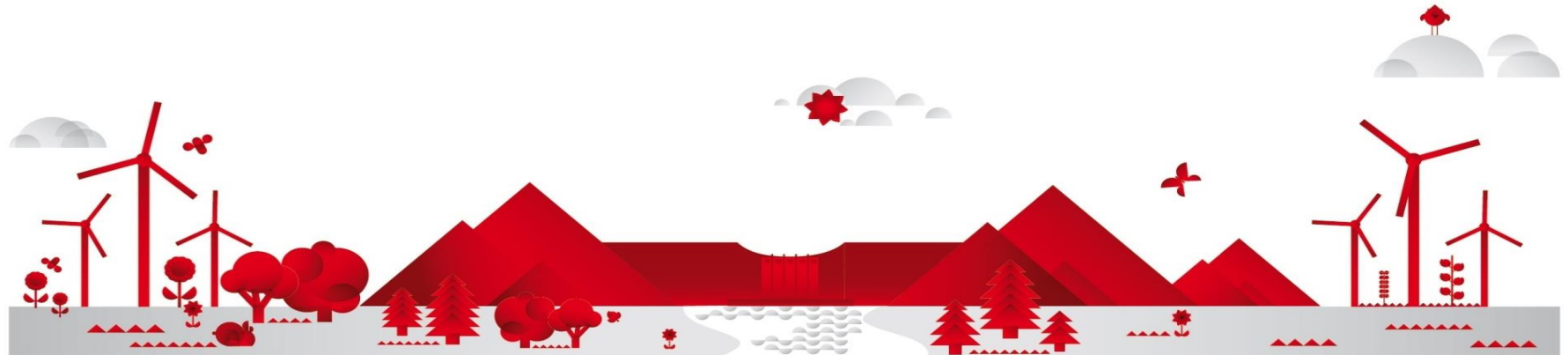




# Investigation of the transition process from PPA contracts to CMEC in Portugal

June 2017



**Portuguese investigation on the replacement of PPA by CMECs, based on an anonymous complaint in 2012**

**This is not the first investigation about this issue. The process was widely scrutinised, both at Portugal and EU level**

Based on a formal complaint in 2012, the EC made a final decision in May-17, confirming adequacy of terms/methodology

**All major corporate and strategic decisions are scrutinised by the GSB after proposal of the EBD**

The members of the board envisaged signed the contracts in representation on the Executive Board of Directors (EBD) and in line with decisions taken by EDP's corporate bodies

**EDP's culture is clearly focused on value creation through transparent and ethical business procedures**

# Investigations regarding the transition process from the early termination of PPAs to the CMEC regime

	Date and nature of Complaint	Status	
European Commission	2012	PPA termination and CMEC implementation	2013: EC removed any doubt as to the legality/correction about CMEC process
	2012	Hydro domain and extension of concession right as state aid	2013: EC launches in-depth investigation <b>2017: EC concludes compensation paid by EDP was compatible with market conditions</b>
Portuguese Legal Authorities	2012	PPA termination and CMEC implementation processes; Extension of hydro concessions	2-Jun-17: within the scope of investigation process, EDP premises were subject to judicial order of non-home searches



*Filed*

*Ongoing*

**At the EC level, cases have been filed, with all doubts about possible state aid discarded  
Investigation by DCIAP is on course**

# Changes to PPA contracts between 1995 and 2007 aimed at accommodating to new context: liberalisation, unbundling of activities



## 1995 PPA's inception

- EDP invested in power plants
- The Portuguese State set the remuneration conditions in line with results from **international auctions, key for privatisation process which started in 1997.**
- At the end of the PPA contracts, **EDP was entitled to receive €1.4bn (residual value)** if it abdicated of the plants in favor of Portuguese State

## 2004 PPA's early termination and CMEC approval

- Early termination of PPAs would change remuneration terms, introducing full exposure to market conditions and hurting contracts value
- To keep balance, a new remuneration mechanism (CMEC) was adopted, assuring financial neutrality. EDP set to receive market revenues plus **€3.4bn as initial CMEC**, annually adjusted for 10 years
- **European Commission approved the mechanism** considering the compensation as **effective and strictly necessary**
- Should EDP keep the plants after the end of PPA, it would abdicate of residual value

## 2007 Market parameters updated

- In the context of the MIBEL creation, and sticking to the methodology defined in 2004, market parameters were updated
- Market price reference increased from €36/MWh to €50/MWh, **reducing the initial CMEC to €833m** and keeping the annual adjustment for 10 years.
- The economic value of the **extension of hydro concessions increased to €2.1bn**

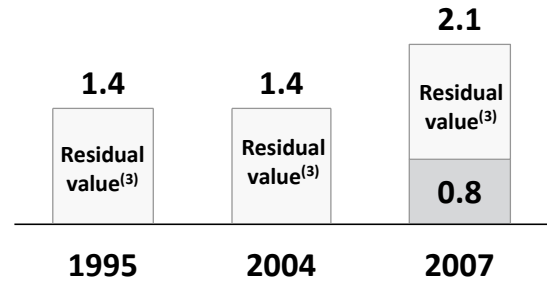
# Adjustments to legal framework in 2007 responded to changes in market conditions between 2004 and 2007 and have penalised EDP

**Initial CMEC:**  
Cut by €2.5bn in 2004-07  
(€ bn)  
maintaining the neutrality



- **2004:** compensation amounts based on fairness opinions separately requested by EDP and the Portuguese Government
- **2007:** due to changes in market conditions, the legal framework and agreements were subject to amendments. **Long term wholesale power price assumed was up from €36/MWh to €50/MWh** resulting in a loss for EDP cutting the initial CMEC and raising annual deviations
- **2012:** within the scope of 'Troika', EDP agreed on a ~€14m/year cut in the CMEC fee (€120m in 2013-27)

**Value of hydro concession extension:**  
€0.8bn increase  
(€ bn)



**1995-2004** Residual value of €1.4bn entitled to EDP

**2007:** The amount paid for the extension of hydro concessions was supported by independent valuations conducted by Credit Suisse and Caixa BI.

(1) 2004 as per DL 240/2004 and 2007 as per DL 199/2007; (2) 2004 as per PPA contract 1995 and 2007 as per DL 226-A/2007; (3) Residual value of concessions, which right of receipt EDP gave away

# Strong Corporate Governance Framework



**Dual management model: Executive Board of Directors (EBD) and General and Supervisory Board (GSB)**

Two tier management assures separation between management and supervisory

**All major corporate and strategic decisions are scrutinised by the GSB after proposal of the EBD**

**Corporate Governance and Sustainability Committee** is one of the GSB's specialized committees and oversees corporate governance and internal codes of ethics and conduct

**Ethics Ombudsman's Office** manages corporate ethics' objectives and issues

For 6 consecutive years, EDP was listed by Ethisphere Institute as one of the **World Most Ethical Companies**

**EDP's culture is clearly focused on value creation through transparent and ethical business procedures**



## Visit EDP Website

Site: [www.edp.pt](http://www.edp.pt)

Link Results & Presentations:

<http://www.edp.pt/EDPI/Internet/EN/Group/Investors/Publications/default.htm>

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## Next Events

Jun 6<sup>th</sup>-7<sup>th</sup>: Credit Suisse Conference (London)

July 27<sup>th</sup>: Release of 1H17 Results