

Reuters: EDP.LS
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Investors & Analysts' Briefing

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MOODY'S PLACES 'BAA1' OF EDP UNDER REVIEW FOR POSSIBLE DOWNGRADE

Today, Moody's Investors Service ("Moody's") placed the Baa1/Prime-2 senior unsecured ratings of EDP - Energias de Portugal, S.A. ("EDP"), its finance subsidiary EDP Finance BV, and its Spanish subsidiary, Hidroelectrica del Cantabrico ("HC Energia") under review for possible downgrade.

This rating action follows Moody's earlier downgrade of the rating of the government of the Republic of Portugal ("RoP") to Baa1 from A3 (negative).

The review of the ratings of EDP for possible downgrade reflects the possible further downwards move in the RoP's rating. This reflects EDP's inability to totally disconnect itself both from stresses in the debt market for Portuguese issuers and local economic and regulatory circumstances which could worsen as a result of pressures on the sovereign, although there has been no significant impact on EDP to date.

Moody's states that "EDP's current Baa1 rating reflects its (i) historically, rather resilient, business model, with a significant proportion of relatively low volatility earnings coming from regulated and long-term contracted businesses (ii) a well-diversified geographic spread of businesses with around 45% of EDP's EBITDA derived from Portugal and (iii) fairly robust liquidity into 2013 with access to diversified funding sources although with some moderate exposure to Portuguese banks. At the same time the rating recognises (i) a leveraged profile as at FYE 2010, although this should improve over the 2011/2012



period as a result of a reduction in capex, increasing cash flows from new assets coming on stream and EUR 500 million of announced disposals, (ii) pressure on thermal margins in Spain with regulatory receivables weighing on debt and (iii) expected higher borrowing costs on new debt as a result of the sovereign downgrade, although the company's debt maturity is well-spread and debt should gradually reduce over time.

As part of its review, Moody's will take into account the factors outlined above, particularly related to the company's diversified earning stream and expected improvement in financial profile, which could allow EDP to pierce that of the RoP, in the event of a sovereign downgrade, by one or two notches.

Given the current review for downgrade of the sovereign's and EDP's ratings, there is no upwards rating pressure perceived at the current time."

EDP – Energias de Portugal, S.A.