EDP - Energias de Portugal
920246
Friday, 27th July 2012
10:30 Hrs UK time
Chaired by Antonio Mexia

Company Participants

- **António Mexia, Chief Executive Officer**
- **Nuno Alves, Chief Financial Officer**
- **Miguel Viana, Head of Investor Relations**

Antonio Mexia

Good morning everybody. Thanks for being present in the conference call for the First Half 2012 Results presentation. As usual I will start with the key highlights and then I will pass to Miguel Viana and then I will come back to the wrap up and Q&A.

The first thing I would like to mention is, as usual, even in a very tough environment macro wise, demand wise and also regulatory wise, our results have shown strong resilience. EBITDA basically was flat, a small decrease 0.8% to €1.885bn with a framework where 60% are now coming from outside our domestic market. But when we see the different contributions for these operational results, what we see is a decrease in Brazil mainly driven by deviations in distribution due to increase of the purchase price of energy by distribution, so basically we are transferring revenues from 2012 to 2013, but in any case accounting wise you have a decrease of 24% on EBITDA that was compensated by a strong growth in wind power, EBITDA growing by more than 23%. At the Iberian level, on the traditional operations you have a slight decrease of around 1%, so flat on Iberia. Decrease mainly from deviation in Brazil and strong increase in wind in EDP Renováveis. So once again the portfolio effect helping in this resilience, the nature of our business, the nature of the markets, the nature of the technology that was chosen protecting our earnings.

In terms of OPEX we have a better figure now, even better. We have a 4.5% including Brazil and of course new additions in wind, so more activity. And when you see Iberia you see only a 2% increase and globally we are able to keep even in a tough gross profit market the ratio of OPEX over gross profit at 27%.

When you go down in the P&L you see the average cost of debt slightly decreasing compared to the first quarter to 4%. It was 4.1% in first quarter 2012. So clearly it shows that the strategy that we have been following is adequate and keeps our average cost of debt lower than our key peers and even those that are based in countries and they have by themselves better ratings than we have today.

So after this you see a net profit going 4% down to a total of €582m for the first half. At the same time I would like to stress that CAPEX as part of our commitment in terms of consolidating the financials of our company as top priority, the CAPEX went down by 18% to €690m and basically due to the slowdown at the level of EDP Renováveis.

We see at the same time of course an issue with regulatory receivables increasing. They are significant not only because it was a very dry year in Portugal but also due to the fact that now we have smaller sales, the process of selling receivables in Spain was clearly stopped for a moment. So clearly this is a result of both sides of the border. We can talk about this later if you want.

Net debt at €18bn; of course compared to the previous quarter we had the dividend payment, we have as we mentioned an increase of regulatory receivables, but, and I think it is the most important, we have increased the net financial liquidity even after paying dividends and paying a bond and of course financing the system. We have around €3bn to which we had €1bn additional of the five-year loan with China Development Bank that was announced yesterday to the market.

I think that is very good news in that it is the first loan made by CDB to a non Chinese company outside China. So it shows that we have been able to tackle an important market of course based on the partnership with CTG, but we have a new source of funding, important, with much lower costs that if you would be tackling the more traditional global market and I think that this will help us a lot in terms of creating new benchmarking for the next movements of EDP; this of course in the process of giving visibility to what we have stated to the market to the funding throughout 2015.

So it is important to see that after, when you see sources of funds and as you will see Miguel will present this in detail, and uses of funds, the net financial liquidity has improved since last quarter. This loan yesterday, shows that just after the financial closing of the privatisation in last May, we were able, on a fast track, to start delivering parts of the agreement of this partnership agreement with China Three Gorges, so this five-year €1bn loan. And the reason why it is €1bn is because we prefer to be only €1bn at this stage. If not, I would have just to deposit the rest in the bank. So clearly it shows that the partnership is going through.

We have also already started the due diligence process on the wind farms that will be object of the first tranche of the first 12 months. As you know there is a commitment of €800m for the first 12 months and the country is chosen, the wind farms are chosen, and we are just in the process of due diligence to be able for the year end to do the first transaction.

At the level of commitment in terms of strengthening balance sheet as you will see, we have also reached some days ago the agreement for disposal of gas transmission assets in Spain for €262.5m with I think a nice EV/EBITDA multiple behind. And this will go through in the next months in terms of authorisations of the normal process of authorities that needs to say they are okay.

So globally when you start from the EBITDA when you see the overall performance and of course including all the movements in terms of liquidity we see a resilient financial performance under adverse market and regulatory conditions, keeping and of course extracting the value of a low risk profile and a diversified portfolio in terms of markets, in terms of activities and in terms of technologies.

So I will now pass to Miguel and I will come back for the Q&A.

Miguel Viana

Thanks, António. So starting for electricity and gas demand in EDP's key markets, we can see a slowdown in terms of the demand in Brazil, Southeast region, the region where are located our distribution companies, Bandeirante and Escelsa, where demand went up by 2% in the period. Regarding the Iberian market demand went down by 3.3% in Portugal, essentially on a lower demand from the residential, SMEs and public lighting impacted by higher VAT. While in Iberia there was lower demand from electricity generation which was partially offset by growth in terms of conventional demand.

Moving to operating headlines we can see that installed capacity was flat year on year as new capacity added in terms of new hydro and new wind was balanced by decommissioning of Carregado fuel oil plant in Portugal and wind and hydro represented 65% of total capacity by June and 62% of energy produced in the first half 2012.

In terms of EBITDA breakdown by geography, as it was already referred the growth in EDP Renováveis by 23% and €94m balanced the decline in Brazil penalised by deviations in distribution, while EBITDA in the Iberian market was flat in Portugal and with a very slight decline at level of Spain.

In terms of EBITDA breakdown by activity we can see that in Iberia, regulated networks showing a 1% increase of EBITDA, long term contracted a 2% decline and liberalised activities going down by 5%. FOREX impact at level of EBITDA was almost immaterial as the negative impact from the depreciation of the Brazilian Real was balanced by the positive impact from depreciation of US Dollar.

In terms of efficiency, operating costs of the group increased by 4.5%, nevertheless, at level of Iberia operating costs increased just by 2%, below inflation levels both in Portugal and Spain in the period, while in our growth areas, EDP Renováveis and Brazil operating costs increased 8% at level of EDP Renováveis excluding FOREX impact, essentially due to increase of O&M of our wind farms taking in consideration the 13% increased of generation output. While in Brazil the 13% in local currency includes some restructuring costs and non-recurrent network operating and maintenance costs.

CAPEX went down by 18% in line with our commitment to reduce CAPEX and following essentially cuts at level of EDP Renováveis expansion of wind farms. Note that 100% of expansion CAPEX was focused on wind, hydro and Brazil. And in Portugal 100% of our expansion was related with new hydro capacity.

In terms of regulatory receivables, in the first half of the year they increased by almost €700m in the period from which more than €400m increase was concentrated in the second quarter of 2012 reflecting higher than expected system costs due to higher than expected energy costs, the referred low hydro in the period and also weaker demand. Namely in Portugal regulatory receivables increased by €673m in the period reflecting at the level of last resort supply and distribution, the tariff deficit defined by the regulator for 2012 which is €939m by the end of the year and to be recovered through tariffs in the period between 2013 and '16. Other significant contribution come from the annual CMEC deviation which is related essentially due to extreme dry weather in the first half of the year. In terms of change of net debt, net debt increased from €16.9bn in December '11 to €18bn in June 2012 with a significant impact from the increase regulatory receivables. Excluding regulatory receivables net debt would be €15.7bn or a €0.4bn increase in the period.

Regarding debt maturity profile, average debt maturity was 4.1 years by June and the debt maturities in the second half 2012 for EDP SA and EDP Finance BV amount to €1.45bn from which €1.15bn of bonds and €0.3bn of loans.

In terms of financial liquidity as it was already referred, €2.9bn by June with a breakdown of €1.5bn in terms of total credit lines available and €1.4bn of cash and equivalents. To this we should add the announced yesterday €1bn new loan with a five year maturity which puts the total liquidity at the level of €3.9bn. This €3.9bn as you can see in slide 14 is a comfortable liquidity position for our commitments in terms of maturities for 2012. And the gradual execution of the partnership with the Chinese Three Gorges should extend the coverage of EDP's funding needs till mid 2015.

Finally at consolidated level, the net profit breakdown we can see that after the 0.8% decline of EBITDA, net depreciations and provisions decreased by 2% due to the combined impact from the increase of wind farms accounting useful life and also new capacity in operation, namely wind and hydro. EBIT remained flat. Net financial costs increased by 35% reflecting an increase in cost of debt from 3.9% to 4.0% and also including the interest costs with employee responsibilities in this first half 2012.

Capital gains immaterial in the first half 2012 and the €10m related with the sales of EDP Renováveis' stake in SEASA in Spain. Income taxes in first half 2012 benefit from some one-off fiscal impacts and non-controlling interests also lower in first half 2012 as an impact of a decrease in net profit in Brazil which outstood the higher net profit in renewables and the reduction of stake in EDP Brasil. Overall net profit went down 4% in the period.

Moving to detail by operating business areas, in long-term contracted generation EBITDA went down by 2% reflecting a 1% increase at level of PPA/CMECs and a 35% decline on special regime on lower mini-hydro output in the period.

Regarding liberalised energy activities in Iberia, the production in our liberalised power plants went down by 22% in the period essentially due to low utilisation rates of our combined cycles and lower hydro output. Coal production increased significantly in the period driven by more competitive costs and the new law on Spanish domestic coal. In terms of EBITDA of our liberalised activities in Iberia, it increased by 5% in the period driven essentially by 8% decline in volumes and stable achieved unit margin.

Moving to regulated energy networks, our EBITDA went down by 0.8% to €520m in the first half 2012 excluding non-recurrent items in first half 2011, this increase was 2.9% supported by the increase on return on RAB in electricity distribution in Portugal. In terms of efficiency we can see an improvement of efficiency ratios of our networks in Iberia namely OPEX per kilometre of network and OPEX per connected customer which improved respectively 3% and 2% in the period. Moreover in terms of quality of service it has improved and we can highlight the equivalent interruption time of our distribution of electricity in Portugal which went down by 46% to 21 minutes in the first half 2012.

In terms of control over client's bad debts in Portugal we observed a stable level of both average collecting periods and bad debt, even considering the difficult market environment.

Moving to EDP Renováveis, so our renewables division, we can see that EBITDA went up by 23% reflecting increase of installed capacity mostly in US and rest of Europe. In absolute terms the increase of EBITDA of €94m counted with the major contributions from US which increased €36m from which €15m is from FOREX; rest of Europe with an increase of EBITDA of €33m and EBITDA in Spain increasing by €29m.

Finally Brazil, our subsidiary EDP Brasil recorded a 24% decline of EBITDA in euro terms. Note that there is a negative impact from FOREX reflecting the 5% depreciation of the Brazilian Real versus the Euro in the period. And in local currency the EBITDA fell by 20%. In generation EBITDA went up by 15% reflecting a favourable seasonal allocation of volumes sold and also the normal PPA price inflation update. In distribution EBITDA went down by 52% reflecting an increase in costs with energy purchases not being passed through to customer due to the freeze of Bandeirante's tariff since October 2011.

If we compare in local currency the EBITDA performance of our distribution business in Brazil we can see that adjusted for impact from tariffs deviations to be recovered in the next annual reviews and including the impact from the preliminary proposal by Aneel on Bandeirante's regulatory review which will have retroactive impact since October 2011, our EBITDA decline moves from 49% non-adjusted to 24% adjusted.

I will pass now to our CEO to the conclusion of this presentation.

Antonio Mexia

So the next step would be to give you our vision for the year end of 2012. What I would like to stress is that basically we keep focused on the targets presented last May. So at this stage we don't have any reason to change that vision and we stick to what was presented last May. If we see business by business this analysis presented on page 27 you see that in liberalised activities in Iberia the impact of the freeze of capacity payments in Portugal will have a negative impact of around €20m in the second half. It was already foreseen since we reached the agreement. It was already incorporated.

We see in terms of market favourable for coal and adverse for gas. No news at this stage, but basically due to the percentage of coal I think that in relative terms it is good for us. And of course in terms of hydro it depends very much on the levels of rain as we know the last winter was one of the driest, if not the driest in the last 30 or 40 years, so it means that its impact will depend very much on the level of rain towards the end of the year.

In Brazil what I would like to stress is the lower EBITDA contribution from the coal fire plant of Pecém due to the late starting of the units. We expect now because it is already finalised and in the process of stabilisation the first group and the second group towards the end of the year. It is clearly below to what we expected but we will compensate this with other revenues.

In terms of wind power we expect exactly what we stated to the market with the high single digit output growth.

Iberian regulated energy networks, typically the second half is seasonally stronger than the first half. And the sale of gas transmission because it will be only finalised towards the end it will have no impact on the second half on the figures of 2012.

The long term contracted generation Iberia, when you see what you can expect for the second half, the first half was, as it was already mentioned, impacted by extreme dry weather in the mini-hydro. So typically the question mark is of course what will be the impact of any new Spanish regulation that be introduced. It was expected for end of June. It was expected eventually for today. It will not be the case as you know. Eventually for next week, so this of course will have to be worked upon. We can talk about this, I am sure that you will have questions about this issue.

So overall what you see is first half resilience, discipline on CAPEX, discipline on OPEX, with the exception of slower implementation of Pecém everything on time, on cost. We see, we keep the value of our portfolio. We have clearly, clearly tackled the issue of liquidity with this new deal, so clearly we have until mid 2015 the funding needs covered. I think it is very good news and gives visibility. We have been responsible on the deleveraging, both on the gas transmission process but also in starting the implementation of the minority sales for China Three Gorges. So we are basically doing what we have been committing too and based on this asset mix and all the management decisions we keep focused on the business targets presented last May. So we don't expect any changes in that.

Thank you very much and let's go for the Q&A.

Questions and Answers

Pablo Cuadrado – Bank of America Merrill Lynch

I will have three, four quick questions. The first one is on the regulatory receivables. I think clearly it is pretty tough to try to predict what could be the impact on the regulatory receivables looking to the environment, but I think I remember that you mentioned during the Investor Day that you were expecting a figure of €2.5bn including the Spanish and the Portuguese receivables by year end. And we have right now a €2.3bn so just trying to get a flavour if you think that that figure of €2.5bn is going to be worse by the end of the year?

The second question is on the credit line that you announced yesterday that you signed with the Chinese Development Bank. I was trying to get when do you expect to keep working on a future second credit line and if you would try to get a similar maturity in the remaining tranche of the future credit line?

The third question is on the unit margin of the liberalised generation which has been flat year on year. I was trying to get a flavour as well looking to the hedge volumes that you have for this year which is almost 100%, and the hedge volumes that you have for next year, if you would say that that unit margin of around €9.5 per megawatt if that could be retained for the future volumes?

And the last question is on the guidance for this year and I think you mentioned at the Q1 results that you were aiming to get minor EBITDA growth for year end and also minor increase on the net basis. Looking to the H1 performance the net profits is down 4% year on year. Do you still think that you can get to slightly higher earnings during 2012 versus 2011? Thank you.

Nuno Alves

Regulatory receivables…we still see the number at close to €2.5bn, it might be a touch above but nothing that major. In as long as we don't have the same issues we had in the first half of very dry weather that should be the number, around about that number. In as far as the credit line and the future €1bn, we have talked about it but there are no details that I can give you right now. The intention will be as of right now, or the plan is to draw the remaining €1bn sometime late 2013 or beginning 2014. But not much more than this can be said at this moment. In as far as the guidance for the year, we maintain that we feel comfortable with the consensus right now. That is pretty much it.

Miguel Viana

Pablo on the unit margin I would say that our expectation is that it should continue in this region so of course lower in gas and a little bit better in coal, but we don't see any change in terms of the average unit margin for the next quarters.

António Mexia

And overall, Pablo, we have been working, we and everybody else, but we have been working tough in what concerns trying to have visibility on regulatory and legal framework. I think that Portugal is an example of how it was worked, that even if it took a while in terms both of regulation but also legally you have now a clear view in front of you. The Spanish first phase as you have seen last May, the impact on EDP was clearly small and very determined. Let's see what the next wave in the Spanish market can bring us. As everybody is stating there are a lot of things that were stated that don't make any sense and would be really non-smart, not to say something else. But of course is the thing that in theory, especially because you are not leader in that market it is a key issue that we would like also to see settling in the next weeks to have a clear vision in terms of results. But in any way it is tougher but as Nuno mentioned we still believe that it makes sense and the consensus, we feel comfortable with it.

Carolina Dores – Morgan Stanley

I have four questions actually. The first one is on Pecém; are you still confident that we are going to start up this year? And also what contribution do you expect from Pecém in 2012 as I am assuming you are exposed to the spot market in Brazil given the delay?

Second question is due to the hike in the volumes of regulatory receivables, how confident are you that the Portuguese government will raise tariffs so you can receive part of the receivables in 2013 because I am assuming it should be higher than inflation at least.

Third question, you did a very disposal a couple of weeks ago. Are any other noncore asset disposals to be announced in the coming months excluding the minority stakes in the wind farms?

And fourth question, in the disposal of the wind farms I understand that the timing has been pushed to the fourth quarter for the first tranche of disposals. What happens to the timing of the €800m disposals before the end of May next year? Has this also been pushed? Sorry for the long question. Thanks.

António Mexia

Thanks Carolina. In what concerns Pecém we are now in the final test of the first group where we see this first group giving a minimum contribution still this year, but minimum contribution, so unfortunately not very relevant. In what concerns energy exposure we don't have any problem at that level at this stage. In what concerns disposals, we have been focused clearly on the wind farms. It will be the key driver, we don't expect at this stage anything new. Why? Because everything is going as expected both at wind farms and also the gas assets.

So I would like really to stress this, even if we just moved a couple of months the first transaction to be held before the year end in what concerns the €800m between May and May, so if means for the first 12 months, the target and the commitment has not moved. As you know in the agreement we have only annual commitments and the annual commitment is €800m and it has not moved. The only thing is due to the due diligence process in terms of technical and site visits, regulation and everything, we will have the first transaction not by October but eventually by November or December. So clearly just the first part of the first part has moved.

Nuno Alves

In what concerns the Portuguese tariffs, the agreement with the government is that tariffs should grow between 1.5% to 2% real every year. So that is our own expectation for next year it should be around 4% nominal rate increase. But we won't find out until October 15.

António Mexia

In any case as you have seen as we have a commitment for liberalisation, the last resort tariff should increase higher than this to make people move from the regulated to the liberalised market. I think it is important news for us and after the annual rise, the last quarter raise by the regulator was for the quarter 2%. So it shows that until now they are moving in the direction to provoke this movement from regulated to liberalised market. Where by the way we have a clear leading position; we have 80% of market share. In the last months in the liberalised markets on domestic the new clients acquired by EDP is more than all the other players together. So we have been strong in the liberalised market to attract people, new clients.

Bruno Almeida da Silva – BPI

I have three questions, more follow ups from the previous ones. The first one regarding regulatory receivables, I just wonder if it would be possible of seeing securitisation of a relevant part of it during this year or the beginning of the next one? You had already *mentioned previously that you were working on that. I assume that market conditions are not great, but anyway.*

The second question if you can just update on net debt guidance for this year?

And finally on the deal with CTG, how likely you believe it would be for the parties to agree on a similarly sized deal in other assets excluding non-minority stakes in wind farms? So the question is really would it be likely for both parties at this stage to change the framework agreement considering the target of those assets? Or you believe that what has been agreed is what is going to be executed no matter how.

Nuno Alves

Securitisation of receivables, it is something that we keep on working on. It is not impossible but it is tough to do the whole thing. We will see how it comes but as of right now there is nothing that can be said that it is doable or not.

In terms of net debt guidance, we would expect it to be a little bit below the €18bn figure, maybe around €17.5bn, something like that. But it is going to be very dependent on do we get the acquisition of the wind farms still this year, the cash in, because as you know even after we agree on which wind farms to sell we need regulatory authorisation and only after that we get the cash in. The same thing for the gas business we just sold. So if it falls this year it is going to be lower, if it doesn't fall this year it is going to be closer to €18bn. So it is going to be dependent on the closing of these assets disposals more than anything else. So it might fall in January most of this money.

António Mexia

In what concerns the deal with CTG; the focus was very clear, support on access to new funding lines and I think the results are very positive. People were today comparing this with the actual average cost of EDP but of course you have to see not only what we but what all the other companies in the south of Europe has been paying, so I think it is very good news. The second is of course implementing the sale of minority stakes in the wind farms. This is the priority. This will be the priority. It is what we want to deliver as first transaction. We are considering other eventual assets where we could be together, namely outside Iberia, but it is not really our key. The target is to respect the basic framework both in terms of funding and in terms of minority stakes of wind farms.

Alberto Gandolfi – UBS

I just wanted to ask you a couple of questions. The first one is quite simply basically you said it already, just to be sure. Should we take CAPEX in first half and multiply it by two and broadly we would be happy with that? I know what you just said at the Investor Day, *but things are getting tougher and tougher in the credit market and I just wanted to double check.*

Lastly, this was already on my list and I think Antonio, your very brief comment just made right now is that we may consider other assets outside of Iberia. Well there is one big asset outside of Iberia which is Brazil and one of your main competitors is trying to get out of distribution. The outlook there on returns seems to be a bit tougher as well, perhaps bubbly economy as well, Brazil. So should we think that at the right price you would be very open to listen or are you actively speaking with potential industrial buyers there? Thank you.

Nuno Alves

The CAPEX, no you cannot multiply by two and you get the end number, so we still expect give or take to be around €1.9bn by year end.

António Mexia

And of course when you mentioned the credit market is tougher, I think that is right but it is the reason why we feel that it was important to finalise this new credit line. I think not only it gives you visibility throughout 2015 but clearly it shows that we were the first to tackle totally new markets in terms of funding and I think it is a very competitive cost when you see the alternatives and it gives us of course room to make our investment programme in terms of value creation wise. So I think we are of course moving in a difficult path for all the sector but I think that we are doing the right moves.

In what concerns the other asset in Brazil, of course life is tougher in Brazil. As we have always stated when everybody six years ago was saying why don't you sell and two years ago why don't you double, so we have been very, very normal and very pragmatic about Brazil. People should see in any case that investing there in certain cases of course is more attractive than elsewhere. We are not actively doing anything. We don't intend to participate in any kind of integration movement or big sale. It is not the case. What we have been discussing is in an attractive market especially on generation side, what can we do with our partners of CTG, more than trying to move in that market in terms of consolidation or whatever. Okay so typically how can we tackle gross value creation opportunities together with CTG.

José Lopez – HSBC

I just had three questions. Could you please tell me how much did you capitalise in this first half in financial expenses and the second question is how much have you capitalised in personnel expenses and basically what is the total?

And following up on that, could you please give us an explanation as to why the rate at which you are capitalising financial expenses has increased so sharply? I am looking here at 2007, you were capitalising about €50m in financial expenses when you were carrying out €2.7bn of CAPEX. Last year you capitalised almost €170m when you are carrying a significantly lower amount of CAPEX. Could you explain what is going on, because I could understand if there was a positive correlation between CAPEX and capitalisation rate, but actually you are spending less and capitalising more. Obviously this is not going through the P&L statement. Could you elaborate on this please?

Miguel Viana

So in terms of capitalised expenses, it is related essentially with the level of works in progress which has increased. So it is not directly related with annual CAPEX. But I would say that the level of capitalised interest cost has decreased in this first half essentially due to the decrease in terms of works in progress in EDP Renováveis' while in staff I would say that is quite stable in the period. But is essentially related with the evolution of assets in progress, works in progress in terms of assets.

José Lopez – HSBC

Do you have the exact number for how much you have capitalised this semester?

Miguel Viana

I will send you just after but it should be around €80m in each component, so €80m in terms of interest costs and €80m in terms of staff costs.

Javier Suarez – Nomura

Three questions if I may. The first one is in light of obviously of the macro situation that is unravelling to be more and more complicated. Does the company see the necessity of accelerating its discipline in CAPEX and OPEX? I am saying this because obviously the net debt to EBITDA of the company and the debt of the company is going up. I was just questioning myself if the company feels the necessity of strengthening this discipline that was anticipated at the Investor Day presentation even further?

The second question is on the cost of financing for the company, so obviously the company has a length for the debt of around four years, floating rates is over 50%. I just question myself if again in light of the macro situation do you see the necessity of extending maybe maturities or making more use of fixed borrowing rates and which could be the eventual impact of this on your average cost of financing going forward?

And the third question is on taxation, the taxation of the company, if I am not wrong in the first half of the year this is at below 20%. Again I just wanted to have your insight on how sustainable this level is going forward in light of the deterioration in the macro situation?

Nuno Alves

Cost of financing, we see no reason to change what we said in May so we should expect to see that the average cost of our debt to increase to levels of around 5% by 2014/15. If anything the latest quarters have been better than what we have expected. We had guided for 4.3% for this year. I think we can safely say today that it is going to be less than that.

The issue of extending maturities is you get what the market gives you. So if the market gives you extended maturities maybe we can take it, but as you know corporate bond markets today are if not closed, tough and especially for longer maturities. So it is not a question of willing, it is a question of having it or not.

In terms of the mix of variable and fixed rate, it is something that we manage regularly. We continue to see rates if anything falling further, so we continue to be comfortable on the variable rate. And we have not been sorry for taking the positions we have had in the past and we will continue to ride the Euribor on a 50/50 basis.

In terms of taxation as on the first quarter call we have mentioned we had a benefit that was taken in the first quarter and our expectation that we guided at that call was that at the end of the year the average effective tax rate should be 23% or 24%, so the second half taxes will be higher than the first half.

António Mexia

In what concerns the discipline CAPEX, I think that at Investors Day I mean we would like to stress this again, we spoke very openly and telling the truth. At the middle of 2012 basically in this industry what you are investing in 2012 and '13 is basically there. What we were very clear is that we have flexibility for 2014 and '15. That that flexibility was clearly €1bn altogether, so it was around 50% of the investment on those two years in terms of expansion. And clearly that we will not hesitate to use that flexibility if something will change, but until now, even if the macro situation is what you have been mentioning tougher, we have been able in what concerns the funding strategy in terms of liquidity to be on the very comfortable side.

And also just focusing on projects where you create value for the shareholder. So typically since May we don't see any change, especially because we were able to tackle once again the liquidity issue on a very strong way. We don't see any reason to change. But the commitment to be—as already mentioned by Nuno—be below three times net debt over EBITDA in 2015. And if we need to use the flexibility on CAPEX on '14 and '15 we will not hesitate. As also we will not hesitate if we need to do any kind of asset disposal to reach those targets. Let's be very clear, in terms of deleveraging the commitment is strong, the only thing is we are now facing with higher receivables than expected but those receivables are especially clearly remunerated on the Portuguese side and the only thing is we don't see any issue in terms of liquidity. But we will adjust whenever we have to adjust to deliver the commitment. It is the core commitment the deleveraging and reaching those ratios by 2015.

Nuno Alves

I have some questions here from just the internet, so without giving you the names or the questions at least let me try to address. The legal entity that will borrow the €1bn from China Development Bank is at our choice between EDP or EDP Finance with all probably it is going to be EDP Finance but it is not finalised yet. But the loan clearly states that the borrower it is EDP's choice.

In terms of the negative carry that this might have because of having too much cash, I mean we know this will increase our costs slightly, our intention is to use this money at first to bring down the drawn revolving credit facility to as close to zero as we can, by the end of the year. So we will use even though it is going to cost us more, we want to bring that facility down to zero as the treasury management of the company. That is also one of the reasons why we have decided together with CDB to only draw the remaining €1bn closer to 2014 otherwise we would have an extra carrying cost of paying 5.5% on one side and getting deposits at 2%.

In terms of the question on net debt to EBITDA ratio, of maintaining; well the EBITDA number we are very comfortable with the consensus so the number is not going to move much from our expectation. The one on the net debt as I mentioned is clearly going to hinge on receiving in December the money for the gas sale and the wind sales or not. So even if the ratio is not met by the end of the year surely by the first quarter of next year we would have expected the ratio that we showed on Investors Day to be there.

José Javier Ruiz – Exane BNP Paribas

The first one is why are you taking a five year loan? Is that because of the cost, I thought you had a broad agreement of up to 20 years of financing with the Chinese? I am a little bit surprised by the short duration of the loan.

And secondly, would you make a broad assessment of competition in Portugal? We have seen Galp being quite aggressive in terms of trying to grab market share. Thank you

Nuno Alves

In as far as the duration of the loan, very clear: upon the privatisation the commitment letter stated the conditions of up to, it didn't say it had to be 20 years and it was to be decided later on. What they did say was if it was at 20 years the price would be this much. Since then we have been negotiating with them. They immediately said they would prefer not to do anything longer than ten year and then it was a question of what fitted best to us and them at the time of signing. The negotiations were extensive. Let me say that the end product is a success and we are very pleased with it, but once again you get what the other party is willing to give you too. But five years for us it is very good and we will see once that is over if we can borrow again at a cheaper price.

António Mexia

In what concerns competition; if you would be living here you should notice that on the regularised market we have more than 80% of market share on the B2C. As I mentioned in the last months without any campaign from EDP and the others having campaigns, we have more than double of the clients of all the others together. We have launched in the last ten days a new campaign also with gas and power and we have been clearly having better results than the competition. We don't see any issue. On the opposite we believe that moving people from the regulated market B2C into the liberalised market is one of the best news for EDP and overall for the system in terms of sustainability, so clearly we have only good news structurally but also in terms of our market share. And by the way our biggest competitors are the Spanish utilities and nobody is based in Portugal but clear once again we have more than 80% of market share on B2C.

Closing Comments

António Mexia

So thank you for being present. I think that what this figures shows and our guidance towards the end of 2012 shows is that we have been doing all that depends upon management actions. In terms of assets, in terms of costs, in terms of disposals, in terms of new funding sources, everything that depends on us, including regulatory issues and legal issues on our core markets, I think that we have been delivering. I think that is clear, obvious and distinctive.

Of course there are things that still do come, namely everybody's big question mark but basically it is futurology what is going to be on the Spanish market, but once again I believe that on that front we have been doing proposals and we have been trying to build smarter solutions than those that have been tested in the press in the last weeks. So clearly running a company is basically doing everything that we have to do, trying to anticipate any crazy stuff that could be flying around and I think that we have been quite good in doing both things. So once again thank you and hope to see you soon.