Energias de Portugal
Fri, 30th July 2010
10:00 Hrs UK time
Chaired by António Mexia,

Company Participants

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

António Mexia

Thank you. Good morning everybody. I am here as usual for the quarter figures with Nuno Alves, and Miguel and his team and I'm going to talk about five minutes to characterise what we believe are excellent results on a challenging environment, and to share with you why what are the bases of this delivery and also then after our presentation as usual by Miguel we can go through a Q&A to know more of this in detail.

First thing, 14% increase in EBITDA, strong growth and I believe it is clear the result of a mix of three things. First, asset allocation, diversification of portfolio and energy risk management. What we see is that the main sources of growth were, of course, renewable, because what we have been growing in this sector in terms of install capacity, but also the fact that we are really the most exposed utility to the Brazilian market. That presented an impressive growth, 17% in local currency and 45% year-on-year, if you include the FX effect, so it is important to perceive that both renewables in Brazil have been supporting this growth, at the same time, as I have mentioned, energy risk management, I think, our innovative approach since two/three years ago about hedging helped a lot in our resilient performance of liberalised activities in Iberia. We have increased the volume sold directly to clients; it increased by 87% at volume. We have optimised our own productions versus pool purchase and I think that, once again, we have the performance that compares very well with our peers.

Install capacity has increased, as I have mentioned, and so asset allocation, diversification and risk management are key elements of this EBITDA increase. At the same time, I would also like to stress, once again, efficiency. We have the best ratio in terms of net Opex over gross margin of the sector in Iberia. We have been able to achieve €73 million cost saving in the first half. We are more than 60% already over the target for this year and if you see the target for 2012 we are clearly well above what is needed to reach our commitment towards 2012 saving, so adding this net Opex over gross margin on 27%, I would recall that this four years ago was about 38%, shows our focus on being very efficient here and being a flagship in this area. Diversification, risk management, profitable growth and higher efficiency together are responsible delivery of this EBITDA.

In terms of net profit, the increase is even higher, we increased by 18% up to €565 million and also here we have to talk about, I believe, the adequate interest rate policy followed and we see that the net interest costs were down 18% year-on-year. With the average cost of that down from 4.2% to 3.5%, so a clear decrease of the net interest cost for the period when it compared to last year. At the same time, as of course for this we pay the premium, a small premium but we like to be on this on the safe side; as you know, we have been following this especially since 2008 that we have the means of high-level financial liquidity. After a strong quarter in terms of paying dividends, taxes you have today a €4.2 billion liquidity position that is able to fund all our needs beyond 2011, so once again we prefer to be cashed in, and to be sure that we can deliver and support what is our investment programme for the next two years.

The Capex, as we have been mentioning, we are clearly off peak. We have invested 1.3 billion in the first half, 77% of it in extension; it means in new EBITDA expansion capacity and of course focus where and when in hydro, in Portugal in the development of the hydro plants until the two start delivering mainly in 2012, and also Brazil especially with the Pécem coal plant; that we will be ready by the end of next year, so we have currently 3.7GW under construction and this represents an accumulative Capex of 2.6 billion, so clearly we have in front of us something that we will deliver our future growth.

In terms of net debt we have reached 16 billion mainly due also to an FX effect of €700 million due to the US and Brazilian Real appreciation. The net debt of EBITDA is 4.2x, if you exclude the regulatory receivables and at the same time we see a clear improvement of FFO, so after seeing what we have seen in terms of the industrial part, on the second part what we see is an efficient capital management on cost, on time in terms of growth opportunities and clearly through this liquidity approach and all regulatory approach, asset allocation, as I have mentioned, keeping always what we believe is growing higher than the sector, at the same time maintaining a low risk profile – a risk profile well below the sector. Overall once again and we have been here for the last 18 quarters, once again I believe that we have delivered above our commitment and hopefully through the presentation, on the detailed presentation, you can learn more about how we did it again. Thank you very much. Miguel?

Miguel Viana

So going into more detail through the presentation, in page 3 we showed the detail of this main financial highlight, so EBITDA went up by 14%, net profit 18% and with a slight improvement in terms of the key credit ratios.

Moving to page four, installed capacity of EDP went up by 10% in the period, with highlights to the increase of 22% of installed capacity of Wind, and with Wind and Hydro representing already 60% of the installed capacity of the whole Group. In the period, namely in first half of 2010, Wind and Hydro represented 71% of electricity generated by EDP Group, showing a significant involvement of EDP in terms of green technologies.

Moving to page five, we can see that the 14% growth of EBITDA in the period is justified essentially by a strong growth in Brazil and also an important contribution at level of wind power. Liberalised activities with a slight decline versus a very strong first half 2009, regulated networks in Iberia with a positive contribution from efficiency improvements, but also the acquisition of assets in Spain from Gas Natural and a stable performance in terms of long-term contract generation in Iberia. 85% of the EBITDA from our operations came from all regulators, all long-term contractors' activities and excluding the positive impact from Forex in the period of €64 million from the appreciation of the Brazilian Real versus the Euro the EBITDA went up by 10%. One of the key contributors to the good performance in terms of EBITDA was the good performance in terms of operating costs. The ratio Opex per gross profit went down from 28 to 27% and our 2008/2012 efficiency programme continues on track to deliver a target of €160 million of annual cost savings by 2012, reaching a target of €73 million by the first half of 2010.

Moving to business areas and starting to show the dynamics in terms of electricity and gas demands in EDP's key markets, and our diversification in terms of presence in several markets provides us different market dynamics. In Brazil, the highlight goes to our very strong growth in terms of demands, 9.9% year-on-year, with the demand in Brazil being already 7.2% above first half 2008; in fact the sound growth of Brazilian economy and the low impact from international crisis justified this very strong performance.

In the Iberian Peninsula, Portugal showing a stronger performance in terms of electricity demands and gas demands than Spain. In terms of electricity this stronger performance is explained essentially by Portugal being less affected by lower demands from construction related activities. In terms of gas, the first half 2010 is penalised by higher hydro production and low CCGT utilisation in the first half 2010 and nevertheless this negative impact is much stronger in Spain than in Portugal; overall, Portugal electricity demands already above pre-crisis levels, gas demand is in line or slightly below but Spain still below pre-crisis levels namely in gas.

In terms of dynamics of the Iberian electricity market, first point I would like to highlight: the 34% decline in terms of thermal demand; this decline is explained by a significant increase in terms of hydro production and wind production, and also from nuclear and other special regimes, which was a stronger impact than the year-on-year increase in terms of electricity demand. In terms of other important dynamics that we would like to highlight, the development in terms of free market; we have more and more clients and being supplied in free markets both in Portugal and Spain. Nevertheless, Spain is in a much more advance stage of liberalisation; nevertheless, the Portuguese Government last month announced the full liberalisation and the end of tariff option in 2011 for all the electricity supply in Portugal, excluding low voltage which should be a very important step in terms of liberalisation in Portugal.

Looking to Forward Energy Markets for 2011, I would like to highlight the positive developments in the last couple of months, namely the positive impact from the improvement of the international gas prices, which improved the profits for 2011 both in terms of power prices and spark spreads in Iberia.

In terms of the performance of our operations, in terms of generation and starting for long-term contracted generation, our EBITDA in long term contract generation showed a stable performance given that the increase in terms of installed capacity of special regime, namely cogeneration and biomass, compensated the shut down and decommissioning of the Barreiro fuel oil plant.

In terms of liberalised energy activities, our EBITDA went down year-on-year by 5% versus a very strong first half 2009; nevertheless, showing a 30% growth versus first half

2008. We showed a very strong growth in terms of volumes sold to clients and, through the optimisation of our generation portfolio, we replaced some of our own generation by purchases in the pool at lower prices. As a result, sales to clients in the period represented more than – they were 90% above our generation in the period.

Moving to page 12, we can see this significant growth in terms of volumes was visible both in terms of electricity and gas; volumes sold to our clients in free markets went up by 87% in the period regarding electricity, prompted by liberalisation but also in Portugal the low pool prices which brings more competitiveness to the free market; the number of clients going up even higher than volumes, essentially through the focus of our on-client segments with higher margins and also the inclusion of last resource supply in Spain in our liberalised activities segment.

In terms of gas, also very significant growth in terms of volumes reflecting not only the recovery in initial demand but also the integration of clients acquired from Gas Natural in December 2009 and also the start up of operations in Portugal since April 2009 with EDP reaching 33% market share in the first half 2010 in terms of gas supply in Portugal.

Regarding profits for the liberalised operations of EDP in Iberia, for 2010 we have already sold more than 100% of our expected output; we have already sold, in terms of volumes, 27TWh to our clients at an average price of around €50 per megawatt hour and an average clean thermal spark spreads locked in also around €10 per megawatt hour. For 2011 we have already sold also essentially through clients 10TWh, which represents more than 50% of our expected output for next year at the prices and thermal spreads in line with the ones locked in for 2010.

In terms of our regulated energy networks in Iberia, EBITDA went up by 13% excluding the IFRIC 18 impact in terms of electricity in Spain and the acquisition of gas assets in Spain our EBITDA went up still by 6%, reflecting stable growth of regulated revenues and efficiency improvement.

As you can see on page 15, we saw volume growth in all our Iberian regulated networks both in electricity and gas in Portugal and Spain, and our efficiency ratios showed significant improvements both in terms of Opex per kilometres of networks and Opex per client connected.

Moving to EDP renewables, EBITDA went up by 27%, providing a significant contribution to the growth of EBITDA for the whole Group. In terms of installed capacity we have a 22% growth; in terms of production, 32% improvement; and in terms of selling prices, a mixed performance with 8% decline in Europe and a 3% increase in terms of US.

In terms of the key markets and price performance, you can see in page 17 that while in US we saw a significant improvement in terms of prices, namely in terms of merchant prices which showed a 24% improvement; nevertheless, merchant prices continued significantly below the average PPA price, which also showed a 7% growth. In Spain the average selling price went down by 30% even considering the positive impact from hedging.

Moving to Brazil, which was the major contributor to our growth of EBITDA in this period, the electricity distributed by our distribution companies (Bandeirante and Escelsa), showed 18% growth, significantly above the Brazilian market average of 9.9%. The key contributors were the industrial segment growing by 15% and while in residential and commercial segments, which showed a 7% improvement, the key driver was higher consumption per capita in our concession areas. Often Brazil we benefited from the appreciation of Brazilian Real versus Euro by 23% in the period; as a result, as you can see on page 19, EBITDA in Reals went up by 17% with a very strong contribution from distribution; even excluding tariff deviations, distribution shows a significant growth based on strong volume growth. In terms of generation, EBITDA was flat; nevertheless, we expect a recovery in the second half of 2010, given the expected higher proportion of generation sales in this period. Overall in terms of EBITDA from EDP Brazil in Euros went up by 45% in the period.

Moving to consolidated financials, EDP announced two days ago the reinforcement of the control over Naturgas; we signed an agreement with Ente Vasco to the acquisition of 29.43% of Naturgas for €617 million equity value. These amounts will be paid in three similar tranches to be paid until the first half 2013, allowing EDP to reinforce its stake in that Naturgas to 95%. Moreover, the EDP will also retain the option to buy the remaining 5% between 2016 and 2018. Note that this acquisition was already reflected in the consolidated figures that were provided by EDP in May 2010 Investor Day; meaning that this acquisition has no impact in terms of any change on our guidance for the period 2010/2012.

Naturgas evolution since the privatisation in 2003 has been very strong, definitely a successful story in terms of a low risk corporation with a very high gross story and with EBITDA going up from 49 million in 2003 to more than 200 million in a pro forma basis by 2009, and net profit also reaching levels clearly above our expectations by the time of the acquisition in 2003. The equity book value went up by around 50% in the period, so in fact the company generated an accumulative level of EBITDA of 900 million, which was essentially reinvested in Capex and financial investments with a very low level of dividends paid, given that the focus of the company was the investment in profitable growth.

In terms of multiples, 9.4x of EV/EBITDA, which is in fully in line with the multiple that we paid for the assets in Cantabria and Murcia, which were currently in place which we bought in late 2009 and below some other recent acquisitions in this sector.

Moving to consolidated Capex in the period, we achieved the figure of €1.3 billion, which is below 2009; as the CEO said, we are now off peak of Capex. The focus continues to be expansion, so 77% of Capex is expansion, 91% of expansion Capex in wind and hydropower.

Regarding net regulatory receivables, as you can see on page 25 we had €859 million of regulatory receivables by June. Regarding the key moves, we saw a decline in the first half of regulatory receivables from CMECs, a 90% decline as we are recovering these receivables through tariffs paid by all Portuguese consumers. In Spanish tariffs there was an increase in terms of the amount that the system owed by €123 million and in Portugal last resource supply, we have been paying back tariff surplus that we accumulated during 2009. So let's say that the tariff surplus in Spain is the largest component in terms of our regulatory receivables, but represents just 4% of EDP's net debt.

In slide 26 we can see the evolution of net debt in the first half of 2010, which will be the contributor to the increase observed coming from Forex in the period, so more than 700 million is coming from the Brazilian Real and the US Dollar appreciation versus the Euro, which had a 5% impact on net debt versus a 4% impact at level of EBITDA. As you know, at the net debt Forex rate is set at end of period rate, while the P&L is at the average of the period, so the volatility and the strong appreciation of Brazilian Real and US Dollar in June in the first moment makes a bigger impact at level of net debt than at level of P&L.

Other contributors to the increase were the payment of annual dividends in May by €562 million, also the increase of tariff deficits in Spain and the payment of excess tax over the securitisation of tariff deficits in Portugal in 2009, which is some €709 million. So, note that in terms of business and other we had €47 million including net debt; nevertheless, this includes €1,008 million of expansion Capex in the period.

Regarding net debt breakdown, we continued to have more than 50% of floating rates. In terms of currencies, US and Real represented 29% of our net debt reflecting our hedging strategy of funding in local currencies our operations. As a result, in terms of net debt to EBITDA we showed net debt to EBITDA of 4.4x adjusted for a regulatory receivable of 4.2x and in terms of rating, we have in June 2010 and July 2010 the reaffirmation by Fitch of “A-“ rating and by Moody’s of “A3” rating on EDP.

In terms of debt maturity, EDP shows now by June an average of maturity of 5.2 years and we have a comfortable financial liquidity position by July of €4.2 billion, which is enough to cover funding needs beyond 2011.

In terms of page 29, we can see the level of cash and equivalent available credit line, so the total €4.2 billion of financial liquidity is more than enough to finance the refinancing needs of the company during 2011, so we are now in a comfortable liquidity position.

Overall in terms of net profit, 18% is a result of the referred 14% growth of EBITDA; net depreciations went up by 18%, reflecting the 10% increase of installed capacity in the period after the acquisition of the gas networks in Spain and the impact from IFRIC 18 in Spain in terms of electricity distribution. Net interest costs went down by 18% in the period, reflecting the lower cost of debt 3.5% in the first half of 2010, fully in line with the first quarter 2010 and significantly below the 4.2% in the first half of 2009. We don’t have any material capital gain in the first half of 2010 versus 28-million capital gain in the first half of 2009; effective tax rate flat year-on-year and a slight increase in terms of minority interest, which is related with the strong performance in Brazil and the reduction in our economic interest in Brazil from 72% to 65% following the sale of treasury stocks in the fourth quarter 2009.

I will now pass it to Mr. António Mexia for prospects for 2010 and the conclusion of this presentation.

António Mexia

Thank you, Miguel. In 2010, I think that the key word is visibility; we have visibility in what concerns both EBITDA and net profit and I think that this visibility is unique in this sector due to our growth and strategies, but also all the resilience that comes from our energy management policy, our portfolio mainly in Portugal, but also in what concerns all the decisions that we take along in other sectors of the company, in terms of this low risk approach.

In terms of EBITDA we expect to deliver the current consensus north of €3.5 billion; net debt, of course, we have still, as usual as has been the case in the recent past and certainly considering the time of securitisation of Spanish tariff we believe that of course it will be done before year-end. We also have an unstable Forex market that can have an accounting, not the real but an accounting impact on those figures that are any way quicker in debt than in EBITDA, but we believe that by year-end we will be below the first half figure in terms of debt; of course expecting the securitisation of the tariff deficit in Spain.

In terms of net profits we expect the average cost of debt to be below 4% for the year. We don't expect, as I have mentioned, material impact in terms of Forex on the net profit, so here again we expect to deliver current consensus that, as you know, is €1.036 billion, so as we have stated at the end of last year when we were talking about 2010, we believe that we are fully confident that the year 2010 will be better than the record year of 2009. So, of course, because of the regulated long-term contract part is always stressed by us, of our EBITDA plus the hedging policy plus all the financial policies here that we have been following; we have good visibility and we feel very comfortable with the current consensus.

To wrap up what I would like to say is the following. Sometimes in the last, especially when Nuno and Miguel and myself with the rest of the team we go on roadshows, talking to investors, sometimes neither the first, neither second questions are about business; it is about macroeconomics, about countries, about governments, about regulation and what I feel today clearly, as I felt three months ago, six months ago, nine months ago is that we feel comfortable with those fronts.

We don't expect any…and by the way the results prove it, we don't expect any major change in what concerns energy policies. In the event in cases like it was renewables in Spain when for a moment everybody was expecting a nightmare, finally we have a solution with a very minor impact on our figures that supports, I believe, the visibility that is important for this sector and probably it was the strongest case in the last six months that created problems in people's mind. Also the question that governments will intervene to change anything that will make our lives more difficult, it's not the case.

The opposite I think that structurally and the best example is the fact that industrial tariffs will disappear in Portugal beginning of next year and this decision was taken now, and Portugal presently it's approved that government wants to give long-term structural visibility and also stability in terms of development of these sectors. Neither at the government, neither at the regulation we see any change, so we can I believe we should focus on business. And on business what we see today is that on generation and supply our hedging policy. Also I believe a quite unique adequate gas strategy shows why we have been delivering differently and we will do it for the rest of the year. Even when we see today the figures of Naturgas and we have been explaining why we have done it and by the way it was the timing of a put, so you need to do it. It shows that since we have entered Naturgas they have doubled the figures, because we have injected a very…in terms of efficiency, in terms of market and in terms of supply strategy what the company needed, so we have been performing very well on the gas sector; also for generation supply in gas I think that we have been distinctive.

On distribution you see basically the key element is the demand recovery, you see all of these in the key markets. In Brazil you are even above already 2008 figures, in Portugal it is also the case, in Spain even if it is not the case in electricity, but you see also especially in gas a huge demand recovery, so an important demand recovery, especially compared to 2009. Okay, the best year ever, but I think it's important demand recovery for distribution.

In terms of renewables, new visibility in Spain, the fact that we are exposed to growing markets with good energy prices like Poland is important. Stability in being in Portugal as stable as one of the most stable markets I think it's important. Of course the US market there you have mixed signs with reinforcement of stability, it is strong at State level. Of course, the problem is at demand, and the prices are still low and the boost that could come from Federal is not there, the Federal measures, so we expect this only by 2011.

In Brazil we are reaping the benefits, of course, of having adequate regulation, but also the fact that the market is growing very fast, so overall I think that the improvement of returns, the continued profitable growth, always having in mind the controlled risks with more than 80% of EBITDA coming from regulatory or long-term contracted activities; the market diversification with natural Forex hedging, because we fund in local currency; the liquidity above €4 billion; the Fitch and Moody's statements about our recent statements, I think that all of this makes it compulsory, it makes it obvious that we need to look into business of a company that is already 55% of its business is coming from outside its own market – 55%. Last year the same period it was around 50%, so we are now increasingly more outside Portugal in very exposed, the most exposed to Brazil, very diversified in Wind, and very hedged in the toughest part of the business.

I clearly would like to give the message that we are a different case, we have a very resilient business model, a quite unique business model, very important on a challenging environment for the sector, and hopefully, once again, the first half figures prove what we have been saying, prove that we have been doing right in terms of asset allocation, we have been doing right in terms of energy management, we have been doing right in terms of regulatory and all the legal framework management. We have been doing well in terms funding policy, in terms of exchange rate policy, in terms interest rate policy, it is the reason why we have been above expectations, so thank you and lets go for the Q&A.

Questions and Answers

Bruno Silva – BPI, Porto

I have two or three questions if I may, the first one just to make sure on expectations of net debt for year-end. I think you have mentioned over €16.4 billion as if there is no securitisation in Spain, Is there any other cash movement similar to that one on the tax on securitization from last year that we should take into account for the next 12 months or so?, that will be the first one.

The second one on liberalised activities that has been surprising quite positively, but you are still keeping your target of a reduction in EBITDA for the full year of over €100 million, should we assume that the trading opportunities won't be there in the second half, *and if that is so, should we also expect a similar EBITDA downgrade for 2011, given in 2011 you have only covered 50% of the output, when in this first half you are selling a lot more and you have contracted a lot more than your output, that would be the second question.*

The third question, I don't know if you have any idea, you mentioned the liberalisation of the Portuguese market from 2011, do you know what could be the impact in your liberalised EBITDA on a comparable basis if that liberalisation were already applicable from 2010, and I have a fourth question if I may, sorry for taking so long.

Do you benefit in any instance from the long-term contracted generation you have in Portugal in terms of impacting your supply business. Does this represent any sort of benefit or not? Thank you very much

Our expectation, as we see it today, is that we would be below €16 billion with the effects identical to what it was on June 30, 2010. Accounting for the €400 million of tariff deficit securitisation, our expectation is that and accounting also for the payment of the put of the Naturgas, so all in all our expectation is that in terms of cash flow we will be neutral until the end of the year. If anything, we might be slightly positive going forward, so our view is ex-extraordinary; we would be cash flow positive from now onwards and that should start now.

Okay, liberalised activity, we kept the same guidance from the year-end. We have been consistent in this policy. I think that we face to treat client bases well and build it on time, but of course the opportunity that exists in the second half probably will not be the same as they were one year ago, so it is a reason why we keep the same guidance in terms of lowering between €100 and €150 million, so it was stated already at the end of last year so we don't change this.

In what concerns 2011, we are cautious; I think that in the last quarter we explained why we were hedging less at that moment and exactly the same period in 2009 and I think that we were right. The market has proven that we were right. The fact that we have now, as an example, a market share in Spain that is the double north of 12% in supply compared to our generation market shares shows that we have been doing what we need to do. We feel confident that this policy will follow; of course, as we have already mentioned, 2009 was probably the best year ever, very difficult to replicate.

In what concerns your third question, liberalization of Portuguese markets, for EBITDA in the future. As you know, this basically has given us stability and gives us a quite unique visibility in terms of returns; two years ago or three years ago it was considered bad because we were not benefiting from the windfall profits. Now it gives us, of course, stable remuneration and of course in what concerns freeing the markets for next year, it's not only because you introduced the possibility of creating any tariff deficits, new tariff deficits in Portugal, but also gives us more possibility of hedging our generation in the Portuguese market, so being the key player in the Portuguese market, being of course the company has longer relation with the client - it gives us this liberalisation of the Portuguese market; it is also good in terms of giving more room for hedging. In terms of long-term contract generation, Portugal has had this impact or not. No, basically it has only in terms of cash because of the time lag or time of recovering from the market, but in terms of impact on the accounts it gives no impact. So as you know when we will start freeing some of the CMECs plants, and some of the first hydro as we have been already presenting, we have already shown these on the Investors Day when we presented the 2012 plan; some of those power plants have very low in-place price, so as soon as they will get out, the first hydro, it will present an additional revenue for us, but in the short-term basically it gives us visibility and no impact.

Raimundo Hernandez – Nomura, Madrid

Just a question on the shareholding structure, I was wondering whether the CEO could clarify a little bit what is happening with the Portuguese state and their stake. I think that there has been talk about some potential exchangeable by the year-end and I think the latest we heard from the company recently was that it would probably just mean a rollover of the stake that was underlying that exchangeable and therefore there would not be, in principle, any further shares of EDP being placed on the market and therefore the overhang is not a big issue, but just wanted to hear if you could give us an update on that? Thank you

Thank you Raimundo; that is true, we still are expecting a rollover of the exchangeable. There is an exchangeable due in December and the idea is to have a new one to replace the old one, so no change, no overhang risk in what concerns the Government's stake in EDP, so that is clear.

Javier Suarez – Unicredit, Milan

Three questions if I may, the first one is on the update of the target that you showed to the market at your Investor Day presentation in May this year. Can you reconfirm that the dividend policy that the company presented is still in place, and if it still is, that the target for a net debt to EBITDA ratio of around 3.5 times by 2012 is still a valid guidance, that is the first question.

The second question is on regulation, the interest is on the comment that the management made that they are not expecting major changes on regulation. Can you update us on the reason why you think so, why are you so sure that, for example, the Spanish Government could not implement significant changes on that regulation and are basically that I am asking if you can give us an update on this Government regulatory view, what you are proposing the government to do? And then on Brazil we have seen an outstanding performance of electricity distribution by 18%; that is compared with an average on the Brazilian market of plus 9%, can you give a reason why that there is a massive difference between the average performance in Brazil of other distributors and your performance, and if this is sustainable by the year-end and the reason why you are expecting an expansion in the activity of generation during the second half of the year in Brazil?

Let's be very clear in what concerns the dividend policy. Yes, we are fully committed; of course, the decision will belong to the shareholders on the annual meeting, but we are committed to go up to 20 cents of euro on the back of 2012 figures. We have stated this even in November 2008 when everybody was afraid that the world was ending. We have stated again in 2010 on our Investor Day, so we intend to keep this policy increasing 1.5 cents of euro a year; it makes sense. We have been presenting a strong growth on EBITDA. It makes sense to have this dividend policy followed if the shareholders want it, so in terms of management, we will propose this increase as stated and as committed.

What concerns the EBITDA, first, we have an accounting impact because of our natural hedging policy, because of the increase especially of the Dollar, because if not, the figures will be…if you don't consider this, the figures are totally in line with what we expected and to be very clear, the 3.5x guidance that we have given for 2012 is our commitment for that year.

In what concerns Brazil; the biggest impact was in Escelsa. On the distribution company, if you pick the 30%, if you have more or less 10 in Bandeirante and 30% in Escelsa, the biggest reason was a major change, a major increase of the industrial sector in Brazil that suffered especially in the first quarter of 2009 and represented an enormous recovery in 2010 and from what we have seen in the last month we believe that it is consistent and supporting also our vision in terms of EBITDA for year-end, so we feel very comfortable that structurally the industry is recovering in Espirito Santo, where Escelsa is, is confirmed until the end of the year.

In terms of regulation in Spain, Nuno.

In terms of the regulation in Spain, even though not much is known of what the Government intends to do, the situation can't get much worse, so our view is positive. In the sense that if any extraction of money has to be done to lower that deficit, it doesn't seem to us that the attack can be under thermal generation, which already is negative, so if anything else, it'll have to come from the other generators that exist. As you know, our fleet of assets in Spain is mostly CCGTs and coal.

Just to highlight, on generation in Brazil in the second half, the recovery, it's normal because the annual volumes that we have contracted for our PPA hydro plants, so in the first half we sold less than 50% of the hydro power for the end volume. Of course these volume impacts should imply a recovery in terms of the EBITDA of generation in the second half. We have sold less than half because we expect the second half price to be higher than the first half, so we waited to sell more than half in the second half.

Antonella Bianchessi – Morgan Stanley

Just a few quick questions. First of all, on your capex for 2010, can you repeat your target and eventually tell if there is any flexibility already in 2010?

The second question is on the supply business in Iberia; are you already selling something for 2012; are you seeing any pricing in the market, any idea how things are going there?

Last question is again on the debt; a large portion of your debt is still variable, you were planning to increase it to the portion of fixed, when is this happening, when do you expect this ratio to change?

As far as the capex, our budget is €3 billion for the year. Our expectation for today is that it might be just underneath it, but everything is moving along, so if it's not 3 billion it's going to be very close to it. Your question regarding delaying, that's not a question right now. Most of it is wind and hydro and those we are tagging along as fast as we can on those.

As far as debt and the ratio between variable and fixed, we continue to monitor it. Our expectation continues to be that for the time being we see no reason why rates should go up, but we'll just keep on monitoring it. As soon as we see any change, we will do a little bit more fixed than variable, but as of now we still don't think it's the right time.

As far as supply for 2012 sales forward for that year. Right now it's immaterial, it's minimal.

Anna Maria Scaglia – Credit Suisse

Just one question, if I may. Can you please give us the visibility in terms of the cash outflow for the payment of the Naturgas? You talk about two similar tranches, so can you just give us more colour, if you can, when those tranches will be paid?

It's three tranches. The first one is 9.43%; it's around 200 million each. The first one is expected to be paid before the end of 2010. The other two, let's say the maximum period of time that the payment is, first half of 2012 and first half 2013. Nevertheless, it can happen, particularly in the second half of 2011 or second half 2012, so it will depend on Ente Vasco.

Chris Rogers – Royal Bank of Scotland

I have two questions. Firstly, you've outlined how much incremental capex you have invested that is not yet working; could you indicate how much EBTIDA that would generate or alternatively what your net debt to EBITDA is excluding those figures or rather including them being completed? Secondly, I think you've made very clear that you feel the market is not correctly valuing your stock, and secondly I guess EDP Renovaveis said yesterday they were in a similar position perhaps with a 15% free cash flow yield excluding the assets not yet switched on; do you feel then perhaps it's the right time to be considering either buying back your own stock or buying back the stock of EDP Renovaveis?

Chris, I will start by EDPR. I think that probably a lot of CEOs are saying this, their companies are undervalued, but I believe that it's really the case on EDP Group, because of the consistent resilience and the consistence of the results.

About EDPR, even if business-wise sometimes we can have for a second the temptation to buy back the market, it doesn't make sense. We have a strong commitment with our financial stability, with our ratios at the mother company. We did the IPO and we have attracted new investors, because we believe that it was the best way, it was the best way to fund that growth. even if we have adjusted the pace of growth of renewable, even if it was last year the fastest-growing company, we have adjusted downwards. Because of the context and the demand context, we believe that we should pursue with that company listed and be consistent. We should not change because of short-term perspectives, and of course, I repeat, we have overall a very strong commitment with the financial consolidation of EDP that we have been doing since 2006.

The ratios have been improving and we want really to reap the benefits, especially after 2012 of a very strong free cash flow company, because we have invested on the right assets, in wind, but also in water, in the right markets like the expansion in Brazil and of course at that moment you'll have an enormous difference between your EBITDA and the capex programme and at that moment you can think about different options and we will have nice problems to solve about what you do with your pile of cash. Clearly, we want to be consistent with our financial improvement.

What we can talk about the work in progress is for the assets that are coming on stream and what we do have of long-term assets obviously we always have a billion or so in renewables, that usually rolls over every year, so the cash will come in next year, but the main work in progress today, apart from renewables is the hydro; the first hydro will come in play in 2012 and we've announced that we will have about €40 million more of EBITDA due to the higher growth in 2012. We have the coal plant in Pécem in Brazil, which will come in play also on 1st January 2012 and that will generate 90 million EBITDA going forward.

If you want to do a very simple back of the envelope calculation. If you pick the net debt over EBITDA and you take out the work in progress, not considering the future EBITDA, but taking out the work in progress you'll be between 3.6x and 3.7x, so it's a huge impact on the net debt over EBITDA and it's consistent if you take the future markets, it is consistent with the target of 3.5x in 2012 when this will be working and delivering EBITDA.

Adrien Fourcade – Deutsche Bank

Basically I have two questions. The first is my impression is that here is a big difference between the amount you had provisioned in your balance sheet for the exercise of the Naturgas put and the amount you're paying, I have roughly 200 million, so I was wondering why there was such as big difference.

The second question is on Genesa. I was wondering whether we should expect as well an exercise of the put on 20% stake in Genesa in 2010.

First, the Naturgas put, basically the put has been accounted through the use of the price plus carried interest and we the auditor saw no reason to change that value. The valuations of these companies have been highly volatile and we proposed to have it at the same level. The value that we ended up paying is today's market price or at least the best market price we could get.

In terms of Genesa, yes, Cantabria has a put towards this. We have to wait and see if this put will be exercised. The year is this one. The put is in different conditions from what the Naturgas put was. In this case, it is at the 20% discount to market value. Market value of the wind business has been suffering a little bit, so it's up to the shareholder, if he thinks it's worthwhile to exercise their put or not. But in terms of us buying those shares, 20% at the day-to-day market value, we will be fairly happy to do so.

Jose Lopez – HSBC

Hello good morning it is Jose Lopez from HSBC. I have a question, given the good performance of the Brazilian operations and given the good future outlook for Brazil in general in terms of energy consumptions due to demographics economic growth etc. Have *you not thought about rethinking your Capex plan? I see here on slide 24 H1 5% of Capex into Brazil. Do you think that is a little bit too conservative? Don't you feel like you might need to be a little more aggressive on Capex in Brazil? Also a follow up on that; do you potentially see Brazil as a platform to go into other markets in South America?*

Then the other question I had is related to Iberia, coming back to Europe. If you see some of the statements that have come out, Industry Ministry in Spain; it seems to be there are some concerns and you said energy prices for industrials are way too high in Spain. Basically that is not driven by the pool price or by the energy component, but it is basically driven by the high cost of the regulated element. Do you think it is a little bit optimistic to not foresee that there is going to be a cut to the remuneration of grids in Spain, and that you will be benchmarked a, say UK grid or other markets where the return to grid operators are low.

Brazil and then Spain. Regarding Brazil, the question is the time to market of the projects that we prefer. As you know our intention in Brazil is not to grow in distribution but to grow in generation. Remember four years ago the EBITDA was 16% only from generation and 84% from distribution. Today we are more or less on a half-half. Our intention is to grow on generation. By the way, it is the reason why we have the same project that we want to start in December neat year, producing/generating at the end of December next year. We have also invested, together with Renewables; EDP Brazil has invested in a wind farm of 70MW, the second largest in the country, but the issue is hydro, we don't want to be involved in the large hydro projects, because a lot of things can go wrong; Capex-wise, timing-wise, so we are very focused on either the PCH adds to 30 megawatts, but mainly on average hydros. As you know average hydros in Brazil, in the last two years were more or less out of the market mainly for environment reasons, and everybody was focusing on solving the issues of the large big projects. Once these projects are launched, we believe that we will have again visibility about those projects, between 150, 200 megawatts and 400 megawatts, but the time to market in any case is long, and will not have an impact on our Capex for 2011 and even 2012. if there is opportunity in any case, our commitment at EDP level is we will tackle them, but overall we are strongly committed with the Capex plan program of overall EDP, so if we will spend there, we need to adjust somewhere else. We don't have the intention to do higher Capex than we have today shown to the market. Time to market is long, so probably the impact will be probably end of 2012 or 2013. We don't see any major change in the near future. We don't intend for the moment to participate in any consideration in any asset procurement, because assets are much more expensive than you can get through your stock in the stock market, so it doesn't make sense.

Spain, what we have seen is the regulation in Spain was for a long time quite tough on distribution. We don't have the high voltage, by the way we have sold yesterday the assets to Red Electrica for €58 million, with a capital gain of €28 million, these high voltage assets. We don't anticipate any major change. Why? They have revised upwards the distribution in Spain two years ago, because everybody was stopping investing and you needed investment to keep quality of services and to cope with all the invest in generation that was made. We don't anticipate any major change; at least at the voltage agree that we have in Spain.

Virginia Sanz – Deutsche Bank

This is Virginia Sanz from Deutsche Bank. I had some questions on slide 11 in the liberalised market that you had presented. The 72% volume growth we have seen in this first half of the year, are you now at levels of sales to clients that you think is the ones you would like to be? Or do you see any option for that volume to continue growing into 2011? Then I am also interested to know in your mix you have right now between pool purchases and own generation. given that pool prices have been going up; do you think that those percentages of pool purchases will now be getting lower and you will be using more your own generation.

Then on the spark spreads for 2011, you have mentioned that you have already locked in for part of your production spark spread of €10/MWh. You have also hinted that spark spreads are starting to go up. Do you think that for the new production on which you will be selling forward; that there is a chance that those spark spreads will be higher than the €10 per megawatt hour you have locked in?

Last on your guidance for year-end that you said that you will be able to deliver it, are you being conservative? Don't you think that chances are quiet high that you are going to be able to beat the consensus? Thank you.

You are referring to the consensus of what?

Of both EBITDA and net income for 2010.

Of course that in the second quarter and right now in power execution in the second half of the year, we expect to work more with own generation, given that let's say the first quarter was quite normal with very, very low pool prices. In terms of 2011, in terms of hedging, so note that in terms of hedging we are only showing the volumes that we have already closed. The selling price and the generation cost. So we are not adding here, let's say, the electric for supplier activity or, let's say, the residential segment in which we have annual contracts, which only are renewed by the end of the year. So we think that even for 2011 we have still room, let's say, we have – assuming that there is a veil of churn rate in terms of the residential segment and even though West-resourced supply, we have a significant volume of electricity too that we expect to be sold by us, nonetheless, the margins are not locked in, so they are not included in these figures. In terms of 2011, in term of debt, so the part that is closed is around €10/MWh. Nevertheless, there is an improvement in terms of the current market, but it's an improvement from a very, very bad situation in terms of the spark spread. It's improving, but I think it's too aggressive to say that we will do better than any that is sold. The current spot market or forward market indicating less than the 10 years, that is the current market situation.

As you know, the contracting season, the most important contracting season, it will be between October, November 2009, and at that moment will be crucial for the closing of the remaining spot 2011, but I think it's optimistic for now with the information that we have to assume an improvement in terms of term of prices in 2011.

Closing Comments

Thank you very much, especially because the questions were about business. Hopefully we have been able to deliver once again first half 2010, to prove that our strategy and the execution of that strategy is being very consistent and that we have quite a unique resilient investment case. We are very comfortable, as you have seen with the 2010 figures. We are comfortable with the consensus, and I believe that this strategy will also keep delivering appreciating results in 2011. So clearly hopefully people talk more about business, more about why we have delivered, why we are different and less about just about country risk or about south of Europe or just because our people will try to make our lives difficult. We have been just facing very well and anticipating these difficult moments and we will keep doing this. Thank you very much for your presence and see you soon. Bye-bye.