



EDP - Energias de Portugal
Friday, 1st August 2014
11:00 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

Good, morning everybody. Thanks for being present in this conference call for the first half year results 2014. As usual, I will start with the key highlights, then we'll go through the detailed presentation, and then I'll come back to the wrap-up, outlook, and then we will go for the Q&A.

If we look into the figures, and usually we start with the EBITDA, we see a 1% increase to slightly above EUR 2 billion. And then clearly, we have to separate the business, and once again, here we have the value of the diversified portfolio.

Let's start with Iberia. Iberia, clearly, we have good results. We have an increase of 4% YoY that is the result of different things. First, strong hydro, though I would like to stress mainly two things – good energy management results, and clearly, tight cost control. And we need to take into consideration that these figures already include regulatory cuts, so all the measures that we have taken both at energy management and cost control more than compensate those regulatory cuts.

So I would say that in Iberia, we are doing well in terms of the structural part of the Company, in terms of efficiency, but also, we have been doing what we have been doing better and better in this market, which is the energy management. And I think that in the last five years we have been proving that we tend to be good in this area. So, in a tough market, good results.

Second block, EDP Renewables. You have what we would expect, a reduction of EBITDA of 7%, clearly with a huge impact of the regulatory measures in Spain. Let's remember



last year the first half had no – those cuts were not there, so the impact on the semester, on the 1st half, is of course bigger when you compare. These were not compensated by the new additions.

By the way, the new additions this year will be mainly in the 2nd half, as you know; physically implemented in the 2nd half. In any case though, rather decent results, taking into consideration the very adverse remuneration in Spain.

In any case, in that environment, once again, due to our assets, due to the premium in terms of quality, we have done better than others.

Third block, Brazil. As we have already seen in the first quarter, it's where 2014 has been tougher, and will be globally tougher because of the drought; not only the fact that we have a huge drought this year, but because it is the second year in a row. The EBITDA in Brazil is 15% YoY down in Euro terms, also penalized by ForEx, because locally, you have basically a flat or slight increase in local currency.

Of course, this is also influenced by the Jari/CC capital gain. If you take this out, of course, the results are very different, because of being penalized by the drought.

At the global level, you have a net profit that is growing 12% YoY up to EUR 673 million. And as you'll see in the presentation, the adjusted net profit, because we have a lot of one-offs, one-offs that in any case I would like to stress they are important in terms of quantity but also in terms of quality; they will have an impact now, but they represent, of course, good decisions at the asset allocation policy and the increase of value of our assets in Brazil.

And I like to remember that whenever people look into our decisions to invest there in hydro, and also in other items, as you'll see, it represents a focus on efficiency and reduction of liabilities; and, of course, improving the sustainability of the system on the cost side. So these one-offs – we have been fighting for them. And it shows not only impact in the short term, but also in the medium/long run. So in any case, adjusted net profit at EUR549 million.

In terms of net debt, you see a decrease of EUR200 million to EUR16.9 billion. And let's remember that we have paid almost EUR700 million of dividends, fully paid in cash last May. Of course, at the same time, as you'll see later, as for receivables, we have done a good job.



In any case, let's start by investments, net investments. That includes net CapEx plus financial investments, minus financial divestments. So let's remember it includes the asset rotation policy. EUR 633 million. And as you see, as it's been the case recently, mainly hydro focused in Portugal and wind projects in US.

We have also, and I think that's good news in terms of implementation of partnership, because it means that we are delivering what was committed, the sale to CTG of 50% of Jari and Cachoeira Caldeirao closed in June.

As I mentioned, regulatory receivables owned by EDP decreased by EUR 300 million to EUR 2.4 billion end of June. As you know, we have done EUR1 billion of securitization, and at the same time, the global receivables in Portugal have increased by EUR300 million in line with what was expected, what we have been conveying to the market; and totally in line with the concept of the peaking 2014/2015, and then going down. So at this, I would like to stress, since the beginning, the evolution at this level has been exactly what was expected.

In terms of funding deals, it was an intensive semester; EUR 5.8 billion including securitizations. That drives us to a EUR5 billion financial liquidity position by end of the month of June, so at the end of the first half, with all the refinancing needs covered until the end of 2015 now. So as you know, comfortable position in that front.

So overall, I would say that, as you will see now in the presentation, it's a good semester and we are doing everything that we have been committed in terms of efficiency, in terms of energy management, in terms of control of CapEx; also crystallizing value in key projects, as it was the case in Jari; so at keeping the financial ratios in terms of securitizations, in terms of taking the capital markets.

The only thing we cannot control is, of course, making more or less rain, and especially making rain in Brazil where we need it in south east and not, as you'll see, reservoirs in the south and in the north are very good. The question is we typically need more rain in the south east. And this, of course, has been penalizing, and you will see in the presentation, the Brazil results. The rest, I think it's clearly a good semester.

So, Miguel, please, as usual.



Miguel Viana

I'll start with slide four on operating headlines at consolidated level for EDP. We can see that installed capacity was almost flat YoY. Officially, it has a positive impact of GW0.3 increase in wind capacity, mostly out of Iberia, and some shutdowns of capacity, namely oil and cogen in Portugal during this period.

The power production went up by 3%, with wind and hydro representing 79%. So, a significant increase in terms of production of hydro and wind at consolidated level.

In terms of the EBITDA breakdown by division, the highlights go to, as referred before, the liberalized activities in Iberia with a strong growth of 40%; and also, on the negative side, EDP Brasil EBITDA going down by 15%. Note that the EBITDA includes some one-offs, both in the first half of 2013 and in the first half of 2014.

In the first half of 2013, we have the sale of gas transmission assets in Spain. While in the first half of 2014, the CCEE contribution in Brazil, EUR40 million, which we expect to book in the 3rd quarter of 2014; then the impact from the new collective labor agreement in Portugal; and after that the effect of the sale of 50% of Jari and Cachoeira Caldeirão, closed last June. Adjusted for these impacts, adjusted EBITDA went down by 7% to EUR 1,784 million.

ForEx impact was negative by 3%, essentially regarding the devaluation of the Brazilian real versus the euro.

In terms of operating costs, they went down 3% at consolidated level. In Iberia, they went down by 2%, reflecting the successful execution of our OpEx cost-cutting program, and also reflecting the positive contributions from headcount reduction, namely through early retirement in Portugal.

At level of EDPR, excluding ForEx, OpEx was flat YoY. Also, there was a 4% increase of capacity in the period. While in Brazil, operating costs went up 7% in local currency, slightly above inflation, reflecting the annual salary update, and also lower capitalized expenses.

Moving to page 7, we have net investments going down by 18% to EUR 633 million, with expansion CapEx continuing to be focused officially on the completion of the hydro plants that we have under construction in Portugal, and several wind projects in US already with PPAs contracted.



In page 8, we focus on the regulatory receivables in the Portuguese electricity system as a whole. There was a clear slowdown in terms of the change of receivables in the first half 2014. As you can see, in the first half of 2013, there was a EUR 0.6 billion increase. It came to half of that in the first half of 2014, so just EUR 0.3 billion in this period.

For the 2nd half of this year, we expect to benefit from seasonally lower wind, and also higher pool prices, namely in the 3rd quarter, with a positive impact, and thus we expect continue to achieve the EUR 5.3 billion guidance, for the end of 2014.

In the next page, we can see that regarding the regulatory receivables supported by EDP, they decreased by around EUR 300 million, reaching EUR 2.4 billion by June 2014.

The most sizeable position was in Portugal. In Portugal, there was a EUR 344 million decline following the decline of tariff deviations in 2nd quarter 2014 when compared to the previous quarter. There was already more than EUR 1 billion of securitization in the period, which contributed to these reductions.

In Spain, we have an EUR 80 million decline, and in Brazil, there was increase of EUR 119 million related with the referred postponement in terms of cash collections from CDE and CCEE.

In terms of consolidated net debt, it stood at EUR 16.9 billion, without material changes in terms of breakdown by currency or by interest rate. And as we can see in page 11, in the first half of 2014, the net debt went down by EUR 0.2 billion as a result of EUR 0.9 billion of free cash flow in the period. Also, the referred EUR 0.4 billion reduction of net regulatory receivables, the payment of dividends (the annual dividend obviously paid last May, and the total payment was close to EUR 0.7 billion), and finally EUR 0.4 billion spent in terms of expansion CapEx and net investments.

Moving to financial liquidity position of the Company, this increased from EUR 3.9 billion in March to EUR 5 billion in June, so a significant increase which was related essentially with the new five-year RCF of EUR 3.150 billion which was signed by EDP last June. This line replaces EUR 2 billion RCF line which would mature in November 2015.

In terms of evolution of net debt to maturity profile, the major event in the 2nd quarter was a bond issue of EUR 615 million with a five-year term, and also the pay down of a USD 1.5 billion RCF, which together with the smaller move, allowed an increase, an extension of the average debt maturity from 3.9 years in March to 4.0 years in June 2014.



This EUR 5 billion liquidity that we referred before covers completely the refinancing needs both for 2014 and for 2015 of EDP.

Finally in page 15, as we can see in terms of net profit breakdown, we have already referred the EBITDA increase of 1%. Below that line, we have a decline in terms of net depreciations and provisions, minus 3%, related mostly with the extension of useful life of our thermal plant in Iberia, and also some cogen impairments, both in the fourth quarter last year.

Still below that line, as for financial results, a significant improvement of 29% which included not only the impact of lower net debt, lower average net debt in the period, but also, at the level of associated companies, a better result from our coal plant in (Pecem), with a positive YoY change. Also, higher gains with tariff deficit securitizations and, finally, slightly higher capitalized costs, which are related with higher level of work in progress, regarding the ongoing work of our hydro plants in Portugal.

Income taxes also went up 16%, and also there was an increase in terms of the weight of non-controlling interests, 13%. Finally, at level below that line, we had an increase of EUR 31 million of costs related with extraordinary energy taxes in Portugal, which EDP expects to pay next October.

Overall, net profit rose 12% to EUR 673 million. Nevertheless, if we adjust for the previously referred one-off impact, net profit went down 3% to EUR 549 million in the first half of 2014.

Moving now to the business areas and starting with the market environment to Iberia.

We can see that the Iberian market was characterized in the first half 2014 by strong hydro and wind volumes which were positive for EDP generation mix. We also would note that the low pool prices in this period, which were more marked, namely in the first quarter, together with EDP's long position in clients, supported EDP's good energy management results that you'll see later on.

Still in terms of Iberian market profile in the period, we can see that electricity demand in Iberia went down by 0.9% in the period. Nevertheless, we start to see some positive signs. And if you adjust demand for temperature and working days, you can see that in Spain, adjusted demand went up 0.1 %, while in Portugal it went up by 0.2%.



In terms of utilization of thermal capacity, we can see that there was also some stabilization in terms of thermal power production, a slight decline of 3%, as we had even stronger hydro; so stronger hydro in the period versus last year, but a lower production in terms of special regime essentially related also with the regulatory changes announced in Spain.

In page 19, we can see that in terms of operating performance, but now at level of our plants that operate in the liberalized energy activities in Iberia, production went up by 19% supported essentially by a 48% increase of the production of our hydro plants in the liberalized markets, which reflect not only a rainier year in the first half 2014, but also the transfer of three hydro plants which were previously contracted under PPA/CMEC.

Load factors of our thermal plants were essentially flat, recording just very, very slight declines versus the same period of last year.

In page 20, we can see the performance in terms of EBITDA of all liberalized activities. We previously referred strong growth of 40%. We had a positive contribution not only from the stronger hydro volumes that we saw before; these, of course, had a positive consequence in terms of average energy costs, minus 31%. Also, the load prices in the pool had a lower average purchasing cost of 11% which was very helpful, taking into consideration our long position in clients.

In gas supply, we also made extra EUR 35 million profit versus last year. Nevertheless, in terms of negative impact, this 40% increase still includes the negative impact from the claw-back in Portugal and from the generation taxes in Spain in the period referred in this presentation.

Moving to the division of long-term contract generation in Iberia, it's recorded an EBITDA decline of 3%. Nevertheless, if we exclude the one-off, especially the collective labour agreement in Portugal, the EBITDA went down by 10%, nothing really unexpected, essentially related with the transfer of the three hydro plants to the liberalized business, as we saw before.

Regarding our division of regulated networks in Iberia, EBITDA went up 7%, or just 1% if we exclude the previous referred one-off from the collective labour agreement in Portugal. This 1% increase reflects first a decline of 2% of gross profit.

This decline on gross profit related with lower return on RAB in distribution in Portugal from 8.5% to 8.3%, reflecting the lower yield for Portuguese Government, and also some



cuts in electricity regulation for distribution in Spain; and includes also the good result in terms of efficiency improvement with OpEx going down by 7% year on year in our major area of distribution of electricity in Portugal.

Moving to the performance of our subsidiary, EDP Renewables, which has reported its results to the market yesterday. It reported a 7% decline on EBITDA, essentially penalized by the regulatory changes in Spain. As you can see, EBITDA in Iberia went down 17%, reflecting the regulatory impact in Spain and also the low pool prices in the first quarter. EBITDA in Europe – in United States went down by 3%. Nevertheless, adjusted for one-offs and in local currency, in US dollars went up by 6%, with a good performance in terms of average selling price. And EBITDA in other markets went up by 13%, reflecting essentially the new capacity in Romania, Poland and Italy, and including still the negative impact from a decline of prices in Romania.

Finally, moving to the last division, Brazil, starting for some market environment in the 2nd quarter in Brazil, we would like to refer the positive news on the significant decline in terms of electricity rationing risk as a consequence firstly of the slowdown in terms of electricity demand growth, which was stronger in 1st first quarter, but slowed down in the 2nd quarter; and also, some improvement in terms of hydro's water level, unfortunately, not in the south east region, which is the most important one, but at least in the south region, which is helping to reduce this pressure and risk.

Nevertheless, utilities continue to face significant challenges, namely the increase or the continued utilization of thermal generation, which continues to generate negative tariff deviation; and on the other hand, some delay on the payment by CCEE and CDE to cover these tariff deviations to distribution.

Generation in this quarter also started being affected by production levels of hydro generation and the PPA, generation levels below the contractual level, which is reflected in the GSF, or the Generation Scaling Factor of 94%, meaning below 100%, which implies additional costs with acquisition of energy in the spot market.

Under this environment, EDP Brasil reported EBITDA in local currency went up by 1%. Nevertheless, we have to see that this 1% increase includes a sharp increase of tariff deviation for distribution; so almost 10 times bigger at BRL340 million deviation in first half 2014; and also includes BRL 408 million gain with the sale of 50% stake in our hydro plants Jari and Cachoeira Caldeirao.



Adjusted for this non-recurring impact, EBITDA in local currency in Brazil went down 12%. In distribution, the EBITDA went down 6%, reflecting a lower return on RAB in Escelsa since last August; and also an increase in the cost with energy losses following the increase of spot price.

Generation; EBITDA in Brazil, excluding one-offs, went down 17%, with an increase in terms of the losses with energy purchased in the spot market.

I will pass now to our CEO for the final slide in terms of profit for the 2nd half of the year and the conclusion of this presentation.

António Mexia

Thank you, Miguel. And as you see on page 27, when we talk about outlook, we start with Brazil. Why? Because the reason is that Brazil, because of the sectors already mentioned in the beginning and Miguel detailed, has been having a great influence in the accounting of the year, both through distribution and generation.

As you see at EBITDA in the first level, generation brought us good news on the Jari front. It shows that we took a good decision in the value of the asset.

This one-off gain translates not only a capital gain, but also, as you see, the revaluation of the assets, as it's mandatory by accounting. But at the same time on generation and distribution, we had a strong negative impact. And I stress again, it was already mentioned, we have already EUR 40 million, around EUR 40 million, approved for May and June that are not included in the first-half figures, because even if they were already decided by Aneel, and the distribution of the amounts throughout the different DisCos companies, we prefer to be on the safe side in what concerns the accounting of those and wait for the formalization of the source of the funding. As you know, the system has been discussing with banks to fund that tariff deviation.

In any case, what we have – we expect for the 2nd half. On the distribution companies, one important thing is, of course, to see this confirmed. So the funding of the next – not only of May and June, but up to November, it's what is being discussed between the authorities and the lending entities.

But I would also like to include that for us, the second half is less stressing because we have tariff revisions on Escelsa starting already in August 7, and then Bandeirante in the last week of October.



And just to mention, we have asked for a revision of 27%, so an increase of 27% on an annual tariff requested to Aneel. Why? More than 95% of it is just to include – as you know, when you create a tariff deviation then you recoup it through the following year tariff increase. So this, of course, will protect us in what concerns – and we will start receiving the cash of the deviations.

In what concerns generation, the generation costs continue high. The average spot price in July was BRL590/MWh, so lower than in the 2nd quarter. But we estimate that the GSF globally will be lower in the 2nd half on average than in the 1st half, and this, as you know, has a material impact on generation.

That could be slightly high in the second half compared to the first half in terms of million real. And globally for the year, we could be talking about between BRL 200 million and BRL250 million. So we have already given visibility about this in the first-quarter results.

So everything depends on this. We don't expect GSF to change from what is presented here. So what is the biggest uncertainty? Of course, how much cash advance and the banking loans materialization. What we have – as we speak today, I am really confident, we are all confident, that the system will find a solution. It has been the case. Since January, we have been talking about this. In the 1st quarter they've solved the issue. Now they are solvent until May. May and June we have already clear indications of what is going through; it will probably be in the first weeks of August. It's just because we now close the figures that we don't include it in the first half. So I'm confident on that front.

So overall, what do we see? If I have to pick a line is “we feel comfortable with the consensus for the year end”. The first question is – you will raise it, OK, but you have one-offs in the 1st half. Yes, but we will have eventually one-offs on the opposite direction. So clearly, we feel comfortable with the consensus in terms of EBITDA for the year end.

And as you'll see, with a smaller participation of liberalized activities in Iberia, because we are assuming normalized Iberia production; Brazil assumes the negative impact from the 91% GSF for the second half; the wind power assumes stable power prices in Spain; and the rest is totally visible.

So clearly, what we can see, except for that let's say funding, accounting part in Brazil, in what concerns the distribution companies, we have more or less a good visibility until the end of the year. So this is the reason why we feel comfortable with the consensus.



We have a resilient performance, as you see. Diversification in risk management and the uncertainty part of our figures is clear as they are narrow. So there is a limited amount of items to be discussed whenever we want to look into the end-of-the-year figures.

Clearly, I would like to stress again the deleveraging supported by cash flow improvement compatible and in line with a low risk profile.

So once again, I will end up as I started. Good performance, enhanced by diversification. The net profit increased by 12%. Of course, the impact of the one-offs is important but they don't translate any luck, they just translate work. So it's not a question of exogenous factors. It's because we take decisions that make sense, cost-wise, investment-wise.

We have been very disciplined on the CapEx side, it's clear, and discipline on the financial, also very clear, with a net debt reduction, with a regulatory receivable reduction, with strong financial liquidity position. And so clearly, resilience, visibility I think are the words that I would like to end this presentation.

So thank you once again and let's go for the Q&A.

Stefano Bezzato, Credit Suisse

Good morning. Three questions, if I can, the first one on Portugal. And my question is: what do you expect from regulation in the autumn, in particular on tariff rises for 2015 ahead of a general election; and your expectation on returns for power distribution in the next regulatory period.

The 2nd question, if you can explain exactly what in the collective labour agreement is leading to this EUR129 million which, if I understand correctly, is a provision reversal that you are reporting this quarter.

And finally, if you can give us an idea of what we expect in terms of minorities for 2014, including the impact of the capital gain realized in Brazil. Thank you.

António Mexia

Stefano, I will start with regulation and tariff rises. We mentioned something that is important... what we have seen until today, and it was proved in the last two years, is that the increases expected is between 1.5% and 2% above inflation.



This is one of the conditions for the stability of the system, and especially of the absorption of the tariff deficit until the end of the decade. Until now, we don't have any reasons to doubt upon it, and the sense that we have is that these rules will be kept. And, by the way, as inflation is quite low, we are talking about small tariff increases.

At the same time, as you know, the government decided to introduce a broader scale for social tariffs. That makes sense and, of course, it allows them to separate clearly those who need, from those who don't need to be protected from a small raise in the tariff. So clearly, I don't expect any surprise there.

In what concerns power distribution, we don't expect any major change on the rules of the game. Of course, we will see a reduction, but following what is the reduction of the WACC related to the lower risk of the Portuguese market, as it has already been the case in 2014 compared to 2013, because of the CDS reduction in the Portuguese market, so I think that the logic will be the same and we will follow the risk premium basically of the Portuguese market.

We will be also start discussing the other details like the X factor for efficiency, and in low inflation scenarios we will be, of course, probably dealing with other X factors. But I would say that stability is the name of the game in the rules of distribution.

So at this stage, we have started the process. We don't see any reason to change what we have been living in the past and saying in the recent presentations for distribution remuneration.

Nuno, do you want to talk about collective agreement?

Nuno Alves

Just the collective labour agreement, the changes, the number to get to the € 129 million is roughly EUR 35 million of changes to the pension plan and those are mostly to do with retirement rules; EUR 90 million on the medical care; and about EUR5 million of other small pieces.

Miguel Viana

Finally on the minorities. So our minorities last year, in 2013, amounted to EUR 188 million. This year, we should be very in line in 2014, obviously with a slight increase in



terms of renewables, especially regarding the asset rotation strategy and the decline in Brazil given the current market environment in Brazil.

Antonio Mexia

By the way, just the labour agreement; to mention that this is important for the stability and sustainability of the system. So overall, I think it's a good measure. And in terms of relation with the labour and everything, I think it makes all the sense for everybody and presents a more sustainable system.

Javier Garrido, JP Morgan

Good morning. This is Javier Garrido, JPMorgan. I have a few questions. First one, I'm sorry to raise the topic, but you've been heralded in the Spanish press many times as the front leader in bidding for E.ON Spain assets. I was wondering if you could update us on what's your actual interest in that disposal process, whether you're interested in the whole lot or just a portion of the assets.

And second question would be on the flipside. If you were to acquire any of those assets at all, how would you finance it? Would you be thinking of disposals in Iberia to keep the balance in terms of your geographical exposure?

And then the third question is on your comments on EBITDA. I understand that you are comfortable with the consensus EBITDA for 2014, but given the amount of one-offs reported in first-half results, I was wondering whether when you say comfortable you mean you feel very comfortable, and that means you are going to beat that EBITDA guidance, or do you simply think that it's enough for you to meet it? Thank you.

Antonio Mexia

So, Javier, thank you. So in what concerns the question about E.ON assets... when you look at the map, it's obvious that we have the obligation because of geographic fit of the assets to look into those assets. It makes sense. If we don't look, it's because we would be either distracted or dead. So we need to look into it.

But let's be very clear, and that's the most important thing. If we can arrange a way to do the deal without changing the commitments, both in terms of risk profile of the company, but especially maintaining the financials and the commitments of deleveraging throughout the business plan, unless we are able to do it, we will not even consider it.



So clearly, what I would say at this stage is it makes sense to look at it. We have even the obligation. But unless it's accretive, plus no change at the deleveraging and the financial ratios in the business plan, we will not do it. Unless we find a way to do it, we will not do it.

So let's be very clear, and I will repeat this everywhere where we could be raised this question; accretive and especially not changing the commitments that we have done in terms of financials at 2017.

In what concerns the consensus, sometimes it depends on the tone of the voice... not only the question is clear, we expect extraordinary negatives on the second half. We feel comfortable with the consensus, but let's keep of course something in sight: we really have some uncertainty on the Brazilian side of the business based on the funding of the DisCos companies that I would like to have additional visibility to qualify.

And of course, if the rain, if it exists, the rain has been slightly – the reservoirs as you know in the south east have been around 34% , so we are very far from the situation where in 2001 we had rationing. But clearly, the rain will have an influence on the GSF, and this, as you know, makes a difference not only in distribution, but in this case in the generation side.

So let's keep room for being cautious, because we can – even if we dance or pray, we don't know when the rain comes so... But clearly, we are comfortable with the consensus.

Carolina Dores, Morgan Stanley

I have two. Sorry to go back to consensus, but if you could give us a bit visibility on what are these one-offs of 2014. I'm just trying to understand if this is one-off because distribution in Brazil is going to be weak and you recover it at some point, or generation is down because it doesn't rain. Or is it really provisions that you were expecting to do?

And just so we can have a bit of – more of an idea of the recurring – of the underlying performance of the business, if you could make some comment on how you see consensus 2015, EBITDA of EUR 3.7 billion. Just assume that Brazil normalizes. I think that's the best way to do it, because we don't know if it's going to rain or not in December.



And my second question is on (Pecém). I saw that it continues to – the availability continues to improve. When do you expect this plant to be running as expected and therefore generating a profit? Thank you very much.

Antonio Mexia

Could you repeat the last question? You are talking about (Pecém)?

Carolina Dores

Yes. When do you expect it to normalize because the availability is not optimal yet? It's still generating at a loss. So when do you expect it to be fully normalized?

Antonio Mexia

So, Carolina, thank you. If the question was about the consensus in 2015, clearly, we don't see any reason to change it at this stage. So the Investors' Day figures are the same. We have no reason to update it.

Of course, it depends a little bit on Brazilian situation. If you are basically moving EBITDA from 2014 into 2015, in a normalized year in 2015, but of course, everything that is tariff deviation that you create in Brazil this year it is not standard it will be EBITDA next year.

So with the exception of this, overall in the rest of the business, including the Iberia business, including renewables business, we don't see any reason to change. Even the small amount that we have already hedged in the Iberia market is giving visibility in what concerns the margin that we are expecting for the market, for Iberia market; we have hedged slightly more than 20%. And the rest we will do typically closer to the last quarter as it's normal in each year. So I would say clearly, consensus for 2015 is the same as the Investors' Day's.

Improving Pecém... As you know, Pecém is rather normalized. We have two groups. We are on average above the 85% availability, so we are approaching the 90%/91% target that we have established. And the 2nd quarter was better than the 1st quarter. So at this stage, we have reached agreements with suppliers in what concerns (namely Siemens) and in what concerns long-term support for the company, presence of their supplier locally to anticipate problems that resulted from the assembling in the construction period.



So all of this has been improved. We have a clear focus on this to improve. And being close to 87%, I believe is the figure at this stage, shows that we have been doing what we have committed to.

Alberto Gandolfi, UBS

Good morning. This is Alberto Gandolfi from UBS. I have three. Can I ask you something in terms of just legally? On the Portuguese tariff deficit, if – let's put the estimate – well, let's say if the actual deficit cumulative were to deviate from the initial estimate that the government and you have been presenting a few times, what could be the entitlement of the European Union in terms of forcing a correction into the trajectory of the deficit, something along the lines of what we have seen in Spain, effectively? Because it looks like the estimates on the deficit are a little bit over-shooting what was the initial expectation. So what could you do to force Portugal to correct it faster?

Secondly, on the electricity distribution review, I go back to that because I wanted to ask you something a little bit more targeted which is: do you expect still the presence of a lower return? And what would be – if you could ask, what would be that lower return you would be asking for – in Portugal, obviously?

And lastly, by 2017, you fully liberalize Portugal effectively, and you were talking about maintaining the exceptional tax of EUR 45 million in your guidance. But I think there's an even bigger problem with all the generation taxes that Spain has which push up the Spanish price and which effectively impacts Portuguese consumers but the government doesn't collect the money. So do you worry that the whole generation taxes could be also planned in Portugal at some stage because that's way bigger than EUR45 million? Thank you.

Antonio Mexia

Thank you, Alberto. First, Portuguese tariff deficit. Let's be very clear, when we presented the 1st quarter figures and the increase at that moment of – because of very strong wind and a lot of water and so impact, strong impact on the pool price at Iberian level and the creation slightly above what was expected, it's no longer the case at the end of the 1st half. So we are totally in line with what was expected. So I don't see any reason to – for people to look into this issue in a different way.



In any case, all the sensitivity analysis shows that if until the end of the decade you have typically normalized years, you will peak in 2015, and then you start creating surpluses in 2016, sharply going down until the end of 2020.

So first, the Troika is no longer here. In a full force, of course, they will keep control. But as you have seen, all the measures that were taken by the Portuguese Government, and some of those of course the sector doesn't like. But the impact of those, together with the demand evolution and tariff evolution, and the tariff deficit evolution, they are totally compatible and there is no reason to change a single line. So we feel totally comfortable with this evolution.

Second, the 2017 liberalized Spanish market. Basically, if you are talking about the claw-back, I would like to say clearly that all the figures that we have presented in the Investors' Day already include our consideration and the impact of that difference in the two markets and the impact of the measures. So don't anticipate anything, because everything is already included in the business plan.

Alberto Gandolfi

Can I ask a follow-up, sorry, on that? Because if I'm not mistaken, if I put the green cent on coal, green cent on gas, 7% levy on the power price, roughly EUR10 per MWh on hydro and EUR5 on – well, there's no nuclear of course in Portugal, then actually, it comes closer to a couple of 100 million before corporate taxes. So you say that your guidance already includes about a couple of 100 million over and above the EUR45 million exceptional tax to account for generation.

Antonio Mexia

The math, of course, differentiates the items that are under long-term contract and those that are not under long-term contract. So if you do the exact math, the math is slightly different, of course.

And taking too into consideration what I would say is that that's exactly the business plan. We have given the figures. We were very transparent at the Investors' Day, and the figures already include this, let's say, adjusted math.

And of course, if we have any detail, Miguel can provide you later, but for everybody's sake I would like to mention and to clarify this, all the difference is already included in the business plan presented in London.



Alberto Gandolfi

Ok.

Nuno Alves

And as for as the distribution return for the following three years, clearly, our view is that the regulator will try to lower it, and so we are expecting a lower return going forward. We will have to see the magnitude of it. The sensitivity of it is a 1% reduction means EUR 30 million, and we are not expecting a 1% reduction.

But as of right now, we're in the middle of the negotiation process, so clearly, we expect it to go down, but to a reasonable figure.

Antonio Mexia

It follows the Portuguese risk going down, so it's not a question of losing money, it's the other side of the good coin.

Pablo Cuadrado, HSBC

Good morning. Good morning to everyone. This is Pablo Cuadrado from HSBC; just three quick questions. The first one is in the liberalized segment. I realize that you posted a significant increase, I think it is EUR 35 million, in the gas supply, and you were talking about greater sales in the wholesale market. Simply I would like to know if you can provide a bit more color on that if there has been anything special during this year that is increasing, or you expect that that trend is going to be reiterated going forward?

The second point is coming back to the Portuguese market and the issue that the social tariff is going to be increased, or the scope to ask for the social tariff is going to be increased next year. Do you expect any kind of risk on the back of that, looking to the unit margin that you are still making the whole business? Do you see any risk on that, on people switching to that social tariff?

And the last one is on the 27% tariff increase at Escelsa. Clearly, when we look this into the Spanish profile, it's never going to be possible to have such an increase; no regulator going would approve it. Probably I'm too negative on this point, but just wanted to make



sure that you think that that tariff increase is possible and it has been applied to other operators as well, et cetera.

Antonio Mexia

Pablo, thank you. Liberalized segment in gas. I think it's opportunistic, of course, but typically translates the better conditions in the gas market, in the Iberia markets. That is the result of the big guys, everybody diverting gas from Iberia to elsewhere, so the market is more normal. And finally, you can make more reasonable figures on that front.

So typically it's just the fact that probably against what was expected by everybody in the market, the gas deviations were really strong, and whenever you need it, it's no longer there. So it's a price response to this of demand and pricing finally giving signs of life.

In what concerns social tariff, with the expectations of people that will move based on the criteria that were mentioning, we expect, and we have already announced this to the market, and it's included in our figures, something that will represent slightly at around EUR10 million a year in our revenues.

You know what concerns Brazil and the increase of 27%, they can look strange here in Europe, but they are currently totally normal in Brazil. And we have seen increases recently well above this, above 30%. So it's the rule of the game.

They have also decreased recently by more than 10% because of tax changes introduced by the government, but 27% is the total and a normal figure in the negotiations because the rule of the game is clear. Almost more than 25% of this increase is related with the energy.

As you know, we have components A and B when energy and the rest is what is, let's say, the distribution activity. And as I mentioned at the beginning, more than 95% of this increase is related to the energy costs increase, and the system is designed in a way to be neutral. It's not short-term cash neutral, but the system in Brazil is supposed to be neutral in what concerns the energy components for the distribution company.

So 27% is normal, and others have been having more already. You have Copel with more than 30%. So it's a surprise for us, but not a surprise there.

Fernando Garcia, Mainfirst



Good morning. It's Fernando Garcia from Mainfirst. I have a couple of questions. The first one is that there was a lot of questions in the EDPR conference call asking why not create a YieldCo. I wanted to know the point of your EDPR on this issue, and as well if there is something from the EDP standpoint to avoid this operation.

Second question is if you could comment on the European Commission investigation on the extension of the hydro reservoirs in Portugal. Especially I would like to know on timing of this, and the possibility of outcome that you are thinking about. Thank you.

Antonio Mexia

OK, Fernando, first, I know that a lot of time yesterday was spent on the discussion of YieldCos. People like to, and everybody likes to discuss trendy things. I think, let's make it clear, the vision of EDPR and what they have stated yesterday, it's not imposed by us, or imposed by them on us, because we share the same vision.

In what concerns US market, I believe that our policy of selling minorities and asset rotation to financial investors makes more sense. Especially it's more credible medium-term-wise. We will not face problems with this. We feel comfortable with this solution. We could consider YieldCos for assets elsewhere, eventually when it makes sense, and especially if we believe that we can deliver what we promise, because we are personally, and it's the case for all the Board, we don't like to not to deliver what we have been promising at the beginning.

So I would like to avoid this. So no YieldCos for the US. It does not make sense. The alternative is better for the shareholders. Second – including EDP. Second let's consider if it makes sense elsewhere and how it can make sense. But I think it's very normal, and the over excitement is – I think it is overdue.

In what concerns the extension, we don't have news; we are not a direct party involved. We have conveyed information that was asked. Once again, I would like to repeat this. Legally, the Portuguese Government case is very strong. It was based on existing laws, it was confirmed.

I think it was basically a lot of confusion around the answers and because it's a complex process, and also because the European Commission likes or would like to have more visibility about processes in other countries, namely in Central European countries where those countries that have the tendency to try to protect the local operators. That's not the case in Portugal. It's a competitive market.



So clearly, we don't have any news, but we feel very comfortable. In any case, you know exactly what we think about if they want to unwind by any reason the extension. The amount of money involved is considerable. We are talking more than EUR3.5 billion between what we have paid, the terminal value of the concessions, plus the works, plus interest. It would be a very quick way to deleverage a company and to reinvestment elsewhere, so at very interesting value.

So in any case, it's more on the comic side, the second part of the answer. On the real side, I think that we don't expect anything because the case is very sound.

Miguel Viana

We will now answer the questions from the web just before finishing the conference call.

Nuno Alves

Just a question on basically the maturity profile of EDP currently and what we think about it. Clearly, as we've mentioned, we would try to elongate the maturity profile of the Company. We've started to do that. It is slowly starting to increase. The objective will be in the near term, and the near term is not in three or six months, but a year or two to bring it up five years.

We'll be working on it, and once – for the transactions, you'll see us in the market. You'll probably see us doing longer bonds rather than shorter bonds. And that way, little by little, we'll enlarge or elongate the maturity profile of the Company.

Miguel Viana

I'll pass now to the CEO for the final remarks of the presentation.

Antonio Mexia

Thank you. Once again, thank you, everybody. I think the issues raised like E.ON assets, like debt, like regulation, like tariff deficit, like liberalized markets, YieldCos, all of these are important issues. I'm sure that we were clear. Nothing was left unanswered.

And even when we are talking about visibility for the year end, I would like to be very clear. We feel comfortable at this stage. Of course, the outlook depends very much on



Brazil's evolution, but even with that uncertainty, we feel comfortable with 2014. And all the signs that we have already for 2015 makes a lot of sense, and it makes us also comfortable with what we have stated in London to everybody in the Investor Day.

So as we are at the beginning of the vacation, I hope everybody has a good summer vacation. If somebody passes through Lisbon or going to the Portuguese beaches, call us. We will guide you to the best restaurants. Thank you. Bye-bye. We can even pay a drink. Bye-bye.