



CLARIFICATION ON NEWS ABOUT ALLEGED BENEFITS OBTAINED BY EDP

Investors & Analysts' Briefing

Reuters: EDP.LS
Bloomberg: EDP.PL

Lisbon, September 20th 2019: EDP – Energias de Portugal, S.A. (“EDP”) informs the market and the public in general of the following:

The media has recently reported that EDP has been allegedly favored in the amount of 1.2 billion Euros, in the context of the early termination of Power Purchase Agreement (Contratos de Aquisição de Energia – “CAE”) regime and transition to the Costs of Maintenance for Contractual Balance (Custos de Manutenção do Equilíbrio Contratual – “CMEC”) regime and, also, of the extension of the utilization right of the hydro public domain (Domínio Público Hídrico – “DPH”) up to the term of the useful life of the power plants under CMEC regime. Additionally, this news refers to other presumed benefits for EDP, without quantifying, notably within the ancillary services and Sines Power Plant licensing.

EDP has received some questions from investors on these matters and therefore provides the following clarifications:

1. The early termination of CAE, created in 1995, did not result from EDP’s initiative but rather from legal European requirements and from commitments assumed between Portuguese State and the Kingdom of Spain, with the aim of implementing the Iberian Electricity Market (MIBEL).
2. In the context of that early termination, and supported by a legal authorization from the Portuguese Parliament, the Government approved the CMEC regime in 2004, through Decree-Law no. 240/2004, dated 27th December, which had already been notified to and prior validated by the European Commission.
3. The CMEC regime included provisions (arising from the CAE) on the possibility of EDP maintaining the exploitation of the hydroelectric power plants until the end of its useful life and, consequently, of using the respective hydro public domain beyond the CAE term of duration.
4. On 27th January 2005, EDP and REN entered into CAE Termination Agreements, as foreseen in the mentioned Decree-Law and, in that moment, subordinated the effective extinction of the same to the fulfillment of a set of conditions, including among others, the attribution to

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EDP of DPH utilization right until the term of the useful life of the power plants.

5. With the fulfillment of all the conditions foreseen in 2005 Termination Agreements, the CMEC regime started being applied in 2007 with the approval of complementary legislation in the strict fulfilling of Decree-Law no. 240/2004 content. There was no substantial modification to the 2004 approved regime, with exception of the reference price amendment from 36€/MWh to 50€/MWh and the estimate of an additional payment regarding the extension of DPH utilization right.
6. The statements that EDP somehow benefitted from this process are false and without grounds, as detailed below:
 - a. Overvaluation of CMEC initial value, allegedly of approximately 340 million Euros
 - i. The fixing of CMEC initial value strictly obeyed the content of Decree-Law no. 240/2004, notably in what respects to the definition of interest rates used for the calculation of the compensation due to EDP;
 - ii. EDP presented several studies and analyses from independent entities which demonstrate that the implementation in 2007 of the CMEC regime followed the methodology set in 2004. The same entities also determined that the methodology approved in 2004 included simplifications that may have harmed, and never benefitted, EDP;
 - iii. The alteration of the reference average price from 36€/MWh to 50€/MWh, established by Decree-Law no. 199/2007, dated 18th May, obtained favorable opinion from the Portuguese Energy Sector Regulator (Entidade Reguladora do Sector Energético – “ERSE”). The only consequence of this amendment was the reduction of the value to be initially paid to EDP, which in 2004 was estimated in 3,356 million Euros and in 2007 was fixed at 833 million Euros, which was economically neutral for EDP.



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- b. Value of DPH extension, assigned to EDP without a public tender, allegedly undervalued by 852 million Euros, to which should be added the presumed exemption of the Hydric Resources levy:
 - i. 2007 legislation on this subject (Decree-Law no. 226-A/2007, dated 31st May) did not grant any new right to EDP. The right to use DPH until the end of the useful life of the power plants resulted from Decree-Law no. 240/2004 (arising from 1996 CAE). The regularization of this right implied that EDP would waive the residual value of the power plants foreseen in CAE, which is effectively what happened. Had this been maintained, it would have implied a payment of the State in favor of EDP of approximately 1,356 million Euros. The CAE Termination Agreements entered into between EDP and REN in 27th January 2005 had an inherent attribution of the utilization right of the DPH to EDP, which occurred with the entry into force of those Agreements;
 - ii. In 2007, with Decree-Law no. 226-A/2007, an additional payment was demanded, to maintain economic and financial equilibrium, and therefore EDP bore a cost unforeseen in 2004;
 - iii. The assessment of the DPH extension value was performed, in accordance with the law, by two independent financial entities, Caixa BI and Credit Suisse First Boston, which determined a value of approximately 704 million Euros to be paid by EDP. This value was in addition to the above-mentioned amount of 1,356 million Euros related to the power plants residual value. EDP waived receiving this value, as per the legal and contractual framework. EDP also paid an additional 55 million Euros as hydro resources levy. In other words, the effective cost for EDP regarding the DPH utilization rights was more than 2 billion Euros;
 - iv. In 15th May 2017, after 5 years of an in-depth analysis, the European Commission published a decision which concluded that the methodology adopted to value the DPH was correct from a financial point of view and that the amounts paid by EDP were fair according to market benchmarks.

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7. It should be stressed out that the European Commission not only accepted the CMEC mechanism in 2004, notified by the Portuguese State to the Directorate-General for Competition (Direcção Geral da Concorrência), but has (re)validated in September 2013 said mechanism and the application that has been done since 2007, stating that there is no evidence that it has been misused (https://europa.eu/rapid/press-release_IP-13-842_en.htm). This applies not only to the interest rate issue referred to above but also to the recovery of the environmental investments, to the licensing of the plants, to the consideration of the framework given to the ancillary services and even to the Valorágua coefficients adjustments and the availability tests.
8. The media has also mentioned alleged benefits to EDP relating to the ancillary services market and of the Sines Power Plant production licensing:
 - a. The system services framework under the CMEC regime is addressed in Decree-Law no. 240/2004 and on the CAE Termination Agreements entered into in 2005. Decree-Law no. 172/2006, dated 23rd August, merely contains a reference to the system service technical management to the National Transport Grid Operator (REN) and the definition of the regulation to ERSE, which would happen in 2008. The rules set forth are similar to the existing ones in other European countries;
 - b. Since 1995 that the legal framework sets forth the inexistence of a term for the production licensing to power plants. With the termination of the respective CAE, the Sines Power Plant came to operate in market regime, having for such reason been granted the respective licensing, without term, in accordance with the law.
9. EDP's relevant initiatives and decisions on such matters were taken collegially by the respective corporate bodies, namely the Executive Board of Directors, having obtained the favorable prior opinions of the General and Supervisory Board.
10. Moreover, all those above referred acts were subject to market communication by EDP, namely on: 11th November 2004, 27th and 29th December 2004, 27th January 2005, 16th February 2007 and 15th June de 2007.



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11. All the statements included in the previous paragraphs may be objectively demonstrated, supported by abundant documental evidence.

In the absence of any advantage for EDP deriving from the early termination of CAE and the adoption of the CMEC regime, as well as the extension of the utilization right of the DPH, all the argumentation and insinuations associated with supposed acts to benefit EDP therefore have no grounds whatsoever and are merely theoretical constructs without adherence to reality.

In compliance with its fiduciary duties, EDP will not abdicate from demonstrating the truth regarding the public allegations that affect its reputation and which might cast doubt on market integrity and renews its total commitment to achieving the objectives assumed in its strategic plan, under the terms presented to the market during the Strategic Update on 12th March 2019.

This information is disclosed under the terms and for the effects of article 17 of Regulation (EU) no. 596/2014 of the European Parliament and of the Council and of article 248-A of the Portuguese Securities Code.

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