EDP 2011 3rd Quarter Results
Friday, 28th October 2011
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**

Antonio Mexia

Good morning, everybody; thank you for your presence on the phones. We are here, as usual, to comment on the results, the third quarter 2011, and I will start the presentation by stressing that these results show a sound operating performance. I believe the increase of 5% of the EBITDA to €2.775 billion is an interesting result in the current environment. It's also interesting to show that we have now close to 60% of these results coming from outside Portugal. And, as has been the case in the recent past, the two growth engines are wind with an increase of 16% and Brazil with an increase of 12%. At EDP in traditional operations we see a flat result with a small decrease of 1%. Why? Because at the same time as we have a weaker performance in liberalised markets we have a very resilient, regulated and contracted activity. I think that is distinctive to EDP when we compare to other operators in the same market and I think that his stable portfolio in Iberia in this current environment is protecting us and our EBITDA.

So increase of EBITDA: at the same time we have a stronger focus on costs with only a 3% year on year increase including, of course, wind power and Brazil. We have, and I think it's important to stress, a decrease of 2% year on year in Iberia. And overall we keep the leadership position in terms of net OPEX/gross profit at 27%, I think by far the best in the industry in our market.

Concerning the average cost of debt, as we have seen, we are now at the level we expected, at 4%, a 50 basis points increase compared to the same period last year with an average maturity still at five years. I think it's important to stress also all that we have done at this level. The net profit of the company has increased to €824 million and we see the earnings per share increased by 6% year on year. Once again I believe that it is important to see, whenever we consider net profits, how many shares are behind that increase. So earnings per share increasing 6% I think is a good result in the industry.

We should stress also the decrease of 31% on the Capex. With respect to our commitments in terms of improving financials we have reduced to €1.3 billion. A decrease of over 600 million compared to the same period last year and mainly driven by the cut of expansion capex in wind, especially in the US, because of our determination, our will, to reduce the merchant exposure. And I think the results of EDP Renewables are already showing the results of this strategy. At the same time, in the same direction, in terms of commitments to improve financials we have already delivered 90% of our disposal target for 2011 with the sale of 14% in EDP Brasil. And also the 7.7% stake that we had in Ampla where, as you know, the company was controlled more than 90% by another player in the sector. So we have already €450 million proceeds of this disposal.

At the debt level we see a decrease of €300 million compared to June 2011. We are €200 million above December 2010. But, as we see, our commitment that we stated once again when we presented the first half figures we are going down in terms of debt and in terms of net debt of EBITDA excluding receivables we are at the level we are committed of 4.1x.

It's also important to stress that in terms of liquidity we have an increase of 1 billion to a total of €4 billion by September 2011. And, as you will see on the presentation, we have raised €3.3 billion on a diversified basis over the first nine months of this year. And, before we go to the detailed presentation, and we will talk about this later, since we met for the first half figures we see today an improvement of regulatory visibility in Portugal. We see also a strong visibility exactly in the direction that we have stated in what concerns the legal framework of the sector in Portugal. So legal framework and regulation, I think that the last two months have delivered clearly and positively for the sector and for EDP. We will go into this in more detail later on.

So basically we have an improvement of free cash flow generation, an improvement on financial liquidity, on credit ratios, on debt, and overall we have a better visibility on future cash flow on a low risk approach as we have always had at EDP level. So, Miguel, I will ask you to go through the presentation and we will come back for the conclusion.

Miguel Viana

Good morning, everybody. Moving to page four, we can see that the installed capacity of EDP increased by 6% year on year, with hydro and wind represented 62% of both installed capacity and production in the first nine months of 2011. In terms of EBITDA breakdown we can see a slight increase in the weight of EBITDA coming from Brazil, EDP Renewables and Spain and a decline in the weight of Portugal in the total EBITDA breakdown of the EDP group from 47% in the first nine months of 2010 to 41% in the first nine months of 2011. Moving to page six, we can see that in the first nine months of 2011 there was an accounting change given that the cost of carry with pension and medical care responsibility changed the lines in the P&L. So these costs were reclassified from operating costs to financial costs in line with the practice of our peers at European level. So this means that in the first nine months of 2011 our EBITDA is higher by €66 million than with the previous accounting rules. The major impacts are at the level of regulated networks and long term contractor generation division. Our financial results are also higher by the same amount, by €66 million. There is a zero impact at net profit level and including this reclassification on a pro forma base our EBITDA increased 2% year on year first nine months of 2011.

Moving to page seven, we can see that per division we showed significant growth of EBITDA essentially in our Brazil division, wind power also in terms of regulated networks in Iberia and declines in our divisions of long term contract generation in Iberia and liberalised activities in Iberia. We have no material Forex impact as the positive impact from Brazil, positive by €11 million was essentially compensated by the €14 million negative impact from USDs. In terms of efficiency, we have an efficiency ratio of OPEX per gross profit of 27% in the first nine months of 2011. OPEX rose 3% year on year, nevertheless in terms of breakdown per geography we can see a 2% significant decline in Iberia including €6 million operating costs in the first nine months of 2011. An increase of 9% in Euro terms in Brazil, which in fact is 6% in local currency, significantly below the inflation in Brazil during that period. While at the level of renewable operating costs increased 14% reflecting essentially the increase in operating and maintenance costs with increased install capacity which was plus 13% in the period.

In terms of our operations in our current market and the performance of the electricity and gas demand in our key markets we can see that in Brazil electricity demand increased 3.7% year on year, reflecting a steady consumption growth prompted by new clients connected and also an increase of consumption per client and higher industrial production in Brazil. Note that in Brazil the first nine months 2011 were already 10% above the levels pre crisis of nine months 2008. At the level of the Iberian market in electricity demand went down by 1.2% so minus 2.4% in Portugal and minus 1% in Spain reflecting essentially weaker demands in residential and SME segments. While in gas total demand in Iberia went down by 3.8% as a mixed impact from growth in Portugal and decline in Spain, penalised essentially by lower demands for electricity production and stable combustion demand from industrial and residential segments.

Moving to page 11, in terms of our division of long term contractor generation in Iberia EBITDA fell by 4% year on year reflecting the end of the Carregado PPA in December 2010 with a negative impact of €66 million. On a pro forma basis EBITDA went up by 5% reflecting inflation updates, higher availability rates, namely at our thermo plants, and a commissioning of 50% of our Sines DeNOx facilities, which had a positive impact of €10 million. Special regime went up by 2% as lower hydro output was offset by higher volumes and margins in cogeneration. So in our PPA CEMEX generation we continue to have a stable 8.5% return on assets pre-tax real with no risk on volume and prices or margins.

Moving to liberalised activities, this division shows a 23% decline of EBITDA year on year with stable volumes of electricity sold as the increase of 16% in average selling price was not enough to compensate the 29% in average sourcing costs. Nevertheless, I would highlight that in the first nine months of 2011 this division EBITDA was still above the EBITDA recorded in the pre crisis period of nine months 2008. Looking forward in terms of the outlooks for the remaining 2011 and the entire 2012, I would highlight that for 2011 we have already sold forward 30TWh of electricity to clients, so covering 100% of expected output at an average clean thermal spread load being above €10/MWh. In terms of 2012, we would highlight the improvement in terms of gas prices in Asia which have been increasing the effectiveness of gas wholesale market. For now we have already sold forward two thirds of our coal and gas sourcing commitment for 2012 and we have already sold through wholesale and retail markets 10 TWh of electricity to clients and 24 TWh of gas sales to clients and in wholesale markets.

Moving to our division of regulated energy networks in Iberia, our EBITDA when up by 21%. Nevertheless, adjusted for non recurrent and one off issues EBITDA went up by 6%. In Portugal the 4% decline is linked to the lower levels of consumption and the low inflation update in terms of 2011 tariffs. In Spain 38% year on year growth is related to increasing regulated revenues following the new regulation and the 23% increase in EBITDA in gas in Iberia is driven by new clients and volume growth in Spain and Portugal. In terms of efficiency, as you can see on page 15, our OPEX per kilometre of network and OPEX per clients connected improved by 7% year on year in the period. And we managed to increase significantly the quality of service in terms of our network of distribution of electricity in Portugal with the equivalent installation time standing at 53 minutes in the first nine months of 2011.

At the level of EDP Renewable, which has already reported its nine months results yesterday our installed capacity increased by 13% driven by US, Rest of Europe including Poland and Romania, Spain and Brazil. With EBITDA increasing by 16% or plus €75 million driven by the referred install capacity increase in Poland and Romania, Spain and US, in which we include a 14% negative impact from Forex.

In Brazil, in which our subsidiary, EDP Brasil has already also reported its third quarter results our EBITDA in local currency rose 10% driven essentially by a 7% increase in distribution following a 4% growth in volumes distributed and positive tariff updates. While our EBITDA generation and supply increased by 13% following normalised quarterly sales in the first nine months of 2011 versus abnormally low levels in the first nine months of 2010, and of course the normal annual inflation updates. Overall our EBITDA in Euro terms went up by 12% following the 2% appreciation of the Brazilian Real versus the Euro in the period.

Moving to consolidated financials and mainly to Capex on page 19 we can see that our Capex went down by more than 30% to €1.3 billion reflecting essentially a decline in terms of Capex in wind in US. And following our downward revision of guidance of Capex for €2.2 billion for 2011. Note that our expansion Capex is now concentrated in wind hydro and Brazil. In Portugal expansion Capex is 100% concentrated in the new hydro plants from which we have two new plants coming on stream by the end of this year (our repowering plants of Picote and Bemposta).

Moving to page 20 we can see that in terms of regulatory receivables they showed a slight increase versus June and were essentially flat versus December. Decline in Spain following securitizations made in the market were offset by an increase in Portugal due to higher than expected power prices. Note that regulatory in 2011 tariffs used a power price of €47/MWh versus the €59/MWh that was observed in the market in the period.

In terms of evolution of net debt by September our net debt was €16.6 billion so €0.3 billion decline versus June. From December 2010, our free cash flow was €1.6 billion having a positive effect on our net debt. We had a negative change in working capital by €0.5 billion. Expansion Capex and net financial investment had a negative change of €0.7 billion and the dividends paid also €0.7 billion resulted in the referred net debt of €16.6 billion by September 2011. In terms of funding, on slide 22 I would highlight that during this period of the first nine months of 2011 EDP has raised, through diversified funding sources €3.3 billion of funding. At the same time during this period EDP paid back on debt maturities during this period €2.2 billion. I would highlight that this shows the flexibility and active management in terms of debt pricing in terms of liquidity, maturity and currency risk in terms of our funding strategy. On page 23 we can see that we maintain a maturity of five years for our net debt with a breakdown between fixed and floating of 48%/52% funding essentially in local currency in order to hedge Forex risk. And our net debt EBITDA adjusted for regulatory receivables flat at 4.1 times.

Moving to our liquidity position we can see that we showed a reinforcement of liquidity position to above €4 billion by September 2011, so an increase of €1 billion versus June 2011. This €4 billion liquidity, as you can see on page 25, represents a comfortable liquidity position that covers all our funding needs until 1H2013. And it includes already a disposal of 14% equity stake in EDP Brazil. It does not include yet the cash proceeds from the disposal of our 7.7% stake in Ampla, which we cashed in, in October 2011.

Overall in terms of net profit, the EBITDA growth of 5% was also we showed a decline in terms of net depreciation and provision following the impact from longer useful life in wind farms in EDP Renewable. In term of financial results the increase is linked to increase in terms of cost of debt from 3.5% in the first nine months of 2010 to 4% now. It includes €49 million negative impact from the impairment on financial stakes in BCP and of course the change in accounting in terms of the employee benefits cost of €66 million. Income taxes including the one off fiscal impact in the first nine months 2011 and finally at the level of non controlling interest the impact from the increase of listed subsidiaries net profit, namely EDP Renewable and EDP Brasil and with the reduction of EDP stake in EDP Brasil in July 2011, which results in the increase of net profit by 6%.

Moving to regulatory update in Portugal. Following ERSE's proposal on regulated revenues for 2012 and the key parameters for 2012-2014, EDP sees an improvement in visibility in terms of regulation in Portugal. In terms of the proposal return on RAB for our distribution business increases from 8.56% in 2011 to a preliminary figure of 9.5% for 2012. This preliminary figure is based on an average Portugal CDS, five years of 780 basis points. The final rate will be the result of the average of this Portuguese Republic CDS between October this year and September next year. This average October to-date was 1,130 basis points, so if it's maintained our return on RAB would be slightly above 10.25%. In terms of regulated revenues, based on these preliminary 9.5% return on RAB they increased slightly below €70 million year on year. For 2013 and 2014, a significant part of this regulated revenues will be updated CPI-X with CPI being Portuguese GDP deflator and X set at 3.5% by the regulator.

Also very important on page 29 is that sensitivity in terms of our regulated revenues to changes in demand. It was significantly reduced; now we have an EBITDA sensitivity in terms of 1% deviation in volume which now has an impact of plus or minus €2 million versus minus €6 million that we had in 2011 tariffs. So it is reduced to one third of what it was until now. And now it is already significantly low.

As we move to another important decision by the government and the regulator in terms of regulatory receivables in order to detail the impact in terms of EDP regulatory receivables from the referred decision we would highlight that by the end of the year we expect to end December 2011 with the regulatory receivables of €1 billion in Portugal. So essentially slightly above €1 million until the end of the year resulting from the referred power prices above as is forecast. For 2012, in point one the regulator is giving to EDP the net recovery of € 560 million of 2010 and ’11 negative deviations, which is fully in line with what is normal in Portuguese regulation. In point two we highlight something which is new, which is the deferral of 2012 special regime premium. This should have an impact in terms of net debt of EDP of €939 million by the end of 2012, to be supported by EDP and to be recovered between 2013 and 2016, so within a period of five years. These regulatory receivables should be remunerated at a rate which was set on a provisional basis at 5.5% by the regulator. And to the definitive rate will result from a formula presented in the government instruction, published in October 17. Note that these cash and these regulatory receivables can be securitized.

In terms of CMEC note that during 2012 we expect to recover, as is normal, through the 2012 tariffs in the region of €94 million of receivables. We expect to generate an additional deviation of CMEC in the region of €100 million. The significant point was also a government decision regarding the €140 million, which are in respect of 2010 CMEC deviation and which, according to normal Portuguese regulation would be recovered in 2012 that recovery was postponed to 2013. And these new regulatory receivables of €141 million, which can also be securitised will be remunerated at 4%. So overall we expect regulatory receivables in Portugal to increase in the region of €380 million during 2012, with the net impact of the old decisions by government and regulator, excluding any impact from eventual future securitisations. It is also important to highlight that the regulator is assuming in terms of procurement power price for 2012 €58/MWh, which in our view, given also the improve of liberalisation process reduced the risk of adverse tariff deviations like the one that is happening in 2011.

In terms of CMEC, on page 31, only to highlight what are these deviations that we are postponing. Essentially I would highlight four points, first that CMEC are supported on a sound legal framework approved by the European Union. The second point is that the plants under CMEC do not benefit from windfall profits so it’s a situation quite different from other European countries. So in case of power prices the plants under CMEC would not benefit from these increases in power prices so we have a fixed return on assets. These positive and negative deviations that we are talking about are essentially the difference between what is the contracted gross profit based on the referred 8.5% and what the plants received in the market. These deviations are recovered between one year after and two years after they occur. So what is happening right now and what you can see on the chart is that right now in terms of our hydro plants in the first nine months of 2011 we are slightly better in the market than CMEC. We are in fact making more money in the market with these plants, so we are giving back money, so €38 million in the first nine months of 2011. In the thermal plants, we are generating a thermal deviation which is negative by €152 million, nevertheless we are seeing a significant improvement both in terms of volumes and in terms of average unit margins in our coal plant.

Moving to page 32 and one of the points that some investors have looked at, the issue of financial sustainability of regulatory systems all over Europe. We highlight that based on a conservative assumption in terms of cost of fuel, namely brent, in terms of electrical consumption growth, in terms of interest costs of new regulatory receivables that are generated and assuming an average tariff increase annual of 1.75% in real terms the Portuguese electricity system will convert to zero net debt in terms of regulatory receivables. So only keeping the existing regulatory receivables that were already securitised before September 2011 and which are being paid back in 15 years. So this reinforces the visibility of this sound financial sustainability of this system, which can be very relevant in the long term.

In terms of what are the impacts in terms of what are the impacts of the VAT increase which was already in place on October 1st, and in terms of tariff increases for January 2012. The first segment we would highlight is that residential will have a 4% increase in tariff and will suffer also a 17% increase in VAT. We are talking about average bills of €41 per month. Low income families, which represent a significant part of consumers, so 0.7 million consumers will not be affected by VAT increase and will have a smooth tariff increase so will not be affected by these increases in term of bills. Corporates and SMEs, they should have no impact from VAT so given that they have the ability to deduct VAT increases. And so State Entities they will have an increase by 17%. No doubt that liberalisation will end with final tariffs for corporates and for all the distributors in medium and high voltage. Note that impact on the State budget will be €500 million in terms of VAT revenue and the expenses of the social tariffs which will be supported by the Portuguese government will be just €30 million in the period.

In terms of page 34, just to compare in terms of what is happening in evolution of electricity mainly in Portugal versus other countries we can see that the situation in Portugal at the moment is quite in line with the situation in several countries across Europe. Just to update in terms of October to date we have a zero percent year on year change and minus one percent adjusted so quite in line with what is happening all over Europe.

To finalise these slides in terms of regulatory update another issue which is quite relevant, commercial activity in Portugal regarding controls over bills and collection in the first nine months of 2011, we saw no change in terms of overdue debt from government or even in terms of average collection period with a significant level of stability in these metrics. With no material effect in terms of cost of collection side, even considering the low economic growth. I will hand over to Mr Antonio Mexia for the conclusion.

Antonio Mexia

For the final comments I would like to start with, as you see on page 37, with the privatisation. So the sale by the Portuguese government of 21.35% stake in the company. As you have already seen last time the Portuguese government approved elimination of the special rights, beginning of July, then end of August the EDP shareholders approved the increase of voting rights from 5% to 20%. The Council of Ministers approved the Decree-Law on EDP privatization. And then more recently in October, the 21st, Parpublica, the owner of the shares announced that they received indicative offers by six parties from all over the world. And on the 26th of October, two days ago, it was published - EDP privatisation Decree-Law. It's important, it's relevant to see that the criteria, the selection criteria that were announced present a mix between price, industrial projects, so how the new shareholder can enhance growth, balance sheet, and everything that makes sense in terms of industrial projects. And, of course, long term commitment and financial strength of the business. So clearly the Decree-Law has a balance set of criteria between price and the long term interests of the company and the interests of all the shareholders. In the next step the government is supposed to approve the resolution of Council of Ministers, the details of the process procedures, and it will start by announcing also a short list of interested parties to a final stage of binding offers. And we are, today, very comfortable with the idea that the deal will be closed before the end of the year 2011.

Back to our results. I think that these first nine months show a sound operating performance with EBITDA growing 5% and net profit earnings per share 6%. Focused on countries and technologies, today proved clearly to be more interesting but what I would like to stress is all the elements that are related to a low risk. As Miguel, in a very detailed presentation showed, we have a clear improvement of regulatory visibility on tariffs for 2012, '13 and '14. With an increase to what would be today a double digit RAB as we have foreseen, adjusting to the country risk, I think it's interesting. Even if the CDS of Portugal goes down, by the way, it would be good for everybody, the remuneration will be totally fair and I think that we have succeeded in having a very clear and very positive regulation framework. Even including qualitative elements, new items like for example not having the efficiency CPI minus X on depreciation which was the case until now. So we were able to get rid of some things that didn't make sense. So I think that we have a sound, visible and improved regulatory framework for the next three years.

On the legal front, as we have clearly stated we are today exactly where we expected to be with the CMEC system. So the basic framework was totally protected as we have clearly stated since the beginning of this year and reinforced in the first half of our presentation. We were not accepting any change on NPV of the contract. So we see there a major result of our work in the last two months. We also see a financial liquidity increase of €1 million. We also see a lower Capex. We also see disposals, 90% of the annual disposal target. We see an increase of market diversification. We see an increase of importance of strong markets like Brazil, Poland, so non Iberian markets. All of this enables us to maintain the guidance for 2011: at mid single digit growth for net profit and lower single digit for EBITDA. So clearly all of this brings an improving visibility of medium term free cash flow potential. Why, high quality asset mix, sustainable returns, diversified market, risk management including legal and regulatory and also financial.

And to end this presentation I would like to go back to the privatisation, I think it's a strong opportunity for the company and we are supposed to help the seller, the government, in the process, to make it a success. I think that the demonstration of interests presented create all the conditions for a real success. And the management of the company is committed on a very firm basis to make this a success for the sellers, a success for the company, but also for all the shareholders. That is our firm commitment in this process and the Decree-Law is an example of how we believe that we are on the right path in this value creation for everybody, the company and for all the shareholders. Thank you. So let's have the Q&A.

Questions and answers

Alberto Gandolfi - UBS London

Hello, I hope you can hear me clearly. Alberto Gandolfi UBS London. I have three questions please, if I may. In terms of the criteria to select a bidder for the stake being sold by the government, what would be your wish list? So what has been your input into the government. And specifically can you also talk about the possibility of any bidder supporting you in the refinancing process that you have to do by the end of next year? Secondly, basically talking about your perimeter restructuring, would you ever consider as part of this privatisation divesting Brazil, either a portion or all of it? And the third question is are you still planning an investor day in November? And could you please elaborate or give us a bit of guidance on Capex for the next couple of years, given that I would expect this to come down quite a lot, particularly for 2013. Thank you.

Antonio Mexia

Thank you, Alberto. Criteria of privatisation - as you can imagine the criteria are set by the seller, not by us, but what we have introduced in our analysis in what concerns the support that we will give to the process. The key elements are the industrial project, so it means how the company fits in terms of our capabilities, our growth strategy in terms of technology, in terms of geography. Second was of course is balance sheet improvement, so clearly how this new player can enhance our strengths in terms of balance sheet. Third, avoid conflict of interest because that can make a very messy process. And, of course, finally any strategic thoughts about the future of the sector. So clearly in what concerns the company enhancing, the support to growth, creating new options, industrial plan fit, and balance sheet are the key criteria.

In what concerns restructuring of perimeter, as you can imagine the attraction of EDP is mainly driven by our engines. It means basically also renewables, Brazil, and also the fact that in Iberian markets we have probably a very different portfolio in terms of lower CO2 exposure, also contracted in the near future and long term contracts for the following years. So clearly this overall makes sense. So Brazil, renewables, our presence in Latin America, so clearly Brazil is not getting out, it's the opposite. We need, in what concerns strategic thought, we like people that like markets like Brazil and will support our strategy in that market. So the question is, not going down, if anything it's something going up.

Investor day in November, we will not do it because we will be in the middle of this process. It does not make sense because 80% of the questions will be about the process of negotiations with the new shareholders. So we will do it as soon as it makes sense, with the new shareholder already in place. In terms of criteria I would also like to mention the issue of corporate governance as something that is important for us. As you know, corporate governance, the executive board of directors is directly elected by the majority of the shareholders. So the executive board is appointed in the general shareholders meeting, by the shareholders and not by the supervisory board. The supervisory board are also appointed by majority at the general shareholders meeting. The general supervisory board has to provide prior opinion on proposals presented to bidders relating to business plan strategic decisions and related transactions and also important, an election of a competitor, so another player, power player as a general supervisory board member requires approval by two thirds of voting rights at the general shareholders meeting. So clearly everybody, all the businesses know the rules of the game, and corporate governance is clearly also included in their intentions. Nuno do you want to add something in what concerns the Capex next year?

Nuno Alves

The Capex for next year, for 2012, we had already announced was €2 billion and until we announce a new business plan we're not going to say much more about that but this will be a reasonable level to maintain the company.

And to follow up, just one thing I did not understand from your answer is that, Mr Mexia, when you talk about the criteria, balance sheet, you talk about balance sheet of the bidder or are you talking about the improvement in your balance sheet... maybe you are hinting at something like a joint venture or you are thinking in terms of intra company loans. Could you elaborate on that please, it's quite an interesting point for me?

Antonio Mexia

When I am talking about balance sheet of course I exclude any bidder that does not have enough balance sheet to do the deal. So clearly that is first. But when I mention a balance sheet here we expect that directly or indirectly the bidder will give support to EDP financing and credit profile.

Pablo Cuadrado - Merril Lynch Madrid

Good morning everyone, it's Pablo Cuadrado Merril Lynch Madrid. Just three questions. The first one is on regulatory visibility in Portugal. I think you did a great job in giving the presentation and explaining everything that was approved and I have basically a question which is linked to that possibility. My question is that should we assume that what has been approved for 2012 tariff looked to the CMEC, looking to the distribution etc, is going to remain the basis of the regulation until 2014 and therefore at the end of next year the *government or the regulator has committed to not review the terms that have been approved or have been proposed in October. The second question is looking to the cost of debt you reported a 50 basis points increase at the end of nine months. Basically I was wondering whether you could give us an expectation of how you see that cost of debt moving during next year, looking to the market environment, to the refinancing needs. And the third question is on the liberalised activities. In the unit margin at the end of nine months, it's dropping like 25% to €9 per megawatt. I was wondering if you could give us a bit of colour as to how you are expecting that unit margin that has been constantly falling in the last quarters to recover from next year.*

Antonio Mexia

Thank you, Pablo. Regulatory and legal visibility, let's see. In what concerns the regulation on distribution what we have been explaining is that it will be for 2012, '13, and '14. In what concerns the tariff increase it's only for 2012, of course. Then each year you have to do a proposal of tariff increase. As you know an important issue is tariffs will end up... and you will have only transition tariffs because the full tariffs will disappear by mid next year. So clearly what we've seen is stability on distribution for the next two years, these rules will apply for the next two years. Concerning tariff increases it is 4% for next year. What we have also tried to show is that even if you have moderate increases on real price for the final consumer in Portugal the tariff status is totally under control and will disappear throughout the decade with small increases of between 1.5%, 1.75% or 2% in real terms. So clearly it's not an issue. In terms of, third part, legal framework and what concerns connect and everything, this relates to a legal framework and not regulator. What we see is that these rules and eventually some changes in generation on renewables will clearly be marginal. No change at connect. And of course the process of privatisation is something that will help because these commitments in not changing the legal framework is of course going to be stable also. And we can consider it with medium to long term visibility. So clearly we don't see any change with what concerns the CMEC system except the one that we've already agreed on that mainly is on a cash flow and has no impact on the P&L and no change in the contract. In what concerns the cost of debt, we expect as we have already stated for the next year to reach 4.25% or 4.3%. So, Miguel, for the last comment....

Miguel Viana

In terms of the evolution of the margins in liberalised markets what we are seeing now for 2012 is an improvement in terms of margins in coal so in terms of spread, so stable spread. So we are expect to improve the guidance by the time of release of 2011 results as we are now in the middle of the peak of the contracting season. So next month, November, will still be very important. What is relevant, and we tried to highlight that in the presentation, is that we see improvement in terms of international prices in Asia. We have seen in the last couple of months significant opportunities through deviation of gas to wholesale market at very attractive margins and so we'll improve our guidance for 2012 by the time of the release of the results of 2011. But just to summarise, we don't see overall in terms of these margins, we don't see any material change for 2012 for now.

António Mexia

And, Pablo, sorry, it's Antonio again. Just to tell you, in what concerns the legal framework, even if some details are still to be included, namely cogeneration or renewables, the key issue is that we see... We have a commitment not to change, unilaterally, any contract. That is very important. This commitment has been strong and visible and makes us very positive in the sector.

Carolina Torres – *Morgan Stanley*

I have a couple of questions. First, the change that regulated the collection of the renewable premiums in Portugal has pressured your working capital needs. Do you see the need to have a divestment plan the size that it is for 2011? And if so which divestments could you be looking into doing?. The other thing is the tax one off that you registered in the third quarter, is this an effect that you will see in the fourth quarter or is it just a quarter one off, literally? And the last question is that you seem to be on track for a 2011 guidance, I just want to confirm if there are any changes in it. Thank you.

I didn't understand the last point.

Just to see if there are changes in guidance. I'm assuming you are on track but I just wanted to confirm.

Antonio Mexia

First thing, 2011 guidance earning per share, let's be very clear, we maintain our guidance in terms of net profit is a mid single digit growth. So we intend to be on target as usual. In terms of changing regulatory framework for renewables in Portugal, we don't expect any... As you know we have only 16% of renewables in Portugal, of the overall renewables in Portugal. And of EDP Renewables only 9% of the portfolio is in Portugal. In any case what we believe is going around is for the new contract those that's called ENEOP, by the way we won it through an international bid with other players, we don't see any change because anyway you see a very competitive tariff European wise. So clearly we are at the bottom in terms of tariffs. We don't expect and it was already stated that we will not see any change in terms of regulation. Concerning older contracts what we believe can happen is eventually, I don't know but eventually if it's the case operators can actually by an extension, it has been out there in the press. Operators could buy an extension of the tariff period and that revenue would be used to reduce the deficit. This makes sense in terms of generation so it means that this front loaded investment basically would also be shared a little bit more by the next generation. But as our portfolio in Portugal is quite reduced this eventually will demand between €5 and €6 million additional investment with almost zero impact in our portfolio. So it doesn't have any change in our profit and loss, any change in our investment, so clearly it is non material. Now, in terms of taxes...

Nuno Alves

The thing that you should look at in 2011 is effective tax for the whole year of roughly 21%. So the one offs that we've had so far will not be there in the fourth quarter but depending how the budget comes out we might have a little bit more tax benefits to show. So you should use around 21% and I don't think you will be too far out as far as expectation for the whole year. The next part is the question of the debt for next year caused by the increased deficit. Well, the commitment for this year... First of all we have not finished the budget yet, for next year. But I believe that we will maintain the commitment or the goal that the overall debt of the company will not be higher than the year before. But 2012 was already a year for which we forecast a positive cash flow. So it might not be necessary to sell any assets in order for the debt to come down. We'll still have to do the fine tuning but I would expect that the free cash flow would be more than sufficient to finance the deficit and overall debt at the same level.

Rudolph Ranouil – HSBC

This is Rudolph Ranouil from HSBC research. Good morning. My first question to you is obviously on the yield of the EDP bonds that has been pushed out aggressively following the downgrade of Portugal, downgrade of EDP. If it were the intentions of the rating agency to downgrade EDP to a non investment grade or if you sense this is where they would be going, do you have a contingency plan in place or would you be..? What would you be prepared to do to defend your ratings?

Nuno Alves

I think we had this question on the last call. I think if you have seen the methodology that Moody's and Standard and Poor's came up with you basically are stuck one or two notches above the sovereign. The only exception being if the new shareholder is seen in the eyes of the rating agency as improving the solidity of the shareholder base. That is the only exception that I saw where you can have an upgrade. So in as far as... Regardless of – unfortunately this is the case – regardless of having net debt/EBITDA of four or one it doesn't make any difference right now to the rating agency because they will not give me higher notching than they already do compared to the sovereign. But that's a discussion investors would have with rating agencies not with us. We've tried our best but it seems that as of today the stand alone profile is only good enough for two notches, regardless of whether you have debt or you don't have any debt at all. And you are fully regulated or not fully regulated. So unfortunately in that area there is not much we can do. What we can or what we would see as an opportunity once again from the privatisation is to have a new shareholder that somehow brings more solidity, which will improve the rating and which will clear some of the doubts and the refinancing of EDP going forward. Did I answer?

Yes, you did pretty much, thank you.

Andrew Moulder – Credit Sights.

Yes, it's Andrew Moulder, Credit Sights. Perhaps I would just like to follow up a little bit on Rudolph's question there because you talked about the bidder for the government stake enhancing the credit profile of EDP. The only two bidders who publicly declared their interest are the two Brazilians and the ratings of neither of those companies are higher than the current EDP rating. So I wonder, in terms of enhancing your credit profile, does that exclude the two Brazilian bidders from the process? My second question, you also mentioned that there might be, there would be a short list drawn up for the privatisation, do you have any idea of when that short list would be announced? And my final question, just on your financing and your funding; you talked about raising €3.3 billion this year but when I look at that, I mean your public debt was issued I think in January and I just wonder can you perhaps give some timeline to that €3.3 billion? How do you see funding availability evolve over the year? How are you seeing the CP market at the moment? And the 9% increase in bank loans you talk about in your funding, is that actually new bank loans or is that simply a drawdown of existing bank facilities? Thank you.

Antonio Mexia

I will answer the first two. We cannot only see the support of EDP in this project and long term commitment from the new shareholder through its rating. It's the reason why during the presentation I mentioned directly or indirectly. And directly you can do it through the rating and the perception of the market through their rating. But as you can imagine there are other ways how the new shareholder can help, not only because his rating is better than ours. So let's be clear. But in any case the final decision will belong to the government and to the seller. We firmly believe that this commitment to support the industrial project and of course to have a strong industrial project you need a strong enough balance sheet. You can do it directly or indirectly. So to be very clear it does not exclude bidders just because their rating is not better than ours, especially because some of the bidders typically have ratings from different rating agencies. So clearly that is obvious for some of the bidders. Concerning the short list, once again this decision will be made by the government but we expect it probably in the next two weeks after it has published the RFP for the next stage of binding offers.

Nuno Alves

Andrew, I guess you asked a fairly broad question concerning how we see funding and how we will get the funding. I guess it's no surprise, not just an EDP issue, funding has been tougher than it used to be especially in the period around July through September, basically markets were closed for that. But we've always said that we like the capital markets, we want to continue to issue through the capital markets but that we had alternatives to the capital markets. I guess the slide that Miguel showed, number 22, shows the various sources of funding that we utilise and hopefully soon we'll show you another way to finance the company going forward. We just have to be a little bit more creative and try to use markets other than just the institutional market. But obviously commercial paper, European commercial paper, which we used to have quite significantly, we used to have on average €700, €800 million today is zero. So if you put that into the slide of sources and uses of funds what you see is that those €800 million are no longer in cash. And since my position probably today is at least as good as it was a year ago we had to find ways to breach that gap. But we no longer have the ECP market open for us. Maybe one of these days it will come back but as of right now and for the last three or four months, it's pretty much...

Can I perhaps just follow up on that because on slide 23 you show a commercial paper maturity as well, so where is that coming from if you've got zero commercial paper?

That's not ECP, that's domestic commercial paper, it's different.

Oh, all right.

Javier Garrido – *JP Morgan*

Good morning, my name is Javier Garrido from JP Morgan. Just a couple of very simple questions, the first one on the cost of securitizations, you have done the securitization of the receivables link to the co-generation receivable. I assume that you are doing that securitization because the cost is more competitive than that of your bonds in the global market. Can you give us an indication of what's the cost of securitising those kind of receivables and what's your willingness to do those kinds of deals with new receivables created this year? And the second question is on your tax rate, you could give us a bit of guidance on whether your tax rate is expected to come in 2012 and 2013? I know that Portugal is a kind of moving number given the government's ongoing decisions but taking into consideration where we are now in terms of Portuguese corporate rate where do you see your tax rate?

Nuno Alves

Javier, the sale of the co-generation deficit that we did, what I can tell you is that we showed a loss of about €4 million. So we saw the debt interest rate, I don't know if it's public so I might skip that, giving you the detail, but what I can give you is it was cheaper than what I could finance in international market EDP for the same duration and we got it out of the balance sheet so the risk is no longer even ours, even though I think it's a very good risk. But it was a way to finance it cheaper than otherwise. In as far as the deficits that will come up there are two for next year, there's going to be less than €200 million and it's one year. My guess is at a certain haircut we will probably try to do it again. And I see it as doable. The renewable deficit, which is going to be five years I find more difficult but we'll have to work on it. So I'm not totally convinced that it's a doable deal but it doesn't mean we will not work on it. In as far as the tax is concerned our expectation is that we should be in the region of overall tax of 26%, 27% going forward. Mind you the surtax that is going to come in Portugal, which this year was 2.5% and next year and is in the pre budget as being 5% only applies to the Portuguese income. So the impact, even though Portugal accounts for 40%, 50% of the taxes it does not impact on the overall effective tax of the company. To give you an idea, for every 1% of taxes, normalised taxes in Portugal, it costs you €7 million, €8 million, so the 5% will be an incremental €17, €18 million on our cost for next year.

That's very clear, thank you.

Jose Lopez – HSBC

Just one question, are you aware of any request by the government to have a potential buyer limited purchase to just 20% and not to launch a full bid for the company later on?

Antonio Mexia

No, the Decree-Law only states, and that's the only legal document that is so far available, only states lock up. It doesn't state that you cannot go higher the stake you buy. So you have to keep your shares, you cannot decrease your stake over five years but there's no prohibition of going higher in your stake. But not all the documents are out yet.

Emmanuel Owusu-Darkwa – Barclays Capital.

Yes, Emmanuel Owusu-Darkwa here from Barclays Capital. Just to be clear on the criteria, and so the criteria for a winning bidder, would you be looking for direct or indirect support for new borrowings only and can you provide a bit more colour on this? I mean has this been guaranteed?

What do you mean it's guaranteed?

I'm saying basically there's a note gone around in the market to suggest that you'll be looking for indirect or direct support from the winning bidder, for re-financing purposes, and I just wanted to understand what this meant.

Nuno Alves

There is no such thing.

Antonio Mexia

We have just presented criteria like credit or rating announcements of the company, so it's an overall statement. There is nothing precise so clearly the rule of the game is clear, it's just improving and giving support to these industrial projects. And I think we have already answered as to what does it mean.

José Javier Ruiz Fernandez – Exane BNP Paribas

Good morning, this is José Javier Ruiz Fernandez from Exane BNP Paribas. Just two questions, clarification of one of the points that you mentioned, which was that you were looking for financial support from the new shareholder, would that increase – include, sorry, a capital increase? And the second thing is if you could clarify what is your attitude *towards volume hedging? It looks very low towards next year, are you expecting power prices to go up? Thank you.*

Nuno Alves

There seems to be some confusion here, we better clear it up. The question that we answered on the privatisation was what types of criteria were important for EDP. Obviously it is totally different for the company and for the existing shareholders if the end buyer of the company is a single B rated entity or it's an AAA rated entity. I think we all agree with this. So we're not looking for financial support, what we want is a shareholder that does not destabilise the credit profile of EDP and, if anything, improves it. So between a list of competitors, when asked by the government, in that particular criteria obviously if there's a AAA candidate we will prefer that one to a single B candidate. That's always happened. There is no financial support whatsoever that is being asked from the entity competing. If they want to do so it's the merit of their proposal. It's totally different for the existing shareholders and fixed income investors of EDP that the future owner of a stake of 21% is a healthy strong competitor.

Miguel Viana

So in terms of the question, in terms of hedging, so mainly in terms of gas we see today better opportunities in terms of wholesale marketers as we referred to, namely with the impact of increase of prices in Asia. Also in terms of gas, as you know today combined cycles are working less. But where combined cycles are getting the most significant part of their return is restrictions market, is the kind of services, ancillary services etc, and for that you cannot hedge so we have to wait to operate more in the spot market and in these secondary markets, that's why we should continue to have some open positions in gas. Moreover, as I said, we are now in the peak of contracting season for 2012 so November will be still a very active month and we expect to improve the detail in terms of guidance by the time of the release of end of 2011. Back to the CEO for final remarks.

Closing remarks

Once again thank you for your presence, and for your questions. I think that we have once again presented very sound results. I think that we have also proved that we were able to tackle some of the issues that were in front of us when we last met, two months ago, namely in terms of regulation and legal framework. I would also like to stress that we are well advanced in the process of privatization where the rules of the game and the candidates are clearly in a structure that will represent a huge opportunity for the company in terms of keeping all that made EDP different from the rest of the sector. In terms of growth, in terms of risk profile, in terms of asset allocation, in terms of efficiency, so that I believe that ahead of us we have exciting times and exciting opportunities based on the right choices of assets, the right choices of management decisions, and also probably the right choices about new shareholders in the company. Thank you very much.