

Annual Report 2012

# EDP Finance BV

Annual Report

31 December 2012

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# EDP FINANCE BV

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## RESPONSIBILITY STATEMENT

The Managing Directors of the Company wish to state:

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

Amsterdam, 5 March 2013

The Managing Directors

EDP — Energias de Portugal, S.A.

Burg, J. C. W. van.

Gortzen, M. M.

TMF Netherlands B.V.

## REPORT OF MANAGING DIRECTORS

The Managing Directors of EDP Finance BV (hereinafter "the Company") submit the annual report and the financial statements of the Company for the year ended 31<sup>st</sup> December 2012.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

### General

The Company was incorporated under the laws of The Netherlands on 1<sup>st</sup> October 1999.

### Activities

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

### Results

During the year ended 31<sup>st</sup> December 2012, the Company recorded a profit of EUR 10,78 millions. The decrease of the results during 2012 is due to the decrease of the margin between the average rate of the assets and of the liabilities. The average interest rates of assets decreased during 2012 due to the lower market interest rates which affected negatively the 35% of assets at floating rate. Although 55% of the debt of the Company is at floating rate, the positive effect from the lower market rates was partially offset by the higher than average interest rates of the new financings entered into in 2012.

### Major Developments

In 2012, EDP Finance BV took advantage of some windows of opportunity in the international capital markets to issue three Eurobonds, under the EDP SA and EDP Finance BV's "Programme for the Issuance of Debt Instruments" (EMTN). A five-year EUR 750 million Eurobond was issued on 14<sup>th</sup> September and on 13<sup>th</sup> November the Company issued a six-year CHF 125 million Eurobond. In order to hedge the CHF Eurobond issued, EDP SA entered into four interest rate swaps in the total amount of EUR 104 million (being the equivalent of CHF 125 million) which consequently assigned to EDP Finance BV through internal swaps. A one-year Eurobond was issued by EDP Finance BV on 19<sup>th</sup> December in the amount of EUR 350 million. A new Term Facility was entered by EDP Finance BV in August in the amount of EUR 1,000 million with a tenor of five years. In October, the Company entered into a three year Multi-Currency Term Facility in the amount of EUR 800 million which was drawn in USD (USD 1,049 million).

These issues allowed EDP Group to reach different markets and different investors and strengthen its liquidity position, ahead of refinancing needs for the following years.

In June, the company renewed one bilateral loan in the amount of EUR 75 million and in August renewed another EUR 75 million from a EUR 100 million facility, both for two years. A bilateral loan in the amount of EUR 100 million was reimbursed in 19<sup>th</sup> December.

On 12<sup>th</sup> June EDP Finance BV repaid the EUR 500M million Eurobond, issued on the 12<sup>th</sup> June 2006 and on 17<sup>th</sup> August repaid the EUR 350 million Eurobond, issued on the 16<sup>th</sup> August 2011. An USD 1,000 million Eurobond issued on the 2<sup>nd</sup> November 2007 was repaid by the Company on the 2<sup>nd</sup> November.

Additionally, in 2012, EDP Finance BV partially reimbursed the EUR 2,000 million Revolving Credit Facility, dated 3<sup>rd</sup> November 2010, which is drawn in the amount of EUR 300 million at year end.

### Liquidity

Supported by a Keep Well Agreement from EDP S.A. (see Note 4), EDP Finance B.V.'s treasury management is integrated in EDP Group.

Maintaining a prudent financial management policy, by the end of December 2012 the Group had total liquidity of EUR 4,057 million, of which, (i) EUR 2,057 million of cash and equivalents, (ii) EUR 1,700 million of available committed credit lines and (iii) EUR 300 million of available commercial paper fully underwriting.

### Subsequent Events

On the 28<sup>th</sup> January 2013, EDP Finance BV reimbursed EUR 200 million of the EUR 2,000 million Revolving Credit Facility, dated 3<sup>rd</sup> November 2010, decreasing the drawdown amount to EUR 100 million.

On the 31<sup>st</sup> January 2013, EDP Finance BV and EDP SA entered into a five year Euro term loan in the amount of € 1,600 million. This new facility, involving 16 domestic and international banks, is intended to replace the existing € 925 million revolving credit facility maturing in April 2013 and the € 1,100 million revolving credit facility maturing in November 2013.

The company renewed on the 4<sup>th</sup> February a bilateral loan for two additional years increasing the amount from EUR 80 million to EUR 100 million. A bilateral loan in the amount of EUR 75 million was partially reimbursed in 7<sup>th</sup> February in the amount of 50 million.

### Debt

In 2012, the EDP Finance BV's (nominal) consolidated debt totalled EUR 14,963 million. When compared to December 2011, the Company's debt was nearly EUR 968 million higher, mostly in order to fund the EDP's group subsidiaries through intercompany loans, which increased nearly EUR 1,157 million in 2012 and also due to the EUR/USD negative exchange variation of EUR 48 million.

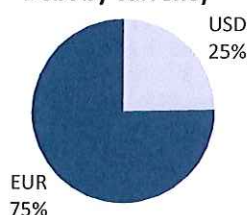
## IFRS Debt - EDP Finance BV

EUR millions

	Dec 2012	Dec 2011	Change
<b>Debt - Short term</b>	<b>2.656</b>	<b>2.095</b>	<b>27%</b>
Bonds	350	1.623	-78%
Bank loans	2.206	355	521%
Intercompany loans	100	117	-14%
<b>Debt - Long term</b>	<b>12.307</b>	<b>11.900</b>	<b>3%</b>
Bonds	8.654	7.915	9%
Bank loans	3.653	3.984	-8%
<b>Nominal debt</b>	<b>14.963</b>	<b>13.995</b>	<b>7%</b>
Interest accrued	271	256	6%
Fair value hedge adjustments	96	62	55%
<b>Debt under IFRS</b>	<b>15.330</b>	<b>14.313</b>	<b>7%</b>

In terms of currencies of EDP BV external debt, the USD financing contracted to fund the purchase and capex of Horizon Wind Energy (a company based in the US that develops, constructs and operates wind power electricity generating facilities) justifies the Group's USD denominated debt (25%). The Euro continues to be the main funding currency of the EDP Group (75%).

Debt by currency



## Rating

In February 2012, following the downgrade of the sovereign, Standard & Poor's ("S&P") downgraded EDP's rating to "BB+" from "BBB" with negative Outlook and Moody's downgraded EDP's rating to "Ba1" from "Baa3" with negative Outlook.

In April 2012, Fitch placed all utilities with sizeable exposure to Spain, including EDP, on Rating Watch Negative, following the measures adopted by the Spanish Government as part of its 2012 budget presentation. In August 2012, Fitch downgraded EDP's rating to "BBB-" from "BBB+", with negative outlook. The downgrade was driven by the declining predictability of the regulatory environment in Portugal and Spain.

EDP's credit rating stands as at December 2012 two notches above the Republic of Portugal by Moody's and one notch by Standard and Poor's and by Fitch

December 2012			
	S&P	Moody's	Fitch
EDP SA, BV	BB+/OUT-/B	Ba1/OUT-/NP	BBB-/OUT-/F3

## Risk Management

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

## Expectations for 2013

Given the cash flow expected to be generated by the Group as well as the available liquidity, the company expects to continue its normal course of business in 2013, as in the previous years, despite the adverse market conditions and the credit crisis in the European countries.

## Audit Committee

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

Eduardo de Almeida Catroga: President

Victor Fernando da Conceição Gonçalves: Vice-President

António Sarmento Gomes Mota: Member

Manuel Fernando de Macedo Alves Monteiro: Member

Maria Celeste Ferreira Lopes Cardona: Member

Amsterdam, 5 March 2013

The Managing Directors:

EDP Energias de Portugal, S.A.

Burg, J. C. W. van.

Gortzen, M. M.

TMF Netherlands B.V.

# EDP Finance BV

Financial Statements

31 December 2012

## EDP Finance, BV

### Company Statement of comprehensive income for the years ended 31 December 2012 and 2011

	Notes	2012	2011
		(Thousands of Euros)	(Thousands of Euros)
Interest income	6	636,015	648,726
Interest expenses	6	-614,260	-601,692
Net interest income		21,755	47,034
Net other financial income and expenses	7	-7,895	8,085
Net financial income		13,860	55,119
Other operating income / (expenses)			
Services rendered	8	705	698
Supplies and services	9	-1,577	-1,415
Provisions	10	1,400	-
Profit before income tax		14,388	54,402
Income tax expense	11	-3,609	-13,591
Profit for the year		10,779	40,811
Other comprehensive income		-	-
Total comprehensive income for the year		10,779	40,811
Profit for the year attributable to owners of the company		10,779	40,811
Total comprehensive income for the year attributable to the owner of the company		10,779	40,811



## EDP Finance, BV

### Company Statement of financial position as at 31 December 2012 and 2011 (before proposed appropriation of profit)

	Notes	2012	2011
		(Thousands of Euros)	(Thousands of Euros)
<b>Assets</b>			
Loans to and receivables from group entities	12	7,959,801	7,558,295
Derivative financial instruments	19	141,930	112,094
<b>Total Non-Current Assets</b>		<b>8,101,731</b>	<b>7,670,389</b>
Loans to and receivables from group entities	12	7,508,470	6,269,662
Derivative financial instruments	19	77,256	74,159
Debtors and other assets		711	884
Cash and cash equivalents	13	343,585	403,883
<b>Total Current Assets</b>		<b>7,930,022</b>	<b>6,748,588</b>
<b>Total Assets</b>		<b>16,031,753</b>	<b>14,418,977</b>
<b>Equity</b>			
Share capital	14	2,000	2,000
Share premium	14	11,980	11,980
Reserves and retained earnings	15	112,887	72,076
Profit for the year		10,779	40,811
<b>Total Equity</b>		<b>137,646</b>	<b>126,867</b>
<b>Liabilities</b>			
Debt securities	16	8,750,028	7,874,817
Loans and credit facilities from third parties	16	3,653,295	3,972,309
Provisions	10	-	32,481
Derivative financial instruments	19	41,654	54,251
<b>Total Non-Current Liabilities</b>		<b>12,444,977</b>	<b>11,933,858</b>
Debt securities	16	591,304	1,873,708
Loans and credit facilities from third parties	16	2,235,300	358,607
Loans from group entities	17	100,111	116,837
Amounts owed on purchased debt securities	18	480,000	-
Derivative financial instruments	19	7,019	4,011
Trade and other payables		1,510	3,596
Tax payable	20	33,886	1,493
<b>Total Current Liabilities</b>		<b>3,449,130</b>	<b>2,358,252</b>
<b>Total Liabilities</b>		<b>15,894,107</b>	<b>14,292,110</b>
<b>Total Equity and Liabilities</b>		<b>16,031,753</b>	<b>14,418,977</b>

**EDP Finance, BV**  
**Company Statement of cash flows for the years ended**  
**31 December 2012 and 2011**

(Thousands of Euros)

	Notes	Company	
		Dec 2012	Dec 2011
<b>Operating activities</b>			
<b>Profit for the year</b>		<u>10,779</u>	<u>40,811</u>
<b>Adjustments for:</b>			
Net interest income		-21,755	-50,674
Income tax expense		3,609	2,210
Amortisation of discounts/premiums		<u>3,934</u>	<u>10,795</u>
		-3,433	3,142
<b>Changes in:</b>			
Change in derivative financial instruments		-42,522	-130,613
Change in debtors and other assets		172	109
Change in loans from group entities		-16,725	-256,098
Change in amounts owed on purchased debt securities		480,000	-724,000
Change in trade and other payables		-2,087	-291
Change in tax payable		31,987	-
Change in provisions		-32,481	11,381
Change in share premium		-	383
Change to debt securities		510,950	900,857
Change in loans and credit facilities from third parties		-12,834	40,215
Changes in loans to group entities		<u>318,907</u>	<u>-418,716</u>
		1,231,934	-573,631
Extension of loans to group entities		-2,420,255	-1,572,861
Redemption of loans to group entities		95,196	990,150
Interest received		400,866	344,261
Interest paid		-517,702	-299,554
Income tax paid		<u>-3,204</u>	<u>-732</u>
<b>Net cash flow from operating activities</b>		<u>-1,213,165</u>	<u>-1,112,367</u>
<b>Cash flows from financing activities</b>			
Proceeds from issued debt securities		1,203,545	939,207
Redemption of debt securities		-1,607,920	-500,000
Proceeds of loans and credit facilities from third parties		1,945,513	700,000
Redemption of loans and credit facilities from third parties		<u>-375,000</u>	<u>-150,000</u>
<b>Net cash flow from financing activities</b>		<u>1,166,138</u>	<u>989,207</u>
<b>Changes in cash and cash equivalents</b>		<u>-47,027</u>	<u>-123,160</u>
Cash and cash equivalents at the beginning of the year	13	403,883	519,090
Effect of exchange rate fluctuations on cash and cash equivalents held		<u>-13,271</u>	<u>7,953</u>
<b>Cash and cash equivalents at the end of the year (*)</b>	13	<u>343,585</u>	<u>403,883</u>

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

# EDP Finance, BV

## Company Statement of Changes in Equity for the years ended 31 December 2012 and 2011

(Thousands of Euros)

	Notes	Attributable to shareholders of the Company				
		Total Equity	Share capital	Share premium	Reserves and retained earnings	Profit for the period
Balance as at 1 January 2011		85,673	2,000	11,597	10,192	61,884
Prior year profit		-	-	-	61,884	-61,884
Comprehensive income:						
Profit for the year		40,811	-	-	-	40,811
Shareholders contribution in kind		383	-	383	-	-
Comprehensive income for the year		41,194	-	383	-	40,811
Balance as at 31 December 2011	14, 15	126,867	2,000	11,980	72,076	40,811
Prior year profit		-	-	-	40,811	-40,811
Comprehensive income:						
Profit for the year		10,779	-	-	-	10,779
Shareholders contribution in kind	14	-	-	-	-	-
Balance as at 31 December 2012	14, 15	137,646	2,000	11,980	112,887	10,779

**EDP Finance BV**  
**Notes to the Financial Statements**  
**for the years ended 31 December 2012 and 2011**

**1. Economic activity of EDP Finance**

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

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

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

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

These financial statements are of an individual company.

**2. Accounting policies**

**a) Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU-IFRS) and with the applicable sections of Part 9 of Book 2 of the Netherlands Civil Code.

The accompanying financial statements of the Company reflect the results of the Company's operations and the financial position for the years ended 31 December 2012 and 2011.

The entity prepares its financial statements, except for the cash flow information, using the accrual basis of accounting, modified by the application of the fair value accounting to derivative financial instruments. Assets and liabilities that are hedged under hedge accounting are stated at fair value in respect of the hedged risk.

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

The Company's Managing Directors approved the financial statements (referred to as financial statements) on 5 March 2013. The financial statements are presented in Euros, which is the Company's functional currency, rounded to the nearest thousand.

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

**b) Foreign currency transactions**

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

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

The following exchange rate has been applied as at 31 December 2012 and 2011:

Currency		Exchange rates at Dec 2012		Exchange rates at Dec 2011	
		Closing rates	Average exchange-rate	Closing rates	Average exchange-rate
Dollar	USD	1.319	1.285	1.294	1.392
Pound Sterling	GBP	0.816	0.811	0.835	0.868
Swiss Franc	CHF	1.207	1.205	1.216	1.233
Japanese Yen	JPY	113.610	102.456	100.200	110.971

**c) Derivative financial instruments and hedge accounting**

Derivative financial instruments are recognised on the trade date at fair value. Subsequently, the fair value of derivative financial instruments is remeasured on a regular basis, with the gains or losses on remeasurement recognised directly in the statement of comprehensive income. Recognition, in the statement of comprehensive income, of the resulting gains and losses on remeasurement of hedging derivatives depends on the nature of the risk being hedged and of the hedge model used.

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

#### Hedge accounting

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

Hedging derivatives are recorded at fair value, with the gains and losses recognised in accordance with the hedge accounting model applied by the Company. A hedge relationship exists when:

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

#### Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income, 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.

#### Effectiveness

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

#### d) Financial assets

Financial assets are initially recognised at fair value plus transaction costs. Subsequently these assets are measured at amortised cost using the effective interest rate method, less any impairment losses (if not hedged under hedge accounting nor a derivative).

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

#### Impairment

At each statement of financial position date an assessment is performed as to whether there is objective evidence of impairment, namely those resulting in an adverse effect on estimated future cash flows of the financial asset or group of financial assets, and every time it can be reliably measured.

If there is objective evidence of impairment, the recoverable amount of the financial asset is determined, and the impairment loss is recognised in the statement of comprehensive income. The recoverable amount is the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the asset original effective interest rate.

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. Objective evidence that the financial asset measured at amortised cost is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events, among others:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

For debt instruments, if in a subsequent period the amount of the impairment loss decreases, the previously recognised impairment loss is reversed to the statement of comprehensive income up to the amount of the acquisition cost, if the increase is objectively related to an event occurring after the impairment loss was recognised.

#### e) Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to liquidate capital and/or interests, through delivering cash or other financial assets to extinguish the contractual obligation, independently of its legal form. Financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest rate method.

#### f) Provisions

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

**g) Recognition of costs and revenues**

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

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

- Interest on financial assets and financial liabilities measured at amortized cost;
- Interest cost on borrowings;
- Interest on hedging derivatives;
- The effective portion of fair value changes in qualifying hedging derivatives.

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

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

**h) Net other financial income and expenses**

Financial results include foreign exchange gains and losses, realised gains and losses, when applicable.

Interest is recognised in the statement of comprehensive income on an accrual basis.

**i) Income tax**

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

Current tax is the tax expected to be paid on the taxable income for the period, using tax rates enacted at the statement of financial position date.

**j) Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents include balances with maturity of less than three months from the statement of financial position date, including cash and deposits in banks that are readily convertible to known amounts of cash.

**k) Statement of cash flows**

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

**l) Determination of operating segments**

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

**3. Critical accounting estimates and judgements in preparing the financial statements**

IFRS require the use of judgement and the making of estimates in the decision process about certain accounting treatments, with impact in total assets, liabilities, equity, costs and income. 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 their application affects the Company's reported results and disclosures. A broader description of the accounting policies employed by the Company is disclosed in note 2 to this Financial Statements.

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

**Fair value of financial instruments**

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

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

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

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

#### **4. Financial-risk management policies**

##### **Financial risk management**

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

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

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

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

##### **Exchange-rate risk management**

EDP Finance BV is exposed to exchange rate risk through its debt denominated in US Dollars (USD), British Pounds (GBP), Japanese Yen (JPY) and Swiss Francs (CHF). The Group's objective is to maintain a matched position between assets and liabilities in each currency. Any residual exposure is closely monitored. Currently, the exposure to EUR/USD exchange rate risk results essentially from the investments by the EDP Group in the USA through its subsidiary EDP Renewables, North America. EDP Finance BV issued USD loans as well as foreign exchange derivative financial instruments that convert the issued debt into USD, with the objective of mitigating the exchange rate risk related to the intercompany loans granted to finance the USD assets of the EDP Group. The exchange rate risk on the GBP, JPY and CHF bonds issued under the Medium Term Notes Program have been hedged as from their issuing date.

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

##### **Sensitivity analysis - exchange rate**

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

##### **Interest rate risk management**

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

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

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

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**Sensitivity analysis - Interest rates**

Based on the financial instruments with exposure to interest rate risk as at 31 December 2012 and 2011, a 100 basis points change in the reference interest rates would lead to the following increases / (decreases) in equity and results of EDP Finance BV:

		Dec 2012			
		Results Euro'000		Equity Euro'000	
		100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
<b>Liabilities</b>					
Cash flow effect:					
Hedged debt		-20,121	20,121	-	-
Unhedged debt		-65,648	65,648	-	-
		<u>-85,769</u>	<u>85,769</u>	<u>-</u>	<u>-</u>
<b>Assets</b>					
Cash flow effect:					
Unhedged debt		69,619	-69,619	-	-
		<u>69,619</u>	<u>-69,619</u>	<u>-</u>	<u>-</u>
		Dec 2011			
		Results Euro'000		Equity Euro'000	
		100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
<b>Liabilities</b>					
Cash flow effect:					
Hedged debt		-19,082	19,082	-	-
Unhedged debt		-48,835	48,835	-	-
		<u>-67,917</u>	<u>67,917</u>	<u>-</u>	<u>-</u>
<b>Assets</b>					
Cash flow effect:					
Unhedged debt		53,522	-53,522	-	-
		<u>53,522</u>	<u>-53,522</u>	<u>-</u>	<u>-</u>

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

**Counterparty credit risk management**

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

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

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

The credit risk arising from loans granted to EDP Group companies is mitigated by the control that EDP — Energias de Portugal, S.A. has over the management of those companies. As at 31 December 2012 and 2011, all loans granted by EDP Finance BV had as counterparties companies controlled by EDP — Energias de Portugal, S.A. As per 31 December 2012 and 31 December 2011 no impairment triggers were identified with respect to loans issued to group companies.

The maximum credit exposure equals the amount of total assets as per 31 December 2012 and 31 December 2011 being Eur 16.0 billion and Eur 14.4 billion, respectively.

**Liquidity risk management**

Liquidity risk is managed by engaging and maintaining credit lines and financing facilities with a firm underwriting commitment with national and international financial institutions allowing immediate access to funds. These lines are used to complement and backup national and international commercial paper programmes, allowing for a diversification of EDP Finance BV's short-term financing sources. The quantitative information for liquidity risk is included in Note 21.

Among the key sources of liquidity of EDP Finance BV, there are a medium term Revolving Credit Facility (RCF) of 2,000,000 thousand Euros and a RCF of 1,500,000 thousand USD, both with a firm underwriting commitment. As at 31 December 2012 the former was partially available (1,700,000 thousand Euros) and the latter was fully drawn.



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**5. Segment reporting**

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

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

**6. Interest income and expenses**

Interest income and expenses are analysed as follows:

	Company	
	Dec 2012 Euro'000	Dec 2011 Euro'000
<b>Interest income</b>		
Loans and receivables to group entities	530,932	547,178
Derivative financial instruments	94,123	90,208
Other interest income	10,960	11,340
	<u>636,015</u>	<u>648,726</u>
	Company	
	Dec 2012 Euro'000	Dec 2011 Euro'000
<b>Interest expenses</b>		
Bank loans	89,235	73,409
Medium term notes	464,665	458,747
Derivative financial instruments	58,910	66,270
Other interest expenses	1,450	3,266
	<u>614,260</u>	<u>601,692</u>

**7. Net other financial income and expenses**

Net other financial income and expenses are analysed as follows:

	Company	
	Dec 2012 Euro'000	Dec 2011 Euro'000
<b>Other financial income</b>		
Derivative financial instruments - Trading	24,493	18,629
Derivative financial instruments - Ineffectiveness	6,476	-
Foreign exchange gains	-	6,730
Other	8	4
	<u>30,977</u>	<u>25,363</u>
<b>Other financial expenses</b>		
Derivative financial instruments - Trading	22,010	17,152
Foreign exchange losses	15,488	-
Other	1,374	126
	<u>38,872</u>	<u>17,278</u>
	<u>-7,895</u>	<u>8,085</u>

**8. Services rendered**

Services rendered are analysed as follows:

	Company	
	Dec 2012 Euro'000	Dec 2011 Euro'000
Debt portfolio management	705	698
	<u>705</u>	<u>698</u>

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

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**9. Supplies and services**

**Supplies and services** are analysed as follows:

	Company	
	Dec 2012 Euro'000	Dec 2011 Euro'000
<b>Supplies and services:</b>		
EDP, S.A. Services	705	697
Specialised works - Consulting services	474	479
Specialised works - Legal services	331	44
Other	67	195
	<u>1,577</u>	<u>1,415</u>

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

**10. Provisions**

**Provisions** are analysed as follows:

	Company Euro'000
Balance at 1 January 2011	21,101
Provisions made during the year	11,380
Provisions reversed during the year	-
Balance at 31 December 2011	<u>32,481</u>
Provisions reversed during the year	-1,400
Provisions used	<u>-31,081</u>
Balance at 31 December 2012	<u>-</u>

This tax provision was used through "Current liabilities - tax payable" since, as a result of the discussions held with the Dutch Tax Authorities, it was agreed and concluded that the Advanced Pricing Agreement (APA) was no longer applicable as of the year 2010. As such, the tax will be paid (see note 20).

**11. Income tax**

	Company	
	Dec 2012 Euro'000	Dec 2011 Euro'000
Total income tax	3,609	13,591
Profit before income tax	<u>14,388</u>	<u>54,402</u>
Effective tax rate of the company	<u>25%</u>	<u>25%</u>

EDP Finance BV settled on 27th November 2007 an Advanced Pricing Agreement (APA) with the Dutch Tax Authorities that determines the taxable amount of the company under certain requirements and assumptions.

As a result of the discussions held with the Dutch Tax Authorities, it was agreed and concluded that the APA was no longer applicable as of the year 2010. Therefore, the effective corporate income tax rate of EDP Finance BV in 2011 and 2012 corresponds to the Dutch statutory tax rate of 25%.

In this sense, the tax provision which was booked in previous periods was reclassified to "Current liabilities - tax payable" (see notes 10 and 20) and as such the provision was used.

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## 12. Loans to Group entities

Loans to Group entities are analysed as follows:

	Company	
	Dec 2012 Euro'000	Dec 2011 Euro'000
Loans to and receivables from group entities - Non current:		
EDP Sucursal en España, S.A.	3,006,023	2,437,075
EDP Renováveis, S.A.	2,843,114	2,986,433
Hidroeléctrica del Cantabrico, S.A.	1,791,237	1,921,236
Other	319,427	213,551
	<u>7,959,801</u>	<u>7,558,295</u>
Loans to and receivables from group entities - Current:		
EDP Energias de Portugal, S.A.	6,862,128	5,207,187
EDP Sucursal en España, S.A.	218,677	851,430
Accrued interest	427,665	211,045
	<u>7,508,470</u>	<u>6,269,662</u>
	<u>15,468,271</u>	<u>13,827,957</u>

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

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

	Company	
	Dec 2012 Euro'000	Dec 2011 Euro'000
Loans to and receivables from group entities		
Up to 1 year	7,508,470	6,269,662
From 1 to 5 years	2,491,476	1,853,936
More than 5 years	5,468,325	5,704,359
	<u>15,468,271</u>	<u>13,827,957</u>

The maturity of debt and borrowings split in different currencies, are analysed as follows:

	2013 Euro'000	2014 Euro'000	2015 Euro'000	2016 Euro'000	2017 Euro'000	Following years Euro'000	Total Euro'000
Loans to and receivables from group entities:							
Euro	7,211,163	1,070,987	304,273	454,551	-	2,755,292	11,796,266
US Dollar	297,307	-	661,664	-	-	2,713,034	3,672,005
	<u>7,508,470</u>	<u>1,070,987</u>	<u>965,937</u>	<u>454,551</u>	<u>-</u>	<u>5,468,326</u>	<u>15,468,271</u>

Loans to group entities are not collateralized.

## 13. Cash and cash equivalents

Cash and cash equivalents are analysed as follows:

	Group	
	Dec 2012 Euro'000	Dec 2011 Euro'000
Bank deposits:		
- Current deposits	1,259	1,669
- Term deposits	342,326	402,214
	<u>343,585</u>	<u>403,883</u>

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

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**14. Share capital and share premium**

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

Share capital and Share premium are analysed as follows:

	Company	
	Share capital Euro'000	Share premium Euro'000
Balance as at 31 December 2011	2,000	11,980
Movements during the year	-	-
Balance as at 31 December 2012	2,000	11,980

**15. Reserves and retained earnings**

This caption is analysed as follows:

	Company	
	Dec 2012 Euro'000	Dec 2011 Euro'000
Accumulated results	112,887	72,076
	112,887	72,076

The share premium and reserves are fully attributable to EDP - Energias de Portugal, S.A.

**16. Debt securities and Loans and credit facilities from third parties**

This caption is analysed as follows:

	Company	
	Dec 2012 Euro'000	Dec 2011 Euro'000
<b>Debt securities and Loans and credit facilities from third parties - Non Current</b>		
Debt securities	8,654,038	7,812,904
Fair value of the issued debt hedged risk	95,990	61,913
	8,750,028	7,874,817
Loans and credit facilities from third parties	3,653,295	3,972,309
	12,403,323	11,847,126
<b>Debt securities and Loans and credit facilities from third parties - Current</b>		
Debt securities	350,000	1,621,314
Accrued interest	241,304	252,394
	591,304	1,873,708
Loans and credit facilities from third parties	2,206,000	354,666
Accrued interest	29,300	3,941
	2,235,300	358,607
	2,826,604	2,232,315
<b>Total</b>	<b>15,229,927</b>	<b>14,079,441</b>

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

Date issued	Interest rate	Type of hedge	Conditions / Redemption	Nominal amount Euro'000
Aug-02	Fixed rate GBP 6.625% (i)	Fair Value	Aug/17	320,000
Dec/02	Fixed rate EUR (iii)	n.a.	Dec/22	93,357
Jun/05	Fixed rate EUR 3.75%	n.a.	Jun/15	500,000
Jun/05	Fixed rate EUR 4.125%	n.a.	Jun/20	300,000
Jun/06	Fixed rate EUR 4.625%	n.a.	Jun/16	500,000
Nov/07	Fixed rate USD 6.00 %	n.a.	Feb/18	757,920
Nov/08	Fixed rate GBP 8.625% (i)	Fair Value	Jan/24	410,314
Nov/08	Zero coupon (iii)	n.a.	Nov/23	160,000
Feb/09	Fixed rate EUR 5.5% (ii)	n.a.	Feb/14	1,000,000
Jun/09	Fixed rate JPY (i), (iii)	n.a.	Jun/19	88,020
Jun/09	Fixed rate EUR 4.75%	n.a.	Sep/16	1,000,000
Sep/09	Fixed rate USD 4.90 %	n.a.	Oct/19	757,920
Feb/10	Floating rate (iii)	n.a.	Feb/15	75,792
Mar/10	Fixed rate EUR 3.25% (i)	Fair Value	Mar/15	1,000,000
Feb/11	Fixed rate EUR 5.875%	n.a.	Feb/16	750,000
Feb/11	Fixed rate CHF 3.5% (i)	Fair Value	Feb/14	177,911
Sep/12	Fixed rate EUR 5.75%	n.a.	Sep/17	750,000
Nov/12	Fixed rate CHF 4.00% (i)	Fair Value	Nov/18	103,922
Dec/12	Floating rate (iii)	n.a.	Dec/13	350,000

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

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

(iii) These issues correspond to private placements.

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

	Company	
	Dec 2012 Euro'000	Dec 2011 Euro'000
<b>Debt securities:</b>		
Up to 1 year	591,304	1,873,708
From 1 to 5 years	6,069,238	5,030,015
More than 5 years	2,680,790	2,844,802
	<u>9,341,332</u>	<u>9,748,525</u>
<b>Loans and credit facilities from third parties:</b>		
Up to 1 year	2,235,300	358,607
From 1 to 5 years	3,653,295	3,972,309
	<u>5,888,595</u>	<u>4,330,916</u>
	<u>15,229,927</u>	<u>14,079,441</u>

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

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

	2013 Euro'000	2014 Euro'000	2015 Euro'000	2016 Euro'000	2017 Euro'000	Following years Euro'000	Total Euro'000
<b>Debt securities</b>							
Euro (i)	562,990	1,236,750	1,492,964	2,241,065	1,022,667	1,085,513	7,641,949
US Dollar (ii)	28,314	-	75,792	-	-	1,595,277	1,699,383
	<u>591,304</u>	<u>1,236,750</u>	<u>1,568,756</u>	<u>2,241,065</u>	<u>1,022,667</u>	<u>2,680,790</u>	<u>9,341,332</u>
<b>Loans and credit facilities from third parties:</b>							
Euro	2,229,292	448,646	292,369	-	980,392	-	3,950,699
US Dollar	6,008	1,136,375	795,513	-	-	-	1,937,896
	<u>2,235,300</u>	<u>1,585,021</u>	<u>1,087,882</u>	<u>-</u>	<u>980,392</u>	<u>-</u>	<u>5,888,595</u>
	<u>2,826,604</u>	<u>2,821,771</u>	<u>2,656,638</u>	<u>2,241,065</u>	<u>2,003,059</u>	<u>2,680,790</u>	<u>15,229,927</u>

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

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

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**17. Loans from Group entities**

Loans from Group entities are analysed as follows:

	Company	
	Dec 2012 Euro'000	Dec 2011 Euro'000
Loans from Group entities - Current:		
EDP Sucursal en España, S.A.	100,098	116,836
EDP Renováveis, S.A.	13	1
	<u>100,111</u>	<u>116,837</u>

**18. Amounts owed on purchased debt securities**

As at 31 December 2012 this caption refers to a trade of commercial paper of 480,000 which was settled on January 3rd 2013.

**19. Derivative financial instruments**

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

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

	Fair value		Notional			
	Assets Euro'000	Liabilities Euro'000	Up to 1 year Euro'000	From 1 to 5 years Euro'000	Over 5 Years Euro'000	Total Euro'000
<b>Fair value hedges</b>						
Interest rate swaps	68,234	-	-	1,000,000	-	1,000,000
Cross currency interest rate swaps	131,981	-38,028	-	497,911	514,235	1,012,146
<b>Derivatives held for trading</b>						
Interest rate swaps	18,923	-10,645	-	500,000	-	500,000
Cross currency interest rate swaps	48	-	-	-	79,255	79,255
	<u>219,186</u>	<u>-48,673</u>		<u>1,997,911</u>	<u>593,490</u>	<u>2,591,401</u>

In 2011 the fair value and the maturity of the derivative financial instruments are analysed as follows:

	Fair value		Notional			
	Assets Euro'000	Liabilities Euro'000	Up to 1 year Euro'000	From 1 to 5 years Euro'000	Over 5 Years Euro'000	Total Euro'000
<b>Fair value hedges</b>						
Interest rate swaps	54,261	-	-	1,000,000	-	1,000,000
Cross currency interest rate swaps	111,204	-52,173	-	177,911	830,113	1,008,024
<b>Derivatives held for trading</b>						
Interest rate swaps	20,788	-6,089	-	500,000	-	500,000
	<u>186,253</u>	<u>-58,262</u>		<u>1,677,911</u>	<u>830,113</u>	<u>2,508,024</u>

The company enters into interest rate swaps and Cross Currency Interest rate swaps to hedge its exposures to changes in the fair values of its issued fixed rate Euro and Non Euro loans to changes in market interest rates. These swaps are matched to specific issuances of fixed rate loans.

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

Type of hedge	Hedging instrument	Hedged risk	2012		2011	
			Changes in fair value		Changes in fair value	
			Instrument Euro'000	Risk Euro'000	Instrument Euro'000	Risk Euro'000
- Fair value	Interest rate swap	Interest rate	11,443	-9,965	26,064	-26,064
- Fair value	Cross currency interest rate swaps	Interest and exchange rate	30,990	-25,992	105,807	-105,807
			<u>42,433</u>	<u>-35,957</u>	<u>131,871</u>	<u>-131,871</u>

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The gains and losses on the financial instruments portfolio booked in the statement of comprehensive income in 2012 and 2011 are as follows:

	Company	
	Dec 2012 Euro'000	Dec 2011 Euro'000
Derivatives held for trading	2,483	1,477
Fair value hedges		
- Derivatives	42,433	131,871
- Hedged liabilities	-35,957	-131,871
	<u>8,959</u>	<u>1,477</u>

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

	Notional EUR'000	Currency	Company	
			EDP Pays	EDP Receives
<b>Interest rate contracts</b>				
Interest rate swaps	1,500,000	EUR	[ 3.85% - 1.1% ]	[ 4.01% - 3.51% ]
<b>Currency interest rate</b>				
CIRS (currency interest rate swaps)	730,314	EUR / GBP	[ 4.21% - 2.15% ]	[ 8.63% - 6.63% ]
CIRS (currency interest rate swaps)	79,255	USD / JPY	6.80%	3.11%
CIRS (currency interest rate swaps)	281,832	EUR / CHF	[ 4.48% - 2.91% ]	[ 4.01% - 3.51% ]

The effective interest rates of the derivative financial instruments relating to financing operations at 31 December 2011 were as follows:

	Notional EUR'000	Currency	Company	
			EDP Pays	EDP Receives
<b>Interest rate contracts</b>				
Interest rate swaps	1,500,000	EUR	[ 3.98% - 2.34% ]	[ 5.5% - 3.25% ]
<b>Currency interest rate</b>				
CIRS (currency interest rate swaps)	730,313	EUR / GBP	[ 5.54% - 3.26% ]	[ 8.63% - 6.63% ]
CIRS (currency interest rate swaps)	99,800	USD / JPY	6.80%	3.11%
CIRS (currency interest rate swaps)	177,911	EUR / CHF	[ 4.20% - 4.18% ]	3.51%

## 20. Tax payable

As at 31 December 2012 this caption refers to the tax due regarding fiscal years 2010 to 2012 as a result of the discussions held with the Dutch Tax Authorities, in which it was agreed and concluded that the APA is no longer applicable as of the year 2010. This amount was previously booked as a tax provision (see note 10).

## 21. Commitments

The contractualised commitments relating to short and medium/long term financial debt and respective interest are disclosed, as at 31 December 2012 and 2011, by maturity, as follows:

	Dec 2012				
	Contractual Commitments outstanding by maturity				
	Total Euro'000	Less than 1 year Euro'000	From 1 to 3 years Euro'000	From 3 to 5 years Euro'000	More than 5 years Euro'000
Short and long term financial debt (including interest)	17,691,722	3,156,425	6,321,012	4,891,971	3,322,314
	<u>17,691,722</u>	<u>3,156,425</u>	<u>6,321,012</u>	<u>4,891,971</u>	<u>3,322,314</u>
	Dec 2011				
	Contractual Commitments outstanding by maturity				
	Total Euro'000	Less than 1 year Euro'000	From 1 to 3 years Euro'000	From 3 to 5 years Euro'000	More than 5 years Euro'000
Short and long term financial debt (including interest)	16,327,351	2,590,995	5,556,225	4,795,683	3,384,448
	<u>16,327,351</u>	<u>2,590,995</u>	<u>5,556,225</u>	<u>4,795,683</u>	<u>3,384,448</u>

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

As mentioned on the subsequent events, in January 2013 EDP Finance BV and EDP SA entered into a five year Euro term loan in the amount of 1,600 million of Euros, intended to replace the existing 925 million of Euros of revolving credit facility maturing in April 2013 and 1,100 million of Euros of revolving credit facility maturing in November 2013. If EDP Finance BV does not raise additional funds in the debt capital market or / and bank loan market, the remaining short term commitments are ensured by the term deposits available and the 2,000 million of Euros revolving credit facility which is 1,900 million of Euros available.

## 22. Related parties

### Main shareholders and shares held by company officers

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

### Other Related Parties

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

### Remuneration of directors

The charges regarding remuneration of directors and former directors amounts to 10,948 Euros (2011: 10,948 Euros).

### Balances and transactions with related parties

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

	Loans Granted Euro'000	Other Receivables Euro'000	Total Euro'000
EDP - Energias de Portugal, S.A.	6,862,128	-	6,862,128
EDP Sucursal en España, S.A.	3,250,779	-	3,250,779
EDP Renováveis, S.A.	2,963,160	-	2,963,160
Hidroeléctrica del Cantabrico, S.A.	1,956,794	678	1,957,472
Other	435,410	33	435,443
	<u>15,468,271</u>	<u>711</u>	<u>15,468,982</u>

As at 31 December 2011, the **outstanding receivables** with related parties are analysed as follows:

	Loans Granted Euro'000	Other Receivables Euro'000	Total Euro'000
EDP - Energias de Portugal, S.A.	5,207,187	-	5,207,187
EDP Sucursal en España, S.A.	3,322,254	-	3,322,254
EDP Renováveis, S.A.	2,988,864	-	2,988,864
Hidroeléctrica del Cantabrico, S.A.	1,957,000	645	1,957,645
Other	352,652	239	352,891
	<u>13,827,957</u>	<u>884</u>	<u>13,828,841</u>

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

	Loans Obtained Euro'000	Other Payables Euro'000	Total Euro'000
EDP - Energias de Portugal, S.A.	-	482,419	482,419
EDP Sucursal en España, S.A.	100,098	-	100,098
Other	13	1	14
	<u>100,111</u>	<u>482,420</u>	<u>582,531</u>



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As at 31 December 2011, the **outstanding payables** with related parties are analysed as follows:

	<b>Loans Obtained Euro'000</b>	<b>Other Payables Euro'000</b>	<b>Total Euro'000</b>
EDP Sucursal en España, S.A.	116,836	-	116,836
Other	1	349	350
	<u>116,837</u>	<u>349</u>	<u>117,186</u>

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

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

**Income and expenses** related to transactions with related parties as at 31 December 2011, are as follows:

	<b>Interest on Intra-Group Financial Mov. Euro'000</b>	<b>Other Euro'000</b>	<b>Total Euro'000</b>
EDP - Energias de Portugal, S.A.	79,489	-697	78,792
EDP Sucursal en España, S.A.	173,978	-	173,978
EDP Renováveis, S.A.	152,017	-	152,017
Hidroeléctrica del Cantabrico, S.A.	137,055	683	137,738
Other	<u>6,103</u>	<u>14</u>	<u>6,117</u>
	<u>548,642</u>	<u>-</u>	<u>548,642</u>

### 23. Fair value of financial assets and liabilities

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

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

As at 31 December 2012 and 2011, the following table presents the interest rate curves of the major currencies to which the Company is exposed used for cash flow discount (in addition to the rates listed below, the company adjusts discount rates for credit risk):

	<b>31 December 2012</b>		<b>31 December 2011</b>	
	<b>Currency</b>		<b>Currency</b>	
	<b>EUR</b>	<b>USD</b>	<b>EUR</b>	<b>USD</b>
3 months	0.19%	0.31%	1.36%	0.58%
6 months	0.32%	0.51%	1.62%	0.81%
1 year	0.54%	0.84%	1.95%	1.13%
2 years	0.38%	0.39%	1.31%	0.73%
3 years	0.44%	0.48%	1.36%	0.82%
4 years	0.60%	0.64%	1.54%	1.01%
5 years	0.77%	0.83%	1.72%	1.23%
6 years	0.95%	1.06%	1.91%	1.45%
7 years	1.12%	1.27%	2.07%	1.64%
8 years	1.29%	1.47%	2.19%	1.80%
9 years	1.43%	1.65%	2.29%	1.93%
10 years	1.57%	1.81%	2.38%	2.03%

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Fair value of assets and liabilities as at 31 December 2012 and 31 December 2011 is analysed as follows:

	Dec 2012			Dec 2011		
	Carrying amount Euro'000	Fair value Euro'000	Difference Euro'000	Carrying amount Euro'000	Fair value Euro'000	Difference Euro'000
<b>Financial assets</b>						
Loans and receivables to group entities	15,468,271	14,927,761	-540,510	13,827,958	12,357,250	-1,470,708
Derivative financial instruments	219,186	219,186	-	186,252	186,252	-
Cash and cash equivalents (assets)	343,585	343,585	-	403,883	403,883	-
	<u>16,031,042</u>	<u>15,490,532</u>	<u>-540,510</u>	<u>14,418,093</u>	<u>12,947,385</u>	<u>-1,470,708</u>
<b>Financial liabilities</b>						
Debt securities	9,341,332	9,466,978	125,646	9,748,525	8,306,170	-1,442,355
Loans and credit facilities from third parties	5,888,595	5,840,325	-48,270	4,330,916	3,751,594	-579,322
Loans from group entities	100,111	100,111	-	116,837	116,837	-
Amounts owed on purchased debt securities	480,000	480,000	-	-	-	-
Derivative financial instruments	48,673	48,673	-	58,262	58,262	-
	<u>15,858,711</u>	<u>15,936,087</u>	<u>77,376</u>	<u>14,254,539</u>	<u>12,232,862</u>	<u>-2,021,677</u>

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

According to IFRS 7, EDP Finance BV established the way it obtains the fair value of its financial assets and liabilities. The levels used are defined as follows:

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

The fair value of EDP Finance BV financial assets and liabilities, in 2011 and 2012, is included in Level 2, described above.

## 24. Subsequent events

On 28 January 2013, EDP Finance BV reimbursed 200 million of Euros of the 2,000 million of Euros of Revolving Credit Facility, dated 3 November 2010, decreasing the drawdown amount to 100 million of Euros.

On 31 January 2013, EDP Finance BV and EDP SA entered into a five year Euro term loan in the amount of 1,600 million of Euros. This new facility, involving sixteen domestic and international banks, is intended to replace the existing 925 million of Euros of revolving credit facility maturing in April 2013 and 1,100 million of Euros of revolving credit facility maturing in November 2013.

## 25. Recent accounting standards and interpretations issued

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

### IFRS 7 (Amendment) - Financial instruments: Disclosures for transfer transactions of financial assets

The International Accounting Standards Board (IASB), issued in October 2010, the IFRS 7 (Amendment) - Financial instruments: Disclosures for transfer transactions of financial assets, with effective application date to years started after 1 July 2011, early adoption being allowed.

The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets.

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

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

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

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

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

The adoption of this amendment will only have impact on the financial statements disclosures.

#### **IFRS 9 - Financial Instruments**

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

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

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

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

#### **IFRS 13 - Fair value measurement**

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

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

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

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

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

The amendment requires the following issues:

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

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

#### **IAS 27 (Amendment) - Separate financial statements**

The International Accounting Standards Board (IASB), issued in May 2011, the IAS 27 (Amendment) - Separate financial statements, with effective application date to years started after 1 January 2013, early adoption being allowed.

The amendment resulted from the project of the Board on consolidation. A new IFRS, IFRS 10 - Consolidated financial statements, addressed the principle of control and requirements relating to the preparation of consolidated financial statements. As a result, IAS 27 now contains requirements relating only to separate financial statements.

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

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

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

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

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

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**Investment Entities - Amendments to IFRS 10, IFRS 12 and IAS 27**

The International Accounting Standards Board (IASB), issued in October 2012, Investment Entities - Amendments to IFRS 10, IFRS 12 and IAS 27, with effective date of mandatory application for periods beginning on or after 1 January 2014, being allowed its early adoption.

IASB defines the term "investment entity" as an entity whose business purpose is to invest in funds solely for returns from capital appreciation, investment income or both, and must evaluate the performance of its investments on a fair value basis.

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

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

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

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

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

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

**Amsterdam, 5 March 2013**

The Managing Directors

EDP — Energias de Portugal, S.A.

Burg, J. C. W. van.

Gortzen, M. M.

TMF Netherlands B.V.

## EDP FINANCE BV

### OTHER INFORMATION

#### Statutory provisions concerning appropriation of results

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

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

#### Proposed appropriation of result

The Managing Directors proposes to add the profit for the financial year ended 31 December 2012 in the amount of EUR 10,779,262.59 to the accumulated results.





## **Independent auditor's report**

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

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

We have audited the accompanying financial statements 2012 of EDP Finance B.V., Amsterdam, which comprise the company statement of financial position as at 31 December 2012, the company statements of comprehensive income, cash flows and changes in equity for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information.

### **Management's responsibility**

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

### **Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of EDP Finance B.V. as at 31 December 2012 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

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

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

Amstelveen, 5 March 2013

KPMG Accountants N.V.

L.H.A.Kreuze RA