trade receivables are from Portugal geographical market.

The movement for the period in Amounts receivable from tariff adjustments - Electricity - Portugal (Current and Non-current) is as follows:

| Thousand Euros | Current | Non-Current |
|---|---|---|
| **Balance as at 1 January 2016** | 791,662 | 1,440,282 |
| Receipts through the electric energy tariff | -548,746 | - |
| Partial sale of 2014 over costs for the special regime generators | -93,844 | - |
| Partial sale of 2015 over costs for the special regime generators | -920,473 | - |
| Partial sale of 2016 over costs for the special regime generators | -1,222,982 | - |
| Tariff adjustment of 2015 | 9,369 | - |
| Tariff adjustment for the period | 1,361,081 | 45,681 |
| Transfer to/from tariff adjustment payable | -774 | - |
| Interest income (see note 12) | 40,754 | 68 |
| Transfer from Non-Current to Current | 1,122,901 | -1,122,901 |
| **Balance as at 31 December 2016** | 538,948 | 363,130 |
| Receipts through the electric energy tariff | -472,725 | - |
| Partial sale of 2015 over costs for the special regime generators | -250,000 | - |
| Partial sale of 2017 over costs for the special regime generators | -907,607 | - |
| Tariff adjustment of 2016 | -1,476 | - |
| Tariff adjustment for the period | 921,593 | 686,434 |
| Interest income (see note 12) | 11,383 | 163 |
| Transfer to/from tariff adjustment payable | -19,791 | - |
| Transfer from Non-Current to Current | 528,665 | -528,665 |
| **Balance as at 31 December 2017** | 348,990 | 521,062 |

During the first semester of 2017, EDP Serviço Universal S.A. (EDP SU) sold, in six independent operations, a portion of the 2015 and 2017 tariff deficit in the amount of 250,000 thousand Euros and 324,068 thousand Euros, respectively. The 2015 tariff deficit resulted from the deferral, for the period of 5 years, of the recovery of the 2015 over costs related to the acquisition of electricity from special regime generators (including the adjustments for 2013 and 2014). The 2017 tariff deficit results from the deferral, for the period of 5 years, of the recovery of the 2017 over costs related to the acquisition of electricity from special regime generators (including the adjustments for 2015 and 2016). In this assets' sale transaction, EDP SU gave in fully and without recourse, the right to receive such amounts and interest. The sale price amounted to 592,916 thousand Euros and generated a gain net of transaction costs of 11,982 thousand Euros (see note 12).

During the fourth quarter of 2017, EDP SU sold a portion of the 2017 tariff deficit in the amount of 583,539 thousand Euros. The 2017 tariff deficit resulted from the deferral, for the period of 5 years, of the recovery of the 2017 over costs related to the acquisition of electricity from special regime generators (including the adjustments for 2015 and 2016). In this sale transaction of assets, EDP SU gave in fully and without recourse, the right to receive such amounts and interest. The sale price amounted to 600,000 thousand Euros and generated a gain net of transaction costs of 13,004 thousand Euros (see note 12).

The following table provides details for the caption Amounts receivable from tariff adjustments - Electricity - Portugal, by nature and year of establishment, as well as presents the amounts of tariff deficit that have been sold during the period ended 31 December 2017:

| Thousand Euros | Deficit | Tariff | Sales | Total |
|---|---|---|---|---|
| **Year:** | | | | |
| 2014 | 97,503 | 6,022 | - | 103,525 |
| 2015 | 268,984 | -31 | -250,000 | 18,953 |
| 2016 | 22,571 | 16,179 | - | 38,750 |
| 2017 | 1,347,403 | 269,028 | -907,607 | 708,824 |
| | 1,736,461 | 291,198 | -1,157,607 | 870,052 |

The caption Amounts receivable from tariff adjustments - Electricity - Brazil corresponds to tariff adjustments booked in EDP São Paulo - Distribuição de Energia S.A. (ex-Bandeirante) and EDP Espírito Santo - Distribuição de Energia S.A. (ex-Escelsa) with the accumulated amount as at 31 December 2017 of 52,807 thousand Euros (31 December 2016: 334 thousand Euros) and 24,576 thousand Euros (31 December 2016: 20,468 thousand Euros), respectively. The variation occurred includes the tariff deficit for the period with a positive impact of 222,537 thousand Euros (see note 6), transfer from tariff adjustment payable of 17,840 thousand Euros (see note 38), amount received through the electricity tariff of 191,261 thousand Euros, unwinding in the amount of 16,373 thousand Euros (see note 12) and the exchange differences due to depreciation of Brazilian Real with a negative impact of 8,908 thousand Euros.

The decrease in Amounts receivable from tariff expenses - Gas - Spain results from the sale of Naturgás Energia Distribuición S.A.U.

The caption Amounts receivable relating to CMEC amounts to 1,024,762 thousand Euros, and includes 806,014 thousand Euros as non-current and 218,748 thousand Euros as current. The amount receivable relating to the initial CMEC includes 486,044 thousand Euros as non-current and 42,672 thousand Euros as current, and corresponds to the initial CMEC granted to EDP Produção (833,467 thousand Euros) deducted from the annuities for the years 2007 to 2017 and 231,349 thousand Euros as non-current and 28,165 thousand Euros as current, relating with the final adjustment recognised in accordance with the result achieved by the EDP/REN working group. The remaining 88,621 thousand Euros as non-current and 147,911 thousand Euros as current correspond to the receivable amounts through the revisibility calculation from 2014 to 2017. The revisibility calculation for 2015 and 2016 is still waiting the official approval.

The caption Amounts receivable from concessions - IFRIC 12 in the amount of 1,290,348 thousand Euros relates to the financial asset to be received by the EDP Group regarding the electricity distribution concessions in Portugal and electricity distribution and transmission concessions in Brazil, resulting from the application of the mixed and financial model. The variation in the period includes: (i) the effect of the depreciation of Brazilian Real against Euro in the amount of 73,483 thousand Euros; (ii) transfers from intangible assets assigned to concessions in the amount of 184,157 thousand Euros (see note 16); and (iii) the increase of brazilian transmission companies in the amount of 10,548 thousand Euros (this amount include the assets' remuneration and PIS/COFINS). Additionally, Amounts receivable from concessions - IFRIC 12 - Current refers to concessions in Portugal that ended in 2017.

The movements in Impairment losses on trade receivables - Non-Current are as follows:

| | Group | |
|---|---|---|
| Thousand Euros | Dec 2017 | Dec 2016 |
| **Balance at beginning of the period** | 64,956 | 30,984 |
| Charge of the period | 257 | 33,133 |
| Reversal of impairment losses | -2,552 | -2 |
| Exchange differences | -732 | 841 |
| **Balance at end of the period** | 61,929 | 64,956 |

The movements in Impairment losses on trade receivables - Current are as follows:

| | Group | |
|---|---|---|
| Thousand Euros | Dec 2017 | Dec 2016 |
| **Balance at beginning of the period** | 329,212 | 307,195 |
| Charge of the period | 108,418 | 130,817 |
| Reversal of impairment losses | -86,431 | -88,678 |
| Charge-off | -39,102 | -28,753 |
| Exchange differences | -8,503 | 10,946 |
| Perimeter variations/Other regularisations | 2,315 | -2,315 |
| **Balance at end of the period** | 305,909 | 329,212 |

In 2017, the movement, for the Company, in impairment losses on trade receivables refers to charge of the period in the amount of 13 thousand Euros and reversal of impairment losses in the amount of 248 thousand Euros (31 December 2016: reversal of impairment losses in the amount of 23 thousand Euros), booked in results of the period.

The movements in Impairment losses on debtors - Non-Current are as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| **Balance at beginning of the period** | 3,229 | 3,215 |
| Charge of the period | - | 5 |
| Reversal of impairment losses | -1 | -66 |
| Exchange differences | -46 | 75 |
| **Balance at end of the period** | 3,182 | 3,229 |

The movements in Impairment losses on debtors - Current are as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| **Balance at beginning of the period** | 21,410 | 21,130 |
| Charge of the period | 460 | 979 |
| Reversal of impairment losses | -3,800 | -330 |
| Charge-off | -5,172 | -11 |
| Exchange differences | -547 | 745 |
| Perimeter variations/Other regularisations | 65 | -1,103 |
| **Balance at end of the period** | 12,416 | 21,410 |

In 2017, the movement, for the Company, in impairment losses on debtors refers to charge of the period in the amount of 12 thousand Euros (31 December 2016: charge of the period in the amount of 60 thousand Euros) and reversal of impairment losses in the amount of 223 thousand Euros, booked in results of the period.

## 26. Other Debtors and Other Assets

Other debtors and other assets are as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| **Debtors and other assets - Non-Current** | | | | |
| Loans to subsidiaries | - | - | 6,432,068 | 6,108,699 |
| Loans to related parties | 10,018 | 62,912 | 90 | 90 |
| Guarantees rendered to third parties | 51,041 | 53,533 | - | - |
| Derivative financial instruments | 163,874 | 206,482 | 191,610 | 723,368 |
| Excess of the pension fund financing (see note 35) | 58,952 | 57,585 | 63 | 65 |
| Sundry debtors and other operations | 234,887 | 56,516 | - | 31,102 |
| | 518,772 | 437,028 | 6,623,831 | 6,863,324 |
| **Debtors and other assets - Current** | | | | |
| Loans to subsidiaries | - | - | 1,573,553 | 1,409,450 |
| Dividends attributed by subsidiaries | - | - | 50,001 | - |
| Loans to related parties | 89,735 | 85,224 | 11,290 | 14,783 |
| Receivables from the State and concessors | 30,012 | 33,048 | - | - |
| Deposits to third parties | 24,606 | 28,336 | 6,727 | 15,990 |
| Derivative financial instruments | 129,350 | 176,471 | 523,931 | 343,218 |
| Subsidiary companies | - | - | 53,628 | 448,091 |
| Group's financial system (see note 44) | - | - | 688,078 | 743,759 |
| Sundry debtors and other operations | 30,925 | 31,237 | 14 | 4 |
| | 304,628 | 354,316 | 2,907,222 | 2,975,295 |
| | 823,400 | 791,344 | 9,531,053 | 9,838,619 |

Loans to subsidiaries - Non-Current and Current, for the Company, mainly includes 4,875,717 thousand Euros (31 December 2016: 4,537,627 thousand Euros) of loans granted to EDP - Gestão da Produção de Energia, S.A. and 1,921,941 thousand Euros (31 December 2016: 1,697,252 thousand Euros) of loans granted to EDP Distribuição de Energia, S.A. (see note 44). Additionally, this caption includes 885,497 thousand Euros (31 December 2016: 885,832 thousand Euros) of loans granted to EDP Servicios Financieros España, S.A.U. through EDP - Energias de Portugal - Sociedade Anónima, Sucursal en España (see notes 44 and 49).

Loans to related parties - Non-Current and Current, mainly includes loans granted to Empresa de Energia São Manoel S.A., Moray Offshore Windfarm (East) Limited, EDP Produção Bioeléctrica, S.A. and Parque Eólico Sierra del Madero, S.A. The changes in the period are due to the fact that this caption includes, in 2016, the loan granted to Eólica de Coahuila, S.A. de C.V., which, following the acquisition of control, is being full consolidated by EDP Group in 2017 (see note 5).

Derivative financial instruments – Current, for the Company, include 280,477 thousand Euros (31 December of 2016: 510,006 and 158,041 thousand Euros, Non Current and Current, respectively), related to a hedging instrument in USD and EUR with EDP Renováveis, S.A., contracted to hedge the foreign exchange rate risk of the debt in Dollars issued by EDP Finance B.V. and granted to EDP – Energias de Portugal – Sociedade Anónima, Sucursal en España (see note 39). This instrument is a Cross Currency Interest Rate Swap (CIRS) revalued at each balance sheet date at its market value, which is a spot foreign exchange rate valuation, resulting in a perfect fair value hedge (revaluation of fair value of the derivative instrument and the hedged liability). During the period EDP - Energias de Portugal - Sociedade Anónima, Sucursal en España was made a partial repayment of the liability hedged in amount of 91,339 thousand Euros, corresponding to a notional of 619,281 thousand Dollars. The remaining derivative financial instruments, assets and liabilities, are essentially related to derivatives contracted with external entities as a pass-through to hedge EDP Group companies business related risks.

The variation in the caption Sundry debtors and other operations - Non Current is mainly due to the fair value of the contingent price related with the Naturgás transaction sale, in the amount of 149 million Euros.

## 27. Current Tax Assets

Current tax assets are as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Income tax | 364,731 | 175,518 | 177,984 | 33,657 |
| Value added tax (VAT) | 83,415 | 285,160 | 6,395 | 5,531 |
| Special taxes Brazil | 130,977 | 64,439 | - | - |
| Other taxes | 2,170 | 1,628 | 877 | 823 |
| | 581,293 | 526,745 | 185,256 | 40,011 |

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Non-Current | 60,793 | 32,241 | - | - |
| Current | 520,500 | 494,504 | 185,256 | 40,011 |
| | 581,293 | 526,745 | 185,256 | 40,011 |

On an Individual and Group basis, the increase in income tax is mainly due to advance tax payments made by EDP S.A., net of the fiscal Group tax estimate in Portugal.

As at 31 December 2016, for the Group, the caption Value added tax (VAT) included the VAT receivable by Naturgas Group, in the context of an intragroup sale of gas distribution assets occurred in December 2016.

The Special taxes Brazil caption relates to the following taxes: CSLL (Social Contribution on net profits), PIS (Social integration programme) and COFINS (Social Security Financing Contribution).

In December 2014, the distribution companies EDP São Paulo and EDP Espírito Santo began to recognise tariff adjustments as payable and receivable amounts, considering that the triggering event for the recognition of the various taxes (e.g. IRPJ, CSLL, PIS and COFINS) would only be verified when the respective energy was consumed, in accordance with the legal opinion of independent consultants. This understanding was consistent with the interpretation of Brazilian Fiscal Authorities ("Receita Federal do Brasil" - RFB), made public through the consultation no. 26/02 of the COSIT.

On 30 June 2016, RFB approved the COSIT opinion no. 101/16 where it concluded that the receivables over tariff adjustments should integrate the basis for tax calculation at the time of the accounting recognition. Thus, companies requested independent consultants to update their legal opinions, and they kept their initial understanding.

In the third quarter of 2017, considering that the new COSIT procedure is more conservative and the possibility of appealing to the Tax Regularisation Special Programme ("Programa Especial de Regularização Tributária" - PERT), created by Provisional Measure no. 783/17 and regulated by Normative Instruction RFB 1711/17, the distribution companies changed their criteria and started to recalculate all taxes since the initial recognition of payable and receivable amounts related with tariff adjustments.

Additionally, Enerpeixe identified energy sale contracts, signed before 31 of December of 2003, with the possibility of being integrated in the cumulative fiscal regime with the consequential application of a PIS and COFINS tax rate of 3.65% compared to the 9.25% previously considered. These contracts were submitted to the evaluation of an independent consultant, who demonstrated that the pre-determined price did not decrease, in accordance with Law no. 11.196/05 and Normative Instruction RFB 658/06.

Following these operations, the companies recognized tax receivables totaling 180,920 thousand Euros (718,779 thousand Brazilian Reais) and tax payables totaling 129,607 thousand euros (514,917 thousand Brazilian Reais) (see note 40).

As at 31 December 2017, the captions Income tax and Special taxes Brazil include the amount of 120,175 thousand Euros (477,443 thousand Brazilian Reais), corresponding to the recognised asset of 180,920 thousand Euros net of compensations.

## 28. Cash and Cash Equivalents

Cash and cash equivalents are as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| **Cash** | 217 | 120 | 14 | 14 |
| | | | | |
| **Bank deposits** | | | | |
| Current deposits | 781,853 | 540,977 | 348,746 | 147,741 |
| Term deposits | 1,516,533 | 859,235 | 675,000 | 85,000 |
| Specific demand deposits in relation to institutional partnerships | 101,474 | 120,921 | - | - |
| | 2,399,860 | 1,521,133 | 1,023,746 | 232,741 |
| **Operations pending cash settlement** | | | | |
| Current deposits | - | - | 115,000 | 85,000 |
| | 2,400,077 | 1,521,253 | 1,138,760 | 317,755 |

Specific demand deposits in relation to institutional partnerships corresponds to funds required to be held in escrow sufficient to pay the remaining construction related costs of projects in institutional equity partnerships (see note 37), under the Group accounting policy.

As at 31 December 2017, on a company basis, the caption Operations pending cash settlement represents commercial paper issued by EDP, S.A., which is booked as financial debt at the issuance trade date, under the Group accounting policy. This caption of 115,000 thousand Euros (31 December 2016: 85,000 thousand Euros) refers to commercial paper issued on 28 December 2017, acquired by EDP Finance B.V., which settlement date occurred on 2 January 2018.

## 29. Share Capital and Share Premium

EDP, S.A. was incorporated as a State-owned company and started its privatisation process in 1997. The second and third phases of the privatisation process were carried out in 1998, the fourth phase in 2000, the fifth phase consisting of a capital increase in 2004 and a sixth phase in 2005. In December 2007, the State issued bonds convertible into shares of EDP, S.A. under the seventh phase of the privatisation process.

On 11 May 2012, regarding EDP's eighth reprivatisation phase, the Portuguese State sold to China Three Gorges (Europe), S.A. (former - CWEI (Europe), S.A.), the ownership of 780,633,782 shares representing 21.35% of the share capital of EDP, S.A.

On 21 February 2013, Parpública – Participações Públicas (SGPS) S.A. (Parpública) notified EDP that, on 19 February 2013, it sold 151,517,000 shares, which correspond to 4.14% of EDP's share capital.

As a result of this two last transactions, Parpública no longer has a qualified shareholding position in EDP share capital.

On 29 September 2017, China Three Gorges (Europe), S.A. acquired 70,143,242 shares representing around 1.92% of EDP's share capital. After this acquisition, an off-market transaction, CTG Europe became the holder of 850,777,024 shares.

The share capital amounts to 3,656,537,715 Euros and is represented by 3,656,537,715 fully paid up ordinary shares of 1 Euro each.

EDP - Energias de Portugal S.A. shareholder structure as at 31 December 2017 is as follows:

| | No. of Shares | % Capital | % Voting |
|---|---|---|---|
| China Three Gorges Corporation | 850,777,024 | 23.27% | 23.27% |
| CNIC Co., Ltd | 182,081,216 | 4.98% | 4.98% |
| Capital Group Companies, Inc. | 438,903,945 | 12.00% | 12.00% |
| Oppidum Capital, S.L. | 263,046,616 | 7.19% | 7.19% |
| BlackRock, Inc. | 182,733,180 | 5.00% | 5.00% |
| Mubadala Investment Company | 148,431,999 | 4.06% | 4.06% |
| Millennium BCP Group and Pension Fund | 89,126,167 | 2.44% | 2.43% |
| Sonatrach | 87,007,433 | 2.38% | 2.38% |
| Qatar Investment Authority | 82,868,933 | 2.27% | 2.27% |
| Norges Bank | 98,397,785 | 2.69% | 2.69% |
| EDP (Treasury stock) | 21,906,324 | 0.60% | |
| Remaining shareholders | 1,211,257,093 | 33.12% | |
| | **3,656,537,715** | **100.00%** | |

This breakdown should be read together with note 47 – Relevant or subsequent events, where the changes occurred in the shareholder structure after 31 December 2017 are disclosed.

Share capital and Share premium are as follows:

| Thousand Euros | Group and Company | |
|---|---|---|
| | Share capital | Share premium |
| **Balance as at 1 January** | 3,656,538 | 503,923 |
| Movements during the period | - | - |
| **Balance as at 31 December** | 3,656,538 | 503,923 |

The earnings per share (EPS) attributable to the equity holders of EDP are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Net profit attributable to the equity holders of EDP (in Euros) | 1,113,168,602 | 960,561,006 | 765,427,037 | 758,031,089 |
| Net profit from continuing operations attributable to the equity holders of EDP (in Euros) | 1,113,168,602 | 960,561,006 | | |
| Weighted average number of ordinary shares outstanding | 3,634,756,353 | 3,634,971,187 | 3,636,269,353 | 3,636,484,187 |
| Weighted average number of diluted ordinary shares outstanding | 3,634,756,353 | 3,634,971,187 | 3,636,269,353 | 3,636,484,187 |
| Basic earnings per share attributable to equity holders of EDP (in Euros) | 0.31 | 0.26 | | |
| Diluted earnings per share attributable to equity holders of EDP (in Euros) | 0.31 | 0.26 | | |
| Basic earnings per share from continuing operations (in Euros) | 0.31 | 0.26 | | |
| Diluted earnings per share from continuing operations (in Euros) | 0.31 | 0.26 | | |

EDP Group calculates basic and diluted earnings per share attributable to equity holders of EDP using the weighted average number of ordinary shares outstanding during the period, net of changes in treasury stock during the period.

The average number of shares was determined as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Ordinary shares issued at the beginning of the period | 3,656,537,715 | 3,656,537,715 | 3,656,537,715 | 3,656,537,715 |
| Effect of shares issued during the period | - | - | - | - |
| **Average number of realised shares** | 3,656,537,715 | 3,656,537,715 | 3,656,537,715 | 3,656,537,715 |
| Effect of treasury stock | -21,781,362 | -21,566,528 | -20,268,362 | -20,053,528 |
| **Average number and diluted average number of shares during the period** | 3,634,756,353 | 3,634,971,187 | 3,636,269,353 | 3,636,484,187 |

## 30. Treasury Stock

This caption is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Book value of EDP, S.A.'s treasury stock (thousand Euros) | 62,957 | 63,528 | 56,862 | 57,433 |
| Number of shares | 21,906,324 | 22,056,438 | 20,393,324 | 20,543,438 |
| Market value per share (in Euros) | 2.885 | 2.894 | 2.885 | 2.894 |
| Market value of EDP, S.A.'s treasury stock (thousand Euros) | 63,200 | 63,831 | 58,835 | 59,453 |

Shares' transactions occurred between 1 January and 31 December 2017:

| | EDP, S.A. | Energia RE |
|---|---|---|
| Volume acquired (number of shares) | 300,000 | - |
| Average purchase price (in Euros) | 2.896 | - |
| Total purchases (thousand Euros) | 869 | - |
| Volume sold (number of shares) | -450,114 | - |
| Average selling price (in Euros) | 3.030 | - |
| Total sales (thousand Euros) | 1,364 | - |
| Final position (number of shares) | 20,393,324 | 1,513,000 |
| Highest market price (in Euros) | 3.374 | - |
| Lowest market price (in Euros) | 2.660 | - |
| Average market price (in Euros) | 3.014 | - |

The treasury stock held by EDP, S.A. is within the limits established by the Company's articles of association and by the "Código das Sociedades Comerciais" (Portuguese Commercial Companies Code). Treasury stock is recognised at acquisition cost.

## 31. Reserves and Retained Earnings

This caption is as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Legal reserve | 739,024 | 739,024 | 739,024 | 739,024 |
| Fair value reserve (cash flow hedge) | -103,578 | 43,235 | 7,496 | 54,217 |
| Tax effect of fair value reserve (cash flow hedge) | 27,436 | -13,749 | -1,726 | -16,034 |
| Fair value reserve (available for sale investments) | 36,649 | 52,096 | - | 20,190 |
| Tax effect of fair value reserve (available for sale investments) | -5,394 | -1,998 | - | 2,741 |
| Exchange differences arising on consolidation | -361,956 | -144,818 | - | - |
| Treasury stock reserve (EDP, S.A.) | 56,862 | 57,433 | 56,862 | 57,433 |
| Other reserves and retained earnings | 3,946,222 | 3,617,570 | 1,773,887 | 1,706,377 |
| | 4,335,265 | 4,348,793 | 2,575,543 | 2,563,948 |

*Legal reserve*

In accordance with article no. 295 of "Código das Sociedades Comerciais" (Portuguese Commercial Companies Code) and EDP, S.A.'s articles of association, the legal reserve must be increased by a minimum of 5% of the annual profit until it reaches 20% of the company's share capital. This reserve can only be used to cover losses or to increase share capital.

*Fair value reserve (cash flow hedge)*

This reserve includes the effective portion of the cumulative net change in the fair value of the cash flow hedging financial derivative instruments.

*Fair value reserve (available for sale investments)*

This reserve includes the accumulated net change in the fair value of available for sale investments as at the balance sheet date, net of impairment losses. The changes in this consolidated caption for the period are as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Increases | Decreases |
| **Balance as at 1 January 2016** | 586,853 | -525,288 |
| Changes in fair value | 10,358 | -40,789 |
| Transfer of impairment to profit or loss | 31,821 | - |
| Transfer to the income statement relating to assets sold | - | -10,859 |
| **Balance as at 31 December 2016** | 629,032 | -576,936 |
| Changes in fair value | 9,651 | -1,496 |
| Transfer of impairment to profit or loss | 1,041 | - |
| Transfer of reserves from assets sold to profit or loss | - | -24,643 |
| **Balance as at 31 December 2017** | 639,724 | -603,075 |

Changes in fair value reserve attributable to the EDP Group during the period ended 31 December 2017 are as follows:

| Thousand Euros | Increases | Decreases |
|---|---|---|
| EDA - Electricidade dos Açores, S.A. | - | -455 |
| Feedzai - Consultadoria e Inovação Tecnológica, S.A. | 5,261 | - |
| Zephyr Fund (Energia RE portfolio) | 1,848 | - |
| REN - Redes Energéticas Nacionais, SGPS, S.A. | 94 | - |
| Other | 2,448 | -1,041 |
| | 9,651 | -1,496 |

*Exchange differences on consolidation*

Exchange differences on consolidation include the amounts resulting from changes in the value of net assets of subsidiaries, joint ventures and associated companies resulting from changes in exchange rates. The exchange rates used in the preparation of the financial statements are as follows:

| Currency | | Exchange rates at Dec 2017 | | Exchange rates at Dec 2016 | |
|---|---|---|---|---|---|
| | | Closing rates | Average exchange rate | Closing rates | Average exchange rate |
| US Dollar | USD | 1.199 | 1.129 | 1.054 | 1.107 |
| Brazilian Real | BRL | 3.973 | 3.605 | 3.431 | 3.858 |
| Macao Pataca | MOP | 9.653 | 9.063 | 8.420 | 8.848 |
| Canadian Dollar | CAD | 1.504 | 1.465 | 1.419 | 1.466 |
| Polish Zloty | PLN | 4.177 | 4.258 | 4.410 | 4.363 |
| Romanian Leu | RON | 4.659 | 4.569 | 4.539 | 4.491 |
| Pound Sterling | GBP | 0.887 | 0.877 | 0.856 | 0.819 |
| South African Rand | ZAR | 14.805 | 15.047 | 14.457 | 16.267 |
| Mexican Peso | MXN | 23.661 | 21.330 | 21.772 | 20.661 |
| Chinese Yuan | CNY | 7.804 | 7.628 | 7.320 | 7.351 |

*Treasury stock reserve (EDP, S.A.)*

In accordance with the article 324º of "Código das Sociedades Comerciais" (Portuguese Commercial Companies Code), EDP, S.A. has created an unavailable reserve with an amount equal to the book value amount of treasury stock held in the company statements.

*Dividends*

On 19 April 2017, the Shareholders General Meeting of EDP, S.A. approved the dividends distribution to shareholders of the net profit for the year 2016 in the amount of 694,742 thousand Euros, corresponding to a dividend of 0.19 Euros per share (including the treasury stock dividend owned by EDP, S.A. and Energia RE in the amount of 3,818 thousand Euros and 287 thousand Euros, respectively). This distribution occurred on 17 May 2017.

## 32. Non-Controlling Interests

This caption is as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| Non-controlling interests in income statement | 328,266 | 239,550 |
| Non-controlling interests in equity and reserves | 3,606,056 | 4,090,535 |
| | 3,934,322 | 4,330,085 |

Non-controlling interests, by subgroup, are as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| EDP Renováveis Group | 2,653,911 | 2,819,335 |
| EDP Brasil Group | 1,308,065 | 1,548,514 |
| Other | -27,654 | -37,764 |
| | 3,934,322 | 4,330,085 |

The movement in non-controlling interests of EDP Renováveis Group is mainly related to: (i) profits attributable to non-controlling interests of 230,843 thousand Euros; (ii) a negative impact of 58,531 thousand Euros related to dividends attributable to non-controlling interests; (iii) a negative impact of 141,518 thousand Euros resulting from exchange differences; (iv) a negative impact of 34,060 thousand Euros resulting from share capital increases/decreases and other acquisitions/sales without change of control; (v) a positive impact resulting from a gain of control of EDPR subsidiary in Mexico of 16,646 thousand Euros (see note 5); (vi) a positive impact of 135,679 thousand Euros resulting from the sale without change of control of EDPR EU subsidiaries attributable to non-controlling interests (see note 5); and (vii) a negative impact of 315,691 thousand Euros resulting from the General and Voluntary Public Tender Offer for the acquisition of shares representative of the share capital of EDP Renováveis, S.A. (see note 5).

The movement booked in non-controlling interests of EDP Brasil Group includes: (i) 100,180 thousand Euros of profits attributable to non-controlling interests; (ii) a decrease of 203,667 thousand Euros resulting from exchange differences; (iii) a negative impact of 59,720 thousand Euros related to dividends attributable to non-controlling interests; (iv) a negative impact of 13,235 thousand Euros from recognised actuarial losses (net of taxes); and (v) a negative impact of 64,474 thousand Euros resulting from share capital decreases.

## 33. Hydrological Account

The movements in the Hydrological account are as follows:

| Thousand Euros | Group and Company | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| **Balance at the beginning of the period** | 1,574 | 11,417 |
| Amounts received/(paid) during the period | - | -10,142 |
| Financial charges | - | 299 |
| **Balance at the end of the period** | 1,574 | 1,574 |

The hydrological account was established by Decree-Law 23/89, of 19 January, and reflects the accounting movements resulting from the application of the hydrological correction mechanism established by the mentioned Decree-Law. This legal mechanism is designed to match a sharp interannual irregularity of production costs with a tariff stability policy, which, as a rule, affects consumers by the average of the hydrological conditions.

Given the evolution of the national electricity sector, in particular with the liberalised market, the legislature sought to adapt the mechanism of hydrological correction account to the market conditions, and for such, issued Decree-Law 110/2010 of 14 October, which provides the termination of this mechanism by 31 December 2016 and establishes a transitional regime applicable until that date. Under the terms of this Decree-Law, the differential of hydrological adjustment should be reflected in the tariff calculation applicable to all energy consumers, to cover the variation risk of tariff costs and revenues associated to the hydrological variability in Portugal.

The positive differentials of the hydrological correction account must be delivered by EDP - Energias de Portugal, SA (EDP, S.A.) to the RND concessionaire, against the hydrological correction account, in benefit of the overall system usage tariff or another tariff applicable to all electricity consumers. Thus, the negative differentials must be recovered in favor of the hydrological correction account through the same tariff and delivered by the RND concessionaire to EDP, S.A.

The financial charges or income that have always been associated with the accumulated balance of this account are booked against results.

This Decree-Law establishes that the hydrological correction account, which has always been applied to the accounts of the EDP Group, should be evidenced in EDP, S.A.'s financial position statement and the corresponding annual movements explained in the notes to the financial statements.

According with Decree-Law 110/2010 of 14 October, the hydrological correction account mechanism ceased in the end of 2016. In that year, the amount in the hydrological account was exclusively financial charges supported by EDP, S.A. The document "Tariffs and prices for the electricity and other services for 2017", published by ERSE, determined the tariffs of this year that do not considered any amount related to this mechanism, so the amount remained unchanged for this year.

## 34. Financial Debt

This caption is as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| **Debts and borrowings - Non-current** | | | | |
| Bank loans: | | | | |
| - EDP, S.A. | 288,137 | 350,570 | 288,137 | 350,570 |
| - EDP Finance B.V. | 1,942,285 | 2,359,360 | - | - |
| - EDP Brasil Group | 454,786 | 588,845 | - | - |
| - EDP Renováveis Group | 825,927 | 686,276 | - | - |
| - EDP Produção | - | 73,688 | - | - |
| | 3,511,135 | 4,058,739 | 288,137 | 350,570 |
| Non-convertible bond loans: | | | | |
| - EDP, S.A. | - | 50,000 | 4,350,000 | 7,900,000 |
| - EDP Finance B.V. | 10,000,982 | 9,394,007 | - | - |
| - EDP Brasil Group | 679,445 | 696,122 | - | - |
| | 10,680,427 | 10,140,129 | 4,350,000 | 7,900,000 |
| Hybrid bond: | | | | |
| - EDP, S.A. | 739,168 | 739,168 | 739,168 | 739,168 |
| | 739,168 | 739,168 | 739,168 | 739,168 |
| Commercial paper: | | | | |
| - EDP, S.A. | 408,455 | 437,169 | 408,455 | 437,169 |
| - EDP Brasil Group | 32,722 | - | - | - |
| | 441,177 | 437,169 | 408,455 | 437,169 |
| Other loans | 16,923 | 21,681 | - | - |
| | 15,388,830 | 15,396,886 | 5,785,760 | 9,426,907 |
| Accrued interest | 1,249 | - | - | - |
| Other liabilities: | | | | |
| - Fair value of the issued debt hedged risk | 79,557 | 153,387 | - | - |
| **Total Debt and Borrowings** | 15,469,636 | 15,550,273 | 5,785,760 | 9,426,907 |
| **Collateral Deposits - Non-current *** | -34,874 | -31,936 | - | - |
| | 15,434,762 | 15,518,337 | 5,785,760 | 9,426,907 |

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| **Debt and borrowings - Current** | | | | |
| Bank loans: | | | | |
| - EDP, S.A. | 64,984 | 65,129 | 76,433 | 74,199 |
| - EDP Finance B.V. | 29,990 | 199,482 | - | - |
| - EDP Brasil Group | 110,779 | 90,234 | - | - |
| - EDP Renováveis Group | 166,101 | 99,185 | - | - |
| - Other | 20 | 5,696 | - | - |
| | 371,874 | 459,726 | 76,433 | 74,199 |
| Non-convertible bond loans: | | | | |
| - EDP, S.A. | 50,000 | - | 4,550,000 | - |
| - EDP Finance B.V. | 549,035 | 1,062,764 | - | - |
| - EDP Brasil Group | 205,561 | 178,671 | - | - |
| | 804,596 | 1,241,435 | 4,550,000 | - |
| Commercial paper: | | | | |
| - EDP, S.A. | 6,000 | 556,000 | 2,961,519 | 1,575,846 |
| | 6,000 | 556,000 | 2,961,519 | 1,575,846 |
| Other loans | 3,836 | 7,664 | - | - |
| | 1,186,306 | 2,264,825 | 7,587,952 | 1,650,045 |
| Accrued interest | 260,116 | 292,064 | 114,585 | 116,314 |
| Other liabilities: | | | | |
| - Fair value of the issued debt hedged risk | 1,707 | -80,486 | - | - |
| **Total Debt and Borrowings** | 1,448,129 | 2,476,403 | 7,702,537 | 1,766,359 |
| **Collateral Deposits - Current *** | -10,381 | -20,095 | - | - |
| | 1,437,748 | 2,456,308 | 7,702,537 | 1,766,359 |

* Deposits constituted as collateral for financial guarantee

Commercial Paper non-current refers to a Commercial Paper programs with a firm underwriting commitment for a period of over one year, in the amounts of 250,000 thousand US Dollars, 200,000 thousand Euros and 130,000 thousand Reais.

Main events of the period:

In January 2017, EDP Finance B.V. issued a Eurobond of 600 million Euros maturing in September 2023.

In June 2017, EDP Finance B.V. issued a total of 1,000 million US Dollars notes under Rule 144A and Regulation S of the U.S. Securities Act of 1933, maturing in July 2024. The securities were issued under EDP and EDP Finance B.V.'s Program for the Issuance of Debt Instruments (MTN).

In October 2017, EDP Finance B.V. cancelled an existing 3,150 million Euros Revolving Credit Facility ("RCF") that was due to mature in June, 2019, replacing it with a new 3,300 million Euros RCF with a 5-Year tenor, extendable for 2 additional years, subject to lenders authorisation.

In November 2017, EDP Finance B.V. issued a Eurobond of 500 million Euros maturing in November 2027.

In December 2017, EDP S.A. concluded a "Tender Offer" over the issues "4.900% NOTES DUE OCTOBER 1, 2019" and "4.125% NOTES DUE January 15, 2020", limited to a total value of 500 million US Dollars. As a result of the offer, EDP SA acquired 332,924 thousand US Dollars of the "4.900% NOTES DUE OCTOBER 1, 2019" and 167,076 thousand US Dollars of the "4.125% NOTES DUE January 15, 2020" (see note 19).

The nominal value of outstanding Bond loans placed with external counterparties, as at 31 December 2017, is as follows:

| Issuer | Issue date | Interest rate | Type of hedge | Conditions/ Redemption | Nominal Value in Million Currency | Thousand Euros | |
|---|---|---|---|---|---|---|---|
| | | | | | | Group | Company |
| **Issued by EDP S.A.** | | | | | | | |
| EDP, S.A. (ii) | May-08 | Variable rate (iii) | n.a. | May-18 | 50 EUR | 50,000 | 50,000 |
| | | | | | | 50,000 | 50,000 |
| **Hybrid by EDP S.A.** | | | | | | | |
| EDP, S.A. (iv) | Sep-15 | Fixed rate EUR 5.375% (v) | n.a. | Sep-75 | 750 EUR | 750,000 | 750,000 |
| | | | | | | 750,000 | 750,000 |
| **Issued under the Euro Medium Term Notes program** | | | | | | | |
| EDP Finance B.V. | Dec-02 | Fixed rate EUR (iii) | n.a. | Dec-22 | 93 EUR | 93,357 | - |
| EDP Finance B.V.(i) | Jun-05 | Fixed rate EUR 4.125% | n.a. | Jun-20 | 300 EUR | 300,000 | - |
| EDP Finance B.V.(vi) | Nov-07 | Fixed rate USD 6.00% | Net Investment | Feb-18 | 531 USD | 442,373 | - |
| EDP Finance B.V.(i) | Nov-08 | Fixed rate GBP 8.625% | Fair Value | Jan-24 | 325 GBP | 410,314 | - |
| EDP Finance B.V. | Nov-08 | Zero coupon EUR (iii) | n.a. | Nov-23 | 160 EUR | 160,000 | - |
| EDP Finance B.V.(i) | Jun-09 | Fixed rate JPY (iii) | n.a. | Jun-19 | 10,000 JPY | 87,192 | - |
| EDP Finance B.V.(vi) | Sep-09 | Fixed rate USD 4.90% | Net Investment | Oct-19 | 637 USD | 530,758 | - |
| EDP Finance B.V.(i) | Nov-12 | Fixed rate CHF 4.00% | Fair Value/ Cash Flow | Nov-18 | 125 CHF | 103,922 | - |
| EDP Finance B.V.(i) | Sep-13 | Fixed rate EUR 4.875% | Fair Value | Sep-20 | 750 EUR | 750,000 | - |
| EDP Finance B.V. | Nov-13 | Fixed rate EUR 4.125% | n.a. | Jan-21 | 600 EUR | 600,000 | - |
| EDP Finance B.V. | Jan-14 | Fixed rate USD 5.25% | Net Investment | Jan-21 | 750 USD | 625,365 | - |
| EDP Finance B.V.(i) | Apr-14 | Fixed rate EUR 2.625% | Fair Value | Apr-19 | 650 EUR | 650,000 | - |
| EDP Finance B.V. | Jun-14 | Variable rate (iii) | Net Investment | Jun-19 | 100 USD | 83,382 | - |
| EDP Finance B.V.(i) | Sep-14 | Fixed rate EUR 2.625% | Fair Value | Jan-22 | 1,000 EUR | 1,000,000 | - |
| EDP Finance B.V.(vi) | Nov-14 | Fixed rate USD 4.125% | Net Investment | Jan-20 | 583 USD | 486,054 | - |
| EDP Finance B.V.(i) | Apr-15 | Fixed rate EUR 2.00% | Fair Value | Apr-25 | 750 EUR | 750,000 | - |
| EDP Finance B.V. | Mar-16 | Fixed rate EUR 2.375% | n.a. | Mar-23 | 600 EUR | 600,000 | - |
| EDP Finance B.V.(i) | Aug-16 | Fixed rate EUR 1.125% | n.a. | Feb-24 | 1,000 EUR | 1,000,000 | - |
| EDP Finance B.V. | Jan-17 | Fixed rate EUR 1.875% | n.a. | Sep-23 | 600 EUR | 600,000 | - |
| EDP Finance B.V. | Jun-17 | Fixed rate USD 3.625% | Net Investment | Jul-24 | 1,000 USD | 833,820 | - |
| EDP Finance B.V. | Nov-17 | Fixed rate EUR 1.50% | n.a. | Nov-27 | 500 EUR | 500,000 | - |
| | | | | | | 10,606,537 | - |

| Issuer | Issue date | Interest rate | Type of hedge | Conditions/ Redemption | Nominal Value in Million Currency | Thousand Euros | |
|---|---|---|---|---|---|---|---|
| | | | | | | Group | Company |
| **Issued by the EDP Energias do Brasil Group in the Brazilian domestic market** | | | | | | | |
| Lajeado Energia | Nov-13 | CDI + 1.20% | n.a. | Nov-19 | 300 BRL | 75,515 | - |
| EDP São Paulo (ex-Bandeirante) | Apr-14 | CDI + 1.39% | n.a. | Apr-19 | 108 BRL | 27,184 | - |
| EDP Espírito Santo (ex-Escelsa) | Aug-14 | CDI + 1.50% | n.a. | Aug-20 | 177 BRL | 44,501 | - |
| Energias do Brasil | Oct-15 | IPCA + 8.3201% | n.a. | Sep-21 | 201 BRL | 50,716 | - |
| Energias do Brasil | Oct-15 | CDI + 1.74% | n.a. | Sep-18 | 332 BRL | 83,598 | - |
| Energias do Brasil | Oct-15 | IPCA + 8.2608% | n.a. | Sep-24 | 54 BRL | 13,551 | - |
| Energias do Brasil | Apr-16 | IPCA + 8.3479% | n.a. | Apr-22 | 267 BRL | 67,089 | - |
| Energest | Apr-16 | CDI + 2.25% | n.a. | Apr-18 | 36 BRL | 9,061 | - |
| Energest | Apr-16 | CDI + 2.265% | n.a. | Apr-20 | 54 BRL | 13,592 | - |
| Enerpeixe | Nov-16 | 114.50% * CDI | n.a. | Nov-19 | 350 BRL | 88,097 | - |
| Pecém | Dec-16 | CDI + 2.95% | n.a. | Nov-21 | 330 BRL | 83,063 | - |
| EDP São Paulo (ex-Bandeirante) | Apr-17 | 108.75% * CDI | n.a. | Apr-22 | 150 BRL | 37,756 | - |
| EDP Espírito Santo (ex-Escelsa) | Apr-17 | 108.75% * CDI | n.a. | Apr-22 | 190 BRL | 47,824 | - |
| Enerpeixe | Nov-17 | 116.00% * CDI | n.a. | Dec-22 | 320 BRL | 80,546 | - |
| EDP São Paulo (ex-Bandeirante) | Dec-17 | 107.50% * CDI | n.a. | Jan-21 | 100 BRL | 25,171 | - |
| EDP Pequenas Centrais Hidroelétricas | Dec-17 | CDI + 1.30% | n.a. | Dec-22 | 150 BRL | 37,756 | - |
| EDP Espírito Santo (ex-Escelsa) | Dec-17 | 107.50% * CDI | n.a. | Jan-21 | 120 BRL | 30,205 | - |
| Lajeado Energia | Dec-17 | 109.00% * CDI | n.a. | Dec-20 | 100 BRL | 25,171 | - |
| Lajeado Energia | Dec-17 | 113.70% * CDI | n.a. | Dec-22 | 200 BRL | 50,341 | - |
| | | | | | | 890,737 | - |
| | | | | | | 12,297,274 | 800,000 |

(i) These issues by EDP Finance B.V. are associated with interest rate swaps and/or currency swaps.
(ii) Fixed in each year, varies over the useful life of the loan.
(iii) These issues correspond to private placements.
(iv) There is a call option exercisable at par by EDP at March 2021, March 2026 and subsequently, on each interest payment date.
(v) Fixed rate in the first 5.5 years, subsequently updated every 5 years.
(vi) Consolidated nominal value after the repurchase of securities by EDP - Energias de Portugal, S.A.

Some of the loans contracted by the EDP Group, mainly debt issued under the EMTN programme, include some usual clauses in this type of operations, namely, "change-of-control", "negative pledge", "pari-passu" and "cross-default" clauses, each one only applicable under a restricted set of circumstances.

The Group has project finance loans with the usual guarantees for such loans, namely pledges or promissory pledges over shares, bank accounts and assets relating to the projects. As at 31 December 2017 and 2016 these loans amounted to 1,249,771 thousand Euros and 1,100,951 thousand Euros, respectively (see note 43).

EDP Group has several credit facilities it uses for liquidity management. EDP Group has short-term credit facilities of 226 million Euros, indexed to Euribor for the agreed period of use with spread conditions agreed in advance, and with a firm underwriting commitment, which as at 31 December 2017 are totally available. EDP Group has also a Commercial Paper program of 100 million Euros with guaranteed placement, which as at 31 December 2017 is totally available. EDP Group has a medium term Revolving Credit Facility (RCF) of 3,300 million Euros, with a firm underwriting commitment and maturing in 2022, a RCF of 500 million Euros, with a firm underwriting commitment and maturing in 2020, and a RCF of 75 million Euros, with a firm underwriting commitment and maturing in 2019 which as at 31 December 2017 are totally available.

As at 31 December 2017, future debt and interest payments, by type of loan and currency, are as follows:

| Thousand Euros | Dec 2018 | Dec 2019 | Dec 2020 | Dec 2021 | Dec 2022 | Following years | Total |
|---|---|---|---|---|---|---|---|
| **Bank loans:** | | | | | | | |
| Euro | 144,427 | 111,999 | 1,592,654 | 255,313 | 74,308 | 230,083 | 2,408,784 |
| Brazilian Real | 127,779 | 161,513 | 75,823 | 64,615 | 65,306 | 263,268 | 758,304 |
| US Dollar | 25,426 | 302,658 | 11,624 | 11,808 | 11,566 | 161,008 | 524,090 |
| Other | 83,741 | 19,189 | 19,932 | 21,675 | 18,494 | 38,683 | 201,714 |
| | 381,373 | 595,359 | 1,700,033 | 353,411 | 169,674 | 693,042 | 3,892,892 |
| **Bond loans:** | | | | | | | |
| Euro | 303,583 | 652,500 | 1,070,299 | 596,102 | 1,183,316 | 3,960,257 | 7,766,057 |
| Brazilian Real | 217,235 | 131,014 | 200,433 | 221,015 | 122,320 | 4,662 | 896,679 |
| US Dollar | 499,769 | 686,261 | 483,958 | 620,755 | - | 826,708 | 3,117,451 |
| | 1,020,587 | 1,469,775 | 1,754,690 | 1,437,872 | 1,305,636 | 4,791,627 | 11,780,187 |
| **Hybrid Bond:** | | | | | | | |
| Euro | 32,140 | - | - | - | - | 739,168 | 771,308 |
| | 32,140 | - | - | - | - | 739,168 | 771,308 |
| **Commercial paper:** | | | | | | | |
| Euro | 6,046 | - | - | 200,000 | - | - | 206,046 |
| Brazilian Real | - | 33,971 | - | - | - | - | 33,971 |
| US Dollar | 2,973 | 208,455 | - | - | - | - | 211,428 |
| | 9,019 | 242,426 | - | 200,000 | - | - | 451,445 |
| **Other loans:** | | | | | | | |
| Euro | 1,283 | 91 | 42 | - | - | - | 1,416 |
| Brazilian Real | 3,727 | 1,746 | 894 | 428 | - | 13,722 | 20,517 |
| | 5,010 | 1,837 | 936 | 428 | - | 13,722 | 21,933 |
| | 1,448,129 | 2,309,397 | 3,455,659 | 1,991,711 | 1,475,310 | 6,237,559 | 16,917,765 |

The fair value of EDP Group's debt is as follows:

| | Dec 2017 | | Dec 2016 | |
|---|---|---|---|---|
| Thousand Euros | Carrying amount | Market value | Carrying amount | Market value |
| Debt and borrowings - Non-Current | 15,469,636 | 16,747,971 | 15,550,273 | 16,355,711 |
| Debt and borrowings - Current | 1,448,129 | 1,094,003 | 2,476,403 | 2,242,288 |
| | 16,917,765 | 17,841,974 | 18,026,676 | 18,597,999 |

In accordance with the Group's accounting policies - note 2 d) and f), the financial liabilities whose risks are being hedged by derivative financial instruments and that comply with hedge accounting requirements of IAS 39, are accounted at fair value. The financial liabilities are booked at amortised cost.

For fair value of debt purposes, the Hybrid bond was valued considering the maturity of the first call date (March 2021).

## 35. Employee Benefits

Employee benefits are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| Thousand Euros | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Provisions for social liabilities and benefits | 763,249 | 815,264 | 4,137 | 3,088 |
| Provisions for medical liabilities and other benefits | 759,004 | 911,581 | 2,002 | 1,858 |
| | 1,522,253 | 1,726,845 | 6,139 | 4,946 |

This caption is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| Thousand Euros | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Non-Current | 1,198,362 | 1,410,136 | 5,763 | 4,655 |
| Current | 323,891 | 316,709 | 376 | 291 |
| | 1,522,253 | 1,726,845 | 6,139 | 4,946 |

As at 31 December 2017, Provisions for social liabilities and benefits relate to retirement pension defined benefit plans.

The movement in Provisions for social liabilities and benefits is as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| **Balance at the beginning of the period** | 815,264 | 883,447 |
| Charge for the period | 26,950 | 27,412 |
| Past service cost (Curtailment/Plan amendments) | 17,426 | 12,824 |
| Actuarial (gains)/losses | 43,724 | 48,960 |
| Charge-off | -140,808 | -155,759 |
| Surplus/(Deficit) pension funding (see note 25) | 1,367 | -1,139 |
| Transfers, reclassifications and exchange differences | -674 | -481 |
| **Balance at the end of the period** | 763,249 | 815,264 |

The breakdown of actuarial gains and losses is as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| Actuarial gains and losses arising from: | | |
| - changes in demographic assumptions | - | -3,325 |
| - changes in financial assumptions | 64,255 | 85 |
| - experience adjustments | 39,927 | 60,627 |
| Actuarial gains and losses arising from return on plan assets | -70,322 | -28,711 |
| Actuarial gains and losses of asset ceiling | 9,864 | 20,284 |
| | 43,724 | 48,960 |

The movement in Provisions for medical liabilities and other benefits is as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| **Balance at the beginning of the period** | 911,581 | 940,046 |
| Charge for the period | 40,743 | 39,044 |
| Past service cost (Curtailment/Plan amendments) | 770 | 563 |
| Actuarial (gains)/losses | 22,650 | 22,796 |
| Charge-off | -24,144 | -45,052 |
| Fund contributions | -163,888 | -81,940 |
| Transfers, reclassifications and exchange differences | -28,708 | 36,124 |
| **Balance at the end of the period** | 759,004 | 911,581 |

The breakdown of actuarial gains and losses is as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| Actuarial gains and losses arising from: | | |
| - changes in financial assumptions | 28,001 | 10,727 |
| - experience adjustments | 3,017 | 12,061 |
| Actuarial gains and losses arising from return on plan assets | -8,368 | 8 |
| | 22,650 | 22,796 |

In accordance with accounting policies - note 2 n), the EDP Group opted, upon transition to IFRS, to charge to reserves, the total amount of the deferred actuarial losses existing at that date, for the several employee benefits plans. The impact in reserves at 31 December 2004 amounted to 1,162,000 thousand Euros. In the following periods, actuarial gains and losses were recognised directly in reserves. As at 31 December 2017 losses of 66,374 thousand Euros (31 December 2016: 71,756 thousand Euros).

During 2017, under the employees' reduction program, EDP Group entered into early retirement and anticipation of retirement agreements with 90 portuguese employees that cease their services in 2017 and 2018. This increase in liabilities with employee benefits was measured and recognised in the income statement in the amount of 18,196 thousand Euros (see note 9).

The weighted average duration of the defined benefit liabilities in Portugal is 11 years.

In December 2016, following the decision and implementation of the autonomisation of the Medical Plan and Death Subsidy Plan in Portugal, was made a first contribution of 81,940 thousand Euros, in line with the financing plan approved by Insurance and Pension Funds Supervisory Authority (ASF). In 2017, EDP Group made contributions of 163,888 thousand Euros, as defined in the financing plan. In 2018, EDP Group estimates to make a contribution of 163,898 thousand Euros, as defined in the financing plan.

**Employee benefit plans**

Some EDP Group companies grant post-retirement benefits to employees, under defined benefit and defined contribution plans, namely pension plans that pay retirement complements of age, disability and surviving pensions, as well as early retirement pensions. In some cases healthcare is provided during retirement and early retirement, through mechanisms complementary to those provided by the National Health Service.

The following is a summary of the nature of the plans and the companies covered, as well as financial and economic data of the plans:

**I. Defined benefit pension plans**

The EDP Group companies in Portugal resulting from the EDP spin-off in 1994 have a social benefits plan funded by a closed Pension Fund, complemented by a specific provision. The EDP Pension Fund is managed by an external entity as well as the management of its assets is subcontracted to external asset management entities.

This Pension Fund covers the liability for retirement pension complementary benefits for age. The responsibilities for early retirement are not covered by the fund's assets, being adequately provisioned through a specific provision.

In Spain, following the revision of the collective labour agreement ("Convénio Colectivo") signed in December 2007, EDP España Group companies implemented an early retirement program.

EDP São Paulo (ex-Bandeirante) in Brazil has two defined benefit plans managed by a closed complementary welfare entity, sponsored by companies of EDP Brasil Group, in order to manage a set of benefit plans for employees and ex-employees of the company:

- Bandeirante (BD) plan in force up to 31 March 1998, a Balanced Benefit Plan that grants Balanced Proportional Supplementary Benefits (BSPS) in the form of an annuity payable to participants enrolled until 31 March 1998, of an amount defined in proportion to accumulated past service up to that date, based on compliance with the regulatory granting requirements. The company is fully liable to fund this plan;

- BD plan in force after 31 March 1998, grants an annuity in proportion to the accumulated past services after 31 March 1998, on the basis of 70% of the average actual monthly wage for the last 36 months in service. In the event of death or disability caused by a labour accident, the benefits incorporate all the past service (including that accumulated up to 31 March 1998), and not only past service accumulated after 31 March 1998. The Company and the participants are equally responsible for funding the Plan.

EDP Espírito Santo (ex-Escelsa), EDP São Paulo (ex-Bandeirante) and Energest have Defined Benefit Plans that grant complementary pensions for retirement and early retirement.

In the pension plans in Portugal, and according with the Pension Funds regulation, the surplus amount of the assets fund, under certain conditions, can be reimbursed to the company.

In the pension plans in Brazil, the surplus amount of the assets fund generally can not be reimbursed to the company, since there are very strict rules on the amount that can be recovered, therefore the asset amount to be recognised is greatly reduced.

The number of participants covered by the pension plans and similar obligations was as follows:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Portugal | Spain | Brazil | Portugal | Spain | Brazil |
| **Number of participants:** | | | | | | |
| Retirees and pensioners | 17,831 | 1,451 | 1,807 | 17,780 | 1,368 | 1,608 |
| Active workers | 4,088 | 1,315 | 919 | 4,599 | 1,408 | 1,005 |
| | 21,919 | 2,766 | 2,726 | 22,379 | 2,776 | 2,613 |

The following financial and actuarial assumptions were used to calculate the liability of the EDP Group pension plans and similar obligations:

| | Dec 2017 | | | | |
|---|---|---|---|---|---|
| | Portugal | Spain | Brazil | | |
| | | | EDP São Paulo (ex-Bandeirante) | EDP Espírito Santo (ex-Escelsa) | Energest |
| **Assumptions** | | | | | |
| Discount rate | 1.70% | 1.50% | 10.34% | 10.34% | 10.34% |
| Salary increase rate | 1.60% until 2019 // 1.85% after 2020 | 2.50% | 5.14% | 5.14% | 5.14% |
| Pension increase rate | 1.60% | 0.50% | 4.65% | 4.65% | 4.65% |
| Social Security salary appreciation | 2018 - 1.00% // after 2018 - 1.50% | not applicable | 4.65% | 4.65% | 4.65% |
| Inflation rate | 1.60% | 1.50% | 4.65% | 4.65% | 4.65% |
| Mortality table | Born< 1950 - - TV99/01 (+1) // Born>= 1950 -- TV99/01 | PERM/F-2000P | AT-2000 | AT-2000 | AT-2000 / RP 2000 Generational |
| Disability table | 50%EKV 80 | not applicable | Muller | Muller | Muller / Wyatt 1985 |
| Expected % of eligible employees accepting early retirement | (a) | not applicable | not applicable | not applicable | not applicable |

| | Dec 2016 | | | | |
|---|---|---|---|---|---|
| | Portugal | Spain | Brazil | | |
| | | | EDP São Paulo (ex-Bandeirante) | EDP Espírito Santo (ex-Escelsa) | Energest |
| **Assumptions** | | | | | |
| Discount rate | 1.70% | 1.75% | 12.00% | 12.00% | 12.00% |
| Salary increase rate | 1.50% until 2019 // 1.80% after 2020 | 3.00% | 6.06% | 6.06% | 6.06% |
| Pension increase rate | 1.30% | not applicable | 5.50% | 5.50% | 5.50% |
| Social Security salary appreciation | 2017 - 0.80% // After 2017 - 1.20% | not applicable | 5.50% | 5.50% | 5.50% |
| Inflation rate | 1.30% | 1.50% | 5.50% | 5.50% | 5.50% |
| Mortality table | Born< 1950 - - TV99/01 (+1) // Born>= 1950 -- TV99/01 | PERM/F-2000P | AT-2000 | AT-2000 / RP 2000 Generational | AT-2000 / RP 2000 Generational |
| Disability table | 50%EKV 80 | not applicable | Light Forte | Muller / Wyatt 1985 | Muller / Wyatt 1985 |
| Expected % of eligible employees accepting early retirement | (a) | not applicable | not applicable | not applicable | not applicable |

(a) 45% of the eligible population (employees entitled to early retirement, as stated in the Collective Labour Agreement: 37 years of service with at least 61 years of age or 40 years of service at any age).

The assumptions used in the calculation of the liability for employees defined benefit plans, were updated considering the evolutions occurred in the financial markets during 2017.

The liability for retirement pensions and related coverage for the Group is as follows:

| Thousand Euros | Dec 2017 | | | |
|---|---|---|---|---|
| | Portugal | Spain | Brazil | Group |
| **Provision for Pension Plans** | | | | |
| Liability at the end of the period | 1,541,225 | 89,208 | 252,458 | 1,882,891 |
| Fair value of plan assets at the end of the period | -933,337 | - | -303,454 | -1,236,791 |
| Surplus/(Deficit) pension funding (see note 26) | 58,952 | - | - | 58,952 |
| Asset ceiling | - | - | 58,197 | 58,197 |
| **Provision at the end of the period** | 666,840 | 89,208 | 7,201 | 763,249 |

| Thousand Euros | Dec 2016 | | | |
|---|---|---|---|---|
| | Portugal | Spain | Brazil | Group |
| **Provision for Pension Plans** | | | | |
| Liability at the end of the period | 1,586,902 | 87,815 | 274,074 | 1,948,791 |
| Fair value of plan assets at the end of the period | -917,393 | - | -330,624 | -1,248,017 |
| Surplus/(Deficit) pension funding (see note 26) | 57,585 | - | - | 57,585 |
| Asset ceiling | - | - | 56,905 | 56,905 |
| **Provision at the end of the period** | 727,094 | 87,815 | 355 | 815,264 |

The caption Asset ceiling refers to the unrecognised assets in the respective accounting periods. The reconciliation between the opening balance and the closing balance is as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| **Asset ceiling at the beginning of the period** | 56,905 | 27,113 |
| Effect of changes in restricted net assets of benefits to the asset ceiling | 9,864 | 20,284 |
| Exchange differences | -8,572 | 9,508 |
| **Asset ceiling at the end of the period** | 58,197 | 56,905 |

The evolution of the present value of the plan liability and fair value of the plan assets of the related Funds is as follows:

| Thousand Euros | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Provision for Pension Plans** | | | | | |
| Liability at the end of the period | 1,882,891 | 1,948,791 | 1,979,411 | 2,162,044 | 2,171,716 |
| Fair value of plan assets at the end of the period | -1,236,791 | -1,248,017 | -1,182,979 | -1,271,247 | -1,250,007 |
| Surplus / (Deficit) pension funding | 58,952 | 57,585 | 58,724 | - | - |
| Asset ceiling | 58,197 | 56,905 | 27,113 | 36,344 | 33,490 |
| **Provision at the end of the period** | 763,249 | 815,264 | 882,269 | 927,141 | 955,199 |

The experience adjustments (effects of the differences between the previous actuarial assumptions and what has really occurred) for the Portugal Pension Funds are as follows:

| Thousand Euros | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Experience adjustments for the Plan liabilities | -55,281 | -51,686 | -16,902 | 11,260 | -25,100 |
| Experience adjustments for the Plan assets | 64,044 | -2,061 | 16,025 | 34,347 | 64,074 |

The experience adjustments (effects of the differences between the previous actuarial assumptions and what has really occurred) for the Brazil Pension Funds are as follows:

| Thousand Euros | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Experience adjustments for the Plan liabilities | 15,354 | -8,941 | -2,271 | -11,923 | 308 |
| Experience adjustments for the Plan assets | 6,278 | 30,772 | -9,465 | 5,524 | -36,750 |

The past service liability of the pension plans for the Group is as follows:

| Thousand Euros | Dec 2017 | | | |
|---|---|---|---|---|
| | Portugal | Spain | Brazil | Group |
| **Evolution of the liability** | | | | |
| Liability at the beginning of the period | 1,586,902 | 87,815 | 274,074 | 1,948,791 |
| Current service cost | 8,810 | 7,228 | -730 | 15,308 |
| Net interest on the pensions plan liability | 25,528 | 1,350 | 30,049 | 56,927 |
| Benefits paid | -192,306 | -9,249 | -19,115 | -220,670 |
| Past service cost (Curtailment/Plan amendments) | 17,426 | - | - | 17,426 |
| Actuarial losses and gains | 94,865 | 3,074 | 6,243 | 104,182 |
| Exchange differences | - | - | -39,032 | -39,032 |
| Other | - | -1,010 | 969 | -41 |
| **Liability at the end of the period** | 1,541,225 | 89,208 | 252,458 | 1,882,891 |

| Thousand Euros | Dec 2016 | | | |
|---|---|---|---|---|
| | Portugal | Spain | Brazil | Group |
| **Evolution of the liability** | | | | |
| Liability at the beginning of the period | 1,693,576 | 94,172 | 191,663 | 1,979,411 |
| Current service cost | 9,296 | 4,584 | -204 | 13,676 |
| Net interest on the pensions plan liability | 30,497 | 1,597 | 26,307 | 58,401 |
| Benefits paid | -197,999 | -9,345 | -19,213 | -226,557 |
| Past service cost (Curtailment/Plan amendments) | 12,824 | - | - | 12,824 |
| Actuarial losses and gains | 38,497 | -3,325 | 22,215 | 57,387 |
| Exchange differences | - | - | 52,909 | 52,909 |
| Other | 211 | 132 | 397 | 740 |
| **Liability at the end of the period** | 1,586,902 | 87,815 | 274,074 | 1,948,791 |

The components of the consolidated net cost of this pension plans recognised during the period are as follows:

| Thousand Euros | Dec 2017 | | | |
|---|---|---|---|---|
| | Portugal | Spain | Brazil | Group |
| Current service cost | 8,810 | 7,228 | -730 | 15,308 |
| Past service cost (Curtailment/Plan amendments) | 17,426 | - | - | 17,426 |
| **Operational component (see note 9)** | 26,236 | 7,228 | -730 | 32,734 |
| Net interest on the net pensions plan liability | 10,487 | 1,350 | -195 | 11,642 |
| **Financial component (see note 12)** | 10,487 | 1,350 | -195 | 11,642 |
| | 36,723 | 8,578 | -925 | 44,376 |

| Thousand Euros | Dec 2016 | | | |
|---|---|---|---|---|
| | Portugal | Spain | Brazil | Group |
| Current service cost | 9,296 | 4,584 | -204 | 13,676 |
| Past service cost (Curtailment/Plan amendments) | 12,824 | - | - | 12,824 |
| **Operational component (see note 9)** | 22,120 | 4,584 | -204 | 26,500 |
| Net interest on the net pensions plan liability | 12,805 | 1,597 | -666 | 13,736 |
| **Financial component (see note 12)** | 12,805 | 1,597 | -666 | 13,736 |
| | 34,925 | 6,181 | -870 | 40,236 |

The evolution of the consolidated assets of the Pension Funds is as follows:

| Thousand Euros | Dec 2017 | | | |
|---|---|---|---|---|
| | Portugal | Spain | Brazil | Group |
| **Pension funds** | | | | |
| Assets value at the beginning of the period | 917,393 | - | 330,624 | 1,248,017 |
| Group contribution | - | - | 1,421 | 1,421 |
| Plan participants contributions | - | - | 923 | 923 |
| Benefits paid | -63,141 | - | -19,065 | -82,206 |
| Interest on the pensions plan assets | 15,041 | - | 30,244 | 45,285 |
| Actuarial gains/(losses) | 64,044 | - | 6,278 | 70,322 |
| Exchange differences | - | - | -46,971 | -46,971 |
| **Assets value at the end of the period** | 933,337 | - | 303,454 | 1,236,791 |

The actuarial gains/losses in Brazil include the positive amount of 9,864 thousand Euros (35,560 thousand Reais) related to actuarial gains and losses of the asset ceiling not recognised in reserves (31 December 2016: positive in 20,284 thousand Euros).

To determine the amount of provisions for pension funds, it has been deducted from the assets funds the value of the asset ceiling of 58,197 thousand Euros (230,718 thousand Reais). As at 31 December 2016, the asset ceiling amounted to 56,905 thousand Euros (195,158 thousand Reais).

| Thousand Euros | Dec 2016 | | | |
|---|---|---|---|---|
| | Portugal | Spain | Brazil | Group |
| **Pension funds** | | | | |
| Assets value at the beginning of the period | 964,620 | - | 218,359 | 1,182,979 |
| Group contribution | - | - | 10,072 | 10,072 |
| Plan participants contributions | - | - | 976 | 976 |
| Benefits paid | -62,828 | - | -19,018 | -81,846 |
| Interest on the pensions plan assets | 17,692 | - | 26,973 | 44,665 |
| Actuarial gains/(losses) | -2,061 | - | 30,772 | 28,711 |
| Exchange differences | - | - | 62,294 | 62,294 |
| Other variations | -30 | - | 196 | 166 |
| **Assets value at the end of the period** | 917,393 | - | 330,624 | 1,248,017 |

The assets of the pension fund in Portugal are as follows:

| | Fund assets by nature | | | | | |
|---|---|---|---|---|---|---|
| Thousand Euros | Liquidity | Bonds | Shares | Property | Other | Total |
| 31 December 2017 | 4,679 | 339,353 | 352,494 | 172,070 | 64,741 | 933,337 |
| 31 December 2016 | 19,945 | 401,788 | 326,169 | 88,928 | 80,563 | 917,393 |

| | Fund assets by nature | | | | | |
|---|---|---|---|---|---|---|
| % | Liquidity | Bonds | Shares | Property | Other | Total |
| 31 December 2017 | 0.50% | 36.36% | 37.77% | 18.44% | 6.93% | 100.00% |
| 31 December 2016 | 2.17% | 43.80% | 35.55% | 9.69% | 8.79% | 100.00% |

The assets of the medical care and death subsidy fund in Portugal are as follows:

| | Fund assets by nature | | | | | |
|---|---|---|---|---|---|---|
| Thousand Euros | Liquidity | Bonds | Shares | Property | Other | Total |
| 31 December 2017 | 1,179 | 85,542 | 88,854 | 43,374 | 16,320 | 235,269 |
| 31 December 2016 | 1,781 | 35,880 | 29,128 | 7,941 | 7,195 | 81,925 |

| | Fund assets by nature | | | | | |
|---|---|---|---|---|---|---|
| % | Liquidity | Bonds | Shares | Property | Other | Total |
| 31 December 2017 | 0.50% | 36.36% | 37.77% | 18.44% | 6.93% | 100.00% |
| 31 December 2016 | 2.17% | 43.80% | 35.55% | 9.69% | 8.79% | 100.00% |

The portfolio of shares and bonds have a quoted market price in an active market.

Properties included in the fund, that are being used by the Group amount to 187,018 thousand Euros as at 31 December 2017 (31 December 2016: 68,430 thousand Euros). Bonds include 7,178 thousand Euros (31 December 2016: 6,983 thousand Euros) relating to bonds issued by EDP Finance B.V. and EDP, S.A.

Shares include securities issued by Group companies that are as follows:

| Thousand Euros | 2017 | 2016 |
|---|---|---|
| Shares: | | |
| EDP Renováveis | 10,005 | 9,119 |
| EDP S.A. | - | 250 |
| | 10,005 | 9,369 |

Pension fund assets in Brazil are as follows:

| | Fund assets by nature | | | | | |
|---|---|---|---|---|---|---|
| Thousand Euros | Liquidity | Bonds | Shares | Property | Other | Total |
| 31 December 2017 | - | 250,451 | 49,759 | 1,012 | 2,232 | 303,454 |
| 31 December 2016 | - | 281,254 | 45,410 | 1,134 | 2,826 | 330,624 |

| | Fund assets by nature | | | | | |
|---|---|---|---|---|---|---|
| % | Liquidity | Bonds | Shares | Property | Other | Total |
| 31 December 2017 | 0.00% | 82.53% | 16.40% | 0.33% | 0.74% | 100.00% |
| 31 December 2016 | 0.00% | 85.07% | 13.73% | 0.34% | 0.85% | 100.00% |

**Assumptions regarding the discount rate**

The discount rates used for the EDP Group pension plan were selected based on an analysis of the rates of return available on the date for the high quality corporate bonds. Bonds with maturities and ratings considered appropriate were selected considering the amount and the periods that the benefits are expected to be paid.

The real return rate on assets of the pension Fund in 2017 was positive in 8.97% (2016: positive in 2.02%).

As at 31 December 2017 the amount of future benefits expected to be paid, related to the activity in Portugal, Spain and Brazil, is as follows:

| Expected future benefits to be paid | | | |
|---|---|---|---|
| **Portugal** | Pensions | Medical plan and other benefits | Total |
| **2018** | 192,178 | 36,125 | 228,303 |
| **2019** | 177,931 | 34,908 | 212,839 |
| **2020** | 163,028 | 34,765 | 197,793 |
| **2021** | 144,482 | 34,417 | 178,899 |
| **2022** | 124,361 | 34,521 | 158,882 |
| **2023** | 107,306 | 34,737 | 142,043 |
| **2024** | 91,840 | 34,767 | 126,607 |
| **2025** | 78,577 | 34,833 | 113,410 |
| **2026** | 67,795 | 34,509 | 102,304 |
| **2027** | 59,765 | 34,097 | 93,862 |

In 2017, the pensions paid by the funds in Portugal amounted 63,141 thousand Euros (31 December 2016: 62,828 thousand Euros).

| Expected future benefits to be paid | |
|---|---|
| **Spain** | Other Benefits |
| **2018** | 9,999 |
| **2019** | 7,956 |
| **2020** | 8,068 |
| **2021** | 8,184 |
| **2022** | 8,303 |
| **2023** | 8,426 |
| **2024** | 8,553 |
| **2025** | 8,684 |
| **2026** | 8,820 |
| **2027** | 8,959 |

In 2017, the pensions paid in Spain amounted 9,249 thousand Euros (31 December 2016: 9,345 thousand Euros).

The amount of 89,208 thousand Euros related to EDP España Group, included in provisions for social welfare and benefits, includes 81,215 thousand Euros (31 December 2016: 78,884 thousand Euros) related with provisions for the revision of the collective labour agreement and 7,993 thousand Euros (31 December 2016: 8,931 thousand Euros) related with responsibilities with pre-retirement before 31 December 2007.

| Expected future benefits to be paid | | | |
|---|---|---|---|
| **Brazil** | Pensions | Medical Plans and Other Benefits | Total |
| **2018** | 16,705 | 9,274 | 25,979 |
| **2019** | 17,431 | 10,205 | 27,636 |
| **2020** | 18,310 | 11,209 | 29,519 |
| **2021** | 19,303 | 12,302 | 31,605 |
| **2022** | 20,256 | 13,495 | 33,751 |
| **2023 to 2027** | 115,940 | 86,267 | 202,207 |

The contributions made to the Pension funds in 2017 amounted to 1,421 thousand Euros (31 December 2016: 10,072 thousand Euros) and were fully paid in cash.

The pensions paid by the Funds in 2017 in Brazil amounted 19,065 thousand Euros (31 December 2016: 19,018 thousand Euros).

The sensitivity analysis for the Pension Plan in Portugal is as follows:

| Thousand Euros | Liabilities at the end of the period | |
|---|---|---|
| | Increase | Decrease |
| Discount rate (0.5% movement) | -54,277 | 58,692 |
| Pension increase (0.5% movement) | 355,506 | -157,277 |
| Social Security Pension increase (0.5% movement) | -106,959 | 226,569 |
| Mortality (increase of 1 year in expected lifetime of plan participants) | 48,625 | |

The sensitivity analysis for the Pension Plan in Brazil is as follows:

| Thousand Euros | Liabilities at the end of the period | |
|---|---|---|
| | Increase | Decrease |
| Discount rate (0.5% movement) | -15,980 | 9,589 |
| Mortality (increase of 1 year in expected lifetime of plan participants) | 496 | |

**II. Defined Contribution Pension Plan**

EDPR Europe and EDP España, EDP São Paulo (ex-Bandeirante) in Brazil and several subsidiaries in Portugal, have defined contribution plans for their employees that complement those granted by the Social Welfare Systems, under which they pay annual contributions to these plans, calculated in accordance with the rules established in each case.

**III. Liability for Medical Care and Other Benefits Plans - Defined Benefit Type**

The EDP Group companies in Portugal resulting from the EDP spin-off in 1994 have a Medical Care and Death Subsidy Plans partially funded by a closed Pension Fund, complemented by a specific provision. The responsabilities regarding the remaining defined benefit plans are fully covered by a provision.

In Brazil, EDP Espírito Santo (ex-Escelsa), Energest and Investco also have Medical and other benefits plans for retired employees which are also fully covered by provisions.

In addition, EDP Group grants other benefits, supporting charges arising from responsibilities for disability benefit's complements, survival benefits, life insurance, antiquity and retirement benefits, power and gas tariff discounts, among others.

The actuarial assumptions used to calculate the liability for Medical Care Plans are as follows:

| | Dec 2017 | | Dec 2016 | |
|---|---|---|---|---|
| | Portugal | Brazil | Portugal | Brazil |
| **Assumptions** | | | | |
| Discount rate | 1.70% | 10.34% | 1.70% | 12.00% |
| Annual increase rate of medical service costs | 1.80% | 10.92% (d) | 2.50% | 11.50% (b) |
| Estimated administrative expenses per beneficiary per year (Euros) | 306€/year (c) | not applicable | 242€/year | not applicable |
| Mortality | Born<1950 -- TV99/01 (+1) // Born>=1950 -- TV99/01 | RP-2000 Geracional | Born<1950 -- TV99/01 (+1) // Born>=1950 -- TV99/01 | RP-2000 Geracional |
| Disability table | 50%EKV 80 | Wyatt 85 Class 1 | 50%EKV 80 | Wyatt 85 Class 1 |
| Expected % of eligible employees accepting early retirement | (a) | not applicable | (a) | not applicable |

(a) 45% of the eligible population (employees entitled to early retirement, as stated in the Collective Labour Agreement: 37 years of service with at least 61 years of age or 40 years of service at any age).
(b) 11.50% in the first year, decreasing to 7.50% in 10 years.
(c) With 8% of reduction for the next two years, and increase of 1.6% after that date.
(d) 10.92% in the first year, decreasing to 6.74% in 10 years.

The number of participants covered by the Medical and other benefits plans is as follows:

| | Dec 2017 | | Dec 2016 | |
|---|---|---|---|---|
| | Portugal | Brazil | Portugal | Brazil |
| **Number of participants** | | | | |
| Retirees and pensioners | 17,815 | 1,276 | 17,762 | 1,280 |
| Active workers | 6,232 | 607 | 6,557 | 628 |
| | 24,047 | 1,883 | 24,319 | 1,908 |

The liability for medical care and other benefits and related coverage for the Group is as follows:

| | Dec 2017 | | |
|---|---|---|---|
| Thousand Euros | Portugal | Brazil | Group |
| **Provision for medical care and other benefits** | | | |
| Liability at the end of the period | 796,501 | 197,772 | 994,273 |
| Fair value of plan assets at the end of the period | -235,269 | - | -235,269 |
| **Provision at the end of the period** | 561,232 | 197,772 | 759,004 |

| | Dec 2016 | | |
|---|---|---|---|
| Thousand Euros | Portugal | Brazil | Group |
| **Provision for medical care and other benefits** | | | |
| Liability at the end of the period | 809,319 | 184,187 | 993,506 |
| Fair value of plan assets at the end of the period | -81,925 | - | -81,925 |
| **Provision at the end of the period** | 727,394 | 184,187 | 911,581 |

The evolution of the present value of the liability for Medical and other benefits for the Group is as follows:

| Thousand Euros | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Provision for medical care and other benefits** | | | | | |
| Liability at the end of the period | 994,273 | 993,506 | 940,046 | 949,982 | 974,179 |
| Fair value of plan assets at the end of the period | -235,269 | -81,925 | - | - | - |
| **Provision at the end of the period** | 759,004 | 911,581 | 940,046 | 949,982 | 974,179 |

The experience adjustments (effects of the differences between the previous actuarial assumptions and what really occurred) for the Portugal Medical Care Liabilities are as follows:

| Thousand Euros | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Experience adjustments for the Medical Plan liabilities | -452 | -5,816 | 1,087 | 5,828 | 48,685 |
| Experience adjustments for the Plan assets | 8,368 | -8 | - | - | - |

The experience adjustments (effects of the differences between the previous actuarial assumptions and what really occurred) for the Brazil Medical Care Liabilities are as follows:

| Thousand Euros | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Experience adjustments for the Medical Plan liabilities | -2,565 | -6,245 | -24,833 | 44,054 | -42,551 |

The change of the consolidated past service liability for medical and other benefits for the Group is as follows:

| | Dec 2017 | | | Dec 2016 | | |
|---|---|---|---|---|---|---|
| Thousand Euros | Portugal | Brazil | Group | Portugal | Brazil | Group |
| **Evolution of the liability** | | | | | | |
| Liability at the beginning of the period | 809,319 | 184,187 | 993,506 | 832,041 | 108,005 | 940,046 |
| Current service cost | 6,884 | 834 | 7,718 | 7,678 | 641 | 8,319 |
| Net interest on the net medical liabilities and other benefits | 13,585 | 20,643 | 34,228 | 15,649 | 15,076 | 30,725 |
| Benefits paid | -34,117 | -10,142 | -44,259 | -36,525 | -8,527 | -45,052 |
| Past service cost (Curtailment/ Plan amendments) | 770 | - | 770 | 563 | - | 563 |
| Actuarial gains and losses | 48 | 30,970 | 31,018 | -13,165 | 35,953 | 22,788 |
| Exchange differences | - | -29,102 | -29,102 | - | 33,110 | 33,110 |
| Other and "mútua" | 12 | 382 | 394 | 3,078 | -71 | 3,007 |
| **Liability at end of the period** | 796,501 | 197,772 | 994,273 | 809,319 | 184,187 | 993,506 |
| **Provision at end of the period** | 796,501 | 197,772 | 994,273 | 809,319 | 184,187 | 993,506 |

The components of the consolidated net cost of this medical and other benefits plans recognised during the period are as follows:

| | Dec 2017 | | | Dec 2016 | | |
|---|---|---|---|---|---|---|
| Thousand Euros | Portugal | Brazil | Group | Portugal | Brazil | Group |
| Current service cost | 6,884 | 834 | 7,718 | 7,678 | 641 | 8,319 |
| Past service cost (Curtailment/Plan amendments) | 770 | - | 770 | 563 | - | 563 |
| **Operational component (see note 9)** | 7,654 | 834 | 8,488 | 8,241 | 641 | 8,882 |
| Net interest on the net medical liabilities and other benefits | 12,382 | 20,643 | 33,025 | 15,649 | 15,076 | 30,725 |
| **Financial component (see note 12)** | 12,382 | 20,643 | 33,025 | 15,649 | 15,076 | 30,725 |
| **Net cost for the period** | 20,036 | 21,477 | 41,513 | 23,890 | 15,717 | 39,607 |

The evolution of the consolidated assets of the Medical care and Death subsidy Funds is as follows:

| Thousand Euros | Portugal | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| **Funds** | | |
| Assets fair value at the beginning of the period | 81,925 | - |
| Group contribution | 163,888 | 81,940 |
| Benefits paid | -20,115 | - |
| Interest on the pensions plan assets | 1,203 | - |
| Actuarial gains/(losses) | 8,368 | -8 |
| Other variations | - | -7 |
| **Assets fair value at the end of the period** | 235,269 | 81,925 |

The sensitivity analysis for the Medical Care Plan in Portugal is as follows:

| Thousand Euros | Liabilities at the end of the period | |
|---|---|---|
| | Increase | Decrease |
| Discount rate (0.5% movement) | -54,045 | 60,567 |
| Health care cost trend (0.5% movement) | 13,082 | -12,005 |
| Mortality (increase of 1 year in expected lifetime of plan participants) | 16,800 | |

The sensitivity analysis for the Medical Care Plan in Brazil is as follows:

| Thousand Euros | Liabilities at the end of the period | |
|---|---|---|
| | Increase | Decrease |
| Discount rate (0.5% movement) | -11,815 | 13,116 |
| Mortality (increase of 1 year in expected lifetime of plan participants) | 7,319 | |

## 36. Provisions

Provisions are as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Provision for legal and labour matters and other contingencies | 85,049 | 98,574 | - | 20 |
| Provision for customer guarantees under current operation | 6,235 | 10,435 | - | - |
| Provision for dismantling and decommissioning | 463,556 | 462,887 | - | - |
| Provision for other liabilities and charges | 197,989 | 99,596 | 10,455 | 8,303 |
| | 752,829 | 671,492 | 10,455 | 8,323 |

This caption is as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Non-Current | 726,771 | 637,613 | 8,902 | 7,599 |
| Current | 26,058 | 33,879 | 1,553 | 724 |
| | 752,829 | 671,492 | 10,455 | 8,323 |

The changes in the Provisions for legal and labour matters and other contingencies are as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| **Balance at the beginning of the period** | 98,574 | 75,991 |
| Charge for the period | 16,717 | 19,882 |
| Reversals | -18,620 | -8,015 |
| Charge-off for the period | -16,428 | -13,332 |
| Exchange differences and other | 4,806 | 24,048 |
| **Balance at the end of the period** | 85,049 | 98,574 |

EDP and its subsidiaries' Board of Directors, based on the information provided by its legal advisors and on the analysis of pending law suits, have recognised provisions to cover the losses estimated as probable, related with litigations in progress.

Provision for legal and labour matters and other contingencies includes provisions for litigation in progress and other labour contingencies, which are related essentially with:

i) Requests for the refund of tariff increases paid by industrial consumers of the brazilian subsidiaries EDP São Paulo (ex-Bandeirante) and EDP Espírito Santo (ex-Escelsa) in the amount of 13,566 thousand Euros (31 December 2016: 13,443 thousand Euros). These requests result from the application of Administrative Orders DNAEE no. 38 of 27 February 1986 and no. 45 of 4 March 1986 - Plano Cruzado, effective from March to November 1986;

ii) In 2012, following the decision by the arbitration court, which partially accepted Terriminas' claim, and condemned EDP Produção to pay the amount of 1,329 thousand Euros regarding the price differential for 1985 and 1986, EDP Group has booked a provision to cover this contingency. Therefore, as at 31 December 2016, the estimated liability amounted to 5,836 thousand Euros, corresponding to the indemnity discounted amount. The appeal presented by EDP Produção was denied, and confirmed court sentence that determined the legitimacy for Terriminas to collect the amount in which EDP Produção was condemned. EDP Produção paid 6,371 thousand Euros and appeal for the payment of the remaining amount of 1,629 thousand Euros (interest from 2 February 2013 to 30 September 2017) for lack of an enforceable instrument. The EDP appeal is pending, and it is considered remote that this amount may be required.

iii) During April 2015, ERSE has notified EDP Comercial on its decision regarding the opening of an administrative infraction proceeding, within the framework of the Energy Sector Sanctions Regime (RSSE), requesting several information. In July 2015, ERSE sent a statement of objection to EDP Comercial whose response with defense arguments was prepared and submitted within the deadlines set by law. On 10 December 2015, ERSE issued a decision condemning EDP Comercial to a fine of 7,500 thousand Euros. It was decided to appeal the decision within the legal deadline set for this purpose, and a provision in the above-mentioned amount was recognised. Following the appeal made by EDP Comercial, the case returned to the Competition, Regulation and Supervision Court (TCRS), for trial. On 2 March 2017, this Court decided to consider null the statement of objection and the final decision of ERSE. The Court dismissed the appeal filed by ERSE against the judgment of the TCRS, confirming in full the TCRS judgment. The process was sent to ERSE to, if it wishes to do so, issue a new statement of objection without the technical flaws that were recognised. The provision was reversed in accordance with these developments. At the moment, the EDP Group does not have elements to determine the value of the associated contingency, as at 31 December 2017 it is undetermined.

iv) The remaining legal litigations correspond mainly to indemnities for fires, interruption of electricity supply, electrocution, as well as for other damages caused.

In accordance with IFRS 3, during an acquisition, the acquiring company shall recognise, at the acquisition date, a contingent liability for the present obligations resulting from past events which fair value can be reliably measured. Within the process of acquisition of control of Porto do Pecém in 2015, the Board of Directors identified a contingency, which estimated responsibility amounts to 5,473 thousand Euros (21,745 thousand Reais) as at 31 December 2017.

The movement in Provision for customer guarantees under current operations is as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| **Balance at the beginning of the period** | 10,435 | 3,295 |
| Charge for the year | 255 | - |
| Charge-off for the period | -9,099 | -2,491 |
| Exchange differences and other | 4,644 | 9,631 |
| **Balance at the end of the period** | 6,235 | 10,435 |

Provisions for customer guarantees under current operations include essentially provisions for commercial losses.

The movement in Provision for dismantling and decommissioning is as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2017 |
| **Balance at the beginning of the period** | 462,887 | 276,072 |
| Changes in the perimeter | -5,895 | 48 |
| Unwinding (see note 12) | 5,976 | 7,650 |
| Charge for the period | - | 657 |
| Increase of the responsibility (see note 15) | 16,080 | 176,978 |
| Reversals | -401 | -833 |
| Exchange differences and other | -15,091 | 2,315 |
| **Balance at the end of the period** | 463,556 | 462,887 |

As at 31 December 2017, Provision for dismantling and decommissioning includes the following situations:

i) The Group has recognised a provision of 44,035 thousand Euros (31 December 2016: 43,865 thousand Euros) to cover the cost of dismantling the Trillo Nuclear Plant from the final close down until its transfer to Enresa, the company that will dismantle it. The assumptions used in the calculation of the provision include an inflation rate of 2% and discount rates between 0.35% and 0.42%. Enresa has the responsibility of decommissioning nuclear power plants, as well as of treating and accommodating radioactive waste, within three years after the conclusion of the operational activity of nuclear power plants;

ii) Provisions for dismantling wind farms of 269,454 thousand Euros (31 December 2016: 268,191 thousand Euros) to cover the costs of bringing the sites to their original conditions, of which 105,907 thousand Euros refer to the wind farms in North America, 161,630 thousand Euros refer to the wind farms in Europe and 1,917 thousand Euros refer to the wind farms in Brazil.

The assumptions used when computing these provisions, are the following:

| | Europe | North America |
|---|---|---|
| Average cost per MW (Euros): | | |
| Wind (steel structure) | 25,873 | 26,715 |
| Wind (concrete structure) | 33,954 | - |
| Salvage value per MW (Euros): | | |
| Wind (steel structure) | 35,603 | 33,942 |
| Wind (concrete structure) | 19,787 | - |
| Discount rate: | | |
| Euro | [0.00% - 1.77%] | - |
| US Dollar | - | [0.72% - 2.94%] |
| Inflation rate: | | |
| Euro Zone | [1.01% - 2.35%] | - |
| USA | - | [2.00% - 2.30%] |
| Capitalisation (number of years) | 30 | 30 |

iii) Under the current and future social/economical trends and the practices followed by the EDP Group in matters of sustainability and environment, the Group recognises provisions to cover the costs with the decommissioning, dismantlement and environmental rehabilitation of electric power plants. As at 31 December 2017, the provision amounts to 89,273 thousand Euros (31 December 2016: 90,183 thousand Euros) and 58,555 thousand Euros (31 December 2016: 58,210 thousand Euros) for the electric power plants located in Portugal and Spain, respectively. According to accounting policy referred in note 2 o), these provisions are calculated at the present value of the future liability and are accounted against an increase in property, plant and equipment and are depreciated on a straight line basis over the average useful life of the assets. The calculation of these provisions was based on an inflation rate between 1.38% and 2% and discount rates between 0% and 1.48%.

The movement in Provision for other liabilities and charges for is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| Thousand Euros | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| **Balance at the beginning of the period** | 99,596 | 150,714 | 8,303 | 13,469 |
| Charge for the period | 10,927 | 15,619 | 3,057 | 1,502 |
| Reversals | -12,505 | -42,386 | -905 | -1,109 |
| Charge-off for the period | -5,828 | -22,918 | - | -5,669 |
| CESE (see note 14) | 65,431 | - | - | - |
| "Lesividad" | 41,664 | - | - | - |
| Exchange differences and other | -1,296 | -1,433 | - | 110 |
| **Balance at the end of the period** | 197,989 | 99,596 | 10,455 | 8,303 |

As at 31 December 2017, EDP Group booked a provision related with the amount of CESE with the exception of the gas distribution in Portugal amount due to the sale of EDP Gás Distribuição during the fourth quarter of 2017 (see note 5 and 14).

The BOE 223/2017 published during the third quarter of 2017 opened the hearing process of the Order of the Minister of Energy, Tourism and Digital Agenda of 13 September, introducing a "lesividad" declaration procedure for the public interest Order IET/980/2016, which established a remuneration for electricity distribution companies until 2016. Thus, the remuneration that was determined was allegedly higher than it should be for 2016. Due to the fact that the remuneration for the distribution activity in 2017 was not yet fixed, EDP España has been calculating the remuneration based on the remuneration of 2016. As at 31 December 2017, EDP España has booked a provision in the amount of 41,664 thousand Euros, which includes 24,040 thousand Euros related to the potential "lesividad" effect of 2016 and 2017 and 17,624 thousand Euros as a result of the adjustment in the model that supports the recognition of the regulatory remuneration of assets in operation on 31 December 2014.

As at 31 December 2017, the caption Provision for other liabilities and charges includes a provision related with an agreement between EDM - Electricidade de Moçambique E.P and EDP. As part of the institutional collaboration, it was agreed in 2012 the rehabilitation and the conversion of 2 gas turbines of 16 MW decommissioned from Tunes Thermoelectric plant to be installed in Chokwé - Mozambique in open cycle mode. In 2014, EDM requested the transfer of the project to the Nacala area, where the turbines now need to be adapted to work on diesel. It is estimated that from this conversion a negative impact of 8,006 thousand Euros will arise (31 December 2016: 8,006 thousand Euros).

In their ordinary course of business, EDP Group subsidiaries are involved in several litigations and contingencies (of possible risk) of administrative, civil, tax, labour and other natures. These legal, arbitration or other actions, involve customers, suppliers, employees, administrative, central, municipal, tax, environmental or other authorities. In EDP Group and its legal advisors' opinion, the risk of a loss in these actions is not probable, and the outcome will not affect on a material way its consolidated financial position.

The processes whose losses were considered as possible, do not require the recognition of provisions and are periodically reassessed. The detail of possible contingencies is analised as follows:

| | Dec 2017 | | | |
|---|---|---|---|---|
| Thousand Euros | Subsidiaries based in Portugal | Subsidiaries based in Spain | Subsidiaries based in Brazil | Total |
| Administrative and Civil | 35,271 | 24,443 | 203,409 | 263,123 |
| Fiscal | 11,436 | 11,068 | 407,771 | 430,275 |
| Other | 45,761 | 1,047 | 28,403 | 75,211 |
| | 92,468 | 36,558 | 639,583 | 768,609 |

| | Dec 2016 | | | |
|---|---|---|---|---|
| Thousand Euros | Subsidiaries based in Portugal | Subsidiaries based in Spain | Subsidiaries based in Brazil | Total |
| Administrative and Civil | 47,810 | 5,732 | 267,253 | 320,795 |
| Fiscal | 14,663 | 7,856 | 361,905 | 384,424 |
| Other | 13,688 | 2,089 | 27,927 | 43,704 |
| | 76,161 | 15,677 | 657,085 | 748,923 |

The possible contingencies more relevant in Portugal, are as follows:

i) Within EDP Distribuição there is a contingency regarding the liability for supply and assembly costs of electricity distribution grids, including public illumination, with respect to the urbanistic reconversion and intervention area in Parque Expo 98. In this context, Parque Expo 98 claims that, between 1996 and 2014, it supported the costs that are responsibility of EDP Distribuição. In November 2015, Parque Expo 98 in liquidation addressed EDP Distribuição a separate judicial notice, in order to interrupt the limitation period (which would occur 20 years from the date of the referred agreement). Meanwhile Parque Expo 98, in liquidation, claims a reimbursement from EDP Distribuição of those costs in the amount of 15,811 thousand Euros;

ii) During April 2015, ERSE has notified EDP Distribuição about the resolution regarding the opening of the administrative infraction proceedings, within the framework of the Energy Sector Sanctions Regime (RSSE) requesting several information. After negotiations with ERSE, in December 2016, EDP Distribuição formally submitted a transaction proposal, which was accepted by ERSE, and involved the conviction of 14 negligent administrative offenses, the payment of a fine in the amount of 40 thousand Euros and also the payment of compensation to injured consumers. Therefore, this contingency, in June 2017, was finished;

iii) On 29 July 2016, the Portuguese Competition Authority (AdC) has notified EDP, S.A. and EDP Comercial, S.A. with a notice for alleged violation of competition laws, regarding the process about the commercial campaign done in partnership with Modelo Continente, designated as "Plano EDP Continente". This was an occasional campaign, limited to two years, which was one of several campaigns usually performed by several other market agents. As at 30 June 2017, EDP, S.A. and EDP Comercial, S.A. received AdC final decision which applied a fee of 2,900 thousand Euros to EDP,S.A. and 25,800 thousand Euros to EDP Comercial. The companies filed their appeal. EDP Group is convinced that this campaign has brought real benefits to consumers and competition in markets and that no transgression has been committed.

The possible contingencies more relevant in Brazil, are as follows:

i) Investco is involved in a legal action of a civil nature mostly related with indemnity claims resulting from the filling of the hydroelectric reservoir, in the amount of 24,742 thousand Euros (31 December 2016: 26,536 thousand Euros);

ii) There is a public civil action filed against EDP São Paulo (ex-Bandeirante) and EDP Espírito Santo (ex-Escelsa) by ADIC – Associação de Defesa dos Interesses Colectivos, claiming a compensation arising from a tariff readjustment on part A from 43 concessionaires. The estimated value attributable to Bandeirante and Escelsa amounts to 43,834 thousand Euros (31 December 2016: 44,047 thousand Euros);

iii) EDP São Paulo (ex-Bandeirante) is a party to a lawsuit related to the COFINS (Contribution for social security financing) from 1993 to 1995 in joinder with AES Eletropaulo, where is discussed the application of the tax amnesty introduced by the Provisional Measures paragraphs 1858-6 and 1858-8, granted to taxpayers who did not collect COFINS, considering it improper. In the trial of 2nd Instance, was partially confirmed the right to amnesty, and applied the Decree-Law 1,025/69, which established the payment of procedural costs in favor of the National Treasury. From this decision, an appeal was presented, which holds trial. The updated amount as at 31 December 2017 is 18,709 thousand Euros (31 December 2016: 21,186 thousand Euros);

iv) EDP São Paulo (ex-Bandeirante) and EDP Espírito Santo (ex-Escelsa) have administrative and judicial actions regarding tax compensations not ratified by the Brazilian Federal Revenue Bureau, which: (i) are protected by judicially recognised credits (IRPJ - Corporate tax income and CSLL - Social Contribution on net profits) and (ii) that result from tax contributions in 2001 of IRPJ, CSLL, PIS (Social integration programme) and COFINS considered to be excessive as a consequence of the application of "Parecer COSIT 26/2002" (Extraordinary Tariff Adjustment - RTE) published by the Brazilian Tax Authorities. According to this opinion, the amounts resulting from tariffs updated under RTE should be recognised and taxed only as of 2002. As at 31 December 2017, the updated values amount to 94,018 thousand Euros (31 December 2016: 96,828 thousand Euros);

v) Lajeado has a judicial tax action initiated by the Brazilian Tax Authorities in 2014 aimed at collecting tax contributions (IRPJ and CSLL) resulting from the disallowance of expenses regarding goodwill arising from a business combination (acquisition). As at 31 December 2017, this contingency amounts to 22,259 thousand Euros (31 December 2016: 24,950 thousand Euros);

vi) Porto do Pecém was subject to a tax execution procedure in the amount of 20,537 thousand Euros, related to an alleged non-taxation under IRPJ and CSLL of prior years' financial income and exchange rate gains (31 December 2016: 21,225 thousand Euros);

vii) The companies of EDP – Energias do Brasil (Energest, Lajeado, Investco, Enerpeixe, Santa Fé, Porto do Pecém and Costa Rica), through the Brazilian Association of Independent Power Producers - APINE and the Brazilian Association of Power Generation - ABRAGEL, filed a lawsuit seeking to suspend the effects of CNPE Resolution 03/13, which established the apportionment among all agents of the electricity market of part of the costs incurred with the excessive use of energy from thermic sources (oil, coal and gas), due to the scarcity of the rainfall regime (System Service Charge - ESS). The updated value as at 31 December 2017 is 28,670 thousand Euros (31 de December 2016: 7,987 thousand Euros). The increase on this contingency is due to metodology change that began to considerer the accounting reported by CCEE;

viii) Following a period of drought in the State of Ceará, the local government, through Decree 32,044 of 16 September 2016, introduced an extraordinary rate called the Emergency Water Charge (EHE) over the actual water consumption of thermoelectric power plants, and in particular the Porto do Pecém. On 13 October 2016, the Porto do Pecém submitted an administrative request to ANEEL for the purpose of transferring this additional cost to the Unit Variable Cost (UVC), in order to restore the economic-financial balance of the contract (CCEAR). ANEEL, through Order 3,293 of 19 December 2016, denied the request of the Porto do Pecém, which initiated proceedings against ANEEL.

In May 2017, the Porto de Pecém obtained an injunction that allows the full transfer of the EHE to the CVU. This injunction further determines the suspension of ANEEL's application of any penalty for possible reduction and/or interruption of energy production due to problems with water supply, including penalties for non-availability, suspension of commercial operation and replacement of "lastro", preventing this means any type of suspension of the payment of the fixed revenue to which the Porto de Pecém is entitled under the Contracts for Contracting of Energy in a Regulated Environment (CCEAR). Following this court decision and with reference as at 31 December 2017, the Porto do Pecém booked an amount receivable (assets), in the amount of 8,404 thousand Euros (33,390 thousand Reais), which will be invoiced to customers in the coming months.

As at 31 December 2017, the lawsuit against ANEEL requiring the guarantee of the economic-financial balance of the CCEARs by transferring the EHE to the UVC awaits judgment, and the likelihood of the contingency associated with the eventual need to return the now classified amount graduated as possible and the estimated total amount of 31,665 thousand Euros (125,803 thousands of Reais), referring to the estimate of EHE values during the period of validity of the first decree (1 October 2016 until 31 August 2017). The financial impacts arising from the new Decree No. 32,305 /2017, published on 11 August by the Government of the State of Ceará, are currently being analysed, as it extended the term of this charge for an indeterminate period.

Finally, it is important to identify litigation and contingencies that, although the EDP Group classifies its risk as remote, assume materially relevant values, namely:

i) On 27 October 2009 and 5 January 2010, the EDP Group received two tax settlements regarding 2005 and 2006 taxable income for the EDP tax Group, which included an adjustment of 591 million Euros regarding its subsidiary, EDP Internacional SGPS, related to the tax treatment considered by the EDP Group in relation to a capital loss generated with the liquidation of a subsidiary, whose main assets consisted of investments in operating subsidiaries in Brazil, namely EDP Espírito Santo (ex-Escelsa) and Enersul. As at 31 December 2017, the amount of this tax contingency amounts to 273 million Euros (31 December 2016: 264 million Euros).

Considering the analysis made, the technical advice received and a favourable binding opinion obtained from the tax authorities in relation to the nature of the transaction occurred in the year of the assessment, the EDP Group considers as remote the risk associated with this matter. Under this analysis, the capital loss is tax deductible for income tax purposes as established in article 75 number 2 of the Corporate Income Tax Code ("Código do IRC") based on the wording of the law in force at that date (existing article 81).

Given the above, and considering that the EDP Group's tax procedures comply with applicable Portuguese tax legislation at the date of the events, the Group is currently using all available legal means to contest these additional settlements. Thus, following the implied rejection of the hierarchical appeal, EDP presented a judicial claim, on 6 June 2012, which is still being analysed;

ii) EDP São Paulo (ex-Bandeirante) through the Power Industry Union of the State of São Paulo - SindiEnergia, filed two claims against the Treasury Department of the State of São Paulo, seeking the suspension of the effects of Decrees 55.421/2010 and 55.867/2010. Both claims deal with VAT incidence on energy technical losses (theft, deviation or fraud) and obtained a favourable decision which was confirmed by the Court of Justice of the State of São Paulo. These decisions are still subject of appeal to higher courts, however, given that the higher courts jurisprudence supports the thesis discussed in this process, the EDP Group classifies as remote the risk of losing this action. The estimated value at 31 December 2017 amounts to 117,883 thousand Euros (31 December 2016: 115,195 thousand Euros).

## 37. Institutional Partnerships in USA

The caption Institutional partnerships in USA is as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| Deferred income related to benefits provided | 914,612 | 819,199 |
| Liabilities arising from institutional partnerships in USA | 1,249,110 | 1,520,226 |
| | 2,163,722 | 2,339,425 |

EDPR North America recognises under this caption the receipts of institutional investors associated with wind and solar projects. This liability is reduced by the amount of tax benefits provided and payments made to the institutional investors during the period. The amount of tax benefits provided is booked as a non-current deferred income, and recognised over the useful life of the related projects (see note 7). Additionally, this liability is increased by the estimated interest based on the liability outstanding and the expected rate of return of the institutional investors (see note 12).

The movements in Institutional partnerships in USA wind farms are as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dez 2016 |
| **Balance at the beginning of the period** | 2,339,425 | 1,956,217 |
| Proceeds received from institutional investors | 449,067 | 628,381 |
| Cash paid for deferred transaction costs | -3,870 | -4,541 |
| Cash paid to institutional investors | -195,175 | -172,052 |
| Income (see note 7) | -225,568 | -197,544 |
| Unwinding (see note 12) | 88,561 | 90,337 |
| Exchange differences | -289,891 | 79,411 |
| Other | 1,173 | -40,784 |
| **Balance at the end of the period** | 2,163,722 | 2,339,425 |

During 2017, EDPR NA has received proceeds amounting to 389,196 thousand Euros (439,552 thousand US Dollars) related to institutional equity financing with Bank of New York Mellon, in exchange for an interest in the Vento XVII portfolio, and 59,871 thousand Euros (67,618 thousand US Dollars) related to institutional equity financing, in exchange for an interest in three solar plants located in the state of South Carolina.

During 2016, EDPR NA has secured and received proceeds amounting to 310,334 thousand Euros (343,488 thousand US Dollars) related to institutional equity financing with Bank of America Merrill Lynch and Bank of New York Mellon, in exchange for an interest in the Vento XV portfolio, and 102,791 thousand Euros (113,773 thousand US Dollars) related to institutional equity financing from MUFG and another institutional investor, in exchange for an interest in the Vento XVI portfolio. Additionally, the Group has received proceeds amounting to 215,256 thousand Euros (238,252 thousand US Dollars) related to institutional equity financing from an affiliate of Google Inc., secured in 2015, in exchange for an interest in the Vento XIV portfolio.

## 38. Trade and Other Liabilities from Commercial Activities

Trade and other liabilities from commercial activities - Non-Current are as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| Investment government grants | 491,008 | 595,201 |
| Amounts payable for tariff adjustments - Electricity - Portugal | 10,632 | 76,611 |
| Amounts payable for tariff adjustments - Electricity - Brazil | 38,698 | 31,900 |
| Energy sales contracts - EDPR NA | 13,686 | 19,857 |
| Deferred income - CMEC | 364,428 | 226,521 |
| Amounts payable for concessions | 209,117 | 226,012 |
| Property, plant and equipment suppliers and accruals | 110,986 | 9,642 |
| Other creditors and sundry operations | 104,616 | 107,389 |
| | 1,343,171 | 1,293,133 |

Trade and other liabilities from commercial activities - Current are as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Suppliers | 947,702 | 1,020,684 | 366,401 | 255,888 |
| Accrued costs related with supplies | 657,669 | 478,797 | 272,958 | 288,274 |
| Property, plant and equipment suppliers and accruals | 639,345 | 800,429 | 715 | 1,459 |
| Holiday pay, bonus and other charges with employees | 162,902 | 164,407 | 31,165 | 27,256 |
| CO2 emission Licenses | 101,693 | 84,474 | - | - |
| Amounts payable for tariff adjustments - Electricity - Portugal | 249,914 | 81,045 | - | - |
| Amounts payable for tariff adjustments - Electricity - Brazil | 13,157 | 103,054 | - | - |
| Deferred income - CMEC | 83,012 | 33,712 | - | - |
| Other creditors and sundry operations | 642,737 | 595,819 | 15,224 | 13,915 |
| | 3,498,131 | 3,362,421 | 686,463 | 586,792 |

The movement for the period in Amounts payable for tariff adjustments - Electricity - Portugal (Current and Non-current) is as follows:

| Thousand Euros | Current | Non-Current |
|---|---|---|
| **Balance as at 1 January 2016** | 196,662 | 18,269 |
| Payment through the electricity tariff | -197,866 | - |
| Tariff adjustment of the period | 63,841 | 76,611 |
| Interest expense | 913 | - |
| Transfer to/from tariff adjustment receivable | -774 | - |
| Transfer from Non-Current to Current | 18,269 | -18,269 |
| **Balance as at 31 December 2016** | 81,045 | 76,611 |
| Payment through the electricity tariff | -78,761 | - |
| Tariff adjustment of the period | 170,092 | 10,632 |
| Interest expense (see note 12) | 20,718 | - |
| Transfer to/from tariff adjustment receivable | -19,791 | - |
| Transfer from Non-Current to Current | 76,611 | -76,611 |
| **Balance as at 31 December 2017** | 249,914 | 10,632 |

The caption Amounts payable for tariff adjustments - Electricity - Brazil, refers to tariff adjustments booked in EDP São Paulo (ex-Bandeirante) and EDP Espírito Santo (ex-Escelsa) in the accumulated amount of 35,127 thousand Euros (31 December 2016: 119,156 thousand Euros) and 16,728 thousand Euros (31 December 2016: 15,798 thousand Euros), respectively. The variation occurred includes the tariff deficit for the period with a positive impact of 199,900 thousand Euros (see note 6), transfer to tariff adjustment receivable of 17,840 thousand Euros (see note 25), unwinding in the amount of 12,296 thousand Euros (see note 12), decrease in the amount received through the electricity tariff of 301,315 thousand Euros and the exchange differences due to depreciation of Brazilian Real with a negative impact of 11,820 thousand Euros.

Investment government grants are amortised through the recognition of a revenue in the income statement over the useful life of the related assets, in the amount of 27,826 thousand Euros as at 31 December 2017 (see note 11). This caption includes grants received by EDPR NA subgroup under the American Recovery and Reinvestment Act promoted by the United States of America Government.

At the moment of the EDPR NA acquisition, the contracts signed between this subsidiary and its customers, determined under the terms of the Purchase Price Allocation, were valued through discounted cash flow models and market assumptions at 190,400 thousand US Dollars, being booked as a non-current liability under Energy sales contract - EDPR NA, which is amortised over the useful life of the contracts in Other operating income - Other.

Deferred income - CMEC Current and Non-Current, in the amount of 447,440 thousand Euros (31 December 2016: 260,233 thousand Euros) refers to the initial CMEC amount (833,467 thousand Euros) net of the amortisation of initial CMEC during the years 2007 to 2017 and including unwinding (see note 12), in the amount of 226,521 thousand Euros and 220,919 thousand Euros relating with the final adjustment recognised in accordance with the result achieved by the EDP/REN working group (256,539 thousand Euros), deducted of the period amortisation and unwinding charges.

Amounts payable for concessions includes the concession rights for the operation of the hydric domain of Alqueva and Pedrógão transferred by EDIA of 139,809 thousand Euros (31 December 2016: 142,248 thousand Euros) and the financial compensation for the use of the public domain related to concession agreements of Investco, S.A. and Enerpeixe, S.A. in Brazil of 69,072 thousand Euros (31 December 2016: 83,066 thousand Euros).

The caption CO2 emission licenses includes the CO2 consumptions during 2017 in Portugal and Spain of 58,789 thousand Euros and 42,904 thousand Euros, respectively. This decrease in comparison with 2016 relates to the delivery in 2017 of the 2016 licences consumption, which are returned to regulatory authorities until April of the year following its consumption.

In the energy distribution activity, the subsidiaries of EDP Group in Portugal and Spain recover the deficits and tariff adjustments assets through the tariffs charged to their customers. The caption Other creditors and sundry operations - Current, includes the amounts payable to entities that have acquired the right to receive these assets in securitization or direct sales operations in Portugal and settlements to be made to the regulatory entity in Spain. As at 31 December 2017, under the transfer to these entities of assets recovered through the tariffs, these payables amount to 133,107 thousand Euros and 13,092 thousand Euros in Portugal and Spain, respectively (31 December 2016: 112,900 thousand Euros and 35,209 thousand Euros). Additionally, this caption includes 14,317 thousand Euros related to tariff adjustment payable (31 December 2016: 14,317 thousand Euros).

The decrease of the caption Property, plant and equipment suppliers and accruals is mainly driven by net payments in EDPR NA, where the construction of relevant windfarms is ongoing.

## 39. Other Liabilities and Other Payables

Other liabilities and other payables are as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| **Other liabilities and other payables - Non-Current** | | | | |
| Loans from non-controlling interests | 591,779 | 563,862 | - | - |
| Put options over non-controlling interest liabilities | 2,197 | 2,299 | - | - |
| Derivative financial instruments | 91,092 | 138,642 | 112,714 | 155,453 |
| Group companies (see note 44) | - | - | 199,280 | 2,577,517 |
| Amounts payable and contigent prices for acquisitions/sales | 94,660 | 17,796 | - | - |
| Lease contracts with EDP Pension and Medical and Death Subsidy Funds | 79,414 | 28,873 | 79,414 | 28,873 |
| Other creditors and sundry operations | 15,842 | 9,629 | - | - |
| | 874,984 | 761,101 | 391,408 | 2,761,843 |
| **Other liabilities and other payables - Current** | | | | |
| Loans from non-controlling interests | 121,023 | 121,902 | - | - |
| Dividends attributed to related companies | 42,207 | 68,300 | - | - |
| Derivative financial instruments | 94,522 | 133,214 | 190,643 | 182,202 |
| Group companies (see note 44) | - | - | 1,591,110 | 37,752 |
| Group's financial system (see note 44) | - | - | 197,174 | 176,630 |
| Amounts payable and contigent prices for acquisitions/sales | 14,525 | 10,409 | - | - |
| Lease contracts with EDP Pension and Medical and Death Subsidy Funds | 6,434 | 2,484 | 6,434 | 2,484 |
| Other creditors and sundry operations | 5,429 | 8,723 | 109,268 | 144,470 |
| | 284,140 | 345,032 | 2,094,629 | 543,538 |
| | 1,159,124 | 1,106,133 | 2,486,037 | 3,305,381 |

The caption Loans from non-controlling interests Current and Non-Current mainly includes:

i) loans granted by ACE Portugal (CTG Group) due to the sale in 2017 of 49% of shareholding in EDPR PT – Parques Eólicos S.A and subsidiaries for a total amount of 37,362 thousand Euros, including accrued interests, bearing interest at a fixed rate of 3.75% (see notes 5 and 44);

ii) loans granted by Vortex Energy Investments II due to the sale in 2016 of 49% of shareholding in EDPR Participaciones S.L. and subsidiaries for a total amount of 231,751 thousand Euros, including accrued interests (31 December 2016: 245,981 thousand Euros), bearing interest at a fixed rate of a range between 3.32% and 7.55%;

iii) loans granted by ACE Poland (CTG Group) due to the sale in 2016 of 49% of shareholding in EDP Renewables Polska HoldCo, S.A. and subsidiaries for a total amount of 123,430 thousand Euros, including accrued interests (31 December 2016: 120,390 thousand Euros), bearing interest at a fixed rate of a range between 1.33% and 7.23% (see note 44);

iv) loans granted by ACE Italy (CTG Group) due to the sale in 2016 of 49% of shareholding in EDP Renewables Italia, S.r.l. and subsidiaries for a total amount of 78,436 thousand Euros, including accrued interests (31 December 2016: 83,618 thousand Euros), bearing interest at a fixed rate of 4.5% (see note 44);

v) loans granted by Vortex Energy Investments I due to the sale in 2014 of 49% of shareholding in EDPR France and subsidiaries for a total amount of 58,388 thousand Euros, including accrued interests (31 December 2016: 66,264 thousand Euros), bearing interest at a fixed rate of a range between 3.1% and 7.18%;

vi) loans granted by CITIC CWEI Renewables (CTG Group) due to the sale in 2013 of 49% of shareholding in EDP Renováveis Portugal, S.A. for a total amount of 61,140 thousand Euros, including accrued interests (31 December 2016: 71,501 thousand Euros), bearing interest at a fixed rate of 5.5% (see note 44);

vii) loans from Sonatrach to Central Térmica Ciclo Combinado Grupo 4 in the amount of 58,220 thousand Euros (31 December 2016: 58,220 thousand Euros).

The Amounts payable and contigent prices for acquisitions/sales includes the amounts related with the contingent prices for the acquisition of several European projects (mainly in Poland, Romania and Italy) and Brazilian projects, as well as the contingent prices related to the sale of gas distribution business in Spain and Portugal, in the amount of 48,726 thousand Euros and 52,142 thousand Euros, respectively.

The caption Group companies, on a Company basis, corresponds to the financing obtained by EDP - Energias de Portugal - Sociedade Anónima, Sucursal en España through EDP Finance B.V., in Euros and US Dollar, with the component in foreign currency being covered by a hedging instrument (see note 26).

The variation in the caption Group companies Non-Current, on a Company basis, corresponds to the reclassification for the short term of two funding obtained through EDP Finance B.V. and granted to EDP - Energias de Portugal - Sociedade Anónima, Sucursal en España, following EDPR NA's acquisition and for the funding of the investment plan of EDP Renováveis Group (see notes 44 and 49).

The variation in the caption Group companies Current, on a Company basis, includes the payment of 521 million Euros related to one of the funding obtained by EDP S.A. Sucursal en España through EDP Finance B.V. (see note 49). Under this prepayment, EDP Sucursal incurred in costs in the amount of 17,361 thousand Euros which are included in the financial costs under Interest expense on financial debt (see note 12).

The caption'Lease contracts with EDP Pension and Medical and Death Subsidy Funds corresponds to the lease contract regarding the building units of Porto headquarters acquired by EDP Pension Fund in December 2015 and the Lisbon headquarters building given as an in-kind contribution to EDP Medical and Death Subsidy Fund in September 2017.

Regarding the building units of Porto's headquarters, the lease contract is for a period of 25 years, with a monthly expense of 270 thousand Euros and an implicit rate of 6.42%. As at 31 December 2017, it amounts to 30,808 thousand Euros (31 December 2016: 31,357 thousand Euros) (see note 44).

Regarding the Lisbon headquarters' building, the building component was booked as an asset of EDP, S.A. in Property, Plant and Equipment, at the present value of the minimum lease payments. The lease contract is for a period of 25 years, with a monthly expense of 491 thousand Euros and an implicit rate of 5.82%. As at 31 December 2017, it amounts to 55,040 thousand Euros (see notes 15 and 44).

## 40. Tax Liabilities

Tax liabilities are as follows:

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Income tax | 86,645 | 326,951 | - | 263,313 |
| Withholding tax | 36,269 | 74,066 | 1,176 | 993 |
| Value Added Tax (VAT) | 133,896 | 289,807 | 17,042 | 2,809 |
| Special taxes Brazil | 193,901 | 96,685 | - | - |
| Other taxes | 204,296 | 233,911 | 955 | 886 |
| | 655,007 | 1,021,420 | 19,173 | 268,001 |

| Thousand Euros | Group | | Company | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Non-Current | 91,551 | 68,156 | - | - |
| Current | 563,456 | 953,264 | 19,173 | 268,001 |
| | 655,007 | 1,021,420 | 19,173 | 268,001 |

The decrease in Income tax caption is mainly due to the payment in May 2017 of December 2016 income tax and by the estimation of Income tax receivable in December 2017, by EDP, S.A.

As at 31 December 2016, for the Group, the caption Value added tax (VAT) included the VAT due by Naturgas Group, in the amount of 197,595 thousand Euros, in the context of an intragroup sale of gas distribution assets occurred in December 2016, which was paid in the first quarter of 2017.

As at 31 December 2017, the captions Income tax and Special taxes Brazil include the amount of 100,616 thousand Euros (399,737 thousand Brazilian Reais), corresponding to the recognised liability value of 129,607 thousand Euros (514,917 thousand Brazilian Reais) net of payments (see note 27).

As at 31 December 2017, for the Group, the caption Other taxes includes taxes regarding EDP España Group of 102,277 thousand Euros (31 December 2016: 96,409 thousand Euros). Additionally, includes 51,744 thousand Euros (31 December 2016: 52,965 thousand Euros) of special autonomous taxation on revaluations as a result of the fiscal revaluation of certain eligible EDP assets held in Portugal.

## 41. Assets and Liabilities Held for Sale

The criteria for classifying assets and liabilities as held for sale and discontinued operations, as well as their presentation in EDP Group's consolidated financial statements, are presented under the Group's accounting policies.

This caption is as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| **Assets held for sale** | | |
| Gas distribution assets - Portugal | - | 551,802 |
| Electricity generation assets - United Kingdom | 58,179 | - |
| Electricity generation assets - Brazil | 10,271 | - |
| Electricity generation assets - Portugal | 161,819 | - |
| Other assets (see note 15) | 866 | - |
| | 231,135 | 551,802 |
| **Liabilities held for sale** | | |
| Gas distribution liabilities - Portugal | - | 75,854 |
| Electricity generation liabilities - Brazil | 3,262 | - |
| Electricity generation liabilities - Portugal | 111,419 | - |
| | 114,681 | 75,854 |
| | 116,454 | 475,948 |

During the last quarter of 2016, EDP Group began the selling process of the business of gas distribution in Portugal which was concluded in 4 October 2017 (see note 5). At the transaction date EDP Gás, S.G.P.S. had 5,765 thousand Euros in Cash and cash equivalents.

During the second quarter of 2017, EDPR Group committed to the plan to sell and consequently loss of control of Moray Offshore Windfarm (East) Limited, so, according to the analysis performed under IFRS 5, this sale was considered highly probable, and as at 30 June 2017, its assets and liabilities were classified as held for sale. On 7 July 2017, EDPR Group has reached a first agreement with Engie for the sale and subsequent loss of control of 23.3% of the equity shareholding and shareholder loans of the company, for an amount of 21 million Pounds (see notes 5 and 7). On this date, both shareholders signed an agreement, which determined the joint control of the company by EDPR and Engie, from the moment EDPR UK submitted the bid for the UK Auction, which took place in August 2017.

In the second semester of 2017, EDPR Group committed to the plan to sell the additional 53.4% of the capital stock and loans of Moray Offshore Windfarm (East) Limited, thus, according to the analysis performed under IFRS 5, this sale was considered highly probable, and related assets and liabilities have been classified as held for sale.

Accordingly, as at 31 December 2017, the assets attributable to the remaining capital shares and respective loans that will be disposed are recognised in non-current assets held for sale in the amount of 58,179 thousand Euros.

During the last quarter of 2017, the EDP Brasil Group started the process of selling Costa Rica Energética, Ltda. Assets and liabilities associated with this company were presented in non-current assets and liabilities held for sale. The main reclassifications were related to property, plant and equipment (4,166 thousand Euros) and other liabilities from commercial activities (3,150 thousand Euros).

Additionally, in the last quarter of 2017, the EDP Group started the process of selling electricity generation companies EDP Small Hydro, S.A. and Pebble Hydro - Consultoria, Investimento e Serviços, Lda. The assets and liabilities associated with these companies were presented in non-current assets and liabilities held for sale. The main reclassifications are related to intangible assets (109,046 thousand Euros); goodwill (33,583 thousand Euros); other liabilities non - current (18,076 thousand Euros); and bank loans (73,708 thousand Euros). Consolidation reserves of Pebble Hydro - Consultoria, Investimento e Serviços, Lda. include a negative cashflow hedge reserve, in the amount of 13,896 thousand Euros (net of taxes).

These reclassifications were made only for financial statement presentation purposes, without changing the measurement criteria of these assets and liabilities, as it is expected that the fair value less costs to sell is higher than its book value, in accordance with IFRS 5.

## 42. Derivative Financial Instruments

In accordance with IAS 39, the Group classifies derivative financial instruments as fair value hedge of a recognised asset or liability (Fair value hedge), as cash flow hedge of recognised liabilities and highly probable future transactions (Cash flow hedge) and as net investment hedge in foreign operations (Net investment hedge).

In 2017, the fair value and the maturity of the derivative financial instruments in EDP Group are as follows:

| | Fair value | | Notional | | | |
|---|---|---|---|---|---|---|
| Thousand Euros | Assets | Liabilities | Up 1 year | From 1 to 5 years | Over 5 Years | Total |
| **Net Investment hedge** | | | | | | |
| Cross-currency interest rate swaps | 47,565 | -5,377 | 30,535 | 209,004 | 500,000 | 739,539 |
| | 47,565 | -5,377 | 30,535 | 209,004 | 500,000 | 739,539 |
| **Fair value hedge** | | | | | | |
| Interest rate swaps | 96,117 | -1,706 | - | 1,850,000 | 600,000 | 2,450,000 |
| Cross-currency interest rate swaps | 46,966 | - | 103,922 | - | 410,314 | 514,236 |
| | 143,083 | -1,706 | 103,922 | 1,850,000 | 1,010,314 | 2,964,236 |
| **Cash flow hedge** | | | | | | |
| Commodities swaps | 68,885 | -106,652 | 604,902 | 375,102 | 13,850 | 993,854 |
| Interest rate swaps | 2,307 | -22,987 | 96,804 | 487,068 | 271,949 | 855,821 |
| Currency forwards | 21 | -8,208 | 164,134 | - | - | 164,134 |
| | 71,213 | -137,847 | 865,840 | 862,170 | 285,799 | 2,013,809 |
| **Trading** | | | | | | |
| Commodities swaps | 13,558 | -15,816 | 185,969 | 108,771 | - | 294,740 |
| Interest rate swaps | 14,311 | -688 | 470 | 600,000 | 300,000 | 900,470 |
| Cross-currency interest rate swaps | 2,468 | -18,740 | 150,000 | 130,703 | - | 280,703 |
| Currency forwards | 180 | -4,109 | 116,954 | 11,889 | - | 128,843 |
| Options purchased and sold | 846 | -1,331 | 21,426 | 1,752 | - | 23,178 |
| | 31,363 | -40,684 | 474,819 | 853,115 | 300,000 | 1,627,934 |
| | 293,224 | -185,614 | 1,475,116 | 3,774,289 | 2,096,113 | 7,345,518 |

As at 31 December 2017, EDP Group holds contracts for purchases and sales of commodities traded on futures' exchanges, namely Chicago Mercantile Exchange, Intercontinental Exchange, European Energy Exchange and OMIP, whose operations' fair value is settled on a daily basis and therefore is not included in the statement of financial position. The notional of these futures amounts to 827,571 thousand Euros with maturities in 2018 and 2019, and the fair value retained in cash flow hedge reserves of the Group related to these operations amounts to -37,968 thousand Euros.

In 2016, the fair value and the maturity of the derivative financial instruments in EDP Group were as follows:

| | Fair value | | Notional | | | |
|---|---|---|---|---|---|---|
| Thousand Euros | Assets | Liabilities | Up 1 year | From 1 to 5 years | Over 5 Years | Total |
| **Net Investment hedge** | | | | | | |
| Cross-currency interest rate swaps | 10,641 | -22,779 | 74,669 | 109,573 | 500,000 | 684,242 |
| | 10,641 | -22,779 | 74,669 | 109,573 | 500,000 | 684,242 |
| **Fair value hedge** | | | | | | |
| Interest rate swaps | 128,860 | -138 | - | 850,000 | 1,600,000 | 2,450,000 |
| Cross-currency interest rate swaps | 94,881 | -81,646 | 320,000 | 103,922 | 410,314 | 834,236 |
| | 223,741 | -81,784 | 320,000 | 953,922 | 2,010,314 | 3,284,236 |
| **Cash flow hedge** | | | | | | |
| Commodities swaps | 76,413 | -38,977 | 703,794 | 403,655 | - | 1,107,449 |
| Interest rate swaps | 7 | -53,337 | 105,240 | 425,077 | 433,765 | 964,082 |
| Currency forwards | 19,832 | -12,115 | 365,499 | 42,448 | - | 407,947 |
| | 96,252 | -104,429 | 1,174,533 | 871,180 | 433,765 | 2,479,478 |
| **Trading** | | | | | | |
| Commodities swaps | 24,615 | -29,530 | 299,537 | 84,906 | - | 384,443 |
| Interest rate swaps | 16,065 | -3,562 | 1,203 | 602,355 | 304,152 | 907,710 |
| Cross-currency interest rate swaps | 3,789 | -27,439 | 22,732 | 195,566 | - | 218,298 |
| Currency forwards | 6,229 | -2,333 | 209,425 | 7,492 | - | 216,917 |
| Options purchased and sold | 1,621 | - | - | 3,745 | - | 3,745 |
| | 52,319 | -62,864 | 532,897 | 894,064 | 304,152 | 1,731,113 |
| | 382,953 | -271,856 | 2,102,099 | 2,828,739 | 3,248,231 | 8,179,069 |

The management of financial risk of EDP, S.A. and other EDP Group companies, is carried out centrally by EDP, S.A. (note 4). On this basis, EDP, S.A. negotiates derivative financial instruments with external entities to hedge its own individual business risks, as well as for other companies of the Group, performing for these entities' as an intermediate in their contracting.

In 2017, the fair value and the maturity of the derivative financial instruments at Company level are as follows:

| | Fair value | | Notional | | | |
|---|---|---|---|---|---|---|
| Thousand Euros | Assets | Liabilities | Up 1 year | From 1 to 5 years | Over 5 Years | Total |
| **Fair value hedge** | | | | | | |
| Cross-currency interest rate swaps | 280,477 | - | 1,387,347 | - | - | 1,387,347 |
| | 280,477 | - | 1,387,347 | - | - | 1,387,347 |
| **Cash flow hedge** | | | | | | |
| Commodities swaps | 3,298 | - | 19,131 | - | - | 19,131 |
| | 3,298 | - | 19,131 | - | - | 19,131 |
| **Trading** | | | | | | |
| Commodities swaps | 206,344 | -165,147 | 1,948,563 | 699,475 | - | 2,648,038 |
| Interest rate swaps | 109,910 | -96,278 | - | 4,300,000 | 1,500,000 | 5,800,000 |
| Cross-currency interest rate swaps | 84,857 | -15,441 | 568,914 | 602,252 | 500,000 | 1,671,166 |
| Currency forwards | 17,525 | -12,339 | 906,713 | 11,889 | - | 918,602 |
| Commodities forwards | 12,363 | -12,164 | 59,799 | - | - | 59,799 |
| Options purchased and sold | 767 | -1,988 | 3,745 | 3,395 | - | 7,140 |
| | 431,766 | -303,357 | 3,487,734 | 5,617,011 | 2,000,000 | 11,104,745 |
| | 715,541 | -303,357 | 4,894,212 | 5,617,011 | 2,000,000 | 12,511,223 |

In 2016, the fair value and the maturity of the derivative financial instruments at Company level were as follows:

| | Fair value | | Notional | | | |
|---|---|---|---|---|---|---|
| Thousand Euros | Assets | Liabilities | Up 1 year | From 1 to 5 years | Over 5 Years | Total |
| **Fair value hedge** | | | | | | |
| Cross-currency interest rate swaps | 668,047 | - | 438,827 | 1,387,347 | - | 1,826,174 |
| | 668,047 | - | 438,827 | 1,387,347 | - | 1,826,174 |
| **Cash flow hedge** | | | | | | |
| Commodities swaps | 37,430 | - | 468,912 | - | - | 468,912 |
| | 37,430 | - | 468,912 | - | - | 468,912 |
| **Trading** | | | | | | |
| Commodities swaps | 93,604 | -124,229 | 1,854,949 | 780,423 | - | 2,635,372 |
| Interest rate swaps | 142,392 | -128,320 | - | 2,300,000 | 3,500,000 | 5,800,000 |
| Cross-currency interest rate swaps | 89,364 | -52,482 | 194,802 | 709,116 | 500,000 | 1,403,918 |
| Currency forwards | 28,010 | -26,509 | 979,887 | 92,389 | - | 1,072,276 |
| Commodities forwards | 6,118 | -6,115 | 63,879 | 3,714 | - | 67,593 |
| Options purchased and sold | 1,621 | - | - | 3,745 | - | 3,745 |
| | 361,109 | -337,655 | 3,093,517 | 3,889,387 | 4,000,000 | 10,982,904 |
| | 1,066,586 | -337,655 | 4,001,256 | 5,276,734 | 4,000,000 | 13,277,990 |

The fair value of derivative financial instruments is booked in Other debtors and other assets (see note 26) and Other liabilities and other payables (see note 39), according to its nature.

Fair value of derivative financial instruments is based on quotes indicated by external entities, which are compared in each date of report to fair values available in common financial information platforms. Therefore, according to IFRS 13 requirements, the fair value of the derivative financial instruments is classified as of level 2 (see note 45) and no changes of level were made during this period. These entities use generally accepted discounted cash flow techniques and data from public markets.

Derivative financial instruments classified as trading are financial hedging instruments contracted for economic hedging at EDP Group level (see note 4), however such instruments are not eligible for hedge accounting under IFRS.

The changes in the fair value, including accrued interest, of hedging instruments and risks being hedged are as follows:

| | | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| | | | Changes in fair value | | Changes in fair value | |
| Thousand Euros | Hedging instrument | Hedged risk | Instrument | Risk | Instrument | Risk |
| Net investment | Cross-curr. int. rate swaps | Subsidiaries in PLN, BRL, USD and CAD | 54,326 | -60,211 | 44,478 | -36,343 |
| Net investment | Currency forwards | Subsidiaries in CAD | - | - | -554 | 554 |
| Fair value | Interest rate swap | Interest rate | -34,311 | 34,256 | 41,318 | -41,062 |
| Fair value | Cross-curr. int. rate swaps | Exchange and interest rate | 33,731 | -27,669 | -130,207 | 141,342 |
| Cash flow | Interest rate swap | Interest rate | 32,650 | - | 33,134 | - |
| Cash flow | Currency forwards | Exchange rate | -15,904 | - | -603 | - |
| Cash flow | Commodities swaps | Commodity prices | -75,203 | - | 29,384 | - |
| | | | -4,711 | -53,624 | 16,950 | 64,491 |

During 2017 and 2016 the following market inputs were considered for the fair value calculation:

| Instrument | Market input |
|---|---|
| Cross-curr. int. rate swaps | Fair value indexed to the following interest rates: Euribor 3M, Euribor 6M, Libor 3M, Libor 6M, Daily CDI, Wibor 3M and Robor 3M; and exchange rates: EUR/CHF, EUR/GBP, EUR/BRL, EUR/PLN, EUR/CAD, USD/BRL, USD/JPY, EUR/RON and EUR/USD. |
| Interest rate swaps | Fair value indexed to the following interest rates: Euribor 3M, Euribor 6M, Wibor 6M, US Libor 3M and CAD Libor 3M. |
| Currency forwards | Fair value indexed to the following exchange rates: EUR/USD, EUR/PLN, EUR/BRL and USD/BRL. |
| Commodities swaps | Fair value indexed to the market quotes of the following commodities: Brent, NBP Natural Gas, Electricity, Henry Hub, TTF, Coal and CO2. |

The changes in the fair value reserve related to cash flow hedges in 2017 and 2016 were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| Thousand Euros | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| **Balance at the beginning of the period** | 43,235 | -73,866 | 54,217 | -8,216 |
| Fair value changes | -39,678 | 80,363 | 88,466 | -12,423 |
| Transfers to results from hedging of financial liabilities and commodity prices | -28,180 | 32,760 | -135,187 | 74,856 |
| Transfers included in the initial cost of inventories from hedging of commodity prices | -79,406 | - | - | - |
| Comprehensive Income changes in associates | - | 1,248 | - | - |
| Changes resulting from acquisitions/sales without control changes | 451 | 2,730 | - | - |
| **Balance at the end of the period** | -103,578 | 43,235 | 7,496 | 54,217 |

On a Company basis, the derivative financial instruments classified as cash flow hedges are related to swaps and futures on energy prices in the iberian market to hedge the price risck associated to future energy purchases to sell them to EDP Comercial in 2018.

The gains and losses on the financial instruments portfolio, excluding accrued interest, booked in the Income Statement in 2017 and 2016 are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| Thousand Euros | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| Derivatives held for trading | -24,836 | -83,931 | 18,683 | -19,931 |
| Net investment hedge - ineffectiveness | -5,148 | 12,521 | - | - |
| Fair value hedges: | | | | |
| -Derivatives | -580 | -88,889 | -296,317 | 78,971 |
| -Hedged liabilities | 6,587 | 100,280 | 296,317 | -78,971 |
| Cash flow hedges: | | | | |
| -Transfer to results from hedging of financial liabilities | -5,383 | -12,397 | - | - |
| -Transfer to results from hedging of commodity prices | 95,058 | -20,363 | 135,187 | -74,856 |
| -Ineffectiveness | 1,161 | 2,412 | 187 | 16 |
| | 66,859 | -90,367 | 154,057 | -94,771 |

The amount tranfered to results related to hedges of commodity prices is included in Revenues from energy sales and services and other and Cost of energy sales and other.

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

| | Group | | | |
|---|---|---|---|---|
| | Notional Euro'000 | Currency | EDP Pays | EDP Receives |
| **Interest rate contracts:** | | | | |
| Interest rate swaps | 4,117,189 | EUR | [ 4.45% - -0.85% ] | [ 4.88% - -0.85% ] |
| Interest rate swaps | 14,511 | PLN | [ 2.78% - 2.48% ] | 1.81% |
| Interest rate swaps | 57,807 | USD | 1.86% | 1.00% |
| Interest rate swaps | 16,785 | CAD | 2.59% | 1.43% |
| **Currency and interest rate contracts:** | | | | |
| CIRS (currency interest rate swaps) | 410,314 | EUR/GBP | 3.66% | 8.63% |
| CIRS (currency interest rate swaps) | 74,069 | USD/JPY | 6.80% | 3.11% |
| CIRS (currency interest rate swaps) | 174,087 | EUR/PLN | [ 2.11% - 1.39% ] | -0,33% |
| CIRS (currency interest rate swaps) | 150,000 | EUR/RON | [ 2.23% - 2.10% ] | -0,33% |
| CIRS (currency interest rate swaps) | 45,719 | EUR/BRL | [ 6.48% - 5.37% ] | -0,33% |
| CIRS (currency interest rate swaps) | 56,634 | BRL/USD | [ 12.66% - 11.13% ] | [ 4.34% - 3.53% ] |
| CIRS (currency interest rate swaps) | 103,922 | EUR/CHF | [ 3.96% - 3.80% ] | 4.01% |
| CIRS (currency interest rate swaps) | 19,734 | EUR/CAD | [ 1.93% - 1.82% ] | -0,33% |
| CIRS (currency interest rate swaps) | 500,000 | USD/EUR | [ 3.27% - 3.20% ] | 1.13% |

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

| | Group | | | |
|---|---|---|---|---|
| | Notional Euro'000 | Currency | EDP Pays | EDP Receives |
| **Interest rate contracts:** | | | | |
| Interest rate swaps | 4,281,711 | EUR | [ 4.45% - -0.84% ] | [ 4.88% - -0.84% ] |
| Interest rate swaps | 19,742 | PLN | [ 2.78% - 2.48% ] | 1.81% |
| Interest rate swaps | 20,339 | CAD | 2.59% | 0.91% |
| **Currency and interest rate contracts:** | | | | |
| CIRS (currency interest rate swaps) | 730,314 | EUR/GBP | [ 3.69% - 1.32% ] | [ 8.63% - 6.63% ] |
| CIRS (currency interest rate swaps) | 81,037 | USD/JPY | 6.80% | 3.11% |
| CIRS (currency interest rate swaps) | 198,031 | EUR/PLN | [ 2.12% - 1.33% ] | [ -0.31% - -0.32% ] |
| CIRS (currency interest rate swaps) | 39,939 | EUR/BRL | [ 12.69% - 11.04% ] | -0.30% |
| CIRS (currency interest rate swaps) | 65,588 | BRL/USD | [ 17.32% - 16.52% ] | [ 3.82% - 2.84% ] |
| CIRS (currency interest rate swaps) | 103,922 | EUR/CHF | [ 3.98% - 3.82% ] | 4.01% |
| CIRS (currency interest rate swaps) | 17,946 | EUR/CAD | [ 1.33% - 1.23% ] | -0.32% |
| CIRS (currency interest rate swaps) | 500,000 | USD/EUR | [ 3.27% - 3.20% ] | 1.13% |

## 43. Commitments

Financial, operating and real guarantees granted by EDP Group, not included in the Statement of Financial Position, are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| Thousand Euros | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| **Financial guarantees** | | | | |
| EDP Brasil Group | 1,297,333 | 1,510,507 | - | - |
| EDP Renováveis Group | 6,955 | 21,039 | - | - |
| | 1,304,288 | 1,531,546 | - | - |
| **Operating guarantees** | | | | |
| EDP, S.A. | 902,592 | 501,334 | 902,592 | 501,334 |
| EDP España Group | 303,101 | 257,773 | - | - |
| EDP Brasil Group | 604,285 | 463,704 | - | - |
| EDP Renováveis Group | 2,789,736 | 2,367,120 | - | - |
| Other | - | 4,323 | - | - |
| | 4,599,714 | 3,594,254 | 902,592 | 501,334 |
| **Total** | 5,904,002 | 5,125,800 | 902,592 | 501,334 |
| **Real guarantees** | 7,762 | 4,137 | - | - |

The financial guarantees contracted as at 31 December 2017 and 2016 include 942,646 thousand Euros and 1,110,133 thousand Euros, respectively, related with loans obtained by Group companies and are already included in the consolidated debt.

Included in the operating guarantees contracted as at 31 December 2017 and 2016, are the amounts of 393,944 thousand Euros and 495,692 thousand Euros which, respectively, refer to corporate guarantees provided by EDP Renováveis relating to EDPR Renováveis Group commercial commitments already reflected in the Statement of Financial Position. Additionally, EDP and its subsidiaries are required to provide bank or corporate guarantees for the current generation and distribution activities. The total guarantees outstanding include, at 31 December 2017 and 2016, 784,049 thousand Euros and 325,674 thousand Euros, respectively, of guarantees provided to market operators to enable EDP and its subsidiaries to participate in the energy markets.

In addition to the information disclosed above:

i) EDPR NA is providing its tax equity investors with standard corporate guarantees typical of these agreements to indemnify them against costs they may incur as a result of fraud, willful misconduct or a breach of EDPR NA of any operational obligation under the tax equity agreements. As at 31 December 2017 and 2016, EDPR's obligations under the tax equity agreements, in the amount of 1,258,661 thousand Euros and 1,428,275 thousand Euros, respectively, are already reflected under the caption Institutional Partnerships in USA;

ii) The Group has also project finance loans and deposits constituted as collateral for financial guarantee, which are disclosed in note 34.

In the Group, the commitments relating to future lease payments under operating leases and purchase obligations are disclosed by maturity, as follows:

| | Dec 2017 | | | | |
|---|---|---|---|---|---|
| | Capital outstanding by maturity | | | | |
| Thousand Euros | Total | Less than 1 year | From 1 to 3 years | From 3 to 5 years | More than 5 years |
| Operating lease commitments | 1.407.125 | 89.961 | 135.379 | 117.551 | 1.064.234 |
| Purchase obligations | 20.597.417 | 4.524.876 | 5.108.130 | 2.784.960 | 8.179.451 |
| | 22.004.542 | 4.614.837 | 5.243.509 | 2.902.511 | 9.243.685 |

| | Dec 2016 | | | | |
|---|---|---|---|---|---|
| | Capital outstanding by maturity | | | | |
| Thousand Euros | Total | Less than 1 year | From 1 to 3 years | From 3 to 5 years | More than 5 years |
| Operating lease commitments | 1.415.286 | 78.217 | 130.808 | 104.359 | 1.101.902 |
| Purchase obligations | 22.477.372 | 4.182.581 | 5.097.182 | 3.313.522 | 9.884.087 |
| | 23.892.658 | 4.260.798 | 5.227.990 | 3.417.881 | 10.985.989 |

The Group's contractual commitments shown above relate essentially to agreements and commitments required for current business activities. Specifically, the majority of the commitments are established to guarantee adequate supply of fuel and energy to its customers in Europe, United States of America and Brazil and to comply with medium and long term investment objectives of the Group.

Purchase obligations include 14,481,883 thousand Euros essentially related with very long-term contracts for energy acquisition in the brazilian market (by regulatory imposition) which are updated with the respective projected rates and discounted at present value by a rate that represents the weighted average cost of capital (WACC) of the EDP Brasil Group, as follows:

| Thousand Euros | Dec 2017 | Dec 2016 |
|---|---|---|
| Purchase obligation - Present value | 14.481.883 | 15.088.520 |
| Purchase obligation - Nominal amount | 18.313.855 | 20.286.380 |

Purchase obligations also include obligations of long term contracts relating to the supply of products and services under the Group's ordinary course of business. Prices defined under forward contracts are used in estimating the amount of contractual commitments.

The nature of purchase obligations breaks down as follows:

| Thousand Euros | Dec 2017 | Dec 2016 |
|---|---|---|
| Fuel acquisition | 3.380.444 | 4.273.355 |
| Electricity acquisition | 12.900.272 | 14.382.677 |
| O&M contracts | 1.091.670 | 1.257.234 |
| Fixed assets, equipment and miscellaneous materials acquisition | 1.573.712 | 802.169 |
| Supply and assembly contract | 655.067 | 774.832 |
| Other supplies and services | 996.252 | 987.105 |
| | 20.597.417 | 22.477.372 |

The reduction in electricity purchase obligations is essentially due to the depreciation of Brazilian Real against the Euro during 2017.

The commitments for fuel and electricity acquisition are disclosed, by maturity, as follows:

| | Dec 2017 | | | | |
|---|---|---|---|---|---|
| | Capital outstanding by maturity | | | | |
| Thousand Euros | Total | Less than 1 year | From 1 to 3 years | From 3 to 5 years | More than 5 years |
| Fuel acquisition | 3,380,444 | 1,004,412 | 1,208,262 | 539,094 | 628,676 |
| Electricity acquisition | 12,900,272 | 1,463,858 | 2,478,446 | 2,095,030 | 6,862,938 |
| | 16,280,716 | 2,468,270 | 3,686,708 | 2,634,124 | 7,491,614 |

| | Dec 2016 | | | | |
|---|---|---|---|---|---|
| | Capital outstanding by maturity | | | | |
| Thousand Euros | Total | Less than 1 year | From 1 to 3 years | From 3 to 5 years | More than 5 years |
| Fuel acquisition | 4,273,355 | 1,051,949 | 1,283,423 | 914,063 | 1,023,920 |
| Electricity acquisition | 14,382,677 | 1,509,932 | 2,631,299 | 2,159,492 | 8,081,954 |
| | 18,656,032 | 2,561,881 | 3,914,722 | 3,073,555 | 9,105,874 |

As at 31 December 2017, purchase obligations of fixed assets, equipment and miscellaneous materials correspond to: (i) 548,955 thousand Euros relating to property, plant and equipment acquisition; (ii) 53,460 thousand Euros relating to intangible assets acquisition; and (iii) 324,763 thousand Euros relating to equipment and miscellaneous materials acquisition.

The commitments relating to future lease payments under finance leases and to short and medium-long term financial debt are disclosed in notes 15 and 34, respectively. The commitments relating to pension and medical plans and other benefits are disclosed in note 35. The commitments related to the joint ventures are disclosed in note 20.

EDP Group has the following liabilities arising from put options on investments, held by third parties:

- Put option related to 25% of the share capital of Tivano S.r.l., exercisable under certain conditions, between July 2016 and July 2020. The exercise price is 450 thousand Euros, adjusted by contributions and distributions made by and to the other shareholder, respectively, during the put option period of exercise. As at 31 December 2017 the put option amounts to 1,618 thousand Euros (31 December 2016: 1,575 thousand Euros) (see note 39);

- Put option related to 25% of the share capital of San Mauro S.r.l., exercisable under certain conditions, between March 2017 and March 2022. The exercise price corresponds to 25% of the final purchase price of the company, adjusted by contributions and distributions made by and to the other shareholder, respectively, during the put option period of exercise. As at 31 December 2017 the put option amounts to 259 thousand Euros (31 December 2016: 341 thousand Euros) (see note 39);

- Put option related to 25% of the share capital of AW 2 S.r.l., exercisable under certain conditions, between April 2017 and April 2022. The exercise price corresponds to 25% of the final purchase price of the company, adjusted by contributions and distributions made by and to the other shareholder, respectively, during the put option period of exercise. As at 31 December 2017 the put option amounts to 292 thousand Euros (31 December 2016: 383 thousand Euros) (see note 39).

Some of the transactions related to the disposal of non-controlling interests while retaining control, carried out in 2017 and in previous years, incorporate contingent assets and liabilities according to the terms of the corresponding agreements.

At Company level, the commitments relating to future lease payments under operating leases and purchase obligations are disclosed, by maturity, as follows:

| | Dec 2017 | | | | |
|---|---|---|---|---|---|
| | Capital outstanding by maturity | | | | |
| Thousand Euros | Total | Less than 1 year | From 1 to 3 years | From 3 to 5 years | More than 5 years |
| Operating lease commitments | 237,620 | 12,134 | 21,076 | 18,571 | 185,839 |
| Purchase obligations | 110,693 | 51,796 | 58,897 | - | - |
| | 348,313 | 63,930 | 79,973 | 18,571 | 185,839 |

| | Dec 2016 | | | | |
|---|---|---|---|---|---|
| | Capital outstanding by maturity | | | | |
| Thousand Euros | Total | Less than 1 year | From 1 to 3 years | From 3 to 5 years | More than 5 years |
| Operating lease commitments | 87,575 | 6,239 | 11,615 | 6,647 | 63,074 |
| Purchase obligations | 166,085 | 64,387 | 75,270 | 26,428 | - |
| | 253,660 | 70,626 | 86,885 | 33,075 | 63,074 |

The caption Purchase obligations relates to O&M contracts.

## 44. Related Parties

### Shares held by company officers

The number of shares of EDP S.A. held or attributable to company officers as at 31 December 2017 and 2016 are as follows:

| | 2017 Nr. of shares | 2016 Nr. of shares |
|---|---|---|
| **General and Supervisory Board** | | |
| China Three Gorges Corporation (represented by Eduardo de Almeida Catroga) | 850,777,024 | 780,633,782 |
| China Three Gorges (Europe), S.A. (represented by Dingming Zhang) | 850,777,024 | 780,633,782 |
| Draursa, S.A. (represented by Felipe Fernández Fernández) | 1,350 | - |
| Fernando Maria Masaveu Herrero | 265,065,136 | 265,065,136 |
| Mubadala Investment Company (represented by Mohamed Al Fahim) | 148,431,999 | 148,431,999 |
| Sonatrach (represented by Ferhat Ounoughi) | 87,007,433 | 87,007,433 |
| Vasco Joaquim Rocha Vieira | 3,203 | 3,203 |
| Banco Comercial Português, S.A. (represented by Nuno Manuel da Silva Amado) | 89,126,167 | 89,342,093 |
| João Carvalho das Neves | 7,429 | 7,429 |
| **Executive Board of Directors** | | |
| António Luís Guerra Nunes Mexia | 91,000 | 91,000 |
| António Fernando Melo Martins da Costa | 54,299 | 54,299 |
| João Manuel Manso Neto | 1,268 | 1,268 |
| João Manuel Veríssimo Marques da Cruz | 79,578 | 81,378 |
| Nuno Maria Pestana de Almeida Alves | 150,000 | 150,000 |
| Miguel Nuno Simões Nunes Ferreira Setas | 7,382 | 7,382 |
| Miguel Stilwell de Andrade | 140,000 | 140,000 |
| Rui Manuel Rodrigues Lopes Teixeira | 31,733 | 8,333 |

The EDP, S.A bonds and the number of shares of other EDP group companies held or attributable to company officers are disclosed in part I section A - Ownership structure of chapter 4 - Corporate governance.

Under the General and voluntary tender offer over the shares representing the share capital of EDP Renováveis, S.A., under the terms of the article 19 of the Rule (EU) 596/2014 of the European Parliament and of the Council and article 248-B of the Portuguese Securities Code ("Código dos Valores Mobiliários"), during the third quarter, the Company Officers have sold the following shares:

- António Luís Guerra Nunes Mexia - 4,200 shares;
- Nuno Maria Pestana de Almeida Alves - 5,000 shares;
- António Fernando Melo Martins da Costa - 1,480 shares;
- Miguel Nuno Simões Nunes Ferreira Setas - 1,200 shares;
- Rui Manuel Rodrigues Lopes Teixeira - 12,370 shares;
- Miguel Stilwell de Andrade - 2,510 shares;
- João Manuel Veríssimo Marques da Cruz - 1,200 shares;
- João Carvalho das Neves - 3,200 shares.

Additionally, Rui Manuel Rodrigues Lopes Teixeira bought 23,400 shares representing the share capital of EDP.

### Remuneration of company officers

In accordance with the Company's by-laws, the remuneration of company officers is set by a Remunerations Committee appointed by the Shareholders' General Meeting, except for the remuneration of the members of the Executive Board of Directors (EBD), which is set by a Remunerations Committee appointed by the General and Supervisory Board (GSB).

*Short-term employee benefits*

During 2017, the annual fixed and variable remuneration cost accounted for the members of the EBD and the fixed remuneration of the GSB, was as follows:

| Thousand Euros | EBD | GSB |
|---|---|---|
| President | 1,568 | 515 |
| Members | 5,831 | 1,389 |
| | **7,399** | **1,904** |

The remuneration costs accounted with the EBD includes the amount of 2,419 thousand Euros related to the annual variable remuneration. This amount was calculated considering the best estimation of the variable remuneration for the year of 2017, in accordance with Remunerations Committee policy of the GSB, deducted from the correction of the accrual from the previous year compared with the amount paid.

Additionally, the Remunerations Committee policy of the GSB foresees, in certain circumstances, a variable multi-annual remuneration to the EBD members, corresponding to the current mandate (2015-2017). On this basis, an estimated amount of 11,510 thousand Euros was accrued (31 December 2016: 10,611 thousand Euros).

During 2017, the remuneration costs of the members of the Remunerations Committee of the General Assembly and Sustainability Commitee amounted to 35,000 Euros and 7,000 Euros, respectively.

*Post-employment benefits*

EDP has no specific retirement benefits system in place for its directors. The remuneration fixed by the Remuneration Committee of the General and Supervisory Board provides for a retirement savings plan-type standard financial product for the members of the Executive Board of Directors, who contribute 10% (ten percent) of their net fixed annual remuneration. It was granted by decision of the General Meeting of 19 April 2017 as part of the remuneration policy statement. This financial product does not entail any cost to EDP in the future, as it is merely a subscription to a financial product while the members of the managing body hold their positions and is not covered by Article 402 (1) of the "Código das Sociedades Comerciais" (Portuguese Commercial Companies Code).

**Audit and non audit fees**

In 2017, KPMG fees relating to external audit and statutory audit of all subsidiaries of EDP Group, except Group EDP Brasil, amounted to 6,062,451 Euros. Additionally, the total fees charged by KPMG for other assurance services, and other non audit services amounted to 1,071,645 Euros and 263,700 Euros, respectively.

In 2017, KPMG Portugal fees relating to external audit and statutory audit of all subsidiaries of EDP Group in Portugal, amounted to 2,567,137 Euros. The total fees charged by KPMG Portugal for other assurance of reliability services to subsidiaries of EDP Group in Portugal amounted to 771,985 Euros. Additionally, KPMG Portugal charged fees related to other non audit services to subsidiaries of EDP Group in Spain amounted to 10,900 Euros.

**Business operations between the Company and the members of the Executive Board of Directors and General and Supervisory Board with qualifying holdings and companies in the group or control relationship with EDP**

In the course of its activity and regardless their relevance, EDP concludes business and operations under normal market conditions for similar transactions with different entities, namely financial institutions, including holders of qualified shareholdings in EDP's share capital and those related parties.

On 11 May 2012, after the strategic partnership agreement concluded with China Three Gorges Corporation (CTG) came into effect in December 2011, this company (and three other group companies) became part of EDP's General and Supervisory Board.

Under the strategic partnership with China Three Gorges Corporation, on 28 June 2013 EDP Renováveis, S.A. sold for a total final price of 368 million Euros to a CTG Group company (CITIC CWEI Renewables S.C.A.) a 49% shareholding in EDP Renováveis Portugal and 25% of the shareholder loans capital and supplementary capital contributions under the applicable rules for additional contributions granted to this company.

Also under this partnership, on 6 December 2013, EDP Brasil signed a memorandum of understanding with CWE Investment Corporation (CWEI), currently designated as China Three Gorges Corporation, a wholly owned subsidiary of CTG, setting out the main guidelines for a future partnership in joint investments between EDP Brasil and CWEI and that governs parties' participation in joint projects in Brazil. These investments by CWEI Brasil will be considered for purposes of fulfilment of the strategic partnership agreement in relation to the total investment of 2 billion Euros to be made by CTG up to 2015 (including co-funding of operating investments) in ready-to-build and operational renewable energy generation projects.

On 19 May 2015, EDP Renováveis, S.A. has completed the sale to CTG, of a 49% equity shareholding in selected wind farms in Brazil. This transaction was recognised as a sale without loss of control, having the Group recognised non-controlling interests of 50,943 thousand Euros and an impact in reserves attributable to the Group of 10,337 thousand Euros in 2015.

On 27 October 2016, the transaction relating with the sale of the minority interest in the wind generation assets of EDP Renováveis in Italy and Poland to CTG wich purchase and sale agreement was signed on 28 December 2015. CTG, through ACE Poland S.A.R.L. and ACE Italy S.A.R.L., both owned in 100% by ACE Investment Fund LP, an entity owned by China Three Gorges Hong Kong Ltd, subsidiary of CTG, formalised the payment of approximately 363 million Euros corresponding to the final price agreed between the parties.

In the second quarter of 2017, EDP Renewables, SGPS, S.A. concluded the sale to ACE Portugal S.A.R.L. (company hold by CTG) of 49% of EDPR PT-PE (see note 5).

**Balances and transactions with companies of China Three Gorges Group**

In accordance with the EDP/CTG strategic partnership, EDP Renováveis Group has completed the sale of 49% of EDPR Portugal, EDPR Brazil, EDPR PT-PE, EDPR Italia and EDPR Polska to CTG Group.

Following these transactions, CTG Group granted loans to the EDPR Group in the amount of 300,368 thousand Euros including accrued interests (31 December 2016: 275,509 thousand Euros) (see note 39), and interests were booked in the amount of 7,167 thousand Euros (31 December 2016: 5,168 thousand Euros).

In 2017, EDPR Portugal and EDPR PT PE distributed dividends to CTG in the amounts of 19,600 thousand Euros and 12,495 thousand Euros, respectively.

**Balances with EDP Pension and Medical and Death Subsidy Funds**

In December 2015, EDP, S.A. signed a lease contract related with the building units of the Porto headquarters (sold to the EDP Pension Fund in December 2015) for a period of 25 years with an implicit rate of 6.42%. As at 31 December 2017, the present value of the contract amounts to 30,808 thousand Euros (31 December 2016: 31,357 thousand Euros) (see note 39).

In September 2017, EDP, S.A. signed a lease contract related with the building of the Lisbon headquarters (given as an in-kind contribution to the EDP Medical and Death Subsidy Funds) for a period of 25 years with an implicit rate of 5.82%. As at 31 December 2017, the present value of the contract amounts to 55,040 thousand Euros, which given it's nature, was booked as Property, Plant and Equipment against Other creditors and other liabilities (see notes 15 and 39).

Following the decision and implementation of the autonomisation of the Medical Plan and Death Subsidy Plan and in line with the financing plan approved by Insurance and Pension Funds Supervisory Authority (ASF), EDP Group has committed to make a total estimated contribution of 577 million Euros until 2023. During 2017, a contribution of 163,888 thousand Euros was made (see note 35).

**Balances and transactions with subsidiaries, joint ventures and associates**

In their ordinary course of business, EDP Group companies establish commercial transactions and operations with other Group companies, whose terms reflect current market conditions.

The credits and debits over subsidiaries, joint ventures and associates, at Company level, are as follows:

**Credits held**

| | December 2017 | | | |
|---|---|---|---|---|
| Thousand Euros | Intra-Group Financial Mov. | Loans and Interests receivable | Other Credits | Total |
| EDP Comercial | - | 75,946 | 303,097 | 379,043 |
| EDP Distribuição | - | 1,921,941 | 57,074 | 1,979,015 |
| EDP Espanã | - | - | 55,405 | 55,405 |
| EDP Finance B.V. | - | 849,849 | 38,944 | 888,793 |
| EDP Produção | 280,059 | 4,875,717 | 143,603 | 5,299,379 |
| EDP Imobiliária e Participações | - | 15,842 | 264 | 16,106 |
| EDP IS (ex-Balwerk) | 8,008 | 192,694 | 40 | 200,742 |
| EDP Renováveis | - | - | 284,964 | 284,964 |
| EDP Servicios Financieros España | 354,641 | 885,497 | 10,355 | 1,250,493 |
| EDP Serviço Universal | - | - | 38,839 | 38,839 |
| Other | 45,370 | 49,364 | 166,884 | 261,618 |
| | 688,078 | 8,866,850 | 1,099,469 | 10,654,397 |

The amount of 849,849 thousand Euros refers to the repurchase in market by EDP, S.A. of two bond issues issued by EDP Finance B.V.

| | December 2016 | | | |
|---|---|---|---|---|
| Thousand Euros | Intra-Group Financial Mov. | Loans and Interests receivable | Other Credits | Total |
| EDP IS (ex- Balwerk) | 4,549 | 192,733 | 3,928 | 201,210 |
| EDP Comercial | 70,585 | 75,946 | 215,936 | 362,467 |
| EDP Distribuição | - | 1,697,252 | 127,312 | 1,824,564 |
| EDP Finance B.V. | - | 485,753 | 58,718 | 544,471 |
| EDP Produção | 222,334 | 4,537,627 | 185,595 | 4,945,556 |
| EDP Imobiliária e Participações | - | 104,091 | 682 | 104,773 |
| EDP Renováveis | - | - | 679,689 | 679,689 |
| EDP Servicios Financieros España | 371,951 | 885,832 | 4,832 | 1,262,615 |
| EDP Serviço Universal | - | - | 351,490 | 351,490 |
| Other | 74,340 | 39,451 | 209,569 | 323,360 |
| | 743,759 | 8,018,685 | 1,837,751 | 10,600,195 |

**Debits held**

| Thousand Euros | December 2017 | | | |
|---|---|---|---|---|
| | Intra-Group Financial Mov. | Loans and Interests payable | Other Debits | Total |
| EDP Distribuição | 62,381 | - | 25,805 | 88,186 |
| EDP Finance B.V. | - | 13,641,435 | 99,116 | 13,740,551 |
| EDP Produção | - | - | 401,756 | 401,756 |
| EDP Imobiliária e Participações | 7,068 | - | 2,593 | 9,661 |
| Pebble Hydro | - | 41,500 | 1,023 | 42,523 |
| Other | 127,725 | 3,336 | 220,954 | 352,015 |
| | 197,174 | 13,686,271 | 751,247 | 14,634,692 |

The amount of 13,641,435 thousand Euros includes 6 intragroup bonds issued by EDP Finance B.V. to EDP S.A. as at 31 December 2017, in the total amount of 8,928,914 thousand Euros, with variable rate at medium-long term (5, 7 and 10 years).

| Thousand Euros | December 2016 | | | |
|---|---|---|---|---|
| | Intra-Group Financial Mov. | Loans and Interests payable | Other Debits | Total |
| EDP Distribuição | 136,598 | - | 61,807 | 198,405 |
| EDP Finance B.V. | - | 19,439,433 | 141,960 | 19,581,393 |
| EDP Produção | - | - | 372,532 | 372,532 |
| EDP Soluções Comerciais | 6,875 | - | 9,721 | 16,596 |
| Pebble Hydro | - | 62,006 | 1,226 | 63,232 |
| Naturgas Comercializadora | - | - | 21,845 | 21,845 |
| Other | 33,157 | 2,845 | 251,850 | 287,852 |
| | 176,630 | 19,504,284 | 860,941 | 20,541,855 |

Expenses and income related to subsidiaries, joint ventures and associates, at Company level, are as follows:

**Expenses**

| Thousand Euros | December 2017 | | | |
|---|---|---|---|---|
| | Interest on Intra-Group Financial Mov. | Interest on Loans Obtained | Other Losses | Total |
| EDP Finance B.V. | - | -384,093 | -103,721 | -487,814 |
| EDP Produção | - | - | -1,356,622 | -1,356,622 |
| EDP España | - | - | -105,647 | -105,647 |
| Other | -24 | -40 | -99,143 | -99,207 |
| | -24 | -384,133 | -1,665,133 | -2,049,290 |

| Thousand Euros | December 2016 | | | |
|---|---|---|---|---|
| | Interest on Intra-Group Financial Mov. | Interest on Loans Obtained | Other Losses | Total |
| EDP Finance B.V. | - | -629,753 | -186,309 | -816,062 |
| EDP Produção | - | - | -1,333,905 | -1,333,905 |
| Naturgas Comercializadora | - | - | -134,502 | -134,502 |
| Other | -57 | -278 | -202,950 | -203,285 |
| | -57 | -630,031 | -1,857,666 | -2,487,754 |

**EDP - Energias de Portugal, S.A.**
**Notes to the Consolidated and Company Financial Statements as at and for the periods ended 31 December 2017 and 2016**

**Income**

| Thousand Euros | December 2017 | | | |
|---|---|---|---|---|
| | Interest on Intra-Group Financial Mov. | Interest on Loans Granted | Other Gains | Total |
| EDP Comercial | 115 | 2,471 | 980,106 | 982,692 |
| EDP Distribuição | 1,395 | 86,038 | 59,107 | 146,540 |
| EDP España | - | - | 565,475 | 565,475 |
| EDP Produção | 992 | 213,035 | 569,564 | 783,591 |
| EDP Finance B.V. | - | 26,736 | 99,928 | 126,664 |
| EDP Renováveis | - | - | 102,589 | 102,589 |
| Other | 500 | 41,387 | 336,517 | 378,404 |
| | 3,002 | 369,667 | 2,713,286 | 3,085,955 |

Other gains include income from equity investments of 832,204 thousand Euros (see note 12).

| Thousand Euros | December 2016 | | | |
|---|---|---|---|---|
| | Interest on Intra-Group Financial Mov. | Interest on Loans Granted | Other Gains | Total |
| EDP Comercial | 435 | 2,478 | 1,000,796 | 1,003,709 |
| EDP Distribuição | 881 | 149,390 | 178,917 | 329,188 |
| EDP Produção | 2,349 | 211,264 | 392,779 | 606,392 |
| EDP Finance B.V. | - | 1,954 | 122,705 | 124,659 |
| Naturgas Comercializadora | - | - | 124,381 | 124,381 |
| EDP España | - | - | 461,511 | 461,511 |
| Outras | 670 | 41,758 | 410,632 | 453,060 |
| | 4,335 | 406,844 | 2,691,721 | 3,102,900 |

Assets, liabilities and transactions with related companies, for the Group, are as follows:

**Assets and Liabilities**

| Thousand Euros | December 2017 | | |
|---|---|---|---|
| | Assets | Liabilities | Net Value |
| **Joint Ventures** | | | |
| EDP Produção Bioeléctrica | 15,214 | 3,635 | 11,579 |
| Empresa de Energia Cachoeira Caldeirão | 499 | 1,209 | -710 |
| Empresa de Energia São Manoel | 28,311 | - | 28,311 |
| Cide HC Energía | 7,677 | 143 | 7,534 |
| Moray Offshore Windfarm (East) | 19,282 | - | 19,282 |
| Other | 6,612 | 3,916 | 2,696 |
| | 77,595 | 8,903 | 68,692 |
| **Associates** | | | |
| MABE Construção e Administração de Projectos | 5,288 | - | 5,288 |
| Parque Eólico Sierra del Madero | 12,785 | - | 12,785 |
| Other | 13,073 | 21 | 13,052 |
| | 31,146 | 21 | 31,125 |
| | 108,741 | 8,924 | 99,817 |

**EDP - Energias de Portugal, S.A.**
**Notes to the Consolidated and Company Financial Statements as at and for the periods ended 31 December 2017 and 2016**

| Thousand Euros | December 2016 | | |
|---|---|---|---|
| | Assets | Liabilities | Net Value |
| **Joint Ventures** | | | |
| EDP Produção Bioeléctrica | 15,114 | 5,146 | 9,968 |
| Eólica de Coahuila | 24,316 | - | 24,316 |
| Empresa de Energia Cachoeira Caldeirão | 14,622 | 1,403 | 13,219 |
| Empresa de Energia São Manoel | 29,583 | 1 | 29,582 |
| Cide HC Energía | 16,099 | 19 | 16,080 |
| HC Tudela Cogeneración | 3,616 | 2,254 | 1,362 |
| Other | 7,816 | 4,260 | 3,556 |
| | 111,166 | 13,083 | 98,083 |
| **Associates** | | | |
| Eoliennes en Mer Dieppe Le Tréport | 5,945 | - | 5,945 |
| Eoliennes en Mer Iles d'Yeu et Noirmoutier | 7,286 | - | 7,286 |
| MABE Construção e Administração de Projectos | 5,369 | - | 5,369 |
| Parque Eólico Sierra del Madero | 12,785 | - | 12,785 |
| Other | 9,023 | 2,432 | 6,591 |
| | 40,408 | 2,432 | 37,976 |
| | 151,574 | 15,515 | 136,059 |

**Transactions**

| Thousand Euros | December 2017 | | | |
|---|---|---|---|---|
| | Operating Income | Financial Income | Operating Expenses | Financial Expenses |
| ***Joint Ventures*** | | | | |
| EDP Produção Bioeléctrica | 1,519 | 188 | -48,466 | - |
| Cide HC Energía | 91,100 | 24 | -253 | - |
| Other | 22,574 | 1,835 | -30,065 | - |
| | 115,193 | 2,047 | -78,784 | - |
| **Associates** | | | | |
| MABE Construção e Administração de Projectos | 132 | 515 | - | - |
| Desarrollos Eólicos de Canarias | 1,087 | - | -7 | - |
| Other | 840 | 815 | -31 | - |
| | 2,059 | 1,330 | -38 | - |
| | 117,252 | 3,377 | -78,822 | - |

| Thousand Euros | December 2016 | | | |
|---|---|---|---|---|
| | Operating Income | Financial Income | Operating Expenses | Financial Expenses |
| ***Joint Ventures*** | | | | |
| EDP Produção Bioeléctrica | 1,616 | 208 | -45,228 | - |
| Cide HC Energía | 89,785 | 55 | -323 | - |
| Empresa de Energia Cachoeira Caldeirão | 939 | 3,103 | -10,013 | - |
| Other | 6,057 | 727 | -14,068 | -1 |
| | 98,397 | 4,093 | -69,632 | -1 |
| **Associates** | | | | |
| Korsokuntza, AIE | 3,775 | - | - | - |
| Other | 2,329 | 1,251 | -772 | - |
| | 6,104 | 1,251 | -772 | - |
| | 104,501 | 5,344 | -70,404 | -1 |

## 45. 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).

As at 31 December 2017 and 2016, the following table presents the interest rate curves of the major currencies to which the Group is exposed used for cash flow discount (in addition to the rates listed below, the Group adjusts discount rates for credit risk):

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Currency | | Currency | |
| | EUR | USD | EUR | USD |
| 3 months | -0.33% | 1.69% | -0.32% | 1.00% |
| 6 months | -0.27% | 1.84% | -0.22% | 1.32% |
| 1 year | -0.19% | 2.11% | -0.08% | 1.69% |
| 2 years | -0.15% | 2.08% | -0.16% | 1.45% |
| 3 years | 0.01% | 2.17% | -0.10% | 1.69% |
| 4 years | 0.17% | 2.21% | -0.02% | 1.85% |
| 5 years | 0.31% | 2.24% | 0.08% | 1.98% |
| 6 years | 0.44% | 2.28% | 0.19% | 2.08% |
| 7 years | 0.56% | 2.31% | 0.31% | 2.16% |
| 8 years | 0.67% | 2.34% | 0.44% | 2.23% |
| 9 years | 0.78% | 2.37% | 0.56% | 2.29% |
| 10 years | 0.89% | 2.40% | 0.66% | 2.34% |

The fair value of financial assets and liabilities is as follows:

| | Group Dec 2017 | | | Group Dec 2016 | | |
|---|---|---|---|---|---|---|
| Thousand Euros | Carrying amount | Fair value | Difference | Carrying amount | Fair value | Difference |
| **Financial assets** | | | | | | |
| Available for sale investments | 124,016 | 124,016 | - | 165,044 | 165,044 | - |
| Debtors/other assets from commercial activities | 6,165,109 | 6,165,109 | - | 5,656,055 | 5,656,055 | - |
| Other debtors and other assets | 530,176 | 530,176 | - | 408,391 | 408,391 | - |
| Derivative financial instruments | 293,224 | 293,224 | - | 382,953 | 382,953 | - |
| Financial assets at fair value through profit or loss | 37,544 | 37,544 | - | 9,567 | 9,567 | - |
| Collateral deposits/financial debt | 45,255 | 45,255 | - | 52,031 | 52,031 | - |
| Cash and cash equivalents | 2,400,077 | 2,400,077 | - | 1,521,253 | 1,521,253 | - |
| | 9,595,401 | 9,595,401 | - | 8,195,294 | 8,195,294 | - |
| **Financial liabilities** | | | | | | |
| Financial debt | 16,917,765 | 17,841,974 | 924,209 | 18,026,676 | 18,597,999 | 571,323 |
| Suppliers and accruals | 1,587,047 | 1,587,047 | - | 1,821,113 | 1,821,113 | - |
| Institutional partnerships in USA | 2,163,722 | 2,163,722 | - | 2,339,425 | 2,339,425 | - |
| Trade/other payables from commercial activities | 2,763,247 | 2,763,247 | - | 2,239,240 | 2,239,240 | - |
| Other liabilities and other payables | 973,510 | 973,510 | - | 834,277 | 834,277 | - |
| Derivative financial instruments | 185,614 | 185,614 | - | 271,856 | 271,856 | - |
| | 24,590,905 | 25,515,114 | 924,209 | 25,532,587 | 26,103,910 | 571,323 |

Given that EDP Group's financial assets and liabilities, recognised at amortised cost, are predominantly short-term and level 2, changes in fair value were not considered. Fair value of EDP Group's loans was determined considering current market interest rates.

The market value of loans is calculated based on the discounted cash flows at market interest rates at the balance sheet date, increased by the best estimate, at the same date, of market conditions applicable to Group's debt, based on its average term.

According to IFRS 13 requirements, EDP Group 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 active 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.

| Thousand Euros | 31 December 2017 | | | 31 December 2016 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| **Financial assets** | | | | | | |
| Available for sale investments | - | 77,573 | 46,443 | 50,369 | 72,725 | 41,950 |
| Derivative financial instruments | - | 293,224 | - | - | 382,953 | - |
| Financial assets at fair value through profit or loss | - | - | 37,544 | - | - | 9,567 |
| | - | 370,797 | 83,987 | 50,369 | 455,678 | 51,517 |
| **Financial liabilities** | | | | | | |
| Derivative financial instruments | - | 185,614 | - | - | 271,856 | - |
| | - | 185,614 | - | - | 271,856 | - |

The movement in financial assets and liabilities included in Level 3 is as follows:

| Thousand Euros | Available for sale investments | | Financial assets at fair value through profit or loss | |
|---|---|---|---|---|
| | Dec 2017 | Dec 2016 | Dec 2017 | Dec 2016 |
| **Balance at beginning of period** | 41,950 | 33,733 | 9,567 | 9,288 |
| Change in fair value | 6,939 | 8,128 | - | - |
| Acquisitions | 510 | 714 | 31,647 | 4,016 |
| Disposals | -1,994 | -42 | - | - |
| Impairment | -1,041 | -435 | - | - |
| Other changes | 79 | -148 | -3,670 | -3,737 |
| **Balance at the end of the period** | 46,443 | 41,950 | 37,544 | 9,567 |

The assumptions used in the determination of Available for sale investments fair value are described in note 21, as required by IFRS 13.

## 46. CO2 Licenses

The movements in the portfolio of CO2 Licenses held for trading and classified as inventories are as follows:

| CO2 (Ton) | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| CO2 Licenses held for trading on 1 January | 5,854,000 | - |
| Licenses acquired in the market | 10,820,000 | 18,409,433 |
| Emission Licenses transferred from trading portfolio to intangibles | -16,674,000 | -12,555,433 |
| CO2 Licenses held for trading on 31 December | - | 5,854,000 |
| CO2 Licenses for trading on 31 December (in thousand Euros) | - | 38,269 |

Purchases and sales of Licenses are booked based on the listed price on the transaction date. Emission Licenses transferred to the trading portfolios are classified as Inventories (see note 24), in accordance with Accounting policy - note 2 y).

Fair value corresponds to the spot price (closing price) at the end of December in each period.

## 47. Relevant or Subsequent Events

**Amendment of qualified shareholding - Norges Bank**

On 8 January 2018, Norges bank informed EDP about the amendment of its title of imputation on its qualifying shareholding of 113,814,364 ordinary shares, which represents 3.11% of EDP's share capital and voting rights.

In a total amount of 113,814,364 ordinary shares, 73,396,967 were held directly, while the remaining 40,417,397 were associated through financial instruments, specifically "Shares on Loan (right to recall)" and "CFDs" (30,724,700 and 9,962,697 respectively).

The level 2.00% of EDP's share capital directly held by Norges Bank was exceeded on 5 January 2018.

Subsenquently, on 5 February 2018, Norges Bank notified EDP about the amendment of its title of imputation on its qualifying shareholding, which represents since 2 February 2018, 2.78% of EDP share capital and voting rights, in a total amount of 101,615,777 ordinary shares of EDP. This action represents a reduction below 2.00% level of EDP's share capital.

Of this amount, 72,470,786 were directly held (1.98% of the share capital) and the remaining are related through financial instruments, specifically "Shares on Loan (right to recall)" and "CFD's" (21,763,266 shares and 7,381,725 shares, respectively, in a total of 0.80% of EDP's share capital).

However, on 12 February 2018 Norges Bank annouced a new amendment and, at this date, the qualifying shareholding totalized 102,201,700 ordinary shares, which represents 2.80% of the share capital and voting rights.

The total qualifying shareholding is composed by 73.323.718 ordinary shares were directly held and the remaining 28,877,982 ordinary shares (2.01% of the share capital) were attributable through financial instruments being 21,496,257 as "Shares on Loan (right to recall)" and 7,381,725 as "CFD's" (0,79% of the share capital). This limit of 2.00% of share capital directly held was crossed on 9 February 2018.

After this date, on 15 February 2018, Norges Bank comunicated a new amendment, and, at this date, its qualyfing participation corresponded to 2.75% of EDP's share capital and respective voting rights, which is similar to 101,701,700 shares.

So, at this date, Norges Bank held in a directly way 1.96% of EDP's share capital which totalize 71,755,943 shares, and 0.79% of EDP's share capital held through financial instruments, in particular 21,564,032 shares through "Shares on Loan (right to recall)" and 7,381,725 shares through "CFD's", which totalize 28,945,757 shares. The value directly held by Norges Bank decrease below to 2.00% on 14 February 2018.

**Sale of 97 million Euros of tariff deficit in Portugal**

On 29 January 2018, EDP Serviço Universal, S.A, 100% owned by EDP Group and last resource supplier, agreed the sell of 97 million Euros of the 2017 tariff deficit related with special regime generation.

The related tariff deficit resulted from the 5-year deferral of the recovery of the 2017 overcost with the acquisition of energy from special regime generation, including adjustments for 2015 and 2016.

**Amendment of qualified shareholding - State Street Corporation**

On 31 January 2018, State Street Corporation notified EDP about the amendment of its title of imputation because had reached 2.00% of EDP's share capital and vote rights, which corresponds to 73,143,774 ordinary shares. This stage was completed on 25 January 2018.

On 1 February 2018, State Street Corporation informed EDP about the amendment of its title of imputation because its shareholding decreased to less than 2% of EDP share capital and respective voting rights. The situation was verified on 26 January 2018, and qualifying shareholding was composed by 73,126,582 ordinary shares.

However, on 2 February 2018, State Street Corporation launched a new notification and informed EDP that had reached the number of 73,427,450 ordinary shares, which correspond to a 2.01% of the total share capital and voting rights. This stage was achieved on 26 January 2018.

On 6 February 2018, State Street Corporation reported to EDP a decrease in its shareholding to 72,844,942 shares, which represents to less than 2% of share capital and voting rights. This situation was verified on 31 January 2018.

State Street Corporation provided information about the chain of entities relevant for the calculation of the siginificant shareholding. Consequently, the situation is described below:

| Communication date | 31 January 2018 | | 2 February 2018 | | 6 February 2018 | |
|---|---|---|---|---|---|---|
| Entity | % Capital | % of vote | % Capital | % of vote | % Capital | % of vote |
| State Street Global Advisors Inc | 0.98% | 0.98% | 0.99% | 0.99% | 0.98% | 0.98% |
| State Street Global Advisors Limited | 0.79% | 0.79% | 0.79% | 0.79% | 0.79% | 0.79% |
| State Street Global Advisors (Japan) Co., Ltd | 0.12% | 0.12% | 0.12% | 0.12% | 0.12% | 0.12% |
| State Street Global Advisors Australia Limited | 0.07% | 0.07% | 0.07% | 0.07% | 0.07% | 0.07% |
| State Street Global Advisors Asia Limited | 0.04% | 0.04% | 0.04% | 0.04% | 0.03% | 0.03% |
| Total | 2.00% | 2.00% | 2.01% | 2.01% | 1.99% | 1.99% |

**EDPR provide 50MW long-term contract in Northern Indiana, United States**

On 12 February 2018, EDP Renováveis, S.A (EDPR), 82.6% controlled by EDP, announced, through its subsidiary EDP Renewables North America LLC, a long term contract to sell the energy produced by 50MW with Nestlé from Meadow Lake VI wind farm.

The Meadow Lake VI wind farm will achieve 200MW, after on August 2017 had already announced a long term contract for 150MW. The project is located in the State of Indiana with start of operations expected for 2018.

With this new agreement, EDPR has already secured 1.3 GW long term contracts in US for projects to be installed in 2016-2020 period, which corresponds to 71% of 1.8 GW addiction capacity objective for the period.

**EDPR secures a 200 MW PPA relative to a new wind farm in the US**

On 26 February 2018, EDPR, 82.6% controlled by EDP, secured a Power Purchase Agreement (PPA) with Great Plains Energy which has the objective of selling energy produced by 200 MW from the new wind project, Prairie Queen wind farm. Prairie Queen wind farm is located in the Allen County, Kansas, and the start of operations is expected for 2019.

With this new contract, which is a 20-year agreement, EDPR will expand its activity in Kansas, reaching 82% of the total objective in US for 2016-2020 period (1.5 GW of 1.8GW).

**Acquisition by EDP - Energias do Brasil of stake in CELESC – Centrais Elétricas de Santa Catarina, S.A.**

On 19 December 2017 EDP Brasil signed a Share Purchase and Sale Agreement and Other Covenants (SPSA), entering a commitment to acquire from Caixa de Previdência dos Funcionários do Banco do Brasil (PREVI) 33.1% of the common shares, corresponding to 5,140,868 shares, and 1.9% of the preferred shares, corresponding to 437,807 shares. Jointly, these shares represent 14.5% of the total shares of the issue of CELESC – Centrais Elétricas de Santa Catarina, S.A. CELESC is a publicly held company, registered with the Brazilian Securities and Exchange Commission – CVM, that operates in distribution, generation and transmission segments of electric energy in the Brazilian state of Santa Catarina.

The total acquisition price is 230 million Brazilian Reais (58 million Euros), to be restated at the variation of the interbank deposit rate - CDI until the date that the transaction is effectively concluded. The acquisition price shall be reduced by the amount of any distributions of Dividends or Interest on Shareholders' Equity that may be declared and/or paid by CELESC between the SPSA signing date and the conclusion of the transaction.

Pursuant to the terms of the SPSA, the conclusion of the transaction is subject to verification of certain precedent conditions, usual for this type of operation, among which are included: (i) approval by the Brazilian Anti-Trust Authority – CADE; and (ii) the approval of the National Supervisory Authority for Complementary Pension Plans (PREVIC). Therefore, this acquisition has not been accounted in the 2017 financial statements.

Once the Transaction is finalised, EDP Brasil intends to exercise the rights inherent to the acquired shareholding stake, including the nomination of members to CELESC's Board of Directors in accordance with the Corporate Law and CELESC's Bylaws. At this moment EDP Brasil has no plans or intention of altering the composition of CELESC's shareholding control, having informed that after the transaction is concluded it will hold a Voluntary Public Offering ("Voluntary POS"), at the price of 27 Brazilian Reais per share, to acquire up to 7,374,000 of CELESC's preferred shares. These correspond to up to 32% of the total preferred shares of the issue of CELESC. The pro-rata distribution among the shareholders is guaranteed should the offering be successful and adherence be more than the maximum number of the shares object of the Voluntary POS to be acquired.

The price of the shares object of the Voluntary POS shall be adjusted in the event of the declaration and/or payment on the part of CELESC of any dividends or interest on shareholders' equity until the date of the Voluntary POS.

CADE published on 26 January 2018 the approval for the acquisition, no appeal being applicable since 14 February 2018.

PREVIC authorised the acquisition on 23 February 2018, by the Official Letter nº 344/2018/Previc.

## 48. Recent Accounting Standards and Interpretations Issued

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

The changes to standards that has been issued and is already effective and applied by EDP Group on its financial statements are the following:

- IAS 7 (Amended) - Disclosure Initiative

  The International Accounting Standards Board (IASB) issued, in January 2016, amendments to IAS 7 - Statement of Cash Flows, with effective date of mandatory application for periods beginning on or after 1 January 2017, being allowed its early adoption.

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

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

  This disclosure was included in note 54.

The new standard that have been issued and is already effective and that the Group has applied on its consolidated financial statements with no significant impact is the following:

- IAS 12 (Amended) - Recognition of Deferred Tax Assets for Unrealised Losses.

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

The standards, amendments and interpretations issued but not yet effective for the Group, which impact is being evaluated, are the following:

- IFRS 9 - Financial Instruments

  IFRS 9 was endorsed by European Commission Regulation 2067/2016, 22 November 2016. IFRS 9 (versions of 2009 and 2010) introduces new requirements for the classification and measurement of financial assets and liabilities. Under this new approach, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The version of IFRS 9 published in 2013 adresses new requirements for hedge accounting. Then, in 2014, IFRS 9 has reviewed some guidelines for classification and measurement for financial instruments (including enlarge the instruments measured at fair value with the changes present in other comprehensive income, from some investments in equity instruments to other investments such as bonds) and has introduced new requirements to adress the impairment of financial assets, under the expected loss model.

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

  IFRS 9 is applicable for the annual periods beginning on 1 January 2018 (with early application permitted). Except for hedge accounting, retrospective application is required but the disclosure of comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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

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

  Overall, the EDP Group expects no significant impacts on its statement of financial position and equity, except for the effect of applying the impairment requirements of IFRS 9. EDP Group expects an increase in the loss allowance resulting in a negative impact on equity as presented below. Moreover, EDP Group will implement the required changes in classification of certain financial instruments.

  EDP Group has reviewed its financial assets and liabilities in order to access qualitative and quantitative impacts on the adoption of the Standard. Accordingly, the main material impacts are the following.

  (a) Classification and measurement

  IFRS 9 determines that the classification and measurement of financial assets shall be based on the business model used to manage them and on the characteristics of their contractual cash flows. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, being the remain financial assets measured at fair value recognised through other comprehensive income (FVOCI - if they are held under a business model whose objective is achieved both by collecting contractual cash flows and by selling) or through profit or loss (FVTPL - if they are not classified in any of the previous models and are, for example, managed on the basis of their fair value). Regarding the classification and measurement of financial liabilities, the changes to IAS 39 introduced by IFRS 9 are residual.

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

  At 31 December 2017, the Group had equity investments classified as available for sale with a fair value of 96,309 thousand Euros that are held for long term strategic purposes. Under IFRS 9, EDP Group has designated these investments as measured at FVOCI. Consequently, the amounts recognised in other comprehensive income will not be recycled to profit or loss in the future. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment.

  EDP Group has also identified equity investments classified as available for sale with a fair value of 27,707 thousand Euros that, under IFRS 9, EDP Group has designated as measured at FVTPL. The AFS reserve of 18,300 thousand Euros related to these investments, which is currently presented as accumulated OCI, will be reclassified to retained earnings as of 1 January 2018.

Regarding regulatory receivables that consubstantiate on financial assets on EDP Group's financial statements, namely the receivables related to tariff adjustments (deviations and deficits), CMEC and concessions - IFRIC 12, with the exception of tariff deficits held by EDP Serviço Universal, S.A., no changes can be foreseen with respect to the classification of assets held in Portugal, Spain and Brasil. Tariff Deficits generated by EDP Serviço Universal, S.A., currently measured at amortised cost under IAS 39, are subject to a dual classification under IFRS 9. Tariff Deficits that are held within the objective to collect contractual cash flows under tariffs (principal and interest), in the amount of 136,223 thousand Euros, will remain measured at amortised cost. Tariff Deficits for which the Group expects not only to hold and collect contractual cash flows (principal and interest), but also to sell to third parties without recourse (bilateral contracts or securitization operations) a significant amount on a relatively frequent basis, in the amount of 431,514 thousand Euros, will be measured at fair value through OCI. At the transition date, the estimated fair value of these assets results in a positive increase of approximately 8,000 thousand Euros, net of deferred taxes, to be subsequently recycled to profit or loss upon derecognition of the underlying asset.

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

(b) Impairment

IFRS 9 (2014) establishes a new impairment model based on the expected credit losses (ECL), which replaces the current 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. The new model will accelerate the recognition of impairment losses on debt instruments held that are measured at amortised cost or at at fair value through other comprehensive income (which includes loans, bank balances and deposits, trade receivables and debt securities). If the credit risk on a financial asset has not increased significantly since its initial recognition, an entity shall measure the loss allowance for that financial asset at an amount equal to 12-month expected credit losses. If the credit risk has increased significantly since its inicial recognition, an entity shall measure the loss allowance for that financial asset at an amount equal to lifetime expected credit losses. As soon as the loss event occur (what is currently defined as 'objective evidence of impaiment'), the impairment allowance would be allocated directly to financial asset affected, which provide the same accounting treatment, from that point, similar to the current IAS 39, including the treatment of interest revenue.

*Trade and other receivables, including contract assets*

EDP Group will apply the simplified approach and record lifetime expected losses on all trade receivables and contract assets, including those with a significant financing component.

The estimated ECLs were calculated based on actual credit loss experience over a period that, per business and type of customers, was considered statistically relevant and representative of the specific characteristics of the underlying credit risk. When applicable, EDP Group estimated the ECL rates separately for corporates and individuals.

Considering the particularities of each business, exposures were segmented based on common credit risk characteristics such as credit risk grade, geographic region and/or industry - for corporates; and type of product purchased - for individuals, as applicable. Actual credit loss experience was adjusted by scalar factors to reflect differences between economic conditions during the period over which historical data was collect, current conditions and EDP Group's view of economic conditions over the expected lives of the receivables.

For receivable assets related to regulatory assets, loans, financial entities and state, EDP Group performed an analysis based on the general approach and no significant impacts are expected.

EDP Group estimates that the application of IFRS 9's impairment requirements at 1 January 2018, results in an increase of the impairment losses recognised, if compared with the impairment losses recognized under IAS 39, which results in a decrease, net of deferred taxes, of about 30,000 thousand Euros in Reserves and retained earnings.

At an individual level, concerning intercompany financial assets, there is no evidence of significant historical losses. Nevertheless, EDP is assessing eventual impacts of the application of the expected credit loss model.

(c) Hedge accounting

IFRS 9 (2013) introduces new requirements for hedge accounting, promoting a closer alignment with the risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

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

Nevertheless, focusing on the already established main premises, the adoption of IFRS 9 results in a more accurate representation of risk management activities in the financial statements. In addition, the criteria for the eligibility of hedged items is extended to risk components of non-financial elements, to net positions and to aggregate exposures. For hedging instruments, the main changes concern to the possibility of deferring certain effects in OCI (e.g., the time value of an option), until the hedged item impacts profit or loss. IFRS 9 also eliminates the requirement for testing effectiveness under which the results of the retrospective test needed to fall with a range of 80%-125%, allowing entities to rebalance the hedging relationship if risk management objectives have not changed.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs. EDP Group's assessment included an analysis to identify data gaps against current processes. EDP Group is in process of implementing the system and controls changes that it believes will be necessary to capture the required data.

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

The IASB, issued on 28 May 2014, IFRS 15 Revenue from Contracts with Costumers. IFRS 15 was endorsed by EU Commission Regulation 1905/2016, 22 September 2016, with an effective date of application for periods beginning on or after 1 January 2018. This standard replaces existing revenue recognition guidance and is effective for annual periods 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.

The Group plans to adopt IFRS 15 using the cumulative effect method (modified retrospective approach), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, EDP Group will not apply the requirements of IFRS 15 to the comparative period presented.

The analysis performed resulted on the assessment of the following preliminary impacts:

(a) Sale of goods

Revenue related to the sale of energy and access tariffs to energy distribution network is currently measured at fair value of the consideration received or receivable, net of value added tax, rebates and discounts and after elimination of intra-group sales.

Revenue recognition occurs when the significant risks and rewards of ownership are transferred to the buyer, the entity retains neither continuing managerial involvement to the extent usually associated with ownership nor effective control over the goods sold, the amount of revenue can be reliably measured, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be reliably measured.

The moment when an entity has transferred the significant risks and rewards of ownership to the buyer varies depending on the activities carried out by the overall EDP Group companies.

For contracts with customers in which the sale of energy and access tariffs is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the EDP Group’s revenue recognition pattern and timing. The EDP Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Considering the analysis undertaken, EDP Group concluded on the reclassification of certain penalties inherent to the performance of the companies EDP São Paulo, EDP Espírito Santo and Porto de Pecém. In 2017, these penalties amounted to 10,039 thousand Euros and were booked in the Income statement under the caption Operating costs. Under IFRS 15, these penalties are now recorded as a decrease to the item ‘Revenues from energy sales and services and other'.

(b) Rendering of services

The revenue recognition related with services rendered is currently based on the percentage of completion of the transaction at the reporting date. This occurs when the amount of revenue can be reliably measured, when it is probable the existence of economic benefits associated with the transaction to the entity who sells, when the percentage of completion of the transaction at the reporting date can be reliably measured and the costs incurred with the transaction and the costs to be incurred to complete the transaction can be reliably measured. Whenever it is not possible to reliably measure the completion of a transaction involving services rendered, revenue is only recognised to the extent of the expenses recognised as recoverable.

EDP Group concluded that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Consequently, under IFRS 15 the Group will continue to recognise revenue for these service contracts/service components of bundled contracts over time rather than at a point in time.

By applying a percentage of completion method, the Group currently recognises revenue and Trade and other receivables, even if receipt of the total consideration is conditional on successful completion of installation services. Under IFRS 15, earned consideration that is conditional should be recognised as a contract asset rather than receivable.

EDP Group provides certain services either on their own or bundled together with the sale of goods (energy or equipment). Currently, EDP Group accounts for the energy, equipment and services as separate deliverables. Under IFRS 15, allocation of the consideration will be made based on relative stand-alone selling prices. Hence, this allocation and, consequently, the timing of the amount of revenue recognised in relation to these sales would be affected. EDP Group analysed these contracts and concluded that no material differences arises from the actual revenue recognition based on separate deliverables and the IFRS 15 stand-alone prices allocation.

(c) Incremental costs of obtaining a contract – sales commissions

EDP Group establishes contracts with third parties for the promotion (sale) of energy / services in Portugal and Spain. These third parties act as sales agents and are remunerated through sales commissions according to a clearly identified pricing list (depending on the good(s) or services(s) sold), on a sale by sale basis.

Under current accounting policy EDP Group recognises these costs as expense as they are incurred. According to IFRS 15, an entity shall recognise as an asset the incremental costs of obtaining a contract with a customer, if the entity expects to recover these costs. The costs that an entity incurs to obtain a contract with a customer are considered incremental costs since the entity would not have incurred in these costs if the contract had not been obtained (e.g., a sales commission).

The costs to obtain a contract will, therefore, be eligible for capitalization under IFRS 15, as of 1 January 2018, to be amortised according to the pattern of transfer of goods or services to which the asset relates (considering the analysis undertaken on the EDP Group portfolio of goods and services to which these commissions relate, the assets' usefull life ranges varies between 6 and 8 years). Consequently, EDP Group estimated impact on Reserves and retained earnings, net of deferred taxes, of approximately 55,000 thousand Euros.

Disclosures

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made: when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. In 2017, the Group continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

To summarize, the preliminary estimated impacts on the adoption of IFRS 9 and IFRS 15 Standards is as follows:

| Thousand Euros | Reserves/ Retained Earnings |
|---|---|
| **As at 31 December 2017** | **4,335,265** |
| Estimated adjustments due to IFRS 9 adoption | -22,000 |
| Estimated adjustments due to IFRS 15 adoption | 55,000 |
| **Estimated opening balance at 1 Jan 2018** | **4,368,265** |

- IFRS 16 - Leases

The International Accounting Standards Board (IASB) issued, in January 2016, IFRS 16 - Leases, with effective date of mandatory application for periods beginning on or after 1 January 2019, with earlier adoption permitted for entities that have also adopted IFRS 15 - Revenue from Contracts with Customers. This standard has not yet been adopted by the European Union.

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.

The main issues considered are as follows:

- inclusion of some considerations in order to distinguish leases from service contracts, based on the existence of control of the underlying asset at the time that it is available for use by the lessee; and

- introduction of a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. As a consequence, a lessee recognises depreciation costs and interest costs separately.

At the date of the publication of these consolidated financial statements, the EDP Group has already carried out an inventory of the existing lease contracts and is currently performing a technical analysis considering the provisions of IFRS 16. In addition, EDP Group is revising the existing information systems in order to assess to what extent will be necessary to adapt them to the requirements of this standard. At this stage, it is not possible to estimate the magnitude of the impacts inherent to the adoption of this standard.

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

- IFRS 4 (Amended) - Applying IFRS 9 - Financial Instruments with IFRS 4 - Insurance Contracts;
- IFRS 2 (Amended) - Classification and Measurement of Share-based Payment Transactions;
- 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;
- IAS 40 (Amended) - Transfers of Investment Property;
- IFRIC 22 - Foreign Currency Transactions and Advance Payments;
- IFRIC 23 - Uncertainty over Income Tax Treatments;
- "Annual Improvement Project (2014-2016)";
- "Annual Improvement Project (2015-2017)".

## 49. EDP Branch in Spain

The aim of EDP - Energias de Portugal - Sociedade Anónima, Sucursal en España is to manage and coordinate the energy interests of subsidiaries depending from EDP Group in Spain, organised through managing and monitoring structures, in order to ensure the maximum synergy and value creation in the operations and activities in Spain, also assuming itself as an organizational platform to lead the Iberian integration of shared and support services (back and middle offices). On this basis, interests in EDP Servicios Financieros (España), S.A.U. and EDP España, S.A.U. are directly allocated to the assets of EDP Sucursal, as well as the majority interests in EDP Renováveis, S.A.

The Spanish branch of EDP has offices in Madrid and Oviedo. From a formal and legal point of view, the representation of the Spanish branch of EDP before third parties is ensured through the permanent representatives, which are members of the Executive Board of Directors of EDP, mandated for that purpose.

The structure of direction, coordination, management and representation of the Spanish branch of EDP is composed of an Executive Committee, a Management Committee and direct representation on iberian ambit EDP Management Committee.

The Executive Committee is composed essentially by five permanent representatives, a Corporate General Director (Group Controller for the activities in Spain) and by first line directors of the business units in Spain, which constitute the main direction and coordination body of the Branch, being responsible for the coordination of the activities of the permanent representatives and of the Management Committee. The Management Committee is chaired by the Corporate General Director and is composed by the natural extension of the Departments of the Corporate Centre of EDP in Spain, namely the Department of M&A ("Direcção de Análise de Negócios"), Department of Legal Affairs ("Direcção de Assessoria Jurídica"), Department of Internal Audit ("Direcção de Auditoria"), Department of Administration and Finance ("Direcção de Administração e Finanças"), Department of Human Resources ("Direcção de Recursos Humanos"), Department of Commercial Shared Services ("Direcção de Serviços Partilhados Comerciais"), Department of EDP Spain Foundation ("Direcção da Fundação EDP Espanha") and IT Department ("Direcção de Sistemas de Informação") ensuring in a homogeneous way the functions of these departments transversally to the Spanish territory, being provided with 174 human resources as at 31 December 2017, including 104 in its own payroll. Lastly, the Spanish branch of EDP has direct representation on iberian ambit EDP Management Committee particularly the Energy Planning Committees, Price and Volume, Markets, Distribution Networks, Commercial and Production.

The condensed Statement of Financial Position of the Branch is as follows:

| Thousand Euros | EDP Branch | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| Investments in subsidiaries: | | |
| - EDP Renováveis, S.A. | 4,154,431 | 3,854,811 |
| - EDP España, S.A.U. | 2,105,002 | 2,105,002 |
| - EDP Servicios Financieros (España), S.A.U. | 482,695 | 482,695 |
| - EDP International Investments and Services, S.L. | 281,854 | 281,854 |
| Deferred tax assets | 72,487 | 66,652 |
| Other debtors and others assets (see note 26) | 894,059 | 1,397,592 |
| Total Non-Current Assets | 7,990,528 | 8,188,606 |
| | | |
| Debtors and other assets | 733,390 | 600,756 |
| Tax receivable | 80,389 | 29,600 |
| Cash and cash equivalents | 1,454 | 1,627 |
| Total Current Assets | 815,233 | 631,983 |
| **Total Assets** | 8,805,761 | 8,820,589 |
| | | |
| Equity | 6,933,048 | 6,141,016 |
| | | |
| Employee benefits | 3,073 | 2,062 |
| Trade and other payables (see note 39) | 199,279 | 2,577,517 |
| Provisions | 260 | 260 |
| Total Non-Current Liabilities | 202,612 | 2,579,839 |
| | | |
| Trade and other payables | 1,652,768 | 96,638 |
| Tax payable | 17,333 | 3,096 |
| Total Current Liabilities | 1,670,101 | 99,734 |
| **Total Liabilities** | 1,872,713 | 2,679,573 |
| **Total Equity and Liabilities** | 8,805,761 | 8,820,589 |

## 50. Environmental Matters

Expenses of an environmental nature are those identified and incurred to avoid, reduce or repair damage of an environmental nature resulting from the company's normal activity.

Expenses of an environmental nature are booked as expenses for the period, except if they qualify to be recognised as an asset according with IAS 16.

Investments of an environmental nature booked as Property, plant and equipment and intangible assets during 2017 and 2016, in the Group, are as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| Air and climate protection | 133,452 | 153,087 |
| Water management | 130 | 501 |
| Waste management | 3 | 53 |
| Soil, subterranean and surface water protection | 1,371 | 1,361 |
| Noise and vibration reduction | 430 | 290 |
| Biodiversity protection | 11,571 | 11,134 |
| Landscape protection | 9,382 | 1,674 |
| Energetic efficiency | 12,337 | 5,158 |
| Radiations management | 5 | - |
| Research and development in the environmental area | 9 | - |
| Other environmental management and protection activities | 11,203 | 5,930 |
| | 179,893 | 179,188 |

Following an analysis to the expenses of an environmental nature incurred by EDP Group, the environmental matters reporting procedures changed. Therefore, the purchased and granted free CO2 emissions licenses were included in the 2017 and 2016 report, as a Group environmental investment, in Air and climate protection (see note 16).

The variation of the caption Air and climate protection correspond essentially to the fact of Soto and Aboño denitrification system were already operating in 2017. In 2016, the investment in these systems were around 38,900 thousands of Euros compared to a slightly lower investment in 2017 (21,879 thousands of Euros).

During the period, the Group recognised expenses that are as follows:

| Thousand Euros | Group | |
|---|---|---|
| | Dec 2017 | Dec 2016 |
| Air and climate protection | 7,795 | 8,323 |
| Water management | 8,069 | 10,765 |
| Waste management | 13,573 | 15,279 |
| Soil, subterranean and surface water protection | 2,243 | 1,662 |
| Noise and vibration reduction | 154 | 122 |
| Biodiversity protection | 4,399 | 4,066 |
| Landscape protection | 19 | 12 |
| Energetic efficiency | 8,470 | 12,074 |
| Radiations management | 15 | 19 |
| Research and development in the environmental area | 393 | 508 |
| Other environmental management and protection activities | 11,871 | 8,853 |
| | 57,001 | 61,683 |

Under current and future socioeconomic trends and practices followed by the EDP Group regarding to sustainability and environment, the group accounts for provisions to cover the costs of dismantling, decommissioning, restoring and decontaminating land where electric power plants are located, of 89,173 thousand Euros and 58,555 thousand Euros for thermoelectric power plants located in Portugal and Spain, respectively. Regarding the liability to dismantle and restore the land where wind farms are located to its original condition, as at 31 December 2017, the provisions amount to 269,454 thousand Euros. Additionally, the provision to dismantle the Trillo nuclear power plant amounts to 44,035 thousand Euros (see notes 2 o) and 36).

Environmental income recognised in 2017 relates to the sale of environmental waste of 7,008 thousand Euros (31 December 2016: 4,957 thousand Euros) and the sale of by-products of 367 thousand Euros (31 December 2016: 105 thousand Euros).

## 51. Transfers of Financial Assets - Tariff Adjustments

In Portugal, Decree - Law 237-B/2006 of 19 December and Decree - Law 165/2008 of 21 August, refer to the transfer to third parties of the right to receive tariff adjustments (deviations and deficits) of the National Electricity System, through which the EDP Group has made, since 2008, a number of transfer operations of financial assets.

For the following operations, assets were transferred to securitisation companies, that financed their purchases through debt securities registered in the Securities Commission (CMVM):

• In May 2013, EDP - Serviço Universal, S.A. sold without recourse to Tagus, the right to receive part of the electricity adjustment related to the 2012 overcost of the acquisition of electricity activity from special regime production, in the amount of 422,692 thousand Euros. The transaction was performed by the amount of 450,000 thousand Euros, generating a gain of 22,510 thousand Euros, net of expenses. This transaction also involved the acquisition by EDP Serviço Universal of Class R Notes issued by Tagus at par value in the amount of 400 thousand Euros and Liquidity Notes issued by Tagus at par value in the amount of 4,695 thousand Euros, both maturing in 2017. These Notes are instruments that aim to establish a settlement account and a reserve for administrative expenses and are booked under financial assets at fair value through profit or loss, by the net amount of 81 thousand Euros, as at 31 December 2017;

• In April 2014, EDP - Serviço Universal, S.A. sold without recourse to Tagus, the right to receive part of the electricity adjustment related to the 2013 overcost of the acquisition of electricity activity from special regime production, in the amount of 694,857 thousand Euros. The transaction was performed by the amount of 750,000 thousand Euros, generating a gain of 50,141 thousand Euros, net of expenses. This transaction also involved the acquisition by EDP Serviço Universal of Class R Notes issued by Tagus at par value in the amount of 473 thousand Euros and Liquidity Notes issued by Tagus at par value in the amount of 5,588 thousand Euros, both maturing in 2018. These Notes are instruments that aim to establish a settlement account and a reserve for administrative expenses and are booked under financial assets at fair value through profit or loss, by the net amount of 195 thousand Euros, as at 31 December 2017;

• In December 2014, EDP Distribuição de Energia, S.A., sold without recourse to Tagus, the right to recover part of the 2012 CMEC compensation adjustment in the amount of 228,826 thousand Euros. The transaction was performed by the amount of 239,832 thousand Euros generating a gain of 10,711 thousand Euros, net of expenses. This transaction also involved the acquisition by EDP Distribuição of Expense Reserve Notes issued by Tagus at par value in the amount of 317 thousand Euros and Liquidity Notes issued by Tagus at par value in the amount of 2,690 thousand Euros, both maturing in 2019. These Notes are instruments that aim to establish a reserve for administrative expenses and a liquidity reserve account and are booked under financial assets at fair value through profit or loss, by the net amount of 1,126 thousand Euros, as at 31 December 2017;

• In March 2015, EDP - Serviço Universal, S.A. sold without recourse to Tagus, the right to receive part of the tariff adjustment related to the 2014 overcost of the acquisition of electricity activity from special regime production, in the amount of 465,418 thousand Euros. The transaction was performed by the amount of 499,461 thousand Euros, generating a gain of 31,737 thousand Euros, net of expenses. This transaction also involved the acquisition by EDP Serviço Universal of Class R Notes issued by Tagus at par value in the amount of 410 thousand Euros and Liquidity Notes issued by Tagus at par value in the amount of 2,488 thousand Euros, both maturing in 2019. These Notes are instruments that aim to establish a settlement account and a reserve for administrative expenses and are booked under financial assets at fair value through profit or loss, by the net amount of 964 thousand Euros, as at 31 December 2017;

• In August 2016, EDP - Serviço Universal, S.A. sold without recourse to Tagus, the right to receive part of the tariff adjustment related to the 2016 overcost of the acquisition of electricity activity from special regime production, in the amount of 598,883 thousand Euros. The transaction was performed by the amount of 599,987 thousand Euros, generating a loss of 7,417 thousand Euros, net of expenses. This transaction also involved the acquisition by EDP Serviço Universal of Class R Notes issued by Tagus at par value in the amount of 381 thousand Euros and Liquidity Notes issued by Tagus at par value in the amount of 3,635 thousand Euros, both maturing in 2021. These Notes are instruments that aim to establish a settlement account and a reserve for administrative expenses and are booked under financial assets at fair value through profit or loss, by the net amount of 3,158 thousand Euros, as at 31 December 2017;

• In December 2017, EDP - Serviço Universal, S.A. sold without recourse to Tagus, the right to receive part of the tariff adjustment related to the 2017 overcost of the acquisition of electricity activity from special regime production, in the amount of 583,539 thousand Euros. The transaction was performed by the amount of 600,000 thousand Euros, generating a gain of 13,004 thousand Euros, net of expenses. This transaction also involved the acquisition by EDP Serviço Universal of Class R Notes issued by Tagus at par value in the amount of 372 thousand Euros, Liquidity Notes issued by Tagus at par value in the amount of 1,275 thousand Euros and Senior Notes issued by Tagus at par value in the amount of 30,000 thousand Euros, all maturing in 2021. The Liquidity and Class R Notes are instruments that aim to establish a settlement account and a reserve for administrative expenses. These Notes are booked under

Under IAS 39, the assets (tariff adjustments) transferred in these operations were derecognised from the Statement of Financial Position of EDP Group.

**52. Investigation process about CMEC and DPH**

In 2012, the European Commission ("EC") and the Portuguese authorities (Public Prosecution Services) received complaints concerning the early termination of the Power Purchase Agreements ("PPAs") and the costs for the maintenance of the contractual balance ("CMEC"), as well as in respect of EDP's rights to use the Public Hydro Domain ("DPH").

The above-mentioned investigation conducted by the Portuguese authorities is still pending.

As part of the liberalisation of the power sector in Portugal following changes in European Union legislation, Decree-Law no. 240/2004 was introduced which provided for the early termination of PPAs that were signed in 1996. As a result of this required early termination, EDP and REN - Rede Eléctrica Nacional, S.A. ("REN") agreed in 2005 and in 2007 to the early termination of their long-term PPAs, with effect from 1 July 2007. The methodology which was used to determine the amount of the compensation that EDP was entitled to receive in connection with such early termination, the CMEC, was approved by the EC in 2004 (Decision N161/2004) which considered the compensation as effectively and strictly necessary.

On 8 March 2008, the Government, REN and EDP Produção signed several service concession arrangements for which EDP Produção paid approximately 759 million Euros as consideration of the economic and financial balance for the use of the public hydro domain.

Following the complaint received, the EC requested clarifications from the Portuguese State in relation to the early termination of the PPAs and its replacement for the CMEC, having concluded in September 2013 that the compensation payments for early termination did not exceed what was necessary to repay the shortfall in investment costs repayable over the asset's lifetime, and determined that the implementation of the CMEC remains in keeping with the terms notified to and approved by the EC in 2004. Thus, the EC decided that no in depth investigation into the CMEC process was necessary.

In May 2017, the EC formally concluded its investigation into the DPH concession rights and stated that the compensation paid in connection with such concessions was compatible with market conditions. As a result, the EC concluded that the financial methodology used to assess the price of the concessions was appropriate and resulted in a fair market price, and therefore, no state aid had been granted to EDP.

On 2 June 2017, EDP became aware of Portugal's Public Prosecution Services investigation in relation to the amounts due to EDP for the termination of the PPAs and compensation paid by EDP for the DPH concessions. Portugal's Public Prosecution Services stated that the investigations continue and the facts may relate to active and passive corruption and economic participation in business and searches were conducted at the offices of EDP, grid operator REN and the local division of a consulting group. In the context of the Investigation, the Portuguese Public Prosecution Services stated that certain members of EDP's Executive Board of Directors, as well as former EDP directors, that had signed the relevant contracts were named as targets of the Investigation.

EDP does not accept any accusations of wrongdoing on its part or on the part of any member of the EDP Group and believes that the amounts due for the termination of PPAs under the CMEC and the amount paid for the DPH concession rights were fair and in compliance with market conditions and based on arm's length transactions. However, it is difficult to predict any outcome at this early stage in the process as well as any potential impacts in the financial statements.

## 53. Operating Segments

In accordance with IFRS 8, an operating segment is a Group component:

(i) that engages in business activities from which it may earn revenues and incur expenses;
(ii) whose operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
(iii) for which discrete financial information is available.

The Group develops a set of regulated and liberalised activities in the energy sector, with special emphasis in generation, distribution and supply of electricity and gas.

The Group manages its activities based on several business segments, which includes the activities in Iberia. Moreover, the EDP Group also makes a separate analysis of the electricity generation business through wind and solar power sources, which is achieved in a specific segment (EDP Renováveis). Finally, taking into consideration the specificity of the Brazilian market, the Group also makes a separate analysis of the electricity generation, distribution and supply businesses in Brazil (EDP Brasil).

The Executive Board of Directors regularly reviews segmental reports, using Operating Profit to assess and release each business operating performance, as well as to allocate resources.

The management of financial activities of all EDP Group entities (except Brazil) is undertaken centrally by the Financial Department at holding level, in accordance with policies approved by the Executive Board of Directors. As a result of this management, all financial operations and financial results are disclosed only at Group level.

Following the legislation issued in December 2016 (article 170 of Law 42/2016 - State Budget for 2017), which determined that the final adjustment of the CMEC would be determined and based on a study prepared and presented by ERSE (initially estimated to be issued until the end of the first semester of 2017), power plants held by EDP - Gestão da Produção de Energia, S.A., covered by the CMEC mechanism included in the "LT Contracted Production" segment migrated to the free-market production regime on 1 July 2017. Thus, the EDP Group started to present the segments previously denominated "LT Contracted Production" and "Liberalised Activities" in the segment "Generation and Supply in the Iberian Peninsula".

For comparability purposes and regarding the changes occurred in the segments composition, a corresponding change was made in the homologous previous year information.

The segments defined by the Group are the following:

- Generation and Supply in Iberia;
- Regulated Networks in Iberia;
- EDP Renováveis;
- EDP Brasil.

The Generation and Supply segment in Iberia corresponds to the activity of regulated and liberalised generation and supply of electricity and gas in Portugal and Spain. This segment includes, namely, the following companies:

- EDP - Gestão da Produção de Energia, S.A.;
- Fisigen – Empresa de Cogeração, S.A.;
- Pebble-Hydro – Consultoria, Investimentos e Serviços, Lda.;
- EDP Small-Hydro, S.A.;
- Empresa Hidroeléctrica do Guadiana, S.A.;
- Hidroeléctrica Del Cantábrico, S.A.U.;
- Central Térmica Ciclo Combinado Grupo 4, S.A.;
- EDP Comercial - Comercialização de Energia, S.A.;
- EDP - España, S.A.U.;
- Naturgás Comercializadora, S.A.;
- EDP Gás.Com - Comércio de Gás Natural, S.A.;
- Greenvouga - Sociedade Gestora do Aproveitamento Hidroeléctrico do Ribeiradio-Ermida, S.A;
- EDP Energía Gás S.L.

Additionally, this segment includes the Iberian energy management business unit (UNGE) as well as the elimination of transactions between companies identified above. UNGE is the EDP Group unit responsible for the management of purchases and sales of energy in the Iberian market, and also for the related hedging transactions.

The Regulated Networks segment in Iberia corresponds to the activities of electricity and gas distribution in Portugal and Spain and last resort supplier. This segment includes, namely, the following companies:

- EDP Distribuição - Energia, S.A.;
- EDP Serviço Universal, S.A.;
- Electra de Llobregat Energía, S.L.;
- Hidrocantábrico Distribucion Eléctrica, S.A.U.;
- EDP Gás Distribuição, S.A. (until the closing date);
- EDP Gás Serviço Universal, S.A.;
- Naturgás Energia Distribución, S.A.U. (until the closing date);
- EDP España Distribución Gas, S.A. (until the closing date);
- Naturgas Suministro GLP, S.A.U. (until the closing date).

The EDP Renováveis segment corresponds to the power generation activity through wind and solar energy resources and includes all the companies of EDPR Europe, EDPR North America and EDPR Brasil subgroups. This segment also includes the holding company EDP Renováveis, S.A., and all the adjustments between the companies composing this segment, including consolidation adjustments.

The EDP Brasil segment includes the activities of electricity generation, distribution and supply in Brazil, and is composed by the holding EDP Energias do Brasil, S.A. and all its subsidiaries. As in the EDP Renováveis segment, this segment includes all the adjustments for the companies composing this segment, including consolidation adjustments.

**Segment Definition**

The amounts reported in each operating segment result from the aggregation of the subsidiaries and business units defined in each segment perimeter and the elimination of transactions between companies of the same segment.

The statement of financial position captions of each subsidiary and business unit, as well as income statement captions for each operating segment, are determined based on the amounts booked directly in the companies that compose the segment, including the elimination of balances between companies of the same segment, and excluding the allocation in the segments of the adjustments between segments.

In each business segment, Assets include the Property, Plant and Equipment, Intangible Assets, Goodwill, Trade Receivables and Inventories captions. The captions Debtors and other assets are allocated to each segment according to its nature. The remaining assets are presented in the "Reconciliation of information between Operating Segments and Financial Statements".

In each business segment, Liabilities include the Provisions and Employee benefits captions. The captions Trade and other payables are allocated to each segment according to its nature. The remaining liabilities are presented in the "Reconciliation of information between Operating Segments and Financial Statements".

Under IFRS 8, the EDP Group discloses as Operating investment, additions in non-current assets, except for financial instruments, deferred tax assets and post-employment benefit assets. Therefore, in each business segment, the Operating Investment caption includes increases in Property, Plant and Equipment; Intangible Assets; and Amounts receivable from concessions - IFRIC 12 under the financial asset model, excluding CO2 licenses and Green certificates, net of increases in Government grants, customers contributions for investment and sales of properties in the period. Goodwill is disclosed in note 17.

In consolidated financial statements, Joint Ventures and associated companies are accounted under the equity method, in accordance with the Group accounting policy disclose in note 2. These equity accounted investees are disclosed by business segment under IFRS 8 and presented in the business segment correspondent to its operating activity.

**EDP - Energias de Portugal, S.A.**
**Notes to the Consolidated and Company Financial Statements as at and for the periods ended 31 December 2017 and 2016**

**Geographic information**

The Group manages its activity based on business segments mentioned above, however has business in several geographical locations, being its main office located in Portugal.

Revenues from energy sales and services and other by geographic market, for EDP Group, are presented in note 6. Additionally, the geographical information bellow, details the Non-current assets excluding Financial instruments, Deferred tax assets and Employee benefits. In the disclosure of this information, the Revenues from energy sales and services and other, as well as the Non-current assets, are based on companies' geographical location were the Assets are booked.

Non-current assets by geographical market for the Group EDP, are as follows:

| | Dec 2017 | | | | | |
|---|---|---|---|---|---|---|
| Thousand Euros | Portugal | Iberia | Brazil | USA | Other | Group |
| Property, plant and equipment | 6,869,565 | 4,448,116 | 2,221,150 | 6,762,635 | 2,429,149 | 22,730,615 |
| Intangible assets | 3,602,846 | 58,031 | 904,487 | 82,333 | 99,663 | 4,747,360 |
| Goodwill | 49,937 | 1,348,317 | 46,639 | 659,144 | 128,631 | 2,232,668 |
| | 10,522,348 | 5,854,464 | 3,172,276 | 7,504,112 | 2,657,443 | 29,710,643 |

| | Dec 2016 | | | | | |
|---|---|---|---|---|---|---|
| Thousand Euros | Portugal | Iberia | Brazil | USA | Other | Group |
| Property, plant and equipment | 7,099,947 | 5,174,968 | 2,438,327 | 7,225,517 | 2,254,977 | 24,193,736 |
| Intangible assets | 3,860,597 | 69,866 | 1,036,230 | 98,633 | 63,218 | 5,128,544 |
| Goodwill | 83,520 | 2,404,454 | 49,995 | 748,187 | 128,696 | 3,414,852 |
| | 11,044,064 | 7,649,288 | 3,524,552 | 8,072,337 | 2,446,891 | 32,737,132 |

## EDP Group Operating Segments Information
## as at 31 December 2017

| Thousand Euros | Iberia | | EDP Renováveis | EDP Brasil | Total Segments |
|---|---|---|---|---|---|
| | Generation and Supply | Regulated Networks | | | |
| **Revenues from energy sales and services and others** | 7,817,808 | 5,352,487 | 1,636,762 | 3,432,521 | 18,239,578 |
| Revenues inter-segments | 44,802 | 2,168,557 | 279,942 | 1,232 | 2,494,533 |
| Revenues from third parties | 7,773,006 | 3,183,930 | 1,356,820 | 3,431,289 | 15,745,045 |
| **Gross Profit** | 1,235,719 | 1,596,241 | 1,601,619 | 969,205 | 5,402,784 |
| Other income | 43,876 | 46,210 | 320,508 | 3,640 | 414,234 |
| Supplies and services | -313,509 | -321,742 | -326,886 | -171,640 | -1,133,777 |
| Personnel costs and employee benefits | -157,864 | -145,389 | -100,761 | -129,418 | -533,432 |
| Other costs | -253,495 | -277,342 | -128,162 | -56,893 | -715,892 |
| **Gross Operating Profit** | 554,727 | 897,978 | 1,366,318 | 614,894 | 3,433,917 |
| Provisions | 6,012 | 1,948 | 185 | -8,295 | -150 |
| Amortisation and impairment | -589,166 | -309,380 | -563,365 | -164,003 | -1,625,914 |
| **Operating Profit** | -28,427 | 590,546 | 803,138 | 442,596 | 1,807,853 |
| **Equity method in joint ventures and associates** | 7,559 | 120 | 2,708 | -4,532 | 5,855 |
| **Assets** | 11,301,024 | 5,728,072 | 15,347,912 | 4,214,591 | 36,591,599 |
| **Equity accounted Investments in joint ventures and associates** | 25,205 | 69 | 303,518 | 381,190 | 709,982 |
| **Liabilities** | 2,621,617 | 2,205,774 | 1,272,493 | 934,900 | 7,034,784 |
| **Operating Investment** | 195,870 | 348,729 | 1,051,098 | 214,174 | 1,809,871 |

**Reconciliation of information between Operating Segments and Financial Statements for December 2017**

| Thousand Euros | |
|---|---|
| **Total Revenues from energy sales and services and others of Reported Segments** | **18,239,578** |
| Revenues from energy sales and services and others from Other Segments | 390,638 |
| Adjustments and Inter-segments eliminations* | -2,884,229 |
| **Total Revenues from energy sales and services and others of EDP Group** | **15,745,987** |
| | |
| **Total Gross Profit of Reported Segments** | **5,402,784** |
| Gross Profit from Other Segments | 390,261 |
| Adjustments and Inter-segments eliminations* | -401,967 |
| **Total Gross Profit of EDP Group** | **5,391,078** |
| | |
| **Total Gross Operating Profit of Reported Segments** | **3,433,917** |
| Gross Operating Profit from Other Segments ** | 548,461 |
| Adjustments and Inter-segments eliminations* | 7,571 |
| **Total Gross Operating Profit of EDP Group** | **3,989,949** |
| | |
| **Total Operating Profit of Reported Segments** | **1,807,853** |
| Operating Profit from Other Segments | 521,719 |
| Adjustments and Inter-segments eliminations* | -11,655 |
| **Total Operating Profit of EDP Group** | **2,317,917** |
| | |
| **Total Assets of Reported Segments** | **36,591,599** |
| Assets Not Allocated | 5,442,234 |
| Financial Assets | 2,838,027 |
| Taxes Assets | 1,329,021 |
| Other Assets | 1,275,186 |
| Assets from Other Segments | 999,638 |
| Inter-segments assets eliminations* | -958,422 |
| **Total Assets of EDP Group** | **42,075,049** |
| | |
| **Total Equity accounted Investments in joint ventures and associates of Reported Segments** | **709,982** |
| Equity accounted Investments in joint ventures and associates from Other Segments | 133,100 |
| **Total Equity accounted Investments in joint ventures and associates of EDP Group** | **843,082** |
| | |
| **Total Liabilities of Reported Segments** | **7,034,784** |
| Liabilities Not Allocated | 22,040,914 |
| Financial Liabilities | 17,032,446 |
| Institutional partnership in USA | 2,163,722 |
| Taxes Liabilities | 1,029,988 |
| Other payables | 1,813,184 |
| Hydrological correction account | 1,574 |
| Liabilities from Other Segments | 753,046 |
| Inter-segments Liabilities eliminations* | -1,233,955 |
| **Total Liabilities of EDP Group** | **28,594,789** |
| | |
| **Total Operating Investment of Reported Segments** | **1,809,871** |
| Operating Investment from Other Segments | -84,384 |
| **Total Operating Investment of EDP Group** | **1,725,487** |
| Discomission of Tangible Assets | 16,080 |
| Emission of CO2 Licenses and Green Certificates | 110,520 |
| Investment Grants | 10,642 |
| Other Investments *** | 143,981 |
| **Total Fixed Assets additions of EDP Group (Notes 15 e 16)** | **2,006,710** |

| | Total of Reported Segments | Other Segments | Adjustments and Inter-segments eliminations* | Total of EDP Group |
|---|---|---|---|---|
| **Other income** | **414,234** | 658,094 | -35,329 | **1,036,999** |
| **Supplies and services** | **-1,133,777** | -275,707 | 418,951 | **-990,533** |
| **Personnel costs and employee benefits** | **-533,432** | -160,541 | 13,140 | **-680,833** |
| **Other costs** | **-715,892** | -63,646 | 12,776 | **-766,762** |
| | | | | |
| **Provisions** | **-150** | 3,777 | - | **3,627** |
| **Amortisation and impairment** | **-1,625,914** | -30,520 | -19,225 | **-1,675,659** |
| | | | | |
| **Equity method in joint ventures and associates** | **5,855** | 5,666 | - | **11,521** |

* Mainly related with intragroup balances and transactions eliminations;
** Includes 591 million Euros related with the gain on Naturgás sale;
*** The caption Other Investments is mainly due to the in-kind contribution of the Lisbon headquarter (+ 120 million Euros), lease contract of the Lisbon headquarter (+ 55 million Euros), partially compensated by the held for sale reclassification of the investment in the intangible assets of EDP Gás Distribuição (- 14 million Euros), which was sold in the fourth quarter of 2017.

## EDP Group Operating Segments Information
## as at 31 December 2016 *

| Thousand Euros | Iberia Generation and Supply | Iberia Regulated Networks | EDP Renováveis | EDP Brasil | Total Segments |
|---|---|---|---|---|---|
| **Revenues from energy sales and services and others** | 7,759,988 | 5,492,637 | 1,484,563 | 2,427,421 | 17,164,609 |
| Revenues inter-segments | 49,206 | 2,199,683 | 304,815 | 931 | 2,554,635 |
| Revenues from third parties | 7,710,782 | 3,292,954 | 1,179,748 | 2,426,490 | 14,609,974 |
| **Gross Profit** | 1,724,708 | 1,727,461 | 1,453,214 | 849,384 | 5,754,767 |
| Other income | 15,086 | 66,678 | 251,296 | 79,553 | 412,613 |
| Supplies and services | -300,909 | -334,822 | -304,740 | -158,812 | -1,099,283 |
| Personnel costs and employee benefits | -128,907 | -151,197 | -93,894 | -115,892 | -489,890 |
| Other costs | -242,619 | -318,299 | -134,925 | -60,919 | -756,762 |
| **Gross Operating Profit** | 1,067,359 | 989,821 | 1,170,951 | 593,314 | 3,821,445 |
| Provisions | 19,544 | 1,300 | -4,705 | -7,650 | 8,489 |
| Amortisation and impairment | -361,700 | -342,075 | -602,287 | -145,232 | -1,451,294 |
| **Operating Profit** | 725,203 | 649,046 | 563,959 | 440,432 | 2,378,640 |
| **Equity method in joint ventures and associates** | 3,921 | 245 | -185 | -29,924 | -25,943 |
| **Assets** | 11,482,269 | 7,830,709 | 15,662,361 | 4,456,809 | 39,432,148 |
| **Financial assets - Investments in joint ventures and associates** | 18,146 | 712 | 340,119 | 344,224 | 703,201 |
| **Liabilities** | 2,180,188 | 2,523,921 | 1,475,553 | 910,376 | 7,090,038 |
| **Operating Investment** | 377,776 | 461,898 | 1,026,188 | 169,015 | 2,034,877 |

* Segments report restatement due to the segment change

**Reconciliation of information between Operating Segments and Financial Statements for December 2016**

| Thousand Euros | |
|---|---|
| **Total Revenues from energy sales and services and other of Reported Segments** | **17,164,609** |
| Revenues from energy sales and services and others from Other Segments | 472,399 |
| Adjustments and Inter-segments eliminations* | -3,041,844 |
| **Total Revenues from energy sales and services and other of EDP Group** | **14,595,164** |
| | |
| **Total Gross Profit of Reported Segments** | **5,754,767** |
| Gross Profit from Other Segments | 449,144 |
| Adjustments and Inter-segments eliminations* | -465,879 |
| **Total Gross Profit of EDP Group** | **5,738,032** |
| | |
| **Total Gross Operating Profit of Reported Segments** | **3,821,445** |
| Gross Operating Profit from Other Segments | -37,529 |
| Adjustments and Inter-segments eliminations* | -24,609 |
| **Total Gross Operating Profit of EDP Group** | **3,759,307** |
| | |
| **Total Operating Profit of Reported Segments** | **2,378,640** |
| Operating Profit from Other Segments | -74,195 |
| Adjustments and Inter-segments eliminations* | -40,366 |
| **Total Operating Profit of EDP Group** | **2,264,079** |
| | |
| **Total Assets of Reported Segments** | **39,432,148** |
| Assets Not Allocated | 4,846,130 |
| Financial Assets | 2,299,697 |
| Taxes Assets | 1,398,916 |
| Other Assets | 1,147,517 |
| Assets from Other Segments | 1,144,234 |
| Inter-segments assets eliminations* | -1,338,766 |
| **Total Assets of EDP Group** | **44,083,746** |
| | |
| **Total Equity accounted Investments in joint ventures and associates of Reported Segments** | **703,201** |
| Equity accounted Investments in joint ventures and associates from Other Segments | 117,364 |
| **Total Equity accounted Investments in joint ventures and associates of EDP Group** | **820,565** |
| | |
| **Total Liabilities of Reported Segments** | **7,090,038** |
| Liabilities Not Allocated | 23,692,678 |
| Financial Liabilities | 18,102,530 |
| Institutional partnership in USA | 2,339,425 |
| Taxes Liabilities | 1,675,665 |
| Other payables | 1,573,484 |
| Hydrological correction account | 1,574 |
| Liabilities from Other Segments | 910,829 |
| Inter-segments Liabilities eliminations* | -1,346,171 |
| **Total Liabilities of EDP Group** | **30,347,374** |
| | |
| **Total Operating Investment of Reported Segments** | **2,034,877** |
| Operating Investment from Other Segments | 45,128 |
| **Total Operating Investment of EDP Group** | **2,080,005** |
| Discomission of Tangible Assets | 176,978 |
| Emission of CO2 Licenses and Green Certificates | 124,649 |
| Investment Grants | 6,569 |
| Other Investments | 18,701 |
| **Total Fixed Assets additions of EDP Group (Notes 15 e 16)** | **2,406,902** |

| | Total of Reported Segments | Other Segments | Adjustments and Inter-segments eliminations* | Total of EDP Group |
|---|---|---|---|---|
| **Other income** | **412,613** | 36,980 | -22,279 | **427,314** |
| **Supplies and services** | **-1,099,283** | -291,015 | 442,424 | **-947,874** |
| **Personnel costs and employee benefits** | **-489,890** | -189,272 | 18,546 | **-660,616** |
| **Other costs** | **-756,762** | -43,366 | 2,579 | **-797,549** |
| | | | | |
| **Provisions** | **8,489** | 6,586 | 1 | **15,076** |
| **Amortisation and impairment** | **-1,451,294** | -43,253 | -15,757 | **-1,510,304** |
| | | | | |
| **Equity method in joint ventures and associates** | **-25,943** | 3,881 | - | **-22,062** |

* Mainly related with intragroup balances and transactions eliminations

**54. Consolidated and Company Reconciliation of Changes in the responsabilities of Financing activities**

| Thousand Euros | Group | | | | |
|---|---|---|---|---|---|
| | Financial debt and Derivative financial instruments (include Collateral Deposits) | | | | |
| | Loans obtained (Note 34) | Collateral Deposits (Note 34) | Derivative financial instruments (Note 42)* | Institutional partnerships in USA (Note 37) | Loans from related parties (Note 39) |
| **Balance as at 31 de December 2016** | **18,026,676** | **-52,031** | **-78,082** | **2,339,425** | **685,764** |
| **Cash flows:** | | | | | |
| Receipts/(payments) relating to financial debt (include Collateral Deposits) | -447,042 | 6,699 | - | - | - |
| Interest and similar costs of financial debt including hedge derivatives | -830,101 | - | 40,171 | - | - |
| Receipts/(payments) relating to loans from non-controlling interests | - | - | - | - | 8,229 |
| Interest and similar costs relating to loans from non-controlling interests | - | - | - | - | -25,405 |
| Receipts/(payments) relating to derivative financial instruments | - | - | -90,876 | - | - |
| Receipts/(payments) from institutional partnerships - USA | - | - | - | 250,022 | - |
| Perimeter variations | 252,350 | -1,900 | -1,011 | - | 7,168 |
| Exchange rate | -736,865 | 1,977 | -7,541 | -289,892 | 3,002 |
| Fair value changes | -81,415 | - | 84,850 | - | - |
| Interests and accrued and deferred costs | 807,870 | - | -40,643 | 1,174 | 34,044 |
| Unwinding | - | - | - | 88,561 | - |
| ITC/PTC recognition | - | - | - | -225,568 | - |
| Reclassification to Assets held for sale | -73,708 | - | -18,244 | - | - |
| **Balance as at 31 de December 2017** | **16,917,765** | **-45,255** | **-111,376** | **2,163,722** | **712,802** |

* The Group consideres as financing activities the derivative financial instruments of Fair Value Hedge, Cash Flow Hedge associated with interest rate and Trading

| Thousand Euros | Company | | | |
|---|---|---|---|---|
| | Financial debt and Derivative financial | | | |
| | Loans obtained (Note 34) | Derivative financial instruments (Note 42)* | Group's financial system (Note 26 and 39) | Group companies (Note 39) |
| **Balance as at 31 de December 2016** | **11,193,266** | **-691,501** | **-567,129** | **2,615,269** |
| **Cash flows:** | | | | |
| Receipts/(payments) relating to financial debt (include Collateral Deposits) | 2,323,319 | - | - | - |
| Interest and similar costs of financial debt including hedge derivatives | -310,404 | -6,296 | - | - |
| Receipts/(payments) relating to loans from related parties | - | - | 76 225 | -520,894 |
| Interest and similar costs of loans from related parties including hedge derivatives | - | 43,974 | - | -138,717 |
| Receipts/(payments) relating to derivative financial instruments | - | 34,380 | - | - |
| Exchange rate | -28,937 | - | - | -296,317 |
| Fair value changes | - | 251,929 | - | - |
| Interests and accrued and deferred costs | 311,053 | -41,372 | - | 131,049 |
| **Balance as at 31 de December 2017** | **13,488,297** | **-408,886** | **-490,904** | **1,790,390** |

* The Group consideres as financing activities the derivative financial instruments of Fair Value Hedge, Cash Flow Hedge associated with interest rate and Trading

## 55. Explanation Added for Translation

These financial statements are a free translation of the financial statements originally issued in Portuguese in accordance with International Financial Reporting Standards as adopted by the European Union. In the event of discrepancies, the Portuguese language version prevails.

# Annex I. Companies in the Consolidation Perimeter

The subsidiary companies where the Group exercises control as at 31 December 2017 are as follows:

| Subsidiaries | Head Office | Share capital / Currency | Assets 31-Dec-17 Euro'000 | Liabilities 31-Dec-17 Euro'000 | Equity 31-Dec-17 Euro'000 | Revenues 31-Dec-17 Euro'000 | Net Profit/(Loss) 31-Dec-17 Euro'000 | % Group | % Company |
|---|---|---|---|---|---|---|---|---|---|
| **Group's parent holding company and Related Activities:** | | | | | | | | | |
| **Portugal:** | | | | | | | | | |
| EDP - Energias de Portugal, S.A. (EDP Group Parent Company) | Lisbon | 3,656,537,715 EUR | 24,144,755 | 16,700,186 | 7,444,569 | 4,837,319 | 765,427 | 100.00% | - |
| CEO – Companhia da Energia Oceânica, S.A. | Póvoa do Varzim | 65,435 EUR | 1,812 | 665 | 1,147 | - | -223 | 52.07% | - |
| EDP Estudos e Consultoria, S.A. | Lisbon | 50,000 EUR | 9,742 | 4,986 | 4,756 | 15,747 | 1,161 | 100.00% | 100.00% |
| EDP Imobiliária e Participações, S.A. | Lisbon | 10,000,000 EUR | 26,717 | 19,696 | 7,021 | 7,732 | -248 | 100.00% | 100.00% |
| EDP Inovação, S.A. | Lisbon | 50,000 EUR | 51,939 | 44,116 | 7,822 | 5,494 | 726 | 100.00% | 100.00% |
| EDP Internacional, S.A. | Lisbon | 50,000 EUR | 14,266 | 12,815 | 1,450 | 3,597 | -1,856 | 100.00% | 100.00% |
| EDP IS – Investimentos e Serviços, Sociedade Unipessoal, Lda | Lisbon | 140,309,500 EUR | 434,605 | 200,767 | 233,838 | - | 1,958 | 100.00% | 100.00% |
| EDP Ventures, SGPS, S.A. | Lisbon | 50,000 EUR | 35,664 | 23,399 | 12,265 | 34 | -1,605 | 100.00% | - |
| ENAGÁS - SGPS, S.A. | Lisbon | 299,400 EUR | 8,095 | 30 | 8,065 | - | -131 | 60.00% | - |
| Fundo EDP CleanTech FCR | Lisbon | 25,000,000 EUR | 25,000 | 274 | 24,726 | - | -274 | 60.00% | - |
| Labelec - Estudos, Desenvolvimento e Actividades Laboratoriais, S.A. | Sacavem | 2,200,000 EUR | 15,741 | 7,968 | 7,774 | 15,141 | 2,215 | 100.00% | 100.00% |
| Sãvida - Medicina Apoiada, S.A. | Lisbon | 450,000 EUR | 14,589 | 9,254 | 5,335 | 25,838 | 476 | 100.00% | 100.00% |
| SCS - Serviços Complementares de Saúde, S.A. | Lisbon | 50,000 EUR | 335 | 101 | 234 | 180 | - | 100.00% | - |
| **Other Countries:** | | | | | | | | | |
| EDP - Ásia Soluções Energéticas Limitada | Macao | 1,500,000 MOP | 2,237 | 31 | 2,206 | 690 | 56 | 100.00% | 5.00% |
| EDP Finance, B.V. | Amsterdam | 2,000,000 EUR | 15,879,852 | 15,740,328 | 139,524 | - | 18,602 | 100.00% | 100.00% |
| EDP International Investments and Services, S.L. | Oviedo | 4,702 EUR | 502,004 | 154,620 | 347,384 | - | 11,693 | 100.00% | 36.07% |
| EDP Servicios Financieros España, S.A.U. | Oviedo | 10,300,058 EUR | 3,699,630 | 3,164,677 | 534,954 | - | 36,894 | 100.00% | 100.00% |
| Energia RE - Soceidade Cativa de Resseguro, S.A. | Luxembourg | 3,000,000 EUR | 130,188 | 79,679 | 50,508 | 48 | -370 | 100.00% | 100.00% |
| **Electricity and Gas Activity - Portugal:** | | | | | | | | | |
| **Electricity Generation:** | | | | | | | | | |
| EDP - Gestão da Produção de Energia, S.A. | Lisbon | 1,263,285,505 EUR | 8,690,218 | 6,942,297 | 1,747,920 | 1,464,932 | -103,310 | 100.00% | 100.00% |
| EDP Small Hydro, S.A. | Lisbon | 6,950,786 EUR | 81,224 | 2,487 | 78,736 | 4,460 | 16,054 | 100.00% | - |
| Empresa Hidroeléctrica do Guadiana, S.A. | Lisbon | 48,750,000 EUR | 453,964 | 424,724 | 29,239 | 50,031 | -27,074 | 100.00% | - |
| Energin – Sociedade de Produção de Electricidade e Calor, S.A. | Lisbon | 50,000 EUR | 175 | 8 | 168 | - | -46 | 65.00% | - |
| FISIGEN - Empresa de Cogeração, S.A. | Lisbon | 50,000 EUR | 26,372 | 27,221 | -849 | 20,746 | 1,967 | 51.00% | - |
| Greenvouga - Soc. Gest. do Aproveit. Hidroel. de Ribeiradio-Ermida, S.A. | Lisbon | 1,000,000 EUR | 248,392 | 182,926 | 65,466 | 5,801 | -6,067 | 100.00% | - |
| O e M Serviços – Operação e Manutenção Industrial, S.A. | Viseu | 500,000 EUR | 606 | - | 606 | - | -90 | 100.00% | 100.00% |
| Pebble Hydro - Consultoria, Invest. e Serv., Lda | Lisbon | 5,100 EUR | 103,879 | 97,004 | 6,875 | 12,591 | 1,349 | 100.00% | - |
| Tergen - Operação e Manutenção de Centrais Termoeléctricas, S.A. | Carregado | 250,000 EUR | 3,661 | 2,647 | 1,014 | 6,662 | 5 | 100.00% | - |
| **Electricity Distribution:** | | | | | | | | | |
| EDP Distribuição de Energia, S.A. | Lisbon | 200,000,000 EUR | 4,823,846 | 3,667,418 | 1,156,428 | 2,444,084 | 234,923 | 100.00% | 100.00% |
| EDP MOP-Operação de Pontos de Carregamento de Mobilidade Eléctrica, S.A. | Lisbon | 50,000 EUR | 964 | 728 | 236 | 2 | -438 | 100.00% | - |
| **Electricity Supply:** | | | | | | | | | |
| EDP Comercial - Comercialização de Energia, S.A. | Lisbon | 20,824,695 EUR | 820,831 | 720,986 | 99,845 | 3,215,628 | 30,412 | 100.00% | 100.00% |
| EDP Serviço Universal, S.A. | Lisbon | 10,100,000 EUR | 1,258,045 | 1,227,102 | 30,943 | 2,639,921 | 1,092 | 100.00% | - |
| **Gas Distribution:** | | | | | | | | | |
| EDP Gás Serviço Universal, S.A. | Oporto | 1,049,996 EUR | 22,990 | 13,352 | 9,638 | 11,050 | -3,373 | 100.00% | 100.00% |
| **Gas Supply:** | | | | | | | | | |
| EDP GÁS.Com - Comércio de Gás Natural, S.A. | Lisbon | 50,000 EUR | 94,047 | 80,357 | 13,690 | 421,352 | 1,569 | 100.00% | 100.00% |
| **Shared Services:** | | | | | | | | | |
| EDP Soluções Comerciais, S.A. | Lisbon | 50,000 EUR | 66,044 | 61,508 | 4,537 | 149,887 | 3,931 | 100.00% | 100.00% |
| EDP Valor - Gestão Integrada de Serviços, S.A. | Lisbon | 4,550,000 EUR | 102,337 | 93,670 | 8,666 | 49,659 | 1,992 | 100.00% | 100.00% |
| **Other Activities:** | | | | | | | | | |
| CNET - Centre for New Energy Technologies, S.A. | Sacavem | 300,000 EUR | 1,470 | 1,116 | 354 | 192 | 51 | 60.00% | - |
| EDP Mediadora, S.A. | Lisbon | 50,000 EUR | 5,976 | 3,703 | 2,273 | 3,746 | 1,893 | 100.00% | - |
| EDP Ventures - Sociedade de Capital de Risco, S.A. | Lisbon | 125,000 EUR | 370 | 123 | 247 | 265 | 129 | 100.00% | - |
| SGORME – Soc. Gestora de Operações da Rede de Mobilidade Eléctrica, S.A. | Lisbon | 500,000 EUR | 140 | 821 | -680 | - | -14 | 91.00% | - |
| **Electricity and Gas Activity - Spain:** | | | | | | | | | |
| **Electricity Generation:** | | | | | | | | | |
| EDP España, S.A.U. (HC Energia Subgroup Parent Company) | Oviedo | 421,739,790 EUR | 3,747,189 | 676,451 | 3,070,738 | 1,615,840 | -50,919 | 100.00% | 100.00% |
| Central Termica Ciclo Combinado Grupo 4, S.L. | Oviedo | 2,117,000 EUR | 157,557 | 319,923 | -162,366 | 47,771 | -14,169 | 75.00% | - |
| EDP Iberia, S.L. | Bilbao | 130,260,000 EUR | 2,871,124 | 145,240 | 2,725,884 | 9,554 | 357,537 | 100.00% | - |
| Iberenergia, S.A.U | Oviedo | 60,200 EUR | 220,584 | 203,403 | 17,180 | 65,405 | -460 | 100.00% | - |
| **Electricity Distribution:** | | | | | | | | | |
| Electra de Llobregat Energía, S.L. | Barcelona | 90,000 EUR | 4,942 | 5,196 | -255 | 377 | 16 | 75.00% | - |
| **Electricity Supply:** | | | | | | | | | |
| EDP Comercializadora de Ultimo Recurso, S.A. | Oviedo | 240,000 EUR | 34,550 | 27,936 | 6,614 | 104,862 | -2,964 | 100.00% | - |
| EDP Energia Ibérica, S.A. | Oviedo | 60,200 EUR | 1,040 | 13,907 | -12,866 | 845 | -42 | 100.00% | - |
| EDP Energía, S.A.U. | Oviedo | 1,000,000 EUR | 299,248 | 243,017 | 56,230 | 1,298,909 | 919 | 100.00% | - |
| Hidrocantábrico Distribucion Eléctrica, S.A.U | Oviedo | 44,002,000 EUR | 944,735 | 573,409 | 371,326 | 218,718 | 62,971 | 100.00% | - |
| **Gas Supply:** | | | | | | | | | |
| EDP Comercializadora, S.A.U. | Bilbao | 1,487,895 EUR | 432,412 | 425,976 | 6,435 | 789,160 | -12,057 | 100.00% | - |
| **Electricity Activity - Brazil:** | | | | | | | | | |
| **Parent company and Related Activities:** | | | | | | | | | |
| EDP Energias do Brasil, S.A. (EDP Brasil Subgroup Parent Company) | Sao Paulo | 4,682,715,947 BRL | 2,335,421 | 338,394 | 1,997,028 | 1,575 | 167,998 | 51.27% | - |
| EDP Transmissão, S.A. | Espirito Santo | 8,630,148 BRL | 5,444 | 4,757 | 687 | 4,288 | 39 | 51.27% | - |

**Notes to the Consolidated and Company Financial Statements for the periods ended 31 December 2017 and 2016**

| Subsidiaries | Head Office | Share capital / Currency | Assets 31-Dec-17 Euro'000 | Liabilities 31-Dec-17 Euro'000 | Equity 31-Dec-17 Euro'000 | Revenues 31-Dec-17 Euro'000 | Net Profit/(Loss) 31-Dec-17 Euro'000 | % Group | % Company |
|---|---|---|---|---|---|---|---|---|---|
| **Electricity Activity - Brazil:** | | | | | | | | | |
| **Electricity Generation:** | | | | | | | | | |
| Costa Rica Energética, Ltda | Sao Paulo | 14,318,185 BRL | 8,003 | 3,262 | 4,741 | 5,429 | 1,881 | 26.15% | - |
| EDP Pequenas Centrais Hidroelectricas, S.A. | Sao Paulo | 95,101,597 BRL | 76,955 | 40,859 | 36,096 | 39,963 | 14,926 | 51.27% | - |
| Energest, S.A. | Sao Paulo | 39,635,901 BRL | 73,309 | 35,358 | 37,951 | 53,838 | 24,166 | 51.27% | - |
| Enerpeixe, S.A. | Sao Paulo | 282,627,748 BRL | 539,082 | 355,336 | 183,746 | 100,886 | 39,883 | 30.76% | - |
| Investco, S.A. | Tocantins | 804,458,842 BRL | 303,799 | 79,868 | 223,931 | 49,044 | 13,264 | 20.91% | - |
| Lajeado Energia, S.A. | Sao Paulo | 6,867,541 BRL | 327,152 | 189,891 | 137,261 | 153,922 | 36,279 | 28.64% | - |
| Porto do Pecém Geração de Energia, S.A. | Ceara | 3,007,810,902 BRL | 1,070,173 | 522,939 | 547,234 | 473,198 | 20,460 | 51.27% | - |
| Resende Engenharia e Assessoria, Ltda | Sao Paulo | 21,533,319 BRL | 5,337 | - | 5,337 | - | -5 | 51.27% | - |
| Santa-Fé Energia, S.A. | Espirito Santo | 86,371,000 BRL | 43,273 | 10,643 | 32,630 | 10,198 | 4,852 | 51.27% | - |
| **Electricity Distribution:** | | | | | | | | | |
| EDP Espírito Santo Distribuição de Energia S.A. | Espirito Santo | 650,572,403 BRL | 907,680 | 703,677 | 204,003 | 819,230 | 34,986 | 51.27% | - |
| EDP São Paulo Distribuição de Energia S.A. | Sao Paulo | 596,669,107 BRL | 932,241 | 647,383 | 284,858 | 1,102,918 | 53,180 | 51.27% | - |
| **Electricity Supply:** | | | | | | | | | |
| APS Soluções em Energia, S. A. | Rio Grande do Sul | 37,942,773 BRL | 23,621 | 15,188 | 8,433 | 14,128 | 3,010 | 51.27% | - |
| EDP - Comercialização e Serviços de Energia, LTDA. | Sao Paulo | 26,217,026 BRL | 125,199 | 98,607 | 26,592 | 985,582 | 29,139 | 51.27% | - |
| EDP Comercialização Varejista, Ltda | Sao Paulo | - BRL | 1 | 3 | -2 | - | -2 | 51.27% | - |
| **Other Activities:** | | | | | | | | | |
| EDP Grid Gestão de Redes Inteligentes de Distribuição, S.A. | Espirito Santo | 45,138,730 BRL | 37,480 | 23,421 | 14,060 | 3,389 | 3,171 | 51.27% | - |
| **Renewable Energy Activity:** | | | | | | | | | |
| **Parent company and Related Activities:** | | | | | | | | | |
| EDP Renováveis, S.A. (EDP Renováveis Subgroup Parent Company) | Oviedo | 4,361,540,810 EUR | 6,468,168 | 1,016,006 | 5,452,163 | 21,991 | 113,383 | 82.56% | 82.56% |
| EDP Renováveis Servicios Financieros, S.L. | Oviedo | 84,691,368 EUR | 2,475,204 | 2,064,308 | 410,897 | 26 | 7,671 | 82.56% | - |
| **Europe Geography / Platform:** | | | | | | | | | |
| **Spain:** | | | | | | | | | |
| EDP Renewables Europe, S.L.U. (EDPR EU Subgroup Parent Company) | Oviedo | 249,498,800 EUR | 2,993,578 | 499,615 | 2,493,963 | 47,175 | 123,841 | 82.56% | - |
| Acampo Arias, S.L.U. | Zaragoza | 3,314,300 EUR | 35,667 | 31,275 | 4,392 | 3,367 | 830 | 82.56% | - |
| Aplicaciones Industriales de Energías Limpias, S.L. | Zaragoza | 131,288 EUR | 1,369 | 1 | 1,369 | - | 583 | 50.78% | - |
| Aprofitament D'Energies Renovables de la Terra Alta, S.A. | Barcelona | 1,994,350 EUR | 65 | 50 | 15 | 134 | -13 | 49.61% | - |
| Bon Vent de Corbera, S.L.U. | Barcelona | 7,255,000 EUR | 59,577 | 36,430 | 23,147 | 12,624 | 3,681 | 82.56% | - |
| Bon Vent de L'Ebre, S.L.U. | Barcelona | 12,600,000 EUR | 55,150 | 38,510 | 16,640 | 13,525 | 4,600 | 42.11% | - |
| Bon Vent de Vilalba, S.L.U. | Barcelona | 3,600,000 EUR | 53,430 | 48,322 | 5,107 | 12,178 | 3,260 | 42.11% | - |
| Desarrollos Eólicos de Teruel, S.L. | Zaragoza | 60,100 EUR | 502 | 442 | 60 | - | - | 42.11% | - |
| EDP Renovables España, S.L.U. | Oviedo | 46,128,100 EUR | 1,312,398 | 604,399 | 707,999 | 179,240 | 60,274 | 82.56% | - |
| EDPR Offshore España, S.L. | Oviedo | 385,500 EUR | 1,704 | 1 | 1,703 | - | 978 | 82.56% | - |
| EDPR Participaciones, S.L.U. | Oviedo | 7,968,700 EUR | 538,865 | 185,243 | 353,622 | - | 27,424 | 42.11% | - |
| EDPR Yield, S.A.U. | Oviedo | 99,405,403 EUR | 493,188 | 5,096 | 488,093 | - | 34,525 | 82.56% | - |
| Eólica Arlanzón, S.A. | Madrid | 4,508,980 EUR | 18,243 | 5,827 | 12,416 | 3,894 | 1,091 | 70.18% | - |
| Eólica Campollano, S.A. | Madrid | 6,559,994 EUR | 68,656 | 43,580 | 25,075 | 13,093 | 2,643 | 61.92% | - |
| Eólica de Radona, S.L.U. | Madrid | 22,088,000 EUR | 48,656 | 25,610 | 23,046 | 8,908 | 1,928 | 42.11% | - |
| Eólica del Alfoz, S.L.U. | Madrid | 8,480,000 EUR | 125,316 | 93,042 | 32,273 | 28,531 | 8,661 | 42.11% | - |
| Eólica Don Quijote, S.L.U. | Albacete | 3,006 EUR | 36,543 | 35,410 | 1,132 | 8,838 | 2,721 | 42.11% | - |
| Eólica Dulcinea, S.L.U. | Albacete | 10,000 EUR | 24,110 | 23,610 | 499 | 5,646 | 1,518 | 42.11% | - |
| Eólica Fontesilva, S.L.U. | La Coruna | 6,860,000 EUR | 44,932 | 30,771 | 14,161 | 6,981 | 1,196 | 82.56% | - |
| Eólica La Brújula, S.A. | Madrid | 3,294,000 EUR | 49,248 | 28,007 | 21,241 | 9,131 | 2,421 | 82.56% | - |
| Eólica La Janda, S.L.U. | Madrid | 4,525,000 EUR | 183,924 | 154,241 | 29,683 | 39,929 | 14,463 | 82.56% | - |
| Eólica La Navica, S.L.U. | Madrid | 10,000 EUR | 27,455 | 25,332 | 2,122 | 7,047 | 2,457 | 42.11% | - |
| Eólica Sierra de Ávila, S.L. | Madrid | 12,977,466 EUR | 99,171 | 63,575 | 35,596 | 16,253 | 2,536 | 82.56% | - |
| Iberia Aprovechamientos Eólicos, S.A. | Zaragoza | 1,918,728 EUR | 20,734 | 16,976 | 3,758 | 5,031 | 1,393 | 77.61% | - |
| Parc Eòlic de Coll de Moro, S.L.U. | Barcelona | 7,808,920 EUR | 85,994 | 75,765 | 10,228 | 12,134 | 2,747 | 82.56% | - |
| Parc Eòlic de Torre Madrina, S.L.U. | Barcelona | 7,754,897 EUR | 78,315 | 63,066 | 15,249 | 12,999 | 3,884 | 82.56% | - |
| Parc Eòlic de Vilalba dels Arcs, S.L.U. | Barcelona | 3,065,739 EUR | 36,172 | 27,032 | 9,141 | 7,030 | 2,407 | 82.56% | - |
| Parc Eòlic Serra Voltorera, S.L.U. | Barcelona | 3,458,010 EUR | 23,648 | 12,543 | 11,105 | 3,937 | 1,097 | 82.56% | - |
| Parque Eólico Altos del Voltoya, S.A. | Madrid | 6,434,349 EUR | 23,772 | 3,897 | 19,875 | 5,829 | 1,400 | 76.37% | - |
| Parque Eólico la Sotonera, S.L. | Zaragoza | 2,000,000 EUR | 14,584 | 5,632 | 8,953 | 3,287 | 1,357 | 57.66% | - |
| Parque Eólico Los Cantales, S.L.U. | Zaragoza | 1,963,050 EUR | 18,711 | 13,626 | 5,086 | 5,433 | 1,890 | 82.56% | - |
| Parque Eólico Santa Quiteria, S.L. | Huesca | 63,006 EUR | 19,795 | 2,434 | 17,361 | 4,527 | 1,550 | 69.32% | - |
| Renovables Castilla la Mancha, S.A. | Albacete | 60,102 EUR | 26,675 | 23,936 | 2,739 | 5,965 | 1,746 | 74.31% | - |
| Tébar Eólica, S.A. | Madrid | 4,720,400 EUR | 16,374 | 9,807 | 6,567 | 2,279 | 895 | 82.56% | - |
| **Portugal:** | | | | | | | | | |
| EDP Renováveis Portugal, S.A. | Oporto | 7,500,000 EUR | 501,533 | 385,234 | 116,299 | 139,852 | 59,826 | 42.11% | - |
| EDP Renewables, SGPS, S.A. | Oporto | 50,000 EUR | 159,064 | 21,043 | 138,020 | - | 137,960 | 82.56% | - |
| EDPR PT - Parques Eólicos, S.A. | Oporto | 50,000 EUR | 157,706 | 76,819 | 80,886 | - | 27,165 | 42.11% | - |
| EDPR PT - Promoção e Operação, S.A. | Oporto | 50,000 EUR | 12,414 | 6,097 | 6,317 | 10,608 | -778 | 82.56% | - |
| Eólica Alto da Teixosa, S.A. | Cinfães | 50,000 EUR | 28,606 | 24,416 | 4,190 | 4,777 | 1,425 | 42.11% | - |
| Eólica da Alagoa, S.A. | Arcos de Valdevez | 50,000 EUR | 8,943 | 3,597 | 5,346 | 3,321 | 2,054 | 25.26% | - |
| Eólica da Coutada, S.A. | Vila Pouca de Aguiar | 50,000 EUR | 164,937 | 143,651 | 21,286 | 25,416 | 7,249 | 42.11% | - |
| Eólica da Lajeira, S.A. | Oporto | 50,000 EUR | 66,030 | 60,716 | 5,315 | 9,601 | 2,995 | 42.11% | - |
| Eólica da Serra das Alturas, S.A. | Boticas | 50,000 EUR | 12,799 | 6,982 | 5,817 | 2,924 | 1,298 | 21.10% | - |
| Eólica da Serra das Beiras, S.A. | Arganil | 50,000 EUR | 103,271 | 87,085 | 16,186 | 16,501 | 4,458 | 42.11% | - |
| Eólica da Terra do Mato, S.A. | Oporto | 50,000 EUR | 46,394 | 42,493 | 3,901 | 7,417 | 1,726 | 42.11% | - |
| Eólica de Montenegrelo, S.A. | Vila Pouca de Aguiar | 50,000 EUR | 20,260 | 10,835 | 9,425 | 5,372 | 2,397 | 21.10% | - |
| Eólica do Alto da Lagoa, S.A. | Oporto | 50,000 EUR | 24,352 | 17,833 | 6,519 | 5,282 | 2,013 | 42.11% | - |
| Eólica do Alto do Mourisco, S.A. | Boticas | 50,000 EUR | 24,909 | 21,521 | 3,388 | 4,127 | 1,418 | 42.11% | - |
| Eólica do Cachopo, S.A. | Oporto | 50,000 EUR | 63,272 | 55,520 | 7,753 | 10,625 | 3,848 | 42.11% | - |
| Eólica do Castelo, S.A. | Oporto | 50,000 EUR | 36,830 | 34,665 | 2,166 | 4,824 | 1,263 | 42.11% | - |
| Eólica do Espigão, S.A. | Miranda do Corvo | 50,000 EUR | 29,899 | 19,351 | 10,549 | 6,094 | 2,262 | 42.11% | - |
| Eólica do Sincelo, S.A. | Oporto | 150,000 EUR | 4,406 | 311 | 4,095 | - | -589 | 82.56% | - |
| Eólica do Velão, S.A. | Oporto | 50,000 EUR | 40,733 | 37,687 | 3,045 | 6,143 | 2,004 | 42.11% | - |
| Eólica dos Altos de Salgueiros-Guilhado, S.A. | Vila Pouca de | 50,000 EUR | 12,332 | 10,976 | 1,356 | 2,045 | 577 | 42.11% | - |

| Subsidiaries | Head Office | Share capital / Currency | Assets 31-Dec-17 Euro'000 | Liabilities 31-Dec-17 Euro'000 | Equity 31-Dec-17 Euro'000 | Revenues 31-Dec-17 Euro'000 | Net Profit/(Loss) 31-Dec-17 Euro'000 | % Group | % Company |
|---|---|---|---|---|---|---|---|---|---|
| **Renewable Energy Activity:** | | | | | | | | | |
| **Europe Geography / Platform:** | | | | | | | | | |
| **Portugal:** | | | | | | | | | |
| | Aguiar | | | | | | | | |
| Eólico da Linha, S.A. | Oporto | 100,000 EUR | 15,014 | 11,151 | 3,863 | - | -747 | 82.56% | - |
| Gravitangle - Fotovoltaica Unipessoal, Lda | Oporto | 5,000 EUR | 4,139 | 2,031 | 2,108 | 975 | 553 | 82.56% | - |
| Malhadizes - Energia Eólica, S.A | Oporto | 50,000 EUR | 18,737 | 12,397 | 6,340 | 5,467 | 2,484 | 42.11% | - |
| Stirlingpower Unipessoal, Lda | Oporto | 2,500 EUR | 2,917 | 2,484 | 433 | 406 | 203 | 82.56% | - |
| **France:** | | | | | | | | | |
| EDP Renewables France, S.A.S. | Paris | 151,703,747 EUR | 214,507 | 78,723 | 135,784 | 26,002 | 8,767 | 42.11% | - |
| Bourbriac II, S.A.S. | Paris | 1,000 EUR | 77 | 88 | -11 | - | -7 | 82.56% | - |
| Centrale Eolienne Canet-Pont de Salars, S.A.S. | Paris | 125,000 EUR | 12,554 | 9,829 | 2,725 | 2,217 | 538 | 21.46% | - |
| Centrale Eolienne Gueltas Noyal-Pontivy, S.A.S. | Paris | 761,006 EUR | 6,120 | 1,483 | 4,637 | 1,362 | 624 | 21.47% | - |
| Centrale Eolienne Neo Truc L'Homme, S.A.S. | Paris | 3,830,700 EUR | 13,520 | 10,827 | 2,694 | 1,688 | -57 | 42.11% | - |
| Centrale Eolienne Patay, S.A.S. | Paris | 131,200 EUR | 11,861 | 6,824 | 5,038 | 2,531 | 971 | 21.47% | - |
| Centrale Eolienne Saint Barnabé, S.A.S. | Paris | 96,000 EUR | 12,324 | 7,512 | 4,812 | 2,234 | 720 | 21.47% | - |
| Centrale Eolienne Segur, S.A.S. | Paris | 113,050 EUR | 12,560 | 7,569 | 4,991 | 2,683 | 946 | 21.47% | - |
| EDPR France Holding, S.A.S. | Paris | 8,500,000 EUR | 27,261 | 13,376 | 13,885 | - | -3,191 | 82.56% | - |
| EDPR Offshore France, S.A.S. | Paris | 1 EUR | - | 3 | -2 | - | -1 | 82.56% | - |
| Eolienne de Callengeville, S.A.S. | Paris | 37,004 EUR | 9 | 17 | -8 | - | -5 | 82.56% | - |
| Eolienne de Saugueuse, S.A.S. | Paris | 1,000 EUR | 9,716 | 8,095 | 1,621 | 1,825 | 606 | 21.47% | - |
| Eolienne D'Etalondes, S.A.R.L. | Paris | 1,000 EUR | 12 | 62 | -51 | - | -4 | 82.56% | - |
| Monts de la Madeleine Energie, S.A.S. | Paris | 37,000 EUR | 936 | 904 | 33 | - | 10 | 82.56% | - |
| Monts du Forez Energie, S.A.S. | Paris | 37,000 EUR | 692 | 687 | 4 | - | -7 | 82.56% | - |
| Neo Plouvien, S.A.S. | Paris | 5,040,000 EUR | 8,903 | 6,508 | 2,395 | 1,493 | 198 | 42.11% | - |
| Parc Éolien de Boqueho-Pouagat, S.A.S. | Paris | 1,000 EUR | 11,102 | 10,889 | 213 | 813 | 222 | 82.56% | - |
| Parc Éolien de Citernes, S.A.S. | Paris | 1,000 EUR | 3 | 3 | -1 | - | -1 | 82.56% | - |
| Parc Éolien de Dammarie, S.A.R.L. | Paris | 1,000 EUR | 14,463 | 14,274 | 189 | 2,369 | 513 | 42.11% | - |
| Parc Éolien de Flavin, S.A.S. | Paris | 1,000 EUR | 2,459 | 2,462 | -2 | - | -3 | 82.56% | - |
| Parc Éolien de Francourville, S.A.S. | Paris | 1,000 EUR | 16,725 | 16,187 | 537 | 2,465 | 472 | 42.11% | - |
| Parc Éolien de la Champagne Berrichonne, S.A.R.L. | Paris | 3,700 EUR | 18,956 | 18,475 | 481 | 1,489 | 476 | 82.56% | - |
| Parc Eolien de La Hetroye, S.A.S. | Paris | 37,004 EUR | 18 | 28 | -10 | - | -3 | 82.56% | - |
| Parc Éolien de Louvières, S.A.S. | Paris | 1,000 EUR | 1 | 1 | -1 | - | -2 | 82.56% | - |
| Parc Eolien de Mancheville, S.A.R.L. | Paris | 1,000 EUR | 5,606 | 5,717 | -111 | 23 | -30 | 82.56% | - |
| Parc Eolien de Montagne Fayel, S.A.S. | Paris | 37,000 EUR | 14,996 | 13,670 | 1,326 | 2,480 | 487 | 42.11% | - |
| Parc Éolien de Preuseville, S.A.R.L. | Paris | 1,000 EUR | 8,525 | 7,706 | 819 | 1,286 | 225 | 42.11% | - |
| Parc Éolien de Prouville, S.A.S. | Paris | 1,000 EUR | 1 | 1 | -1 | - | -1 | 82.56% | - |
| Parc Eolien de Roman, S.A.R.L. | Paris | 1,000 EUR | 9,240 | 8,033 | 1,207 | 1,712 | 555 | 42.11% | - |
| Parc Éolien de Tarzy, S.A.R.L. | Paris | 1,504,692 EUR | 11,012 | 10,142 | 870 | 1,600 | 166 | 42.11% | - |
| Parc Eolien de Varimpre, S.A.S. | Paris | 37,003 EUR | 10,690 | 10,776 | -87 | 2,252 | 545 | 21.47% | - |
| Parc Eolien des Longs Champs, S.A.R.L. | Paris | 1,000 EUR | 281 | 366 | -85 | - | 4 | 82.56% | - |
| Parc Eolien des Vatines, S.A.S. | Paris | 841,014 EUR | 10,576 | 11,432 | -856 | 1,806 | 287 | 21.47% | - |
| Parc Eolien d'Escardes, S.A.S. | Paris | 1,000 EUR | 15,793 | 14,838 | 956 | 2,572 | 371 | 42.11% | - |
| Parc Eolien du Clos Bataille, S.A.S. | Paris | 410,096 EUR | 8,771 | 9,558 | -787 | 1,712 | 383 | 21.47% | - |
| Parc Eolien Nordex XXVII, S.A.S. | Paris | 37,000 EUR | 278 | 290 | -12 | - | -23 | 82.56% | - |
| SOCPE de la Mardelle, S.A.R.L. | Paris | 3,001,000 EUR | 7,016 | 3,905 | 3,111 | 989 | 95 | 42.11% | - |
| SOCPE de la Vallée du Moulin, S.A.R.L. | Paris | 8,001,000 EUR | 14,506 | 5,591 | 8,915 | 2,067 | 479 | 42.11% | - |
| SOCPE de Sauvageons, S.A.R.L. | Paris | 1,000 EUR | 7,082 | 6,922 | 160 | 1,067 | 116 | 62.74% | - |
| SOCPE des Quinze Mines, S.A.R.L. | Paris | 1,000 EUR | 14,297 | 17,419 | -3,122 | 2,176 | -315 | 62.74% | - |
| SOCPE Le Mee, S.A.R.L. | Paris | 1,000 EUR | 11,245 | 10,941 | 304 | 1,615 | 194 | 62.74% | - |
| SOCPE Petite Piece, S.A.R.L. | Paris | 1,000 EUR | 3,410 | 3,230 | 181 | 514 | 38 | 62.74% | - |
| **Poland:** | | | | | | | | | |
| EDP Renewables Polska, Sp. z o.o. | Warsaw | 435,045,000 PLN | 225,012 | 16,039 | 208,972 | 7,831 | 4,951 | 82.56% | - |
| EDP Renewables Polska HoldCo, S.A. | Warsaw | 100,100 PLN | 212,664 | 36,668 | 175,996 | - | -36,212 | 42.11% | - |
| EDP Renewables Polska OPCO, S.A. | Warsaw | 100,000 PLN | 13 | 1 | 11 | - | -6 | 82.56% | - |
| Elektrownia Wiatrowa Kresy I, Sp. z o.o. | Warsaw | 70,210 PLN | 122,160 | 48,811 | 73,349 | 9,824 | -348 | 42.11% | - |
| Farma Wiatrowa Starozreby, Sp. z o.o. | Warsaw | 466,000 PLN | 441 | 57 | 384 | - | -3,771 | 82.56% | - |
| Karpacka Mala Energetyka, Sp. z o.o. | Warsaw | 50,000 PLN | 91 | 452 | -361 | - | -27 | 82.56% | - |
| Korsze Wind Farm, Sp. z o.o. | Warsaw | 38,855,000 PLN | 88,247 | 61,328 | 26,919 | 15,346 | 4,395 | 42.11% | - |
| Masovia Wind Farm I, Sp. z o.o. | Warsaw | 1,258,000 PLN | 14,476 | 685 | 13,791 | - | -66 | 82.56% | - |
| Miramit Investments, Sp. z o.o. | Warsaw | 55,000 PLN | 560 | 359 | 201 | - | -2 | 82.56% | - |
| Molen Wind II, Sp. z o.o. | Warsaw | 14,600 PLN | 65,759 | 56,114 | 9,645 | 8,473 | 429 | 42.11% | - |
| Morska Farma Wiatrowa Neptun, Sp. z o.o. | Warsaw | 220,000 PLN | 12 | - | 12 | - | -2 | 82.56% | - |
| Radziejów Wind Farm, Sp. z o.o. | Warsaw | 27,605,000 PLN | 32,624 | 29,102 | 3,522 | 3,131 | -1,363 | 42.11% | - |
| Relax Wind Park I, Sp. z o.o. | Warsaw | 46,540,000 PLN | 141,490 | 126,844 | 14,646 | 21,625 | 2,624 | 42.11% | - |
| Relax Wind Park III, Sp. z o.o. | Warsaw | 59,603,000 PLN | 134,954 | 110,749 | 24,205 | 10,106 | -10,775 | 42.11% | - |
| Relax Wind Park IV, Sp. z o.o. | Warsaw | 4,490,000 PLN | 108 | -1 | 109 | - | -2 | 82.56% | - |
| **Romania:** | | | | | | | | | |
| EDPR RO PV, S.r.l. | Bucharest | 225,000,000 RON | 48,961 | 3,615 | 45,345 | - | -380 | 82.56% | - |
| Cernavoda Power, S.A. | Bucharest | 335,692,400 RON | 183,404 | 124,515 | 58,890 | 18,164 | 3,425 | 70.18% | - |
| Cujmir Solar, S.A. | Bucharest | 41,806,000 RON | 17,798 | 3,074 | 14,724 | 3,417 | 1,486 | 82.56% | - |
| EDPR România, S.R.L. | Bucharest | 840,007,180 RON | 262,508 | 61,535 | 200,973 | 32,533 | 12,685 | 82.56% | - |
| Foton Delta, S.A. | Bucharest | 14,304,000 RON | 6,026 | 1,073 | 4,953 | 1,129 | 331 | 82.56% | - |
| Foton Epsilon, S.A. | Bucharest | 17,304,840 RON | 10,117 | 1,854 | 8,263 | 2,089 | 880 | 82.56% | - |
| Pestera Wind Farm, S.A. | Bucharest | 269,955,070 RON | 105,640 | 65,460 | 40,180 | 13,671 | 3,212 | 70.18% | - |
| Potelu Solar, S.A. | Bucharest | 30,468,040 RON | 11,345 | 808 | 10,538 | 2,115 | 860 | 82.56% | - |
| Sibioara Wind Farm, S.r.l. | Bucharest | 81,900,600 RON | 43,449 | 35,259 | 8,190 | 5,394 | 661 | 70.18% | - |
| Studina Solar, S.A. | Bucharest | 32,130,000 RON | 14,372 | 2,713 | 11,659 | 2,811 | 1,130 | 82.56% | - |
| Vanju Mare Solar, S.A. | Bucharest | 38,660,000 RON | 13,730 | 1,882 | 11,848 | 2,496 | 944 | 82.56% | - |
| VS Wind Farm, S.A. | Bucharest | 216,170,000 RON | 81,839 | 36,307 | 45,532 | 11,907 | 4,342 | 70.18% | - |
| **Great Britain:** | | | | | | | | | |
| EDPR UK Limited | Cardiff | 9,578,002 GBP | 91,379 | 13,103 | 78,276 | - | -1,442 | 82.56% | - |
| Moray Offshore Renewable Power Limited | Cardiff | 23,027,589 GBP | 86,489 | 60,487 | 26,002 | - | 48 | 82.56% | - |
| Moray Offshore Windfarm (West) Limited | Cardiff | 1 GBP | 2,300 | 2,574 | -273 | - | -14 | 82.56% | - |
| **Italy:** | | | | | | | | | |
| EDP Renewables Italia Holding, S.r.l. | Milan | 347,000 EUR | 41,357 | 35,813 | 5,543 | - | -5,584 | 82.56% | - |

**EDP - Energias de Portugal, S.A.**
**Notes to the Consolidated and Company Financial Statements**
**for the periods ended 31 December 2017 and 2016**

| Subsidiaries | Head Office | Share capital / Currency | Assets 31-Dec-17 Euro'000 | Liabilities 31-Dec-17 Euro'000 | Equity 31-Dec-17 Euro'000 | Revenues 31-Dec-17 Euro'000 | Net Profit/(Loss) 31-Dec-17 Euro'000 | % Group | % Company |
|---|---|---|---|---|---|---|---|---|---|
| **Renewable Energy Activity:** | | | | | | | | | |
| **Europe Geography / Platform:** | | | | | | | | | |
| **Italy:** | | | | | | | | | |
| EDP Renewables Italia, S.r.l. | Milan | 34,439,343 EUR | 216,603 | 163,493 | 53,110 | 15,678 | 10,331 | 42.11% | - |
| AW 2, S.r.l. | Milan | 100,000 EUR | 2,123 | 274 | 1,849 | - | -126 | 82.56% | - |
| Castellaneta Wind, S.r.l. | Milan | 16,014 EUR | 4 | 8 | -4 | - | -2 | 82.56% | - |
| Conza Energia, S.r.l. | Milan | 456,000 EUR | 4,533 | 572 | 3,961 | - | -240 | 82.56% | - |
| Laterza Wind, S.r.l. | Milan | 16,665 EUR | 4 | 7 | -3 | - | -2 | 82.56% | - |
| Lucus Power, S.r.l. | Milan | 10,000 EUR | 17,503 | 15,250 | 2,253 | - | -157 | 82.56% | - |
| Parco Eolico Banzi, S.r.l. | Milan | 9,000,000 EUR | 46,832 | 4,435 | 42,397 | 7,615 | 3,756 | 42.11% | - |
| Pietragalla Eolico, S.r.l. | Milan | 15,218 EUR | 28,961 | 22,673 | 6,287 | 7,780 | 3,215 | 42.11% | - |
| Re Plus, S.r.l | Milan | 100,000 EUR | 937 | 1,237 | -300 | - | -15 | 82.56% | - |
| San Mauro, S.r.l. | Milan | 70,000 EUR | 7,397 | 5,766 | 1,631 | - | -84 | 82.56% | - |
| T Power, S.p.A. | Milan | 1,000,000 EUR | 4,709 | 1,689 | 3,020 | - | -49 | 82.56% | - |
| TACA Wind, S.r.l. | Milan | 1,160,000 EUR | 11,133 | 8,409 | 2,723 | - | -176 | 82.56% | - |
| Tivano, S.r.l. | Milan | 100,000 EUR | 25,190 | 24,514 | 677 | 2,412 | 421 | 82.56% | - |
| Villa Castelli Wind, S.r.l. | Milan | 100,000 EUR | 32,351 | 19,285 | 13,065 | 7,269 | 2,858 | 42.11% | - |
| WinCap, S.r.l. | Milan | 2,550,000 EUR | 18,432 | 14,841 | 3,591 | - | -134 | 82.56% | - |
| **Other Countries:** | | | | | | | | | |
| EDP Renewables Belgium, S.A. | Brussels | 61,500 EUR | 1,021 | 2,115 | -1,094 | - | -250 | 82.56% | - |
| EDPR International Investments B.V. | Amsterdam | 20,000 EUR | 28,066 | 45 | 28,021 | - | 4,989 | 82.56% | - |
| Greenwind, S.A. | Brussels | 24,924,000 EUR | 82,310 | 33,918 | 48,392 | 13,813 | 4,553 | 42.11% | - |
| **North America Geography / Platform:** | | | | | | | | | |
| **United States of America:** | | | | | | | | | |
| EDP Renewables North America LLC (EUA Subgroup Parent Company) | Delaware | 4,129,973,714 USD | 3,794,834 | 354,172 | 3,440,662 | 58,294 | -19,789 | 82.56% | - |
| 17th Star Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| 2007 Vento I LLC | Delaware | 677,067,971 USD | 601,572 | 1,314 | 600,258 | 16,346 | 10,562 | 82.56% | - |
| 2007 Vento II LLC | Delaware | 550,078,268 USD | 455,068 | 599 | 454,469 | - | -174 | 42.11% | - |
| 2008 Vento III LLC | Delaware | 653,203,192 USD | 539,314 | 84 | 539,230 | - | -548 | 42.11% | - |
| 2009 Vento IV LLC | Delaware | 209,926,792 USD | 174,165 | 75 | 174,089 | - | -127 | 82.56% | - |
| 2009 Vento V LLC | Delaware | 72,700,710 USD | 59,716 | 42 | 59,674 | - | -126 | 42.11% | - |
| 2009 Vento VI LLC | Delaware | 145,341,688 USD | 120,414 | 15 | 120,399 | - | -112 | 82.56% | - |
| 2010 Vento VII LLC | Delaware | 162,514,434 USD | 134,829 | 45 | 134,784 | - | -113 | 82.56% | - |
| 2010 Vento VIII LLC | Delaware | 165,496,311 USD | 137,173 | 47 | 137,126 | - | -111 | 82.56% | - |
| 2011 Vento IX LLC | Delaware | 119,224,014 USD | 98,885 | 117 | 98,768 | - | -110 | 42.11% | - |
| 2011 Vento X LLC | Delaware | 117,084,302 USD | 97,023 | 3 | 97,020 | - | -110 | 82.56% | - |
| 2014 Sol I LLC | Delaware | 77,978,903 USD | 64,803 | 13 | 64,790 | - | -75 | 42.11% | - |
| 2014 Vento XI LLC | Delaware | 308,123,075 USD | 256,956 | 75 | 256,881 | - | -14 | 42.11% | - |
| 2014 Vento XII LLC | Delaware | 183,187,668 USD | 153,551 | 849 | 152,702 | - | -18 | 42.11% | - |
| 2015 Vento XIII LLC | Delaware | 343,392,406 USD | 286,056 | 130 | 285,926 | - | -103 | 42.11% | - |
| 2015 Vento XIV LLC | Delaware | 303,465,879 USD | 252,891 | 45 | 252,845 | - | -103 | 42.11% | - |
| 2016 Vento XV LLC | Delaware | 544,921,039 USD | 454,873 | 604 | 454,269 | - | -103 | 82.56% | - |
| 2016 Vento XVI LLC | Delaware | 202,699,375 USD | 169,040 | 122 | 168,918 | - | -103 | 82.56% | - |
| 2017 Sol II LLC | Delaware | 128,912,135 USD | 107,555 | 61 | 107,494 | - | 5 | 82.56% | - |
| 2017 Vento XVII LLC | Delaware | 358,796,597 USD | 299,815 | 660 | 299,156 | - | -17 | 82.56% | - |
| Alabama Ledge Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Antelope Ridge Wind Power Project LLC | Delaware | 12,828,809 USD | - | 1 | -1 | - | - | 82.56% | - |
| Arbuckle Mountain Wind Farm LLC | Delaware | 159,850,394 USD | 135,505 | 2,653 | 132,852 | 7,103 | 319 | 42.11% | - |
| Arkwright Summit Wind Farm LLC | Delaware | 30,515,849 USD | 46,396 | 20,970 | 25,426 | - | -10 | 82.56% | - |
| Arlington Wind Power Project LLC | Delaware | 105,838,062 USD | 109,735 | 7,570 | 102,165 | 12,387 | 2,123 | 42.11% | - |
| Aroostook Wind Energy LLC | Delaware | 41,852,750 USD | 31,244 | 846 | 30,398 | - | -10 | 82.56% | - |
| Ashford Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Athena-Weston Wind Power Project II LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Athena-Weston Wind Power Project LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Avondale Solar Park LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| AZ Solar LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| BC2 Maple Ridge Holdings LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| BC2 Maple Ridge Wind LLC | Delaware | 280,238,162 USD | 214,987 | 2 | 214,985 | - | -8,680 | 82.56% | - |
| Big River Wind Power Project LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Black Prairie Wind Farm II LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Black Prairie Wind Farm III LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Black Prairie Wind Farm LLC | Delaware | 6,412,830 USD | 5,347 | 2 | 5,345 | - | - | 82.56% | - |
| Blackstone Wind Farm II LLC | Delaware | 233,892,534 USD | 270,911 | 76,699 | 194,212 | 21,409 | 5,414 | 82.56% | - |
| Blackstone Wind Farm III LLC | Delaware | 6,266,950 USD | - | 7 | -7 | - | - | 82.56% | - |
| Blackstone Wind Farm IV LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Blackstone Wind Farm LLC | Delaware | 108,858,369 USD | 124,832 | 35,194 | 89,638 | 9,185 | 349 | 82.56% | - |
| Blackstone Wind Farm V LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Blue Canyon Wind Power VII LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Blue Canyon Windpower II LLC | Texas | 113,265,833 USD | 114,316 | 4,270 | 110,046 | 7,358 | -3,842 | 82.56% | - |
| Blue Canyon Windpower III LLC | Texas | - USD | - | - | - | - | - | 82.56% | - |
| Blue Canyon Windpower IV LLC | Texas | - USD | - | - | - | - | - | 82.56% | - |
| Blue Canyon Windpower V LLC | Texas | 70,838,171 USD | 116,496 | 4,380 | 112,117 | 18,621 | 7,463 | 42.11% | - |
| Blue Canyon Windpower VI LLC | Delaware | 115,779,189 USD | 108,940 | 3,003 | 105,937 | 10,533 | 2,717 | 82.56% | - |
| Blue Harvest Solar Park LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Blue Marmot I LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Blue Marmot II LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Blue Marmot IV LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Blue Marmot IX LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Blue Marmot V LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Blue Marmot VI LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Blue Marmot VII LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Blue Marmot VIII LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Blue Marmot XI LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Broadlands Wind Farm II LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Broadlands Wind Farm III LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |

| Subsidiaries | Head Office | Share capital / Currency | Assets 31-Dec-17 Euro'000 | Liabilities 31-Dec-17 Euro'000 | Equity 31-Dec-17 Euro'000 | Revenues 31-Dec-17 Euro'000 | Net Profit/(Loss) 31-Dec-17 Euro'000 | % Group | % Company |
|---|---|---|---|---|---|---|---|---|---|
| **Renewable Energy Activity:** | | | | | | | | | |
| **North America Geography / Platform:** | | | | | | | | | |
| **United States of America:** | | | | | | | | | |
| Broadlands Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Buffalo Bluff Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Cameron Solar LLC | Delaware | 31,508,425 USD | 32,354 | 6,099 | 26,255 | 6 | -19 | 82.56% | - |
| Castle Valley Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Chateaugay River Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Clinton County Wind Farm LLC | Delaware | 245,983,122 USD | 205,099 | - | 205,099 | - | - | 82.56% | - |
| Cloud County Wind Farm LLC | Delaware | 205,547,422 USD | 197,853 | 5,339 | 192,514 | 22,731 | 6,101 | 42.11% | - |
| Cloud West Wind Project LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Coldwater Solar Park LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Coos Curry Wind Power Project LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Crittenden Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Cropsey Ridge Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Crossing Trails Wind, Power Project LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Dairy Hills Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Diamond Power Partners LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Drake Peak Solar Park LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Dry Creek Solar Park LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| East Klickitat Wind Power Project LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| EDPR CA Solar Park II LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| EDPR CA Solar Park III LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| EDPR CA Solar Park IV LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| EDPR CA Solar Park LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| EDPR CA Solar Park V LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| EDPR CA Solar Park VI LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| EDPR Offshore North America LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| EDPR Solar Ventures I LLC | Delaware | 48,438,734 USD | 69,018 | 26,351 | 42,668 | - | 903 | 42.11% | - |
| EDPR Solar Ventures II LLC | Delaware | 61,395,080 USD | 107,548 | 56,434 | 51,114 | - | -84 | 82.56% | - |
| EDPR Vento I Holding LLC | Delaware | 340,033,977 USD | 283,527 | - | 283,527 | - | - | 82.56% | - |
| EDPR Vento IV Holding LLC | Delaware | 68,995,105 USD | 57,529 | - | 57,529 | - | - | 82.56% | - |
| EDPR WF LLC | Delaware | 49,317,020 USD | 41,122 | - | 41,122 | - | - | 82.56% | - |
| EDPR Wind Ventures X LLC | Delaware | 64,050,614 USD | 98,841 | 12,576 | 86,265 | - | 7,954 | 82.56% | - |
| EDPR Wind Ventures XI LLC | Delaware | 117,199,433 USD | 256,919 | 142,144 | 114,775 | - | 8,895 | 42.11% | - |
| EDPR Wind Ventures XII LLC | Delaware | 75,087,191 USD | 153,500 | 90,740 | 62,760 | - | 1,540 | 42.11% | - |
| EDPR Wind Ventures XIII LLC | Delaware | 114,558,165 USD | 286,327 | 183,480 | 102,848 | - | 5,431 | 42.11% | - |
| EDPR Wind Ventures XIV LLC | Delaware | 68,888,210 USD | 253,036 | 187,739 | 65,297 | - | 5,938 | 42.11% | - |
| EDPR Wind Ventures XV LLC | Delaware | 205,158,677 USD | 454,783 | 271,995 | 182,788 | - | 12,254 | 82.56% | - |
| EDPR Wind Ventures XVI LLC | Delaware | 89,894,294 USD | 169,015 | 93,099 | 75,916 | - | 880 | 82.56% | - |
| EDPR Wind Ventures XVII LLC | Delaware | - USD | 364,927 | 356,906 | 8,021 | - | 8,518 | 82.56% | - |
| Estill Solar I LLC | Delaware | 34,797,748 USD | 34,324 | 5,267 | 29,056 | 70 | 44 | 82.56% | - |
| Five-Spot LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Ford Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Franklin Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Green Country Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Green Power Offsets LLC | Delaware | 10,515 USD | - | - | - | - | - | 82.56% | - |
| Gulf Coast Windpower Management Company LLC | Delaware | - USD | - | - | - | - | - | 61.92% | - |
| Hampton Solar II LLC | Delaware | 32,852,302 USD | 32,551 | 5,142 | 27,409 | 42 | 17 | 82.56% | - |
| Headwaters Wind Farm II LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Headwaters Wind Farm LLC | Delaware | 304,821,296 USD | 286,665 | 6,445 | 280,220 | 27,856 | 10,179 | 42.11% | - |
| Hidalgo Wind Farm II LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Hidalgo Wind Farm LLC | Delaware | 377,195,721 USD | 333,456 | 14,091 | 319,365 | 22,899 | 4,475 | 82.56% | - |
| High Prairie Wind Farm II LLC | Delaware | 85,315,238 USD | 98,155 | 10,253 | 87,902 | 13,110 | 4,123 | 42.11% | - |
| High Trail Wind Farm LLC | Delaware | 206,744,535 USD | 246,281 | 19,765 | 226,516 | 31,180 | 10,114 | 82.56% | - |
| Hog Creek Wind Project LLC | Delaware | 31,334,264 USD | 84,205 | 57,985 | 26,220 | 458 | 99 | 82.56% | - |
| Horizon Wind Chocolate Bayou I LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Horizon Wind Energy Midwest IX LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Horizon Wind Energy Northwest I LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Horizon Wind Energy Northwest IV LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Horizon Wind Energy Northwest VII LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Horizon Wind Energy Northwest X LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Horizon Wind Energy Northwest XI LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Horizon Wind Energy Panhandle I LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Horizon Wind Energy Southwest I LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Horizon Wind Energy Southwest II LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Horizon Wind Energy Southwest III LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Horizon Wind Energy Southwest IV LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Horizon Wind Energy Valley I LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Horizon Wind MREC Iowa Partners LLC | Delaware | - USD | - | - | - | - | - | 61.92% | - |
| Horizon Wind Ventures I LLC | Delaware | 133,090,984 USD | 735,774 | 218,120 | 517,654 | - | 9,442 | 82.56% | - |
| Horizon Wind Ventures IB LLC | Delaware | 41,422,368 USD | 458,666 | 197,192 | 261,474 | - | 33,350 | 42.11% | - |
| Horizon Wind Ventures IC LLC | Delaware | 376,176,571 USD | 544,654 | 93,207 | 451,447 | - | 30,498 | 42.11% | - |
| Horizon Wind Ventures II LLC | Delaware | 139,162,553 USD | 175,041 | 47,148 | 127,893 | - | 1,383 | 82.56% | - |
| Horizon Wind Ventures III LLC | Delaware | 24,807,698 USD | 60,619 | 9,723 | 50,896 | - | 4,799 | 42.11% | - |
| Horizon Wind Ventures IX LLC | Delaware | 52,448,949 USD | 99,411 | 60,420 | 38,991 | - | 266 | 42.11% | - |
| Horizon Wind Ventures VI LLC | Delaware | 90,417,690 USD | 121,189 | 38,184 | 83,005 | - | 1,846 | 82.56% | - |
| Horizon Wind Ventures VII LLC | Delaware | 103,901,732 USD | 135,508 | 39,721 | 95,787 | - | 1,827 | 82.56% | - |
| Horizon Wind Ventures VIII LLC | Delaware | 112,858,438 USD | 137,994 | 39,515 | 98,479 | - | 1,312 | 82.56% | - |
| Horizon Wind, Freeport Windpower I LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Horizon Wyoming Transmission LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Horse Mountain Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Indiana Crossroads Wind Farm II LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Indiana Crossroads Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Jericho Rise Wind Farm LLC | Delaware | 163,634,708 USD | 148,983 | 6,872 | 142,111 | 13,813 | 5,930 | 82.56% | - |

**EDP - Energias de Portugal, S.A.**
**Notes to the Consolidated and Company Financial Statements**
**for the periods ended 31 December 2017 and 2016**

| Subsidiaries | Head Office | Share capital / Currency | Assets 31-Dec-17 Euro'000 | Liabilities 31-Dec-17 Euro'000 | Equity 31-Dec-17 Euro'000 | Revenues 31-Dec-17 Euro'000 | Net Profit/(Loss) 31-Dec-17 Euro'000 | % Group | % Company |
|---|---|---|---|---|---|---|---|---|---|
| **Renewable Energy Activity:** | | | | | | | | | |
| **North America Geography / Platform:** | | | | | | | | | |
| **United States of America:** | | | | | | | | | |
| Juniper Wind Power Partners LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Lexington Chenoa Wind Farm II LLC | Delaware | 600,283 USD | - | - | - | - | - | 82.56% | - |
| Lexington Chenoa Wind Farm III LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Lexington Chenoa Wind Farm LLC | Delaware | 15,808,246 USD | 13,834 | 701 | 13,134 | - | -10 | 82.56% | - |
| Lone Valley Solar Park I LLC | Delaware | 27,763,059 USD | 24,174 | 488 | 23,686 | 1,477 | 47 | 42.11% | - |
| Lone Valley Solar Park II LLC | Delaware | 49,642,570 USD | 44,775 | 865 | 43,910 | 3,117 | 849 | 42.11% | - |
| Long Hollow wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Lost Lakes Wind Farm LLC | Delaware | 144,412,628 USD | 120,807 | 4,745 | 116,062 | 17,552 | 4,380 | 82.56% | - |
| Machias Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Madison Windpower LLC | Delaware | 15,322,095 USD | 4,186 | 361 | 3,825 | 469 | -898 | 82.56% | - |
| Marble River LLC | Delaware | 245,975,367 USD | 317,389 | 87,646 | 229,743 | 19,577 | 5,159 | 82.56% | - |
| Martinsdale Wind Farm LLC | Delaware | 4,409,537 USD | 3,737 | 87 | 3,651 | - | - | 82.56% | - |
| Meadow Lake Solar Park LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Meadow Lake Wind Farm II LLC | Delaware | 160,759,459 USD | 125,211 | 3,145 | 122,066 | 9,194 | 124 | 82.56% | - |
| Meadow Lake Wind Farm III LLC | Delaware | 114,219,163 USD | 134,605 | 38,602 | 96,003 | 8,393 | 474 | 82.56% | - |
| Meadow Lake Wind Farm IV LLC | Delaware | 102,313,000 USD | 111,495 | 31,675 | 79,820 | 6,181 | -550 | 82.56% | - |
| Meadow Lake Wind Farm LLC | Delaware | 219,973,290 USD | 239,179 | 70,061 | 169,118 | 13,383 | -2,798 | 82.56% | - |
| Meadow Lake Wind Farm V LLC | Delaware | 138,266,325 USD | 147,389 | 30,220 | 117,169 | 4,291 | 2,006 | 82.56% | - |
| Meadow Lake Wind Farm VI LLC | Delaware | 9,941,714 USD | 9,634 | 1,351 | 8,284 | - | -6 | 82.56% | - |
| Mesquite Wind LLC | Delaware | 143,396,614 USD | 188,369 | 12,079 | 176,290 | 19,796 | 2,891 | 82.56% | - |
| New Trail Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Nine Kings Transco LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| North Slope Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Number Nine Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Old Trail Wind Farm LLC | Delaware | 222,756,855 USD | 241,372 | 6,154 | 235,218 | 36,229 | 15,171 | 42.11% | - |
| OPQ Property LLC | Delaware | -28,865 USD | 145 | - | 145 | - | 26 | 82.56% | - |
| Pacific Southwest Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Paulding Wind Farm II LLC | Delaware | 116,330,159 USD | 133,211 | 4,279 | 128,931 | 18,833 | 6,976 | 42.11% | - |
| Paulding Wind Farm III LLC | Delaware | 201,173,747 USD | 175,530 | 3,711 | 171,819 | 13,732 | 4,166 | 82.56% | - |
| Paulding Wind Farm IV, LLC | Delaware | 750,810 USD | 1,495 | 880 | 615 | - | -12 | 82.56% | - |
| Paulding Wind Farm LLC | Delaware | 15,443 USD | - | 4 | -4 | - | -4 | 82.56% | - |
| Paulding Wind Farm V LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Paulding Wind Farm VI LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Peterson Power Partners LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Pioneer Prairie Wind Farm I LLC | Delaware | 319,307,535 USD | 357,697 | 14,331 | 343,366 | 57,256 | 21,107 | 42.11% | - |
| Poplar Camp Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Post Oak Wind LLC | Delaware | 167,932,124 USD | 209,755 | 8,469 | 201,286 | 23,709 | 3,622 | 42.11% | - |
| Prairie Queen Wind Farm LLC | Delaware | 3,680,251 USD | 4,314 | 1,246 | 3,069 | - | - | 82.56% | - |
| Quilt Block Wind Farm LLC | Delaware | 60,642,888 USD | 141,644 | 88,527 | 53,117 | 3,604 | 2,731 | 82.56% | - |
| Rail Splitter Wind Farm LLC | Delaware | 207,545,297 USD | 139,452 | 5,969 | 133,482 | 8,105 | -3,032 | 82.56% | - |
| Redbed Plains Windfarm LLC | Delaware | 53,535,809 USD | 141,778 | 96,362 | 45,416 | 2,161 | 828 | 82.56% | - |
| Reloj del Sol Wind Farm LLC | Delaware | 59,457 USD | 830 | 780 | 50 | - | - | 82.56% | - |
| Renville County Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Rio Blanco Wind Farm LLC | Delaware | 2,889,661 USD | 2,491 | 81 | 2,409 | - | - | 82.56% | - |
| Rising Tree Wind Farm II LLC | Delaware | 32,651,655 USD | 29,966 | 456 | 29,511 | 3,113 | 1,023 | 42.11% | - |
| Rising Tree Wind Farm III LLC | Delaware | 181,064,313 USD | 167,088 | 2,971 | 164,117 | 16,283 | 5,689 | 42.11% | - |
| Rising Tree Wind Farm LLC | Delaware | 149,971,555 USD | 140,115 | 3,744 | 136,371 | 13,818 | 4,389 | 42.11% | - |
| Riverstart Solar Park II LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Riverstart Solar Park III LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Riverstart Solar Park IV LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Riverstart Solar Park LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Riverstart Solar Park V LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Rolling Upland Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Rosewater Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Rush County Wind Farm, LLC | Delaware | 2,297,529 USD | 1,979 | 64 | 1,916 | - | - | 82.56% | - |
| Saddleback Wind Power Project LLC | Delaware | 2,502,308 USD | 1,736 | 7 | 1,729 | - | - | 82.56% | - |
| Sagebrush Power Partners LLC | Delaware | 163,655,706 USD | 118,541 | 3,345 | 115,196 | 11,635 | 1,633 | 82.56% | - |
| Sardinia Windpower LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Signal Hill Wind Power Project LLC | Delaware | 4,502 USD | - | - | - | - | - | 82.56% | - |
| Simpson Ridge Wind Farm II LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Simpson Ridge Wind Farm III LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Simpson Ridge Wind Farm IV LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Simpson Ridge Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Simpson Ridge Wind Farm V LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Spruce Ridge Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Stinson Mills Wind Farm LLC | Delaware | 4,045,072 USD | 3,307 | 17 | 3,290 | - | - | 82.56% | - |
| Sustaining Power Solutions LLC | Delaware | 49,473,290 USD | 8,616 | 12,249 | -3,633 | 38,285 | -21,977 | 82.56% | - |
| Sweet Stream Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Telocaset Wind Power Partners LLC | Delaware | 54,725,551 USD | 104,287 | 7,755 | 96,531 | 16,233 | 6,463 | 42.11% | - |
| Timber Road Solar Park LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Tug Hill Windpower LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Tumbleweed Wind Power Project LLC | Delaware | 4,003 USD | - | - | - | - | - | 82.56% | - |
| Turtle Creek Wind Farm LLC | Delaware | 7,980,580 USD | 7,447 | 805 | 6,642 | - | -5 | 82.56% | - |
| Waverly Wind Farm II LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Waverly Wind Farm LLC | Delaware | 300,688,777 USD | 266,734 | 4,459 | 262,274 | 20,393 | 7,869 | 42.11% | - |
| Western Trail Wind Project I LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Wheat Field Holding LLC | Delaware | 26,466,595 USD | 22,018 | - | 22,018 | - | -14 | 42.11% | - |
| Wheat Field Wind Power Project LLC | Delaware | 26,405,596 USD | 95,694 | 28,639 | 67,055 | 12,434 | 5,571 | 42.11% | - |
| Whiskey Ridge Power Partners LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Whistling Wind WI Energy Center LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| White Stone Solar Park LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Whitestone Wind Purchasing LLC | Delaware | 2,948,067 USD | 1,518 | 55 | 1,463 | - | 9 | 82.56% | - |

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**Notes to the Consolidated and Company Financial Statements**
**for the periods ended 31 December 2017 and 2016**

| Subsidiaries | Head Office | Share capital / Currency | Assets 31-Dec-17 Euro'000 | Liabilities 31-Dec-17 Euro'000 | Equity 31-Dec-17 Euro'000 | Revenues 31-Dec-17 Euro'000 | Net Profit/(Loss) 31-Dec-17 Euro'000 | % Group | % Company |
|---|---|---|---|---|---|---|---|---|---|
| **Renewable Energy Activity:** | | | | | | | | | |
| **North America Geography / Platform:** | | | | | | | | | |
| **United States of America:** | | | | | | | | | |
| Wildcat Creek Wind Farm LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Wilson Creek Power Project LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| Wind Turbine Prometheus, LP | Delaware | 5,990 USD | - | - | - | - | - | 82.56% | - |
| WTP Management Company LLC | Delaware | - USD | - | - | - | - | - | 82.56% | - |
| **Canada:** | | | | | | | | | |
| EDP Renewables Canada, Ltd. (Canada Subgroup Parent Company) | Ontario | 35,000,000 CAD | 17,849 | 622 | 17,228 | - | -819 | 82.56% | - |
| EDP Renewables Canada LP Holdings, Ltd. | Ontario | 8,703,215 CAD | 21,644 | 2,445 | 19,198 | - | -1,521 | 82.56% | - |
| EDP Renewables Sharp Hills Project GP, Ltd. | Alberta | - CAD | - | - | - | - | - | 82.56% | - |
| EDP Renewables Sharp Hills Project LP | Alberta | -15,193 CAD | 3,144 | 3,194 | -50 | - | -2 | 82.56% | - |
| Nation Rise Wind Farm GP, Inc. | Bristish Columbia | - CAD | - | - | - | - | - | 82.56% | - |
| Nation Rise Wind Farm LP | Ontario | 1,451,186 CAD | 4,126 | 3,204 | 922 | - | -29 | 82.56% | - |
| SBWF GP, Inc. | Ontario | 1,061 CAD | 2 | - | 2 | - | - | 42.11% | - |
| South Branch Wind Farm II GP Inc. | Bristish Columbia | - CAD | - | - | - | - | - | 82.56% | - |
| South Branch Wind Farm II GP LP | Ontario | 54,006 CAD | 1,016 | 1,002 | 14 | - | -21 | 82.56% | - |
| South Dundas Wind Farm LP | Ontario | 26,574,893 CAD | 51,032 | 23,446 | 27,586 | 7,422 | 2,843 | 42.11% | - |
| **Mexico:** | | | | | | | | | |
| EDPR Servicios de México, S. de R.L. de C.V. | Mexico City | 53,411,875 MXN | 1,579 | 546 | 1,033 | - | -453 | 82.56% | - |
| Eólica de Coahuila, S.A. de C.V. | Mexico City | 7,189,723 USD | 304,623 | 292,461 | 12,162 | 31,957 | 4,264 | 42.11% | - |
| Vientos de Coahuila, S.A. de C.V. | Mexico City | 2,421 USD | 3,942 | 3,965 | -24 | - | -33 | 82.56% | - |
| **South America Geography / Platform:** | | | | | | | | | |
| **Brazil:** | | | | | | | | | |
| EDP Renovaveis Brasil, SA (EDPR BR Subgroup Parent Company) | Sao Paulo | 550,407,312 BRL | 167,161 | 8,365 | 158,796 | 1,718 | 11,489 | 82.56% | - |
| Babilônia Holding, S.A. | Sao Paulo | 146,925,894 BRL | 45,672 | - | 45,672 | - | -166 | 82.56% | - |
| Central Eólica Aventura I, S.A. | Sao Paulo | 10,001,765 BRL | 33,989 | 28,352 | 5,638 | - | 43 | 42.10% | - |
| Central Eólica Aventura II, S.A. | Sao Paulo | 119,500 BRL | 5 | - | 5 | - | -15 | 82.56% | - |
| Central Eólica Babilônia I, S.A. | Fortaleza | 37,232,288 BRL | 25,212 | 15,895 | 9,317 | - | -47 | 82.56% | - |
| Central Eólica Babilônia II, S.A. | Fortaleza | 36,333,489 BRL | 26,599 | 17,501 | 9,099 | - | -42 | 82.56% | - |
| Central Eólica Babilônia III, S.A. | Fortaleza | 36,936,528 BRL | 29,757 | 20,513 | 9,244 | - | -16 | 82.56% | - |
| Central Eólica Babilônia IV, S.A. | Fortaleza | 35,581,489 BRL | 24,393 | 15,477 | 8,916 | - | -32 | 82.56% | - |
| Central Eólica Babilônia V, S.A. | Fortaleza | 35,580,489 BRL | 24,403 | 15,483 | 8,920 | - | -31 | 82.56% | - |
| Central Eólica Baixa do Feijao I, S.A. | Sao Paulo | 39,216,713 BRL | 35,196 | 21,550 | 13,647 | 8,765 | 3,938 | 42.11% | - |
| Central Eólica Baixa do Feijao II, S.A. | Sao Paulo | 40,551,200 BRL | 33,699 | 19,513 | 14,187 | 8,251 | 3,947 | 42.11% | - |
| Central Eólica Baixa do Feijao III, S.A. | Sao Paulo | 67,416,713 BRL | 41,306 | 21,309 | 19,998 | 8,038 | 3,151 | 42.11% | - |
| Central Eólica Baixa do Feijao IV, S.A. | Sao Paulo | 44,433,110 BRL | 33,842 | 19,230 | 14,612 | 7,808 | 3,309 | 42.11% | - |
| Central Eólica Jau, S.A. | Sao Paulo | 55,330,738 BRL | 110,793 | 85,246 | 25,547 | 9,394 | 5,820 | 42.11% | - |
| Central Nacional de Energia Eólica, S.A. | Sao Paulo | 12,396,000 BRL | 7,630 | 2,110 | 5,519 | 3,109 | 1,612 | 42.11% | - |
| Elebras Projetos, Ltda | Sao Paulo | 103,779,268 BRL | 68,576 | 33,289 | 35,286 | 23,546 | 8,784 | 42.11% | - |

The companies main financial data of joint ventures as at 31 December 2017 are as follows:

| Jointly controled entities * | H | Head Office | Share Capital / Currency | Activity | % Group | % Company |
|---|---|---|---|---|---|---|
| Arquiled Group | | Mora | 168,700 EUR | Other activities | 46.15% | - |
| Bioastur, AIE | | Sérin | 60,101 EUR | Electricity generation | 50.00% | - |
| Bioeléctrica Group | | Lisbon | 50,000 EUR | Electricity generation | 50.00% | - |
| Ceprastur, A.I.E. | | Oviedo | 360,607 EUR | Electricity generation | 46.86% | - |
| CHC Comercializador de Referencia, S.L.U. | | Madrid | 72,000 EUR | Electricity Supply | 50.00% | - |
| CIDE HC Energía, S.A. | | Madrid | 500,000 EUR | Electricity Supply | 50.00% | - |
| Companhia Energética do JARI - CEJA | | Sao Paulo | 707,823,746 BRL | Electricity generation | 25.63% | - |
| Compañía Eólica Aragonesa, S.A. | | Zaragoza | 6,701,165 EUR | Renewable energies | 41.28% | - |
| Desarrollos Energeticos Canarios, S.A. | | Las Palma | 15,025 EUR | Gas Distribution | 41.20% | - |
| EME2 - Engenharia, Manutenção e Serviços, ACE | | Lisbon | - EUR | Electricity supply | 60.00% | - |
| Empresa de Energia Cachoeira Caldeirão S.A. | | Amapá | 728,600,000 BRL | Electricity generation | 25.63% | 40.00% |
| Empresa de Energia São Manoel, S.A. | | Rio de Janeiro | 2,273,974,102 BRL | Electricity generation | 17.09% | - |
| Energia Ásia Consultoria, Limitada | | Macao | 200,000 MOP | Other activities | 50.00% | 49.00% |
| Evolución 2000, S.L. | | Albacete | 117,994 EUR | Renewable energies | 40.58% | - |
| Flat Rock Windpower II LLC | | Delaware | 209,647,187 USD | Renewable energies | 41.28% | - |
| Flat Rock Windpower LLC | | Delaware | 534,426,287 USD | Renewable energies | 41.28% | - |
| HC Tudela Cogeneración, S.L. | | Oviedo | 306,030 EUR | Electricity generation | 50.10% | - |
| Hydro Global Investment, Ltd | | Hong Kor | 88,500,000 USD | Other activities | 50.00% | - |
| Les Eoliennes Flottantes du Golfe du Lion, S.A.S. | | Montpellie | 40,000 EUR | Renewable energies | 28.90% | - |
| Moray Offshore Windfarm (East) Limited | | Cardiff | 10,000,000 GBP | Renewable energies | 63.32% | - |
| Pecém Operação e Manutenção de Unidades de Geração Eletrica, S.A. | | Ceara | 1,527,000 BRL | Electricity generation | 25.63% | - |
| Pecém Transportadora de Minérios, S.A. | | Ceara | 2,688,994 BRL | Electricity generation | 25.63% | - |
| Sino - Portuguese Centre for New Technologies (Shangai) CO., Ltd | | Shanghai | 21,600,000 CNY | Other activities | 40.00% | - |

The companies main financial data of joint ventures as at 31 December 2016 are as follows:

| Jointly controled entities * | Head Office | Share capital / Currency | | Activity | % Group | % Company |
|---|---|---|---|---|---|---|
| Flat Rock Windpower II LLC | New York | 208,647,187 | USD | Renewable energies | 38.76% | - |
| Flat Rock Windpower LLC | New York | 530,426,287 | USD | Renewable energies | 38.76% | - |
| Arquiled Group | Lisbon | 168,700 | EUR | Other activities | 46.15% | - |
| Bioastur, AIE | Sérin | 60,101 | EUR | Electricity generation | 50.00% | - |
| Bioeléctrica Group | Lisbon | 50,000 | EUR | Electricity generation | 50.00% | 40.00% |
| Empresa de Energia Cachoeira Caldeirão S.A. - MEP | Amapá | 627,600,500 | BRL | Electricity generation | 25.64% | - |
| Compañía Eólica Aragonesa, S.A. | Zaragoza | 6,701,165 | EUR | Renewable energies | 38.76% | - |
| Ceprastur, A.I.E. | Oviedo | 360,607 | EUR | Electricity generation | 44.01% | - |
| CHC Comercializador de Referencia, S.L. | Madrid | 60,000 | EUR | Gas Supply | 50.00% | - |
| CIDE HC Energía, S.A. | Madrid | 500,000 | EUR | Gas Supply | 50.00% | - |
| Eólica de Coahuila, S. de R.L. de C.V. | Mexico City | 7,189,723 | USD | Renewable energies | 39.54% | - |
| Desarrollos Energeticos Canarios, S.A. | Las Palmas | 15,025 | EUR | Gas Distribution | 38.69% | - |
| EDP ASIA - Investimento e Consultadoria , Limitada | Macao | 200,000 | MOP | Other activities | 50.00% | 49.00% |
| EME2 - Engenharia, Manutenção e Serviços, ACE | Lisbon | - | EUR | Electricity supply | 60.00% | - |
| Evolución 2000, S.L. | Albacete | 117,994 | EUR | Renewable energies | 38.11% | - |
| Hydro Global Investment, Ltd | Hong Kong | 10,000,000 | USD | Other activities | 50.00% | - |
| Companhia Energética do JARI | Sao Paulo | 578,623,746 | BRL | Electricity generation | 25.64% | - |
| Pecém Operação e Manutenção de Unidades de Geração Eletrica, S.A. | Ceara | 1,527,000 | BRL | Electricity generation | 25.64% | - |
| Pecém Transportadora de Minérios, S.A. | Ceara | 2,688,994 | BRL | Electricity generation | 25.64% | - |
| Empresa de Energia São Manoel, S.A. | Rio de Janeiro | 1,573,974,102 | BRL | Electricity generation | 17.09% | - |
| Sino - Portuguese Centre for New Technologies (Shangai) CO., Ltd | Shanghai | 3,012,660 | EUR | Other activities | 40.00% | - |
| Tébar Eólica, S.A. | Cuenca | 4,720,400 | EUR | Renewable energies | 38.76% | - |
| HC Tudela Cogeneración, S.L. | Oviedo | 306,030 | EUR | Electricity generation | 50.10% | - |

* The companies financial data of joint ventures are disclosed in note 20

The companies where the Group has significant influence as at 31 December 2017 are as follows:

| Associated companies | Head Office | Share capital / Currency | | Activity | % Group | % Company |
|---|---|---|---|---|---|---|
| AMBERTREE - Tecnologia para Redes de Energia Electrica, Lda | Lisbon | 5,000 | EUR | Electricity supply | 26.00% | - |
| Aprofitament D'Energies Renovables de L'Ebre, S.L. | Barcelona | 3,870,030 | EUR | Renewable energies | 10.97% | - |
| Biomasas del Pirineo, S.A. | Huesca | 454,896 | EUR | Renewable energies | 24.77% | - |
| Blue Canyon Windpower LLC | Texas | 40,364,480 | USD | Renewable energies | 25.00% | - |
| Carriço Cogeração - Sociedade de Geração de Eletricidade e Calor, S.A. | Lisbon | 50,000 | EUR | Electricity generation | 35.00% | - |
| Desarollos Eolicos de Canárias, S.A. | Gran Canaria | 1,817,130 | EUR | Renewable energies | 36.94% | - |
| EDERG - Produção Hidroeléctrica, Lda | Lisbon | 400,000 | EUR | Electricity generation | 25.00% | - |
| EIDT-Engenharia, Inovação e Desenvolvimento Tecnológico, S.A. | Oporto | 150,000 | EUR | Other activities | 30.00% | - |
| Eoliennes en Mer Dieppe Le Tréport, S.A.S. | Bois Guillaume | 31,436,000 | EUR | Renewable energies | 35.50% | - |
| Éoliennes en Mer Îles d'Yeu et de Noirmoutier, S.A.S. | Nantes | 36,376,000 | EUR | Renewable energies | 35.50% | - |
| Kosorkuntza, A.I.E. | Bilbao | - | EUR | Electricity generation | 25.00% | - |
| Les Eoliennes en Mer Services, S.A.S. | Courbevoie | 40,000 | EUR | Renewable energies | 35.50% | - |
| Mabe Construções e Administração de Projetos, Lda. | Ceara | 520,459,000 | BRL | Other activities | 25.63% | - |
| Nine Kings Wind Farm LLC | Delaware | - | USD | Renewable energies | 41.28% | - |
| Parque Eólico de Belmonte, S.A. | Asturias | 120,400 | EUR | Renewable energies | 24.69% | - |
| Parque Eólico Sierra del Madero, S.A. | Soria | 7,193,970 | EUR | Renewable energies | 34.68% | - |
| Portsines - Terminal Multipurpose de Sines, S.A. | Sines | 4,200,000 | EUR | Other activities | 39.60% | - |
| Principle Power, Inc | Seattle | 356,066 | USD | Other activities | 22.72% | - |
| Solar Siglo XXI, S.A. | Ciudad Real | 80,000 | EUR | Electricity generation | 20.64% | - |
| WINDPLUS, S.A. | Lisbon | 1,250,000 | EUR | Renewable energies | 16.02% | - |

The companies where the Group has significant influence as at 31 December 2016 are as follows:

| Associated companies | Head Office | Share capital / Currency | | Activity | % Group | % Compan * |
|---|---|---|---|---|---|---|
| Blue Canyon Wind Power I LLC | Oklahoma | 40,364,480 | USD | Renewable energies | 25.00% | - |
| Aprofitament D'Energies Renovables de L'Ebre, S.A. | Barcelona | 3,869,020 | EUR | Renewable energies | 10.30% | - |
| AMBERTREE - Tecnologia para Redes de Energia Electrica, Lda | Lisbon | 5,000 | EUR | Electricity supply | 26.00% | - |
| Biomasas del Pirineo, S.A. | Huesca | 454,896 | EUR | Renewable energies | 23.26% | - |
| Carriço Cogeração, S.A. | Lisbon | 50,000 | EUR | Electricity generation | 35.00% | - |
| Desarollos Eolicos de Canárias, S.A. | Gran Canaria | 2,391,900 | EUR | Renewable energies | 34.69% | - |
| EDERG - Produção Hidroeléctrica, Lda | Lisbon | 400,000 | EUR | Electricity generation | 25.00% | - |
| EIDT-Engenharia, Inovação e Desenvolvimento Tecnológico, S.A. | Alcobaça | 150,000 | EUR | Other activities | 30.00% | - |
| Inkolan, A.I.E. | Bilbao | - | EUR | Gas Distribution | 12.50% | - |
| Kosorkuntza, A.I.E. | Bilbao | - | EUR | Electricity generation | 25.00% | - |
| Mabe Construções e Administração de Projetos, Lda. | Ceara | 520,459,000 | BRL | Other activities | 25.64% | - |
| Eoliennes en Mer Dieppe Le Tréport, S.A.S. | Dieppe | 14,471,028 | EUR | Renewable energies | 33.34% | - |
| Les Eoliennes en Mer Iles d'Yeu et Noirmoutier, S.A.S. | Nantes | 17,186,958 | EUR | Renewable energies | 33.34% | - |
| Portsines - Terminal Multipurpose de Sines, S.A. | Sines | 4,200,000 | EUR | Other activities | 39.60% | - |
| Principle Power, Inc | Seattle | 356,066 | USD | Other activities | 24.65% | - |
| Parque Eólico de Belmonte, S.A. | Madrid | 120,400 | EUR | Renewable energies | 23.18% | - |
| Parque Eólico Sierra del Madero, S.A. | Madrid | 7,194,021 | EUR | Renewable energies | 32.56% | - |
| Solar Siglo XXI, S.A. | Ciudad Real | 80,000 | EUR | Electricity generation | 19.38% | - |
| Tolosa Gasa, S.A. | Tolosa | - | EUR | Gas Distribution | 40.00% | - |
| WINDPLUS, S.A. | Lisbon | 1,250,000 | EUR | Renewable energies | 15.04% | - |

* The companies financial data of associated companies are disclosed in note 20

The other companies with interests in share capital equal to or greater than 10% as at 31 December 2017, are as follows:

| Other companies | Head Office and Country | % Indirect | % Direct |
|---|---|---|---|
| EDA, S.A. | Azores - Portugal | 10.00% | - |
| Parque Eólico Montes de las Navas, S.L. | Madrid - Spain | 17.00% | - |
| Yedesa Cogeneración, S.A. | Almería - Spain | 10.00% | - |
| Sigma Sustainable Energies Fund II | Edinburgh - Scotland | 21.88% | - |

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# 06

## ANNEXES


FINAL REFERENCES 373

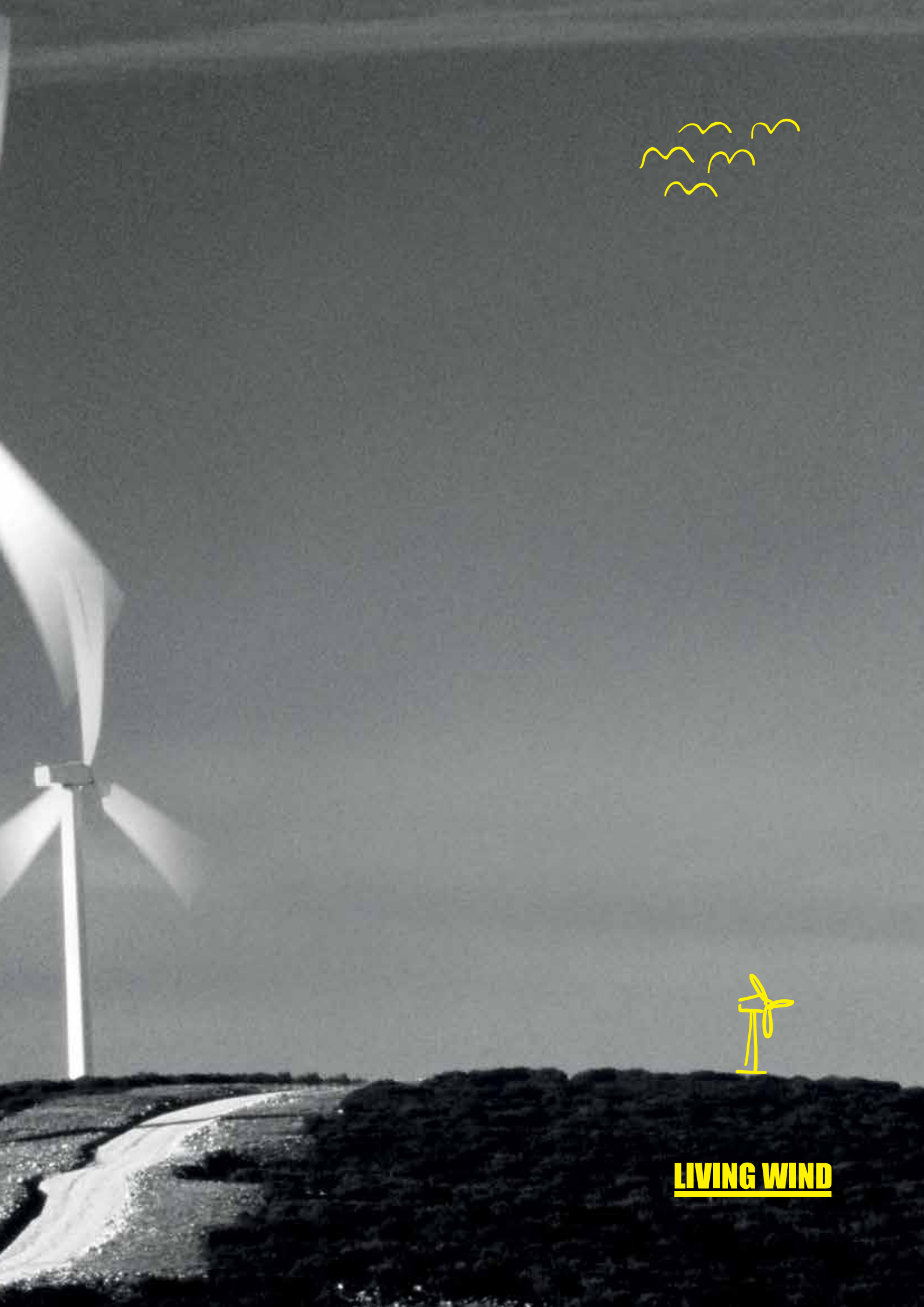
PROPOSAL FOR THE APPROPRIATION OF PROFITS 374

HISTORIC OPERATIONAL INDICATORS 375

CONCEPTS AND DEFINITIONS 379

EXTERNAL CHECKS 385

CONTACTS


LIVING WIND

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# Final References

The Executive Board of Directors expresses its gratitude to all those who have supported and followed, directly or indirectly, the activity of EDP Group over the year of 2017.

First of all, we would like to thank the shareholders for the trust and support given to the Executive Board of Directors and to each of its members in the exercise of its activity.

To all the members of the Corporate Bodies, responsible for the auditing and supervision of the Group, a special thanks is also due, for the support given over the year. A special word to the General and Supervisory Board for the guidance provided to the activity of the Executive Board of Directors.

The successful results of the Group and the intrepid defense of all stakeholders' interests clearly demonstrate that the governance model is fully consolidated.

Additionally, as a result of the support granted to the group's activities during last year, the Board thanks the members of the governmental bodies and the public authorities of countries in which EDP is present, for the continued support provided.

Within the energy sector, it is also important to refer the constant and constructive dialogue between EDP and the different energy sector regulators. Particularly with the Regulatory Body for Energy Services (ERSE) and the Directorate-General for Energy and Geology (DGEG) in Portugal, as well as to other regulators in countries where the activity of the EDP group is most visible, such as CNE in Spain, ANEEL in Brazil and FERC and NERC in the USA.

The Executive Board of Directors also extends its gratitude to all the other entities that interacted with the group during 2017, namely, the financial markets regulators, the sectorial associations and the social and environmental non-government organizations.

It is also imperative to thank our customers and reaffirm our full commitment to seek continuous improvement of our offer, as well as to achieve excellence in the service delivery. We are focused and determined to satisfy our customers' needs.

The Board's gratitude is also extended to suppliers, as well as to the social media that followed the company throughout the year.

Lastly, a special thanks to all EDP employees. Their knowledge, determination, and commitment were crucial for the company to achieve its results.

The Executive Board of Directors

António Luís Guerra Nunes Mexia (Chairman)

João Manuel Veríssimo Marques da Cruz

Nuno Maria Pestana de Almeida Alves

Miguel Stilwell de Andrade

João Manuel Manso Neto

Miguel Nuno Simões Nunes Ferreira Setas

António Fernando Melo Martins da Costa

Rui Manuel Rodrigues Lopes Teixeira

# Proposal for the appropriation of profits

Under the terms of the Article 30, number 1, of the Company constitution, the Executive Board of Directors proposes to the shareholders that the Net Profit of 2017, amounting to € 765,427,037.09 is appropriated as follows:

| | |
|---|---|
| Dividends * | € 694,742,165.85 |
| Donations to Fundação EDP | € 7,200,000.00 |
| Retained Earnings | € 63,484,871.24 |

* The proposed dividend per share is € 0.19.

# Historic Operational Indicators

| ELECTRICITY GENERATION (1/2) | UN | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| INSTALLED CAPACITY | MW | 26,753 | 25,223 | 24,364 | 22,469 |
| Liberalised Electricity Generation in Iberian Market | MW | 13,611 | 12,705 | 12,566 | 12,522 |
| Portugal | MW | 10,082 | 9,177 | 8,798 | 8,686 |
| Hydro | MW | 6,698 | 5,774 | 5,391 | 5,286 |
| CCGT | MW | 2,031 | 2,039 | 2,039 | 2,039 |
| Coal | MW | 1,180 | 1,180 | 1,180 | 1,180 |
| Mini-hydro | MW | 148 | 160 | 164 | 157 |
| Cogeneration | MW | 24 | 24 | 24 | 24 |
| Spain | MW | 3,528 | 3,528 | 3,768 | 3,836 |
| Hydro | MW | 426 | 426 | 426 | 426 |
| CCGT | MW | 1,698 | 1,698 | 1,698 | 1,698 |
| Coal | MW | 1,224 | 1,224 | 1,463 | 1,463 |
| Nuclear | MW | 156 | 156 | 156 | 156 |
| Cogeneration and Waste | MW | 25 | 25 | 25 | 93 |
| EDP Renováveis | MW | 10,676 | 10,052 | 9,281 | 8,149 |
| Portugal | MW | 1,253 | 1,251 | 1,247 | 624 |
| Spain | MW | 2,244 | 2,194 | 2,194 | 2,194 |
| Rest of Europe | MW | 1,564 | 1,541 | 1,523 | 1,413 |
| North America | MW | 5,284 | 4,861 | 4,233 | 3,835 |
| Brazil | MW | 331 | 204 | 84 | 84 |
| EDP Brasil | MW | 2,466 | 2,466 | 2,517 | 1,797 |
| Hydro | MW | 1,746 | 1,745 | 1,797 | 1,797 |
| Coal | MW | 720 | 720 | 720 | - |
| Capacity under Construction | MW | 828 | 1,267 | 1,505 | 3,096 |
| Portugal [1] | MW | - | 1,019 | 1,161 | 2,654 |
| EDP Renováveis | MW | 828 | 248 | 344 | 443 |
| Brazil [1] | MW | - | - | - | - |
| Equity Installed Capacity [2] | MW | 737 | 693 | 589 | 1,484 |
| Portugal [1] | MW | 32 | 32 | 32 | 32 |
| Spain [1] | MW | 10 | 10 | 15 | 19 |
| EDP Renováveis | MW | 331 | 356 | 356 | 886 |
| Brazil [1] | MW | 364 | 296 | 187 | 547 |
| Equity Capacity under Construction [2] | MW | 173 | 231 | 341 | 343 |
| Brazil | MW | 173 | 231 | 341 | 343 |
| NET ELECTRICITY GENERATION | GWh | 70,000 | 70,011 | 63,712 | 60,186 |
| Liberalised Electricity Generation in Iberian Market | GWh | 33,778 | 36,659 | 33,691 | 33,221 |
| Portugal | GWh | 22,434 | 27,601 | 21,513 | 23,846 |
| Hydro | GWh | 6,710 | 15,211 | 8,741 | 14,366 |
| CCGT | GWh | 5,941 | 3,602 | 2,584 | 507 |
| Coal | GWh | 9,426 | 8,082 | 9,657 | 8,129 |
| Mini-hydro | GWh | 238 | 549 | 349 | 631 |
| Cogeneration | GWh | 119 | 156 | 183 | 214 |
| Spain | GWh | 11,344 | 9,058 | 12,178 | 9,375 |
| Hydro | GWh | 472 | 930 | 793 | 947 |
| CCGT | GWh | 2,087 | 1,640 | 1,082 | 656 |
| Coal | GWh | 7,421 | 5,150 | 8,946 | 6,414 |
| Nuclear | GWh | 1,236 | 1,239 | 1,227 | 1,204 |
| Cogeneration and Waste | GWh | 128 | 100 | 131 | 153 |
| EDP Renováveis | GWh | 27,621 | 24,473 | 21,388 | 19,763 |
| Portugal | GWh | 2,912 | 3,047 | 1,991 | 1,652 |
| Spain | GWh | 5,095 | 4,926 | 4,847 | 5,176 |
| Rest of Europe | GWh | 3,662 | 3,257 | 3,225 | 2,495 |
| North America | GWh | 15,091 | 12,576 | 11,104 | 10,204 |
| Brazil | GWh | 861 | 666 | 222 | 236 |
| EDP Brasil [3] | GWh | 8,602 | 8,880 | 8,632 | 7,202 |
| Hydro | GWh | 4,004 | 4,448 | 5,604 | 7,202 |
| Coal | GWh | 4,597 | 4,432 | 3,028 | - |
| STEAM | GWh | 863 | 861 | 871 | 938 |

[1] Excludes EDP Renováveis | [2] Accounted by the Equity Method | [3] 2014, 2015 and 2016 EDP Brasil figures revised in light of "Câmara de Comercialização de Energia Eléctrica" settlements

| ELECTRICITY GENERATION (2/2) | UN | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| TECHNICAL AVAILABILITY | | | | | |
| Portugal [1] | % | 92 | 94 | 97 | 94 |
| Hydro | % | 91 | 94 | 98 | 95 |
| CCGT | % | 93 | 93 | 96 | 89 |
| Coal | % | 94 | 92 | 98 | 97 |
| Mini-hydro | % | 95 | 96 | 91 | 91 |
| Cogeneration | % | 65 | 78 | 91 | 100 |
| Spain [1] | % | 95 | 91 | 97 | 96 |
| Hydro | % | 100 | 100 | 100 | 100 |
| CCGT | % | 97 | 97 | 100 | 98 |
| Coal | % | 91 | 79 | 92 | 94 |
| Nuclear | % | 92 | 92 | 92 | 90 |
| Cogeneration | % | 92 | 99 | 98 | 99 |
| Waste | % | 95 | 94 | 95 | 88 |
| EDP Renováveis | % | 98 | 98 | 98 | 98 |
| Portugal | % | 98 | 98 | 98 | 98 |
| Spain | % | 97 | 97 | 97 | 97 |
| Rest of Europe | % | 98 | 98 | 97 | 98 |
| North America | % | 98 | 98 | 98 | 98 |
| Brazil | % | 98 | 99 | 99 | 98 |
| Brazil [1] | % | 94 | 93 | 92 | 99 |
| Hydro | % | 95 | 95 | 94 | 95 |
| Coal | % | 92 | 88 | 88 | - |

| ELECTRICITY DISTRIBUTION | UN | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| ELECTRICITY DISTRIBUTED | GWh | 78,788 | 78,214 | 79,159 | 79,428 |
| Portugal | GWh | 44,753 | 44,599 | 44,277 | 43,808 |
| Spain | GWh | 9,331 | 9,190 | 9,168 | 9,177 |
| Brazil | GWh | 24,704 | 24,425 | 25,713 | 26,443 |
| ELECTRICITY SUPPLY POINTS | '000 | 10,228 | 10,121 | 10,024 | 9,894 |
| Portugal | '000 | 6,187 | 6,142 | 6,107 | 6,083 |
| Spain | '000 | 664 | 663 | 660 | 659 |
| Brazil | '000 | 3,377 | 3,316 | 3,257 | 3,152 |
| GRID EXTENSION | Km | 338,179 | 337,492 | 335,686 | 333,313 |
| Portugal | Km | 226,027 | 225,397 | 224,849 | 223,523 |
| Overhead lines | Km | 177,321 | 176,890 | 176,622 | 175,615 |
| Underground lines | Km | 48,706 | 48,507 | 48,227 | 47,909 |
| Spain [1] | Km | 20,613 | 20,520 | 20,396 | 20,268 |
| Overhead lines | Km | 15,695 | 15,677 | 15,640 | 15,545 |
| Underground lines | Km | 4,918 | 4,842 | 4,756 | 4,723 |
| Brazil | Km | 91,538 | 91,576 | 90,441 | 89,522 |
| Overhead lines | Km | 91,293 | 91,337 | 90,210 | n.d. |
| Underground lines | Km | 245 | 239 | 231 | n.d. |
| GRID LOSSES | | | | | |
| Portugal | % | 10.0 | 9.5 | 9.8 | 10.3 |
| Spain | % | 3.5 | 4.0 | 4.1 | 4.1 |
| Brazil | % | 10.5 | 11.0 | 11.0 | 11.3 |
| SERVICE QUALITY | | | | | |
| Portugal | | | | | |
| Installed Capacity Equivalent Interruption Time [2] | Min | 53 | 50 | 54 | 60 |
| Spain | | | | | |
| Installed Capacity Equivalent Interruption Time [2] | Min | 20 | 24 | 34 | 29 |
| Brazil | | | | | |
| Average Interruption Duration per Consumer | | | | | |
| EDP São Paulo | Hours | 7.9 | 9.0 | 8.4 | 7.6 |
| EDP Espírito Santo | Hours | 8.6 | 9.3 | 9.1 | 10.4 |
| Frequency of Interruptions per Consumer | | | | | |
| EDP São Paulo | # | 5.0 | 5.7 | 5.1 | 5.3 |
| EDP Espírito Santo | # | 5.3 | 5.6 | 5.1 | 6.5 |
| **GAS DISTRIBUTION** | | | | | |
| GAS DISTRIBUTED | GWh | 23,306 | 33,555 | 34,001 | 53,846 |
| Portugal | GWh | 5,326 | 7,114 | 6,907 | 6,876 |
| Spain | GWh | 17,980 | 26,441 | 27,093 | 46,970 |
| GAS SUPPLY POINTS | '000 | - | 1,350 | 1,248 | 1,345 |
| Portugal | '000 | 0 | 342 | 330 | 319 |
| Spain | '000 | 0 | 1,008 | 918 | 1,026 |
| GRID EXTENSION | Km | - | 13,187 | 12,570 | 14,797 |
| Portugal | Km | 0 | 5,085 | 4,856 | 4,653 |
| Spain | Km | 0 | 8,101 | 7,715 | 10,143 |

[1] 2014 figure was revised during the inventory of assets under the new distribution model definition | [2] ICEIT in MV grid, excluding extraordinary effects | [3] Includes accidents with one or more days of absence and fatal accidents.

| ELECTRICITY SUPPLY | UN | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| NUMBER OF CUSTOMERS | '000 | 9,886 | 9,806 | 9,712 | 9,693 |
| Portugal | '000 | 5,376 | 5,423 | 5,444 | 5,576 |
| Last Resort | '000 | 1,223 | 1,399 | 1,731 | 2,520 |
| Liberalised Market | '000 | 4,153 | 4,024 | 3,713 | 3,056 |
| Market Share EDP - Liberalised Market | % | n.a. | 85 | 85 | 86 |
| Spain | '000 | 1,133 | 1,068 | 1,012 | 966 |
| Last Resort | '000 | 219 | 227 | 238 | 247 |
| Liberalised Market | '000 | 914 | 840 | 774 | 719 |
| Market Share EDP - Liberalised Market | % | n.a. | n.a. | n.a. | n.a. |
| Brazil | '000 | 3,376 | 3,316 | 3,257 | 3,151 |
| Last Resort [1] | '000 | 3,376 | 3,315 | 3,256 | 3,151 |
| Liberalised Market | '000 | 0.3 | 0.3 | 0.2 | 0.2 |
| Social Tariff | '000 | 880 | 871 | 326 | 341 |
| Portugal | '000 | 661 | 663 | 93 | 42 |
| Spain | '000 | 57 | 59 | 60 | 63 |
| Brazil | '000 | 162 | 149 | 173 | 235 |
| Special Needs | '000 | 1.0 | 1.0 | 1.0 | 1.0 |
| Portugal | '000 | 0.6 | 0.5 | 0.5 | 0.5 |
| Brazil | '000 | 0.4 | 0.5 | 0.5 | 0.4 |
| Green Tariff | '000 | 932 | 829 | 771 | 683 |
| Portugal | '000 | 3 | 3 | 4 | 4 |
| Spain | '000 | 929 | 825 | 767 | 679 |
| ENERGY SUPPLIED | GWh | 66,994 | 66,904 | 64,338 | 71,147 |
| Portugal | GWh | 21,489 | 22,493 | 22,839 | 24,861 |
| Last Resort | GWh | 3,243 | 4,202 | 5,675 | 9,247 |
| Liberalised Market | GWh | 18,246 | 18,291 | 17,164 | 15,613 |
| Market Share EDP - Liberalised Market | % | n.a. | 46 | 43 | 45 |
| Spain | GWh | 14,003 | 16,699 | 15,521 | 17,317 |
| Last Resort | GWh | 446 | 477 | 497 | 513 |
| Liberalised Market | GWh | 13,556 | 16,222 | 15,024 | 16,804 |
| Market Share EDP - Liberalised Market | % | 7 | 9 | 8 | 9 |
| Brazil | GWh | 31,501 | 27,712 | 25,978 | 28,970 |
| Last Resort1 | GWh | 13,697 | 14,731 | 15,378 | 15,917 |
| Liberalised Market | GWh | 17,804 | 12,980 | 10,600 | 13,052 |
| Social Tariff | GWh | 604 | 528 | 490 | 605 |
| Portugal | GWh | 213 | 52 | 42 | 76 |
| Spain | GWh | 117 | 120 | 119 | 115 |
| Brazil | GWh | 275 | 355 | 330 | 414 |
| Special Needs | GWh | 2 | 2 | 1 | 0 |
| Green Tariff | GWh | 5,553 | 4,795 | 4,470 | 4,974 |
| Portugal | GWh | 9 | 9 | 8 | 7 |
| Spain | GWh | 5,544 | 4,786 | 4,463 | 4,967 |

| GAS SUPPLY | UN | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| NUMBER OF CUSTOMERS | '000 | 1,585 | 1,498 | 1,405 | 1,311 |
| Portugal | '000 | 702 | 647 | 568 | 479 |
| Last Resort | '000 | 45 | 51 | 63 | 85 |
| Liberalised Market | '000 | 658 | 596 | 505 | 394 |
| Spain | '000 | 883 | 851 | 837 | 832 |
| Last Resort | '000 | 52 | 54 | 59 | 68 |
| Liberalised Market | '000 | 831 | 796 | 778 | 764 |
| ENERGY SUPPLIED | GWh | 18,904 | 23,827 | 31,717 | 35,177 |
| Portugal | GWh | 3,890 | 4,698 | 5,127 | 4,345 |
| Last Resort | GWh | 262 | 318 | 394 | 603 |
| Liberalised Market | GWh | 3,628 | 4,379 | 4,733 | 3,742 |
| Market Share EDP - Liberalised Market | % | n.a. | n.a. | n.d | 8 |
| Spain | GWh | 15,014 | 19,129 | 26,590 | 30,833 |
| Last Resort | GWh | 244 | 236 | 286 | 277 |
| Liberalised Market | GWh | 14,770 | 18,893 | 26,304 | 30,556 |
| Market Share EDP - Liberalised Market | % | 4 | 3 | 3 | 4 |

[1] Regulated Customers supplied by Distribution

# CONCEPTS AND DEFINITIONS

## A

**ADJUSTED NET DEBT**
Net Debt adjusted by Regulatory Receivables.

**ASSET ROTATION**
Strategy aimed at crystallizing the value of a project by selling a minority stake in an asset and reinvesting the proceeds in another asset, targeting greater growth.

**AVERAGE COST OF DEBT**
Considers (Interest expense on financial debt +/- Income and Expenses with Interest from derivative financial instruments) / Average Financial Debt in the period (Total debt and borrowings - Accrued Interest - Fair value of the issued debt hedged risk), considering 50% of the interest expense and of the financial debt related to the hybrid.

## C

**CAGR**
Compound annual growth rate.

**CAPEX**
Capital Expenditure. Capex includes additions in non-current assets, except for financial instruments, deferred tax assets and post-employment benefit assets. Therefore the Operating Investment caption includes increases in Property, Plant and Equipment and in Intangible Assets, excluding $CO_2$ licenses and Green certificates, net of increases in Government grants, Customers contributions for investment and Sales of properties in the period.

**COD**
Commercial Operating Date. Date at which the project starts officially operating, after the testing and commissioning period.

## D

**DEC**
The equivalent interruption time of energy per consumed unit. Refers only to medium voltage.

**DIVIDEND PAY-OUT RATIO**
Measures the percentage of a company's net income that is given to shareholders in the form of dividends (Total Annual Dividends per Share / Earnings per Share).

**DIVIDEND YIELD**
Considers the ratio between gross dividend per share and share price.

## E

**EBIT**
Operating Profit: EBITDA deducted from provisions and amortisation and impairment.

**EBITDA**
Gross Operating Profit: Revenues from energy sales and services and other - Cost of energy sales and other + Other income - Supplies and services - Personnel costs and employee benefits - Other expenses.

**EBITDA@risk**
Estimated loss of EBITDA, in a given period of time and for a given confidence interval. Usually it is used an horizon of 12 months and a level of confidence of 95%. It corresponds to the difference between the EBITDA estimated for the Business Plan and the 5% percentile of the EBITDA distribution.

**EOLICITY**
Indicator that allows to quantify the deviation of the total value of energy produced by wind in a given period, in relation to the an average wind regime.

**EPS**
Earnings per share. The portion of a company's profit allocated to each outstanding share of common stock.

# F

**FEC**
Equivalent interruption frequency of energy per consumed unit. Refers only to medium voltage.

**FEED IN TARIFFS**
Remuneration framework that guarantees that a company will receive a set price from their utility, applied to all of the electricity they generate and provide to the grid.

**FFO**
Cash flow (funds) resulting from the company's operational activity.

**FFO/NET DEBT**
Funds From Operation (FFO) to net debt is a metric comparing earnings from operations to net debt. Demonstrates the ability of the operational funds to pay the net debt.

**FOREX**
The market in which currencies are traded.

# G

**GC**
Green certificate. Tradable commodity proving that certain electricity is generated using renewable energy sources.

**GHG**
Greenhouse gases. Gases that trap the heat of the sun in the Earth's atmosphere, producing the greenhouse effect. The two major greenhouse gases are water vapor and carbon dioxide. Lesser greenhouse gases include methane, ozone, chlorofluorocarbons, and nitrogen oxides.

**GROSS PROFIT**
Includes Revenues from energy sales and services and other minus Cost of energy sales and other.

**GW**
Unit of electric power equal to 1,000 MW.

**GWH**
Equal to 1,000 MW used continuously for one hour.

# H

**HEDGING**
Risk management strategy used in limiting or offsetting probability of loss from fluctuations in the prices of commodities, currencies, or securities.

**HYDRO COEFFICIENT**
Indicator that allows to quantify the deviation of the total value of hydroelectric energy produced in a given period, in relation to an average hydro regime. Values above "1" translate a period with inflows and energy generated above the average ("wet" period) and bellow "1" the reverse ("dry" period).

# I

**ICEIT**
Installed capacity equivalent interruption time. Indicator that represents the equivalent interruption time of installed power per geographical area of the operator of the distribution network in a given period. Excludes extraordinary events - the extraordinary weather events that exceed the conditions for which was dimensioned.

**INSTALLED CAPACITY**
Installed Capacity is the sum of capacity (MW) installed in power plants owned by companies fully consolidated.

**INSTALLED CAPACITY EQUITY**
Installed Capacity Equity also includes the respective share of the MW installed in power plants owned by companies equity consolidated.

**ITC**
Investment tax credit. Tax incentive in the US which differ from the Production Tax Credit in the sense that the Tax Equity Investor receives a one shot tax credit that covers a percentage of the investment.

# K

**KEY RISK INDICATOR (KRI)**
Risk indicator that follows a variable risk factor, allowing the early warning of changes in risk exposure and the identification of potential risks or opportunities.

# M

**MW**
Unit of electric power equal to $10^6$ watts.

**MWH**
Equal to $10^6$ watts of electricity used continuously for one hour.

# N

**NET DEBT**
A metric that shows a company's overall debt situation calculated using the company's total debt less cash on hand. From 2017 onwards, includes Financial Debt, Cash and Equivalents, Short-term financial assets at fair-value, "Fair value hedge" derivatives and collateral deposits associated to financial debt and 50% of the amount related with the issuance of a subordinated debt instrument (hybrid). Until 31 December 2016, it also included the fair value of derivatives designated for "Net Investment hedge".

**NET DEBT ADJUSTED/EBITDA**
Number of times/years needed to pay the Net Debt Adjusted with the EBITDA generated by the Company.

**NET CAPACITY FACTOR (NCF)**
The ratio of a plant's actual output over a period of time, to its potential output if it were possible for it to operate at full nameplate capacity continuously over the same period of time. Also known as Load Factor.

**NET INVESTMENTS**
Considers Capex, organic Financial Investments and Divestments ("Asset Rotation") including granted and/or sold shareholder loans.

**NET INVESTMENTS IN RENEWABLES**
Includes Net Investments from hydro, wind and solar generation.

# O

**OPEX**
Includes Supplies and services and Personnel costs and Employee Benefits.

**OPEX PROGRAM: SAVINGS**
Costs Savings obtained by OPEX Program. Savings are measured through comparison between current operating costs and 2014's costs.

**OPEX/GROSS PROFIT**
Efficiency ratio of Operating Costs (excluding non-recurrent costs with Employee Benefits - Restructuring costs) over Gross Profit (including income from institutional partnerships in EDPR-NA).

# P

**PPA**
Power purchase agreement. A legal contract between an electricity generator (provider) and a power purchaser (host).The power purchaser buys energy, and sometimes also capacity and/or ancillary services, from the electricity generator.

**PTC**
Production tax credit. The result of the Energy Policy Act of 1992, a commercial tax credit in the US that applies to wholesale electrical generators of wind energy facilities based upon the amount of energy generated in a year.

# R

**REGULATORY RECEIVABLES**
Amounts pending to be received and related with tariff adjustments and tariff deficits from regulated activities in Iberia and Brazil (Generation in Portugal and Spain, Distribution and Supply of electricity and gas in Portugal and Distribution in Brazil).

**RENEWABLE ENERGY**
Energy that is derived from resources that are regenerative or that cannot be depleted including wind energy, solar, biomass, geothermal, and moving water. Also known as alternative energy.

**REC**
Renewable energy credit. Represents the property rights to the environmental, social, and other non-power qualities of renewable electricity generation. A REC can be sold separately from the electricity associated with a renewable energy generation source.

**RES**
Renewable energy sources.

**RPS**
Renewable Portfolio Standard. Regulation in the US that places an obligation in certain states on electricity supply companies to source a specific percentage of their energy from renewable sources.

# S

**SOLAR PV**
Solar photovoltaic. Plant that generates electricity by means of solar power through photovoltaics, consisting on an arrangement of several components, including solar panels to absorb and convert sunlight into electricity, a solar inverter, cables and other electrical accessories.

**SUPPLY POINTS**
Number of electricity customers connected to the distribution grid.

# T

**TSR**
Total Shareholder Return. Measures the return that the stock provides to the shareholder, including dividends paid and the stock price appreciation.

# V

**VALUE@RISK**
Estimated loss of the asset value, in a given period of time and for a given confidence interval. Usually it is used an horizon of 12 months and a level of confidence of 95%. It corresponds to the difference between the value estimated for the Business Plan and the 5% percentile of the asset value distribution.

# W

**WATT (W)**
The rate of energy transfer equivalent to one ampere under an electrical pressure of one volt. One watt equals 1/746 horsepower, or one joule per second. It is the product of voltage and current (amperage). Watts are the yardstick for measuring power.

**WIND ENERGY**
Power generated by converting the mechanical energy of the wind into electrical energy through the use of a wind generator.

# THE LIVING ENERGY BOOK

by edp

EDP – Energias de Portugal, S.A.
Executive Board of Directors

**STATEMENT**

With reference to 2017 financial year, and according to No. 1, item c) of article 245º of the Portuguese Securities Code, the signers hereby, acting as members of the Executive Board of Directors, declare that, to the best of their knowledge, the information foreseen in No. 1 item a) of the article mentioned above, was prepared according to the applicable accounting standards, presenting a fair view of the assets, liabilities, financial situation and results of EDP – Energias de Portugal, S.A., and the subsidiaries included in the respective consolidation perimeter, and that the Management Financial Analysis Report clearly discloses the evolution of the business, the performance and position of EDP – Energias de Portugal, S.A., and the subsidiaries included in the respective consolidation perimeter, enclosing a description of the major risks and uncertainties to which they are exposed.

Lisbon, 1st of March 2018

António Luís Guerra Nunes Mexia, Chairman

Nuno Maria Pestana de Almeida Alves

João Manuel Manso Neto

António Fernando Melo Martins da Costa

João Manuel Veríssimo Marques da Cruz

Miguel Stilwell de Andrade

Miguel Nuno Simões Nunes Ferreira Setas

Rui Manuel Rodrigues Lopes Teixeira

EDP – Energias de Portugal, S.A.
Miguel Tiago Perestrelo da Câmara Ribeiro Ferreira
Senior Accounting Officer - Corporate Centre

**STATEMENT**

With reference to 2017 financial year, and according to No. 1, item c) of article 245º of the Portuguese Securities Code, I hereby declare that, to the best of my knowledge, the information foreseen in No. 1 item a) of article mentioned above, was prepared according to the applicable accounting standards, presenting a fair view of the assets, liabilities, financial situation and results of EDP – Energias de Portugal, S.A. ("EDP"), and the subsidiaries included in the respective consolidation perimeter, and that the Management Financial Analysis Report clearly discloses the evolution of the business, the performance and position of EDP, and the subsidiaries included in the respective consolidation perimeter, enclosing a description of the major risks and uncertainties to which they are exposed.

Lisbon, 1st of March 2018

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A.
Edifício Monumental - Av. Praia da Vitória, 71 - A, 8º
1069-006 Lisboa - Portugal
+351 210 110 000 | www.kpmg.pt

# STATUTORY AUDITORS' REPORT AND AUDITORS' REPORT

**(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail.)**

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Opinion

We have audited the accompanying consolidated financial statements of **EDP – Energias de Portugal, S.A.** (the Group), which comprise the consolidated statement of financial position as at 31 December 2017 (showing a total of 42,075,049 thousand euros and shareholders' equity attributable to the Group of 9,545,938 thousand euros, including a net profit attributable to the shareholders of EDP – Energias de Portugal, S.A. of 1,113,169 thousand euros), and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the accompanying notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of **EDP – Energias de Portugal, S.A.** as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors)). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section below. We are independent of the entities that comprise the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas'Code of Ethics.

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

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A., a Portuguese company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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Capital Social: 3.916.000 Euros - Pessoa Colectiva Nº PT 502 161 078 - Inscrito na O.R.O.C. Nº 189 - Inscrito na C.M.V.M. Nº 20161489
Matriculada na Conservatória do registo Comercial de Lisboa sob o Nº PT 502 161 078

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## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Accounting for estimated revenue (1,015,112 thousands of euros)

Refer to note 2 p) Accounting Policies, note 3 Critical accounting estimates and judgments and note 25 of the Financial Statements.

| The risk | Our response |
|---|---|
| Part of the revenues associated with energy sales is based on estimates of electricity and gas values provided to customers in the period between the last meters reading and the end of the year ("estimated revenues") and not billed at year end date.<br><br>The methodology for estimating energy in meters is complex and requires management to apply judgments and assumptions related to:<br><br>- Volumes of energy consumed by customers in low voltage. The Group's estimated accrual for unbilled revenue at the year-end is based on average historical consumption per customer, consumption profiles, with adjustments made for electricity losses in the distribution network and changes in consumption patterns, such as seasonality, weather patterns and other adjustments;<br>- Assessment of the valuation to be attributed to the estimated quantities, taking into account the tariff categories associated with each client. The Group applies the unit price (which depends on several factors, including the tariff category, contracted power, voltage, customer typology, consumption schedule, among others), to the volume of energy supplied and unbilled in order to calculate the revenue for the period between the date of the last reading and the year end date. | The audit procedures included, among others, a combination of controls tests, detail tests and analytical procedures for sales, energy balance and energy estimation in meters.<br><br>Additionally:<br><br>- We tested the database associated with the determination of the volume of energy purchased and sold, having carried out tests on a sample basis to the key controls that affect commercial systems;<br>- We tested on a sample basis the estimate of the volume of energy calculated by the Group for the different typologies of customers, using internal and external sources of information, having obtained and analyzed the justifications for the main differences;<br>- We critically analyzed the assumptions associated with the unit price, by comparison with historical prices. Additionally, we evaluated the general consistency of the assumptions and inputs considered in the calculation of the estimated value of the revenue related to energy supplied and not billed;<br>- For the regulated entities we verified the compliance between the unit prices included in the actual billing with the prices approved by the Energy Regulatory Authority; and<br>- We also evaluated the adequacy of the disclosures made by the Group in relation to this estimate, taking into account the applicable accounting framework. |

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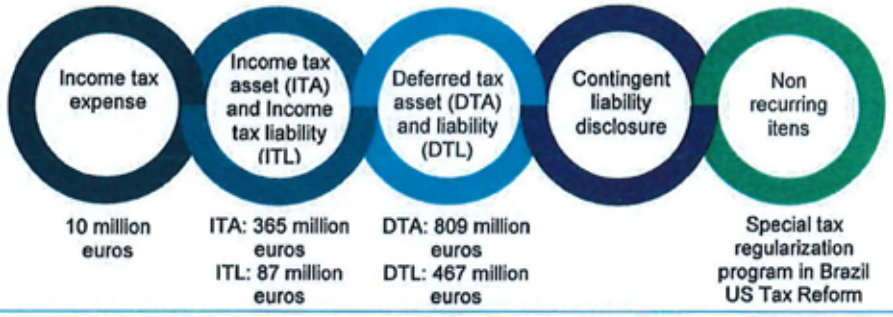
## Valuation of the Group's pension and other post-employment obligations (the Group shows a net defined benefit liability of 1,463,301 thousand euros)

Refer to note 2 n) Accounting Policies, note 3 Critical accounting estimates and judgments and notes 9, 26 and 35 of the Financial Statements.

| The risk | Our response |
| --- | --- |
| The valuation of the Group's liabilities with pension and other post-employment benefits involves judgments and estimates regarding various assumptions, among others, discount rate, inflation rate, salary and pension growth rates and mortality tables. | Our auditing procedures in this area included the critical analysis and evaluation of the reasonableness of the significant assumptions used by the Group, namely the discount rate, inflation rate, salary and pension growth rate, mortality tables, compared to market referrals and internally developed information.<br><br>We evaluated the work produced and the conclusions obtained by the independent actuaries hired by EDP, as well as their professional competence, capabilities and objectivity. We tested the valuation of the investments included in the assets of the pension fund.<br><br>Further, we considered the adequacy of the Group's disclosures regarding pension and other post-employment obligations, including sensitivity analysis, considering the applicable accounting framework. |

## Income tax

Refer to note 2 r) Accounting Policies, note 3 Critical accounting estimates and judgments and notes 13, 23, 27, 36, 40 of the Financial Statements.




| The risk | Our response |
|---|---|
| The Group has operations in multiple countries, with different tax regimes. The application of tax legislation to the various transactions has inherent complexity and requires the exercise of judgment in determining the respective tax impact, as well as in the identification of tax contingencies, quantification of provisions and determination of contingent liabilities. | Our audit procedures included among others, the following procedures:<br>- We tested the design and implementation of key controls regarding the accounting for and disclosure of transactions with fiscal impact;<br>- We involved tax specialists in the analysis of the reasonableness of current tax estimates and deferred taxes;<br>- We evaluated the reasonableness of the projections of taxable income prepared by management that support the analysis of the recoverability of deferred tax assets;<br>- With the support of tax specialists and based on existing jurisprudence, legal opinions, inspection of internal documentation and exchange of correspondence between the Group and the tax authorities, inquiries of those in charge of the tax department of the Group, we evaluated the completeness of the tax matters identified, as well as the conclusions of the Group regarding the status, possible outcomes and associated contingencies. We assessed the adequacy of provisions recorded; |

| The risk | Our response (cont.) |
| --- | --- |
| | - We analysed the conclusions of EDP Brasil and EDP Renováveis' local auditors regarding the impacts of the Special tax regularization program in Brazil (PERT) and of the income tax rate reduction established by the US Tax Reform;<br>- We considered the adequacy of the Group's disclosures considering the applicable accounting framework. |

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## Regulatory and legal risks and Litigation

Refer to note 2 o) Accounting Policies, note 3 Critical accounting estimates and judgments and notes 14, 25 and 36 of the Financial Statements.

| The risk | Our response |
| --- | --- |
| In recent years, and particularly in 2017, there has been an increase in the complexity of the regulatory environment and its sanctioning regime, in the energy sector. In addition in view of the diversity and size of its activity in different geographies, the Group is involved in various legal and regulatory litigation and contingencies.<br><br>These regulatory issues and litigation require management to exercise judgment in determining certain assets and liabilities, contingencies, quantifying provisions and disclosing information.<br><br>We focused on this area due to the significance of the amounts and the degree of judgment required in the calculation of the Final Adjustment of the CMEC mechanism ("Costs for the Maintenance of Contractual Equilibrium"), of the CMEC Annual Revisibity, Clawback costs, and in the determination of potential impacts from the Ordinances and Orders published during 2016 and 2017. | In this area our audit procedures included the following, among others:<br><br>- Analysis of the legislation and regulation issued during 2017;<br>- Meetings with the Board of Directors and the Regulation and Competition Office of the Group;<br>- Reading and analysis of the legal opinions obtained by the Group to support management's estimates and judgments regarding the main legal and regulatory matters;<br>- Reading and analysis of Executive Board of Directors' minutes of meetings;<br>- Analysis of the list of lawsuits brought against the Group by third parties and of the contingencies identified by the Group in accordance with the information obtained in the Group and in the responses to our requests for external confirmation from lawyers on the status of the legal proceedings in which the Group is involved;<br>- Critical analysis of the probability of success scenarios elaborated by management, the magnitude of potential losses and conclusions reached through meetings with those responsible for legal departments; and<br>- Evaluation of the reasonableness of the assets and liabilities recognized, the provisions established by the Group and the disclosures related to provisions and / or contingent liabilities arising from regulatory changes, legal actions and other claims, taking into account the applicable accounting framework and the respective materiality. |

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## Carrying value of certain non-current assets with an aggregated value of 31 billion of euros

Property, Plant and equipment – 22,730,615 thousands of euros
Intangible assets – 4,747,360 thousands of euros
Goodwill – 2,232,668 thousands of euros
Investments in joint ventures and associates – 843,082 thousands of euros

Refer to note 2 b), h) and i) Accounting Policies, note 3 Critical accounting estimates and judgments and notes 11, 15, 16 and 20 of the Financial Statements

| The risk | Our response |
|---|---|
| The recovery of certain non-current assets, including power generation and distribution assets, gas distribution assets (recorded under property, plant and equipment), goodwill and concession rights (recorded under intangible assets) and investments in joint ventures, depends on obtaining sufficiently profitable business in the future.<br><br>The determination of the recoverable value of an asset is subjective due to the uncertainty inherent in the financial projections and the discount of the future cash flows, since many of the key assumptions such as discount rates, inflation rates, exchange rates, price curves and commodities prices, depend on economic, political and regulatory factors in the countries where the Group operates.<br><br>In 2017 the Group, with the support on an independent external expert, prepared impairment tests on the recoverability of Group's assets, and identified and impairment loss of 251 million euros, including 196 million euros in the coal plants in the Iberian Peninsula and 49 million euros in certain wind farms in Europe. | As part of our audit we performed the following procedures, among others:<br><br>- We analyzed the Group's calculation of value in use or fair value less costs to sell, and the main assumptions considered in the models for each Cash Generating Unit or assets tested on an individual basis, and our valuations specialists were involved for this purpose;<br>- We performed inquiries regarding the significant assumptions used in the impairment tests, requested sensitivity analysis to certain assumptions, and assess to legal opinions and studies that supported significant assumptions;<br>- We compared financial projections with the budgets approved by the business areas;<br>- We tested the mathematical accuracy of the models used as well as the consistency of the assumptions used by the different entities of the Group;<br>- We analysed the valuation reports prepared by the independent external expert;<br>- We assessed the adequacy of the disclosures made in the financial statements taking into account the applicable accounting framework. |

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## Disposal of Naturgás Group

Refer to note 2 b) and u) Accounting Policies, note 3 Critical accounting estimates and judgments and notes 5 and 32 of the Financial Statements.

| The risk | Our response |
| --- | --- |
| On 27 July 2017, the Group disposed its component Naturgás Energía Distribución, S.A.U. and recognized a gain on disposal of 591 million euros.<br><br>The disposal was considered a key audit matter to the Group given the significance of the gain and the judgments and estimates involved in the determination of the consideration received and contingent consideration. | Our audit procedures included the following, among others:<br><br>- Reviewed the sale and purchase agreement and assessed whether the conditions precedent stipulated in the SPA were met at the disposal date;<br>- Reviewed management's calculation of the gain on disposal by reconciling the consideration received to bank statements, assessed the reasonableness of the estimates underlying the determination of contingent consideration receivable and payable and by agreeing the net assets disposed to the underlying accounting records;<br>- Evaluated the consistency of the accounting treatment applied in view of IFRS, as adopted by the European Union, namely management determination that this transaction does not constitute a discontinuing operation.<br>- We also assessed the adequacy of the disclosures made by the Group in relation to this transaction. |

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## Transactions involving non-controlling interests

Refer to note 2 b) Accounting Policies and note 3 Critical accounting estimates and judgments and notes 5 and 32 of the Financial Statements.

| The risk | Our response |
| --- | --- |
| The Group has implemented in the past an asset rotation strategy based on the sale of minority interests in operating or under development wind farms, reinvesting the inflow to develop new projects. In the course of 2017, the Group sold to ACE Portugal S.A.R.L. 49% of the share capital of EDPR PT – Parques Eólicos, S.A., which holds a 422 MW wind portfolio in Portugal, for a final price of 210 million euros.<br><br>Transactions with non-controlling interests require the application of significant judgment in the assessment of the existence of control by the Group after the transactions and in respect of any contractual obligations to deliver cash or other financial assets to the holders of the shares, as well as accounting for financial instruments as capital or debt instruments. | Our audit procedures included the following, among others:<br><br>- Analysis of the purchase and sale agreements, as well as the shareholders' agreements related to this transaction;<br>- Analysis of the consistency of the accounting treatment applied in view of IFRS, as adopted by the European Union and its accounting impacts in non-controlling interests, reserves and retained earnings.<br>- We also assessed the adequacy of the disclosures made by the Group in relation to this transaction, taking into account the applicable accounting framework. |

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## Responsibilities of Management and the Supervisory Body for the Consolidated Financial Statements

Management is responsible for:

- the preparation of consolidated financial statements that give a true and fair view of the Group's financial position, financial performance and the cash flows, in accordance with the International Financial Reporting Standards, as adopted by the European Union;
- the preparation of the management report, and the corporate governance report, in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Group's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's financial reporting process.

### Auditor´s Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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 override of internal control;
- obtain 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 Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiencies in the internal control that we identify during our audit;
- determine from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and,
- provide the supervisory body with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the consolidated financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of the article 451, of the Portuguese Companies Code.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### On the Management Report

Pursuant to article 451, nr. 3, al. e of the Portuguese Companies' Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements, and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment of the Group, we have not identified any material misstatements.

## On the Corporate Governance Report

Pursuant to article 451, nr. 4, of the Portuguese Companies' Code, it is our opinion that the corporate governance report includes the information required to the Group to provide under article 245 – A of the Securities Code, and we have not identified any material misstatements on the information provided therein in compliance with paragraphs c), d) , f), h), i) and m) of that article.

## On the non-financial information defined in the article 66-B of the Portuguese Companies' Code

Pursuant to article 451, nr. 6, of the Portuguese Companies' Code, we inform that the Group will prepare a separate report where includes the non-financial information defined in article 66-B of the Portuguese Companies' Code, which shall be made publicly available on the Group's internet site in the legal timing.

## On the additional matters provided in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed auditors of EDP - Energias de Portugal, S.A. for the first time at the extraordinary shareholders' meeting held on the 31 January 2005 to complete last year of the term of the three year period running from 2003 to 2005. We were appointed at the shareholders' meeting on 21 April 2015 for the current term from 2015 to 2017.
- The Executive Board of Directors has confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism, and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work, we have not identified any material misstatement of the consolidated financial statements due to fraud.
- We confirm that the audit opinion is consistent with the additional report that we prepared and delivered to the Supervisory Body of the Group on 1 March 2018.
- We declare that we have not provided any prohibited services as described in article nr. 77, nr. 8 of the Ordem dos Revisores Oficiais de Contas statutes, and we have remained independent from the Group in conducting the audit.

1 March 2018

SIGNED ON THE ORIGINAL

**KPMG & Associados**
**Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)**
represented by
Vítor Manuel da Cunha Ribeirinho (ROC nr. 1081)

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A.
Edifício Monumental - Av. Praia da Vitória, 71 - A, 8º
1069-006 Lisboa - Portugal
+351 210 110 000 | www.kpmg.pt

# STATUTORY AUDITORS' REPORT AND AUDITORS' REPORT

**(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail.)**

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the accompanying financial statements of **EDP – Energias de Portugal, S.A.** (the Entity or EDP, S.A.), which comprise the statement of financial position as at 31 December 2017 (showing a total of 24,144,755 thousand euros and total equity of 7,444,569 thousand euros, including a net profit of 765,427 thousand euros), and the income statement, statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and the accompanying notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of **EDP – Energias de Portugal, S.A.** as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section below. We are independent of the Entity in accordance with the law and we have fulfilled other ethical requirements in accordance with Ordem dos Revisores Oficiais de Contas Code of Ethics.

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

## 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 of the current year. 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.

### Derivative financial instruments valuation (715,541 thousands of euros asset and 303,357 thousands of euros liability)

Refer to note 2 d) Accounting Policies, note 3 Critical accounting estimates and judgments and notes 4, 26 and 42 of the Financial Statements.

| The risk | Our response |
|---|---|
| EDP Group financial risk management is performed centrally by EDP, S.A. which enters into various derivative financial instruments with the objective of mitigating potential adverse effects of changes in interest rates, foreign exchange movements and commodities prices. The fair value of these derivatives is determined through the application of valuation techniques which involve the use of estimates, judgments and assumptions.<br><br>The accounting treatment of financial instruments is complex, namely in what concerns to hedge accounting as well as the uncertainty associated with the estimates. | As part of our audit, we performed the following procedures, among others:<br><br>- We have tested the design and implementation of controls over the identification, measurement, recognition and management of derivative financial instruments;<br>- We have evaluated the methodologies, inputs and assumptions considered in determining fair values, with the support of our professionals specialized in financial instruments;<br>- We have analyzed the inputs considered in the valuation models, based on available market data to assess their suitability;<br>- We have analyzed the adequacy of the documentation prepared by EDP, S.A., in the scope of hedge accounting; and<br>- We have analyzed the adequacy of the derivative financial instruments and hedge accounting disclosures, namely about the valuation basis and inputs used in determining the fair value, in accordance with the applicable accounting framework. |

## Carrying value of financial investments in subsidiaries which aggregate of 11,501,702 thousands of euros

Refer to note 2.b) Accounting Policies, note 3 Critical accounting estimates and judgments and note 18 of Financial Statements.

| The risk | Our Response |
| --- | --- |
| The recovery of financial investments in subsidiaries owning power generation and distribution assets, gas distribution assets and in the electricity and gas supply business, depends on achieving sufficiently profitable business in the future.<br><br>The estimated recoverable amount of an asset is subjective due to the inherent uncertainty involved in the financial projections and discount of future cash flows since many of the key assumptions, such as discount rates, inflation rates, country risk rates, foreign exchange rates and commodities prices depend on economic, political and regulatory factors in the country in which it operates. | As part of our audit, we performed the following procedures, among others:<br><br>- We analyzed the calculation made by EDP, S.A., of the value in use or the fair value less costs to sell and the main assumptions considered in the valuation models of the financial investments of EDP, S.A., and our specialists were involved for this purpose;<br>- We compared financial projections with approved budgets by the business areas;<br>- We tested the mathematical accuracy of the models used, as well as the consistency of the assumptions used in the different financial projections; and<br>- We assessed the adequacy of the disclosures made in the financial statements, in particular whether the disclosures of the sensitivity analysis of key assumptions reflected the inherent risks in the valuation of financial investments, taking into account the applicable accounting framework. |

## Responsibilities of Management and the Supervisory Body for the Financial Statements

Management is responsible for:

- the preparation of financial statements that give a true and fair view of the Entity's financial position, financial performance and the cash flows, in accordance with the International Financial Reporting Standards, as adopted by the European Union;
- the preparation of the management report, and the corporate governance report, in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Entity's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Entity's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Company's financial reporting process.

## Auditor´s Responsibilities for the Audit of the Financial Statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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 override of internal control;
- obtain 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 Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity'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. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory body, 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;
- determine from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and
- provide the supervisory body with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Our responsibility also includes the verification that the information contained in the management report is consistent with the financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of the article 451, of the Portuguese Companies Code.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### On the management report

Pursuant to article 451, nr. 3, al. e of the Portuguese Companies' Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements, and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment of the Entity, we have not identified any material misstatements.

### On the corporate governance report

Pursuant to article 451, nr. 4, of the Portuguese Companies' Code, it is our opinion that the corporate governance report includes the information required to the Entity to provide under article 245 – A of the Securities Code, and we have not identified any material misstatements on the information provided therein in compliance with paragraphs c), d) , f), h), i) and m) of that article.

## On the non-financial information defined in article 66-B of the Portuguese Companies' Code

Pursuant to article 451, nr. 6, of the Portuguese Companies' Code, we inform that the Entity will prepare a separate report where includes the non-financial information defined in article 66-B of the Portuguese Companies' Code, which shall be made publicly available on the Group's internet site in the legal timing.

## On the additional matters provided in the article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed auditors of EDP - Energias de Portugal, S.A. for the first time at the extraordinary shareholders' meeting held on the 31 January 2005 to complete last year of the term of the three year period running from 2003 to 2005. We were appointed at the shareholders' meeting on 21 April 2015 for the current term from 2015 to 2017.
- The Executive Board of Directors has confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work, we have not identified any material misstatement of the financial statements due to fraud.
- We confirm that the audit opinion is consistent with the additional report that we prepared and delivered to the supervisory body of the Entity on the 1 March 2018.
- We declare that we have not provided any prohibited services as described in article nr. 77, nr. 8 of the Ordem dos Revisores Oficiais de Contas statutes and we have remained independent from the Entity during the performance of the audit.

1 March 2018

SIGNED ON THE ORIGINAL

**KPMG & Associados**
**Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)**
represented by
Vítor Manuel da Cunha Ribeirinho (ROC nr. 1081)

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A.
Edifício Monumental - Av. Praia da Vitória, 71 - A, 8º
1069-006 Lisboa - Portugal
+351 210 110 000 | www.kpmg.pt

# Independent Evaluation Report on the Internal Control System Over Financial Reporting of EDP Group

**(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail.)**

To the
Executive Board of Directors
**EDP – Energias de Portugal, S.A.**

## Introduction

1 We were engaged by EDP – Energias de Portugal, S.A. ("EDP" or "the Company") to perform a work to assess the internal control system over consolidated financial reporting ("SCIRF") of the Company and its subsidiaries ("Group" or "EDP Group") as at 31 December 2017, based on the criteria established in the internal control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) in relation with global business and control procedures, and with the Control Objectives for Information and Related Technologies ("COBIT") in relation to the general information technologies controls.

## Responsibilities

2 The Executive Board of Directors is responsible for adopting adequate measures to ensure to a reasonable degree of security the implementation and maintenance of an adequate internal control system over the consolidated financial reporting and the proper development of improvements to the system.

3 Our responsibility is to assess and express a conclusion, with reasonable assurance, on the effectiveness of the EDP Group's internal control system over consolidated financial reporting.

## Scope

4 The internal control system over the consolidated financial reporting is a process designed, to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles and includes policies and procedures that:

- respect to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposals of assets of EDP Group;
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of EDP Group are being made only in accordance with authorizations of the Executive Board of Directors and Directors of EDP or Directors and Management of EDP subsidiaries; and

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A., a Portuguese company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG & Associados - S.R.O.C., S.A.
Capital Social: 3.916.000 Euros - Pessoa Colectiva Nº PT 502 161 078 - Inscrito na O.R.O.C. Nº 189 - Inscrito na C.M.V.M. Nº 20161489
Matriculada na Conservatória do registo Comercial de Lisboa sob o Nº PT 502 161 078

- provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisitions, use or disposals of assets of EDP Group that could have a material effect on the consolidated financial statements.

5 Our work was conducted in accordance with the International Standard on Assurance Engagements - "ISAE 3000 – Assurance Engagements other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants and was planned and performed to obtain reasonable assurance about whether the Group's internal control over consolidated financial reporting system is effective and appropriate, in all material respects.

6 The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

7 We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

8 Our evaluation included obtaining an understanding of the Group's internal control system over the consolidated financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk and performing such other procedures as we considered necessary in the circumstances.

9 We believe that the work performed provides a reasonable basis for our conclusion.

10 Due to the limitations inherent in any form of internal control system, there is a possibility that internal control over consolidated financial reporting may not prevent or detect the errors or irregularities that might arise, whether due to collusion, errors in judgment, human error, fraud or malpractice. Also, projections of any evaluation of effectiveness to future periods of the internal control over consolidated financial reporting are subject to the risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## Conclusion

11 In our opinion, the Group's internal control system over consolidated financial reporting as at 31 December 2017 is adequate and effective, in all material aspects, according to the criteria established in the internal control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) in relation with global business and control procedures, and with the Control Objectives for Information and related Technologies (COBIT) for general information technologies controls.

12 On 1 March 2018 we issued our audit report on the consolidated financial statements of the Group as at 31 December 2017, expressing an unqualified opinion.

13 This report has been prepared according to your request in accordance with terms as described in paragraph 1. We do not accept any liability to any third parties other than the intended recipients of this report.

Lisbon, 1 March 2018

SIGNED ON THE ORIGINAL

**KPMG & Associados**
**Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)**
represented by
Vítor Manuel da Cunha Ribeirinho (ROC n.º 1081)

# THE LIVING ENERGY BOOK

by edp

---------- Extract of Minutes no. 1/2018 of the General Shareholders' Meeting ----------

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--- On the fifth of April, of the year of two thousand and eighteen, at fifteen hours, the General Shareholders' Meeting of EDP – Energias de Portugal, S.A., a listed company (hereinafter referred to as "EDP" or "Company"), with the share capital of € 3 656 537 715, with the sole number with the tax authorities and with the Commercial Registry Office of Lisbon 500 697 256, met at its head office located at Avenida 24 de Julho, 12, in Lisbon. ----------

--- Previously to the beginning of the meeting, it was presented an institutional movie about EDP . -----

--- The Chairman of the General Shareholders' Meeting, António Manuel de Carvalho Ferreira Vitorino begin by welcoming the shareholders and their representatives, the members of the corporate and governing bodies, his colleagues of the Board of the General Shareholders' Meeting and the guests. ---

--- The Chairman of the General Shareholders' Meeting explained the participation procedures in the present General Shareholders' Meeting and the respective functioning, which are provided in the General Shareholders´ Meeting folder, as long as with the remaining documents related to the meeting, namely: notice to convene meeting, accounts' reporting documents, opinions and statements of the relevant corporate bodies, resolution proposals and EDP By-Laws in force. Afterwards, and assisted by the Vice-Chairman of the General Shareholders' Meeting, Mr. Rui Pedro Costa Melo Medeiros, and by the Secretary of the General Shareholders' Meeting, Ms. Maria Teresa Isabel Pereira, the Chairman of the General Shareholders' Meeting verified the regularity of the notice to convene the meeting through the mandatory publications made, within the legal terms, at the Ministry of Justice's, Portuguese Securities Markets Commission's and EDP's websites, as well as in the Euronext's Official Listing Bulletin. ----------

--- The Chairman of the General Shareholders' Meeting and the Secretary of the General Shareholders' Meeting also verified that the attendance list was duly organized and that there were representation letters for the shareholders that were legal persons or that were not physically present. ----------

--- Afterwards, the Chairman of the General Shareholders' Meeting and the Secretary of the General Shareholders' Meeting verified the percentage of the share capital present or represented at the General Shareholder's Meeting – which, adding the correspondence votes, represented 69.5380% of the share capital and the voting rights – based upon the shares' registry statements issued by the financial intermediaries responsible for the individual registry of shares for each shareholder. ----------

--- The Chairman of the General Shareholders' Meeting proceeded underlining that the exercise of participating and voting rights at the General Shareholders' Meeting would not be prejudiced by the

transfer of shares after the registration date (27th of March 2018), nor was dependent from the respective block between registration date and the present date. Nevertheless, referred that shareholders that declared their intention to participate at the General Shareholders' Meeting and, meanwhile, transferred ownership of shares between registration date and the General Shareholders' Meeting were obliged to communicate it immediately to the Chairman of the General Shareholders' Meeting and to the Portuguese Securities Market Commission.----------

--- The Chairman of the General Shareholders' Meeting mentioned also that shareholders who, by professional title, own shares on its own name, but on behalf of clients, may vote on a different way with its shares, as long as, beyond the participating statement and the sending, by the respective financial intermediary, of the shares' registry statements, they had presented to the Chairman of the General Shareholders' Meeting, until 23:59 hours (GMT) of the 26th of March 2018 – with sufficient and proportional evidence, being that understood as the indication of the number of corporate entity issued by the competent authority of the origin country – the following information and documentation: (i) identification of each client (ii) number of shares to vote on its own account and (iii) vote instructions, which shall be specific for each different item of the agenda and shall be given by each client. The Chairman of the General Shareholders' Meeting referred also that in case one shareholder had designated several representatives regarding shares held in different book-entry registries, and these representatives vote in a different way regarding the same proposal, all the expressed votes would be annulled. If any of the representatives would not attend the General Shareholders' Meeting, the votes of the representatives present would be considered, as long as all of the representatives vote in the same way. The presence at the General Shareholders' Meeting of a shareholder that had designated one or more representatives revokes the representation powers conferred. ----------

--- Following, the Chairman of the General Shareholders' Meeting also stated that, according to article 14, number 3 of EDP's By-Laws, votes issued by a shareholder would not be cast in the event that they exceeded 25% of the total votes, situation that was not verified at the date of the General Shareholders' Meeting. ----------

--- The Chairman of the General Shareholders' Meeting and the Company Secretary also verified that the remaining General Shareholders' Meeting's prior formalities were observed, namely, that the proposals and other information in relation to the seven items of the agenda were made available to shareholders, at the head office and at the Portuguese Securities Market Commission's and EDP's websites.----------

(...)----------

--- Following all these verifications and the warnings referred, the Chairman of the General Shareholders' Meeting declared having sufficient conditions to initiate the works, as the General Shareholders Meeting was validly constituted and ready to deliberate, and proceeded by reading the agenda, according to the notice to convene meeting, with the following content: ----------

**Item One** – Resolve on the approval of the individual and consolidated accounts' reporting documents for 2017, including the global management report (which incorporates a chapter regarding corporate governance), the individual and consolidated accounts, the annual report and the opinion of the General and Supervisory Board (that integrates the annual report of the Financial Matters Committee/Audit Committee) and the Auditors' Report on the individual and consolidated financial statements. ----------

**Item Two** – Resolve on the allocation of profits in relation to the 2017 financial year. ----------

**Item Three** – Resolve on the general appraisal of the management and supervision of the company, under article 455 of the Portuguese Companies Code. ----------

**Item Four** – Resolve on the granting of authorization to the Executive Board of Directors for the acquisition and sale of own shares by EDP and subsidiaries of EDP. ----------

**Item Five** – Resolve on the granting of authorization to the Executive Board of Directors for the acquisition and sale of own bonds by EDP. ----------

**Item Six** – Resolve on the remuneration policy of the members of the Executive Board of Directors presented by the Remunerations Committee of the General and Supervisory Board. ----------

**Item Seven** – Resolve on the remuneration policy of the members of the other corporate bodies presented by the Remunerations Committee elected by the General Shareholders' Meeting. ----------

**Item Eight** – Resolve on the amendment of article 16 of EDP By-Laws, through modification of its number 2. ----------

**Item Nine** – Resolve on the election of (i) the members of the General and Supervisory Board, (ii) the members of the Executive Board of Directors, (iii) the Statutory Auditor and the Alternate Statutory Auditor, (iv) the members of the Board of the General Shareholders' Meeting, (v) the members of the Remunerations Committee to be nominated by the General Shareholders' Meeting (including their respective remuneration) and (vi) the members of the Environment and Sustainability Board, for the three year period 2018-2020. ----------

--- The Chairman of the General Shareholders' Meeting initiated the works of the General Shareholders' Meeting by reading **Item One** in the agenda – "*Resolve on the approval of the individual*

*and consolidated accounts' reporting documents for 2017, including the global management report (which incorporates a chapter regarding corporate governance), the individual and consolidated accounts, the annual report and the opinion of the General and Supervisory Board (that integrates the annual report of the Financial Matters Committee/Audit Committee) and the Auditors' Report on the individual and consolidated financial statements.*". ----------

--- Subsequently, the Chairman of the General Shareholders' Meeting explained the autonomous reference to the corporate governance chapter in this item of the agenda, stating that this is a result of the importance that corporate governance matters have been acquiring in the current context and of the rules EDP is subject to as a listed company. He also pointed out that the autonomous reference to the Financial Matters Committee/Audit Committee report results from the fact that the law expressly foresees the obligation of the referred Committee to issue an annual report on its supervision activity. The referred report was made available to shareholders in the legal terms. ----------

He also added that, this year, the Sustainability Report, one of the documents comprised within Item One of the agenda, was published autonomously, according to article 508º-G of the Portuguese Companies Code, as amended by the Decree-Law No. 89/2017 of 28th July. Within this scope he enlighten that this report has sufficient information to understand the evolution, performance, position and impact of the Group activities, with reference to environment and social matters, concerning employees, equality between men and woman, equal treatment, human rights respect, corruption combat and attempted bribery. ----------

--- Then, Mr. António Manuel de Carvalho Ferreira Vitorino granted permission to speak to the Chairman of the Executive Board of Directors, Mr. António Luís Guerra Nunes Mexia, in order to present a summary of the Company activity during 2017 (…).----------

(…)----------

--- The Chairman of the General Shareholders' Meeting thanked Mr. António Luís Guerra Nunes Mexia for his presentation and granted permission to speak to the Chairman of the General and Supervisory Board, Prof. Eduardo de Almeida Catroga in order to present the opinion and report of the activity of the corporate body chaired by him regarding 2017. ----------

(…)----------

--- The Chairman of the General Shareholders' Meeting thanked the intervention of the Chairman of the General and Supervisory Board and declared open the debate regarding Item One of the agenda. (…)----------

--- Concluded the interventions, the Chairman of the General Shareholders' Meeting submitted to vote the proposal, having been issued 2,542,963,933 votes, corresponding to 2,542,963,933 shares, which

represent 69.5457% of the share capital. As abstentions are not considered, the sole management report, the sustainability report (containing the non-financial consolidated statement), the other accounts' reporting documents regarding 2017 exercise and the report of the General and Supervisory Board were approved by majority of the votes cast (99.9944% of votes in favour). ----------

--- The Chairman of the General Shareholders' Meeting proceeded the works introducing **Item Two** of the agenda, which content is as follows: – "*Resolve on the allocation of profits in relation to the 2017 financial year*". ----------

--- Subsequently, the Chairman of the General Shareholders' Meeting read the proposal presented by the Executive Board of Directors, within the scope of the referred item of the agenda, on the following terms: ----------

*"---------- **PROPOSAL OF ITEM 2 OF THE AGENDA** ----------*

*----------**Allocation of profits in relation to the 2017 financial year** ----------*

*In accordance with number 1 of article 30 of EDP's Articles of Association, the Executive Board of Directors hereby proposes for approval by the Shareholders the following allocation of 2017 profits, in the total value of € € 765,427,037.09: ----------*

| | |
|---|---|
| *Dividends * ----------* | *€ 694,742,165.85* |
| *Endowment to EDP Foundation** | *€ 7,200,000.00* |
| *Retained Earnings ----------* | *€ 63,484,871.24* |

** The proposed dividend is € 0.190 per share. ----------*

*** The proposed endowment to EDP Foundation remains unchanged since 2012. ----------*

*The dividend value considers the total shares representing EDP's share capital. Nevertheless, under the applicable legal terms, there is no payment of dividends regarding own shares held by EDP as of the date that dividends are made available for payment. Accordingly, such value is added to the amount of retained earnings. ----------*

*Lisbon, 1st March 2018". ----------*

--- After reading out, the Chairman of the General Shareholders' Meeting granted permission to speak to the Chairman of the Executive Board of Directors, Mr. António Luís Guerra Nunes Mexia in order to present the allocation of profits proposal. (…) ----------

--- Following that, the Chairman of the General Shareholders' Meeting granted permission to speak to the Chairman of the General and Supervisory Board, in order to present the appreciation made by the aforesaid corporate body regarding EDP Foundation patronage plan. (…) ----------

--- The Chairman of the General Shareholders' Meeting thanked the presentation of the Chairman of the General and Supervisory Board and declared opened the discussion regarding Item Two of the agenda. (…)----------

---Following, the Chairman of the General Shareholders' Meeting submitted to vote the proposal regarding Item Two of the agenda, having been issued 2,542,958,798 votes, corresponding to 2,542,958,798 shares, which represent 69.5455% of the share capital. As abstentions are not considered, the aforementioned proposal was approved by majority of the votes cast (99.9996% of votes in favour). ----------

--- Next entering into **Item Three** of the agenda, the Chairman of the General Shareholders' Meeting read its content, namely, *"Resolve on the general appraisal of the management and supervision of the company, under article 455 of the Portuguese Companies Code*".----------

--- Following, the Chairman of the General Shareholders' Meeting explained that a proposal was presented to him on 1st of March 2018 about this item of the agenda by the shareholders China Three Gorges (Europe) S.A., Oppidum Capital S.L., Senfora, BV, Fundo de Pensões from Millennium BCP Group and Sonatrach, asking the shareholders on the waiver of its reading, in view of the easy comprehension of the proposal, which was already known by all, document attached to these minutes, and read the same proposal, as follows: ----------

"----------***PROPOSAL OF ITEM 3 OF THE AGENDA*** ----------

----------***General appraisal of the management and supervision of the company*** ----------

*Considering article 455 of the Portuguese Companies Code and the quality of the performance of the members of the management and supervision bodies of EDP - Energias de Portugal, S.A. who exercised their functions during 2017:* ----------

*1º - A vote of confidence and praise to the Executive Board of Directors and each of its members for the performance of their offices during 2017 financial year.* ----------

*2º - A vote of confidence and praise to the General and Supervisory Board and to each of its members for the performance of their offices during 2017 financial year.* ----------

*3º - A vote of confidence and praise to the Statutory Auditor for the performance of its office during 2017 financial year.* ----------

*Lisbon, 1st March 2018".* ----------

--- Having the shareholders waived the reading of the proposal, the Chairman of the General Shareholders' Meeting reminded that, in accordance with the information included in the notice to convene meeting, and without prejudice to the discussion being jointly made, the voting of this item would be made separately, and so it should be made by sub items as following: ----------

3.1 Vote of confidence and praise to the Executive Board of Directors and each of its members for the performance of their offices during 2017 financial year. ----------

3.2 Vote of confidence and praise to the General and Supervisory Board and to each of its members for the performance of their offices during 2017 financial year.----------

3.3 Vote of confidence and praise to the Statutory Auditor for the performance of its office during 2017 financial year.----------

--- Furthermore, within the scope of this item, the Chairman of the General Shareholders' Meeting informed that he had received the Opinion of the General and Supervisory Board on the vote of confidence to the Executive Board of Directors regarding 2017 (document attached to these minutes), with the following content:----------

*"----------Opinion of the General and Supervisory Board on the vote of confidence to the ----------*

*----------Executive Board of Directors regarding 2017 exercise ----------*

*As per established on paragraph h) of no. 1 of Article 22 of EDP's By-Laws**, the General and Supervisory Board must "issue, at its own initiative or when requested by the chairman of the executive board of directors, its opinion about the annual vote of confidence in directors referred to in Article 455 of the Companies Code**".* ----------

*As per the above, in the exercise of its powers and without prejudice to the principle of institutional cooperation that guides relationships with the Executive Board of Directors in the uncompromising pursuit of EDP's interest, the General and Supervisory Board implemented a principle of the most exacting standards and full responsibility, which has special significance in terms of evaluating the activity and performance of the Executive Board of Directors.* ----------

*EDP has voluntarily established a formal and objective process for assessing the activity of the Executive Board of Directors. This pertains to a distinctive process adopted by the General and Supervisory Board that contributes directly to the evaluation of the Dow Jones Sustainability Index, recognising the ongoing efforts to achieve excellence in corporate governance practice that the General and Supervisory Board has sought to develop.*----------

*To note that all the assessment process (content, questionnaire format and the respective conclusions) were analyzed and certified by an external consultant (Mercer).* ----------

*In early 2018, the Members of the General and Supervisory Board were invited to complete an assessment questionnaire, which was divided into the following areas:* ----------

- *-- Composition and organization*----------
- *-- Executive Board of Directors performance in its activity* ----------
- *-- Relationship of the Executive Board of Directors with the General and Supervisory Board* -------
- *-- Relationship of the Executive Board of Directors with other counterparties* ----------
- *-- Executive Board of Directors Overall Assessment*----------

*The questionnaire's purpose was to establish an objective support for reflection by the General and Supervisory Board, accounting for the assessment opinion on the Executive Board of Directors that the first must issue and submit to a vote by EDP Shareholders.* ----------

*Based upon responses to the questionnaire, the General and Supervisory Board reflected as a whole upon such data and extracted the corresponding conclusions. Thus, according to the respective rules, approved in line with the best practices in corporate governance, the General and Supervisory Board intends to register the following conclusions related to the assessment process corresponding to the Executive Board of Directors activity and performance in 2017:* ----------

*1. -The General and Supervisory Board considered all of the aspects evaluated to be satisfactory in terms of:* ----------

- *-- Organization and competences of the Executive Board of Directors* ----------
- *-- Compliance with the provisions defined by the General and Supervisory Board in matters of issuing and waiving prior opinions and handling conflicts of interest* ----------

*2. -As a global evaluation of the activity carried out by the Executive Board of Directors in 2017, the General and Supervisory Board considered as proper the performance of the former, with particular emphasis on the following areas of action:* ----------

- *-- Strategy* ----------
- *-- Investments/divestments* ----------
- *-- Financial management* ----------
- *-- Risk management* ----------
- *-- Preparation of financial information* ----------
- *-- Preparation of control management information* ----------
- *-- Sustainability and environment* ----------
- *-- Conflicts of interest* ----------

*Without prejudice to the completed evaluation, the activity of the Executive Board of Directors shall be underlined by the continuous improvement of the respective performance in terms of its own functions, relationships with other corporate bodies of EDP and defense of Shareholders' interests.* ----------

***Proposal*** ----------

*Considering the above referred, the General and Supervisory has resolved unanimously to issue this opinion on the assessment of the activity and performance of the Executive Board of Directors during 2017 exercise and to transmit to the Shareholders its favourable position to a vote of confidence and praise in the Executive Board of Directors, its Chairman, Mr. António Mexia, and each one of its Members.* ----------

*Lisbon, 1st March 2018*" ----------

--- Subsequently, the Chairman of the General Shareholders' Meeting granted permission to speak to the Chairman of the General and Supervisory Board for presenting the opinion. (…) ----------

--- Concluded the intervention of the General and Supervisory Board, the Chairman of the General Shareholders' Meeting thanked the presentation made and declared opened the discussion of Item Three of the agenda, being verified that no one intend to speak. ----------

--- Subsequently, the Chairman of the General Shareholders' Meeting submitted to vote the proposal regarding "*vote of confidence and praise to the Executive Board of Directors and each of its members for the performance of their offices during 2017 financial year"*, having been issued 2,540,576,151 votes, corresponding to 2,540,576,151 shares, which represent 69.4804% of the share capital. As abstentions are not considered, the aforementioned proposal was approved by majority of the votes cast (99.5560% of votes in favour). ----------

--- Afterwards, the Chairman of the General Shareholders' Meeting submitted to vote the proposal *"vote of confidence and praise to the General and Supervisory Board and to each of its members for the performance of their offices during 2017 financial year",* having been issued 2,540,576,031 votes, corresponding to 2,540,576,031 shares, which represent 69.4804% of the share capital. As the abstentions are not considered, the referred proposal was approved by majority of the votes cast (99.5557%% of votes in favour). ----------

--- Following that, the Chairman of the General Shareholders' Meeting submitted to vote the proposal "*vote of confidence and praise to the Statutory Auditor for the performance of its office during 2017 financial year",* having been issued 2,542,966,448 votes, corresponding to 2,542,966,448 shares, which represent 69.5457% of the share capital. As the abstentions are not considered, the referred proposal was approved by majority of the votes cast (99.5070% of votes in favour). ----------

--- Continuing the agenda, the Chairman of the General Shareholders' Meeting informed that the discussion of Items Four and Five would be made jointly, without prejudice of the separate voting of each item. ----------

--- The Chairman of the General Shareholders' Meeting read, afterwards, the content of **Item Four** of the agenda – *"Resolve on the granting of authorization to the Executive Board of Directors for the acquisition and sale of own shares by EDP and subsidiaries of EDP"* – as well as a the content of **Item Five** of the agenda – *"Resolve on the granting of authorization to the Executive Board of Directors for the acquisition and sale of own bonds by EDP"*, and asked the shareholders present, on the waiving of the reading of both proposals, which are reproduced herein as follows and are filed as an attachment to these minutes, since the referred proposals were known by all: ----------

*"*----------***PROPOSAL OF ITEM 4 OF THE AGENDA*** ----------

***Grant authorization to the Executive Board of Directors for the acquisition and sale of own shares by EDP and subsidiaries of EDP*** ----------

***Considering:*** ----------

*A) The legal regulations applicable to the acquisition and sale of own shares by limited liability companies set forth in the Portuguese Companies Code;* ----------

*B) The permission granted on no. 3 of article 5 of the Articles of Association to acquire, hold and sell own shares, as provided in the law and up to the limits set forth in the law;*----------

*C) The provisions laid down in Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 and in Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016, that established a special regime contemplating, namely, requirements to exempt from the general regime of market abuse for certain programs of reacquisition of own shares that should be taken into consideration even if the acquisition of own shares is not integrated on the reacquisition programs covered by the referred Regulations;* ----------

*D) The obligation to communicate and disclose the execution of own shares' operations by companies listed into trading that are provided for in CMVM's Regulation no. 5/2008, in its current version;* ----------

*E) The authorization granted to the Executive Board of Directors to buy and sell own shares by resolution of the General Shareholders' Meeting of 19th April 2017 by virtue of which EDP carried out stock operations on own shares and currently holds, directly or through its subsidiaries, 21 906 324 own shares;* ----------

*F) In view of the underlying objective, it is deemed convenient for EDP and its subsidiaries to hold an authorization to buy or to sell own shares, namely considering the stock-options programs previously approved or for any actions deemed necessary or appropriate for the development of the Company's interests;*----------

***The Executive Board of Directors proposes that the Annual General Shareholders' Meeting:*** ----------

1. *Approves to grant authorization to the Executive Board of Directors of EDP and the management bodies of EDP's subsidiaries for acquiring or selling own shares;*----------

2. *Approves the acquisition by EDP, or any of its current or future subsidiaries, of own shares, including acquisition or allocation rights, subject to decision of the Executive Board of Directors of EDP and under the following terms and conditions:*----------

   a) ***Maximum number of shares to buy:*** *to a total not exceeding 10% of the share capital of EDP, less any sales that might have occurred, regardless of the exceptions included in number 3 of*

*article 317 of the Portuguese Companies Code and the number of shares required for the buying entity to comply with its commitments set forth by law, contract, issue of securities or contractual requirement regarding the provision of stock-options previously approved programs for the Executive Board members to purchase shares, subject to, if required and in compliance with legislation, the subsequent sale of shares exceeding the foregoing threshold;----------*

*b)* ***Period during which shares can be acquired:*** *eighteen months from the date of this resolution;----------*

*c)* ***Forms of acquisition****: acquisition of shares or shares purchase or allocation rights, against payment, in any shape or form and pursuant to the terms and limits peremptorily determined in legislation, either in regulated market where EDP shares have been admitted for trading or outside of stock market, respecting the principle of shareholder equal treatment, under the legal terms applicable, namely through (i) transaction performed outside regulated market with entity (ies) selected by the Executive Board of Directors, including financial institution(s) with which EDP or a subsidiary has entered into an equity swap agreement or similar derivative financial instrument agreement, or (ii) any acquisition of any form in order to or for the purpose of complying with any legal or contractual requirements, or the conversion or exchange of convertible or exchangeable securities issued by the company or a subsidiary, under the terms of the respective issuance conditions or agreements executed in relation to such conversion or exchange; ----------*

*d)* ***Minimum and maximum consideration for acquisitions****: the maximum and the minimum buying price shall be, respectively, 120% and 80% of the weighted daily average of the closing price of EDP shares in the last 5 sessions of the Euronext Lisbon immediately prior to the date of acquisition or the date on which the right to acquire or allocate shares was attained, or it will correspond to the acquisition price arising from contractual financial instruments, from the issuance conditions established by the company or any subsidiary, from securities convertible into or exchangeable for shares of the company, or any agreement entered into concerning such conversions or exchanges. ----------*

*e)* ***When to acquire****: to be determined by the Executive Board of Directors of EDP, considering the security market situation and the convenience or commitments of the buying entity, of any of its subsidiaries or of the buyer(s). Acquisitions may occur on one or more occasions, broken down in the manner that the referred Board deems appropriate.----------*

*3. Approves the selling of own shares, including the right to acquire and to hold, that have already been acquired by EDP or any of its current or future subsidiary, subject to decision by the Executive Board of Directors of EDP and under the following terms and conditions: ----------*

*a)* ***Minimum number of shares to sell****: the number of sale transactions and the number of shares to sell shall be determined by the Executive Board of Directors of EDP, whenever deemed necessary or convenient for the development of the corporate interest or for compliance with legal or contractual obligations. Sales transactions include the allocation of stock purchase options under the abovementioned stock-option programs;----------*

*b)* ***Period during which shares can be acquired****: eighteen months from the date of this resolution;----------*

*c)* ***Forms of selling****: selling of shares or share purchase or allocation rights, against payment, in any shape or form and pursuant to the terms and limits peremptorily determined in legislation, namely by sale or exchange, by negotiating proposal or public offer, respecting the principle of shareholder equal treatment under the applicable legal terms, to perform on regulated market where EDP shares have been admitted for trading or through transaction performed outside regulated market with entity (ies) selected by the Executive Board of Directors, including financial institution(s) with which EDP or a subsidiary has entered into an equity swap agreement or similar derivative financial instrument agreement, or through sale, in any title, in compliance with legal or contractual obligations, or even with the intention or meeting any commitment made in regard to EDP's stock-options programs incorporated under the express approval of the Annual General Shareholder's Meeting;----------*

*d)* ***Minimum Price****: the minimum selling price shall be either (i) no less than 80% of the weighted daily average of the closing price of EDP shares in the last 5 sessions of the Euronext Lisbon immediately prior to the date of the sale, except when the purpose of the sale is to permit the full implementation of stock-options programs that have been created under the express approval of the General Meeting of Shareholders, or (ii) it shall be the price that was set or results from the terms and conditions of the issuance of other securities, namely convertible or exchangeable securities, or from a contract entered into in regard to such issue, conversion or exchange, relative to a sale obliged by the same; ----------*

*e)* ***When to sell****: the Executive Board of Directors of EDP shall determine the timing of each transaction in view of the securities market conditions and whether the sale is appropriate to or complies with the requirements of the selling entity, the Company or its subsidiary. Sales transactions may occur one or more times, broken down in the manner the referred Executive Board deems appropriate. ----------*

*4. Approves that the Executive Board of Directors be indicatively notified that, without prejudice to its freedom to decide and to act as per the resolutions taken in respect to paragraphs 1 to 3 precedent, in as much as possible and under the terms and according to the circumstances it deems*

*appropriate – particularly in relation to acquisitions forming part of stock repurchase programs for the purpose of covering bond or other securities' conversion rights, or stock-options programs or similar rights, or other programs that may be governed by the Regulations mentioned in Recital C) – it should not only consider the legislation applicable regarding the disclosure of remuneration policy of the corporate bodies and the Securities Market Commission recommendations in force but also the following recommended practices concerning the buying and selling of own shares in accordance with the authorizations granted under the previous paragraphs: ----------*

*a) Disclose to the public, before beginning purchase and sale transactions, the contents of the authorization referred to in the foregoing paragraphs 1 to 3, in particular, the objective, maximum acquisition counter value, maximum number of shares to buy and the authorized timeframe established for the transaction;----------*

*b) Record each transaction performed in the ambit of the preceding authorizations;----------*

*c) Perform stock transactions in such a manner, in terms of timing, form and volume, that does not disturb the regular operation of the market, trying to avoid execution during sensitive trading periods, in particular the opening and closure of a session, at times when the market is disturbed, or when relevant facts are announced or financial results are being disclosed;----------*

*d) Restrict acquisitions to 25% of the average daily trading volume, or to 50% of this trading volume provided that the competent authority is previously notified of the intention of exceeding that limit;----------*

*e) Publicly disclose of any transactions performed, that are relevant according to the applicable regulations, until the end of the third trading day subsequent to the date on which such transaction occurred; ----------*

*f) Communicate to the competent authority, until the end of the third working day counting from the transaction date, all acquisitions and sales performed; ----------*

*g) Refrain from shares selling when stock repurchase transactions are occurring under the auspices of the program governed by the Regulations referred to in Recital C). ----------*

*For that purpose and in the event of acquisitions under stock repurchasing programs, or other plans that might be covered by the Regulations referred to on C), the Executive Board of Directors may divide up acquisitions and their conditions according to the respective program. It may provide information of such division in any public disclosure that may be made. ----------*

*Lisbon, January 8th 2018" ----------*

*"---------- **PROPOSAL OF ITEM 5 OF THE AGENDA** ----------*

***Grant authorization to the Executive Board of Directors for the acquisition and sale of own bonds by EDP*** ----------

*Considering that:* ----------

***Considering that:***----------

A) *The Articles of Association allow, according to number 1 of article 6, to carry out transactions legally permitted by law involving its own bonds or other securities issued by EDP;* ----------

B) *It is deemed appropriate from the Company's and Group EDP point of view, that EDP holds an authorization to acquire or to sell own bonds;* ----------

***The Executive Board of Directors proposes to the General Shareholders' Meeting the approval of the following resolution:*** ----------

*To approve the granting of the authorization to allow EDP's Executive Board of Directors to buy or to sell own bonds and/or, independently of the applicable jurisdiction, other current or future securities representative of debt of EDP, for a period of 18 months and under any business condition or negotiation structure, either out of the Stock Exchange or within national or international regulated markets, applying or not to a financial trustee, through direct transaction or by means of derivative instruments, as well as in accordance with further condition and the following restraints:* ----------

***1. -Acquisition*** ----------

***1.1. Maximum number of bonds to buy:*** ----------

a) *-When the acquisition is for amortization, partial or total, of the bonds acquired, until the total number of bonds of each issuance;* ----------

b) *-When the acquisition has other purpose, until the limit correspondent to 10% of the nominal aggregate amount of all bonds issued, independently of the issuance it respects to, deducted the sales performed, without prejudice of the exceptions foreseen on no. 3 of article 317 of the Portuguese Companies Code and of the quantity that is required for the compliance of buyer obligations pursuant to law, agreement or securities issuance;*----------

***1.2. Minimum and maximum consideration of the acquisition:*** ----------

a) *-The maximum and minimum buying price will be, respectively, 120% and 80% of the weighted average of the closing price of the issuance published in the last 5 negotiation sessions prior to the date of acquisition or it will be correspondent to the acquisition price resulting from financial instruments entered into or from the respective issuance terms;*----------

*b) -The maximum and minimum buying price concerning issuances not listed in the Euronext Lisbon, irrespective of being listed or not in other markets, its average buying and selling price published by an entity internationally well known in the bond market; ----------*

*c) -For issuances not complying with the previous paragraph, the limit price is the value indicated by an independent and qualified consultant or by a financial trustee appointed by the Executive Board of Directors;----------*

*d) -In the case where a transaction results from or has to do with contractual conditions contemplated in another securities issuance, the price will be the value that results from the said contractual conditions; ----------*

***1.3. Moment of acquisition**: the Executive Board of Directors shall determine the timing of each transaction and acquisition may take place one or more times, depending on what the Board deems more appropriate from the Company's point of view. ----------*

***2. Selling**----------*

***2.1. Maximum number of bonds to sell:** the total number of bonds held;----------*

***2.2. Minimum consideration of the sale:** ----------*

*a) The minimum selling price will be 80% of the weighted average of the closing price of the issuance in the last 5 negotiation sessions prior to the date of selling or it will be correspondent to the selling price resulting from financial instruments entered into or from the respective issuance terms; -------*

*b) For issuances not listed in the Euronext Lisbon, irrespective of being listed or not in other markets, the limit price is the average buying and selling price published by an entity internationally well known in the bond market; ----------*

*c) For issuances not complying with the previous paragraph, the limit price is the value indicated by an independent and qualified consultant or by a financial trustee appointed by the Executive Board of Directors;----------*

*d) In the case where a transaction results from or has to do with contractual conditions contemplated in another bond issuance, the price will be the value that results from the said contractual conditions; ----------*

***2.3. Moment of selling:** the Executive Board of Directors shall determine the timing of each transaction and selling may take place one or more times, depending on what the Board deems more appropriate from the Company's point of view.----------*

*Lisbon, January 8th 2018". ----------*

--- The Chairman of General Shareholders' Meeting grant permission to speak to the Executive Board of Directors in order to present the referred proposals. (…) ----------

--- The Chairman of General Shareholders' Meeting declared the discussion of Items Four and Five of the agenda opened. ----------

--- Afterwards, and as no one wanted to speak, the Chairman of the General Shareholder's Meeting submitted to vote the proposal regarding Item Four of the agenda, having been issued 2,535,872,050 votes, corresponding to 2,535,872,050 shares, which represent 69.3517% of the share capital. As abstentions are not considered, the aforementioned proposal was approved by majority of the votes cast (99.3373% of votes in favour). ----------

--- Following, the Chairman of the General Shareholders' Meeting submitted to vote the proposal related to Item Five of the agenda, having been issued 2,539,614,353 votes, corresponding to 2,539,614,353 shares, which represent 69.4541% of the share capital. As the abstentions are not considered, the referred proposal was approved by majority of the votes cast (99.3025% of votes in favour).----------

--- Subsequently, the Chairman of the General Shareholders' Meeting informed that, following the previous items procedure, the discussion of Items Six and Seven of the agenda would be made jointly, without prejudice of the separate voting of the same. ----------

--- The Chairman of the General Shareholders' Meeting read **Item Six** of the agenda – "*Resolve on the remuneration policy of the members of the Executive Board of Directors presented by the Remunerations Committee of the General and Supervisory Board*" as well as **Item Seven** of the agenda – "*Resolve on the remuneration policy of the members of the other corporate bodies presented by the Remunerations Committee elected by the General Shareholders' Meeting*". ----------

--- The Chairman of the General Shareholders' Meeting asked those present on the waiving of the reading of the proposal presented by the Remuneration Committee of the General and Supervisory Board on the remuneration policy of the members of the Executive Board of Directors, as well as by the Remuneration Committee elected by the General Shareholders' Meeting regarding the remuneration policy of the members of the other corporate bodies, following the procedure of the previous proposals, considering the extension of them and the fact that the same were made available for consultation and were already acknowledged by the shareholders, according to the attachments which are filed to these minutes, and are hereby reproduced as follows:----------

"STATEMENT ON THE REMUNERATION POLICY OF THE EXECUTIVE BOARD OF DIRECTORS OF EDP – ENERGIAS DE PORTUGAL, S.A. TO BE PRESENTED AT THE GENERAL SHAREHOLDERS' MEETING ON APRIL 5th OF 2018----------

*1. -Based on past experience and on the work developed throughout 2017, the Remuneration Committee (REMC) of the General and Supervisory Board (GSB) resolved to propose to this General Shareholders' Meeting the maintenance of the remuneration policy of the members of the Executive Board of Directors (EBD), for the period 2018-2020, grounded on the following principles and rules: ---*

*1.1--Annual fixed remuneration of the EBD Chairman in the amount of € 800 000. ----------*

*1.2--Annual fixed remuneration of the EBD member responsible for financial matters (CFO) and the Chief Executive Officer (CEO) of EDP Renováveis Group (EDPR) in the individual amount of € 560 000. -*

*1.3--Annual fixed remuneration of the remaining EBD Members in the amount of € 480 000 each.------*

*1.4--Retirement Saving Plans (RSP) assigned to Directors during their term of office, amounting in net terms to 10% of their fixed annual remuneration. The terms of these standard RSP are those set by the applicable Law in force regarding these financial products. ----------*

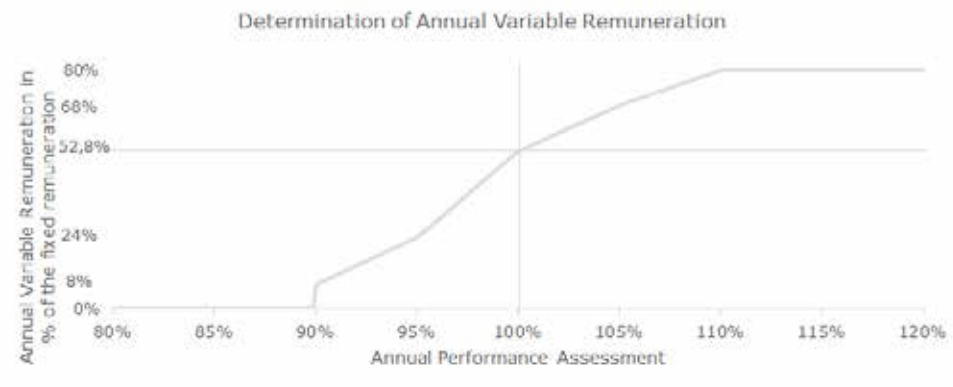
*1.5--Remuneration structure in which the variable component may double the fixed component, and in which the multiannual variable component, which reflects the assessment for the entire term of office, will have a weighting of 60%, which compares with 40% of the weight assigned to the annual variable component. ----------*

*1.6--Minimum and maximum thresholds defined for the attribution of the variable remuneration and the highest value it may assume on the following conditions: ----------*

*a. For the annual variable component (limited to 80% of the fixed remuneration) according to the following parameters, linearly calculated: ----------*

- *- If the performance reaches less than 90% of the defined objectives, there will be no annual variable remuneration attribution; ----------*
- *- If the performance is between 90% and 95% of the defined objectives, it is due an amount within the range of 8% and 24% of the fixed remuneration of each EBD member; ----------*
- *- If the performance is between 95% and 100% of the defined objectives, it is due an amount within the range of 24% and 52.8% of the fixed remuneration of each EBD member; ----------*
- *- If the performance is between 100% and 105% of the defined objectives, it is due an amount within the range of 52.8% and 68% of the fixed remuneration of each EBD member; -*
- *- If the performance is between 105% and 110% of the defined objectives, it is due an amount within the range of 68% and 80% of the fixed remuneration of each EBD member; ---*
- *- If the performance meets the defined objectives in more than 110% of the defined objectives, it's due an amount equal to 80% of the fixed remuneration of each EBD member. -*

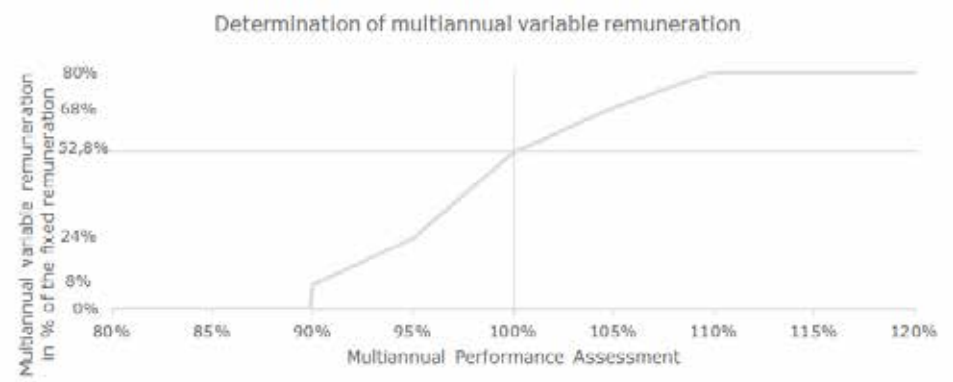
*Graphically: ----------*




*b. -- For the multiannual variable component (which may be of up to 120% of the fixed remuneration) according to the following parameters, linearly calculated: ----------*

- *- If the performance is less than 90% of the defined objectives, there will be no multiannual variable remuneration attribution;----------*
- *- If the performance is between 90% and 95% of the defined objectives, it's due an amount within the range of 12% and 36% of the fixed remuneration of each EBD member;----------*
- *- If the performance is between 95% and 100% of the defined objectives, it's due an amount within the range of 36% and 79.2% of the fixed remuneration of each EBD member; ----------*
- *- If the performance is between 100% and 105% of the defined objectives, it's due an amount within the range of 79.2% and 102% of the fixed remuneration of each EBD member;*
- *- If the performance is between 105% and 110% of the defined objectives, it's due an amount within the range of 102% and 120% of the fixed remuneration of each EBD member;*
- *- If the performance meets the defined objectives in more than 110%, it's due an amount equal to 120% of the fixed remuneration of each EBD member.----------*

*Graphically: ----------*




*1.7--Existence of a criteria that determines the attribution of the multiannual variable remuneration to the performance over the entire term of office: although it is calculated annually, it will only become effective if, at the end of the term, on average, at least 90% of the fixed goals have been achieved,*

*assessed according to the performance of the company, its comparison with the strategic benchmarks of reference and the individual contribution of each EBD member for that purpose. ----------*

*1.8--Weighting of 20% to be attributed to individual qualitative performance regarding the annual objectives and 35% for multiannual targets. ----------*

*1.9--Payment of the multiannual bonus deferred over time for a period of not less than three years, being the aforesaid payment conditional on the non-performance of intentional unlawful acts, known after the completion of the evaluation and that jeopardize the sustainability of the company's performance, and being made after its clearance and approval by the REMC.----------*

*1.10 The indicators used to evaluate the performance of the EBD, will be as follows: ----------*

***a. Annual performance indicators with relation to the 2018 annual budget, which have received a prior favorable opinion from the GSB on 14th December 2017 and was approved by EBD on the same date ----------***

*a.1. Quantitative component and its respective weight: ----------*

*Total shareholder return vs Eurostoxx utilities and PSI20[1] ---------- (25%)*

*Earnings per Share ---------- (20%)*

*Net debt to EBITDA---------- (15%)*

*Operating cash flow excluding regulatory receivables ---------- (13%)*

*Residual Income---------- (7%)*

*The 80% resulting from the weighted sum of these indicators reflect a performance which is common to all EBD members.----------*

*a.2. Qualitative component ----------*

*The remaining 20% result from an individualized qualitative evaluation carried out by the REMC, based on the individual performance of each EBD member and after consultating the EBD Chairman. ----------*

*a.3. The amount resulting from the quantitative and qualitative component, as previously mentioned, applies to 80% of the annual fixed remuneration. ----------*

***b. Multiannual performance indicators with relation to the business plan 2016-2020, which received a prior favorable opinion from the General and Supervisory Board, on the 4th May 2016 and was approved by the EBD on the same date (targets disclosed on the 5th May 2016 in London, on Capital Markets Day, according to the document filed in the website of the Portuguese Securities Market Commission at www.cmvm.pt)----------***

*b.1. Quantitative component and its weight----------*

*Total shareholder return vs Eurostoxx utilities and PSI20[2]----------(18.5%)*

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[1] Source: Bloomberg
[2] Source Bloomberg

*Earnings per Share----------(18.5%)*

*Net debt to EBITDA ---------- (15%)*

*Sustainability Performance Indicator ---------- (8%)*

*Operating cash flow excluding of regulatory receivables ----------(5%)*

*The 65% resulting from the weighted sum of these indicators reflect a performance, which is common to all EBD members. ----------*

*b.2. Qualitative component ----------*

*The remaining 35% result from an individualized qualitative assessment made by the REMC, based on the individual performance of each EBD member and after consulting the EBD Chairman.----------*

*b.3. The amount resulting from the quantitative and qualitative component, as previously mentioned, applies to 120% of the annual fixed remuneration. ----------*

*1.11 In accordance with the criteria set out above, in annual terms, the maximum potential amount, to be assigned to the EBD members, in case the set goals are completely achieved, which implies the payment of the maximum values set for the annual and multi-annual variable remuneration, as described above, is as follows:----------*

*a. EBD Chairman: € 2 570 213 ----------*

*b. CFO of EDP and CEO of EDP Renováveis Group: € 3 598 298 ----------*

*c. - Remaining EBD members: € 9 252 766----------*

*d. Total: € 15 421 277----------*

*1.12 It should be noted that EDP's Directors do not enter into any contracts with the company or with third parties, which have the effect of mitigating of the inherent risk to the variability of the remuneration set by the company. ----------*

*1.13 It should also be noted that there are no contracts in force in EDP, which provide for payments in the event of dismissal or termination by agreement of the directors' functions, nor were any payments made in this context during the 2017 financial year.----------*

*1.14 The evolution of EDP's activity has increasingly added an international dimension, which may entail consequences at remuneration and compensations level. In addition to the remuneration regime related to the work performed abroad, committed to the purview of the EBD, the Remuneration Committee, within the framework of its statutory competences, proposes that fixed and variable remuneration, regardless of the geography where EBD members operate, should be treated, for internal purposes, under the existing tax regime in Portugal, so as to prevent unjustified discrepancies in net remunerations between the EBD members. ----------*

*Pursuant to article 2, no. 1, of the Law 28/2009, of 19th June and article 27º, no. 2 of EDP By-laws, the Remuneration Committee of the General and Supervisory Board of EDP therefore submits to the*

*Shareholders' approval the statement on the remuneration policy of the members of the Executive Board of Directors of EDP in accordance with the aforementioned terms. ----------*

*Lisbon, 1st of March 2018"----------*

*"----------**PROPOSAL OF ITEM 7 OF THE AGENDA**----------*

***----------Statement of the Remuneration Committee----------***

***---------- on the Remuneration Policy of the Corporate Bodies ----------***

*In accordance and for the effects of the contents of article 2, no. 1 of Law no. 28/2009, dated 19th June and of article 11, no. 2, paragraph d) of EDP – Energias de Portugal, S.A. ("EDP") By-Laws, the Company's General Annual Shareholders' Meeting is responsible for the approval of the proposal on the Remuneration Policy of the Members of the Corporate Bodies that is submitted by the respective Remuneration Committee. ----------*

*EDP – Energias de Portugal, S.A. By-Laws establish, on article 8, no. 1, that the Company's Corporate Bodies are: ----------*

*a) The General Shareholders' Meeting (GSM);----------*
*b) The General and Supervisory Board (GSB); ----------*
*c) The Executive Board of Directors (EBD);----------*
*d) The Statutory Auditor (SA). ----------*

*On the other hand, the By-Laws of the Company also foresee the existence of other Corporate Bodies, with statutory dignity:----------*

*a) The Environment and Sustainability Board (ESB); ----------*
*b) The Remuneration Committee, elected by the General Shareholders' Meeting and, within the GSB, a Committee for the Monitoring of Financial Matters which according to the By-Laws, also assumes the designation of Audit Committee; ----------*
*c) The Board of the General Shareholders' Meeting.----------*

*The Remuneration Committee, elected by the General Shareholders' Meeting, is therefore, responsible for the determination of the remuneration of the members of the following corporate bodies: Board of the General Shareholders' Meeting; Chairman and members of the GSB; Statutory Auditor and Environment and Sustainability Board. The Financial Matters Committee or Audit Committee shall be dealt together with the other Committees of the GSB. ----------*

*The Remuneration Committee, considering last mandate's experience, has considered that the guiding principles on remuneration that have been applicable in the last years remain fully appropriate. ---------*

*Thus, it is proposed that the General Meeting approves the following Statement on the Remuneration Policy of the Corporate Bodies. ----------*

***I. Framework regarding EDP's Remuneration Policy ----------***

*EDP's remuneration Policy is framed by the guidelines defined by reference shareholders of the Company, which are issued in accordance with the applicable rules and recommendations and with the best practices in the sector.* ----------

*The Corporate Bodies' Remuneration Policy is annually reviewed and a statement, which resumes its general guidelines, is, with the same periodicity, subject to approval by the General Shareholders under proposal of the Remuneration Committee. On the definition of said Remuneration Policy several proposals are formulated in order to assure that remunerations are adequate, reflect the risk profile and the long-term objectives of EDP and are in conformity with the legal rules, principles and pertinent national and international recommendations.* ----------

***II. Guiding Principles*** ----------

*The Remuneration Committee has based its decisions on the matter of remuneration policy on the following main guiding principles:* ----------

- *i) Definition of a policy, which is simple, clear, transparent and aligned with EDP's culture, in order that the remuneration practice may be based on uniform, consistent, fair and balance criteria.* ----------
- *ii) Definition of a policy, which is consistent with the management and control of risk, efficient to avoid excessive exposition to risk and to conflicts of interest, seeking coherence with the purposes and long-term values of the Company.* ----------
- *iii) Assessment and stimulus of a careful performance, in which the merit shall be dully awarded, assuring homogeneity levels compatible with GSB necessary cohesion, considering also the economic and financial situation of the company and of the country, even if EDP operates in a global scale.* ----------
- *iv) Alignment of the remunerations of the several corporate bodies members with the companies with higher stock market capitalization and congeners, naturally adapted to Portuguese market.* ----------
- *v) The most recent recommendations issued by European Union and Portuguese Securities Commission.*----------
- *vi) Alignment of the remunerations with the specific responsibilities inherent to the office at sake.*----------
- *vii) Alignment of the remunerations with the time that is required to be spent in each office.* -----

*The remuneration policy of EDP's Corporate Bodies shall, in essence, be simple, transparent, moderated, adapted to the specific conditions of the work performed and to the company's economic situation, but also, competitive and equitable, in order to assure the purpose of value creation for the shareholders and remaining stakeholders.*----------

***III. Structure of remuneration policy***----------

*Based on these criteria, and considering the challenges that the Company intends to pursue during the upcoming mandate, the Commission decided that the guidance lines mentioned bellow shall be applicable:----------*

*i) - It shall be maintained a differentiation between remunerations attributed to GSB members and the ones assigned to EBD members, and it shall not be attributed to the firsts a variable remuneration component or any other remuneration complement. ----------*

*ii) It shall be taken into account the performance merit and the complexity of the functions performed by the members of each body, so that the cohesion, stability and development of the company is not endangered.----------*

*iii) As to the GSB Chairman, one must consider that the relevant duties require strong availability and involves a component of institutional representation. Furthermore, as per article 23, number 3 of Bylaws, GSB Chairman, as independent, shall also chair the Financial Matters Committee;----------*

*iv) In what regards the Deputy Chairman, it shall also be considered the duties and works performed by him in other committees.----------*

*v) It is also important to distinguish the performance of other specific functions within GSB, namely the participation of GSB members in other committees, as well as the functions performed in those committees. ----------*

*vi) Finally, it should be considered that, historically, the remuneration of the Chairman of the General Shareholders' Meeting Board is similar to the remuneration attributed to a Committee Chairman. Therefore, the remuneration of the Chairman of the General Shareholders' Meeting Board is aligned accordingly.----------*

***IV. Remuneration limits*** *----------*

*Within this conformity, and considering the above mentioned, the Commission submit to shareholders the maximum remuneration proposal of the members of the corporate bodies mentioned below, for the exercise that begun on 1st January 2018 and until the term of the respective mandates, as follows:-*

| ***GSC*** | ***Annual Remuneration[3]*** |
|---|---|
| *Chairman of GSC:* | *€ 515,000.00* |
| *Deputy Chairman of GSC:* | *€ 72,000.00* |
| *Regular Member of GSC:* | *€ 47,000.00* |

| ***Financial Matters Committee/Audit Committee*** | ***Annual Remuneration[1]*** |
|---|---|

[3] Gross amounts.

| | |
|---|---|
| *To the base remuneration of the Member accrue the following amounts:*<br>(a) *Chairman:* | *+ € 73,000.00*[4]<br>*(total of € 120,000.00)* |
| (b) *Deputy Chairman:* | *+ € 58,000.00*<br>*(total of € 105,000.00)* |
| (c) *Regular Member:* | *+ € 23,000.00*<br>*(total of € 70,000.00)* |

| ***Other Committees*** | ***Annual Remuneration***[1] |
|---|---|
| *Members of the GSB who also exercise functions in one or more committees:*<br>*(a) For each committee in which participate as Chairman:* | *+ €23,000.00* |
| *(b) For each committee in which participate as Deputy Chairman:* | *+ €15,000.00* |
| *(c) For each committee in which participate as Regular Member:* | *+ €10,000.00* |

| | ***Annual Remuneration***[1] |
|---|---|
| *(a) Chairman* | *€ 47,000.00, accrued with € 23,000.00*<br>*(total of € 70,000.00)* |
| *(b) Deputy Chairman* | *€ 3,000.00* |

| ***Other Corporate Bodies*** | ***Remuneration***[1] |
|---|---|
| *(a) Statutory Auditor* | *The Committee resolved that the remuneration of the Statutory Auditor shall correspond to the values to be contained in the "Agreement for the Rendering of Statutory Audit Services" to be entered into between EDP and the Statutory Auditor* |

[4] Not applicable at the moment.

| | |
|---|---|
| *(b) Environment and Sustainability Board* | *The members of this Board have the right to receive one attendance fee per meeting in the amount of € 1,750.00* |

*In what regards the fixation of the above mentioned remunerations, the following additional rules shall apply:* ----------

*a) - The Chairman of the GSC and the Chairman of the Financial Matters Committee/Audit Committee are not entitled to any additional remuneration, even if they participate in other committees.* ----------

*b) - No other member of the GSB may accumulate, besides the base remuneration, a remuneration in more than two committees according to the above mentioned amounts, even if he participates in a higher number.* ----------

*Lisbon, 1st March 2018".* ----------

--- The Chairman of the General Shareholders' Meeting granted then permission to speak to the Chairman of the Remuneration Committee of the General and Supervisory Board, Mr. Ya Yang, to proceed with the presentation of the proposal of the Remuneration Committee of the General and Supervisory Board. (…) ----------

--- Subsequently, the General Shareholders' Meeting granted permission to speak to Dr. Luís Cortes Martins to proceed with the presentation of the proposal regarding the Remuneration Policy of the Corporate Bodies (…). ----------

--- The Chairman of the General Shareholders' Meeting thanked Mr. Luís Cortes Martins the respective intervention and declared opened the debate regarding Items Six and Seven of the agenda. (…) ---------

--- Since none of the shareholders asked to speak, the Chairman of the General Shareholders' Meeting submitted to vote the proposal related to Item Six of the agenda, having been issued 2,480,683,471 votes, corresponding to 2,480,683,471 shares, which represent 67.8424% of the share capital. As the abstentions are not considered, the referred proposal was approved by majority of the votes cast (92.9960% of votes in favour). ----------

--- Forthwith, the Chairman of the General Shareholders' Meeting submitted to vote the proposal related to Item Seven of the agenda, having been issued 2,483,243,813 votes, corresponding to 2,483,243,813 shares, which represent 67.9124% of the share capital. As the abstentions are not considered, the referred proposal was approved by majority of the votes cast (99.5878% of votes in favour).----------

--- The Chairman of the General Shareholders' Meeting read the content of **Item Eight** of the agenda – "*Resolve on the amendment of article 16 of EDP By-Laws, through modification of its number 2*". ------

--- Following, the Chairman of the General Shareholders' Meeting noted that, since the resolutions to be taken regarded to the modification of the By-Laws, the necessary constitutive quorum for the first notice to convene meeting correspond to one third of the share capital. Therefore, the Chairman of the General Shareholders' Meeting verified the percentage of the share capital present or represented at the General Shareholder's Meeting for the voting of Item Eight - which, represented 69.5410% of the share capital and the voting rights – based upon the shares' registry statements issued by the financial intermediaries responsible for the individual registry of shares for each shareholder. ----------

--- The Chairman of the General Shareholders' Meeting also recalled that, since the resolution related to this item concerned the modification of EDP By-Laws, the resolution regarding this item should be approved by a majority of two-thirds of the votes cast.Moreover, the Chairman of the General Shareholders' Meeting stated that, in generic terms, the proposed alterations results from the entering into force, last August 2nd, of the Law No. 62/2017, 1st of August, which establish a balanced representation rule between woman and men on the governing and supervisory bodies of listed companies, enforcing a 20% quota of the underrepresented gender on those corporate bodies on the first elective General shareholders' meeting held after 1st of January 2018, being therefore necessary to have more flexibility in the By-Laws in what concerns the number of members of the Executive Board of Directors, reason why it is hereby considered adequate to enlarge the number, from eight to nine members, which implies the modification of EDP By-Laws.----------

--- Therefore it is hereby proposed that number 2 of article 16 of EDP By-Laws be redrafted as follows:

(...)----------

Article 16.º ----------

(…)----------

1. *(…)*----------
2. *The number of members set in accordance with the foregoing paragraph shall be between a minimum of five and a maximum of nine.* ----------
3. *(…)*----------
4. *(…)*----------

--- Subsequently, the Chairman of the General Shareholders' Meeting asked all presents about the waive of reading of the proposal presented on the past 8th of January, by the shareholders China Three Gorges (Europe), S.A., Oppidum Capital S.L., Senfora, BV, Fundo de Pensões of Millennium BCP Group and Sonatrach, in view of the same being already acknowledged by all, according to the document which is filed as an attachment to these minutes and is hereby reproduced: ----------

"----------***PROPOSAL OF RESOLUTION REGARDING ITEM 8 OF THE AGENDA*** ----------

----------***Partial Amendment of the By-laws*** **----------**

*"**Whereas:*** ----------

*a) On the past 2nd August came into force the Law no. 62/2017, dated 1st August, which establishes a balanced representation regime between women and men at the management and supervision boards of listed companies, imposing a ratio of 20% of the under-represented gender on those corporate bodies at the first elective general shareholders' meeting occurring after 1st January 2018;*

*b) It is found, therefore, advisable to have more flexibility regarding the number of members that compose the Executive Board of Directors of EDP, reason why it is considered adequate to enlarge that number, from eight to nine, which implies the amendment of the company's By-Laws.*----------

***It is hereby proposed that the Shareholders approve:***----------

*The amendment of the By-Laws, through the modification of article 16. º No. 2, which shall read as the following:* ----------

----------***Article 16.º***----------

***1.*** *(…)*----------

***2.*** *The number of members set in accordance with the foregoing paragraph shall be between a minimum of five and a maximum of nine.* ----------

***3.*** *(…)*----------

***4.*** *(…)*----------

*Lisbon, 8th January 2018".* ----------

--- Following, the Chairman of the General Shareholders' Meeting asked if any of the above mentioned shareholders would like to have a word about their proposal. ----------

--- As no one asked to speak, the Chairman of the General Shareholders' Meeting declared open the debate regarding the matter on Item Eight of the agenda (…) ----------

--- Following, the Chairman of the General Shareholders' Meeting submitted to vote the proposal related to Item Eight of the agenda, having been issued 2,542,756,622 votes, corresponding to 2,542,756,622 shares, which represent 69.5400% of the share capital. As the abstentions are not considered, the referred proposal was approved by majority of the votes cast (99.7884% of votes in favour).----------

--- Being completed the voting of item Eight of the agenda, the Chairman of the General Shareholders' Meeting and the Company Secretary verified the existence of a qualified majority of two-thirds of the

voting cast, and therefore the alteration of EDP By-Laws foreseen in Item Eight of the agenda was validly approved. ----------

--- Subsequently the Chairman of the General Shareholders' Meeting continued the works by reading **Item Nine** of the agenda – "*Resolve on the election of (i) the members of the General and Supervisory Board, (ii) the members of the Executive Board of Directors, (iii) the Statutory Auditor and the Alternate Statutory Auditor, (iv) the members of the Board of the General Shareholders' Meeting, (v) the members of the Remunerations Committee to be nominated by the General Shareholders' Meeting (including their respective remuneration) and (vi) the members of the Environment and Sustainability Board, for the three year period 2018-2020".* ----------

--- As a result, the Chairman of the General Shareholders' Meeting referred that six proposals were presented, which would be appreciated and voted separately.----------

--- The Chairman of the General Shareholders' Meeting asked once more the shareholders on the waiver of the reading of the proposals presented within the scope of item nine of the agenda as they were already known by all, as follows:*(i)* proposal presented by the shareholders, China Three Gorges (Europe) S.A., Oppidum Capital S.L., Senfora, BV, Fundo de Pensões from Millennium BCP Group and Sonatrach for the election of the members of the General and Supervisory Board for the three year period 2018-2020, *(ii)* proposal presented by the shareholders, China Three Gorges (Europe) S.A., Oppidum Capital S.L., Senfora, BV, Fundo de Pensões from Millennium BCP Group and Sonatrach for the election of the members of the Executive Board of Directors, for the three year period 2018-2020, *(iii)* proposal presented by the General and Supervisory Board for the election of the Statutory Auditor and Alternate Statutory Auditor for the three year period 2018-2020, *(iv* proposal presented by the shareholders, China Three Gorges (Europe) S.A., Oppidum Capital S.L., Senfora, BV, Fundo de Pensões from Millennium BCP Group and Sonatrach, regarding the election of the members of the Board of the General Shareholders' Meeting, *(v)* proposal presented by the shareholders, China Three Gorges (Europe) S.A., Oppidum Capital S.L., Senfora, BV, Fundo de Pensões from Millennium BCP Group and Sonatrach regarding the election of the members of the Remunerations Committee to be nominated by the General Shareholders' Meeting (including their respective remuneration) *(vi)* proposal presented by the Executive Board of Directors regarding the election of the members of the Environment and Sustainability Board, for the three year period 2018-2020, according to the documents attached herewith, as follows: ----------

*"----------**PROPOSAL OF RESOLUTION REGARDING ITEM 9 OF THE AGENDA** ----------*

*Resolve on the appointment of the members of EDP's General and Supervisory Board for the 2018-2020 period----------*

*Whereas: ----------*

*a) -The term of office of the current members of the General and Supervisory Board of EDP – Energias de Portugal, S.A. (EDP), appointed for the 2015-2017 period, ended on December 31 2017.----------*

*b) -Under article 21 of EDP's articles of association, the General and Supervisory Board is composed of a number of members not inferior to nine, provided that they exceed the number of members of the Executive Board of Directors, it being required also that the majority of said members is independent. ----------*

*c) -The Chairman of the Board of the General Meeting of Shareholders is inherently a member of the General and Supervisory Board. ----------*

*d) -As per the aforementioned articles of association, the Chairman and the Vice-Chairman of EDP's General and Supervisory Board are also appointed by the General Shareholders Meeting.----------*

***It is hereby proposed that the Shareholders approve the following resolution: ----------***

*To appoint as members of EDP's General and Supervisory Board for the 2018-2020 period: ----------*

- *Luis Filipe Marques Amado (Chairman) ----------*
- *China Three Gorges Corporation (Vice-Chairman) ----------*
- *China Three Gorges International Corp. ----------*
- *China Three Gorges (Europe), S.A. ----------*
- *China Three Gorges Brasil Energia Ltda----------*
- *China Three Gorges (Portugal), Sociedade Unipessoal, Lda.----------*
- *DRAURSA, S.A ----------*
- *Fernando María Masaveu Herrero ----------*
- *Senfora BV ----------*
- *Banco Comercial Português, S.A. ----------*
- *Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (Sonatrach)----------*
- *Maria Celeste Ferreira Lopes Cardona ----------*
- *Ilídio da Costa Leite de Pinho ----------*
- *Jorge Avelino Braga de Macedo ----------*
- *Vasco Joaquim Rocha Vieira ----------*
- *Augusto Carlos Serra Ventura Mateus ----------*
- *João Carvalho das Neves ----------*
- *María del Carmen Fernández Rozado ----------*
- *Laurie Fitch----------*
- *Clementina Maria Dâmaso de Jesus Silva Barroso ----------*

- *António Manuel de Carvalho Ferreira Vitorino (Chairman of the Board of the General Meeting of Shareholders)".----------*

*----------*

*"----------**PROPOSAL OF RESOLUTION REGARDING ITEM 9 OF THE AGENDA** ----------*

*Resolve on the appointment of the members of EDP's Executive Board of Directors for the 2018-2020 period----------*

*Whereas: ----------*

*a) The term of office of the current members of the Executive Board of Directors of EDP – Energias de Portugal, S.A. (EDP), appointed for the 2015-2017 period, ended on December 31 2017.----------*

*b) Under EDP's articles of association, the members of the Executive Board of Directors of EDP are appointed by the General Shareholders Meeting which shall also appoint the respective Chairman. --*

***It is hereby proposed that the Shareholders approve the following resolution:** ----------*

***To appoint as members of EDP's Executive Board of Directors for the 2018-2020 period**: ----------*

- *António Luis Guerra Nunes Mexia (Chairman) ----------*
- *João Manuel Manso Neto ----------*
- *António Fernando Melo Martins da Costa ----------*
- *João Manuel Veríssimo Marques da Cruz ----------*
- *Miguel Stilwell de Andrade ----------*
- *Miguel Nuno Simões Nunes Ferreira Setas----------*
- *Rui Manuel Rodrigues Lopes Teixeira ----------*
- *Maria Teresa Isabel Pereira----------*
- *Vera Pinto Pereira ----------*

*----------*

*"----------**PROPOSAL OF ITEM 9 OF THE AGENDA** ----------*

*---------- **Proposal for the election of the Statutory Auditor and Alternate Statutory Auditor**-------*

*----------**for the three year period 2018 – 2020**----------*

*Whereas: ----------*

*a) -KPMG, Statutory Auditor of EDP Group since 2005, ceased its current term-of-office in the end of 2017, having completed thirteen years as Statutory Auditor of the Group; ----------*

*b) -Within the scope of the competences delegated by the General and Supervisory Board (GSB), it is the Financial Matters Committee/Audit Committee (AUDC) responsibility to issue a grounded opinion*

*on the maintenance or not of the Statutory Auditor in the end of each mandate, which should be presented to the GSB; ----------*

*c) -In accordance to no. 3 and 4 of article 54 of the Statutory Auditor Association Statute, at the public interest entities, the maximum period of exercise of functions of accounting review by the Statutory Auditor is of two or three mandates as these are of four or three years (this maximum period may be exceptionally extended up to ten years as long as this extension is approved by the competent corporate body, under a grounded proposal of the supervisory board);----------*

*d) -In this sense, and under a AUDC proposal, the GSB resolved to launch a consultation process in order to select the External Auditor of EDP Group for the 2018 – 2020 term-of-office, as well as to create two specific Committees to develop the consultation process, to know, (i) Accompaniment and Analysis Committee (AAC), with the purpose of accompanying the tender process and analyzing the proposals, as well as to prepare a summary of the respective conclusions, to report to the Assessment Committee and (ii) Assessment Committee (AC), with the purpose of assessing the results presented by the AAC and preparing a proposal to AUDC;----------*

*e) -From the work performed and from the assessment conducted to the presented proposals, both accomplished with autonomy and without third parties influence, the conclusions presented pointed out for the proposal of PricewaterhouseCoopers & Associados – Sociedade de Revisores de Contas, Lda. as the more advantageous once, in the overall analysis of the selection criteria identified in the consultation program, it obtained the highest score and so, the GSB selected this entity to propose its election to the General Shareholders' Meeting as EDP's Statutory Auditor for the 2018 – 2020 three year period; ----------*

*f)* -Without prejudice, and considering that no. 2 of article 16 of the Regulation (EU) no. 537/2014 imposes that the recommendation of the supervisory board to the general shareholders' meeting has two options, it is hereby informed that the proposal that obtained the second highest score within the scope of the assessment process of the candidates to EDP's External Auditor was the one presented by Ernst & Young Audit & Associados – SROC, S.A.----------

*The GSB proposes to the General Shareholders' Meeting to resolve: ----------*

1. *The election of **PricewaterhouseCoopers & Associados – Sociedade de Revisores de Contas, Lda.** (SROC no. 183), represented by João Rui Fernandes Ramos (ROC no. 1333), as Statutory Auditor for the three year period 2018-2020. ----------*
2. *The election of **Aurélio Adriano Rangel Amado**, ROC no. 1074, as Alternate Statutory Auditor for the tree years period 2018-2020. ----------*

*Alternatively, and pursuant article 3, no. 3, paragraph f) of the Legal Regime of Supervision and Auditing and article 16, no. 2 of the Regulation (EU) no. 537/2014, ----------*

3. *The election of **Ernst & Young Audit & Associados – SROC, S.A.** (SROC no. 178), represented by Manuel Ladeiro de Carvalho Coelho da Mota (ROC no. 1410), as Statutory Auditor for the tree years period 2018-2020.* ----------
4. *The election of João Carlos Miguel Alves, ROC no. 896, as Alternate Statutory Auditor for the three years period 2018-2020* ----------

*Lisbon, 8th January 2018".* ----------

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*"----------**PROPOSAL OF ITEM 9 OF THE AGENDA*** ----------

***Resolve on the appointment of the members of EDP's Board of the General Shareholders Meeting for the 2018-2020 period*** ----------

***Whereas:*** ----------

*a) Article 12 of the articles of association of EDP – Energias de Portugal, S.A. (EDP) sets forth that the Board of the General Shareholders Meeting shall be composed of a Chairman and of a Vice-Chairman, appointed by the General Shareholders Meeting, and by the Company's Secretary.*----------

*b) The term of office of the current members of the Board of the General Shareholders Meeting, appointed by the EDP's General Shareholders Meeting for the 2015-2017 period, ended on December 31 2017.*----------

***It is hereby proposed that the Shareholders approve the following resolution:*** ----------

*To appoint as members of the Board of the General Shareholders Meeting for the 2018-2020 period:*

- *António Manuel de Carvalho Ferreira Vitorino (Chairman)* ----------
- *Rui Pedro Costa Melo Medeiros (Vice-Chairman)* ----------
- *Company's Secretary (to be appointed by the Executive Board of Directors).*----------

*Lisbon, 8th January 2018".* ----------

*"----------**PROPOSAL OF RESOLUTION REGARDING ITEM 9 OF THE AGENDA*** ----------

***Resolve on the appointment of the members of EDP's Remunerations Committee to be appointed by the General Shareholders Meeting (including on the respective remuneration) for the 2018-2020 period*** ----------

*Whereas:* ----------

*a) Article 11, number 2, paragraph d) articles of association of EDP – Energias de Portugal, S.A. (EDP) sets forth that the General Shareholders Meeting shall appoint a Remunerations Committee composed, on its majority, by independent members and which will be in charge of setting the remuneration of the corporate bodies' members, save for the members of the Executive Board of Directors.* ----------

*b) The term of office of the current members of the Remuneration Committee, appointed by the EDP's General Shareholders Meeting for the 2015-2017 period, ended on December 31 2017.* ----------

***It is hereby proposed that the Shareholders approve the following resolutions:*** ----------

*1 - To appoint the following public figures as members of the Remunerations Committee to be appointed by the General Shareholders Meeting for the 2018-2020 period:* ----------

- *Luis Miguel Nogueira Freire Cortes Martins (Chairman)*----------
- *José Gonçalo Maury* ----------
- *Jaime Amaral Anahory* ----------

*2 - To set the remuneration of the members indicated above as follows:*----------

- *Chairman- € 15.000 per year;* ----------
- *Members - € 10.000 per year.* ----------

*Lisbon, 8th January 2018".* ----------

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***"----------PROPOSAL OF RESOLUTION REGARDING ITEM 9 OF THE AGENDA ----------***

***Election of the members of the Environment and Sustainability Board for the three-year period 2018-2020***----------

*Whereas:* ----------

*The Articles of Association of EDP foresee, in its article 28, the election by the General Shareholders' Meeting of an environment and sustainability board composed by five persons of acknowledged qualification in the area of environment protection and sustainability, pursuant to a proposal from the Executive Board of Directors;* ----------

***The Executive Board of Directors hereby proposes that the General Shareholders' Meeting:*** ----------

*Resolve on the election of the following persons, with acknowledged qualification in the area of environment protection and sustainability, for members of the Environment and Sustainability Board, for the three-year period 2018-2020:* ----------

*Chairman – José Manuel Viegas*----------

*Members – António José Tomás Gomes de Pinho* ----------

*Joana Pinto Balsemão*----------

*Joaquim Poças Martins* ----------

*Pedro Oliveira* ----------

*Lisbon, 8th January 2018".* ----------

--- The Chairman of the General Shareholders' Meeting declared open the discussion of the matters referred in the mentioned proposals.----------

(…)----------

--- Being concluded the interventions of the shareholders, the Chairman of General Shareholders' Meeting submitted to vote the election of the members of the General and Supervisory Board, for the three year period 2018-2020, having been issued 2,412,108,102 votes, corresponding to 2,412,108,102 shares, which represent 65.9670% of the share capital. As the abstentions are not considered, the referred proposal was approved by majority of the votes cast (95.4407% of votes in favour). ----------

--- Afterwards the Chairman of General Shareholders' Meeting submitted to vote the election of the members of the Executive Board of Directors, for the three year period 2018-2020, having been issued 2,459,884,735 votes, corresponding to 2,459,884,735 shares, which represent 67.2736% of the share capital. As the abstentions are not considered, the referred proposal was approved by majority of the votes cast (99.7031%of votes in favour). ----------

--- Next the Chairman of General Shareholders' Meeting submitted to vote the first option included in the proposal regarding the election of the Statutory Auditor and the Alternate Statutory Auditor, for the three year period 2018-2020, having been issued 2,459,890,745 votes, corresponding to 2,459,890,745 shares, which represent 67.2738% of the share capital. As the abstentions are not considered, the referred proposal was approved by majority of the votes cast (99.8811% of votes in favour).----------

--- Following, the Chairman of the General Shareholders' Meeting submitted to vote the election of the members of the Board of the General Shareholders' Meeting, for the three year period 2018-2020, having been issued 2,459,904,555 votes, corresponding to 2,459,904,555 shares, which represent 67.2738% of the share capital. As the abstentions are not considered, the referred proposal was approved by majority of the votes cast (99.7699% of votes in favour). ----------

--- Mr. António Manuel de Carvalho Ferreira Vitorino continued by submitting to vote the election of the members of the Remunerations Committee to be nominated by the General Shareholders' Meeting (including their respective remuneration) for the three year period 2018-2020, referring that according to the information contained within the notice to convene meeting, the voting of this item of the agenda would be made separately, and follows: ----------

- Resolve on the election of the members of the Remunerations Committee to be nominated by the General Shareholders' Meeting;----------
- Resolve on the setting of their respective remuneration; ----------

--- Forthwith the Chairman of the General Shareholders' Meeting submitted to vote the election of the members of the Remunerations Committee to be nominated by the General Shareholders' Meeting for the three year period 2018-2020, having been issued 2,459,890,755 votes, corresponding to 2,459,890,755 shares, which represent 67.2738% of the share capital. As the abstentions are not

considered, the referred proposal was approved by majority of the votes cast (93.6701% of votes in favour).----------

--- Subsequently, the Chairman of the General Shareholders' Meeting submitted to vote the setting of the remuneration of the Remunerations Committee to be nominated by the General Shareholders' Meeting, having been issued 2,458,367,469 votes, corresponding to 2,458,367,469 shares, which represent 67,2321% of the share capital. As the abstentions are not considered, the referred proposal was approved by majority of the votes cast (99,9774% of votes in favour). ----------

--- The Chairman of the General Shareholders' Meeting submitted to vote the election of the members of the Environment and Sustainability Board, for the three year period 2018-2020, having been issued 2,459,904,555 votes, corresponding to 2,459,904,555 shares, which represent 67,2741% of the share capital. As the abstentions are not considered, the referred proposal was approved by majority of the votes cast (99,7345% of votes in favour). ----------

---After being concluded the discussion and resolution of all items of the agenda, and since there where no further subject to discuss, the Chairman of the General Shareholders' Meeting addressed some congratulations words and good wishes votes to the new members elected for the corporate bodies, thanking the shareholders, the members of the Executive Board of Directors, the members of the General and Supervisory Board and all other members of the corporate bodies that were present for their collaboration for the properly performance of the meeting.----------

--- Mr. António Manuel de Carvalho Ferreira Vitorino then granted permission to speak to Mr. António Luís Guerra Nunes Mexia, who thanked all shareholders and addressed a personal and indispensable note of gratefulness to Mr. Nuno Maria Pestana de Almeida Alves, for his crucial role performed in the conduction and destiny of EDP along twelve years. ----------

The meeting was closed at eighteen hours and twelve minutes, in relation to which the present minutes were drawn up and will be signed by the Chairman and the Secretary of the General Shareholders' Meeting. ----------

Lisbon, 10th April 2018

# THE LIVING ENERGY BOOK

by edp

# CONTACTS

## HEAD OFFICE

EDP - Energias de Portugal

Av. 24 de Julho, 12
1249-300 Lisboa
Portugal
Tel: +351 21 001 25 00
Fax: +351 21 001 30 00
Website: www.edp.com

## INVESTORS

Investor Relations Department

Av. 24 de Julho, 12
1249-300 Lisboa
Portugal
Tel: +351 21 001 28 34
Fax: +351 21 001 28 99
E-mail: ir@edp.pt

## CUSTOMERS

EDP Lines

Customer service regulated market: 808 505 505
Customer service liberalised market: 808 53 53 53
Meter reading: 808 507 507
Technical assistance: 808 506 506

## SUPPLIERS

Tel: 800 100 113
E-mail: srm@edp.pt

## HUMAN RESOURCES

Human Resources Department

Tel: +351 21 002 25 89
Fax: +351 21 002 29 11

## MEDIA

Communication Department

Av. 24 de Julho, 12
1249-300 Lisboa
Portugal
Tel: +351 21 001 26 80
E-mail: pressedp@edp.pt

## SUSTAINABILITY

E-mail: sustentabilidade@edp.pt

## FUNDAÇÃO EDP

Av. de Brasília, Central Tejo
1300–598 Lisboa
Portugal
Tel: +351 21 002 81 30
Website: www.fundacaoedp.pt
E-mail: fundacaoedp@edp.pt

## STAKEHOLDERS

Institutional Relations and Stakeholders Department

Av. 24 de Julho, 12
1249-300 Lisboa
Portugal
Tel: +351 21 001 30 09
E-mail: stakeholders@edp.pt

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