

**EDP - Energias de Portugal**  
**Friday, 31<sup>st</sup> October 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**

Yes, good morning to everybody. Thank you for being present. We have the usual presenting the nine months figure for 2014. I will start with the key highlights and then we'll pass also as usual to Miguel for the detail presentation and then we'll come back for our conclusions and Q&A.

First thing, EBITDA, as you have seen the EBITDA is three percent below year-on-year to EUR2.7 billion and this result is clearly marked by the evolution in Brazil. But before I go into Brazil let's see some good news.

The EBITDA in Iberia, ex-wind, is up two percent year-on-year. Basically why, not only because of the strong hydro but mainly because of energy management and I would like really to stress this: the tight cost control that more than compensated the regulatory cuts.

So, whenever you have a challenging sector you do whatever you have to do and clearly this lower costs that are below the 2013 costs is an important measure. We have also seen EDP Renováveis going down by six percent year-on-year. In the way that the new capacity additions were not enough to compensate the already anticipated adverse regulation in Spain.

So, as you see the first full year, so the first nine months in this case, of the impact on both Portugal and Spain. In any case the EBITDA in Iberia (ex-wind) has been growing.

So the big change was in Brazil. EBITDA is down 29 percent including eight percent impact of the BRL depreciation against the Euro. If you take in any case and I think it's important that one-offs, let's say the capital gain of Jari and the DisCo's tariff's deviation that are basically a transfer, a delay of EBITDA, then the EBITDA went down by 13 percent.

All of this penalized by the drought. So, two years without rain in Brazil, and we have been flagging this since the beginning of the year, can have a material impact and it's the case.

In terms of net profit you have, we are basically flat to close to EUR790 million, more than one percent decrease. And on the balance sheet side what do you see? The net debt going up by EUR400 million but it's almost fully explained by the ForEx impact due to the dollar appreciation versus the Euro.

Also due to the fact that you have no tariff securitization in the third quarter. We have done one billion until today since the beginning of the year and it was all concentrated at the beginning of the year. And also because some of the assets rotation deals will only have the financial closing on the fourth quarter. But since the beginning, and I will stress this also again, but we still see this around EUR17 billion at the end of the year.

The net investments were EUR1.1bn. The CapEx is focused on wind and hydro, wind in U.S. and hydro in Portugal. And important is that we have been successful in the assets rotation policy where I believe we were one of the first to give value to this in terms of value creation and also cash funding of the growth of the company.

And we have EUR400 million received that, as I mentioned will be received towards the end of the year and beginning of next year. Typically in U.S. market and also in France.

Also good news on the regulatory receivables basically you have a smaller amount. We went down to EUR2.7 billion down EUR0.1 billion. And the main thing that I would like also to stress is that we have a good performance in the third quarter and a growth of EUR50 million as estimated.

That clearly proves that we are at the plateau '14, '15 of the receivables and as we have seen the regulator proposal for next year confirms this and by the way the tariff increase proposal clearly respects, as you will see further down, respects what was the idea of the range above inflation that is needed and sufficient to make the system stable.

On the funding side recently as you know there were EUR1 billion Eurobonds in September. We have been having high maturities seven years and four months and yields that are much more interesting than they were in the recent past. Even if it's today less demanding on all our meetings but in any case EUR5.5 billion of liquidity and the refinancing needs covered until mid-'16.

So, overall, I think that we've performed very well on what depends on the company namely energy management and costs. We're able to compensate the very lousy year in Brazil because of what we expect to be a non-recurrent no rain situation.

So, once again the highly regulated portfolio and the markets and of course the portfolio facts and the policy of low risk has been protecting us and of course I think once again a keyword, resilience and we are on track to deliver what we expect. So, Miguel, please proceed and then I will come back.

#### **Miguel Viana**

Thank you, Antonio. Good morning to everybody. So, we'll start looking at the evolution of the EDP's generation mix in the period. As you can see on page four we continue to see an increasing in the weight of hydro and the wind in the generation mix of EDP which is now 70 percent.

For this we have a positive contribution from the commissioning of the new wind capacity in Romanian, in Poland, in Italy and in Canada.

In terms of shutdowns EDP closed all the thermal capacity in Portugal which at the end leads our total installed capacity to remain flat. Power production went up three percent supported by rainy weather in Iberia particularly in the first half of this year and also additional production from the new wind farms that were commissioned in the period.

EBITDA decreased by three percent, going down by one percent if we exclude ForEx impact. Forex impacts mostly related with a 10 percent depreciation of the BRL against the EURO. This is, in terms of breakdown, Iberian activities excluding wind showing a resilient performance.

The EBITDA contribution from Brazil was materially affected by the drought situation in the country, while the EBITDA at EDP Renováveis results from the already referred new

remuneration scheme in Spain and also the very low power prices at the beginning of this year in Iberia.

Moving to slide six, and now talking about efficiency we can see that our operating costs went down two percent. In Iberia, our OpEx fell by one percent, resulting from the ongoing implementation of our corporate wide efficiency program, OPEX III, and also a positive impact from headcount reductions.

At level of EDP renewables our operating costs were flat excluding ForEx, which is a good result considering the four percent capacity increase. In Brazil operating costs in local currency rose three percent, which is less than half of the 6.1 percent inflation in the period.

Moving to slide seven, on our net investments they amounted to EUR1.1 billion in the period focused on the completion of our five new hydro plants under construction in Portugal and also under construction of 700 new MW of wind capacity, which we are now building mostly in the United States and also in Brazil. And all capacity is already contracted to sell energy through long term contracts.

Moving to regulatory receivables, as a whole in the Portuguese electricity system, they showed a very good performance in the third quarter going up just by EUR50 million. Even considering that this quarter we had weak demand due to the mild summer.

This performance is fully in line with our forecast presented at our Investor Day last May of a peak of EUR5.3 billion for the system debt to be reached by the end of this year.

Regarding regulatory receivables owed to EDP, they decreased almost EUR100 million this year with the decline in Portugal benefiting from the EUR1 billion of securitization made all in the first half of the year under very good market conditions. In Spain, we benefit also from a decline following the implementation of several regulatory changes in this country, while in Brazil regulatory receivables rose by more than EUR100 million, given the extra costs which our distributors, Bandeirante and Escelsa, are supporting with expensive thermal generation and which are not being fully covered by the contributions made by sectorial funds.

EDP's net debt stood at EUR17.5 billion with our investment and operations being fully funded in local currency to mitigate ForEx risk. The 19 percent weight of U.S. dollar

denominated debt which funds our U.S. wind power operations, was one of the major issues impacting the net debt evolution in this quarter as you can see in the next slide.

In fact our net debt rose EUR0.4 billion, reflecting EUR1.2 billion of free cash flow; a slight EUR0.1 billion decline of net regulatory receivables, reflecting also the payment of dividends to shareholders last May by the amount of EUR0.7 billion; it includes EUR0.8 billion of expansion CapEx and net financial investments; and finally the negative impact from ForEx, EUR0.3 billion which is mostly related with the nine percent appreciation of the U.S. dollar versus the Euro.

Our marginal cost of funding continues to decrease and in the third quarter of 2014 we issued a Eurobond of EUR1 billion with a seven year and four month maturity, in which we pay the 2.7 percent yield. As you can see in the next slide, in slide 13, despite this decline of marginal cost of debt, our average cost of debt went up by 40 basis points in the period, given that some debt matured over the period was paying a low average interest. Overall by September 2014 our average debt maturity stood at 4.1 years.

Regarding our financial liquidity position it stood at EUR5.5 billion with a breakdown of EUR2 billion of cash and equivalents and EUR3.4 billion of available credit lines. This EUR5.5 billion of financial liquidity is more than enough to cover all the financing needs for 2015 and in fact it covers all the financing needs until mid-2016, as you can see in slide 15.

Below this three percent decline of EBITDA we can see that depreciations and provisions fell by five percent, benefiting from the extension of the useful life of some of our thermal plants in Iberia. Net financial costs, which include also results from associates, decreased 15 percent on a lower average net debt. Also, better equity results from Pecem cold plant in Brazil with a recovery of some penalties paid in the past.

We had a slight increase in capitalized costs due to the increase of construction work in progress. And also in the first nine months of the year we had better results from tariff securitization deals following the declining in market yields.

We had less profits attributable to minorities on lower profits at level of EDP Brazil and EDP Renováveis and, overall, these items together also with the extraordinary energy tax which is in place in Portugal since in 2014 lead to one percent decline of our net profit to EUR786 million.

Moving now to the analysis of the performance of our business areas and starting in slide 18 with the market environment for electricity in Iberia in the period. We can see that hydro and wind production levels in Portugal and Spain were clearly above the historical average in the first nine months of 2014 and also in the same period of last year.

This resulted in low average full prices around EUR40/MWh in both periods nevertheless the quarterly evolution of prices during 2014 was quite distant and with prices going up from EUR26/MWh in the first quarter to EUR52/MWh in the third quarter. In terms of demand the electricity demand in the first nine months of the year went down 0.9 percent in Iberia as a whole. As we can see on the right picture, on the right side picture we can see that the summer was particularly bad in terms of demand essentially because of mild temperatures.

If you look to October we are already recovering with the demand going up by 0.2 percent. So, overall we see maintenance of the positive trend in terms of demand evolution both in Portugal and in Spain.

EDP's generation fleet in liberalized markets increased its production by 17 percent with a good contribution from the increase of hydro production plus 46 percent following the transfer of some three hydro plants that were previously contracted through PPAs until December of last year and which are now in the liberalized market and also the referred rainy weather mainly in the first half of the year.

Regarding thermal load factors there were no material changes versus last year. EBITDA of EDP's liberalized activities in Iberian market rose 40 percent supported by the referred transfer of the three hydro plants from PPAs to free market. We had also the positive contribution from the 21 percent decline in average generation costs on higher hydro production, and also the adequate risk management in energy markets, namely based on our long positioning clients which helped our results. These positive points were more than enough to compensate the negative impacts from the regulatory changes implemented in the period both in Portugal and in Spain.

EBITDA from our long term contracted generation in Iberia, which is mostly our PPA/CMEC generation in Portugal, showed a nine percent decline of adjusted EBITDA, mostly related with the referred transfer of the three hydro plants to the liberalized market.

Moving on slide 23, to our regulated energy networks in Iberia in terms of EBITDA performance it has some one-off impacts related with the collective labor agreements (CLA) in Portugal. Excluding these, our adjusted EBITDA went up one percent in the period, driven by a two percent increase of EBITDA from electricity distribution in Portugal, which was supported on a very good performance in terms of operating costs, which fell seven percent in the period, more than compensating the 30 basis point decline in terms of the rate of return in the activity of distribution.

In terms of the EBITDA of EDP Renováveis, it decreased six percent, penalized by the 19 percent decline of EBITDA in Iberia and more precisely the 33 percent decline of EBITDA in Spain with revenues in Spain being strongly penalized, not only by the new remuneration methodology, but also by the extremely low pool prices particularly during the first half of the year. These negative impacts was not fully compensated by the four percent capacity increase of EDP Renewables and also the four percent increase of average selling price in the United States.

In Brazil in third quarter 2014 our operations were impacted by an adverse market environment in which hydro plants under PPAs had to buy around 15 percent of their contracted volumes in spot market given the low hydro resources. On the positive side demand was almost flat in the this quarter reducing the pressure over supply, while on distribution business the companies restarted to receive the cash advances from CCEEs, sectorial fund, and also the regulator continued to approve several double digit annual tariff increases, including on our case the 26.5 percent annual tariff increase for the Escelsa in place since August 7th of this year. In terms of EBITDA performance, in local currency, it went down 21 percent negatively affected by the referred tariffs deviations in distribution and including a BRL400 million capital gain with a the sale of 50 percent of Jari and Cachoeira Caldeirao to our partner, CTG.

Adjusted for these items EDP Brazil EBITDA went down 13 percent penalized essentially by around BRL180 million losses with low GSF in generation resulting from the drought. I will pass now to our CEO, to outlook and an update in terms of regulation in Portugal.

#### **António Mexia**

Thank you, Miguel. I think it is relevant to talk about regulation, the proposal that is currently put forward by the regulator and to be finally approved by 15th of December.

Overall if I had to pick a word I would say that it's a balanced proposal. On the RAB side you see a preliminary... it results in a methodology in 6.75 percent for 2015. The return on RAB is indexed to the average of the 10 years Portuguese's government bonds yields.

And the rest you see is the following: for each 2.5 percent in average of the 10 years government bond we have a one percent change in return of RAB. We have a floor of six percent and a cap of 9.5 percent. So basically we follow the same philosophy that existed before with a cap and floor and then a curve that follows the Portuguese risks.

On the regulated revenues, what you see and I think it's where we need to focus our attention, you see basically a reduction of EUR24 million year-on-year including the impact of the 6.75 percent estimated return on RAB but all the other variables that are included in the calculations. In terms of demand, electricity demand, the regulator forecasts a 0.5 percent increase for this year and 0.8 percent for next year. And let's remember that for each one percent change on demand, it implies only more or less EUR2 million on EBITDA. So let's say it is quite small but clearly this small increase on energy demand estimations follow the anticipation of higher growth in Portugal, in Portuguese GDP, in any case below the growth of GDP. Of course all of these will have an impact of positive impact on tariffs deficit reducing this tariff deficit.

Then what about the amount of regulatory receivables, what you see is that as I've already stressed today we see a ceiling of EUR5.3bn. We feel comfortable with this EUR5.3bn for the end of 2014 and also for 2015. We could see an increase in the first half of the year typically because of the seasonal effect of rain and wind, but then lowering in the second half and then clearly going into the path of converging to zero by 2020, except for the tail of the first bond issued in 2009.

At this stage it is important to stress that, as I stated at the beginning, the tariff increase proposal of 3.3 percent for normal low voltage clients, so I think it's important. So, clearly respecting the two percent above inflation and we see this as an important condition for the stability of the system.

I think it was an important issue that was anticipated by everybody. People were curious to see and now we have in front of us, as I mentioned something that is balanced and clearly gives visibility on the sustainability of the Portuguese system and on the plateau of the tariff deficit. I think it's overall reassuring.



On what concerns the outlook, let's talk about 2014 and when we talk about '14 year end, as it was the case until now, it depends very much on Brazil. We have today the reservoirs level at almost the same level as in 2001. We have been following rain daily but it has been raining in... especially in Minas Gerais, where it is important, in the last days. That's good news.

But as we have seen this does imply that the October load factor was 91 percent. We expect to be on average 90 percent for the last quarter. We expect the PLD to be kept at the high level of BRL770/MWh. It's not Euros as it's mentioned here, if so we would have a problem.

And at the same time I would like to stress the positives that we have in front of us and we can have in front of us. First, the ANEEL proposal for the new spot price calculation the proposal is to lower the cap from BRL822/MWh to BRL388/MWh. It's important for any situation where you create tariff deviations and of course it's important for the long term contracted generators. And also a small change on the floor going from BRL15/MWh to BRL30/MWh. This would be a positive for this sector. Also, on the distribution as we have seen the system has been injecting, injecting money, to advance regulatory receivables and we have still BRL3 billion to cover needs, eventual needs until the end of the year.

And also we have been seeing tariff increases all over the place that are in line what they should be to absorb these deviations. And the first example is, of course, Escelsa, and then we have also a 22.3 percent increase in Bandeirante in October this year. We will also have the introduction of tariff flags starting January of next year so it's important because it gives immediate reaction with variable tariffs to our energy costs. This is very important instead of delaying these on an overall basis.

And last but not least we will now have a discussion, that is mainly in accounting but important discussion, to allow DisCos to register at the level of P&L and balance sheet as we do in Europe. These can have an impact of course on accounting, even if what we need is basically rain.

Overall for 2014 we feel comfortable with consensus. We see both in terms of EBITDA but also in net profit where we see now above EUR900 million for the year end. Once again I would like to stress the net debt we still see the end of the year figure at EUR17 billion and all of this guidance does not include any account change regarding tariff deviation in Brazil, that can have an impact and of course stable ForEx until the end of



the year. These guidance for the net profit above EUR900 million already includes restructuring costs that we have been flagging in the last months. So, what can I say?

Resilient business model in a challenging environment with sound performance, delivering on what should be delivering in terms of efficiency and energy management. We have been clearly being on time and on costs and even anticipating some of the relevant projects like the Jari in Brazil.

Keeping the low risk profile, keeping the asset rotation policy, the deals with CTG that were estimated in Brazil, lower regulatory receivables, keeping the strong financial liquidity. So, overall we see a slight improvement of net profit. We keep the guidance with this slight improvement for net profit.

For 2015 we maintain our vision of a year that is better than 2014 but a lot of it will depend of course in the next two months in Brazil because this can have a material impact with more or less rain in Brazil already have an impact in '15. But for now we don't have any reason to change our vision for 2015.

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

**Alberto Gandolfi, UBS**

Yes, good morning, it's Alberto Gandolfi from UBS thanks for taking my questions. The first one is a question on the outlook in Brazil, can you give us your expectations of what we might be expecting from the confirmation of Dilma Rousseff as President? My concern is that, you know, ahead of elections some governments may put off some harsh policies but perhaps now the elections are over what do you think is the probability of a rationing or anything related to force majeure?

And on Brazil not just to talk about the doom and gloom, could you confirm, let's say the FX stays where it is but we have an average hydro year next year would you expect EBITDA to exceed EUR550 million, right, I guess quite comfortably?

Second is, Antonio, you have been incredibly clear about your expectations for the full year but I was thinking isn't almost too comfortable to say with all due respect that more than EUR900 million net income. Shouldn't we be talking about how close will you be to EUR1 billion and can you please confirm that effectively you're going to be in the upper range of this range?

Thirdly, can you please comment, maybe I missed this, but I've not understood would you expect to do further securitization of the deficit before year end? And very, very, very last just to be clear on what's recurring, what's not, what I counted is EUR131 million capital gain on the hydro plants, EUR129 million on the CLA, EUR8 million in gas distribution and then you have negative deviations in Brazil in procurements like EUR169 negative, EUR57 million negative. Then you have impairments in D&A like EUR27 million and capital gains in financial expenses of about EUR67 million. So, all and all the only impact on EBITDA I see is like a positive EUR50 million. Have I forgotten anything to clean up the earnings from what's purely one-off? Thank you so much for the help.

### **António Mexia**

So Alberto, thank you. Let's start by the 2014, I think it was the second question closer or not to EUR1 billion. What I would like to say just at this stage is that we are more optimistic in getting higher than the EUR900 million than we were three months ago.

But it will of course depend very much still on the Brazil figures until the end of the year, on the GSF and also on the recovery of the tariff deviations on the DisCos companies. But that just to stress we feel today better in terms of that figure than three months ago.

Outlook in Brazil, rationing? I think rationing depends much more on the rain on the next two months than on politics. What we have seen is a will to keep the reservoir levels at those minimum of around 20 percent especially in the Southeast. I don't see any major reason to change this, the reason why we see GSF's being kept at around 90 percent for the next quarter. It's true that the probability of having a rationing and the theoretical idea of have rationing is today higher than it was three months ago, not because of politics, but because rain has not happened in the except for the last days.

In any case rationing, if you compare on the generation side, it could have even not be totally bad in the sense that you stop having the responsibility of the contract. So, you will not have the losses on the generation side, of course it will have an impact on the DisCos companies.

But talking about this I think we should be giving a clear answer probably more in one month to 1.5 months depending on the rain. Today the probability of having a rationing is still below - according to our model - below 20 percent or around 20 percent. So, I would prefer to keep talking about the 80 percent.

**Miguel Viana**

In what concerns the guidance for 2015 EBITDA in Brazil – our expectation is that it's going to be a little bit further than '14, obviously but I think it's too early to say what maybe Nuno would like to add something on that.

**Nuno Alves**

No, the only issue here is that the raining season supposedly starts in the beginning of November. So, as Antonio has mentioned we need a couple of months. So, if we have a normal year things will start improving. If we have a drought again then we have a major issue and the numbers are material one way or the other. So we would prefer to give you that guidance some time later this year, beginning of next year, when we will be more confident with the numbers. Do you want me to talk about securitization?

As far as the securitization before year end, two items here. One which is a little bit out of our control but we keep on being posted, has to do with the Spanish sale as of today the plan is still to have it done by year end. So the process is ongoing, there's a calendar which still points for a transaction prior to the end of 2014. That item for us is roughly EUR180 million.

In as far as the Portuguese deficit, probably we will still do one further transaction this year. We currently have a couple of proposals on the table. We will see if we do it or not, anyway it will be a bilateral transaction, it will not be a market transaction that will be left for 2015.

**António Mexia**

Now, Alberto, just for the GSF, so first quarter 2014, 90 percent that compares to 92 percent in the nine months of 2014 overall. So it means that even if it starts raining, it takes time to ramp up, so it means that the probability of having 100 percent for next year is small. We will not reach probably 100 percent. It's difficult to at this stage to estimate what will be, but probably not 100 percent.

The GSF in the first nine months had an impact that was reduced by a short-term hedge and the overall impact is around BRL200 million. So we are talking about EUR70 million. In the next quarter it could have an additional impact. So, overall it should go in the

direction of the BRL300 million, so EUR100 million so it means that it has a material impact. So, depending on a year we of course expect more than 90 percent for next year but at this stage we don't have visibility that will allow us to talk about 100 percent for next year.

**Stefano Bezzato, Credit Suisse**

Yes, hi, good morning. Three questions if I may. The first one on your leverage given that net debt/EBITDA, at least from your press release on page two I think, remains above four times. Would you consider any new disposal or would you consider accelerating the existing asset rotation program?

And the second question is partially related to the first one. Listening to EDPR's management on Wednesday they did not rule out a YieldCo to monetize some of the U.S. assets. What is EDP's parent view on this possibility?

And finally the last question on the energy tax, would -- can we now assume that it remains in 2015 the same as 2014 and what is your view for 2016? Thank you.

**António Mexia**

So, first question of net debt/EBITDA, of course the situation in Brazil implies that the figure will be slightly higher than we would like to see but in any case it's very important we don't have any reason because of the one-off nature to change our vision of reducing to the three times in 2017. We don't see any need to additional disposals.

We have a very clear program of deals with CTG. We have a very clear ambition on what concerns asset rotation. We have been very strict on the investment level as you can see also and confirm on the third quarter of 2014.

We see the investment level being kept at the figures that we have mentioned. We see in what concerns also the debt including regulatory receivables, the second end market let's say plus the cap make us very comfortable. So we don't see any reason to consider additional disposals. And if any it will be then because it makes sense but in any case never in the core of the business.

In what concerns the YieldCo. I would like to go for what was said by EDPR, as chairman of EDPR. But we don't consider a possibility of YieldCo's in U.S.



I think that we have been very clear also explaining why our policy of selling minorities in those markets where we have a liquid demand of financial investors makes more sense for us globally as a company. So we just say the same as it was said in that meeting.

And for -- relating to 2015 compared to '14, yes we see exactly -- we confirm what we have been saying and what you mentioned.

**Martin Young, RBC**

Good morning to, everybody, and I'll just ask two questions. The first is around the net income guidance for this year. Are there any specifics below the EBITDA line that have caused you to nudge this up or is this really just merely a case of movements around a approximately EUR3.5 billion at EBITDA actually having a quite a significant impact at the bottom line if the EBITDA figure is EUR30 million or EUR40 million higher than you previously had expected but still within the approximately EUR3.5 billion range?

And then secondly, I was reading the other day the OECD economic survey for Portugal that came out this month. And in there they were talking about this idea that there could be some further renegotiations/changes to the mechanisms for remunerating generation in Portugal. Obviously they're just throwing that out there as a suggestion but I just wondered if you had any thoughts/concerns on whether that could actually manifest as a possibility? Thank you.

**Nuno Alves**

The guidance that we are giving on net income of above EUR900 million for the year end so assumes a fourth quarter without extraordinaries. So if we have extraordinaries they'll go on top and the only thing it assumes is that we will have in the region of say EUR30 million, EUR40 million, EUR50 million of restructuring costs.

**Martin Young**

I'm sort of trying to compare it to, you know, where you were earlier in the year. Is the nudge up a function of things happening below such as maybe a low tax rate than you would have expected or is it the fact that you can have quite a sort of a magnified impact down the P&L from say approximately EUR3.5 billion.

You could say that that could be a EUR3.48 billion to a EUR3.52 billion EBITDA range and when you come down the P&L, you know, that could easily swing you from somewhere below EUR900 million to something easily above EUR900 million. Just wondered if there were specific changes from earlier in the year as to the guidance below the EBITDA line?

**Nuno Alves**

No, the reason is we are much more comfortable now with what the impact is going to be on Brazil as we were three months ago. It's not good but it could have been a lot worse.

**Antonio Mexia**

It's the only reason. In what concerns OECD it has been recurrent in any case they always say the same: good lowering taxes, good lowering policy... We know the recipe. And of course they repeat the same thing about the price of inputs. But let's be very clear, first there are always based in figures that take into account power purchase parity that doesn't make any sense. But depending on your opinion what is critical is the following. First, energy prices in Portugal for industrials are below the European average. They are in line for domestics. So there is no pressure -- there is no reason for any initial pressure.

The energy package has been, as you know, very stable. In what concerns regulation, that is independent from the government, we have seen, but of course could be curtailed by the government, you see the management of tariff increase that makes sense, of course including the social tariff. So, you see the increase of the tariff that is being in line with what was expected. So, controlled sustainability of that volume and that's the critical issue. As you know, Troika said always "I need that figure to be under control and then going down". So the system must be sustainable.

And what we have seen is with package of measures that have been taken and including the proposal of regulator now for prices and everything. You see that being verified. So, today the pressure for new measure is none existent.

**Miguel Viana**

We'll now answer some questions from the Internet.

**Nuno Alves**

There's a few so I'll just answer here a couple of questions regarding debt. So this one question has to do with the percentage of debt, fixed versus floating in the U.S. The percentage as of the end of the third quarter was 75 percent fixed, 25 percent floating. So clearly different from what we have in Euros.

In as far as the question on guidance on the cost of debt we maintain exactly what we've been saying, so clearly the expectation of 4.7 percent for this year seems to be what we're going to get and we would expect it to be stable in the first half of next year and then start decreasing.

Why is this the case? What has increased? And why will it not start decreasing until the end of the first half of next year? The reason is quite straightforward. Even though the marginal cost of the new debt is below the average cost, when you refinance if you're paying cheaper debt than what you can issue today you're cost goes up. That happened with a large loan we had in the U.S. which we paid back in June of this year. That loan was paying LIBOR plus roughly 25 basis points, unfortunately I cannot get that today. And we still have a very large bond which is due at the end of the first quarter of next year which pays -- well, it's fixed but we swapped into Euros and it pays a spread of 90 basis points. So that -- when I replace that the cost will slightly go up.

We've taken other measures which allow us to say that the cost will probably not go up even in the first half of next year but we would definitely expect the cost to start coming down in the second half of next year.

**Carolina Dores, Morgan Stanley**

Hello, good morning everyone, thanks for taking my questions. I have three, first one is related to the restructuring the first quarter, is this part of your OPEX III program or does it mean there's a new cost cutting program from 2015 onwards? And on that do you expect any provisions in for next year as well?

Second question is on Pecém, if you could give us a bit more information on how the maintenance works of the turbine one are going? If the maintenance is ahead of its own schedule?



And my third question it's how confident are you on the accounting changes in Brazil on the regulatory receivables? And on that, is the guidance is incorporating those changes for '14 and '15 or not? Thank you very much.

**Antonio Mexia**

It's not -- is already reduced in the short-term because the difference will be, we paid through tariffs after 2016. In what concerns the accounting changes our guidance for 2014 does not include that change potential and that change potential could be very material of around EUR150 million at EBITDA level and around EUR50 million at the net profit. So, the guidance today does not include the change.

**Bruno Silva, BPI**

Good morning, everyone, thank you for taking my questions. And the first one I didn't hear the answers to the previous questions. There was a problem in the line. But I wonder if you can give a little bit more color on the delivery on the efficiency program and namely if you can mention the impact of early retirements related costs in nine months accounts? And the guidance and those costs for the rest of the year and the next year?

And secondly what would you say is reflected in costs from both lower demand and increased liberalization of the Iberian business in the -- I mean in the OPEX reported for the Iberian business if you can quantify the influence of these two variables?

And finally, regarding your direct and indirect exposure to interest rates and inflation, the market is probably at or very close to a bottom in terms of cost of financing and in addition EDP has exposures through the rate of return on regulated activities that for a single regulatory period does not have a one to one relationship through the underlying sovereign yields as you actually have explained today.

So, I don't know if it is something that the strategies should accommodate or not but what actions are you taking or would consider to take to protect the value of the asset portfolio besides the cost of debt in this environment? Thank you very much.

**Nuno Alves**



I got two questions, I don't know if I missed any. Restructuring costs if we get EUR50 million this year that should result in roughly EUR10 million per year less in personnel costs going forward. That -- the expectation is that this will be finished by December so it will be in the full year accounts. As of today there's none in there so it will all be done in one go.

In as far as management of interest rates and vis a vis the assets base, clearly most of -- as you mentioned most of our assets are indexed to inflation so we tend to have a posture towards variable rate more favorable than in most areas. But as we have just mentioned before we've changed the policy in the U.S. so even though overall we still have more than 50 percent floating, in the U.S. because we see an upside risk in the rates we have moved to a 75 percent fixed rate in the U.S.

In as far as Europe is concerned, honestly we still don't see that risk. In fact we continue to see the possibility of rates falling further. So we will continue to maintain the variable rate exposure. We will never go to fully fixed as we have to maintain some hedge with inflation but as for the next couple of years I see no reason to move into fixed rate into Europe.

#### **Antonio Mexia**

In the commercial activity just to tell you. We have -- whenever you pass from the regulated into liberalized market and I think we have been successful with our, namely on the retail side, on the residential to have typically 85 percent of market share, I think it shows well our work.

What do you see is that you have additional margin with those clients, higher costs but additional margin. And clearly the impact on revenues is bigger than the impact on costs. So the margin overall whenever you have these transfer is positive for our P&L. Also, due to the fact that you create a critical mass on liberalized activities whenever you have more. So at the beginning the process is always more expensive because you have typically fixed costs for a small amount of clients. Now today you have more than 3 million overall in the liberalized market and ourselves we have 85 percent of that market share. It gives us economies of scale on that part of the business. That will imply that we -- whenever we move people from the regulated to liberalized markets I get into a better P&L situation. So, and overall in Iberia, the increase on cost, because of this was around EUR10 million and on the revenue side the increase were -- were much bigger than this.

**Javier Garrido, JP Morgan**

Yes, good morning, three quick questions. The first one is on the regulatory review on Portugal. I was wondering if you could let us know what is the driver for the increase in the regulated revenues in distribution that do not come from the return on RAB.

Because you're on the -- at least -- it is just a draft but the plan is to see a decrease here of EUR11 million in this distribution revenues. So is there any OPEX that has been assumed to increase in the period? And is that increase recovering or is there any one-off there?

The second question would be on the comment that Nuno made on potential bilateral securitization of Portuguese receivables. Have you seen any change in the appetite by the banks after the Asset Quality Review analysis by the European Central Bank or is it just still, let's say, a relatively open market?

And the final question is to be honest I haven't seen any news in the last few months about the issue of the extension of hydro concessions in Portugal. Has there been any updated any progress, any additional discussion with the European Union or domestically? Thank you.

**António Mexia**

Thank you, I will start with the regulatory question. Basically, you are right what we have is a cost gap that always exists in any negotiations, is now reduced. So that's the question in terms of why if you always see the, let's say the percentage and on the return on RAB you don't get those figures is because we have a lower cost gap due to our work in the additional efficiency, a lower cost gap in terms of operational assistance. OK?

Hydro domain. No, news and basically this issue has been out on the agenda but -- so the only thing that I will do is to repeat what I have been telling is the probability is small, if anything, we have to be repaid an amount that probably would not make sense to anybody at this stage such a huge investment concentrated in a single country. So, for us no news.

**Nuno Alves**

In far as the question on the securitization, clearly the issue there is a little bit squared by the ECB bureaucracy, what basically they did for that particular securitization was in the case of stress test the bank would have to put in 95 percent of the capital. So what the bank did it, it turned around and it sold it immediately. So in a couple of days it managed to find the buyers at three percent discount or four percent discount.

In fact we continue to see and what -- what is even more strange is that rule by the ECB does not impact the bilateral loans. So, we will continue to do bilateral loans with the financial institutions and in fact we currently have one or two proposals asking us to come up with other transactions for them. So, no we have not seen any impact of that measure.

### **Fernando Garcia, Mainfirst**

Hi, good morning from the Fernando here from Mainfirst. I have particular one question and then one clarification of what it was just asked before. The first question is: I estimate then new tariff deficits financed by EDPR to date is around EUR960 million. I seen if I am not wrong that the calculation of EUR500 million as sector deficit in 2014. In this calculation EDP sort of financed around EUR800 million new deficit which compares with the current trend that could lead to around, I think, EUR1.2 billion. So, I would like that you explain the functions in order to achieve EUR500 million increase and if you could explain this split of the amounts that you are financing on basically the securitizations? And if you could do the same for next year given the expectation of no deficit. Related to the question that was previously, regarding this stress test. Could you tell us if the banks are still cool to buy this tariff deficit securitization, or is just related to this BCP debt. Thank you.

### **Nuno Alves**

Well, let me start with -- I didn't quite understand everything so I'll talk a little bit about the deficit for a second. Essentially, the EUR500 million increase on the deficit of the system for this year is exactly what we have been saying since a couple of years ago.

So it just shows that the model and the tariff revisions that have been done and demand that it has happened as resulted in exactly the deficit by the year end reaching EUR5.3 bn, which is what we have been guiding.

The same way we guided for EUR5.3 bn for this year we have been guiding a stable deficit for next year, meaning that there will be no deficit creation next year and the new regulatory review confirms that so the regulator has the same view as EDP has.

Now, so the system as a whole will have EUR5.3 billion at the end of the year. The system is always financed by EDP so we -- any increase in the deficit we finance. Then the amount that ends up in my balance sheet is whatever I financed minus what I have been selling.

So depending if I do or not transaction until the end of the year, the amount of the deficit on the EDP balance sheet will vary accordingly. So, there basically has been no change in our view. We continue to monitor it quarterly. We continue to give it to analysts and investors the quarterly behavior of the deficit. And we're quite satisfied that that the numbers are coming right in line with that we've been saying.

So that's basically the... I think that if you need more detail then IR can give you all the numbers but the framework is this. What was the other question?

The question of the stress test has to do with the securitization of the 2009 deficit. There hasn't been anything like that since. Banks buy bilaterally today, investors buy it directly or through market transactions of other types of deficits, so the issue had to do with one transaction. I see no reason why it was done.

But I'm not going to discuss that with Brussels. I mean we saw it is non-recourse to us and obviously investors didn't feel that it was such a bad deal because they bought it from the bank.

### **António Mexia**

So we are done with the questions. Thank you once again. I would like to stress again, I think what were strong results. If you see when we compare 2014 with 2013, nine months, we have of course EBITDA going slightly down on long term contracted because we have hydro that went from the long term into the liberalized market.

But we see a huge increase on liberalized activities in Iberia, 40 percent up. We see also regulated networks increase by six percent. And then we have down basically wind because of the Spanish regulation and we have strong impact of Brazil with 29 percent part of it of course exchange rate.



If you take just the third quarter -- the third quarter excluding the drop in Brazil and capital gains on Jari, EBITDA would --rose by five percent year-on-year. If you take the full year clearly what you see is without those kinds of one offs in Brazil or one offs if you can consider also rain, selling assets -- or law rain as a one off, this second one hopefully, you see the the EBITDA would have been growing.

So, I think in a challenging environment I think these are strong results on the P&L. And I think that we have been very determined in what's concerned keeping the CapEx, the assets rotation, the regulated asset sales, everything that is needed to keep the deleveraging and the strong balance sheet. So, stronger results and strong -- a stronger balance sheet if you take out the exchange rate impact of the dollar.

So, thank you, once again. See you soon. Bye, bye.