



**EDP - Energias de Portugal**

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**Friday, 26<sup>th</sup> July 2013**

**11:00 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**

**António Mexia**

Hello, good morning everybody. Thank you for being present in this presentation of the first half of 2013 figures. As usual I will start with the highlights of the first six months, then I will pass to Miguel, and then we will be wrapping up and ready for Q&A.

When we look into the figures, I think that the first word is rather positive, taking into account the overall evolution of the energy sector, in our markets, so what we see is a 4% year-on-year increase of EBITDA to €1.957 billion, so almost €2 billion EBITDA, and the drivers of this growth are as expected first the wind growth by new additions, but also higher prices and higher load factors, so overall renewables are responsible for a big chunk of this growth; the second is of course the high volumes of hydro and wind in Iberia, and also I believe something that makes us distinctive, our energy management approach in the Iberian market, due to the evolution of the power prices, we were able on the liberalised market to have I think very good results.

At the same time, these figures already include some adverse regulatory developments in Iberia, the ones that were already foreseen, so the reduction of the capacity payment in Portugal, the lower return on revenue in distribution, all of these results of the negotiations. For example, the non-capacity payments, through the agreement that we reached in May last year. And the return on RAB evolution is basically the result of lower country risk, so this is quite normal. At the same time, in Spain, these figures include already the new generation taxes, the new wind regime, and so overall we see already a negative impact of measures of Portugal and Spain.

In terms of Brazil, we see a very small growth, 1% in local currency, -9% because of the evolution of the Real, we have seen a depreciation by 10%. What is interesting to say at this level is that Pecém is now fully operational at 100% both groups since May, so this is clearly an important change for the second half, and second, all the measures that were taken at the regulatory framework with the CDE funding of the tariff deviation. This is



critical, because as you know, you only book tariff deviations in Brazil when you cash and now you have a system where this is assured and so 2013 figures will have a positive, because of these measures.

In terms of funding, we see the cost of debt increasing as expected, as we have mentioned, exactly at the level we have stated before, 4.2%, and this leads us to a net profit evolution of also by 4% to €603 million for the first six months.

In terms of financials, we see a reduction of €0.5 billion in the debt year-to-date to €17.7 billion. As you know, this includes already the payment of €670 million annual dividend, fully paid in cash last May, but it also considers the result of the successful securitisation in Portugal of above €700 million and also around €250 million deals in Spain over the first half. Post securitisation it's important to mention that regulatory receivables remain stable at around €2.7 billion. We will have time on the presentation to detail this more.

As it's also known, we assured a disposal, the financial closing of the first disposal to CTG, with the cash-in of the €368 million, closed at the end of June, and also as well as already known the gas transmission sale in the first quarter that amounted to €258 million.

You see the Capex lower 8% at €635 million, mainly driven in any case by expansion in power generation in Brazil, the five hydro plants in Portugal, and of course the wind power out of Iberia, the new wind farms, but clearly the hydros both in Brazil and in Portugal are today in an important phase that will be in the market along next year.

The cash proceeds from securitisation disposal, basically not only reduced debt, but also reinforced our financial liquidity. We have €4.5 billion of cash and available credit by end of June. It means that all the funding needs for 2014 and until the beginning of 2015 are covered today.

Basically, I think that we have positive results, that are created with our low-risk profile, usual, 85% regulated; also, the diversified market, the quality of our assets, our energy management strategy, so this mixture of low risk, also efficiency, because as you will see also we have lowered our net Opex over gross margin, being once again the best in Iberia, and also being on cost, on time on the projects that we are building both on hydro and wind. We are on track, it is important, because we are creating the next new EBITDA of the future, so positive results and basically we have done what we have committed. I think that we have even better performed in liberalised markets and on the leveraging, the signs are clear, but of course on the Q&A we can develop this further, so Miguel, if you can go through the presentation and I'll come back for the highlights.

### **Miguel Viana**

Thanks, so we will move now to the first half 2013 environment in terms of weather and market prices in Iberia. As you can see, hydro production in Portugal continues very high both in first quarter 2013, but also in second quarter 2013. Also wind production stood at

high levels with the Portuguese wind production factor standing 1.28 in the first half of 2013, so strong hydro and wind production in the first half.

On the side of demand, demand in Portugal decreased less than in Spain, -0.6% in first half 2013, adjusted for working days and temperature versus -2.6% in Spain. Note also that in the second quarter demand fell less than in first quarter on year-on-year terms both in Portugal and in Spain, so we are starting to see some signs of stabilisation in terms of demand. Overall, following the increase of production of wind and hydro and also the decline in demand, pool prices decreased both in Portugal and in Spain, standing in the second quarter even lower than in the first quarter 2013.

Regarding installed capacity, we can see that our installed capacity went up 1% year-on-year, reflecting the decommissioning of the Setubal oil plant in Portugal, an increase of 0.3 GW of new hydro capacity in Portugal, the commissioning of the second group of Pecém in Brazil, so 0.4 GW additional coal capacity, and finally additional capacity at level of EDP Renováveis of 0.6 GW of wind. With this installed capacity, we managed to increase our total production of electricity in the period by 16%, mostly due to the rainy and windy weather conditions in Iberia in the first 2013, which was favourable to our portfolio of assets with a significant weight of wind and hydro power.

In terms of EBITDA breakdown by division, we can see that liberalised activities in Iberia and EDP Renováveis were the major areas of growth in the first half of 2013; while on the other hand, Brazil and long-term contracted generation in Iberia showed single digit declines in the period.

Regarding EBITDA breakdown by major subsidiaries and markets, we can see that our subsidiaries, EDP España and EDP Renováveis, were the major growth drivers. Note that Spain was positively impacted by the €56 million one-off gain with the sale of gas transmission assets in the first quarter 2013.

In terms of operating costs, they went up 2% year-on-year, being flat in Iberia, below the inflation both in Portugal and Spain in the period. They went up by 8% at EDPR in line with the capacity increase, while in Brazil they went up by 12% in local currency following the start of operations of Pecém I coal plant. We would also like to highlight the accomplishment of the Opex III targets savings in first half 2013, so €64 million, which represent an anticipation of 2014 target for 2013.

Regarding Capex, it went down 8% or a 5% increase if we exclude the €92 million cash grant received in US, referring to wind farms installed during 2012, with an increase in the weight of Capex from the five new hydro facilities in Portugal, and lower expansion Capex in wind, which in the period was focused in Poland, Romania, and Italy.

Regarding net regulatory receivables, they showed a very slight increase in first half 2013, standing at €2.7 billion, as a result of a net increase in Portugal by €91 million, including €714 million of securitisations done by EDP in the period; a net decline of €59 million in Spain, including securitisations done by FADE and collected by EDP of €249 million in first

half 2013, and finally in Brazil a net increase of €11 million, including the cash received from CDE in the period, which amounted to €96 million.

Focusing now on the evolution of EDP's regulatory receivables in Portugal during first half 2013, namely the €805 million increase of gross regulatory receivables before securitisations, we can see that it included €0.2 billion from ex-ante tariff deficit, which is an amount totally in line with what was predefined by the regulator when setting 2013 tariffs. We can see that also €0.4 billion increase related with deviations caused by higher than expected special regime production not only in the first quarter, but also in the second quarter 2013, and also low market prices, even that they went even lower in the second quarter versus first quarter. CO<sub>2</sub> auctions and the no cash-in of revenues from CO<sub>2</sub> auctions in first half 2013 represented a €0.1 billion deviation, although we expect that CO<sub>2</sub> 2013 revenues to be fully collected in the second part of the year, obviously being impacted by lower CO<sub>2</sub> prices that we have today in the market. Finally, the remaining part, €0.1 billion of deviation came from lower than expected demand during the first half 2013 versus initial expectations.

Note that for the second half 2013 there are more positive prospects regarding regulatory receivables evolution, given lower special regime volumes, higher pool prices, also the expected use of CMEC's hydro plants high reservoir levels as of June 2013, and finally also the recent more positive demand trends in second quarter 2013 and also in July 2013.

Moving now to net debt, it stood at €17.7 billion with Euros representing 72% of total debt in terms of currency, Dollars 19%, so we continue to fund in local currency our debt. In terms of breakdown between fixed and floating we maintained in line with previous quarters, fixed 46% and the floating 54% of total debt.

In terms of change of net debt during the period, we can see that net debt decreased €0.5 billion in the period, supported obviously by the securitisations in Portugal and Spain amounting to €1 billion in the first half, and also the disposals where we highlight the disposals of EDPR Portugal's minority stake to CTG and also the gas transmission assets in Spain to Enagas. Note that we included in this first half the impact from the €671 million annual dividend paid in cash to our shareholders in May 2013.

In terms of net debt profile, our adjusted average debt maturity stood at close to four years, following the €1.6 billion credit facility signed in January 2013, which extended our average debt maturity profile, while financial liquidity stood at €4.5 billion by June, including €2.8 billion of available credit lines and €1.7 billion of cash and equivalents.

As we can see on page 16, the financial liquidity of €4.5 billion by June 2013 covers our refinancing needs through 2014. Overall, in terms of P&L breakdown, we can see that we had an increase of €32 million from net depreciations and provisions impacted essentially by new capacity and also decommissioning of Setubal oil plant. Income taxes declined by €31 million and included the impact from the asset tax base revaluation in Spain. Overall, net profits increased by €21 million or 4% year-on-year.

Moving to the performance of our business areas, and namely to the market environment for our liberalised operations in the period, I would say that the market environment was marked by the already referred electricity demand decline in the period and the thermal production in the market decreasing by 50%, impacted not only by lower demand, but as we have already referred strong hydro and wind resources in the first half of 2013.

In terms of operating performance of our liberalised energy activities in Iberia, production went up by 1%. We highlight the strong increase in the weight of hydro from 17% in first half 2012 to 47% in first half 2013 not only on the wet weather and more favourable weather conditions, but also new capacity additions. Also, I would highlight that thermal load factors showed a strong decline on the back of the referred lower residual demand for thermal.

Overall, the EBITDA of liberalised energy activities in Iberia went up by 28%, reflecting essentially the strong hydro volumes leveraged by capacity additions and also the positive impact from low pool prices on our long positioning clients through active energy management.

Moving to page 22, we can see that EBITDA in our long-term contracted generation in Iberia went down by 7%, impacted essentially by the decommissioning of Setubal oil plant in December 2012 and also the strong increase in mini-hydro production during the period.

Regarding regulated energy networks in Iberia, EBITDA remained flat at €522 million, but if you exclude the one-off gain of €56 million with gas transmission Spain disposal, adjusted EBITDA went down by 7%, reflecting the lower return on RAB in our distribution business in Portugal from 10.3% to 8.5% on the indexation of these returns to the five-year CDS of Portuguese Republic, which went down essentially because of lower sovereign interest rates in Portugal.

At our subsidiary, EDP Renováveis, which has already presented its first half 2013 results to the market, installed capacity went up by 8%, with a strong contribution at level of US. Wind power production went up 8%, with the highlight for Iberia with strong wind conditions, leading to an EBITDA growth of 11% in the period, even including the negative impact from a new generation tax in Spain, €19 million, and including also a one-off gain in US of €14 million.

Moving to Brazil, in terms of market environment, there were significant positive developments in the second part of 2013, namely with the recovery of hydro reservoirs, so they stood at more safe 64% levels in June. There were also signs of decline in terms of thermal production, which together these two issues led to signs of decline in terms of electricity spot price, namely in the month of June. Also in terms of distribution, the system of cash payments by CDE continued working as expected, allowing the recovery of regulatory receivables faster by our Discos and a more stable EBITDA under the current market environment.

In this scenario, our EDP Brasil subsidiary showed 1% increase of its EBITDA in local currency. In Euros it shows a 9% year-on-year decline, affected by the 10% depreciation of the Real versus the Euro. In terms of the key divisions, generation still penalised by Pecém. The good news is that the negative impact from Pecém in the second quarter was much lower than in the first quarter and we have now with the full operation of the plant following the start of commercial operations in May, which would start showing a positive EBITDA in Pecém in third and fourth quarter of this year. Regarding distribution, the first half 2012 was strongly affected by the freeze on Bandeirante's tariff. In the first half of 2013 we continued to have high energy costs in our distribution but they were mostly covered by CDE leaving the adjusted EBITDA to show a 9% decline.

Regarding outlook, I will now move the presentation to our CEO, Mr. António Mexia.

### **António Mexia**

Back again to speak about the outlook; I should spend a moment, as you see on page 28, about the Spanish electricity sector recent measures.

Part of it are known, the impact of part of those measures are today very difficult to foresee, so let's split these in two, so what do we know and what can we measure today? Basically, we are talking about the distribution and transmission rate of return going down from 8% to 6.5%. We have the social bonus, the social tariff, and the other capacity payments. These three will have an impact slightly below €20 million in 2013 and around €36 million on next year, on 2014.

Besides this, you have the special regime, with a significant change in the new remuneration scheme, based on a reference 7.5% return on RAB pre-tax, something that is very difficult to know exactly today how it will work. We will know this probably by October or November. It's very obscure, very difficult to know exactly how it will impact and we would prefer not to give any figure, especially because we believe that the market will recognise clearly the difference between better and worse assets, people that had done better than others, so things that bring more value to the sector than others, so things are less burden than others, so hopefully common sense will prevail in something from the beginning that doesn't make any sense, but hopefully the next step is intelligence. Then we have also changes in the ancillary services and the auctions for mothball and other smaller details. Even if we don't want, because we are just not able to put the figure between special regime and all the others that can be significant, we would consider at least the same figure of the above, so it means we see at least doubling the figures that are already in the first subtotal, but it's very difficult to understand.

What I would like to say at this stage is that we will not hesitate, we will not stop any action that we need to do to protect the shareholders' value and the justice of the system. As an example, the social tariff was already decided by the court that should be cancelled this impact and we will fight for it. In the special regime of course we expect even in a nonsense regime that the solution and we will work for it, the common sense

will prevail, but anyway, here once again we will not hesitate to take all the necessary actions to protect what we consider as a fair deal.

Basically, we are sharing with you the initial figures. We don't know the additional figures. In the next quarter presentation, eventually we will have more news, but we will fight for everything that makes sense and in all courts, in all areas that we need to do.

The only good news about this is we expect with this, of course, the deficit in Spain to disappear, eventually more than disappear, and of course the market share of EDP will go down in terms of funding of that issue.

Knowing as little as we know about this on July last wave of the Spanish sector, we still have the same vision for 2013 year-end, so a low single digit EBITDA growth for 2013. The net profit and earnings per share flat year-on-year and we still see net debt in 2013 at a lower level than in 2012, at the end of 2012.

And why? And I think that the first half year 2013 prove this, we have a sound performance, clearly enhanced by diversification, with the EBITDA growth by 4%, the cost of debt is where it was anticipated by us. We have been reducing Capex and the new Capex is mainly driven by new capacity, even the maintenance Capex is clearly going down below the figures that we have anticipated, so we are working on new EBITDA in hydro, in Portugal and Brazil, and wind outside Iberia. And also in terms of financials, the securitisations, the disposals delivered a lower debt and a strong financial liquidity. We have paid dividends as the dividend policy has not changed, will not change, and we have been able to follow policy of sharing with the shareholders, paying full in cash. So deleveraging, focused growth, quality of assets, returns, diversification, energy management, risk policy. I think that all these elements are today clearly delivered and delivered a strong first half, and will support our vision for 2013 figures.

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

## Questions and Answers

### **Stefano Bezzato – Credit Suisse**

*I have three questions if I may. First of all, going back to your Capex that you just mentioned, how does the recent reform in Spain change your plans for 2014 and 2015? Are you now more inclined to use the Capex flexibility that you mentioned in the past? And in that case, what would be your new targets in terms of Capex for the years to come? The second question still in relation to the regulatory scenario also, are you reconsidering disposals? And could you consider selling maybe your Spanish gas distribution grid, also in light of a possible future cut in returns? And finally, my third question. Are you planning to freeze any CCGT capacity? And if yes, what is the saving you expect in terms of euro per kilowatt? Thank you.*



**António Mexia**

As you know, Capex in Spain was reduced to a minimum of maintenance, so zero investment in Capex in Spain in terms of capacity of course. In terms of overall Capex, as we have always stated, our commitment is to be 3.0x ex-receivables by 2015. We will have probably already below €2 billion investment in 2013. We will be reducing this figure probably further in 2014 very slightly because the decisions are already taken, so clearly flexibility we are now talking mainly about 2015 because we are already at the end of the year but in any case, it is not because of the EBITDA changes in Spain that you need to do major changes in the overall global Capex. We have an enormous amount of variables between tariff deviations, about results in Brazil, disposals to CTG, that are much more important and there we have a positive vision, a balanced vision that allows us to be in the same line as we were, facing the commitment to deleverage up to 2015, so it is not Spain by itself. Of course it has an impact on the investments in Spain, but it will not have a major impact in our overall Capex policy because there are much more important variables elsewhere. So visibility about the deleveraging through sale to CTG we still expect to have visibility about the €1 billion to CTG until the end of the year. With Asset-A or Asset-B we will proceed as foreseen. We have been fighting on selling receivables above the initial targets to be able at least in 2013 to compensate for additional receivables in terms of specific conjunctural reasons like high wind and high water in Portugal and overall in Iberia, so these are much more important variables to use flexibility in 2015 than the EBITDA in Spain.

In what concerns regulatory scenario and selling regulated assets, as you know whenever you reduce remuneration you eventually have typically more people that would like to sell but also less people that would like to buy, so in any case I think that this is a stabiliser of our cash flows, this is a free cash flow activity. Let's see what comes over and in any case if the spread makes sense in what concerns the country risk. We have not think about any change in terms of disposal of regulatory assets in Spain at this stage.

**Nuno Alves**

Freezing of CCGT, we know the rules, there's no news. We will have to look at the auction and what values are being talked about and then we will decide. Right now it is still too soon to decide.

**Stefano Bezzato – Credit Suisse**

*Thank you very much.*

**Alberto Gandolfi – UBS**

*Thank you, good morning, it is Alberto Gandolfi, UBS. Forgive me if you already answered the first question but I didn't hear a comment on dividend and I was wondering if there is*

*any sort of impact from wind which is still unknown would consider you to tilt somehow your dividend policy or if that remains a must in your strategy. Secondly when it comes to wind disposal to CTG, as I understand you are trying to negotiate the disposal of Spanish wind assets; in light of the current uncertainty, am I right in assuming that the €600 million may slip at the moment, or are you perhaps trying to consider another region for that. And other than that when you say flat earnings in terms of outlook, flat EBITDA and net profit from 2013, you are obviously already accounting for the H2 regulatory hit. Am I right?*

**António Mexia**

Alberto, thank you. Let's be very clear once again on dividend policy. Dividend policy will not change. We have €0.185 as the floor, as we will start growing we will share that growth with the shareholders but this policy we will not change it. The Executive Committee, the Board doesn't want to change it and what I clearly know is that being present in the Supervisory Board where you have almost 50% of the shareholders they also like the dividend policy. I can anticipate the annual shareholders meeting will approve our proposal, so we will not have any change on this floor of €0.185.

Second question, wind disposals to CTG, of course we now need to understand exactly what will be the final impact of the new regulation in Spain. It will delay the analysis on the value of assets of course, up to October. In any case we will proceed as estimated and we are considering other assets in other regions to be able to give the commitment of visibility of €1 billion by year end, even if you don't of course have the financial closing probably by the year end because if you know the figures by October it is difficult to anticipate something by year end, but we want to have clear visibility of our €1 billion deal including already the 360 million that we received with CTG. Of course now we have to look elsewhere to compensate from eventual delays in Spain, and we are doing this with CTG. Flat in 2013, yes in terms of net profit and yes it includes already the vision of the new wave in Spain.

**Alberto Gandolfi – UBS**

*Very clear, thank you.*

**Pablo Cuadrado – Bank of America**

*Good morning everyone. Just three or four questions. The first one is just looking at regulatory receivables. You have said in the presentation you expect probably a better performance during the second half of the year. I was wondering whether you can provide us if you expect more regulatory receivables in Portugal or in other words if you expect to undertake more securitisation of Portuguese tariff deficit. The second question is on the liberalised activities, while looking at details the selling price has continued to be close to be €60/MWh, driving up the profitability on the back of the hydro. The question*



*here is how sustainable do you see that reference, clearly the trend of the forwards has been down and I was wondering whether you can provide any reference on the selling price that you are putting for next year. The third question is on the tax rate, clearly it has been moving down, you have explained the tax break in Spain on the asset revaluation, but I think you mentioned on the presentation that you expect a tax rate by year end very similar to H1. Clearly that is already including some positive one offs, so are you saying that you expect more positive one offs on taxes during H2. And lastly and I'll finish I promise, just on the impact on Spain that you have quantified. Could you clarify that impact is pre or post-tax.*

**Nuno Alves**

Pablo, it's Nuno Alves. The tariff deficit as we have seen during the first half it has come out a little bit above what we would expect, the second half we have reason to believe that it will continue to grow but at a much slower pace, so our expectation which was for the whole year the deficit to be in the region of €500 to €600 million will probably in the region of €700 to €800 million that is our best guess right now. Most of it have to do with a very low pool price in the second quarter which made the special regime overcost be higher than expected. Obviously that provides you P&L but also generates a deficit.

**Miguel Viana**

Regarding power prices to 2014, as we have stated in our handouts, so for 2014 right now we have already forward contracted 8TWh at an average price of €54/MWh, so it is already a decent provision. Clearly above the current forward price in terms of wholesale market. We have also for 2014 an increase in terms of volumes in liberalised business with the new three hydro plants so that moves from the long-term contracted to the liberalised market so we will have higher weight in terms of production in terms of liberalised activities. We will have to wait for the contracting season, which starts September and then goes until the end of the year to see what is the level of prices contracted with our customers for 2014. For now what we have is what I referred 8TWh at an average price of €54/MWh.

**Nuno Alves**

As far as the tax rate, the expectation will stay in line, it might be slightly above but it won't be much above what it was in the first half. As we mentioned since the beginning of the year the expectation for the whole year would be in the region of 22%-23% at the most and that is what we expect for the year end.

In as far as the impacts clearly they are EBITDA impacts so they are pre-tax.

**Carolina Dores – Morgan Stanley**

*Hi good morning, thanks for taking the questions. I have three. The first one is on Portuguese receivables, clearly there was a deviation on the Portuguese tariff this year. There's also future prices that have been down, demand has been relatively weak. What do you expect for the 2014 deficit and what could be the measures that the government can take to try to revert the deficit so that it starts coming down. The second question is the secretary of energy is now reporting to the minister of environment if this changes anything in terms of energy policy in Portugal. And my final question is on your working capital this quarter, you have €300 million sources of working capital for lower coal inventories and receivables in Spain and Brazil a collection of trade receivables. If this is a one off and should revert back in the next quarters or is this a normalised level now. Thank you very much.*

**António Mexia**

Carolina, thank you. So, Portuguese receivables, as Nuno explained basically the reason why they were growing faster than expected is because we had rain at the same time as we had wind, so lower prices with much more wind so it means that the formal cost of renewables was much higher than expected and also because of the non-sale of CO<sub>2</sub> government licenses, so clearly these are more conjunctural than structural. Demand is slightly better than expected, that is good and you see recovery of demand especially on the bigger industrials and even domestic now is reducing less than expected, so overall the demand side is going slightly better. The key issue for receivables is of course the commitments in terms of tariff increases, between 1.5% and 2% above inflation. The government was able to do it as you know for 2013, we will know what will be the proposal of the regulator for 2014, at this stage we don't expect any change, especially because once again it was demonstrated, and the government redone the calculus, that the system is sustainable until 2020, the deficit will disappear. So the vanishing of the tariff deficit, with a ceiling at 2014 and then going slightly down and sharply down after 2016/17. There is no reason at this stage in terms of demand-wise, tariff policy, based on the concept of the sustainable sector to anticipate any change in terms of this going slowly down up to 2020. We can have short-term differences but we don't have structural differences in the system.

The question about the secretary of state of energy, sorry Carolina I missed, you wanted to know, we have a new minister as you know, of energy. The secretary of state is the same and the minister is new. The key issue is that energy has moved from economy into environment.

**Carolina Dores – Morgan Stanley**

*Does it change anything António?*

**António Mexia**

I think that the secretary of state has clearly been there to implement what was agreed. He is very clear in what concerns the measures that the system has taken and the implementation of those measures so it is very professional. The new minister if I can say anything is on the conception of energy being part of the sustained development approach of medium long-term visibility of this concept so I don't see any major impact. If any energy is seen as a key element of sustained development. In this approach I see it as positive.

In terms of trade receivables in Brazil...

**Nuno Alves**

In as far as the working capital, just to make it clear, this is a reversal of an anticipation of working capital, so from now onwards it will be normalised. We just anticipated and I guess we mentioned that by the year-end figures that we have purchased the coal. For particular reasons we anticipated the acquisition before the year end rather than wait for 2013 coal to come in and that's why we had this major move but it was a one-time event but it was to compensate the added or the negative working capital we had at the end of last year. From now on no ups and down due to this.

**Carolina Dores – Morgan Stanley**

Ok, thank you.

**Gonzalo Sanchez-Bordona**

*Hi, good morning, this is Gonzalo Sanchez-Bordona from BPI. I have three questions if I may. The first one would be on what is going on in Portuguese news today regarding potential cut in corporate tax rates until 2018 of around 10 percentile points. I would like to know what is your view on that. Do you think this is going to be implemented and if so how this could impact your regular normalised tax expenses given the weight of the different businesses in different countries in your results. The second question would be on the noise that we have been hearing about the potential for the cuts in what they call the excessive revenues that you are getting in PPA/CMECs and other mechanisms in Portugal that are recurrent, although they are not very concrete. I would like to know if you expect any further changes on this, especially after the EU is now studying this issue as well. The third one would be on the one off tax revaluation that we have seen in Spain this quarter, is this just a one off or do you expect any impact in the coming quarters. Thank you.*

**António Mexia**

Gonzalo, our corporate tax going is always good news, not for the company but also I believe for the country because it is where you can start really growing again. Hopefully it will be implemented. I think it is a key element of the next phase in the Portuguese economic policy, so mixing austerity with growth, you need something that mingles with this and I believe it is a lower corporate tax. If it is down to 19% and with this speed, really I know my guess is as good as yours, sorry not to have added value compared to you and your opinion.

Further cuts, let's be very clear here, first the regime in Portugal is very different from the Spanish. The structural reasons for the tariff deficits were totally different because of a clear imbalanced portfolio in Spain. By the way the Spanish trying to reduce the tariff deficit to zero in one single year I think is just stupid instead of doing a soft landing, but anyway, because they have entered into illegal measures, but anyway. The reasons are totally different. We have already agreed in May last year a package of measures that have a material impact on the cost reduction and what is clear today is that if anything, other areas that were not covered as an example, the CMECs we have already accepted the reduction as you know of the interest rate with an impact. The other PPAs with the other players called the CAEs until now have not moved, so it is there we expect the move, not in ours, we have already moved, the others have not moved. In what concerns all the other elements, cogeneration and everything, Portugal has moved before Spain, so prior to Spain so we don't anticipate anything. And even in the element that it was introduced saying that if any energy taxation in Spain would be a benefit for the Portuguese generators and this should be let's say cancelled, we agree with the system if everything is considered at the same time. Let me give you an example, capacity payments were reduced in Spain, but they were reduced to €10,000 plus before something, so close to €15,000, in Portugal today they are zero and they are expected to go back to €6,000 next year. Clearly we are already below the Spanish and it is already in our figures, so if this is included in the picture, perfect. We should always look into the same conditions on both sides of the border. In what concerns renewables the deal was clear in Portugal, people have paid upfront for the extension, it was a voluntary agreement. There was already even a study done by the government one year ago considering that returns on renewables were aligned with cost of capital and renewables were out of the equation in what concerns new measures, so overall what I expect is if anything it will be in areas that are not related to us and were not until today covered like the CAEs or other areas that are on the cost of the system that does not relate to EDP.

The one off tax in Spain, Nuno...

**Nuno Alves**

The revaluation of the assets is done, it is a one off thing, and we don't expect it to change going forward.

**Gonzalo Sanchez-Bordona**

*Ok, thank you, very clear.*

**Questions from the Internet**

**Nuno Alves**

Just some questions here from the internet and I'll try to pull two or three that go in the same way, which is asking about going back to the debt markets.

The intention to put it short is the intention would be till the end of 2013, so after the summer and before December we would and we plan to issue in the bond market in euros or in Dollars, we will be ready and markets permitting we will do so.

**Manuel Palomo – Exane BNP Paribas**

*Hello, good morning everyone. Just a couple of questions and I'm sorry if I ask you something on the Portuguese deficit. You showed us a slide that I found very interesting in the first quarter results presentation in which you were expecting the cumulative deficit by the end of 2013 could be around €4.5 billion in Portugal. I would like you to give us an update on this figure after the deviations that could have happened in Q2 and maybe your new views on the second half of the year. Number two would be a question on the thermal plants. Currently we are seeing very low load factors, my question is whether you are considering a write down of the thermal plants in Iberia given the low load factors and also the now the decreasing in capacity payments last year in Portugal and a couple of weeks ago in Spain. Thank you very much.*

**Nuno Alves**

I will answer the first one which I had already talked about, so our expectation is rather than the €500-€600 million we have expected, it is going to be €700-€800 million, so it is €200-€300 million more at the end of the year.

**António Mexia**

What concerns the actual load factors, doing write offs in Spain, we see this as a portfolio, not power plant by power plant and I would just like to remember all of us that a similar question was raised to us in what concerns the coal fired plants three years ago because nobody expected that they would be working today and now they are working at 80% load factor, so if I had written off the coal fired plant I would look strange today. Basically we see this in a portfolio approach. I think that we have what is in management, the mothball, flexibility of the operations, reducing the cost, and keeping this ready to

use as soon as it makes sense, and as we have been seen the market can surprise us very quickly and so at this stage and we have discussed this with everybody inside and also with people that look at our accounts that it does make sense at this stage as a portfolio to do any write offs in that generation portfolio in Spain at this stage.

**Manuel Palomo – Exane BNP Paribas**

*Thank you very much.*

**Florence Taj – MFS**

*Hi, this is Florence from MFS speaking. Just on the tariff deficit in Portugal, obviously the fact that it disappears due to tariff increases every year I think of around 2.5%. I think this summer actually there was no increase. How confident are you that the government is going to keep increasing the tariff in order to solve the problem.*

**António Mexia**

Florence, let's be clear, typically you have the annual tariff increase that relates with the fixed cost of the system and then the quarterly should evolve mainly driven by the energy component, and as we have seen energy component was not going up, because of the low pool prices, so it should be difficult to expect any increases in this quarters because energy was going down, the pool price was going down, so structurally what we are looking now clearly in the same idea is that globally we will see for next year an increase between 1.5% and 2% above inflation for the annual increase, and then for the 2014 quarters once again depending upon the energy component. We need always have this in mind, annual more for the fixed part and quarterly adjustment for the energy component. The reason why they were not increasing is because the energy component was going down.

**Florence Taj – MFS**

*Ok, great, thanks.*

**James Barrow – Exane BNP Paribas**

*I have got a quick question on the credit rating. I was just wondering if you think there are going to be any positive evolutions specifically on the S&P side following their potential change in methodology. Thanks.*



**Nuno Alves**

That would be the only one we would expect positive news. In my view I would not expect anything before 2014. In the short run I don't see S&P moving, they might change the outlook at the best but not an upgrade right now. Hopefully for 2014 but that's still ways away.

**James Barrow – Exane BNP Paribas**

*Ok, thank you.*

**Closing Comments**

**António Mexia**

Once again thank you for your presence and especially for the questions.

I think that we have done well, hopefully as usual but in terms of energy management I think Iberia case is clear, proves again that we know how to anticipate trends and what positions we should take. We are committed and we have done in disposals, especially not only the CTG but also finding buyers for asset rotation in renewables. We have been able to do a good job in selling receivables well above our target. We are doing quite well in terms of cost reduction because we are clearly the reference today in terms of ratios in Iberia with the Opex cuts anticipating the cost reduction foreseen for 2014 into 2013, so once again we are anticipating cost cutting. After a problem in Pecém, we were able to really put this running today at 100% both groups. It shows that doing coal again after 20 years eventually we were a little bit rusty but now we have everything under control. We have been able to be always on time and on cost in hydros and wind. The flexibility approach in terms of asset allocation is also there. I think the funding we have also done what was expected, so overall the first half results shows that we have been doing what gives us comfortable vision about the year-end but also creating the basis for 2014 that will be again challenging for the sector, especially because of certain governments going surely much more than they should, like the Spanish government. Clearly what we have I think management wise and strategic wise is a sound performance in a challenging sector and I think once again we have done better than the others. That is the key message. Thank you again and see you soon.