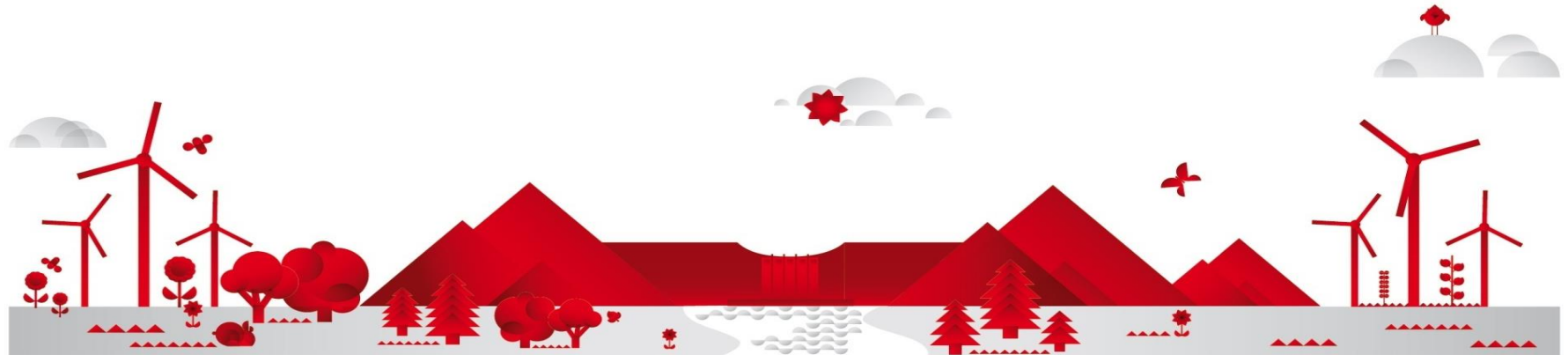




Investigation of the transition process from PPA contracts to CMEC in Portugal

June 2017



Portuguese investigation on the replacement of PPA by CMECs, based on an anonymous complaint in 2012

This is not the first investigation about this issue. The process was widely scrutinised, both at Portugal and EU level

Based on a formal complaint in 2012, the EC made a final decision in May-17, confirming adequacy of terms/methodology

All major corporate and strategic decisions are scrutinised by the GSB after proposal of the EBD

The members of the board envisaged signed the contracts in representation on the Executive Board of Directors (EBD) and in line with decisions taken by EDP's corporate bodies

EDP's culture is clearly focused on value creation through transparent and ethical business procedures

Investigations regarding the transition process from the early termination of PPAs to the CMEC regime

	Date and nature of Complaint	Status	
European Commission	2012	PPA termination and CMEC implementation	2013: EC removed any doubt as to the legality/correction about CMEC process
	2012	Hydro domain and extension of concession right as state aid	2013: EC launches in-depth investigation 2017: EC concludes compensation paid by EDP was compatible with market conditions
Portuguese Legal Authorities	2012	PPA termination and CMEC implementation processes; Extension of hydro concessions	2-Jun-17: within the scope of investigation process, EDP premises were subject to judicial order of non-home searches



Filed

Ongoing

**At the EC level, cases have been filed, with all doubts about possible state aid discarded
Investigation by DCIAP is on course**

Changes to PPA contracts between 1995 and 2007 aimed at accommodating to new context: liberalisation, unbundling of activities



1995 PPA's inception

- EDP invested in power plants
- The Portuguese State set the remuneration conditions in line with results from **international auctions, key for privatisation process which started in 1997.**
- At the end of the PPA contracts, **EDP was entitled to receive €1.4bn (residual value)** if it abdicated of the plants in favor of Portuguese State

2004 PPA's early termination and CMEC approval

- Early termination of PPAs would change remuneration terms, introducing full exposure to market conditions and hurting contracts value
- To keep balance, a new remuneration mechanism (CMEC) was adopted, assuring financial neutrality. EDP set to receive market revenues plus **€3.4bn as initial CMEC**, annually adjusted for 10 years
- **European Commission approved the mechanism** considering the compensation as **effective and strictly necessary**
- Should EDP keep the plants after the end of PPA, it would abdicate of residual value

2007 Market parameters updated

- In the context of the MIBEL creation, and sticking to the methodology defined in 2004, market parameters were updated
- Market price reference increased from €36/MWh to €50/MWh, **reducing the initial CMEC to €833m** and keeping the annual adjustment for 10 years.
- The economic value of the **extension of hydro concessions increased to €2.1bn**

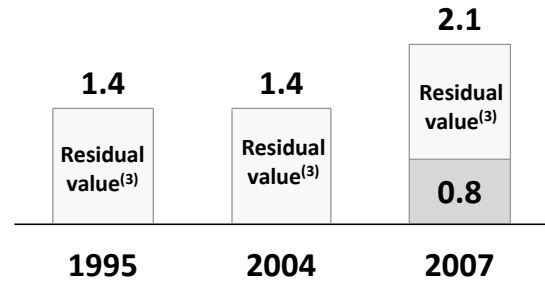
Adjustments to legal framework in 2007 responded to changes in market conditions between 2004 and 2007 and have penalised EDP

Initial CMEC:
Cut by €2.5bn in 2004-07
 (€ bn)
maintaining the neutrality



- **2004:** compensation amounts based on fairness opinions separately requested by EDP and the Portuguese Government
- **2007:** due to changes in market conditions, the legal framework and agreements were subject to amendments. **Long term wholesale power price assumed was up from €36/MWh to €50/MWh** resulting in a loss for EDP cutting the initial CMEC and raising annual deviations
- **2012:** within the scope of 'Troika', EDP agreed on a ~€14m/year cut in the CMEC fee (€120m in 2013-27)

Value of hydro concession extension:
€0.8bn increase
 (€ bn)



1995-2004 Residual value of €1.4bn entitled to EDP

2007: The amount paid for the extension of hydro concessions was supported by independent valuations conducted by Credit Suisse and Caixa BI.

(1) 2004 as per DL 240/2004 and 2007 as per DL 199/2007; (2) 2004 as per PPA contract 1995 and 2007 as per DL 226-A/2007; (3) Residual value of concessions, which right of receipt EDP gave away

Strong Corporate Governance Framework



Dual management model: Executive Board of Directors (EBD) and General and Supervisory Board (GSB)

Two tier management assures separation between management and supervisory

All major corporate and strategic decisions are scrutinised by the GSB after proposal of the EBD

Corporate Governance and Sustainability Committee is one of the GSB's specialized committees and oversees corporate governance and internal codes of ethics and conduct

Ethics Ombudsman's Office manages corporate ethics' objectives and issues

For 6 consecutive years, EDP was listed by Ethisphere Institute as one of the **World Most Ethical Companies**

EDP's culture is clearly focused on value creation through transparent and ethical business procedures



Visit EDP Website

Site: www.edp.pt

Link Results & Presentations:

<http://www.edp.pt/EDPI/Internet/EN/Group/Investors/Publications/default.htm>

IR Contacts

Miguel Viana, Head of IR

Sónia Pimpão

João Machado

Maria João Matias

Sérgio Tavares

Noélia Rocha

E-mail: ir@edp.pt

Phone: +351 210012834

Next Events

Jun 6th-7th: Credit Suisse Conference (London)

July 27th: Release of 1H17 Results