

Y 2016 Earnings Call

Company Participants

- Henrique Manuel Marques Faria Lima Freire, Chief Financial Officer
- Miguel Nuno Simoes Nunes Ferreira Setas, Chief Executive Officer & Investor Relations Officer

Other Participants

- Henrique Peretti, Analyst
- Kaique Vasconcellos, Analyst
- Marcelo Sa, Analyst
- Maria Carolina Carneiro, Analyst
- Pedro Manfredini, Analyst

Presentation

Operator

Good afternoon and welcome to the Conference Call of EDP Energias do Brasil to discuss the Earnings of the Fourth Quarter 2016. Right now, all participants are in listen-only mode. Later on we are going to open for questions and answers. And then we are going to give you further instructions. (Operator Instructions) This presentation together with slides will be simultaneously broadcast on the website www.edp.com.br/ir. In there, you will also be able to obtain the company's earnings release.

Before going on, EDP Energias do Brasil would like to let you know that any statements made during this conference call relative to the company's business outlook as well as projections, operating and financial goals relative to its potential growth are based on assumptions based on the company's expectations with regard to the future of EDP Energias do Brasil. Forward-looking statements depend on the country's economic scenario, performance and regulation of the electric industry in addition to other variables, and therefore are subject to changes.

Now, I'm going to turn the call to Miguel Setas, CEO and Investor Relations Officer of EDP Energias do Brasil to start the call. Please, Mr. Setas, you may go on.

Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Hello. Good afternoon, everyone. I would like to thank you for attending our earnings release of EDP Energias do Brasil regarding the fourth quarter 2016 and the whole of the year of 2016.

I am in this conference call with Henrique Freire, our CFO; and also with Marilia Nogueira, our Executive Manager for Investor Relations, in addition to other EDP officers that are present with us here today.

I would like you to turn to the presentation. We are going to have a brief explanation, and then we are going to go into Q&A. So let's start with page three, just to show you what we believe are the highlights for the year of 2016. The first highlight that I think is about quite striking in our performance was the completion of the hydro power plant Cachoeira Caldeirao. As you know we delivered it eight months in advance our regulatory landmark.

The first ceremony [ph] started in May in 2016, and the regulatory landmark expected for January 2017, and it was the first time we did that. We had already advanced a plant in the delivery of Jari 3.5 months before time. So it was just a confirmation that the management model the capacity of companies to diversify and manage risks is quite balanced, which enabled us to once again deliver a plant within time and budget.

The second point is Sao Manoel that closed the year with 83.4% of evolution, in a scenario in which civil construction is more than 90% and the more complex, so to speak, part of the project which is the river's diversion is already completed. Once again, here I cannot fail to mention, later on we are going to talk about that. The impairment in the accounting register of Sao Manoel, you are going to see that later on with the explanation of our CFO.

I'd like to talk about Pecem as well. As you know it was a plant that in the first two years was below what we expected in terms of operations at Escelsa for the last year effect 2015, and now 2016, it is very close to the 90% availability, which is our regulatory commitment. So we closed the year at 89% of availability which is very positive in our opinion. It also enabled us to close 2016 with EBITDA about R\$500 million. As you know we have released guidance on Pecem result between R\$400 million and R\$500 million. And once again this year our performance was above our guidance that we usually release when we talk to investors and analysts.

Also I cannot fail to mention the hydrological situation in the State of Ceara. We know that the Castanhao reservoir is having a positive evolution in recent weeks. We in the water consumption of the plant have been taking measures to try and reduce water needs there. And therefore, the situation is still a situation that deserves attention. We are monitoring it very judiciously that we have had some improvements in recent days that has been positive, and again later on we can give you a bit more color on that in our Q&A session.

Let's go to distribution. In distribution, basically the most sensitive point is the commercial losses. What we have to say is that we have had a gradual and consistent approximation to regulatory losses. Remember that in 2016, we had minus 0.62 percentage points in Bandeirante indicates that's above, and minus 1.39 percentage points in Escelsa in tariff cycle.

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It's important to say that in tariff cycles, we already have a difference in the regulatory curve compared to the regulatory curve of 8%. And we are -- we are at about 3 percentage points (inaudible). Of course, we wanted to get closer and closer, and converge to the regulatory losses levels.

Another thing that is important is the 7th tariff cycle of Escelsa. We know that we are going to have several advances there and we believe they're quite positive. Remember that in addition to the losses, we also improved the technical losses we had and a reduction of cancellation from 14% to 1.3% again for regulatory effect. This is very important, and all that had an impact of more than R\$1 million in the regulatory EBITDA of company. Again, we believe this is a very favorable situation for the economic balance of this construction. And finally, we have the tariff adjustment of Bandeirante of 9.5% in Component B and 25% in BRR that you are all familiar with.

Now we are going to talk a bit about cost control and financial discipline. Remember that we have a capital increase of R\$1.5 billion. We have 100% of subscription as you know in our capital increase and for us this was a positive sign from the market, and enabled us as we mentioned to have a short time agenda with financial optimization. We had the prepayment of the debt with the Interamerican Development Bank, approximately R\$922 million. The debt was in dollar, but we converted it in real that we paid in the end of the year.

And also a debt with a housing [ph], from the housing with (inaudible) Brasil. So the capital increase was very important, and the agenda was completely met and in line with what we work at. We optimized our financial situation. For instance, for the same we are talking about a difference of 200 basis points of financial -- cost for the same.

Also we had a net debt/EBITDA in the end of the year of only 1.5 times, which is quite balanced, which is quite solid for any movements of growth we might have in the future. Also I cannot fail to mention Henrique is going to talk a bit more later on. But it's about PMTO. We had an increase of 3.2% between 2015 and 2016. And if we think of non-comparable, and excludes the same, which are non-comparable. And also if we think (inaudible) the company's capital structure excluding provision for doubtful debts. We have really a positive situation. So this is a reflex [ph] of the projects we have been developing that have been quite successful. And we are going to continue in line with the same project for the years to come.

And just to close the highlights for 2016, I would like to talk a bit about the growth. We have the acquisition of Lot 24 in the transmission auction. We are going into the segment still very cautiously that already showing our intention to move on investing in transmission. We are preparing for an auction in 2017. We are analyzing market opportunities. This is an area in which we want to focus on for the coming year.

And another comment about distributed solar energy in line with our energy services. But it is a new segment. We are not present in that segment before and we see a growing opportunity in the Brazilian market for us to develop in the coming years. All that with

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structured investments and distribution, you are going to see that in Henrique's presentation, and also an increase of 50% in our net CapEx for distribution.

This is very important, as we are having a decrease in cancellation, both in Bandeirante and Escelsa, and now it gives us the possibility of where to grow without having losses, without having cancellations, and really optimizing our capital. So this was a year for us to have a CapEx agenda in distribution close to R\$500 million. It's quite ambitious and we want to continue with that in the coming years. I think this is a highlight, I cannot fail to mention.

And now I'm going to turn the call to Henrique Freire that will give you a bit more color on the earnings of the fourth quarter and year of 2016.

Henrique Manuel Marques Faria Lima Freire {BIO 19117781 <GO>}

Well, good afternoon, everyone. Let's start with slide number four then. Here we have the explanation of the gross margin of the company for the year of 2016. I'm going to start on the left. So in 2015, we had R\$3,190 million. We closed the year with 3,289 [ph] million in 2016. So an increase of R\$99 million in gross margin.

If you think of business, let's talk about Hydro Generation, first. Hydrological risk especially with the provision for bad debt, GSF was not -- that's the difference 87 versus 75, but the provision was much lower 94 compared to 288. And that risk had a relief when we compared 2015 to 2016, but it produced an improving margin of R\$192 million. Remember that in the end of 2015, we had a bad hydrological risk. Especially in the end of the year if you remember in December, we had an impact of 40 million in the main plant, and along 2016 we have in the shaft [ph]. And as the year moved on we had a better situation, and we had a positive impact of 28 million in 2016. So these were the events that we had for Hydro Generation, the main event [ph].

Then we have energy contract generation that was a bit large, we had the end of our 10-year contract of energy that was replaced in the market, it has lower price, but some losses there. Pecem, our thermal plant, we closed the year with an EBITDA of more than 500 million, and when we compared to 2015, we had a better position, but remember that this was the full year of Pecem with an impact of 33 million. So although we had events as you know in terms of holistic [ph] that caused an emergency loss that did affect our results especially until the end of the year, but we still had a positive impact.

In distribution, I tried to put together then the events that impacted 2016 compared to 2015. First, tariff especially in Escelsa because of the tariff revision and that was a positive effect because we have a correction of (inaudible) and then market that had almost 40 million impact, 39 million negative. Remember that in Bandeirante 0.8% [ph] and in Escelsa 10% and that impacted our result. The overcontracting; when we compared to 2015 overcontracting versus our margin of 80 million is less. In 2015, we had a plus of 35 million and this year we closed the year with a negative contribution of 45 million, 36 million in Sao Paulo and 9 million in Espirito Santo.

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Then we had the VNR. We had an extraordinary updating. You will remember, you know that we have the normal update and then you have a revision period. And we had an impact in 2016 of 190, and in 2015 of approximately 150, so that is an impact in the margin of 42 million.

Losses; we continued to reduce our losses, commercial losses, as it was mentioned continues to narrow the gap to the regulatory landmark and that gives us positive effect of R\$20 million. And finally as for services commercialization, as you know, commercialization had a more difficult year. I would just like to highlight that despite the negative impact when we compared 2016 to 2015 of 31 million. In first half of the year was a negative margin of 7, but we had improved to 33 million in the second half. So this is already getting better.

So basically we are going now to slide number five, where I show you a bit of explanation on our EBITDA. We know that last year, 2015 we closed at 2,960 million and we closed 2016 with 2.3 billion. Margin -- gross margin 99 million as I mentioned. PMTO, I'm going to talk about that, but I would like to mention something about the variation. You know we have the provision for bad debt. This is something that is very important.

We had an increase of provision comparing 2016 to 2015 of 28 million. But if we talk the first term and the second term, in the first it was 79 million and in the second it was only 34 million. So we almost reduced by half the added value of this provision in the second term compared to the first term. So that again shows that our management could have some impact to control this variable, which is a variable (inaudible) potential, but it's a lot more controlled.

Then we have the gain on asset sales/acquisition of investments. Remember that we had Pecem in 2015, and this year we had Pantanal, and also in 2015 we had the Renovaveis which are not accounted for in 2016.

As for our net income, we closed the year with net income with R\$667 million compared to R\$1,266 million. The explanation of EBITDA, we had the investment of Pecem. And in our equity, we had several events related to that. In this result of minus 2, for instance, we have the results from our corporate participation, and it has to do with an event that we had in Sao Manoel.

Remember that last year, we had Pecem with a negative contribution, and this year it did not happened. So the consolidated effect is minus 2, thus we had this loss that I talked about (inaudible) of approximately 100 million.

Financial results, very much in line with last year, a bit worse but we had an increase of cash flow. We are going to resist [ph] with that, and we can talk about that later on. But anyway, then income tax and social contribution which are broader because we have -- unless the result and then probably we have less to pay.

And we experienced in 2015 enough provision where we identified several events, and we mobilized basically the whole of the company. The idea is to have a base zero budget.

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And the idea is not to cut cost of preventive maintenance, for instance, or used to pay the bill later on, but rather to allocate money that would control with focus on the business variables. And for the year, we identified more than 100 initiatives, more than 84 million in gains in our base zero budget, and at the same time, we have important reinforcements in our OpEx. We have an increase of 35% in the cost -- the provision as I said for bad debt had a decrease between the second term of 2016 and the first term. We increased our fights against frauds, and to try to meet regulatory target. Remember that in 2016 we had more difficult meteorological conditions than 2015, and that worsens our position. But we had an increase in the (inaudible) of 33%, and with that we could meet the target of ANEEL in terms of (inaudible).

So statements are very difficult, but if you think of the consolidated basis, if I do not consider Pecem, but even in Pecem the cost went down from 2015 to 2016. And what we can see that from 2015 to 2016 we had an improvement of 3.2%. Thus if we go from 2014 to 2016, we have an improvement of 6.9% compared to an inflation that was accumulated of 17.6%. So we had 10% of real gain which have to do with the gain of 84 million that I mentioned with the 100 implemented initiatives. So this is in a way a way to evidence how successful this cost control program was.

Now we're going on to the next slide. Here we have some information about our CapEx. First we have our CapEx evolution. This chart first shows the investment that we had in the companies in which we have some kind of Cachoeira Escura, Sao Manoel, and also the investments that we have in our distribution -- distributors and generators. We see in 2015 we invested 972 million, and this year we invested R\$1,149 million.

There is a bit of a change in our mix last year. Cachoeira and Sao Manoel were in constructing in 2016. Sao Manoel was completed. So we increased the mix of investment in distribution. To the right, you can see that our investment in distribution; we went from R\$320 million to R\$481 million, almost 50% increase. And this increase can be explained because the network was expanded and this is a need that we have, we already had in 2015.

And in the bottom part if you see the breakdown of our investments, we also increased our last effort on network improvement that is automatic reconnectors cable investments that in the long term will also have an impact in terms of efficiency, of quality and also a reduction of OpEx. So in this sense, and following our strategy to gain efficiency, we had this increasing investment. And this was then in a scenario of controlled debt.

If you go to slide eight, you can see our debt levels. We closed the year with net debt of R\$3.55 billion, with a net debt/EBITDA ratio of 1.5 times. And some highlights in the evolution are, so we have a capital increase I already told you about, but in addition to that we changed our debt structure. We deleveraged the holding, we prepaid a debt of 300 million that we have with the holding, right after the capital increase.

And in December, after some arrangements with IDB, we also prepaid the debt with IDB of R\$923 million in Pecem. So these were debts that were quite costly. They were in dollar, with slight hedge coverage and that had high costs. In Pecem, we issued new debts of 170

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[ph] million that happened in the last quarter 2016. This (inaudible) are with two banks with maturity of five years, and reimbursement in four and five years. So, continuing our rationale of privileging the leveraging of our company because of tax purposes also we increased the debt. We had an addition of 350 million (inaudible) in the end of 2016, followed by a reduction of capital of distributors and shareholders.

(inaudible) went 240 million and our holdings 210. So from the last quarter, from September till today, we had a slight increase of the debt, but this is just an effect of consolidation. Based on the different indexes today, we do not have the exchange rate risk. You will see that the exchange rate with the dollar is 4%. This is basically because of Bandeirante and Escelsa in completely hedged operation. So they have -- they are invalid but they do the CDI risk, so we are not really exposed to dollars. As for maturity you say that we are in a very -- see that we are in a very comfortable position. We have a cash of 2 billion for maturity of that of 1,455 million.

So this is the end of the financial part, and I'm going to go back to Miguel.

Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

So very briefly on page nine, just for you to know what our challenges are going to be for the year of 2017. Well, these are things that you know very well.

In generation, we want to advance the operation of Sao Manoel. As you know, it should start in May 2018, but we are working with CTG and Furnas, our partners to (inaudible) in operation in the last quarter of 2017. So this is our objective even with the change of contractors that we had in the end of the year. As for the saying, the hydrological situation is the most critical topic, it demands our attention, and basically we have been constantly focusing on this problem to try and find solutions, not only physical but also economic and regulatory solutions to mitigate the risk. I would say these are the main points for generation.

As for distribution, you're also very much aware. We wanted to get closer to the losses and defaults of the regulatory landmark. We want really to shorten the difference this year of 2017. Of course, this new cycle of CapEx that we talked about should be maintained. We are going to have a reinforced CapEx in distribution of around R\$500 million, and this is going to be maintained for 2017.

As for commercialization and services, we want to restore our gross margin in commercialization, and also expand our energy services, especially in distributed solar services where we see a clear opportunity in the Brazilian market.

As for transmission, we want obviously to take part in the auction that is going to take place in the month of April. We want a larger share than what we had left auction. So we are studying the 34 batches that are -- should be studied, and we are thinking of situations and regions that have better fit with our strategy. As for corporate, we are going to continue our zero budget project. We had cost control with OBZ 1.0 [ph], then 2.0, and now it was 3.0 in 2017, again focused on corporate and distribution; manage the

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energetic risk that have to do with our activity both for generation consolidation and distribution. So its cost cut throughout our business.

And two points that I would like to mention, which I generally don't mention in our earnings release is to implement a digital agenda. Today we have dedicated teams to digitalize our value chain, especially shared services. We are having very interesting results, we are following our projects with regard to this in 2017.

And another point that is very important, which is an internal culture project for EDP. You know that EDP is a sum of several companies, and it's very important to have a common denominator. And these are points that generally we do not approach in our financial releases, but they are very important for our performance which is to engage people, we are having record levels of engagement, and also safety. This is the first time that we had no fatal accident with our all employees or contractors. So when we talk about balance sheet, when we talk about P&L, we do not talk about that, but they have been trying to deliver the results that we deliver.

With that I would like to close my presentation and we are available for your questions. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we will now start the Q&A session. (Operator Instructions) The first question comes from Kaique Vasconcellos from Citigroup.

Q - Kaique Vasconcellos {BIO 17317373 <GO>}

Hello, everyone. Just going back to Pecem, could you give us an update about the water tariff. You did mention that in the call, but I would like to know what's going with ANEEL, what are the next steps and when we are going to have news in this process? Thank you very much.

A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Hi, Kaique, good afternoon. As for tariff I have several comments. First, as you know we entered with two accent one in Brazil and one in Ceara. In Brazil, for us to pass on emergency tariff, and in Ceara, challenging the amount of this tariff. We were successful in one, but not successful in the other. So Brazil denied our injunction, but Ceara accepted it. So what the judge said in Ceara was to suspend the payment of the emergency tariff. With that legally, we would be prospected for -- from this collection. That leads us to use this court decision as an objective.

Today, we are talking to the state government, with the government of Ceara to try and find a point of balance that can relieve us from this critical situation we are in terms of water supply. So we have a legal support not to pay, but of course we have to work in

partnership with the state administration, and we want to try and find a solution to withdraw additional water.

And we are under negotiation, but what I feel from our negotiations with the ministry, we had a meeting with the Minister of Mines and Energy with the regulators. Tomorrow we are going to talk to the regulators once again, and also talk to the Governor of Ceara, and it seems that all the parts are trying to seek a balanced solution for quite optimistic about what can happen with regard to this negotiation. So the news in our opinion are good for us to get to a balanced situation, or as point of balance with the government of Ceara.

So today, you are not asking -- paying the over fee, no we are not. We had provisions of 36 million for this payment as you know, but today we haven't really affected -- paid and what we went to negotiate is -- thinking of a relationship with the normal tariff. The emergency tariff is 8% to 10% higher than the regular tariff, and we are negotiating a much lower percentage.

Q - Kaique Vasconcellos {BIO 17317373 <GO>}

Okay, thank you very much.

A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Thank you.

Operator

Our next question comes from Carolina Carneiro from Santander.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Good afternoon and thanks for the call. I have two questions. The first you just talked about the balance sheet, you talked about your appetite, following the transmission auction. I would like to know, what your expectation would be for the terms of the auction especially with regard to BNDES funding, if you are expecting that and how much?

And second is about GSF [ph]. We know that the company is protected with hedge to some level with the regulated market. Just to understand the market (inaudible) what is your expectation with regards to GSF for this year? We already have an idea of the (inaudible) so I would like to know what your expectations are? And based on your expectations what do you think is going to happen with the GSF discussion in Brazil this year?

A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Well, Carol, thanks for your question. I'm going to start with the GSF. Well the models that we have run internally tell us a GSF above 85%. We have several scenarios, but between 85% and 90%, but closer to 85%. This is what we are working with for the year of 2017, with stock prices at around R\$160 or R\$150 per megawatt hour. So (inaudible) GSF stock prices are two variables that have an impact in our activity and these are the numbers that

we are considering. As for BNDES funding as you know there are discussions going on about that right now. Our assumption is that conditions are not going to be changed substantially, but I'm going to turn the call to Henrique for him to give you a bit more detail on that.

A - Henrique Manuel Marques Faria Lima Freire {BIO 19117781 <GO>}

We are just following the discussion with BNDES funding. We know that there is a trend to limit investment in TJLP. But we believe that you know if the rules are clear, there is no impediments on that. I think that what we have to understand is what the terms are going to be, and then it is I think, okay. We have to understand what rates are. Well, the problem that happens with BNDES funding is that it is established one way and then it changes. And this is the worst scenario for us.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Raul Cavendish from Itau.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Good afternoon. This is Pedro Manfredini. Thanks Miguel for the call. I would like to ask you a question about the growth outside transmission? I think, this is a hot topic in the last months. We have seen the Eletrobras talking about investments. We know that you have a (inaudible) with Furnas and others, and there are other opportunities of investment. And I would like to know, if you are interested in a stake of Pecem [ph].

And also last year, I'm sorry, last week, we heard of investments in coal plant. There is a new project in the south of Brazil, and also (inaudible) and you are one of the few operators of thermal power plants. Are you interested in them? Are you looking into a possible M&A there?

A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Well, Pedro, thanks for your question. Well, about Eletrobras, I think I have said that publicly before we are interested. Eletrobras has three shares in our asset as you said in Cachoeira Caldeirao [ph] and also Sao Manoel. Obviously, we would like to consider the three of them, not each one of them in isolation. So we already voiced our interest in Eletrobras. We had already made concrete proposals, but we haven't reached an agreement yet to communicate anything to the market. So we don't have an agreement yet, but the interest is there.

As for M&A [ph] being very direct and concrete, we are not interested in coal assets. Because as you know, we have a coal plant, we have a focus to manage this plant as well as possible with the best profitability, and the best operational efficiency. But coal is not a technology in which we want to invest our portfolio. The only operation in terms of

synergy could be interesting for EDP, would be pertained too, that's again it would start with a decrease in the share of Pecem I for us not to go over the limits in terms of share. Today, we have less than 30% of installed capacity in coal and we do not want to invest in this model [ph].

Q - Pedro Manfredini {BIO 21633245 <GO>}

Okay, Miguel. Very straight to the point. Thank you very much for your answers.

Operator

The next question comes from Marcelo Sa from UBS.

Q - Marcelo Sa {BIO 16454581 <GO>}

Hello, everyone. I have a question with regards to Sao Manoel. What changes did you have in expansion [ph] to try and decrease the impairment? Was it the higher CapEx? And also I would like to try and understand what will you think for prices of energy in the long-term? Do you see any changes in scenario (inaudible) we have, are they stable? I would like to know a bit more about that. Thank you.

A - Henrique Manuel Marques Faria Lima Freire {BIO 19117781 <GO>}

This is Henrique. I am going to answer Sao Manoel, first. As you know in the end of last year we had a change in Sao Manoel. You know that our construction is within times; we changed contractors last year. We closed 2016 with 86% of our work completed. That there was a bit of another cost in terms of CapEx and that added to a macro situation with higher interest rates and et cetera. Let us to have a more demanding meeting with auditors and more high discount rates.

And therefore in our financial statements we believe that there was an amount that would not be recoverable in the assets of Sao Manoel. And that represented an impact of 300 million in the profit of Sao Manoel. Then we have the equity equivalent and these are the numbers that we have here. I don't know if I answered your question, but that was the rationale.

Q - Marcelo Sa {BIO 16454581 <GO>}

Okay. Thank you very much.

A - Henrique Manuel Marques Faria Lima Freire {BIO 19117781 <GO>}

As for energy prices we are working with R\$150 per megawatt hour. From what we know this is the price for the general expansion of the system. So it seems that the whole of the system is converging to this amount. What we see is a bit of a normality in the history. We have a premium of incentivized energy that is higher in the (inaudible) R\$15, R\$20 up to R\$30, but now we are seeing R\$70. But for normal contracts we are working at R\$150 per megawatt hour.

Q - Marcelo Sa {BIO 16454581 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Bressi Beras [ph] from JP Morgan. I'm sorry, Henrique from JP Morgan.

Q - Henrique Peretti {BIO 18446440 <GO>}

I would like to go back to the transmission auction. How do you see the competition in this auction? ANEEL published the invitation to tender in Portuguese, Spanish and English. And we believe that is going to be quite competitive which could lead to lower the trends. Hence you are going to have more competition. What do you think about that? And also what would be the saleability of construction companies help you with this auction. We know the whole sector is going through a crisis. So would it be difficult for you to find a company to build the plant?

A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Hi, Henrique. Thanks for your questions. I think, you're right with regard to competition. I think it's very clear that this is an appealing segments with good profitability. And therefore, I think we are going to have more competition than we had in the previous auction. In fact, the main players in the segment that were not quite represented in the back auction may be part of this auction. So we are effectively, expecting the competitive scenario in April to be more intensive [ph]. This is what we also interpret from the market. And let's see what that translates into profitability, but I think you're reading the scenario right.

As for contractors, I think you're also addressing a very important point. We are all challenging the capacity of the market to respond to the initiative that the market is going through.

I have -- we are analyzing two strategies here as alternatives. One is to diversify different contractors. We have this experience in the construction of plants in which we do not work with a one large contractor, we try to work with smaller contractors. And this may be a possibility based on what we have seen in the media. So diversification is interesting. You work with smaller contractors that have a better risk profile than those major contractors we are just used to.

And another alternative is to internalize part of the work with our workforce. So again this is an alternative strategy to deal in this case not with the contractors, but still have a partial internalization of work that is we ourselves producing part of the construction to protect ourselves. So once again I think that you are touching a crucial point, perhaps the market is underestimating the risk of contractors to work with such large undertaking. And we have two strategies for that, diversification and internalization of services, of course not everything, but part of the services that would be performed by contractors would be performed ourselves.

Q - Henrique Peretti {BIO 18446440 <GO>}

Okay. Very clear. Thank you very much.

Operator

Since there are no more questions EDP's conference call to discuss the earnings of the fourth quarter 2016 is now closed. Questions taken on the webcast are going to be later answered by the IR team. We thank you very much for attending and wish you a good afternoon. Thanks.

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