EDP
Fri, 4th March 2011
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Chaired by António Mexia

Company Participants

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

António Mexia

Hello everybody. Thank you for being present for the 2010 results presentation. As usual I will start with the key remarks concerning 2010, then I will pass to Miguel Viana. He will have a detailed presentation and then I will come back to wrap up and talking a little bit about 2011 and then as usual we will go to Q&A.

So 2010 the first thing I would like to stress is the increased 7% to €3.6 billion of EBITDA. This increase is basically due to a mix of two things. A balanced portfolio, because as you will see the evolution of the business is quite different; also of the fact that we have been growing in areas that are let's say returns are more protected than in other technologies. And third because of efficiency and I will talk a moment about efficiency later because I think it is very important in moments like this.

So balanced portfolio: as you see the fact that we have, as everybody knows a lot of regulated assets and long term contracted assets, it is very important for the stability of our cash flows. You see regulated network and long term contracted in Iberia. The EBITDA is growing 10% year on year. The stable returns, the efficiency improvements and of course the new assets, so we are capturing already the value of the new assets in Murcia and also Spain the gas assets that have performed better than we expected when we bought those assets. This shows the importance of these regulated and long term contracted parts of the business.

This is very important because the liberalised electricity market in Iberia was very challenging. As you know we already expected a very tough market. The market if anything, it was slightly tougher than we expected and we have—as we have already foreseen—a contraction of hedged thermal spreads and lower arbitrage gain; so the fact of this tough Iberian market as we are less exposed, even if it is of course an issue, is less an issue for us because of all the regulated and long term contracted assets that we have in Iberia.

The second is of course Brazil. Brazil has been the most exposed, relative wise for the moment, utility in Europe. Brazil represents now 18% of our EBITDA and also because of increase of electricity demand, the very positive evolution of exchange rates. We have an increase of 22% year on year, so Brazil is delivering what we wanted it to represent in our portfolio. The second part in terms of growth, besides Brazil, of course is EDP Renováveis. The EBITDA increased by 31%, of course due to the increase of the installed capacity. EDP Renováveis represents now 20% of the EBITDA of the company for the first time. Here what I would like to stress is the reinforcement of the regulatory stability in the Spanish market. It was for a long moment an issue during 2010. Now it is settled, it is important for us and for all the players. And the second is the fact that we have signed by far the number one in new PPAs in US markets, 841MW in US. And 555 just in the last quarter, so we have made a huge effort, competitive effort in terms of reducing our merchant percentage and I think that it is a very good sign for our portfolio.

At the same time a word for gas; gas in Iberia increased and gave us a push on the Iberian market, also because we have now additional assets. So basically portfolio impact. The second is efficiency. As you will see we have kept the net OPEX over gross profit ratio at 28% is the best in the industry in Iberia and I would like to stress the fact that we had—when we presented almost three years ago the targets in terms of cost reduction for 2012, we had a target until that year of 160 million and we have already reached in 2010, so we are two years in advance of that target. So once again we have very well performed on the cost reduction front. So efficiency, portfolio of low risk, portfolio is of course the fact that we have been growing on areas that have delivered better results relative to other technologies. So after 7% year on year increase on EBITDA we go down to a 5% increase year on year to a net profit of €1,079 billion.

Let's see how we reach that. First also the net interest cost increased 3% year on year, but the average cost of that reduced from 4.0 to 3.5 when we compare 2010 with 2009. We have kept the average debt maturity stable at five years, it is important for obvious reasons and after ending the year with 4.4 billion in financial liquidity we have already tackled the market for 1.4 so at this stage as we speak, we have 5.8 billion. It means that in liquidity we are basically funded until almost the end of 2013. Because of all the issues of financing, especially sovereign risk whatever, I think we all agree that is very important and gives enormous visibility which is critical at these moments.

Net debt is basically flat. Quarter on quarter there is slight increase of 0.1. Basically because, as you know, it was foreseen at least part of the Spanish tariff deficit to be sold, it was not the case in the last quarter, it was already the case at the beginning of 2011. This 16.3 includes 1.4 of regulatory receivables. The FFO over net debt increased from 16 to 18% and the net debt over EBITDA, if you adjust and we will see all these ratios further down the presentation, if you adjust for regulatory receivables it ended the year with 4.1 that compares with 3.9 in 2009.

CAPEX wise it is clear that we have been doing what we have told the markets. It stayed at close to 2.7 billion, a reduction of 600 million year on year. And 74% was in expansion CAPEX of which almost 80% in wind and hydro. As you know we have already committed to further CAPEX reduction to around 2.2 in 2011 and 2 billion in 2012. We have already stated this and we are committed to this CAPEX reduction. That of course as you will see, the ratio of CAPEX over EBITDA decreases very sharply between 2009/'10 and '11. So in this front what I would like to stress is, after delivering operational results based on the portfolio low risk approach and efficiency; on this line we have kept towards low financial risk management, execution of selective growth on more protected areas and keeping the low risk profile, namely on the funding side and in what concerns adjusting the gross of the investment programme. It means reducing the CAPEX bearing in mind our strong commitment with the financial ratios that we have stated for 2012—'11 and '12—and I will talk about this later. So the commitment is to keep as we have done in 2011, delivering what we have promised.

So, Miguel, can you go through the presentation and I will come back to the wrap up?

Miguel Viana

Good morning everybody. So moving through the presentation, on page four we can see the key operating headlines of 2010 in which we saw a 7% increase of installed capacity of EDP following the resulting increase of expansion in wind power essentially. Regarding wind and hydro, it represents already 61% of total capacity by December 2010 and production of electricity from hydro and wind represented 64% of energy produced.

Moving to slide five we can see that in terms of EBITDA breakdown 88% of 2010 EBITDA came from regulated or long term contracted activities, with the weight of Portugal in our EBITDA going down from 51% in 2008 to 45% in 2010. Excluding the impact from FOREX our EBITDA would have grown by 4%.

Moving to slide six on efficiency; we can see that the ratio OPEX over gross profit of EDP remained flat at 28%. And regarding our efficiency programme, it has reached in terms of cost savings €159 million for the measures taken up to 2010. So our efficiency programme is now 33% above 2010 targets and we have almost practically achieved our 2012 targets two years in advance.

Moving to business areas and starting in slide eight with the market environment in our key areas of operation. We can see that in Brazil, 2010 was marked by a strong growth of demand, 7.8, also clearly below 2008 levels. In Portugal and Spain we saw also clear recoveries of electricity demand, so with the demand growing 4.7% in Portugal and 3.3% in Spain. In Portugal we are already above 2008 demand levels, in Spain we are still slightly low, below that. In gas, let's say the gas market was penalised by the higher hydro production and lower CCGT output. Note that the strong growth in Portugal is essentially driven by strong demand growth from export industries, namely pulp and paper and chemicals.

Moving to the long term contracted generation, Iberia which represented 24% of EBITDA, we are talking essentially about our long term PPAs and CMEC system generation in Portugal. We can see that our EBITDA went up by 7%. So essentially at the level of the PPA/CMEC generation, so this slight improvement in terms of EBITDA is related to stable return on assets of 8.5% pre tax real. We had some positive impact from higher fuel procurement results and the negative impact from the 1% decline of installed capacity with the end of the PPA for a small fuel oil plant that we have named Carregado. The special regime had a strong positive impact from the strong increase in the output from mini-hydro and an increase of 46MW in terms of installed capacity.

Moving to slide ten, we can see that in terms of the market environment for our liberalised operations in Iberia, it has changed significantly between 2009 and 2010. Essentially starting in terms of margins, we can see that the clean dark spark spread available to be close in the markets for 2009 we had opportunities to close very effective margins. Namely in the fourth quarter 2008 and in the beginning of 2009 which was not such the case in 2010 in which of course that margins available in the market to be closed were considerably lower in average versus what happened in 2009. Regarding the evolution of final price of electricity wholesale markets in Spain, we saw also first that we had strong arbitrage opportunities in the second quarter 2009 and in the first half 2010. Even that the spot price was below our hedge generation cost as you can see in the right hand picture, nevertheless these arbitrage opportunities that had a significant impact in our results in the second half of 2009 and still a little bit in the first 2010, they were not relevant in the second half 2010. Also in terms of ancillary services, they were very strong in the winter of 2009/2010 but demand for system cost was not so strong in the second half 2010.

So moving to the area of sales to clients; we can see that we continued to grow significantly in terms of volumes sold to clients, both in electricity and in gas. In electricity with a focus on the SMEs segment with an increase in our total market share from 11 to 12% in 2010. And in Portugal reflects the gradual transfer of clients to the free market. In gas retail sales, essentially the growth is driven by a more competitive sourcing mix on spot gas purchases that we did on an opportunistic way. And also the opening of the Portuguese free gas market in which we have already reached a 28% market share in 2010.

So summing these two points: so lower margins and stronger volumes, we can see that on page 12 the stronger volumes were not enough to compensate the decline in the margins available, so this implied a decline of 33% in our EBITDA from liberalised activities which of course is also due to a very challenging comparison versus 2009 which was a very, very positive year. If we compare to 2008, our EBITDA in 2010 is 8% higher than 2008.

Moving to page 13 regarding commercial activity in Portugal. We can see that there is no material impact on customers collecting cycle, even considering the low economic cycle. So if we look to overdue debt from customers, average collecting period, so even levels of impairments for customers' doubtful debt, they remain quite flat or even with some slight improvement in 2010, so there is no material impact from the current economic environment.

Moving to regulated energy networks, which represented 26% of our EBITDA, we can see that we showed a 13% growth of EBITDA with the electricity in Portugal, the EBITDA going down 1% year on year. Nevertheless it includes some negative impact from the lower tariff adjustment and from higher costs with human resources restructuring. Adjusted for that, EBITDA would have grown by 4%. In Spain the strong growth of 30% is driven essentially by in the improvement in regulation on retroactive way to 2009. And in Gas in Iberia, so we have the positive impact from the inclusion of the assets acquired in Spain, namely gas distribution assets in Murcia and Cantábria. But also even EBITDA pro forma excluding this acquisition would have grown 25%, which reflects the organic growth performance of our gas network.

Moving to EDP Renováveis: we would highlight in 2010 the strong volume of PPAs signed in USA and also the regulatory clarification in Spain which were key for our operations both in US and in Spain. We can see that on the left hand that we signed in 2010 571MW of PPAs for existing assets plus 270MW for future projects for 2011/2012, so reducing the future risk in terms of merchant markets in the US. In Spain from the 44% of end of the year installed capacity that is under the new regulation, so under the Royal

Decree 661 from 2007 and now affected by the new regulation. These new regulations excludes retroactivity and provides stability for the long term with low impact on our results.

Moving to page 16, in terms of evolution of average selling price; average selling price went down by 1% reflecting a slight improvement in Portugal, France, Belgium, Poland and Brazil, so essentially we are talking about markets, most of them with CPI updates etc. In Spain a decline by 6% which reflects lower level of forward prices hedged. In the US we saw increases both in terms of average PPA price and average merchant price. Nevertheless the increase of the weight of merchant in the portfolio during 2010 implied a decline in terms of average selling price in the US. In terms overall, EDP renewables, as already reported, EBITDA went up by 31% reflecting the 17% increase of installed capacity and 32% increase in output. Finally Brazil, which represented 18% of our EBITDA; the EBITDA went up by 22% reflecting a positive impact from the appreciation of Brazilian real versus the euro, 19% appreciation. In local currency it is 3% up reflecting the 6% growth of EBITDA in distribution which reflects the 11% growth of electricity distributed volumes. And in generation and other a 1% decline which reflects essentially the dry weather conditions in the second half of 2010.

Consolidated financials in terms of CAPEX reached close to €2.7 billion with maintenance representing 26%. We can see that in terms of wind power it continues to represent the bulk of expansion CAPEX in 2010, so 79% of expansion CAPEX was made in wind and hydro power and so we plan to reduce our CAPEX to 2.2 billion in 2011 and 2.0 billion in 2012 following the cut in wind US expansion. In terms of construction in progress and hydro concession payments, so the total is 2.2 billion, which includes, essentially, the concession payments made. In terms of construction in progress now, the big chunk comes from our Pécem Coal plant in Brazil which should be finalised by the end of this year, starting operations in January 2012. In wind we have right now 590MW under construction and hydro construction in Portugal is growing, with 2012 we expect to have already three plants under construction with an expected EBITDA of €40 million. So for 2012 if we sum the coal plant in Brazil, plus the hydro in Portugal we expect €150 million positive impact from new capacity on EBITDA in 2012.

Moving to page 22, we can see that in terms of regulatory receivables they moved up to €1,443 million with Spain being the largest component, of course the Spanish tariff deficits. Nevertheless we would like to highlight that we have already received €205 million in the first two months of 2011 from the two tranches securitised of the Spanish tariff deficits. And that in Portugal we had the remaining component which amounted to less than €500 million.

Moving to slide 23, we can see that net debt was impacted by higher than expected regulatory receivables and FOREX on top of the planned expansion CAPEX. So if we start for net debt of 2009 we can see that we have a free cash flow of 1.9, then we paid 0.6 billions of dividend. Expansion CAPEX was 2.1, the increase of regulatory receivables was 1.1 and then we still had the negative impact from FOREX and fair value which resulted on a net debt reported of 16.3.

Moving to page 24 we can see that in terms of average debt maturity, it remains at five years with the figure quite in line with what was last year. We maintain the rating in the region of A- for three rating agencies. FFO to net debt improved from 16 to 18% in 2010.

Net debt to EBITDA, excluding regulatory receivables was 4.1 by 2010 versus 3.9 in 2009. And we maintain, in terms of between fixed and floating, so floating is 56%, fixed 44% and with diversification in terms of debt by currency and debt by source of funds.

Moving to financial liquidity position, on page 25 we can see that following the €1.4 billion of funding raises in the first two months of 2011, so we are talking about 0.9 billion of two bond issues, one for five years and the other one for three years and also a European investment bank 15 year loan of €300 million and coming also 200 million of the securitisation from the Spanish tariff deficit we reached the end of February with 5.8 billion of cash and liquidity facilities available, so summing of course to the 4.4 that we have by the end of 2010. So if we compare this volume financial liquidity to our funding needs for 2011/2012, we can see that we have a comfortable liquidity position that covers the funding needs over the next 24 months. On top of that we have target proceeds from disposals in 2011 of €500 million and regarding regulatory receivables, we expect a decline in Spain with the ongoing securitisation and a slight increase in Portugal.

Net profit in slide 27, we can see that from the 7% increase of EBITDA then net interest cost as it was already referred, went up by 3% reflecting the lower cost of debt of 3.5%; higher earnings before taxes, a slight increase in terms of effective tax rate. Minorities reflect EDP's economic interest down from 72 to 65% following the sale of treasury stock. So overall net profit went up by 5% year on year.

I will move now to António Mexia for the conclusions.

António Mexia

Thank you, Miguel. The first slide of the conclusions is a soft slide, but this soft slide shows I believe some important facts that generally are behind the figures. As you have seen when you compare ourselves with our peers, you have seen the evolution in terms of how do you play the game, where we are strong and how are you basically do the difference with the rest. And of course an index is always an index, but in any case this index shows a very positive trend. And in 2010 we were rated number one in utility sector. Electricity utility sector, we have been top of the class. And I would like to stress where and as we are talking about figures, I would like to stress the highest score in the sector in risk management, in stakeholder engagement, in price risk management, in scorecard/measurement systems, in human capital development and of course the rest, comprises biodiversity, reporting, climate, everything. But typically the way we approach risk, how we manage people shows that we have been really changing the way how we do business and how we communicate with our stakeholders. As you know also because of Nuno Alves' fault we are number one in financial statements ranked in the world in all the industries and I think it is also very good in terms its recognition that we tend to be very transparent and very accurate in what we say to the market.

Let's see for 2011. We should start, the first issue is always what about the Iberia market? And the issue is the Iberian market is going to keep as a tough market, the liberalised market is going to be tough. As you will see the wholesale energy prices, forward prices for 2011, for the end of 2011 are flat compared to what they were at the end of last year and at the same time you have forward energy markets for 2011 who have been quite aggressive in terms of inputs. At the same time the demand is slightly recovering in Spain once again. Portugal it was already in 2010 above 2008. You have a 1.2 decrease. If you adjust by climate and working days, it is minus 0.5%, so less than half of this figure, but it shows that demand will be probably relatively flat with a slight increase in electricity in Spain for the year. So, the name of the game is tough markets with residual demand for thermal power production and thermal spreads being kept at low levels. In this environment we have been doing what we usually do. Doing profitable hedging, because you have always to distinguish between hedging and profitable hedging; we have been hedging. We have our selling price average slightly above €50 per MWh, so in line with 2010 and the locked in margin also slightly above €10 per MW in line with 2010. So we will go through forward contracting of electricity sales and fuel costs to keep risk down. And as you know here it is a moment where you capture all the value of having a lot of long term contracted generation especially protected by the mix in the Portuguese market, so very different from the other players in Iberia.

So overall we expect we have a good visibility for the EBITDA in 2011, around 90% with very low risk as you will see liberalised activity will reduce it rates to 10%, down from 12. And then Brazil will slightly increase to 20%. Here I would like to stress the Escelsa stable framework until 2013. In terms of wind power, as you will see it goes up to 24% of the EBITDA of the company and we will have benefits from the impacts of the PPAs that were signed. We have a very limited exposure to pool price in Spain due to hedging and new regulation. And as you will see we are growing in markets, especially in Poland, also in Romania, where the selling prices are well above portfolio average. So overall we see a positive increase in 2011.

Regulated network, stable; visibility is the key work. And in terms of long term contract generation, as all of you know, we will—Carregado fuel plant was shut down, so we have a reduction of 85 million that was already foreseen when we compared to the EBITDA of 2010 in terms of the mix. The forecast contracted gross profit for the CMECs is 860 million, so good visibility in terms of EBITDA that will drive us a low single digit growth at EBITDA for 2011.

In terms of debt, the average cost of debt no bigger, no further than 4%. It is important. In terms of receivable, we expect additional securitisation in Spain and the first two months were delivering good news. A slight increase in Portugal and very important we have a commitment of having a net debt in 2011 lower than the net debt in 2010, bearing in mind of course the exchange rate foreseen in the business plan. And for this we have a plan of cash proceeds from disposals, around 500 million in several options under analysis. So this is of course foreseen, monitored to be sure that we will reduce debt in 2011 compared to 2010 bearing in mind that stable FOREX rates.

Net profit, we expect a low single digit growth as we have already stated in our last meeting, so once again growing with the low single digits. I would also like to stress that we are also, today, having a good visibility to 2012 in the sense that as you have—we all know—we have a huge investment programme in projects, where the time to market will be towards the end of this year and the beginning of next year. So you will have the new PPA coal plant in Brazil, plus three new hydro plants in Portugal and only for this we expect an impact of 150 million positive impact on EBITDA for 2012.

In the same line in terms of commitments with the financials and adjusting to what is the state of the energy market, we are lowering our CAPEX in 2012 to a 2 billion level and we target the full cash dividend of 18.5c per share in line with the previous guidance. I remember that this guidance was given in July 2006 and we have been until now, always increasing as agreed at that moment the dividend. Why? Because we have now a clear, positive free cash flow generation in 2012. So as we have already stated since that year, since 2006 and even of course confirmed by even bearing in mind the tough years of eight, nine and ten, we have a huge change in the cash profile of the company because of the focus growth, of efficiency and of course the adjustment of the CAPEX programme, with a strong positive free cash flow generation 2012. So execution of our ongoing investment will add cash flows with attractive returns. Controlled risk we will be keeping merchant wind low, especially in the US market of course and as you know being the company that has closed more PPAs in the US market and the one that is putting in the business plan the toughest, let's say the sharpest decline in new additions in US markets for '11 and '12, it shows that we always avoid denial crisis and I think once again we are different and of course this delivers value for shareholders. Also controlled risk in financing, so improving free cash flow profile and as we have already seen ensuring funding needs always two years ahead.

So as a wrap up, what we have in 2010: improvement of returns, increase on EBITDA and in net profit. Wind power and Brazil were key growth drivers. A safe and sound financial management contributed to an increase in net profit. We have been focusing on sectors, countries, in technologies that are delivering better returns compared to other technologies and I think it is profitable growth, this asset allocation I think is smarter and at the same time keeping the control risk on the contracted activities, on market diversification, on the CAPEX reduction, on the liquidity, so keeping these below risk DNA of the company and bearing this in mind, after already talking about the dividend for next year of course we are going to propose to the annual shareholders meeting a dividend of 17c per share which represents a 10% increase year on year. So thank you and let's go for the Q&A.

Questions and Answers

Raimundo Fernández-Cuesta – Nomura, Madrid

I wanted to ask you about the current degree of sovereign risk in Portugal and knowing that EDP is a prudent company, we have seen the very high degree of liquidity and you have been raising more debt, but I just wanted to understand how are you planning to deal with this or whether it has a direct implication on the company? The sovereign spreads in Portugal are high and there is some consensus views I think maybe having to go to the IMF and I just wondered whether a company that is almost fully regulated like EDP, whether it would have any practical implication that scenario? I assume that you will be studying it and I just wanted to understand whether our potential concerns are exaggerated or do you think it is something to be concerned about or something that is very manageable for EDP? Thank you.

Raimundo, I guess you are talking about the financial aspects and not so much the regulation part of it? Am I correct?

Well I am talking generally about whether there are implications for potential borrowing costs, whether there are implications for the economy in general and for demand. What are the risks that you may face and as well on the credit rating? To see whether a company that is almost fully regulated like you are, whether that is a concern that we *should be considering or do you think that whatever happens to the Portuguese State you will be pretty much immune. Thanks.*

Okay. Well I guess we had a good example in the bond issue that we did at the end of January, beginning of February where we raised €750 million for five years. That was the first syndicated bond issued by the Portuguese or even Portugal since a year ago and the one before had been ours. So we regularly seem to be the ones that open the market. We have very strong demand, obviously we paid a higher spread than we are accustomed to, but if you see how the issued price came in and what has happened since, I think that more and more the market is putting a level of risk of EDP significantly below the Portuguese Republic right now. Nonetheless we are paying more and that is an issue that concerns us going forward. Hopefully this will be mitigated going forward. In as far as the Portuguese Republic rating is concerned, I guess at least from what we heard this week that the news were better than most had expected, in fact what we have seen is that even though the credit watch was not taken away, it did not result in a downgrade, it resulted in a postponement of the rating revision. Which seems to be at least the rating agencies are a little bit more undecided in what to do to the Portuguese sovereign and the numbers that we have seen from the budget execution have been better than expected. So from the sovereign side it seems to be that the numbers are coming in a little bit better than before. We have to wait to see what happens to the Portuguese rating but that has to do with Portugal and the rating agencies. In as far as we are concerned, there is two issues that maybe we can cover right now is that once again we pre-funded the company, so we have no wishes whatsoever— and conservatively we are saying we are not 2013 covered because if we do the maths to benefit point we probably have it totally covered already by 2013, but surely '11 and '12 is fully done, so we have no need whatsoever to go to the capital markets to raise funds if we so decide to. So this decision of pre financing has helped us to be in a management of liquidity in a much stronger position than we were three years ago and to face whatever comes from the markets in the much more relaxed position that we would be otherwise.

And also, Raimundo, those concerned people tend to forget that we are only 55% in terms of Portugal. Business wise, not financial, but business wise. And at the same time our business is—if you pick one of the good businesses you have of course the very resilient Portuguese energy business. It means that we have quite a low exposure to economic cycle in Portugal in our portfolio because of the nature of our—of the regulation and the nature of the long term contracts that we have. And I think this is sometimes undervalued, is the fact that when you look into macro economics and if you don't like what is going on in the country in terms of electricity markets, it is clearly something that is because of regulation, because of the long term contracts, it is a very, very resilient one, so it is a good part of the business. So instead of having a discount for that, we should have—just for the energy, it is good. So it is a resilient one, but the biggest important remark is the one that financially Nuno mentioned.

Alberto Gandolfi – UBS, London

I have three questions please. The first one is a little bit more strategic, you are talking about lowering debt via disposals of half a billion, but how about new measures? Very recently a competitor of yours slashed quite significantly renewables CAPEX for 2012. You already did it at the end of last year, but so did they. So I was a bit surprised not to see a bit more reduction in CAPEX coming from renewables and I would like to see *what's the logic behind that. And is there anything else that we should consider, for instance a buyout of EDPR or any other measure that could help lower the net debt faster than what you are considering here. And then other two questions on your guidance. For 2011 can you elaborate a little bit what you expect in terms of evolution from Brazil, given what is going on with the distribution regulation? And can you help us model a little bit the liberalised business in Iberia? Because you are hedged, but it seems your spreads are a little bit lower, so I would expect a decline in EBITDA from the liberalised business. And then moving below the line, if you talk about a low single digit increase in EBITDA, I don't know it could be one, €150 million. It would seem that this would be more than offset by an increase in depreciation, increase in the cost of the debt and the absolute amount of debt versus the average amount of net debt in 2010. You don't have capital gains, you don't have an increase in minorities. So can you maybe comment on these items because it would look—low single digit increase in EBITDA would look quite tough to beat the reported net income you are reporting right now? Thank you.*

Okay. So, I will start—Alberto, thank you, it is António. Lowering debt through the disposal that is the will that we are using to be sure that we will deliver what we are saying with the current FOREX expectations to have a lower debt at the end of 2012. A peer has talked about lowering very aggressive renewables investment; I'd like to see that. The difference is that we have been doing this much sooner than everybody else. We have already done it, mainly in the US market. We have already for 2011 done it and we have already stated also for 2012, but we have done it more than one year ago. Almost two years ago. We avoided any denial perception about the evolution of those markets and when we see a reduction to 200MW in the US on a yearly basis, it is even with others reduction; we are still the one that has reduced more in that market. So the difference is we did it first and now you cannot compare what we have done one year ago to what people are doing later and we have done it sooner. So I am sorry but we have just been quicker than everybody else in this, especially the US market. Of course probably at the same time as FPL. So we have been very aggressive in adjusting investment in the markets where we seen short term problems, because we still trust that the US market is very good in the long term and at the same time—and I think it is also different—we have been able to show option growths in very attractive markets like Poland or even relative wise when you see new bids in the Spanish market. If you do the ranking, please see who is typically on the top, number one in terms of new additions for the future. So in terms of megawatts awarded, so clearly avoid any denial on the tough short term markets and at the same time creating options in attractive markets where the average price is today much higher. So we have been more aggressive and sharper than I believe others. In terms of Brazil, as you know we have visibility for Escelsa until 2013 and what concerns Bandeirante as everybody else we expect better than the 7.15%. We expect something closer to 8% after the negotiations. So part of it is visible, Escelsa, part of it will be established I believe it by August. Please correct me, Miguel, but by August and we expect better than the 7.15%. At the same time we expect as we have seen an increase on energy demand and the first two months of the year shows that we are in the good direction. In terms of liberalised markets in Iberia, we have been very, very clear. EBITDA in 2011 was already lower than in 2010. I think that we have reached the bottom in the last quarter of 2010. In average the EBITDA of the liberalised activity quarter by quarter in '11 will be higher than the 80 million reported in the last quarter of 2010. And I think that we have been doing in other fronts like the domestic coal etc. what we need to do to have as nice as possible market, but I will stress again, we are the least exposed utility in Iberia to these markets. Going from EBIDTA to profit, Nuno will do the explanation.

Alberto, obviously you are right, you just forgot to mention two lines which go the other way around and justify why we still see net income with the low single digit growth when compared to 2010. We expect in 2011, number one, to have less provisions than we did in 2010 and to have a tax break that will lower our rate in taxes for 2011 too. So those two together will compensate the increase in depreciation and interest and justify the increase in net income. We have a couple of questions from the internet, maybe António can answer one and I will answer the other one from Mariano Alarco from Goldman Sachs.

So how comfortable are you with US CAPEX targets in 2012? As you can see we have been, as already stated, the CAPEX reduction in US markets to a 200MW average in '11 and '12. And at the same time we have already closed PPAs that represents three quarters of their new additions into '11 and 2012, so this is very strong; so lowering construction and already signing PPAs, already signed for the new additions. So I think that we have been very pragmatic about the US markets. So once again I would like to stress we have done these before anybody else. Concerning Spain how many megawatts do you have to build still in the pre-register? So will build 250MW still in the pre-registry and what is our view after 2012? As I have mentioned, after 2012 I think that we are in a very good position in terms of quality of assets concerning the regional tenders that we are delivering until now. We rank very well in the top line, so probably number one in new additions after this. Of course we need to know exactly what will be the regulation. We—if the Spanish government wants to reach the targets that are still there they need to introduce after 2012 something that makes sense. We expect that the tariff scheme will put us close to the bottom of the actual range in terms of floor and ceiling model. We are very confident that even in that environment we have with other portfolios that we have and we have a very sound and profitable package fleet for after 2012. So of course we would like to see these regulations as soon as possible. The fact that they have separated clearly wind from solar is good news. The fact that they have settled until 2012 with a scheme that for us has very marginal impact shows their commitment, the Spanish commitment to the wind development. And today it is clear that wind is competitive with thermal. If you want, in our maths it is clear that if you want to have a wind farm competitive with a gas plant that of course pays the CAPEX and the gas, you have an indifference level around 100, $110 per barrel. So I think that we are reaching that volume and that today the mature wind industry, the onshore wind, is clearly competitive and does not represent a burden for the tariff schemes. So we feel confident that the Iberian market will keep developing wind as expected.

Well, maybe I can answer the other internet question from Andrew Moulder, Credit Suisse. The question is: when you state that net debt 2011 less than net debt 2010, if we are assuming we securitize all the remaining tariff deficit in 2011? Well, our assumptions for 2011 are that free cash flow will be zero, slightly positive excluding all extraordinaries. So meaning there is no extra positives and negatives from tariff deficits and that there is no FX change to what it was in 2011. Having said that, what we have budgeted for this year is that whatever is generated in Spain of new tariff deficit will be compensated by the sales in the market. And right now we have already pretty much achieved it. One more 2 billion trade and we probably will have it all done. That we would not see any surprise in Portugal of a large deficit. And the other issue there is that we know that we are going to be exercised another 10% put of the Naturgas transaction and we will be exercised the put of Genesa and for that we have—in order to compensate those two extraordinaries that is why we have to raise the 500 million in sales. That way achieving the reduction in net debt.

Pablo Cuadrado – Bank of America/Merrill Lynch, Madrid

Two quick questions, a few questions have been already answered. On that, the net debt improvement for 2011, I was wondering whether you can confirm to us if you are including in your budget as well the potential buyout of minorities coming from the wind division in Spain. I think there is a joint venture with Caja Madrid that I think is you are in negotiations in order to take a minority. And the second question, very quickly, Nuno mentioned about local provisions in 2011 projected. I was wondering whether you can give us more colour about why the provisions have been increased in 2010 above €100 million. Thank you.

Okay, as far as the renewables put of Genesa I just mentioned, yes we are accounting for that together with the Naturgas puts. So, yes those two puts are on the plan for 2011 and the 500 million will more than cover those two puts. In as far as the provisions that we have—the increase in provisions that we have in 2010 when compared to 2009, those have not—or have nothing to do with the economic environment in Portugal, in Spain. In fact we continue to see non performing debt from clients very low. Identical to what it was prior to 2008, so no issues there. We booked a provision of a major contract we have with a Spanish company that is why it increased materially or that is the main difference from what we had before and that will not occur again in 2011.

Javier Garrido – JP Morgan, Madrid

I was curious about the comments you made about the tax rate, particularly of the evolution of cash tax payments in 2010. So could you please explain to us why the tax rate it going to be lower in 2011 and whether that is going to be recurring or not? And also on taxes, could you please elaborate on the 2010 tax benefit that you got in the regulated Portuguese business and again whether that cash benefit is a tax deferral or is just simply a tax saving? And whether it is going to be recurring or not? The second question is again on net income guidance for 2011. I just wanted to know whether you were including any capital gains from that half billion euro of asset disposals or not? Thank you.

Well, the last one first, no we are not assuming any capital gains. Or anything material, there is always—I mean this year there was some, last year there was some, but meaningful or material, none. In as far as tax is concerned, the 2011 is a tax break, it is not that the tax will change. The resulting effective tax is going to be less. It is not going to be a recurrent item. In as far as this year and what you see on the cash flow has to do with the current taxes and deferred taxes. This basically is concerned with how you book taxes on the tariff deficits. So once you sell, you book it upfront and then when you don't receive it and you are generating, you are deferring the tax. So that all in all what you see on the FFO in our page about 180 million, if it was excluding for those issues you probably should have about 280, so 100 million more this year and two or 300 million less than it was back in 2009. So what you are looking for is the recurrent number, it should roughly be about 280.

Fernando Garcia – Espirito Santo, Madrid

You were mentioning in the presentation that you expect an average cost of debt of around 4% in 2011. Could you comment on the hypothesis behind and on sensitivity to EURIBOR?

Our hypothesis that we are working on is on average that the EURIBOR to go up by 25 basis point and the refinancing to be a little over 1% more expensive than we had before, because we are only refinancing a little over a billion, its impact is only on less than 10% of the debt. So, our expectation is 4% to be the most I would be unhappy if it goes over 4% and I don't see how, unless we saw EURIBOR rates go up very fast, which despite yesterday's news I still doubt that the ECB will raise rates before the summer. But we will have to wait and see. But we are comfortable with this guidance of 4%. We have another internet question. Alejandro Vigil from Cygnus; with EDPR trading 20, 30% below book value are you considering any strategy to crystallise that value? Squeeze out minorities, divestments?

I think that you are right in what concerns the value as we see it is trading; basically when we consider selling minority stakes in some wind farms of course it is because those sales would be made at a very different multiple in terms of million euros per MW than is today seen through the stock. So we would like to see crystallisation of the value through those operations. Squeeze out of minorities, it is not the case. We are very committed with our first vision in terms of mother company financials being totally kept under control. In terms of divestments, as I have mentioned, the only case would be these minority stakes in specific wind farms where you can build structures to crystallise value. But we don't see any other change. Why? Because we have already basically reduced growth very much in the company and we have kept targeting in those new megawatts, the key markets where the average price is higher or where the market has been showing clearly better assets than the competition with better load factors in more mature markets. So clearly I think that investment wise focusing on partnerships in wind farms is our strategy and we don't want to squeeze out minorities.

Bruno Silva – BPI, Porto

I have three questions if I may. The first one on Brazil; with the announcement of an increase in payout I just wondered if you are changing the financing strategy of your listed subsidiary? And another related question with Brazil, is going forward and considering the urging by regulator and regarding Brazil, urging for a consolidation of distribution market. If you could enter that plan, consolidating and considering financial restrictions, if you would see it more likely to sell down a minority stake in the assets or cutting your direct stake in order to absorb more assets? The second question, I would like to go a little bit deeper if you don't mind on the liberalised business guidance you have given related with how much of the thermal production that you expect to be needed to cover expected sales in 2011, how much of that is not hedged yet and considering your comments on increasing fuel prices, what would be your worst case scenario and what would be the alternative to serve your expected output? And finally there have been comments by some of the companies—I don't know how relevant it would be for you, not that much possibly, in terms of the accelerated depreciation in Spain if that is also considered in your guidance of net debt. Thank you very much.

So just to start, accelerated depreciation in Spain is not considered. So that is clear, we have not considered this. In what concerns Brazil: we have not changed our financial strategies for Brazil. We are still ring fenced. We finance ourselves in Brazil for the Brazilian venture, so nothing has changed, the only thing is of course the company has been able to show very strong figures and basically is the company's paying to the shareholders so nothing new and I think that the payout is basically in line with what makes sense in the Brazilian market. In terms of the consolidation; we have been talking about this issue for the last three to five years. We have been very clear about what we want to build from Brazil. Brazil is today strategic, when everybody three or four years ago was asking why we don't leave Brazil. Now everybody understands why we kept focus in Brazil. Now everybody would like to see it more. We are relatively the most exposed. I think that we have a very broad business and through the swap prior giving away some additional company with no synergies and increasing the generation part makes sense. If we grow, we want to grow in generation. We don't intend to have any fancy participation on this consolidation market because these are very complex and I believe not value creation. So we don't need to change our strategy, we have growth options in terms both thermal and hydro. We have been focusing growth targeting—targeting growth only when it makes sense in value creation like it is the case of wind farms with the Proinfa scheme and keeping all the value destroying options. So we don't need to change our strategy and we will reap benefits from this. Of course we are there to stay.

Bruno on the liberalised business just to—on the further contracting for 2011, I would like to highlight two points. One is that we—the marginal fractions that we have been contracting, they are significantly higher than the €50/MWh average that we have so the prices are moving up, which is positive. In terms of the remaining part we have a lot of flexibility in terms of contracts, we have negotiations going on and also note that on these volumes we are not including domestic coal which is also let's say we can consider contracted. So I would say that the future forward contracting will be based on the exercise of flexibility on purchases, volumes of gas uses, volumes of production which can also be adjusted and also on contracting at higher selling prices that what we have today in terms of average.

Florence Taj – MFS, London

I was wondering if you could update us on the Chinese entry into your capital base? And also you know on the disposals, the 500 million, if you could gives us a bit more colour on what you are thinking there, which part of the business those are likely to come from?

Okay, Chinese, as you know the time to market decision of those companies is quite long. We believe that they are in internal process of implementing what they have stated because it was a statement by CPA, it is a decision driven by CPA. Clearly they announced this to the market; I think that they are in a process to make that decision, so I don't see any change in their targets. The only thing is that time has confirmed what I have already stated to everybody, that this process is long because as everybody knows the decision making process of these entities is very, very long. In terms of disposals, several options; as Nuno has mentioned, we have targeted this to be sure that we keep the commitment of lower debt considering the put exercise. As I have mentioned before one of those examples is the minority stakes in wind farms. So clearly we are targeting several options that we will not change the nature of our business and the opposite in certain cases, it will tend to crystallise value and show visibility in those values to the market. So wind farm is probably the first and best example.

Manuel Palomo – Citi Group, Madrid

I have got a couple of questions on strategy; one on debt and the other one on the liberalised business. On debt I just wanted to know whether you had any intension to change your—or at least to reduce your exposure to floating rates? And secondly on the liberalised business, it has proven to be the right strategy to be long supply, short generation. I also wanted to know whether you have any intention to reweight it or to change it? And then a clarification on CAPEX; CAPEX for the coming two years, it is 2.2 and 2 billion and I just wondered whether this is net CAPEX including—or net by the cash grant figure? And if so what the cash grant figure you are expecting for these two years? Thank you.

So, liberalised market business, let's start by this, being long on supply and short generation. We have done it before the others. I think it is our strategy, we will keep doing like this. The fact that we were able to keep the level of the market share in Spain compared to our—in terms of suppliers, compared to our generation shows that we mean serious when we want this strategy of being long in supply and short in generation and also we tend to be rather shorter than other players in terms of gas to have the flexibility that Miguel mentioned. In terms of CAPEX we are talking about gross CAPEX and Nuno will clarify this.

It includes it but it is minimum to use 50 million so it wouldn't change that rounding of the number. In as far as the debt, the fixed versus variable…this is the year end results, once you see the first quarter results the numbers will have changed, but I cannot give you the number right now.

Jorge Alonso – Societe Generale, Madrid

I have got a question regarding the working capital. We have seen an increase on the working capital, not only regarding the regulatory receivable and I would like to know your opinion regarding this issue in 2011 apart from the regulatory receivables evolution, just the operating side. Thank you very much.

The main change is that the extraordinary tax we paid this year concerning the securitisation of Portuguese deficit back in 2009. So we paid roughly €430 million more due to that extraordinary tax.

Closing Comments

Thank you very much. Based on the questions I see everybody also still in the mood of understanding how the energy markets will proceed, especially in Iberia. Hopefully we have been clear in what concerns our strategy and been doing the same as we have been doing that are reaping the benefits of that strategy. In terms of the commitment, in terms of the financials and hopefully the visibility that we have today for '11 and already for a strong 2012 in terms of all the investment that we have been doing and the discipline that we have been implementing on all fronts, show that we have been doing what we have to do and we will do what we have to do to keep exceeding expectations. So thank you very much and hope to see you soon.