Energias de Portugal
Friday, 6th May 2011
10:00 Hrs UK time
Chaired by António Mexia

Company Participants

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

António Mexia

Thank you very much. Good morning, everybody. As usual we are here to make the presentation of the First Quarter results of 2011. We are here to present what I believe are really strong results of EDP. As everybody knows, we are in a challenging sector for a while already and we have been able quarter after quarter to deliver what we have promised and I think that we have done it again. I think it's good, I think I would like to stress this, especially when you think about our base market, the Iberian market, and sometimes people feel a little bit worried or sceptical and we can see now really why we feel comfortable with the present and the future of the company.

First thing, EBITDA grew 7% for the first time above €1,008 billion and the biggest impact comes from the fact that we have today, as we have been stressing, a quite unique portfolio, resilient portfolio, in terms of asset allocation, adequate to the times that we are now living. For the first time more than 60% of EBITDA comes out of Portugal. The strong growth is coming from Brazil, from EDPR and in EDPR we should stress that this comes from a raise in the US market but also Europe, ex-Iberia mainly Poland and Romania, so resilient because we are also very diversified and for the first time more than 60% of the EBITDA coming from out of Portugal.

Something that is also important is that hydro and wind represents more than 60% of installed capacity and in the first quarter represented more than 70% of our production for this period. We have increased by more than 180 megawatts of our wind capacity, to be more exact 188, and with all the hydro projects that we have proceeding in terms of on-cost on-time and also the new project that we have launched already in the first quarter means that we are really reinforcing the high quality asset portfolio of the company. Wind and water are critical and I think that they make all the difference in what concerns being exposed to different technologies in this sector.

So, what is the most difficult part? Of course, the regulated activities in Iberia. In any case due to the fact of our long-term contracted and regulated parts we have compensated for the liberalised market, so we keep our stable profile together with efficiency improvement, means that we are where we should be. So, clearly the Iberian market is weaker on liberalised but the fact that we are less exposed to liberalised market, the hedging, the nature of our business, the nature of our contracts and also the fact that we have once again reduced costs, 11% higher reduction than in the same period last year, €45 million, as you'll see later, we are putting a lot of pressure with 26% on net OPEX over gross margin, by far the best figure in the industry in Iberia, shows that we are really working hard on this challenging market.

So, liberalised market represents today in Iberia in electricity and gas only 13% of EBITDA and in any case we see a recovery in the first quarter compared to the last quarter of last year. We see, of course, challenging market conditions but I think that we are dealing in the right way with these market conditions. So, diversified operations, profitable growth and higher efficiency enable us to increase our EBITDA.

If you go down the P&L and you go to the net profits and you see an 11% increase to €342 million, here I would like to stress the following: the Capex has been reduced by 31% year-on-year. We are now below €400 million for this quarter. 100% of the expansion in Capex was in wind, hydro and Brazil. I think that we are really now focussed in what makes the difference. So, we are basically in line with the Capex reduction announced and the targets for 2011 and for 2012. In terms of net debt we have a reduction of more than 2%. We are now below… slightly below €16 billion. The positive free cash flow, of course, helped and, as you'll see, the exchange rate for this quarter also helped and I think it's important to recognise the effort that we have been doing as we have committed to control the ratios, the financial ratios. The net debt over EBITDA, if you take out the regulatory receivables that are more or less at the same level, as you'll see in detail, as they were in the last quarter, we see that the net debt over EBITDA is at 3.6 compared to 4.1 in 2010.

So, Capex reduction, debt reduction, debt control and, of course, another issue, very important, the maintenance of a high level of financial liquidity, by the end of March, €4.8 billion, that covers, as we have been stressing, the expected funding needs for the next 24 months. So, we have been pre-funding and I think that is, once again, when we see the evolution of the market in the last month, I believe that we have done it right and that this strategy has been paying off, of course.

The net financial costs have increased. The fixed rate debt rose from 44% to 47%. The average cost of debt is 3.8 compared to 3.5, totally in line with the guidance of around 4% for the year 11. So, once again the pre-funding, of course, gives us additional visibility and we now have the feeling that the commitment, the guidance is clear for around 4% for the year end.

So, overall this quarter represents also the execution of a selective growth. We are growing where returns are more protected, where returns are protected in the short but also in the medium and long run. We have been focussed on adequate financial risk management. Overall the target was to maintain a low risk profile and at the same time growing because if you see EBITDA growing at 7% and net profit by 11%, I think that's at the same time keeping the low risk profile, I think that really confirms what I've said, that it is a strong result for the quarter.

I will ask Miguel to go through the presentation and then we will go back, as usual, to the Q&A and other small details that I would like to mention.

Miguel Viana

Thanks, António. So, moving to page four, in terms of the first quarter 2011 operating headline, we can see that we increased 7% our installed capacity year-on-year with hydro and wind representing 61% of total capacity and, as it was already referred, 71% of total production in the period came from hydro and wind power.

Moving to page five, we can see that in terms of EBITDA on the quarterly evolution. In the first quarter 2011, it was already referred, €1,008 million, so the highest level of EBITDA in historical terms with a big contribution of growth coming from operations in Brazil and EDP Renewables.

If you move to page six, you can see that in terms of EBITDA breakdown by geography, the growth that we have shown in Brazil also in terms of wind power in our subsidiary, EDP Renewables, and even in terms of our operations in Spain, has led the EBITDA weight of Portugal to go down from 61% in the first quarter 2006 to 39% in the first quarter 2011.

Moving to page seven, you can see that in terms of EBITDA breakdown by activity, overall the EBITDA went up by 7% with the major contributors to growth being Brazil, wind power and our regulated networks in Iberia while liberalised activities in Iberian long term contracted showed a decline which was previously expected. Excluding Forex essentially from Brazil EBITDA grew 5% year-on-year.

In terms of consolidated operating costs the 12-month average inflation in our key markets increased significantly, being above 2% in Portugal and Spain and above 8% in Brazil and with last months showing even higher inflation rates. This has some impact in terms of cost. Nevertheless our operating costs in the period increased only 3% and even excluding forex our operating costs increased only by 1%, so clearly below the average inflation in our key markets. This leads our OPEX to gross profit ratio to remain stable at the very competitive level of 26%.

Moving to operational fronts and in page ten, we can see the electricity and gas demand performance in EDP's key markets with a different performance in Brazil where growth continues quite strong, 4.8% in the first quarter 2011, and 11% if we compare to first quarter 2008, so pre-crisis levels while in Portugal and Spain electricity demand was down year-on-year in the first quarter 2011. Nevertheless the difference, so Portugal is already above pre-crisis levels while in Spain we are still below. In gas in Portugal in the first quarter a strong growth led by higher consumption by power plants in Portugal, namely combined cycles, while in gas combined cycles also were the driver for a slight decline in terms of gas demand.

Moving to our key divisions, so starting with long term contracted generation in Iberia, essentially composed by our PPA/CMEC contracts in Portugal which grants us a stable 8.5% return on assets pre-tax and before inflation without risk on volumes and prices or margins for the plants that we operate. We can see that EBITDA went down by 7.5%. The major impact was the end of our Carregado PPA, so our fuel oil plant which ended its contract on 31st December 2010, this had a negative impact of €22 million in the first quarter 2011 versus first quarter 2010. Excluding this fact, so on a pro forma basis, EBITDA went up by 6%, reflecting essentially inflation adjustments and also higher efficiency. Regarding special regime, lower level of hydro output essentially because of lower hydro levels in the first quarter 2011 versus first quarter 2010 led to a 17% decline of EBITDA.

Moving to liberalised activities in Iberia, we can see that EBITDA went down 21% year-on-year, nevertheless we are recovering from the bottom which would have been the fourth quarter 2010, and on a quarter-on-quarter basis we showed a 63% increase of EBITDA which, as we can explain a little bit better in page 13, is driven by a recovery in terms of gross profit per megawatt hour to levels of €10.9 per megawatt hour and also in terms of arbitrage opportunities, they were lower versus the first half 2010, essentially because there was an increase in pool prices and lower restrictions in the market. So, note that ancillary services and restrictions they were weaker year-on-year also due to the abnormally high wind resources in the first quarter 2010. Note that in the period our generation cost increased 23% year-on-year and the cost of electricity purchased increased 39% which also justified the 24% decline year-on-year in terms of our gross profit per megawatt hour.

Moving to regulated energy networks in Iberia, EBITDA went up by 19%, being impacted essentially by electricity in Spain where we sold to Red Electrica our transmission assets in Spain which generated a gain of €27 million. Also some accounting comparison related with the implementation of IFRIC18 which had a €9 million positive impact. This impact will be neutral, given that the first half 2011 accounts will be fully comparable to first half 2010 accounts. So, excluding these non-recurrent issues EBITDA in the regulated energy networks in Iberia went up by 4%, still with a major contribution to this growth coming from the regulatory update in Spain which was quite positive for us.

Moving to page 15, you can see that in terms of regulated energy networks we continue to focus on efficiency improvement with the ratios of OPEX per kilometre of networks and OPEX per clients connected improving by 3% and a strong improvement in terms of equivalent interruption time also impacted by adverse weather conditions in the first quarter 2010. In any case this figure is at record lows in the first quarter 2011.

Moving to our wind power operations, so EDP Renováveis subsidiary, average selling price went down by 3% year-on-year, impacted essentially by the US where our average PPA prices went down by 6% as a result of new price structures in some PPAs and also lower curtailment revenues at ERCOT market and also a decline in terms of selling price in merchant markets by 14%. In Spain the average selling price increased by 7% following the improvement of pool price and in our other markets, in Europe and also including Brazil, average price went up by 2%, reflecting inflation in these markets and also the increasing contribution from Poland where average selling price is higher than the average of the portfolio. As a result in terms of EDP Renováveis EBITDA was up 19% in the period, fully in line with the 19% increase of installed capacity.

Finally, moving to Brazil we can see that EBITDA in Brazil went up by 20% in euro terms. These results from a 9% increase in local currency, so in Brazilian reais, and a 9% appreciation of Brazilian real versus euro. By activities, both generation and distribution activities showed strong growth, in distribution resulting from a 4% growth of volumes distributed and positive tariff updates, in generation this year in the first quarter 2011 we are having normalised quarterly sales versus abnormally low levels shown in the first quarter 2010.

Moving to consolidated financials and starting with Capex, Capex went down by 31% year-on-year, fully in line with the downward revision of our Capex plan which targets €2.2 billion total Capex for 2011 and €2.0 for 2012. As you can see, the major driver for this plan were wind power activities and namely investment in the US which represented 35% of our Capex in the first quarter 2010 went down to 7% in the first quarter 2011 and also there's a big increase in the contribution from Brazil resulting from our Pécem Coal plant and also an increase of wind power capacity in Brazil.

Moving to page 21, you can see that in terms of capital allocated to construction in progress and hydro concessions already paid, by March 2011 the total amount was €2.5 billion with major contributions coming from Brazil with a strong impact from the Pécem Coal plant which is reaching final work and should be ready by the end of the year, starting operations in next month of January and expecting to have a positive EBITDA contribution in the next year of €110 million. In wind power we continue building around 400 megawatts by March 2011 and in terms of hydro construction in Portugal by March we were building eight hydro plants from which three of them will be operational already in 2012 with an expected EBITDA contribution of €40 million. The total amount of money paid for hydro concessions in Portugal between 2008 and 2010 amounted to €1.1 billion and should start having a positive impact on EBITDA in 2014 and going up to 2019.

Moving to page 22, we can see that in terms of net regulatory receivables there was a slight decline of €44 million and, as we have previously anticipated, in terms of breakdown there was a decline in Spain driven essentially by the three securitisation tranches closed in first quarter 2011 which generated cash proceeds of €307 million for EDP. In Portugal we had an increase resulting essentially by higher than expected power prices in Iberia versus what was the assumption made by the regulator for 2011 tariffs. Note that the regulator had anticipated power prices of €47 per megawatt hour and in the first quarter the final power prices in terms of procurement for our last resort activity was €56 per megawatt hour.

In terms of change in net debt, we can see that there was a €300 million decline in our net debt resulting from operating free cash flow positive by €300 million which was netted by expansion Capex in a similar amount, then a slight decline on regulatory receivables, as we have already referred before, of €44 million. So, free cash flow before forex and after expansion Capex was slightly positive for EDP in the first quarter 2011. Finally, we had also a positive impact in our net debt figure resulting from the depreciation of US dollar and Brazilian real versus the euro in the first quarter, which amounted to €0.3 billion, resulting in a net debt of €16 billion by the end of March 2011.

In terms of net debt breakdown we maintain an average debt maturity of five years and with the weight of the fixed rate component increasing from 44% in December 2010 to 47% in March 2011, also maintaining funding in local currency our operations and with a diversified source of funding between bank loans and debt capital markets, our net debt to EBITDA improved from 4.1 times in 2010 to 3.6 times in the first quarter 2011.

In terms of credit ratings, in the first quarter 2011 we had a lot of activity with significant downgrades at the level of Portuguese Republic which resulted that currently EDP's rating is above the Portuguese Republic, one notch by S&P and two notches by Fitch. So, we consider that the market diversification of EDP and also the low sensitivity to economic cycle of our business mix is reflected in the strong credit profile of the company.

Moving to financial liquidity position, by March 2011 EDP had total credit lines of €2.9 billion and total cash and equivalents of €1.9 billion resulting in €4.8 billion of cash and liquidity facilities which, as we can see in page 27, are more than enough to cover our funding needs for 2011 and 2012, amounting to €2.3 billion. So, we have a comfortable liquidity position which covers our funding needs for the next 24 months to which we should have the improvement in terms of free cash flow profile of the company and the target proceeds for disposals for 2011 of €500 million.

Moving to net profit, starting with EBITDA growth of 7%, in terms of financial results they are impacted by a higher cost of debt from 3.5% to 3.8% and an increase in average net debt. Also in terms of non-controlling interests we have an increase reflecting higher net profit at the level of EDP in Brazil, resulting in net profit going up by 11% to €342 million.

In terms of prospects just starting on page 30, our environment in terms of inflation that is changing significantly. As you know, we have a significant weight of long-term contracted activities and regulated operations that have significant indexation to inflation. Inflation is accelerating in our key markets, both Portugal, Spain and Brazil. In Portugal our PPA/CMEC activities and distribution is as inflation-linked, in Spain the same for our regulated operation and wind tariffs and in Brazil almost the entire operation, so both generation and distribution have annual inflation updates.

Also in terms of outlook for 2011 and moving to liberalised activities, the current position is that we have 85% of expected output for 2011, fully contracted in terms of margins. Average selling price maintains, continues in the region of €50 per megawatt hour and the average clean thermal spread locked in is now above €10 per megawatt hour.

Finally, on page 32 we would like to highlight also in terms of development that we are reaching the stage in which we'll start to see free cash flow coming from our hydro investments. So, already at the end of this year we should start seeing the first EBITDA coming from the first two hydro plants in Portugal, so Picote and Bemposta, and by July 2011 Alqueva and, of course, the profile of capacity additions in hydro is very strong, going for 393 megawatts in 2012, 242 megawatts in 2014 and 1,212 in 2015.

I will move now to the CEO for the final remarks.

António Mexia

Thank you, Miguel. So, prospects 2011. Let's see about EBITDA. We expect eventually that the forex performance may slow EBITDA growth in both Brazil and the US. As we have seen, we also have today a higher level of hedging closed, as it was detailed, presented by Miguel. We also see operating performance in Brazil and liberalised activities in Iberia slightly above expectations and overall at the EBITDA level we maintain the guidance for 2011 at a low single digit growth year-on-year. This quarter enabled us to be very comfortable with this guidance, as we have stated already in the last quarter, at the beginning of the year.

In what concerns net debt and free cash flow, let's talk about some events in the second quarter. We will pay… We have already paid €234 million for the 20% stake in Genesa, as it was already announced. We will pay dividends, €615 million. As you know, our proposal was 17 cents per share. That represents, by the way, a 70% increase since end of 2005. We will pay it on 13 May, so next week. It was the approved in the last annual meeting. We keep the same target proceeds from disposals, on average €500 million with several options under analysis being worked. We feel very comfortable with this target and we will have news in the next quarter, based on the work that we have been preparing and we have been doing. All of these enables us, the EBITDA plus what we see here, as a clear positive free cash flow for 2012 and the maintenance of the guidance of net debt of 2011 being below the net debt of 2010. So, the first quarter here again makes us very comfortable with the commitment with the guidance that we have presented in the last quarter.

In terms of net profit we should look into the average cost of debt. As I have already stated in the beginning, we expected to be close to 4% by year end and we are able to, here again, maintain the guidance of net profit at a low single digit growth. I would also like to stress that our 2012/2015 business plan will be presented end of October, beginning of November. I believe I have already mentioned this in the last conference call. I think it's important. I think it will show clearly what has been happening in the company in terms of growth options but especially in terms of strong improvement in terms of financial due to the free cash flow position and, as it was already foreseen since the beginning in 2006, we will have really a very different and very exciting period with a lot of options and a very different cash profile in the company.

Improving visibility of EDP's medium term free cash flow expectations is important. Why? Because we believe the high quality asset mix, what we have been quarter by quarter showing in terms of sustainable returns, the portfolio effect through diversified markets and, of course, I believe the very adequate risk management policy, market-wise, financial-wise, everything, will gain additional visibility with the 2012 /2015 business plan.

So, if you see the quarter, it only confirms what we have… our comfort what concerns the guidance for 2011 creates all the material that we need to also be more comfortable presenting the future – 2012, 13, 14 and 15 – and the first quarter in terms of improvement of returns, the continued profitable growth, the controlled risk, all of this makes us very, very comfortable at this phase.

What I would like, when we talk about the future, about prospects, and a lot of things have been discussed in the last two days because of the IMF support scheme for Portugal and, of course, what is the energy package included in this Memorandum of Understanding. And if you allow me, I will go point by point, so item by item, and then, if you have any doubts we can discuss this in the Q&A. But let's be very clear from the beginning, this does not change anything in what concerns our guidance for 2011 and it does not change what concerns our vision for the future starting in 2011/12 for the company and I will explain why.

Let's start by the first, privatisation. What is foreseen is that the government will accelerate the privatisation programme with all the companies that are today more or less with the participation of the government – post offices, planes, airports, energy, insurance, in the saving and loans, Caixa Geral de Depósitos, all of this – and the commitment of the government is to go further in the energy sector. They have already sold Galp through a convertible and basically is that they will proceed with EDP and the rest of the sector.

In what concerns EDP, as you know we have a lot of people interest that has shown through us or directly interest in having a stake in the company. I think that the company is, of course, showing a country discount because we are based in Portugal. We have already talked a lot about this. I think it's totally unjustified because we have already more than 60% out of Portugal and, by the way, the business in Portugal is very resilient. It's one of the most resilient parts. So, what I believe is that this process will be done in a very comfortable way, in a phased way, and, of course, not through any secondary offering but clearly tackling all investors that have shown direct interest in the company and in terms of blocks and not secondary offerings. So, I don't see any hangover risk. I've been discussing with everybody that can today and can in the future be involved in this process. The message is clear, that it will be done in an orderly way, and I see that there's even a strong opportunity for the company in terms of tackling shareholder basis that, as it was the case in the recent past, it has enabled us to find new growth opportunities.

Let's go then to the market itself. First, the liberalisation of the electricity and gas market, that's good news. Regulated electricity tariffs will be phased out by January 2013 at the latest. The time and criteria to liberalise the remaining regulated will be established but, of course, it's good news. It's good news because whenever we have regulated tariffs you can… you may, especially when fuel prices will go up and are going up strongly, you can create, let's say, some stress in what concerns tariff increase. So, clearly taking regulated tariffs on the final client I think is very good news, and it's very good news and a credible path because, as you know, we have already created in Portugal the social tariff that is foreseen in this MOU and so the one that will survive just to protect the vulnerable consumers and so I think that the framework is already in place and so the liberalisation is good news for us.

In the gas market it's also very good news. Why? Because the gas market has been less liberalised than both at the Portuguese level but also at the Iberian level. So, I think that it represents a good opportunity for us as the second Iberian player. The fact that the regulated gas tariffs will be phased out also by the latest January 2013 is good because it creates additional headroom for the competitors that want to find a bigger chunk of the Portuguese market because until today it's very difficult to have higher market share because of the low headroom and so it has been basically today placed on the incumbent. Also the fact that they want to have a clear view on entry in the gas market despite the availability of spare capacity is also good for us because access to infrastructure in gas is critical and once again we have been fighting for this for a long time, to have a more open infrastructure, that is important for EDP in Portugal.

In what concerns the additional cost for electricity production and the ordinary regime, so let's start by the CMECs and the statement that mentions take measures in order to limit costs with CMECs or PPAs. Here I would like to say very clear what we think about this so we can have no doubt at all. The first thing that's important is that this has no cash effect in terms of proceeds for the government. I think it's very important. So, here it's not a question of cash for the government, it's a question of, as we have already talked about, this has been debated from time to time in the market but clearly it has no cash effect, so the incentives are different from a lot of other items in this programme of IMF.

Second, any opening of the renegotiation, and we have already stated this publicly and we have already stated this to everybody that has been studying the issue and they have already recognised this whenever you open the book, the result will be an increase of the cost to the final consumer. So, nobody wants probably to end up with a solution that will increase cost to the consumers because if you open the book you, of course, need to include new financial cost, especially everything that is long-term contracted and, of course, I think they wanted the opposite, so whenever you open the book and you see what came out of it, you close the book.

But most important I would like to say to everybody that we will not accept any change in the present value of the CMEC contract. We will not accept any change in the present value of the contract. We have been presenting the case that this is important for the stability of the system, that in certain moments, it was the case three years ago, EDP was sometimes presented by analysts and everybody in the market as eventually less exciting because we were not exposed to high energy prices because the CMEC were limiting the upside. Now, of course, that the market is on the opposite and the CMECs have additional value, it's totally out of the question that we will accept any change on a bilateral contract accepted by the government, supported by law, approved by Brussels – I would like to stress this, approved by Brussels – and any change anyway must be accepted by us and we will not accept any change on the NPV of this contract. We are open to discuss any small items concerning this, anything that could… flexibility or whatever but we will not accept, we will not accept any NPV change on the CMEC.

In what concerns the review… By the way, this item, it's not the first time that it's considered and, as we have seen until now, no change has ever happened. It's not the first time and in any case every time that we discuss this, either the CMEC or the PPAs that are not related to us, it's mentioned and then everybody understands exactly that the end result could be an increase of cost for the consumer and I… we should avoid this.

In what concerns the special regime, cogeneration and renewables, we agree and we like the idea of the revision of the efficiency of the support scheme for cogeneration. Why? Because I believe that one of the misperceptions about special regime that everybody identifies with renewables, when almost half of today's costs is with cogeneration non-renewables, and our vision is that if anything is… if everything stays like this, probably by the end of the decade 90% of the cost will be cogeneration and not renewables and 10% for renewables. We totally support measures in terms of controlling the support for cogeneration and I think for us it's good.

In what concerns the idea of review in a report, the efficiency of support scheme for renewables and for the existing contract assess in a report the possibility of agreeing, of eventual renegotiation – and I am stating other words because there are a lot of words – and I think that clearly it's an opportunity to show, and especially for the project, that the most recent… By the way, we are more involved. Portugal has a very competitive renewables scheme and everybody knows that it's the lowest renewables price/tariff in

Europe. So, it doesn't change what is today the most efficient scheme because in Portugal you get today on average between 11/12/15% or 20% lower costs than for wind than in other countries and, as you know, EDP is only exposed to wind.

So, the issue is also important that another statement/decision on less mature technologies… And, once again, we agree about this because everybody knows and I have been telling this whenever I have the opportunity, that we should be very careful, that we should separate mature from non-mature, we should separate first wind from the rest, which is also important in Spain, except maybe the separation of wind from solar, but also that we should separate mature from non-mature technologies and whenever you go too fast on less mature, you create problems in terms of perception of the more mature technologies. So, clearly I think it's overall good news. Surprisingly, I would say that it is overall good news.

It will give additional confirmation of the competitive scheme of Portugal and it puts, of course, pressure on avoiding any huge development on less mature technologies that would, of course, then create a non-direct impact on the more mature technologies. So, overall I think that it's good news. And I would also like to remember that EDP Renewables has around 10% of its portfolio only in Portugal and that in the Portuguese market of the renewable scheme, EDP represents only 16%. So, there are a lot of other players in the market. Even if we were leaders in the world surprisingly, maybe because we started late and Portugal started soon, EDP was already the third in the world and it was the third in Portugal. So, now we are second and we'll be first in the Portugal with the new project but this new project has already the lowest, and everybody knows this, the lowest tariffs in the European market and so I don't foresee any problems.

Of course discution, of course that is… of course people are eventually saying, okay, some players would like to have… would accept a reduction, if they have a longer contracting set of 15, they would accept for 20 years. Probably there will be room for negotiation but the only thing that I see is an opportunity for players to have some value creation in this case.

Last but not the least, increase in the VAT tax rate in electricity and gas that are presently at 6%. It's right to consider this. Why? Portugal today has one of the lowest VAT on gas and electricity. So, they can change from 6 to 13 or from 6 to 23. You choose but probably the movement will be not the most aggressive one but in any case the most important thing is once again that you have already a social tariff and that social tariff can be the way to protect the weak consumers from… the vulnerable consumers from those increases. As you know, social tariffs today was by at around 70,000 clients out of a total of six million. Our vision is clear, that with the current rules if everybody applies, even if the saving, like today, is quite small, it could be a maximum of around 600,000 clients, so 10% of the total number of clients but the applications today since the beginning of the year was around 70,000.

So, in any way the most important thing is both in what concerns the end of regulated tariffs for domestic plus the increase of VAT, you have the instrument to play the game protecting the vulnerable people and at the same time doing what we have to do that makes sense and, by the way, Portugal starts from… in what concerns energy prices we are below the average of Europe and we are below the Spanish market and in the Spanish market, based on Eurostat statistics, we are below in every scheme of domestic and industrial, so I don't see any… We see room to proceed with these increases without major issues.

So, overall I see that the package… I want to be very clear in what concerns privatisation and I wanted to be very clear in what concerns the CMEC and the special regime so we have no doubts about the EDP position and our perception about this MOU. So, thanks again. I think it was a very strong quarter and we feel that we will deliver the guidance for 2011 and we will deliver what we expect for 2012 and, as you will see, onwards. Thank you very much.

Miguel Viana

We can go on to Q&A.

Questions and Answers

Pablo Cuadrado – Bank of America

Thank you very much. Good morning to everyone. Just three quick questions, if I may. The first one is regarding the regulatory receivables in Portugal. I think Miguel has explained well basically what the difference was coming, particularly in Portugal on the last resort tariff and the difference between prices between the regulatory assumption and the market. Basically here I would try to understand when do you expect to recover that? Is the regulator going to update during the coming quarters or do you need to wait until next year for the recovery? The second question will be on the CEO messages on the bailout package… It was pretty clear, all the explanation, but I just wanted to follow up on the privatisation process because there have been a few comments that were pointing that the Treasury could be interested or forced to sell the whole estate that they want on EDP, the 25%. My understanding is probably that that is not going to be the case but just wanted to have your views on that and if that could create any kind of M&A angle also with the comments on the removal of the golden share. And lastly, and quickly I promise, is regarding the disposals programme. You directed that you maintain the €500 million for this year, whether you can tell us if you are reviewing the whole portfolio or if the idea actually is to go for assets in Portugal in order to reduce further the disposals that you have to the country or is it basically looking at the whole portfolio of the company?

Okay. I will start by… Pablo, thank you. I will start by privatisation. Of course the commitment is there. You have, of course, subject to market conditions, it's always good to have this between… in the middle of the text. I think that, of course, it will be done in a controlled way. Of course you have also, as you know, the changing of the company based on the specific rights of the government in all the companies in Portugal, and, of course, when you see this programme and you see… I can already imagine people in other countries thinking… having ideas but I really want to focus in what concerns the fact that the privatisation will be dealt probably in a way that enhances the long-term shareholders in the company at the same time that these shareholders bring additional growth options and at the same time that this will be done in a very orderly way that makes sense for the company, as it was done in the past. So, I don't see this a rush hour process even if I can agree with you that, of course, I see other people in other boardrooms thinking about what does this mean for my company but we… as management, we try to create value for the shareholders, to create growth options. On the approach the strategy will not change for the company. We have been consistent for the last 20 quarters, since we are here delivering. It's my target, it's the issue… I don't see a hangover discount and I'm not worried about an M&A premium. So, at the same time… I put both in the same basket. My focus is on delivering the value, so, Nuno, do you want to talk about receivables and disposals?

Yes. Inasfar as the tariff deficit, what typically happens, and that the regulatory regime is, whatever you have at the end of the year it should be paid the year after that but, as we have seen in the past, the regulator has the option to defer the payment if he sees fit in order not to increase the tariffs by X percent. So, that's up to the regulator and we'll have to see what he does but in a normal process we would receive it next year. It depends on the size. Inasfar as the disposals, all we will say about it is we'll continue committed with at least €500 million of disposals and we've been working on it and we would not like to add any more on that. But things are moving along and we should have news sooner or later.

But no disposals in Portugal anyway. We have been growing. Neither distribution, neither hydro. It makes a lot of sense. So, in this programme we don't have disposals in Portugal.

Thank you very much.

Alberto Gandolfi – UBS

Yes, hi, it's Alberto Gandolfi, UBS, London. Good morning. I have four, please. One is effectively on your PPA and CMECs. I totally understand what you're saying about you will not accept it, however in terms... even if the NPV remains the same, can you rule out basically a trim in the top line right now, maybe an extension of the contract so that it would lower the tariffs and what would be… where would you draw a line in this sense? Where would you say, no, that's acceptable, I would stand by my decision and not discuss with the government that? Secondly, you seem to still be talking about comfortable with consensus and so on but do you see any upside to full-year numbers because from what we have seen from your Q1, and we are almost in… we are in early May but, given the evolution that you have seen after the end of March, doesn't that look a bit too low perhaps for the full year?

Thirdly, you're probably going to be very tired about the question but there's a growing discussion about potentially, you know, buyout of EDPR and, you know, again can you give us your thoughts on it? One answer you used to give in the past was the privatisation decree could be complicated but the privatisation decree is going to be done anyway to place part of EDP. So, is that really the reason or is there something more structural behind your reticence to take over EDPR. The last question, I promise. It's a little bit perhaps challenging what you were talking about. You were discussing the liberalisation in supply as a positive driver which theoretically has been the case, however if the whole objective of the MOU is to jumpstart the economy by making electricity cheaper, how can you… how do you expect to capture the upside from margins from the liberalisation process? Thanks a lot.

Let's start by the clearest one, privatisation of EDP and the sale of… buyback of EDPR. Alberto, the answer is, once again, no. Let's be very clear; no, and, of course, one of the reasons… There are several reasons. We attempt to be… The deal is recent. We have stated to the market… Probably we tend to be old-fashioned, you know, in the sense that we have a period where we don't change our commitment and our statement to the shareholders and of course because financial… financials is also a strong commitment at EDP level. So, at the same time we will not do a rights issue… we have a commitment not to do a rights issue, we have a commitment not to increase that and not to change our financials, at this stage it has not made… Of course this commitment is not compatible to buying back EDPR. There are other reasons but even if it's only for this, it is, of course, a good reason. In terms of liberalised supply, it's good and at the same time making prices lower.

As you know, you don't… The question of tariffs on industrials is fading out because the tariff has disappeared. You have a transition for 2011 but basically they are gone. It's not a competitive position in what concerns having a liberalised market on industrials, is already there and we have been, as you know, working well on the liberalised market, especially on the segments where you make money. And what concerns… Why do I think it's good news, the liberalisation on the domestic? Because it's there that you have always the tension of creating an eventual deficit. So, whenever you get rid of elements that can create deficits, that even if they are paid the following year, you are the guy that financed the deficit, I prefer to avoid this, so clearly you take a cloud – it's not dark but it's a slightly grey cloud – out of our skies, so I think it's good. And, as you know, it's one of the markets where the churn rate is smaller. We have been competing against the tariff, we'll be competing against other players and the second scenario is always better for us than the first scenario.

In what concerns the upside for full year numbers, at this stage we… You know, we have been… we are probably, let's say, very prudent in what concerns guidance. We have been talking about guidance, that we are very… we tend to be very short in this statement, very clear but very short. I think it's not the moment to talk about it. We are still at the beginning of the year. It's not the moment. We'll talk this when it makes sense.

In what concerns the CMEC, the only thing that can happen is, of course, as you know, you have a scheme concerning the cash position, so you don't change the NPV. It doesn't even make sense for us, neither for the government to launch… to extend the period of CMEC on average further than 2017. The only thing is are we ready to… in a certain moment to have a small impact, reduced impact of 2012 and negotiate a phase-in of the CMEC that we are supposed to receive that in any case is small compared to the overall cost of the system? The question is CMECs are much less… by megawatt much less costly than the PPAs with other players and overall to the system they represent a very small amount and for us any kind of consideration and analysis of something that will soften next year's tariff has really no material impact for us and in any case we will protect the NPV of the company.

Miguel here. Let me only add something which is when we moved from PPAs to CMECs, the top line didn't change, so the top line that you see today in our P&L is exactly the same line of revenues that came from PPAs. So, let me give you an example. In Spain you want to see top lines moving when you have annual tariff deficits. So, I don't see any issue here at the level of top line because that didn't happen also in… when we moved from PPAs to CMECs. So, any even much smaller adjustment doesn't make any sense to have an impact at top line.

Okay. Thank you.

Next question.

Bruno da Silva – BPI

Good morning, everyone. I have three questions. Sorry for insisting on the bailout plan and the impact. Can you please elaborate a little further in terms of what you believe could be the indirect consequences in terms of credit market access for EDP? And, secondly, I guess that all of this discussion reassessment of the electricity market and gas market in Portugal there are also statements in the pack mentioning the convergent… plans for convergence of regulation with Spain in networks and, as we all know, Spain is also debating with changes that include new levies on generation as well as, as you mentioned, social tariffs. So, all of this, what is your current thinking about this possibility of exchanging, for instance, in order to preserve the CMECs' NPV trading for impacts on cash flow that could impact these levies and social tariffs and all of that and not forgetting this indirect impact on the credit market access?

The second question is in terms of electricity distribution details on the results. With the renegotiations taking place towards the end of this year, what are your perspectives in terms… namely of the X factor and huge difference and you have been a lot more penalised on the X factor than other players, particularly on the transmission side. What is your reading and if you believe that there is scope for changing the scope the terms for the return on assets? And in terms of detail of the results, you had one-offs last year in costs related with employee reduction. Is there any guidance in terms of this item for 2011? And, finally, on liberalised generation, you said that you were positively surprised not only on liberalised generation but also Brazil. Can you please elaborate on what were the aspects that surprised you and what could be the impact in the previous guidance you gave for this division? Thank you very much.

Bruno, you made half a dozen questions. I'd like to answer some of them. Well, let's start with credit market access. Inasfar as we're concerned, the way I view it and what we've seen from the market in the last couple of days is, if anything, for EDP the bailout is a positive. I don't think it's going to be a huge positive but I think it's positive. The spreads have tightened about 20 basis points in the last couple of days and my view is that they will stay around these levels or maybe a little bit tighter going forward. But it should come down, the markets as a whole, at least for Portugal for the time being, and, as we have seen in the past, EDP didn't have trouble financing itself before. I don't expect that to get any worse going forward. Inasfar as… Just let me tackle another one that I've noted here. Inasfar as employee reduction, yes, we had a problem last year which… We had some extra costs there at the end of the year. For the year of 2011 such a plan does not exist, so what you'll have there is an immaterial number.

Bruno, in what concerns regulation in Spain, until now all the news about regulation in Spain, especially about the support to thermal because of lack of margin I think is good news for Portugal. If anything, in the recent past we have benefited from the fact that whenever you want to organise, it's good for us and the idea is, for example, the best proof is the capacity payment. And even when you see levies like energy efficiency and other small items that were present in the Spanish market, they were there at the same time where you have seen a great… a very important raise in the remuneration for the disco company. So, it was a way also to have an integrated approach to something that was basically a net support to the utilities in the Spanish market. But sometimes you need to show A and B to be sure that you can put the B and not that the B is, of course, acceptable for namely the public opinion. So, I see that regulation-wise whenever you have this integration I think it's… It has been good for Portugal, so I don't see any major problem; the opposite.

In what concerns regulation, we don't want, of course, at this stage, and we cannot mention anything about what is expected for the next year, I would like to stress and, as you know better than a lot of other people, that regulation in Portugal has been stable, competitive, lucid, transparent. It's a long time. It has not been the case on the other side of the border always. So, clearly Portugal is different at this stage. Of course we have already stated that we don't expect remuneration for next year… for the next period to be ten years' Portuguese bonds plus 400 basis points. It will be marvellous but I don't expect this because it's not the most exciting asset in the world but, of course, the question is… we will be probably closer to the rate that we have today but we don't see any major change.

In what concerns liberalised generation and the slight improve Brazil and liberalised generation in terms of guidance, it does… it's not in order to make any change in the statements about being comfortable with a global guidance for the company, it helps just to be comfortable about this guidance. So, Bruno, I think that… hopefully I've been clear.

Thank you.

Florence Taj – MSS

Hi, it is Florence Taj from MSS. My question relates also to the CMEC and the potential renegotiation of it. I just wonder, from a legal point of view, what the government have to do in order to challenge those contracts and whether, you know, you would be owed any kind of compensation if those contracts were changed. And then the last thing relating to someone else's question. Do you think that if you take a very strong stand on those contracts, you open yourself to other forms of levies or taxes that the government could impose on you?

Okay. Let me talk… Why do CMECs exist today? Because they are, let's say, a new form of the old PPA that, by the way, other companies in Portugal kept, as you know. At that moment they were established to compensate the company but also the system in terms of you accept the changing of the old regime into a new regime, a deal was made supported in the law, the law had to be approved by Brussels because of competition reasons and everything. It was considered very important to open the market so the story, I think it has been very clear. By the way, CMECs can work in both directions, I can receive from the market but I can pay to the market, and whenever you see increases of especially fuel prices and if you see increases on market prices, CMECs can work on the other way. You can give back to the system what we have received above what we have agreed in those contracts.

So, unless you start in this country ripping contracts, and it was not the case until today, they need to agree with us. But let's be clear; not only with us, also with all the other players that have, by the way, less competitive schemes, all the PPAs, that are not… The other PPAs are still what they call CAEs and not CMEC and, of course, this is a very difficult matter also. Why? Because they are all based on project finance structures that probably I don't recall but they should have spreads of project finance around 60 basis points. If you open that box, I would like to know if they can close again with project finance with 60 or if they need at least four other basis points. So, it's the reason why you end up probably with a very high cost. If you want to postpone anything, the cost of postponing will be so high that it's very difficult to open this. And basically it's also good news, we are not the only player that is here involved, and they have to negotiate with players that come from other countries in Europe. And, by the way, taxes in Portugal and the principle of equality must be applied to everybody, they must be justified and taxes cannot be because I don't like you or because you have not done what I would like you to do. So, taxes are…

I mean, we've seen in Germany… If you look at what's happened in Germany, I mean, they have the same principle, right?

But they have targeted a technology. They have targeted something that was considered, that they will have… You have a perception there of social cost at the end of… or a kind of structured windfall profit. You don't have a structured windfall profit or any kind of profit above what is the market expectations and was agreed in the case of CMECs. Why? Because the CMECs can work on the other side. You can pay to the market… to the system if you get… You can… You must give back. So, basically it's a cap and the floor, so it's not the same as just, okay, you are earning a lot of money, it's something that has an impact nuclear. Of course it considers something that it has… can have and the social impact can be perceived as something that belongs to everybody because it can have an impact and it was a target not to a company, not to a specific thing but to a technology and because everybody knows that you have a reason there. Here why? Because it contracts in a certain period you don't… it's the opposite direction as you like and if it's next year, it's the opposite. So, clearly this works in both ways. The CMECs work in both ways. That's important to see.

Okay. Thank you.

Next question.

Anna Maria Scaglia – Credit Suisse

Hi, it's Anna Maria from Credit Suisse. Good morning. I've got three quick questions, if I may. The first one is related to your net debt structure. Are you happy with your fixed to floating structure? Would you be inclined over time to increase the fixed portion of your debt? The second question is… Sorry if I go back to the CMECs. What is the risk for you, I mean, to accept a change in the revenue profile? I mean, if you were… Because, you know, you were talking about preserving the NPV of the contracts but what could be *the impact on your, you know, cash flows if you were to reduce revenues in the short term and… for higher revenues in the longer term? And, finally, do you have any debt covenants which is especially linked to the CMEC contract? Thank you.*

Inasfar as… I'll take the last one. There's no covenants with the CMECs and there's no covenants with any loans we do. Period. Inasfar as fixed floating, we maintain the pressure to slowly keep on increasing the fixed part and I'll just remind you that the reason why we do, and we'll always have at least 40% variable, has to do that this is the best match we have for the inflation link on the regulated assets. So, it's not by chance and it's not by short-term sight that we have so much variable. It's because it's the best match to our assets and the remuneration on our assets. But, as we have seen, the fixed part has been increasing over the last year, as we have promised, slowly and we probably will continue to slowly increase the fixed part but it won't go much further from the 50%.

In what concerns CMECs, I would really like to stress that this matter is clearly overvalued at this stage and we have been always discussing… From time to time we have items that we tend to overvalue. Typically it was the problem of regulation of renewables in Spain for a long time. Then it was renewables or not, to have the cash to invest. Then it was the fact the US market in renewables was bad and we were not able to do the PPAs then. So, clearly… And then, of course, overall the sovereign risk, the discount of EDP because it's based in Portugal, all of this, I think that we have been proving to the market and to everybody that we have been delivering exactly or typically above what was expected by the market and I think that in the last meeting I have presented, based on the Bloomberg analysis of all the utilities in Europe, what people were stating generally in 2009 what was expected to be at the end of 2010 and at the same moment what they expect it to be in 2011.

We were by far the best utility, the only one that was positive related to the expectations, and we have major companies 85% below what everybody expected and we were 10% for 2010 above that average, what everybody expected. So, I think that basically I would like to say that we tend to deliver. And, once again, I think I would not speculate additional about CMECs and in any case we don't expect any material impact, even on cash flow-wise, if anything, so let's talk about… Hopefully I have been clear and hopefully you have seen the commitment and the determination of the Board level about this issue. It's not the first time and basically I will repeat myself. So, I'm sorry but it's all I have to say.

Thank you.

Randolfo Ranouil – HSBC

Yes, good morning, I have two questions. The first one relates to EDP finance BV. Would it be the intention of the company to move from a keep well agreement structure to a straight guarantee at any point? And the second one pertains to rating agencies. I believe that you're in constant dial-up with them. I was wondering if you could update us on the progress of that dialogue.

Okay. I guess that's with me. Inasfar as EDP Finance BV, the keep well agreement will be… will have to remain in place. The only reason why we have a very strong keep well agreement is if we put a full guarantee, those have taxes and we would prefer not to have that. But we can issue out of SA or meaning the EDP enlisted. I understand there are some issues, that people have been asking for us to do so. We might think in the future to issue part of it out of EDP but inasfar as the BV, there will be no change in the keep well agreement. It will remain as is.

Inasfar as the rating agencies are concerned, I think we talked plentiful with them about a month and a half ago. I'm sure that most people followed those days and unfortunately we were downgraded along with the Republic. In some cases we've managed to stay above the Republic but nonetheless I don't think we escape in any of them to get a one-notch downgrade. Our defence has been that it does not make any sense to lose more than one notch from what is considered to be an A- company due to the Portuguese Republic and that has been our defence. As we know, S&P took us two down and we've complained to no success but I think the next move after that, they left us alone at least for a while. The view from the rating agencies has nothing to do with EDP. It's only to do with Portugal and that part of the business we can now handle. I think that with this bailout rating agencies will stay on hold for quite a while and we would expect EDP to stay where it is going forward right now. Hopefully in 2012 maybe there'll be the rationale for positive outlooks. I mean, people will have to wait and see for that.

Okay. Thank you.

Javier Suarez – UniCredit

Hi, good morning to everyone. Two or three questions, if I may. The first one is on the… I know that it's not your base case but if during the year 2011 there is any regulatory change, the question is what flexibility do you have in the €2 billion of Capex that you plan to invest for the year 2012 and in which areas would you be tempted to reduce Capex if there is a reduction on the euro revenue stream? The second question is visibility on your cost of debt. You have given the indication on a 4% cost of debt for this year. Will you be so kind of extending that visibility maybe for the next year? The third question is on the sustainability of your dividend policy. I know that you are going to present a business plan in October/November 2011 but could you be so kind to give us your opinion on how sustainable is your existing dividend policy going forward? A very last question on Brazil. We have seen the CPI in Brazil very high. Do you see any potential danger for the economical growth in the whole of Brazil as a consequence of that and which effect this could have on the profitability on the EDP operations there. Many thanks.

Regulatory change, I mean, we don't see anything happening, so to reduce Capex is not a possibility right now, or minimal, because things are contracted and we tend to keep the contracts alive. We would flexibility cash-wise to cut down on the cash flow but that's not what interests us. But I don't see how we can have any major change in 2012, cash flow profile, due to regulatory changes or whatever. In terms of the cost to debt, I don't have a number for 2012 off the top of my head. My guess it's probably going to go up a quarter of a percent. That would be my guess as a ballpark number. So, 4% for this year, we're probably looking at 4.25 next year, no more.

In terms of dividend policy, we would prefer to wait for the business plan of 2012/2015 to give you guidance on that. We feel comfortable with the 20 cents for 2012. Surely we will have, as part of the business plan, guidance on the dividend and we would like it to continue to go up. In terms of Brazil, we're very comfortable with Brazil. Brazil, the country, is growing. There's no signs of abating. Yes, there's a little bit of heat-up on the inflation. We've seen probably the tightening from the Brazilian central government not as harsh as people would have liked it, so inflation is worrying people which, in fact, for us it's good news. We like inflation and we like inflation in Brazil. All our assets in Brazil are indexed to inflation. We don't dislike inflation, obviously within reason. So, to see it go up by 1% or 2% does not worry us. If it goes up to double digits, then we would start worrying of the negative impacts but we don't see that anywhere coming up soon.

Obrigado.

Next question.

Manuel Palomo – Citi

Hi, good morning, I have got a couple of questions and also a follow-up. My first question would be, well, we could see or I could expect some financial implications with regard to the increase in the VAT. With demand it's not going to be positive in my view… And also I see that low factors in Portugal have been weak in CCGTs. Additionally these restricting measures could well put some pressure on the uncertainty as regards to the regulation. So, could you rethink or somehow delay some of the hydro investments that you have announced at the latest Investors' Day or do you feel fully committed to this investment? My second question is regards to the capitalised costs evolution. We have seen how you have decreased Capex by 31% while capitalised costs have decreased by 6%. Should we expect a further decrease in the capitalised costs in line with the Capex evolution or would you expect stability? And the follow-up would be, and sorry to insist on the privatisation issue but I didn't fully understand your answer to Pablo, I'd like to ask you about how do you expect the shareholder structure of your company to look like in a couple of years? I mean, do you see Parpública as a shareholder in two years' time? Thank you.

Okay. VAT demand, I'm not sure that I understood your question, I'm sorry, but I will try. Correct me or ask me again if you… As you know, the VAT… any potential increase will not have an impact on industrial demand because, of course, you can deduct VAT from other VATs. So, you are talking basically of an increase of tax that will be a burden for domestic.

Yes.

The question is… As you know, the average bill in Portugal is €41, the domestic bill, monthly bill, so we will be talking, if everything… ceteris paribus, you are talking about something that is quite small. We are talking about a €2 increase. Electricity studies in Portugal difficult to realise because I think they are more related with the rest of the country that just buy their energy price-wise. Because typically in Portugal the energy demand has been higher… the increase has been higher than… Any change has been higher than what you see at the GDP level. So, clearly until now demand of electricity to the price is quite small. So, people tend… It's very resilient. If anything, change is more on prices… all we think of is energy efficiency programmes and all that. So, I don't see any major change on the demand.

And also I don't see any major… no reason why we should change any hydro project. As you know, hydro projects in terms of the time to market between the moment you start it… the moment you structure the engineering plus what you construct, it can go up to six, seven, eight years. So, it doesn't make any sense to change the hydro projects that we have already started and it does not make sense to postpone projects when you are talking about the technology that, of course, is the winner in this game. So, I don't see… If anything is struggling today, are the thermal because of the margin, and so what we see is sometimes the prices of the commodities is not totally reflected on the pool price. It's not the case… It's not a problem that concerns the hydro. So, if anything it makes sense to fulfil the hydro projects.

In terms of privatisation, I cannot say if Parpública will be there or not. I cannot say the opposite of what is stated in the MOU of the bailout. It's a decision of people that… As you know, all the bailout measures, if you want to take one out you must put one in to compensate but, as you know, life is what it is and all these Memorandum of Understanding should be implemented by governments. So, I cannot dare to make any comment about what will be the position. What I can dare is it's public, the work that has been done by us or even by people that have shown an interest in being long-term investors. Sometimes players of other continents, that could be very interesting for us because they create opportunities for us in markets where we are not today or where we are today but we get much stronger with them. So, typically for the… for Parpública I cannot speak because I cannot say the opposite to the MOU but in what concerns people getting in, I think that it's more or less obvious what are the people that want to get in in an orderly way and also sometimes obvious the people that would like to get in if it's not in an orderly way. In what concerns capitalised costs…

Just to add something, note that to the demand in Portugal, it's just around 15% of total demand in Iberia and our plants, today we have an integrated Iberian market. Regarding capitalised financial cost, of course this is related with stock of work in progress, so this stock of work in progress is essentially due to the conclusion of wind farms in the first quarter. So, that was the key driver. It's not related with the Capex in the period but it is related with the stock of work in progress. I hope it was clear.

Okay. Thank you very much.

Okay. So, let's go for the last question, please.

Raimundo Fernández – Nomura

Hi there. I've been pressing the button for an hour but it seems I'm the last. I had a few questions for Mr. Mexia on the CMECs. I heard your statement a little bit earlier that you didn't want to… I mean, that you'd thought you'd been clear, so I'm just going to as you whether I can ask a little bit more about this or you'd rather me not?

No, please.

Okay. I appreciate it.

I will repeat myself. Please do.

Okay. I just wanted to challenge you a little bit on the CMECs, perhaps be a little bit of a devil's advocate and ask you some questions about this. The first one is my understanding from the document and I just wanted to hear your opinion, this document that we've seen from the IMF on the Portuguese document, this is a statement of intention, right? So, what I want to ask you is that this review of the contracts, is this a reality or is this something that potentially could be called off? That would be the first question. The second question, I don't understand… You've explained how it works. I mean, we know that the CMECs work as a contract for differences, that in certain scenarios it could give back, in others you take, but the reality… I think if you do a simple calculation of your revenues, including the CMEC protection, divided by the output you get to prices on average of about €150 per megawatt, which you are entitled rightfully to those but I just wondered that if the IMF's intention is to reduce costs for the system as a structural reform, why do you think that eliminating this protection of these CMECs until 2017 will reduce the costs for the consumer? I think in normal scenarios it is very difficult, that this won't continue to be a cost. And also when I calculate this €300/400 million of protection against the cost of the system, the access costs I think are around €3 billion and the total bill for the end user in Portugal is around €6 billion. So, it looks to me like a relatively large amount.

So, I just wanted to understand why… whether we should really be comfortable that this is a non-issue or, on the other hand, as I think is the case, it actually looks like something that may be unfair but the risk is clear. And a final question, if I may. The risks from my perspective have increased, although it may not have a lot of impact in the short-term but from a regulatory perspective in terms of credit ratings/insurance spreads the risks have increased a little bit. Perhaps there will be no impact this year or next year but do you think that the next business plan should actually do something about this, whether you perceive that EDP's become a little bit riskier or not in the medium-term? Thank you. Thanks for the patience.

Raimundo, for the CMECs, it's clear… you're right, it's a statement of intention. There are a lot of things that people need to study, to see if the reality fits with the perception. Sometimes the reality is not exactly what we think it is. Throughout all the documents in telecom, in energy, in whatever you want, it's a statement of intention. I think it's… one of the reasons is because they wanted a global document but then when you dive, you need to understand exactly that each pool in each garden are totally different. So, clearly they will understand and a lot of people already knows what are the differences between this pool and your neighbour pool and… But basically it is an overall statement of intention that is very strong.

Price per megawatt, we will not discuss this here in detail but Miguel will have an enormous pleasure discussing this with you later but… an exchange of information but just to give you how this figure does not make sense, the first PPAs to die before 2017, the next hydro has an implicit price of 25. The second one to die has an implicit price of 44 or 45. So, clearly what you see here is very different prices from what you have and we have mentioned. So, clearly, if these two PPAs, if these two CMECs would die today, I would be delighted because I would earn more money from the market. So, clearly that global figure is not one but… And the first ones to die, these two figures shows exactly what we are facing in front of us.

In terms of credit risk, Nuno, do we have any…? The next business plan credit risks, basically next year we will be two-thirds outside Portugal. Nuno, do you want to give your vision?

No, I don't think we have anything to add.

I don't think anything… Nothing will change. I think the perception about our, let's say, home country/base country each time, even if you are… We have our full heart here. The business is… Of course the percentage is lower. I think that we have already supported everything and bared everything that is related with sovereign risk and we have raised all the issues in financing, country, whatever… And I think that this bailout, if anything, will help the perception and will help availability of funding for the good Portuguese companies and good Portuguese projects that are global projects.

Thank you very much for your answers.

Thank you.

Closing Comments

So, as there are no more questions, I would like to thank everybody for the questions. Hopefully we have been very clear about the good results, hopefully very clear about what to expect for 2011 and also very clear about our vision in what concerns the bailout for Portugal and the implications on the energy sector. So, see you soon. Thank you very much.