EDP - Energias de Portugal
2010 3rd Quarter Results
Friday, 5th November, 2010
10:00 Hrs UK time
Chaired by Antonio Mexia

Company Participants

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

Antonio Mexia

Good morning everybody. As usual we are here to make the comments and a presentation about the third quarter results. I would like to start by highlighting the increase of 9% on EBITDA to 2.65 billion euros. This evolution, basically, translates the balanced portfolio that we have, and whenever you have items that go slower, others go faster. And what we can see is this contribution on increases is mainly due to areas, renewables and Brazil. Especially in Brazil we have an increase year on year of 28% on EBITDA, now it gets closer to 20% of our group EBITDA, and also the fact that the electricity is distributed at an increase of 15% year on year.

In all concerns the traditional business in Iberia we see that the regulator and the long term contract has increased by 8% EBITDA. Today it represents 50% of the group EBITDA for the nine months. And what we see there and what I would like to highlight is, of course, as it was already foreseen – the market is tough, we are still benefiting from our strategy of hedging, we will talk about this later but we have, as you know, hedged… totally hedged for 2010 and we are already 65% hedged for 2011 – so above the figure that we have discussed with you last time, at the last presentation and with margins that are similar to those that we have logged in 2010.

I would like to also stress the better than expected contribution from new gas assets in Spain. If you see the current transactions on this, those actions on this you can see that probably it was the best deal in this sector in the recent past and we are now proving that it creates value and integration with the assets that we have already in this area is very, very good.

In terms of installed capacity we have an increase of 11%, more than half of it coming from the wind as it was foreseen. And today you have a company that… almost two thirds to be more exact, 64% of our generation worldwide is coming from non CO_2 sources, wind and hydro.

Another item is, of course, efficiency. As you know, we have been pushing hard on this front since the last four years, and we have already reached 115 million cost savings in the first nine months; 96% of the target for the full year, so probably we will do better for 2010. And as you know we have a commitment of 160 million for 2012 – it was established by the end of 2008, this target, and as you can see we are very comfortable with the fact that we will do better than this. This throws light into a net OpEx over gross margin ratio that is today the referencing in the sector, in Iberia. And we have been this stabilized 28%, so I think it's good at the moment where margins, of course were under pressure, especially on the liberalised markets. So we keep efficiency, profitable growth and, of course, the value of having a diversified portfolio

In terms of net profit we have an increase by 4% to 774 million. We have a net interest cost reduction by 9% and it is mainly due to the fact that we have now an average cost of that down from 4% to 3.5% when you compare with the same period last year. We have high liquidity – by the end of September, as you know, it was close to €4 billion, €3.9 billion, and since then, as you know, we have extended two days ago we have confirmed revolving credit facilities – that increased from €1.6 to €2 billion, so an additional €400 million - longer periods – five instead of three, and with lower cost than the previous one. So clearly we are north of 4 billion in terms of liquidity. That is important, as you know, and we follow our strategy of being financing advance relating to our needs.

In terms of capex, as we have seen, we are clearly off peak. We have been decreasing when you compare to the previous year we have already decreased, but most important than that we can talk about this later at another presentation. We are reaffirming the usage of the flexibility that we have mentioned prior this year on investor day, the flexibility. And we have already mentioned this in the last quarter's presentation, and we will be reducing our average investment, capex for 2011/2012 from 2.4 to 2.1 – so reducing €600 million investment and basically located on US to the lack of visibility of the PPA market.

The PPA market is still there, attractive in terms of return but small in terms of the number of deals and in terms of liquidity – so as you know, we have a target that limits our merchant exposure overall in the EDP renewables, and for these we will be reducing our investment in the US market. So it's good for the financials, of course, in terms of following our strong commitment in financials, but it's also due to the fact that the market is not there, and postponing makes a lot of sense in terms of value creation.

In terms of net debt we are flat at €16.2 billion but I would like, of course, to stress the fact we have more than €1bn in terms of receivables; we still have the Spanish deficit, as you know. And also we are close to €1.5 billion of work in progress. So out of these more than €2.5 billion our receivables are projects that will deliver EBITDA in the future. The net debt to EBITDA ex receivables is 4.3x, but what I'd like to state hopefully is that the improvement of FFO to up to 17%, as you know, we have been steadily increasing this important ratio. As I remember in 2005, I think it's, okay, it's long ago, but it was 12 so they have been investing a lot. We've been basically doubling the size of the company, but the FFO today is at 17%, so clearly different from what it was in the recent past.

So overall – efficient capital management, selected growth opportunities, on time, on cost. And globally either in financials, either in the market approach and commercial approach, supply and generation in place, but also in terms of capex, keeping a tough discipline and, of course, maintaining – this is critical for us – the low risk profile of the company. Now I will pass to Miguel as usual, and I will come back to wrap up and then a few Q&A. Thank you very much.

Miguel Viana

Good morning everybody. So starting on slide three with the key operating headlines in terms of installed capacity – we saw in the last nine months an 11% increase of installed capacity with a big driver coming from wind, of course. In the same period 64% of our total production came from hydro and wind as it was already referred.

Going to the breakdown in terms of EBITDA the 9% growth key drivers came from Brazil, with strong operating performance and a positive impact from forex. Wind power presented a strong contribution from the increase of installed capacity, regulated networks on efficiency and on new assets in gas in Spain, long term contracts growing the low single digits in line we'd expected, and with liberalised activities declining essentially as a result of lower margins by our generation operation. Overall, excluding the forex impact, the positive contribution from the appreciation of the US dollars and Brazil real, our EBITDA grew 5% year on year.

Regarding operating costs in slide five, we can see that we maintain our level of opex over gross profit, essentially following the execution of our efficiency programme which has an annual target of 160 million euros of cost savings by 2012. We continue on track to reach this target. Just until September we have already reached 115 million euros of cost savings, which is already very close from our target for the entire year 2010.

Moving to the business areas and starting in slide seven with an overview in terms of demand of electricity and gas in the EDPs key markets. We can see that Brazil continues the strongest market in terms of growth with the electricity growth in Brazil going up by 7.3%, especially as a result of a sound economic growth, and with the low impact from the international crisis.

In Portugal we continue to show stronger growth in the electricity demand than in Spain, essentially due to a lower impact from lower demand from construction lower activities. Also the positive impact from the increase of installed capacity in some exporting industries in Portugal, namely, pulp and paper and the petrochemicals which are quite electricity consuming intensive. In terms of gas demand and increase in Portugal also related with an increase in terms of coal generation capacity. While in Spain, the decline in this ratio we like to with lower utilization of combined type of resources in 2009.

Moving to long term contracted generation in Iberia – it was quite a stable performance growing by 5% year on year in terms of EBITDA, 3% on the PPA/CMEC component, essentially due to a strong year in terms of hydro production – note that the first quarter of 2010 had a very high level of hydro production – also some increase of installed capacity in terms especially of coal generation and biomass.

Moving to the liberalised part of the business we can see in slide nine that the first quarter was characterised by an increase in spot price, and also in terms of final price in Iberia. Note also that the amount of money and of revenues in terms of ancillary services and the secondary markets was much smaller than, for example, in the first quarter 2010. So EDP took the advantage of this and in the third quarter EDP increased its level of thermo production on better thermal spreads versus the previous two quarters.

This is quite positive also in terms of the future performance, namely for the first quarter, given that this reduced significantly any pressure that we could have in terms of the need to burn gas in our combined sites. Of course, that's in the first quarter given that there was a higher level of prices in the spot market, there was also less opportunities in terms of arbitrage and in terms of managing our hedging position. As a result, as we can see, essentially this resulted in lower contribution to our EBITDA from these other service revenues.

Looking to 2011 in terms of forward markets – we can see that the spreads in terms of spark and dark spread continue quite tight. The impact, as you can see on page ten is that in the first nine months the EBITDA is falling by 23%, although still growing 30% versus 2007 and 2008. The impact is essentially from the decline in margin as it was already expected given that levels of thermo margins closed for 2010 significantly lower than the average margins closed for 2009. Nevertheless, note that we managed to continue to increase significantly our volumes, essentially, by the growth of our client base in terms of electricity and gas in Portugal and Spain as we can see on the next page, on page 11. So in terms of volumes sold to our clients in electricity in Portugal and Spain, there was an increase by 57%, with an 11% increase in terms of the number of clients.

Also in gas there was a significant increase in terms of volumes sold – 61% year on year driven by a 32% increase in terms of the number of clients. This is the result of a recovery in industrial demand, also the integration of the clients required from the gas natural efforts, namely, in Murcia and Cantabria, and also the liberalisation of the Portuguese market since April 2010 in which EDP is the main challenging player versus the incumbent.

Moving to page 12 in terms of forward poison, in terms of forward contracting. For 2010 – well, the year is almost closing – so for the fourth quarter there is still a very high level of coverage. We expect to sell to clients during 2010 29 terawatts an hour, average price continues around 50 euros per megawatt hour, and between thermal spread locked in, in the region of €10 per megawatt hour. For 2011 we moved a little bit more forward in terms of contracting so we are now at 65% of our expected output already contracted. This means around 12 terawatts per hour sold to clients in free markets, and at the price and thermo spread similar to 2010.

Moving to regulated networks – we show a 12% increase in terms of EBITDA year on year within Portugal. There was a 1% increase in regulated revenues and 2% decline in operating costs which resulted in a 5% of EBITDA. In electricity in Spain recurrent EBITDA would be 1% up, nevertheless due to some adjustments, due to regulatory issues we have a 4% decline on EBITDA, and in terms of gas the key impact for the 47% growth comes from the assets acquired from Gas Naturale, which contributed 32 million euros of EBITDA in the first nine months of 2010. Including this impact EBITDA would be growing by 18%.

So, moving to page 14, we can see that both in terms of volumes we continue showing significant growth both in terms of electricity and gas distributors, of course gas distributors were strongly impacted from the new assets namely the high pressure distribution in terms of Basque and Asturias. In terms of efficiency significant improvements, in terms of OpEx per kilometer of networks and in terms of OpEx per client connected.

Moving to slide 15 we can see that EDP renewable, which has already reported yesterday the nine month results, also show the strong operating performance with installed capacity growing by 27%, output 35%, and in terms of prices a decline in Europe and a slight improvement in terms of the US market.

Showing in page 16 a performance in terms of prices per market, I would say that in the US we maintained a growth in terms of the PPA average price which increased by 5% reflecting higher prices achieved on the latest contracts. Merchant price increased 30% in the period, nevertheless still significantly below the PPA prices. In terms of Spain the 10% decline of average price resulted from the decline in spot market prices, in the pool price.

Even then this decline was contained, given the debt – there was a significant contribution from hedging positions in terms of the open part of wind power generation in Spain. And regarding other markets, namely Portugal, France and Belgium, in regulated terms we show 1% increase in average prices, which reflect the stability of most of these markets in terms of regulatory regimes for wind power.

Moving to slide 17 in terms of Brazil, we can see that EBITDA in reals went up by 5%. A strong performance in distribution which reflects also a strong improvement in terms of volumes of electricity with a 15% growth in the period. In generation still a 1% decline versus last year, nevertheless we expect still a recover in the fourth quarter giving the seasonal adjustment in terms of production of hydro power in Brazil. Of course, in euro terms the impact of the growth in Brazil is much higher, essentially to the 22% appreciation of the real versus the euro on the period, which resulted in a 28% growth of EBITDA in euro terms of EBITDA Brazil.

Moving to consolidated financials – consolidated capex amounted close to two billion euros in the period with the highlight going to wind power, representing 57% of total, maintenance just 26%, so a strong impact from expansion capex in the total capex. In the wind power, the bulk in these nine months was still in the USA which we will slow down significantly in the future quarters. Spain 11% and the rest of Europe we're highlighting to Poland and Romania.

Regarding hydro – we have under construction right now 1.8 gigawatts, 0.4 billion euros of accumulated capex by September. Brazil, we continue to move on with the construction of our Pecém coal plant with PPA in Brazil, and we are concluding and already in test stage our Soto 5 combined cycle in Spain.

Regarding our capex plans for 2011 and 2012, as Mr Mexia has already announced, we are cutting our target capex for 2011 and 2012 versus the 24. billion euro target that we had before to an average of 2.1 billion per year for 2011 and 2012 – so this will be with expansion maintaining, of course, still a significant amount of money, 1.7 billion euros in average, and with the wind continuing to represent 64%, so the big majority of expansion capex. Hydro, of course, now gaining more weight, even with the decline in terms of wind power expansion.

Moving to slide 21 we can see that by September we had a level of regulatory receivable of more than 1.1 billion euro, the bulk of it came from Spain, something that… the results were justified by a delay in terms of the securitisation of the Spanish tariff deficit. We have currently 320 million euros of accumulated tariff deficit from 2006 to 2008, which is the part that is allocated to EDP on the ongoing securitisation process, which some quarters ago we would not be waiting to have it still in our balance sheet. In Portugal we would say that, regarding CMECs it has been decreasing versus December 2009, so we are recovering through tariffs a significant part of these regulatory receivables. Regarding last resort supply and distribution we continue with a slight surplus but which, right now, is much smaller than what we thought by the beginning of the year.

On page 22, in terms of construction in progress, so the amount of money already invested in construction and in terms of hydro concession payments, we can see that we have already currently capital investments of 0.3 billion euros in the combined capacity in Spain, which will start operating in January 2011. In Brazil we have already capital investments of €0.4 billion in our Pecém coal plan, which we expect to have an EBITDA contribution of 240 million reals in 2012, so around €100 million at the current exchange rate. In wind we have €0.4 billion capital investments in the 743 MW under construction, so excluding all the development costs and everything that is not yet under construction. So we are talking about 300 MW to be installed already in the 4Q2010, reaching 6.5 GW, and these 6.5 GW to be installed by December should have an EBITDA between €850 and €900 million in terms of a normalised 12 months period.

Regarding hydro – we have, right now, capital investments of €0.4 billion of assets already under construction, so we are talking about 1.8 GW of capacity, with three plants to start operation in 2012, or before – this should contribute to the EBITDA of €40 million by 2012. On top of that we have another five plants that will start operations until 2016, so the seven plants should have an EBITDA contribution of around €170 million by 2016 – so we are talking about a good return in terms of capital investment when the assets start operation.

On top of that we have still payments made into 2008 and 2009 in terms of hydro concessions – €759 million for the extension of the added concessions on the 26 hydro plants which are currently under PPA/CMEC, and €285 million paid for the professional rights to build three new hydro plants that are not yet under construction, and to contribute to EBITDA only in 2015 and 2016. As you know, the €759 million payment for the extension the EBITDA contribution will come only in 2014 when we expect an increase in terms of EBITDA by €80 million from the move of three hydro plans from PPA/CMEC to the merchant, and the next box will come to the market in 2016 with a smaller impact in terms of EBITDA.

Moving to page 23 we can see that in terms of net debt, if you adjust the €16.2 billion in September to the regulatory receivable which we have in our balance sheet, and to our construction in progress and hydro concessions already paid – so our net debt would be €13.7 billion without considering the concession payments in hydro, and €12.6 billion considering the concession payments. So of course, the net debt for EBITDA, which reported 4.6x comes to 4.3x excluding regulatory receivables, and 3.9x excluding only the construction works ongoing on plants to start operating in the next couple of years. Even without this 3.9x it doesn't include the impact of the hydro concession payment which would put the net debt of EBITDA at a much lower level if adjusted.

Moving to the breakdown in terms on net debt we can see that we continue to have more floating than fixed, so 56% floating, 44% fixed. In terms of funding there was no change, no terms of the breakdown by currency or by source of funds between banking and capital markets. And the more important news comes from the reaffirmation by SNP, by the rating of the rating of SNP, at A minus negative outlook in the last 29th October of this year.

Moving to financial liquidity on page 25 – as I have already stated on top of this €3.9 billion reported by the end of September we concluded two days ago the extension and increase of the RCF of €1.6 billion to €2.0 billion new value, which was extended by five years, and also the number of counterparties increased from 19 international banks to 21 international and national banks.

Moving to page 26 we can see that in terms of maturity profiles we maintain an average debt maturity of five years, and of course, that €3.9 billion financial liquidity was the new RCF. It's more than enough to cover our funding needs for the next 24 months, so until 2012. On page 27 we can see the match between our current level of liquidity and the key refinancing needs that we have until the end of 2012.

Finally, on page 28 we can see that from EBITDA to net profit – so EBITDA 9% up, and increase of depreciation by 20% reflecting 11% of installed capacity. The acquisition of gas networks, the impact of IFRIC 18 in Spain, and also of course the appreciation of the Brazilian real and the US dollar resulted in EBITDA growth of 2%. Net interest costs 9% down reflecting a lower cost of debt, 3.5 versus 4% last year. Note after that, last year we had 31 million euros of capital gains versus immaterial level of capital gains this year. The effective tax rate continued flat in the region of 26%, and in terms of minority interest, of course, that higher contribution to minority interests resulting essentially from the decline of EDPs economic interest in Brazil, from 72% last year to 65% this year following the disposal of 10% of treasury stock that our Brazil subsidiaries gave in December 2009.

Moving to profits, in terms of 2010. So we maintained our expectation to deliver 10% then we are talking about Bloomberg consensus levels of that stage. In terms of the rest of the process I would move to Mr. Mexia.

Antonio Mexia

Thank you, Miguel. I will do the last two slides before the Q&A, and I would like to start stressing what Miguel just said. We are comfortable in terms of EBITDA for 2010, I think that the first nine months proved exactly what we have been telling about 2010. We have a stable operating performance in line with the low risk, and it means that we are, with the current figures, very comfortable with the consensus.

In terms of net debt I also want to be clear there. We don't know exactly what will be the timing for the securitisation of the Spanish tariff deficit, it's still not 100% clear. We will receive 6% of what will be out there in the market, but in terms of debt we expect to be 16 billion or below assuming, of course, this big question mark of the securitisation in Spain before the year end. We are strongly focused on this issue, not of course on the Spanish because we will not be leaving, we are quite small in that part, but overall we are very much focused on this item.

In terms of net profit as we expect, the cost of debt will be below 4% for the full year. We don’t expect materials forex to impact on that profit, and on these lines we, once again, are comfortable with the current consensus. The key issue is that we expect, in terms of prospects, to be free cash flow positive starting in 2011 with material in that properties due to our investment policy, to our divestment policy, to be focused in terms of keeping this overall discipline.

Let me give you an example – we have stated again yesterday, as I have been mentioning since the beginning, that we will be reducing by 600 million our investments. Not only because it makes sense and it’s wise in terms of keeping our commitment in terms of financials, but also whenever the business is not there. And it’s the case in terms of volume in the US, we are strongly reducing in the US out of a peak of three years ago of 800 megawatts to 200 megawatts a year, I think it’s the biggest reduction in that market in terms of peers.

We were quite transparent and honest about our feeling for the short term in debt market even if we believe this is structurally the best market, but as you know all intents are taking forward. We're on the dominant part of the cycle so we need to be pragmatic not only because EDP is not there, but also because we've a strong commitment of keeping the low-risk profile of the company. We went to keep the merchant price of EDP renewals below the 20% and our target for 2012 is that these merchant prices will be below 15%. So clearly we want to give signs of this strong commitment in terms of low-risk in financials.

And by the way, I know it's a small thing but people tend to forget that we're still in Guatemala that is as announced an example two weeks ago we sold our participation in Guatemala, last year we sold the electricity business for another $127 million. And more than just a deal to pull this together with the other non-core sales since we arrived, since we met the first time in London in 2006, we had a target of selling 800 million of non-core assets, and with this deal we’ve sold already since 1.22 billion of non-core assets – so as important as what we do, is what we don’t do, or what we don’t want to have in portfolio.

And being very focused, being ambitious in the sense that the net profits and EBITDA is doubled in the last five years, you'll see a better financial rises today especially when you compare FFO that goes from 12% to 17%. And of course, this is a very focused approach on cost and also on asset allocation that today gives us a portfolio that has low risk and with technologies that are more protected in terms of assets security markets, especially in Europe, but also the divestments of more than 1.2 billion.

So overall, once again, we have been delivering what we have committed, and sometimes as with to see the competitive committed last over to the commitment of the last three months, but also since we arrived I think it's fair to see the track and that we are just in track even with the huge changes in life – of everybody's life in the last two and a half years. So, overall comfortable delivering 2010 again according to the content. So thank you and let's go for the Q&A.

Questions and Answers

Alberto Gandolfi – UBS, London

Good morning, Alberto Gandolfi UBS, London. I have a couple of concept questions and a couple of detailed ones. First of all, clearly, these days markets are obviously looking at sovereign than your bottom up development, but the tenure in Portugal is at 6.4%, and we know that there is a stability fund by the ECB. So the risk is that in a couple of years, for you, this spread could be way higher, so can you elaborate a bit on a plan B, specially talking about further capex reduction, how let's say, wholly are the dividends, and the dividend evolution?

Secondly, if you had a blank piece of paper can you elaborate a bit on what you think is, in the light of the new economic environment, a sort of… through the cycle leverage for EDP, and perhaps comment on disposals, if this could help to get there? And then two much quicker questions – the first one on page 12 you talk about 50 euro megawatt an hour in the slide, and I think on page 13 of the press release you give like below 48 and 51.4 euro megawatt hour – could you clarify please how these compare? How to relate one to the other, if you put supply margins, capacity payments or not in there? And on the back of this I was working out a 50 to 75 million euro drop in EBITDA for the liberalised business for next year? Wo8uld you agree with this?

The last one is that if you confirm that, as you say on the slide on page 21, that you expect the Portuguese receivables to be cashed in by year end, if you also expect a tight deficit this would be cashed in by year end, or at least you put it in your 16 billion expectation, I'm surprised you just talk about 16 billion. Because we are at 16.2 billion now, 500 million will be Portugal, 600, 700 million Spain, maybe only 150 comes in from it – are you telling us that you expect to be largely cash flow negative in Q4? Thanks a lot?

Antonio Mexia

Sovereign and plan B, we don't have, as of now, a plan B, and we don't see any need for a plan B. We have no worries on that, so we don't as of yet, to see a Plan B, and I also would not like to speculate much as to how this thing is going to evolve. It will evolve in whichever way the markets want it to evolve, and I basically, don't want to speculate too much on that.

And as far as the cash flow for the fourth quarter, our expectation for the cash flow for the fourth quarter is positive, despite of not having the tariff deficit, so even if we don't have the tariff deficit the cash flow expectation for the fourth quarter is positive. We do have our order to pay the acquisition of the 10% of the natural gas stake from the put and that's 200 million, which would basically make it neutral in that sense. So if we get to that, we will be below 16 billion if we don't we should be close to 16 billion.

The concerns Capex, EBITDA, and economic environment besides – let's quickly – first, it's although foreseen and it's still presumes and to begin as to realize when we talk about the evolution of EBITDA and how you will see now our Capex is adjusting for 2011 and 2012 that's even – what are the option for us after this? We have a clear – we have a very good visibility on the very strong free cash flow positive, but we are talking about billions between Capex and EBITDA. The company has really changed its cash flow capacity, it’s cash flow generation capacity in the recent past. The profile in terms of investment, in terms of time-to-market of the working in progress assets will make a huge impact after 2012, starting in 2012. The new additions of wind compared to the installed stock, of course is totally different, and even when you see investment compared to EBITDA, you are already below 75%, where for a moment the last years, we were above 100%, because we are pushing the growth as you know. When you compare the last five years in terms of growth of EBITDA and net profit, you have a 17% average increase year on year, a 17% increase. It means doubling since then, but now the expansion programme, around two billion a year, and the gross of EBITDA gives you an enormous visibility of the very strong cash flow generation being positive in 2011, and then starting reducing sharply, and improving the financials after this.

Let’s be clear, even in this moment we have not changed the dividend policy, unless the shareholders would like otherwise, we will still be proposing the increase up to 20 cents on the back of 2012 figures. It means doubling the dividend made in 2006. We see no reason, if we have not changed this policy two years ago, to change it now. So we will not do the rights issue. We will not change our dividend growth policy. What we have been doing is being very pragmatic in terms of Capex, reducing when it makes sense, postponing when it makes sense. And even in what’s concerned, is finding partners in specific business, we have been also very pragmatic, and we will be committed to this, that we don’t see any major change. And one of the worries, and what concerns the economic environment, and when we take Portuguese… EDP to Portugal, you have a very strong part of our business in Portugal, and whenever… when the Portuguese part of our business is very good in the sense that it’s very protected by a strong contractual basis, with very good returns, especially on… that makes it to 2017. So clearly the Portuguese part of the business is a very good part of the business. Of course, we are tied to being Portuguese-based, but we have already 53% of our EBIDTA coming from outside, and it will be two thirds by 2015.

So I see, of course, a challenging 2011 for everybody, but I don’t see this relation between Portugal and the EDP being meaningful business-wise, especially because as we’ve seen, even the demand recovery on energy in Portugal, it was even stronger than in Spain, and the Portuguese business year-on-year, has increased 6%. It is the Spanish price that has decreased, so we feel comfortable, so no reason to change now, but once again, we will be always pragmatic on the Capex side whenever it’s needed, and flexibility for 2012 is huge, as you can imagine. And we have been already reducing 600 million euros.

Now, moving to the liberalised activities question, first in terms of the practice that’s referred in page 13 of the handout, and page 12 of the presentation, So the fixed price we're talking essentially about the price that is equivalent to -- of the practice we contracted client. So the both of our forward contract and client of course that's in page 13 of nine months 2010 results, what you see is that in last 5 to 9 months the sales to client were 51.4. Of course as we were in some months also selling in spot market and in that

area we sold at lower prices, 47.6, which resulted in lower price of 48.6. So this is especially the explanation for this. As it is explained in notes of the nine months 2010 results. So it includes the capacity frame and services rendered, et cetera, which is in other line, and which is not included in this price. So in terms of performance at EBITDA level from the revised activities, so as you now – we had a very high level of the EBITDA from the 2007 to 2009, essentially the margins add to – even the thermal margins actually were in the region of €19 per megawatt hours during 2009.
During 2010, that level of margins in terms of thermo spreads -- and here we are talking about let's say realized spreads. They decreased to the region of 10 units per megawatt hour, so that's why also you see a decline in terms of the third quarter essentially because during the first quarter 2010, we had the opportunity given this big decline in terms of fuel prices in that periods and the instability of the systems to do some arbitrage gains through the replacement of our own thermal production by fuel purchases. Also we were much more active in terms of secondary markets and something that we need to do act in the first quarter and also because we have not too hot a summer.

So essentially and moving to what is our guidance for 2010, we would say that in July we talked about our EBITDA decreasing between 100 and 150 versus the 633 reported in 2009. Right now we are still in the range but we see it's closer from the bottom of the range, so more in the region of the decline of the €150 million. For you are asking for 2011, also for 2011 given that we don't account for '11 with -- we are not considering arbitrage gains. It's something that we don't do budget, we don't anticipate. It's something that can happen, but we don't guide on that. It's very difficult. So we expect further decline and the EBITDA to be more in the region of €400 million for the priced activities in 2011. So this is with the current information that we have and this is our position. Why this decline, essentially because, okay, we have 65% contracted, but the remaining 35% that is not contracted, let's say the spread that we have to pay in the markets, they are lower than the average level that we have contracted. I hope that this is clear.

Bruno Silva - BPI

Good morning, this is Bruno Silva from BPI, thank you for taking my question. I have some questions spanning… I will start, number with… is EDP Brazil. The results came out one day ago, and they were below consensus. The question is actually, what is your expectation in terms of the financial changing the EBIDTA from distribution with the current ongoing changes in regulation, and if this impacts or not… or reinforces your idea that you should be focusing more on generation, and who knows, potentially trying to sell a further stake in the distribution unit? And connected with that, in terms of asset disposals that you have already mentioned today, I think you only touched minority stakes, or financial stakes, do you think it would be advisable today, considering the current debt market environment, and particularly the Portuguese one, to consider taking advantage of the transaction markets with the interests of infrastructure funds in gaining access to regulated infrastructures, to sell it with the minority stake in your businesses that are in Portugal or Brazil and Spain?

And number two regarding your guidance; you've talked more about 2010. For 2011 could you give a similar exercise apart from generation activities? Bloomberg has repeated their guidance or levels of consensus of above €3.7 billion. Do you've any comment on that? And finally, if I may, just on the renewables business, valuations *continue very much depressed and our green power doesn't seem to help the sector with the pricing of its IPO. Do you think makes more sense looking at investing more in EDPR or investing in EDPR itself? Thank you, very much.*

António Mexia - EDP

Thank you. Concerning Brazil, as you know, there is a lot of excitement, we talked about consolidation. We have been discussing… two years ago, everybody was asking me why we would not sell, because it does make sense to have Brazil, so sometimes people now ask why I don't have more. I think that we have been consistent, we are moving from the assets that we like less, and buying the control of more hydro. We now have visibility in terms of regulation, especially because we've succeeded to have one of the two distribution companies Escelsa with 15% before tax return at 2013. We have now a pre-negotiation figure for all the sector for 2011, including Bandeirante, that will be set above 7%, people are talking about 7.3, 7.5, 7.6 or whatever. We don't see a major pressure on these by the way, we see probably a more comfortable future than it was in the past, so we don't see any reason to change it.

You're right, we are more – we are focused in generation but, as we have been proving, we don't do these at any cost. The latest auction either in wind or in hydro with such a low returns to the investor that we have decided to say no. And what we have been focusing is in developing greenfield projects already with permits to develop even if it's small value and so value for money is name of the game and not being over excited. And we see comfortably growing in Brazil, but without – at this stage we don't see any change in our strategy for that market.

And what concerns having taking advantage of financial then selling companies or minority financial, we don't see value creation for our shareholders in that move. typically it gives a short-term breadth presenting that these Europe business in the long-term will change the low risk profile of this company. So we don't say 10%, it takes a lot of time money-wise and value creation, it's not for us at this stage. We rather, we've mentioned, we're rather looking for financial participation at the wind business in specific assets that makes sense for specific investors, mainly fixer or value investors either in Europe or in U.S. The people that share with us the derivatives or regulatory risk, but of course we'd like that to stable cash flow but it's also like the risk framework. So we don't see any pressure and then in value creation in this quarter results, these four companies are minority stakes..

Miguel Viana - EDP

Well, the question concerning the guidance for 2011, well we typically don't comment much on that part, we maintain what we said in May, on Investor's Day, so what our expectation for 2010-12 period is still the same; it's still 7% to 8% per year. We will obviously be more than that in 2010, and then we'll see how it goes forward. For 2011, our view is we will have low single digit growth at the EBIDTA line, next question.

Javier Garrido – JP Morgan

Hi, good morning everyone. Well a couple of my questions have been already answered. So basically I will like to focus on two main things why is there some highlights on the – on Bloomberg, I'm basically talking about that did you might be considering to issue a high yield bond, basically you can update as from that, which could be the size and the call that you'll be seeking in that case?

And secondly, when looking to the new Capex cap, explained on the back of EDPR, the U.S. situation et cetera. Also looking to next year with regulatory issue of clearly coming there recovery of them in Spain and in Portugal, could you also comment on which is the net debt that you'll be expecting at this moment for year-end for 2011? Thank you.?

Nuno Alves – EDP

Okay, let me start with the second one, I mean, we have no way of prognosing (sic) what the tariff deficit's going to happen in Spain. So the number is always to be with that safeguard that we don't know what's going to happen there. What we are saying and what our commitment is, we will be, in 2011, except the deficits, we will be free cash flow positive. So if it was not for the deficit, or anything that's securitised the debt decrease in… at the end of 2011. So as far as the deficit is concerned, there's no futurology on our part.

And as far as the hybrid and then also the same question here from Andrew Mulder on the internet, let me try to say what we have or we have not. Some of you know that EDP two years ago, after the IPO of the renewables, did a road show with a tentative for a transaction on a hybrid, which didn't occur because then we got into the Lehman era and the market disappeared. The markets for hybrids seem to be open right now; there's been three or four transactions, three or four utilities have done it. We have been planning on it for quite a while. Our intention right now is fairly straightforward; we will go on the road with no exact timing for the transaction. We'll go see if the appetite in the market exists right now for EDP, and we'll see how it goes, but there's no decision, formal decision on anything else right now.

And as far as the question… I might as well follow that up on the question that Andrew had on the internet; it is essential to preserve the rating. From the conversations that we've had with the rating agencies, is that this is not essential, but obviously this is a plus. What the hybrid is have, or in the case of the ones that have been out in the market and the structures that have been seen recently, 50% of it counts as equity. And in that case, you lower your net debt and you improve your ratios, so from that perspective, it's good for the rating agency, and it's good for investors as a whole, as they see these decision of such subordinated, or deeply subordinated type of instrument, as a positive in terms of framework. But for now, I guess that's all we can say. Next question?

Tom Gibney – Credit Suisse

Good Morning, just thinking about the rating, if there was a downgrade of Portugal, there's no question your S&P rating in particular would come under pressure. In that event, would you be prepared to make additional asset sales, cut dividends and so on, to *keep the rating in the A category, or would you consider it sort of, an external event that you can't really do anything about? And then secondly, given the, you know, the difficult fiscal situation in Portugal, are you concerned that there may be some kind of proposal for a windfall tax, similar to what we've seen in Germany and maybe in Spain too?*

António Mexia - EDP

Let's talk about the windfall tax. I think it's totally out of the question. If you see all the times – that you have seen in the recent past make that effective and more stable and more predictable, the end of industrial carriers imports of 2011, the introduction of capacity payments. All of these items bring stability to the system. What is our concerns, factors as you know the only change was the corporate tax for everybody not for a specific sector, traditional that has an impact that we have already set to the market the fact that we've already set to the market reviews almost no material for us in terms of accounts and we don't see any major thing. First, no liberalized products of our business in Portugal in terms of industry is very small, the reduce is related to the contractor towards the liberalization the time of mix that are signed to prove Portugal to be liberal so there is no impact.

There is a small amount of liberalized products. The thermal anyway, you cannot [inaudible] already and everybody else in Europe. So, we don't have windfall profits – we don't have windfall profits in Portugal. We've basically regulated activities and a small liberalized market that, by the way, is today under pressure so no windfall profit.

In Spain, all took by the way, we're less exposed than everybody else, why because we're more terrible in the generation for us and we're not in the sectors that are today benefiting from a small windfall profit. So, either in each of the border we don't see anything. In our consumers ratings we are strongly committed with things favour with these ratings. We proved these in divestment in the investment policy that we are seeing. We will do everything that is in our hands that make sense to keep these.

I don't do any consideration about the companies having different ratings from the can do where they are listed that are based. They are only seeing that our that are said again we are close – we're getting close to 60% revenues coming out from outside Portugal so and we're just enhancing this product and the rest is making – nearly bring out our business. The rest, I don't speculate with – we probably can break it.

Raimondo Fernandez Cuesta - Nomura

Hello, good morning. Thanks for taking my questions, two of them. One of them we've already asked EDPR and we've been asking Iberdrola Renovables and so on, but given the very low valuations of the renewal subsidiary, EDPR in your case, in particular, what can be done or what can the company do to try to help sure up that valuation which I think is recognised by everybody to be trading at a massive discount to the value of what I caught already flying today?

The other question is just one of, again going back to the debt, and I'm sure you're sick of talking about debt and your net EBITDA. But one thing that I just wanted to understand, whether it is fair, when you look at your net EBITDA ratio adjusted, and there's a slide in *the presentation looking at the work in progress and the receivables and so on, which I think most of it is legitimate. But I just wanted to understand why the payment in terms of the hydro concessions, the 759 million that was paid a couple of years ago, to preserve or to retain the value, or the terminal value of the hydro?*

And why that should be included in the calculation; I understand that transferring stations, power stations from the PPA's to the market at a given certain scenario, may be improving your EBITDA, but I just wonder whether that is legitimate?

And the other one is on the wind, because although the Capex on the wind is being cut, but you still, and I think it's the right thing, you continue to want to invest large amounts, and therefore you're always going to have a material amount of work in progress, so not generating EBITDA at every point in time during the next few years. So I just wonder whether that is the right way to look at the net attributor ratio, thank you.

Miguel Viana - EDP

Hi Raimundo, on the first question. So, no debt related with hydro concessions on the net debt to EBITDA, we are not – so, the 3.9 adjusted figure includes only the regulatory receivables and the construction in progress. Nevertheless, of course that €1 billion that we have already invested, not that if we didn't had paid €759 million, we would not have the 80 million positive impact on EBITDA in 2014, which will result from the three hydro plants that moved from PPA/CMEC to the market, which are currently receiving price over on €25/MWh because they are very old and very depreciated.

And when they move to the market, we expect them to make a little bit more money. So that's the reason. Although we don't think include in the adjustment why, because this is only in 2014. We are talking only about plants staring the construction, which have a much short-term view. So in the next three years namely in 2012 we have an impact for €140 million on EBITDA, just on the coal in Brazil and the three hydro plants in Portugal that started operating. So, this is quite near-term. So, that's the explanation.

Antonio Mexia - EDP

The question is, we are not going to buy shares, even if it would be a financial… it would make sense, it's not the case, we should keep track of what we have decided concerning our financials, concerning every partner… that the share revision for the value creation in the renewable sector, so we will not be buying shares. It will then help the shares that we are not buying the shares; it's what makes sense here clearly. And I think they have been very transparent on this. We are moving in renewables from a sector that was just build, build, build, and now you need to prove that you have better sites, better load factors, and the premium especially when you compare markets like Spain, that you're also in Europe, you'll see that renewable EDP renewables as a premium operation on this.

But overall, we are moving from let's say, just gross and we will be anyway growing faster than the others in relative ways. But we are value-driven and adjusting Capex, being very clear, especially about the US markets, and only if you see the reductions as down to 200 megawatts, and if you compare this to others, you'll see that we are much more aggressive in terms of reduction. And much more prudent and pragmatic about where you create value. That's the key issue, we are moving from just a growth story, into a profitable growth story. And I think it's the best way and to do your PPA's, to build an addition portfolio, diversified portfolio in Europe, winning the regional tenders and being the leader in Spain in these options for the future. Doing what we need to do in countries like Poland, so I think that the investors will separate good assets from bad assets. It's the best thing is to keep telling the truth, next.

Javier Suarez – Unicredit

Hi, good morning, this is Javier Suarez from Unicredit. The first question is on the slide 29, when the company's mentioning that the free cash flow should be positive in 2011 and 2012. I think that Mr Mexia mentioned that it should be… it's likely positive in 2011, and then significantly positive in 2012. I'm just questioning if you can elaborate on the reason or which is the origin of this improvement in the… I guess, on the operating cash flow generics? And I'm saying this because obviously the dividend has been fixed, and is going to increase. And then, there is not a massive difference on the Capex, so I'm just questioning myself from where this significant improvement on the operating cash flows will be coming from?

And then a related question also, I guess, looking at the balance sheet of the company, it's just the thought that if the company is to then be considering how to reduce this Capex more aggressively; I'm saying this because, looking at this slide, number 20, it's still 20% of the Capex, excuse me, 70% of the Capex that the company plans to do in the period 2011 and 2012, is expansion Capex, and I'm just questioning if the company could be reconsidering in the next quarter, this expansion Capex in the light of the more difficult micro environment, many thanks.

Antonio Mexia - EDP

Okay, let me try to explain the expectations and cash flows, and the difference between 2011 and 2012. There's two major issues there. One, you're going to have less Capex of 200 million, and on top of that, you're going to have everything else the same, probably over 300 million more of EBITDA in 2012, which has to do with the coal plant in Brazil which comes into play, the hydro's in Portugal which come into play, and obviously as every year has been the case, the new wind farms that come into play. So as we've been saying all along, 2012 will have a major jump on EBITDA, everything else staying the same, which typically is the case. And I don't think we will see a much lower number from the liberalised market. I think we are reaching the floor in 2011, 2010, 2011. So I cannot see how it can get any worse than what it has been the this year and next year.

So given that the rest is regulated, so it's fairly straightforward why the cash flow in 2012 should be 500 million more than what it's going to be in 2011. That's a fairly straightforward calculation for that. What was the other question?

Miguel Viana - EDP

Further Capex.

Antonio Mexia - EDP

No, I mean, the 2011 and 2012, I think we've adjusted it in as much as we think it makes sense, and it's reasonable to make, and puts us in the situation that we will be cash flow positive after dividends throughout the period. And it gives you the possibility, once you get to 2013, then to decide, because you have hardly any commitments for that year, to decide what you want to do. Our basic commitments on a yearly basis 600 million of maintenance, and 400 million on average per year on the hydro, so we have one billion of Capex that we will keep on having forward. And then, we have to decide how much to invest in the wind, which seems to be the sector where we will be prepared to invest right now.

Jose Javier Ruiz – EXANE BNP PARIBAS

Hello, good morning and this is Jose Luis from EXANE BNP, just two questions. If I didn't misunderstand, you mentioned you want to reduce the merchant production percentage to 15%. Could you tell us if that is correct? And how are you going to do it considering that at the moment, you're at 27%?

And my last question is, well, considering that renewables are going to see a slow-down in terms of earnings growth for next year according to comments from management at EDP Renováveis, and considering that consensus is expecting a flat EPS for 2011, how are you going to compensate these lower expectations of earnings contribution from the EDPR, thank you?

Antonio Mexia - EDP

About the reduction of the merchant, and then I'll pass, the fact that the US market has been the fastest-growing part of our business in the recent past, and it will be the country now, due to the fact that we have a very stable and visible portfolio in terms of new additions in Portugal, Spain, France, Poland, Romania, it means that we will be basing our growth in markets that are typically regulated or likely is the case, it's not the case in Poland, but where you have today a liquid market in terms of selling that energy. And in the US, the fact that we have been so aggressive, cutting our, let's say, bottom target, is because we are entering and we have the intention to only build whenever we have already PPA's. And that's the clear, so the new additions in our clients, are based on a PPA market, and that's very important.

It's the reason why we are now building almost one fourth of where to what is the peak participation on the US market. We see the US market going on down from a 9GW installed last year, to around 55GW this year. And probably four or even less next year, so we will be reducing our market share on that market, and focusing only in markets where you can have PPA's. So either a PGM or the eastern markets, so as we have been probably following through the EDPR presentation, we are mainly focused on these PPA's or sales that will keep us with more Europe,, lower US, and US-focused only, and start building when you have PPA's is the commitment to reach 15%.

Nuno Alves - EDP

As far as EPS lower in 2011 on the renewables, I didn't hear the profit concerned, I really don't know where that's coming from, what I can say is that we've closed the budget and the number is higher. There are some differences in what you've heard and what I know. So what I can tell you is that budget – earnings for next year, that the renewables will improve.

Antonio Mexia - EDP

Closing Comments

So thank you for your presence, a lot of questions about the debt, hopefully we were clear in what concerns our commitments, strong commitments. We will do wherever it's needed in that front. We have been proving this in the past, in the recent past, in the recent weeks. Questions about flexibility and being pragmatic; as I always mention, we are committed but we are not stubborn. We are just stubborn in what concerns our improvement in the financials, at the same time we have profitable growth. There we are stubborn, only growing if it makes sense, and keeping the financial improvements.

I think that the fact that the three rating agencies in the last three months have confirmed our ratings is good news, as well as the RCF have signed bigger, longer and cheaper signed two days ago. So we feel that today delivering the results and delivering on the fronts of a reputation that we are now in a stronger position and comfortable to deliver the consensus in 2010 and in 2011. And then, our life will be much easier as we have been showing, after 2011. So thank you very much and I hope to see you soon.