EDP - Energias de Portugal

Wednesday, 14th May 2014

8:30 Hrs UK time

Chaired by António Mexia

Company Participants

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

Miguel Viana

Good morning, everybody. Welcome to the First Quarter 2014 Results Presentation of EDP and Investor Day. Just to give you an idea of the agenda, we will start with the first quarter results presentation. Then we will have a small/short Q&A session as everybody will be more focused on the Investor Day presentation. Around 9.15 a.m., we will start with the presentations of the Investor Day, beginning with an introduction by the CEO, and then we will go through the Iberian Business, with Miguel Stilwell de Andrade. EDP Renewables follows, with CEO João Manso Neto. We will have a coffee break around 10:45, and then we will have three more presentations: EDP Brazil, with CEO Miguel Setas, Financials, with CFO of EDP Nuno Alves, and finally the Conclusions with our CEO, António Mexia. Afterwards we expect to have a Q&A session of around 30 minutes, until 1:00 pm, and then there will be a buffet lunch in the next room. Thanks for your presence. I will now pass the word to the CEO for the presentation of the first quarter results.

António Mexia

Thank you, Miguel. Good morning everybody. It's a pleasure to be here. We will be probably quite rapid in the first quarter figures in any case. The main course will be the Investor Day, and I was remembered at breakfast by an EDP investor that when we first presented our Investor Day in London, in the summer 2006, it was 35 degrees outside and the spot price was around 500 pounds for the day. It was an interesting time in both concerns and in everybody was worried about blackout. So a lot of changes since then, overall in Europe - we will be talking about that later. I think that we have being traveling well along those changes, we will be giving visibility about what we think about the future.

But let's start this morning about the first quarter. The first quarter as you see our EBITDA decreases 5% year-on-year for EUR 1,030 million. In that EBITDA what I would like to stress is it would be flat, if you exclude million euros impact of the one off in the asset sale of first quarter last year, the EBITDA would be flat. So even then considering negative ForEx impact, it means that we were able to absorb the negative impact of the first full year of measures both in Spain and Portugal. And in Portugal already including the extraordinary tax on the Energy assets on the energy sector.

So the first idea is that I believe that the results are strong. As you can see the Iberian operations ex-wins the EBITDA grew by 4%, impacted of course also by strong gain, very strong good energy management and I think it's always good to stress also cost control with OPEX decreasing by 1% compared to the first quarter last year.

I think it's important to stress all these measures that depend upon us, basically to fight the adverse regulatory development. So whenever the environment is less good, whenever the environment is challenging, we need to do what we need to do. So basically, energy management and cost control were key to these results. If you see here, on Brazil, we have a 29% decrease in Euros basically due to depreciation of the real but also, as everybody knows, adverse hydro developments. January and February were the two driest months over the last 84 years in Brazil. 2013 was already quite dry, so we see there really a challenging environment and we will talk about this later but clearly, it has already affected even with the recovery from CDE/CCEE that's very important. So, everything is calmer than it was three months ago. I believe that we are really. We have good results for that environment.

At EDP Renewables, EBITDA decreases by 9% year-on-year and basically penalized by the adverse regulatory changes in Spain. That represents more or less EUR 18 million by themselves, but it was supported then by new additions outside Iberia. We ended up with a net profit of EUR 296 million, minus 12%, as you see, already including the impact of 15 million of the extraordinary energy tax in Portugal and by almost EUR 30 million regulatory hits in Iberia overall. That's the key change.

In terms of receivables, hence in page two, we have an increase by EUR 255 million, to around EUR 3 billion. It was, well, what was expected already but the key message here is that we were able to have cash proceeds in the first quarter. So, in these figures, we have only the first sale of EUR 138 million, but then in April as you remember and as announced, we have already sold an additional EUR 750 million of tariff deficit in Portugal.

Net investments, minus 11% to EUR 244 million. Basically, it's either of the conclusions of hydro projects in Portugal and new wind capacity outside Iberia. These are the two main sources of investment. The net debt stayed stable at EUR 17.1 million and even if it's today less relevant but once again, EUR 5.4 million cash and available credit lines. So liquidity is very comfortable and we have now covered the needs until the end of 2015.

So what we see to conclude is basically what I believe a strong quarter, resilient results due to what depend upon us that has more than compensated the negative impact both our regulation and then of course, once again, the exchange rate.

So Miguel, I will ask you to go through and then, we will just come for a small wrap-up. Thank you.

Miguel Viana

Thank you, António. So going now through the rest of the presentation. In terms of operating headlines, we can see that our installed capacity went up by 1%, driven by new wind capacity and also our power production rose 6% due to the rainy and windy weather conditions in Iberia in the first quarter 2014. This has led to wind and hydro to represent 85% of the production of the company in the first quarter 2014.

Moving to the next slide, we can see that in terms of EBITDA breakdown, the strong increase of EBITDA from the liberalized activities supported by the stronger wind and hydro growth and the energy management gains that was not enough to compensate the EBITDA declines in the remaining divisions. So anyway, if we exclude the EUR 56 million one-off gain in gas transmission sale in Spain in the first quarter 2013, EBITDA would be flat year-on-year. ForEx had a negative impact of EUR 33 million, mostly due to the Brazilian real devaluation versus the Euro in the period.

In terms of operating costs, they went down by 4%, decreasing by 1% in Iberia and also 1% at level of EDP renewables. In Brazil, operating costs in local currency went up by 3%, still below the Brazilian inflation in the period. And in terms of the OPEX III cost savings we have achieved cost savings of EUR 38 million in the first quarter 2014, which means anticipation to 2014 of the 2015 targets in terms of the OPEX program.

Moving to net investments, they went down by 11% in the period with the expansion of Capex focused on completion of the new hydros in Portugal and also of the wind in US. In terms of the stock of regulatory receivables in the Portuguese electricity system, they rose by EUR 0.2 billion in the first quarter 2014 essentially on strong wind volumes and also low pool prices in the period.

Note that this increase was lower than the EUR 0.3 billion increase of served in the first quarter 2013 following essentially an improvement in terms of demand performance. Regarding regulatory receivables owed to EDP in the three key markets, they increased by EUR 255 million in the first quarter 2014, driven essentially by an increase in Portugal, EUR 253 million, as a result of the EUR 391 million of tariff deviations attributable to EDP. And also the EUR138 million of cash proceeds from securitizations in the period.

In terms of net debt evolution, it remained flat versus December 2013 at EUR 17.1 billion even following EUR 0.4 billion increase of regulatory receivables in the first quarter, including still EUR120 million of contribution from CDE and CCEE to our distribution Discos in Brazil, which were cashed-in only in the second quarter of 2014.

Overall, following the 5% decline of EBITDA and EBIT, the better results from associates also with improvements in our coal plant Pecém Brazil, and also an increase in taxes, net profit fell by 12% year-on-year to EUR 296 million.

By business areas, in terms of weather and market conditions in Iberia, we can see that hydro and wind volumes were strong in the first quarter 2014, with a positive impact on

EDP's generation mix. For EDP the market environment with this low pool prices together with EDP's long positioning clients supported the good energy management results that we saw at EBITDA level.

In terms of demand, in the first quarter 2014 we saw signs of demand recovery in Portugal, but still continuing deterioration in Spain, while in terms of thermal power production, it fell by 37% year on year, mostly on the strong increase of hydro production in the first quarter versus last year.

In terms of the operating performance of our liberalized energy activities in Iberia, total production rose 15%, while the production of hydro power went up by 77% this justified by the rainy weather and also by the transfer of three hydro plants from Dec-2013.We also saw strong load factors by our coal plants and CCGTs on the back of the previous referred lower residual thermal demand.

Performance for liberalized energy activities in Iberia rose 73%. The key contributions were already referred: strong hydro volumes, also the positive impact from low prices and also the long positioning clients, together with good results in terms of gas supply, namely with some deals in terms of wholesale markets in Spain, in the first quarter 2014.

EBITDA in the long-term contracted generation went down by 9%, following the referred transfer of three hydro plants from the PPA/CMECs to our merchant business, reaching EUR 176 million by the first quarter 2014.

In terms the of the EBITDA of regulated energy networks in Iberia, it went down by 15%, impacted by what we have referred before, disposal of gas transmission in Spain in the first quarter 2013, which had a one-off gain of EUR 56 million. Including this impact, the adjusted EBITDA of regulation and networks went up by 5% year-on-year, as a result of a 2% decline in gross profit, essentially driven by regulatory cuts and also good performance in terms of operating costs.

EDP Renováveis showed a decline of EBITDA by 9%, penalized essentially by the regulatory cuts in Spain that we already know. Also, we had a positive impact from the one-off gain of EUR 40 million in the first quarter 2013. So this decline of EBITDA includes also of course, the positive impact from the increase of installed capacity by 5% and increase of production by 10% in the period.

Finally, the EBITDA of EDP Brazil went down by 12% year-on-year in local currency or -16%, if we adjust for normalized level of EBITDA adjusted for tariff deviations in distribution. The adjusted EBITDA in distribution went down 22% essentially on lower RoRAB in Escelsa, it was revised downwards last august from 10% to 7.5% and also higher cost with energy losses also reflecting the high spot prices in the period. On generation and supply, EBITDA went down 13% essentially due to lower volumes sold in the first quarter 2014 versus the first quarter 2013.

I will pass now to our CEO for the conclusions of the presentation of first quarter results.

Antonio Mexia

So, just to comment once again, if we look into these figures of the first quarter, I believe that the key word has been the same then in previous quarters. And the word is resilience, especially when you consider that this quarter, as I mentioned at the beginning, it's the first where you have the full impact of the regulatory changes both in Spain and in Portugal, already including what is supposed to be one-off energy tax on assets in Portugal.

So when we take the one-offs of capital gains, that proves that we have been able, as it is been the case, in the recent past, in the last years, to compensate, to suffer less because of our asset allocation policy, risk management policy, energy management policy and also, in terms of portfolio diversification, being less affected than the rest of the sector. So the -5% and the -12 on the net profit must be seen in this context and in terms of like-for-like.

The improvement in efficiency, I would like to stress it really, we went down from 25% net OPEX of a gross margin. We have overall decrease of 4% year-on-year on the cost, of course also here helped the opposite and we have been helped by the depreciation of Real, but even in Iberia you see a cost deduction. The Expansion capex is basically focused where we have been promising, we are on time on cost, we have been able on both fronts, to do what was expected and, in terms of financials, the flat debt and of course the important execution of the sales of the tariff deficit, keeping the strong liquidity position and of course being comfortable to, as you have seen, to propose in an annual meeting EUR 0.185 dividend per share to be paid on May, 29th, so the first day ex-dividend will be the May, 16th.

So once again, visibility is the key word and once again the first quarter gives this visibility associated with resilience.

So let's go now for some Q&A before we swap them to the Investor Day.

Questions & Answers

Alberto Gandolfi, UBS

Thank you. Good morning. Usual three questions, please; first one is on the liberalized Iberian markets. There's a big step-up. Can you please tell us, according to the existing portfolio after transferring the hydro from the contracted system, what do you think is the normalized hydro production in TWh. Just for us to understand, and I think, the average on the load factor is going to go up because, I guess in Portugal, you produce a bit more. Just for us to understand the normalized profitability of this business and sticking to it, I calculate that given your long positioning in customers and supply, you probably benefited from low spot prices to the tune of about EUR70 million at EBITDA level. Is this estimate broadly OK or can you help us understand the dynamic here?

Second question is to talk about a couple of moving pieces, trying to figure out your year-end net debt. You may give us a target in a few minutes, so in this case, I understand you want to skip the answer, but otherwise, could you tell us what are your expectations for further build-up of deficit and securitization, you may have in mind, and perhaps you can also give us the net debt target for the end of the year.

Final question, Could you run us through, what could be any potential regulatory headache you anticipate in Portugal? I'm thinking bond yields are going down, which is great for refinancing and the share price but, what is going to happen to the profitability of electricity distribution next year? And do you feel any political response from some of the comments the IMF recently made about perhaps, excessive tariff increases given the economic backdrop? Thank you so much.

Miguel Viana

Well, I'll go for the first one. So in terms of the hydro volumes, the three plants that moved to the liberalized market; they represent an average production per year of 2.5TWh. In the first quarter, the production was 1.1TWh, so it was a very good quarter, obviously. All the plants that were until now under PPA/CMEC, so the average hydro production is 9.4 TWh, and so then we'll have, of course, what we'll see also in the presentation, the new plants that will come on stream in the next years.

Just to cover also the second question, in terms of the EUR 70 million, it's difficult to separate that gain, so you have to put together both the hydro volumes stronger, long positioning clients, with low pool prices and also, as you saw in the presentation some gains in terms of wholesale deals in gas, but it's difficult to quantify it exactly. EUR 70 million, I think, is a good assumption.

Nuno Alves

In terms of the tariff deficit, what we've been saying and you will see it again in the presentation of the Investor Day was that in 2013, a system as a whole increased 800 million. The expectation for 2014 is EUR 500 million and then will be zero. So the 500 million that we expect for this year, even though the first quarter would have been worse because of the weather conditions, the tariff deficit that was created is within the expected, so lower than in 2013 and there is no reason right now to expect it to go over the 500 million, so it's under control.

Securitization, we've done so far close to EUR 900 million. We might do one or two small transactions, but nothing in the market this year. So, yes, you can go EUR 100 million more, EUR 200 million more, but that will be it for the year.

António Mexia

There is a last question about regulation in Portugal. As you have seen, even though we talk a lot about this in Portugal, I think that basically you have seen the measures that have been taken. Once again, it's obvious that Portugal has today lower prices in energy, even considering the absorption of the tariff deficits below average on industrial sectors compared to the European average, so I think that the key message there is that it does not imply any differences, negative impact in terms of competitiveness.

We don't expect new measures besides the one that was announced, and especially we don't aspect any change in all the elements that were agreed and signed and discussed, so except for the social tariff components where we fully understand the situation, everything else, in what concerns the rules of the game, I expect it to stay the same.

In what concerns distribution, we are now starting to discuss the next regulatory period, so it means '15, '16 and '17. Of course there are a lot of variables, but the one you are of course asking about is what will be the return on RAB. Return on RAB clearly will be adjusted to the country risk. I think that you could expect slightly lower compared to what it was in the recent past. Why? Because the Portuguese risk is lower.

So we cannot like it on the debt side and on the cost side and then expect nothing to change on the other side. So we don't anticipate any key issue there, and of course all the other elements, the X factor in what concerns efficiency and those will be of course on the table, but on the return on RAB, we expect a normal evolution.

Martin Young, Royal Bank of Canada

Good morning to everybody, it's Martin Yong. Just two questions. The first one relates to the tax rate, struck me as a slightly higher than expected effective rate in the first quarter of the year. Wonder if you could make some comments on that, and why you expect that to come out for the full year?

And then the second question is around the extraordinary contribution of EUR 47 million. I see that is being extended for 2015 that certainly ties with your thoughts from the lunch at the EEI conference, but what about 2016 and beyond? Do you think that EUR 47 million is perhaps embedded as a cost on a normal basis? Thank you.

Nuno Alves

Well, the tax rate for the first quarter is as simple as it gets, it does have some issues with deferred tax. It's the maximum you will see, and probably till the end of the year you will see it fall, as we account for some benefits that we do have on the tax, but there is nothing weird on the tax effective rate, it's just the maximum and it has some deferred calculations that make it a little bit higher, but by the end of the year, we still expect it to be in the mid-20s, low 20s.

António Mexia

In what concerns the extraordinary tax, let's be very clear and we have already shared this. When it was introduced in the budget for 2014, we have stated that we would expect it eventually to be one, two years. It was also publicly announced at the top political level in Portugal. So as we have been already sharing, '15 was expected by us, it was included by us, since a while, but we don't include this in '16, because it was stated really that it should not be there at that moment. So this tax that was included as an extraordinary tax it was supposed to be one year, then it was extended. We don't expect any extension, because it doesn't make sense in what concerns neither the needs of the sector, neither what is a balanced approach related to our other sectors.

Manuel Palomo, Exane BNP Paribas

Good morning. Manuel Palomo from Exane. I'd like just to try and understand a little bit the performance of the demand in Portugal. And wonder whether you could please explain why the electricity distribution is up 3%, according to the quality hand out, while transmission demand is up just 0.7% in the same period, and renewables output arguably increasing due to losses is up 7% in the period. I don't know how this makes sense. I wonder whether you could share some light, please.

Miguel Viana

Well, I will answer this one. So essentially what is happening is that we are in the process of liberalization in Portugal with a lot of transfer from clients from the regulated system to the free market. So, essentially the figure that you see in terms of energy distributed can have some volatility on a quarter-by-quarter basis.

The figure that we see from REN, which is the energy that enters into the grid is much easier figure to quantity and, let's say, these two figures in the medium term will converge to the same growth level. That's why if you see in the first quarter of 2013 the distributed energy had bigger decline than the energy entering into the grid from REN. Now you see a slightly higher growth in terms of energy distributed in the medium term. In the long run the two rates will convert directly to the same point. So that's the explanation.

Manuel Palomo

This is just a follow-up. My question is in terms of - I mean I'm just trying to understand how it impacts the deficit. Could we say that in the first quarter the electricity demand positively impacted the deficit, meaning that it has decreased it?

Miguel Viana

Yes, yes.

Manuel Palomo

Okay, thank you.

Miguel Viana

Next question? So I think we don't have more questions on the results. So if we don't have more questions, we will go for a small introductory movie, an institutional movie for EDP and we will start to distribute the presentations of Investor Day.