EDP - Energias de Portugal
Friday, 28th February 2014
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Chaired by António Mexia

Company Participants

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

António Mexia

Hello. Good morning, everybody. Thank you for being present in this conference about the 2013 year-end results. As usual, I will start with the key highlights; then I'll pass the ball to Miguel Viana that will go through the presentation. I will wrap up and then we'll proceed to Q&As.

So what to say about 2013? I think it was a year where basically what was expected that we do because it depends on us we have done it. And this is very important in a moment where, both in the regulatory front but also in the market development, it was a very challenging, a very tough year.

And even in this context, we were able to keep the EBITDA flat at EUR3.617 billion, so flat year on year. And then when we see block by block, and you can see the Iberian operation, without wind, so the traditional business, we see EBITDA going down 3%.

And basically, it was the impact of what everybody knows and we will have soon a slide about this long process now finished about regulatory changes in Portugal and Spain, but also tough market conditions, even if at the end of the year we have seen, and it's confirmed at the beginning of the year, a market recovery. So in terms of market evolution, I think that we are now much better.

But in any case, throughout the year it was not very exciting, but of course, the major negatives on the Iberian were the regulatory measures with huge impact that were offset by typical three things.

Strong hydro volumes, but mainly what I think that we have been showing to the market consistently, good energy management figures; and also I would like to stress this is a very tight cost control. Our OPEX in Iberia decreased by 4% on a year-on-year basis.

So basically, we had then compensation in Brazil with a growth of 24% in reals, 9% in euros because of the real depreciation that, by the way, impacted in the last quarters. And also we have seen in the last quarter the lower CDE funding that as you know was critical last year in Brazil to avoid the creation of the tariff deficit. So Brazil, improvement compared to 2012, and this helps, of course, the evolution.

In terms of renewables, we have an increase of capacity by 5%. EBITDA only grows by 1%. And the key reason is, of course, the adverse regulatory changes in Spain that were already accounted. The reforms presented in January led to the booking of the impact on 2013 second half, and also in terms of the impairment it was -- 2013 also includes these figures. So 2013 already includes the impact of the recently announced package in Spain.

Overall, we reach EUR1.5 billion profit with a small decrease of 1% year on year, EUR0.275 earnings per share. And based on this, we will propose, because we have committed and we have always stated, a dividend of EUR 0.185 fully in cash, keeping the same amount that was paid last year. When we presented the dividend policy, we talked about the ratio and, of course, the floor, and the EUR 0.185 respects this policy.

Other issues that are very important to consider. In terms of receivables, we are also flat. It was our commitment so we delivered also in this front. We had a EUR1.5 billion securitization, more than two-thirds of it from Portugal, so we cashed EUR1.5 billion and the increase was slightly lower. So typically, we are at the same level of the previous year, and it was a strong commitment from us.

In what concerns Capex, once again EUR2 billion. So we kept the amount that was foreseen and communicated to the market. And at the disposal level, you already know this, EUR600 million between gas transmission asset sales plus the EDPR assets in the CTG agreement and also some sales to pension funds in the US.

We also, even if it was not cash, we gave last December the visibility about the rest for the first EUR1 billion -- the rest for half of the commitment of the CTG deal, so -- but cash-wise, of course, what was signed in December will only have impact this year.

Overall, we have a net debt decrease by EUR800 million, so 4%, to EUR17.5 billion. And we see significant free cash flow improvement supported by efficiency, by new capacity, by the flat receivables, and of course, by the execution of those disposals. So our commitment to sounder financials is going in the right direction and as foreseen.

Also important, we have done funding deals with a total of EUR4.6 billion in 2013, including the securitization in Portugal, and we have more than EUR5 billion cash in developed credit lines, which means that we are covered throughout the mid of 2015. So we have visibility about the funding of the Company until middle of next year.

So overall, what we have seen is once again the pressure on the sector by regulatory/legal measures that were basically compensated by what depends on us; energy management, cost control. And I think it's good news, because when you do what depends on you, it's always better.

It's also the result of what? What we have been stressing throughout last years, low risk profile of our portfolio; more than 85% of regulated and long-term contracts. And also, the fact that in terms of asset allocation and also technology is in the market that we have been focusing in helps a lot.

So this low-risk approach plus the efficiency allowed us to have a 2013 that I believe is good in the context of immense pressure, especially on the Spanish market, and then we can talk a little bit more about this.

But at this stage, of course, we have much more visibility about the future than three or six months ago, and I think it's good news. So we know now what happens. We know exactly what the impact was. I think that in the sector, as you will see, we performed rather well in terms of market share and the slice of the subsidies that we will receive. I think it shows that we have been managing well the regulatory front, of course, relatively to others in what concerns a difficult environment.

So having -- doing what we need to do in terms of management, in terms of costs, in terms of regulatory front, has enabled us to have 2013 -- resilient I think is the key word, resilient on a challenging regulatory market environment.

So, Miguel, please go through the presentation, and he will start, of course, with the regulatory measures in Iberia.

Miguel Viana

Exactly, it was already referred by the CEO. 2013 was marked by several adverse regulatory developments in Spain and Portugal. Overall, we estimate that regulatory cuts in Portugal and Spain between 2012 and 2014 to have an impact of more than EUR300 million per year on EDP's earnings before taxes.

The second part of the year, as we can see on slide 5, was marked by a recovery of electricity demand in Portugal. We had an increase of 2% in the third quarter and 2.2% in the fourth quarter, leading 2013 electricity demand to increase 0.2% year on year, or becoming flat when adjusted for temperature and working days.

Moving to page 6, we can see that in terms of operating headlines, installed capacity of EDP Group went down by 2% following the commissioning of Setubal oil plant in Portugal; commissioning of 0.40GW of wind capacity, mostly in Poland and Romania; and also, the commissioning of the second group of Pecém. Power production went up by 12%, especially due to the rainy and windy weather conditions in Iberia during 2013.

In terms of EBITDA breakdown, we can see that EBITDA fell by 0.3% year on year in 2013, impacted by declines at level of regulated networks and long-term contracted generation operations in Iberia, and growth in terms of the liberalized operations in Iberia, EDP Brazil and EDP Renewables. Overall, long-term contracted and regulated activities continued to represent more than 85% of the EBITDA of EDP growth.

In page 8, we can see that in terms of EBITDA breakdown by market, EBITDA growth in Brazil and in the United States of America was partially offset by the lower EBITDA in Iberia, and also in the rest of Europe. Excluding Forex impact, which was negative by EUR97 million, EBITDA would have risen by 2% year on year.

Regarding efficiency, the ratio OPEX over gross profit was stable at 28% in 2013, as operating costs went down by 2% year on year.

In Iberia, operating costs went down by 4%, clearly below inflation in the period, both in Portugal and Spain. At level of EDPR, operating costs went up by 2% in euro terms, in line with increase of installed capacity; while in Brazil, operating costs went up 17% in local currency, reflecting restructuring operations and also due to commissioning of our new coal plant of Pecém I.

Overall, EDP accomplished its OPEX III target savings in 2013 of EUR120 million, anticipating by one year its target for 2014.

Moving to Capex on page 10, we can see that the Capex went down 2% year on year to below EUR2 billion in line with our plan, including EUR1.2 billion of expansion Capex related mostly with hydro and Brazil hydro developments, and also with wind expansion out of Iberian Peninsula, and still with a slight decline in terms of our maintenance Capex.

Moving to regulatory receivables, we can see on page 11 that they remained essentially flat at the level of impact on net debt of EDP at a level of EUR2.7 billion. In terms of breakdown, in Portugal, regulatory receivables went up by EUR225 million, reflecting EUR1.2 billion increase in terms of tariffs deficits and deviations, and the securitizations done by EDP in the period of EUR1 billion.

In Spain, the regulatory receivables went down by EUR160 million, reflecting more than EUR300 million of tariff deficits, and almost EUR500 million of securitizations done by FADE. While in Brazil, the slight decline was justified by the cash received from CDE more than compensating the negative tariff deviations in the period.

Regarding the evolution of regulatory receivables at the level of Portuguese electricity system, after a EUR0.6 billion increase in the first half of 2013 driven by declining demands, strong wind production and high special regime premiums, we can see that in the second half of the year, there was only an increase of EUR0.2 billion, benefiting from demand recovery and normalization of wind production and pool prices.

Overall, electricity system receivables went up by EUR0.8 billion in 2013, standing still EUR0.1 billion below our previous guidance provided in the nine-month results.

In terms of net debt breakdown, in terms of currency, our net debt includes 75% denomination in euros, 17% denomination in dollars, and 7% denomination in reals. And in terms of interest rate breakdown, we have 53% of floating debt and 47% of fixed rate debt.

Regarding the evolution of net debt over 2013, we can see that the net debt reduction of EUR800 million was explained by EUR1.9 billion of free cash flow, the payment of dividends of EUR0.7 billion, expansion Capex and net investments of EUR1.2 billion, a positive impact in terms of Forex of EUR0.4 billion, and also the changes in terms of consolidation perimeter of EUR0.4 billion related with the new joint venture with CTG for hydro development in Brazil.

By December 2013, EDP had a liquidity financial position of EUR4.4 billion, including EUR2.3 billion of available credit lines and EUR2.2 billion of cash and equivalents.

In terms of average debt maturity, it was at 3.9 years by December. And overall, as you can see on page 17, we have a total liquidity position of December 2013 plus US dollar bond issue issued in January 2014 representing a total of EUR5.1 billion of sources of funds, which cover EDP's refinancing needs until mid-2015.

Note that these figures do not include EUR140 million proceeds from securitizations in Portugal close in January 2014, and also the already agreed cash proceeds from the disposal of Jari hydro project in Brazil.

Overall, if we look to net profit breakdown, we have EBITDA almost flat year on year, an increase in terms of D&A reflecting also an impact from EUR57 million in 2013 related with special regime in Spain, non-recurrent, so one off; an increase in terms of cost of debt by 40 basis points to 4.4%; lower income taxes impacted in 2013 by asset tax basis revaluation in Spain. Also, an increase in terms of minority interests at EDPR level, and overall resulting in the net profit of EUR105 million, or a 1% decline versus 2012.

Regarding the dividend proposal for 2013, the proposal is of a dividend of EUR0.1850 per share, in line with the previous two years and representing also a payout ratio of 67%, fully in line with the peer group average.

By business area, we can see that operations in Iberia faced a market environment marked by strong hydro and wind volumes, which was clearly positive for EDP's generation mix; and also low prices which, taking into account EDP's long position in clients, provided the conditions to achieve good energy management results.

In terms of electricity and thermal power demand in Iberia, although electricity demand in Portugal was positive by 0.2%, as we talked before, in Spain, it was still negative by minus 2.2%, resulting in electricity demand in Iberia going down by 1.8%.

Nevertheless, this evolution was not homogenous over 2013. So in fact, in the fourth quarter we had flat demand, even with a slight increase of 0.1%, versus a decline of 0.5% in the third quarter, and a 3.7% decline in the first half of 2013.

Overall, the thermal power production decreased 30% reflecting the impact from lower demand, but most importantly, the strong hydro and wind resources in 2013.

Regarding EDP's liberalized energy activities in Iberia, production went up by 1% reflecting the increase of the weight of hydro production from 16% to 32%, and also reflecting a strong decline in terms of thermal load factors on the back of lower residual thermal demand.

EBITDA in liberalized energy activities in Iberia went up by 11%, positively impacted by 16% decline in terms of average generation costs, our long position in clients, and also the 3% decline in terms of average electricity purchasing costs. Overall, this division was also negatively impacted by the referred regulatory changes, and also the low thermal plant profitability in the period.

Moving to long-term contract generation in Iberia, EBITDA went down by 9%, impacted by the decommissioning of Setubal fuel plant, and just partly compensated by the strong increase in terms of mini-hydro production in 2013.

EBITDA in regulated energy networks went down by 3%, both as reported and also as adjusted, reflecting especially a lower return on RAB in distribution of electricity in Portugal, which went down from 10.05% in 2012 to 8.56% in 2013, on indexation to five-year CDS of Portuguese Republic.

Finally, moving to our leased subsidiaries, EBITDA at EDP Renovaveis went up 1%, as it was already referred. EBITDA in Iberia was flat reflecting strong wind conditions, but also the negative impact from the new generation taxes and from the recent cuts in terms of remuneration in renewables in Spain. EBITDA in the United States went up by 7%, and EBITDA in other markets went down 7% year on year.

Finally EDP Brazil, in local currency, EBITDA went up by 24%, or 7% when adjusted for non-recurrent effects. Note that in distribution, our EBITDA was 16% below what would be normalized in 2012, but was 15% what would be the normalized level in 2013. Excluding Pecém negative contribution and also some one-off gains, EBITDA from generation and supply and others went up by 11%.

Just to focus a little bit more on the two major divisions in Brazil. We can see that regarding distribution, the reconciliation between the 41% growth reported EBITDA growth and the 3% that would be normalized growth showed that the low EBITDA reported in the fourth quarter 2013 was explained by almost no CDE contributions in this quarter. So we have the negative deviation of BRL123 million, and just the BRL2 million contribution from CDE in the fourth quarter 2013.

Regarding EBITDA in generation Brazil, the highlight goes to Pecém I which was still on ramp-up stage, still affected by penalties on low availability, but already with a clear positive EBITDA in the second half of 2013.

In terms of outlook and in slide 32, moving to some updates in terms of market environment in Iberia. In the first two months of 2014, we can see that the negative impact from electricity demand is now much lower than what it was in 2013. Demand in Iberia went down just by 0.8% as a result of continuing recovery in Portugal, plus 3.2% year on year, and lower decline of demand in Spain in the period, minus 1.6%.

So the major change versus the same period last year is the higher hydro production which almost fully justifies the 47% decline in terms of residual thermal demand.

This market environment justifies the 46% decline in the average pool price in the period, as we can see in slide 33, which also explains this market environment. It also explains the significant decline in terms of off-peak prices which leads to an increase in terms of price volatility and creates, obviously, some arbitrage opportunities.

Overall, in terms of EDP liberalized activities, in terms of forward contracting for 2014, so we have already sold and closed spreads for 100% of our expected coal production. We have already closed the spreads for 80% of our commitments in terms of gas sourcing, and we have already contracted mostly with final client 23TWh hours of electricity sales at an average contracted price of EUR55/MWh.

In terms of prospects of evolution of regulatory receivables in Portugal, we would say that this should be positively impacted, obviously, for the 2.8% average tariff increase implemented in Portugal since January 1, 2014. The beginning of 2014 is showing also positive signs in terms of power demand and in terms of CO2 prices, which went up significantly in the last two months.

It's also through that the strong volumes in terms of wind production and local prices, which imply higher premiums, should have a slight negative impact. Overall, we expect the system receivables to be peak at EUR5.3 billion by December 2014, becoming flat in 2015, and converging to zero by 2020.

Note also that EDP keeps a significant amount of securitisable assets with relatively short maturities, low risk and adequate remuneration.

Moving finally to an outlook on market environment in Brazil, we can see that all the reservoir levels are currently lower than expected. So they were at 40% at the end of January versus 37% at end of January 2013, and 76% at the end of January 2012, a scenario that leads to the recent strong increase in spot electricity prices.

This situation should be compensated by the expected renewal for 2014 of the system implemented in 2013. Essentially, the upfront cash payment by CDE fund to distributors which are currently facing a huge an unexpected increase of electricity procurement costs.

I will now move to our CEO for the outlook for 2014 and final remarks.

Antonio Mexia

Thank you, Miguel. One key element is, of course, what is our vision for the evolution of EBITDA 2014. I would say that we are comfortable; of course taking into account the IFRS changes, because of our assets -- mainly we are talking about Pecém -- we are comfortable with the consensus. And as you see, we exceeded EBITDA of EUR3.5 billion, as we mentioned in slide 37.

So we are there; the consensus what we see is that liberalized activities are supposed to being slightly above 10%. The increase here is also due to the fact of three new hydro plants that were transferred from CMEC to the market. And of course, these will have a positive impact because implicit tariff on the CMEC is lower than the market price.

We have also here the impact from regulatory measures, especially in Spain. But we have also to mention the strong hedging for 2014, the 23TWh sold forward at an average selling price of EUR55.

In Brazil, you have of course the uncertainty on the lack of rain and what will be the degree of utilization of CDE or other mechanisms that, as you know, has been conveyed by the Brazilian authorities that they will compensate in the market. Until now, the solution is not yet presented, but everybody expects that because of the size of the issue, that will have something similar to what was then last year, even if it's not in the same degree, but we expect something on that direction.

And of course, the 50% at Pecém; we have agreed the disposal of 50% of Jari and Cachoeira. The closing will be expected towards the end of this semester.

Then at wind power, we have the impact of the new additions in 2013. We will be developing mainly in the US with PPAs throughout 2014 new projects. But of course here, we will have what was already considering the -- in the accounts for the last six months of 2013 the impact of the regulatory framework of wind farms in Spain.

As you know, our market share of the revenues compared to the market share of the production, especially of the installed capacity, it's interesting for us, and in a difficult environment I think it was -- it's a rather relatively good result.

If we see distribution year to date, Portugal, evolution of five-year CDS would result on 8.4% return on RAB, slightly lower than last year where it was 8.56%, so not a big change. And as you have seen, the long-term contract reduces the relative weight because of the three hydro plants that go into the market; so they finish the CMEC.

So visibility is secure now that we have -- we know what was decided in Spain and implemented. So overall, what I would like to finish with is, of course, a resilient performance. I think resilience is the key word, enhanced by diversification, strong improvement in efficiency, and of course, the new additions are focused where it makes sense.

But clearly the key -- I think one of the key message, it was clear for 2013 and will be of course kept tight under control in 2014, is the cost control. So this issue is always important, but even more important when the environment is tough.

So keeping the lowest profile, of course, was a driver and will keep going on. We expect receivables not to increase. It means that the increase, the net in our balance sheet, the increase that we expect will -- of course will be compensated by sales. So our commitment is not to have more than we -- probably in the Q&A we'll go through this detail so I will -- not to avoid questions on this I will give the opportunity to discuss later.

But typically, we have done a good job in 2013. We have sold EUR1.5 billion, and the commitment is the same for 2014. We will go through the disposals that were announced with CTG, and the net debt reduction by EUR800 million, our commitment for 2014 is that the debt will go again down compared to the 2013 figures.

And finally, just to mention that we will propose to the shareholders' annual meeting the dividend of EUR0.185. I think it makes all the sense; it respects the commitment. It's one of the cornerstones of our policy, this dividend credibility. And today, we have the improvement of the visibility; medium-term free cash flow potential enhances the value of this.

So our quality mix, the returns and diversification effect, and the risk management, I think 2013 proves that we have been delivering as always on this front; and 2014, a challenging year, but this policy will, of course, deliver once again the difference between us and the rest of the sector.

Thank you. So let's proceed for the Q&A.

Alberto Gandolfi, UBS

I have four, but very quick ones. The first one is going to slide 35 where you're talking about 2014 expected in Portuguese regulatory receivables. Can you explain more in detail what does that dark gray bar mean really? Because was expecting something like EUR600 million increase in your regulatory receivables; it looks like you have some EUR2.4 billion to EUR5.3 billion. So what type of increase do you expect and what -- and how much do you expect to securitize? Point one.

Point two. I would have expected on this maybe faster securitization, given the drop in the Portuguese bond deals, and I would expect more appetite for this type of product. So why haven't you accelerated the securitization of the receivables?

And still talking about the debt, you say 2014 below 2013. Can you please elaborate the key assumptions behind this statement? Particularly, you are going to answer already that in the securitization from the first question, but can you also talk a little bit about the disposals you have in your mind and the cash flow generation?

Then when it comes to final question, can you talk a little bit about outlook for Brazil, please? There's several moving pieces. The currency deviations from yet another year of drought, but full contribution of Pecém. Then you have also the organic growth. Can you talk a little bit about what you are seeing, what you're expecting for the full year?

I'll stop here. Thank you so much.

Nuno Alves

Now let me talk -- I'll handle the receivables and the debt. I'll try to explain.

So what you have in slide 35 is our expectation which we had shown and been showing quarter by quarter since 2013, the evolution of the Portuguese deficit going forward. We had expected a slightly higher number at the end of the year but it's not meaningful, the difference, so we maintain the guidance for end of the year system deficit at EUR5.3 billion.

Now the amount that you'll have, lighter gray and darker gray, is going to depend on how much we securitize, and that -- let me try to answer the question on what we intend to do and amounts of what we're trying to do and maybe even why we don't do more.

Clearly, we've already done close to EUR140 million this month. We are very ready to go for a market transaction the second half of March/beginning of April at the latest, so we have mandated the banks. We're just waiting for final approvals. We intend to start the roadshow in about two to three weeks' time. So we want to do a market transaction the same way we did it last year.

Clearly, we do have an expectation that the response is going to be stronger than last year, so we will see how it comes. But clearly, our expectations are high that we will do a market transaction sometime within the next month or so.

The planned demand for transaction is going to be at a minimum EUR500 million. We'll see where the appetite is, but that's our goal right now.

Let me turn to -- and I know it's a little bit complicated and some people like it, some people don't like this discourse, but why don't we do more. The issue is from a shareholder/supervisory board standpoint, the message that we have is that we should not allow it to increase in the balance sheet, but we don't have a target to lower it to.

What we have is an asset that is paying us in some cases more than 5%, in some cases just less than 5% per year, of an asset that we recognize probably as the safest asset you can have in Portugal. And the issue is if we sell it, lose that carry that we're having as a financial income today, and we exchange it for one or two things.

Either we do bank deposits, which as you know don't pay anything anymore, or we go and buy our debt, which has improved significantly. And even in that case, if we buy the 2016 bonds, we'll probably get less than 2%. So we have -- by every time we sell it we have a negative carry of 3%.

So we're trying to have a balance here between selling at least as much as be the increase of the year in the balance sheet, but don't sell the whole thing because we would in the end, end up losing some type of money.

So we did EUR1 billion in 2013. Our expectation for 2013 is somewhere, maybe a little bit less, maybe a little bit more than that, but I would say EUR700 million upwards. That would be the target for this year and that's our best expectation as of today.

As far as the guidance for that for 2014, clearly, you have -- first of all, let's -- we have to adjust the year-end number because we already know that we will not consolidate Pecém, and that by itself will lower debt somewhere to the region of EUR17.2 billion, so just by that, that will fall EUR300 million, something like that.

Considering that if you put in there that the sale of the regulatory receivables will be the same size of the new deficit that is generated, be it in Portugal or Spain, so considering that zero, then we would expect that to fall from a disposal of all our assets. So we have already contractually agreed with CTG to sell part of the hydro assets, and we will continue to look for other transactions that are part of the program with CTG. We'll see if we can close them or not in 2014, but we do have the expectation that number will be positive.

From -- and since our cash flow that we do have is going to be very close to zero after dividends and CapEx, we should lower debt a little. That will depend clearly on how much we dispose of assets. Clearly, our expectation that we predict today is that net debt year end of 2014 will be lower than 2013 on a pro forma basis.

Antonio Mexia

Alberto, third question, outlook for Brazil. If you look at page 37, you have already a ballpark figure in terms of 16% of the outlook, so it gives already an idea of what we see. Of course, the issue for Brazil, as you've mentioned, you have a lot of moving parts; positive moving parts in Pecém. Currency, as you have seen, it was already worse but then it improved. But clearly, the big question is, the big issue is what will happen in terms of tariffs deficit creation or not and CDE intervention or not.

So at this stage, and all we're seeing is that we will have some kind of government intervention on the positive way; we don't know what will happen. And I think everybody is waiting for -- throughout March and April to see what happens with the rain in Brazil.

So typically at this stage we have no reason to change what was our vision because it depends on that moving part that we don't know, what will be the impact in terms of CDE or a proxy to that kind of intervention. And I think that we will need at least to end of March to see what will happen.

Alberto Gandolfi

Can I just make it crystal clear? Sorry. To follow up, a question for Nuno here on slide 35. So you talk about a target of about EUR700 million securitization. If you were to succeed on this EUR700 million, your year-end regulatory receivables on balance sheet from Portugal would remain at about EUR2.4 billion, broadly unchanged. This is correct, right?

Nuno Alves

That is exactly correct because part of the amounts that we securitize go on to pay the existing owner. So the increase of the system deficit will always be smaller than the increase on the balance sheet. So if we didn't sell anything the balance sheet increase would be more than the EUR500 million because part of the deficit which we don't own has to be paid through the tariff on a yearly basis. EUR400 million/EUR500 million of new deficit in Portugal means that we will have to finance EUR700 million to EUR800 million.

Alberto Gandolfi

Sure. Thank you.

Stefano Bezzato, Credit Suisse

I got four questions, if I may. First of all, going back on the leverage, do you still plan to reach 3 times net debt EBITDA by the end of 2015? Does this still seem reachable to you? And if not, are you ready to consider new disposals on top of what you have in your plan? Or are you ready to live with the higher leverage maybe also in consideration of your highly regulated profile?

The second question is on regulation. We have seen recent press articles commenting on possible new government intervention in the coming weeks, in particular in terms of ancillary services if I'm not mistaken. Can you shed some light on what do you expect here and the potential impact?

The third question on your P&L targets. Given the recent and ongoing disposals of minority stakes to CTG, could you give us a bit of an indication of what you expect in terms of level of minorities on your P&L going forward?

And finally, last question. You mentioned you are happy with the current consensus in terms of EBITDA for 2014. What about net income? Consensus is currently below EUR900 million. Would that be comfortable for you as well?

Thank you.

Nuno Alves

Okay. Let me we start with the leverage and the 3 times EBITDA. There's also some questions on that issue on the Internet, so let me try to address it.

Clearly now , we've been expected this for a while. After all the regulatory changes that we've had and which we've shown will amount on recurrent basis to more than EUR300 million per year part of the Portugal plus Spain. Out of normal business at the 3 times in 2015 will not be achieved.

Now we don't want to have to -- to try to get as close to the 3 times as we can. Clearly, we are not going to start disposing of assets just to meet that number. If we find opportunities that do create value, we will do so. So we will maintain the target of trying to get as close to 3 times as we can by 2015, but we clearly know that unless we do some sale which is sizeable, we will not reach that number.

We're also working on, as you know, on a 2017 plan which we intend to present in London on May 14. At that point in time, we will be ready to give you further guidance on that leverage and how we intend to handle, basically bringing the more -- the numbers after all these regulatory changes into the P&L and balance sheet of EDP and try to translate when we'll get to the 3 times if we don't do anything out of the extraordinary.

But clearly, we maintain the goal of getting to 3 times as fast as we can, and clearly before the end of the CMEC which is in 2017. So that goal is still EDP's goal, but really we also have to state today that unless something unexpected today, we will not get it in 2015.

Antonio Mexia

In what concerns price in Portugal and new measures, and then about profit.

Let's be clear. The Portuguese Government measures started before we got the clear visibility on the package, well before the neighbor country. Ancillary services is the last technical issue that is under discussion, creating incentives for a balanced intervention in the market. I think that's good. All the regulation, I think it makes all the sense.

We have already included in our vision for 2014 the impact of this, and it could be between EUR10 million and EUR15 million but -- so clearly, we are working together with the government and regulator and we see these as a totally normal optimization measure in the system, very different from the rest of the package.

In terms of current consensus, when I talked that I was comfortable about EBITDA, I am also comfortable; eventually even more comfortable with a net profit. It means that we expect to do slightly better.

In what concerns minority levels on minorities? Nuno.

Nuno Alves

In terms of minorities, the minorities will increase from about EUR12 million in 2013 to about EUR26 million in 2014, and most of that has to do with minorities' sale of the assets in Portugal to CTG.

The other sales of Brazilian assets will not have an impact in the minorities because we will no longer consolidate them. It will be a financial investment so what you'll have is less profit, but we don't account for it today.

Stefano Bezzato

Thank you very much.

Carolina Dores, Morgan Stanley

I have two. First one is on Brazil, specifically on Pecém. The availability of the plant in 2013 was around 60%; I think, 61%. What sort of availability do you expect in 2014? And based on that availability, what is your exposure to the spot market on that plant? Because my understanding is that if you underperform, you would have a higher exposure to the high spot prices which you wouldn't be able to pass through specifically on Pecém.

And my second question it's on the disposal plan with China Three Gorges, because you announced EUR1 billion of disposals in December. I want to know, one, if the co-Capex with São Manuel is also part of the transaction, so you are now closer to EUR1.2 billion done.

And second, if you could give a little bit more visibility on the timeline of the remaining EUR800 million to EUR1 billion; if Spain is next, when you would expect to announce that.

Thank you very much.

Antonio Mexia

Okay, Carolina, thank you. We have a clear improvement, and just to give you an idea, in February, the availability of plant was around 90% so we are really in a different environment today.

And the critical issue is that I would like to mention is in what concerns the penalties that we have seen in the accounts of Pecém 2013 because of the availability, it's important to see that we won a preemptive moving in the courts because ANEEL wanted to change the reference period for that availability from a five-years average into almost a daily average.

So clearly, it shows that they need to respect the contract, the measures, so they cannot no longer see these on a daily basis; that they must see on the period that was contracted when we were awarded that concession. So it presents a major change, I believe, positive for us, because they can no longer today apply any penalty. But in any case, the good news is that the machines are running and the availability is around 90% on February.

In what concerns the disposals -- by the way, the penalty was called for those that liked the -- I don't and you probably know that name.

In what concerns the disposals, St. Manuel will be part of what we call the co-investment part of the EUR2 billion that was committed. As you know, part of the EUR2 billion was disposals and part would be co-investment, buying in in what concerns new projects. And

São Manuel will be, of course, included, so the share of São Manuel that was considered by CTG is included in the €2 billion.

In what concerns next steps, of course, now that we have visibility about Spain, we are working back into the table looking into those assets. That's the obvious move that we keep considering alternatives to be sure that we will give additional visibility about the second billion on the wind front. And we will be looking into also other markets to speed up that second stake, including eventually Brazil.

So we have been clearly, no taboos, but also being pragmatic about what makes sense at each moment. And, of course, now we are looking back into Spain, but let's see what makes sense.

Nuno Alves

Let me answer some questions that come through the Internet. There are several. They are mostly on the debt side so I'll try to answer all.

There's a question on China development banking; EUR1 billion remaining drawdown. The answer to this remains the same. Right now, we don't need it. The backup is still there. If things go nasty again, we clearly would use it, but as of right now, markets are working well and we can finance these within the market, so there's no need to use it. So we'll maintain it as a backup for bad days if they come again. If they not, we probably won't use it at all.

The question here is regarding the rating of EDP. I don't think there's much new there. I think we're at the same stage we were two or three months ago. Clearly, agencies have been approaching it differently, if I may say so. We've noticed a little bit of more openness of S&P to re-look at the way the methodology works with public caps or not on the companies. So we see that as a positive.

And though there's no near-term expectation of a change, but clearly, I think that there's an appetite there to be a little bit more flexible than the other rating agencies as of today. So within that mode that we are still capped by Portugal, clearly at a cost to us, let's hope that the country itself keeps on improving and one of these days it gets recognized by the rating agencies that the sovereign issue is no longer what it used to be. And if that is the case, I think that's the time that EDP will be upgraded.

In terms of CTG increasing the stake at EDP, Antonio, I don't know if you want to say something about that.

Antonio Mexia

We know they have a standstill and a lockup period until May 2016. So it's a question that until then, there's not any way through. So it's not the case. They have publicly announced that they are pleased that they cannot move in any case, so I think it's simple to answer.

Nuno Alves

Finally, there's a question here on the rundown of the PPA/CMECs. They will run down 'til 2017, a little bit more this year. There's some more to go at the end of 2015. But the bulk is in 2017, and if you need it, the investor relations division will give the total breakdown asset by asset of how it winds down. But clearly, it's going to be a slow decrease 'til 2017, and then in one go it will go to zero.

Now we can go back to questions on the phone line.

Gonzalo Sanchez-Bordona, BPI

I have three quick questions, if I may, one on the Capex outlook. I want to confirm that you keep your Capex targets of EUR1.7 billion for 2014 and EUR1.5 billion for 2015.

Second question would be on the OPEX evolution. We've seen that you have anticipated your OPEX savings program by one year to 2013, so just wanted to know if you have any additional programs for this year and how do you see your OPEX evolving during 2014 after the drop that we've seen in 2013.

And finally on the strategic plan. I've read somewhere in the news today that your plan for 2014 to 2017 will be focused on deleverage. So just wanted to know after what you've discussed on the net debt EBITDA target of 3 times for 2015, or as close as possible to that target, if that is a target that you are comfortable with also for 2017; or if you believe that a comfortable leverage for you would be lower than that.

Thank you.

Antonio Mexia

Gonzalo, just to reassure, Capex outlook, EUR1.7 billion, 2014; EUR1.5 billion, 2015; that's clear. We keep that in front of us.

In what concerns OPEX, we want the costs flat in 2014, even with increase of activities in the installed megawatts. I think that's also good news. In any case, we will be probably in May talking about more long-term vision for that OPEX line, but for 2014 it's flat.

In what concerns the net debt, I think that's clear. Ultimately, it's going in the direction -- going down in terms of net debt to our EBITDA. Nuno has already said why we don't -- we are not 3 times in 2015. But clearly, we are going in that direction onwards. So we will give precise figures in May. But what we wanted to reassure everybody is that deleveraging is at the core of our strategy, so the balance between growth and deleveraging is key; was key, is key and will be key, because we have a clear understanding about keeping this low-risk approach.

And we are, of course, aware that after 2017 with the end of the PPAs in Portugal, even if our growth is mainly through long-term contractors, so you replace long-term contractors with long-term contractors in terms of growth, except for the hydro project in Portugal. So the commitment is in that direction and we'll be discussing when exactly we will reach that figure in May.

Gonzalo Sanchez-Bordona

Thank you.

Charles Fishman, MorningStar

Two questions. One is you've now had two years in a row with a dividend payout ratio slightly over 65%. At one time, you wanted to stay below the 65%. Is that a policy that's not going to be really as critical going forward?

And then my second question on slide 5. You've now had two quarters in a row of strong demand growth in Portugal. I was wondering if you could give a little more color where is that demand growth coming from and what your outlook is for 2014.

Thank you.

Antonio Mexia

So these are good questions; the first, in terms of payout ratio. I think that our policy of having a range of payout and the floor makes sense. By the way, I think it was followed by other players in the market.

In what concerns the range, I think it also makes sense. We are today at the average of the sector, so it means that it's quite the same policy, and the idea is, of course, to share -- as soon as we see profits going back again, up again, we'll share these with the shareholders.

So typically, dividend policy and debt visibility, I think, is a key element, and we will keep this payout ratio.

In what concerns demand in Portugal, I think it's a good front. We have seen the last quarter an increase of 2%, slightly above 2%, and we have seen at the beginning of the year also an increase. So it shows that you have a recovery also export led in Portugal, and I think it's good news, especially because increase of demand comes from the industrial side and especially the big industrial, so the large-size export-driven industrial.

So all of these is good news and sound news. Better than expected six months ago. We ended up 2013 even with year-on-year slight increase against what we expected that was a decrease, so better than we expected.

This figure is, of course, important for our P&L, but especially important for the sustainability of the system. We have been talking about our deficit in Portugal. We have already stated how it peaks and then how it goes down, but one of the critical elements for the stability of the system that we firmly believe is demand.

And the demand assumption in terms of growth that are included in the model for this to be safe until the end of the decade is clearly today surpassed by reality. So we have been seeing increases of demand that are above what was included in the model in terms of sustainability of the system.

So good news in the short term, but also good news in terms of the tariff deficit reduction and sustainability until the end of the decade.

Charles Fishman

Yes. That demand growth is certainly good news. Thank you.

Antonio Mexia

In what concerns just a wrap-up, I think that just to say that we feel comfortable with 2013 year-end figures. We are now more comfortable with the visibility because we know one of the key issues was about the Spanish regulation. Now we have visibility so we are comfortable with 2014 more than we were before and we are comfortable with the consensus.

So it's going to be a challenging year, but I think that we have again in 2013 proved that we do what depends on us, regulatory management, energy management, cost front. And even in the project that was delayed and where we were not doing exactly what was expected, it was the case, for example, of the coal-fired plant in Brazil, we are now where we were supposed to be.

So clearly, overall, we are facing the market and taking all the measures in all the fronts that we need to take for us to feel comfortable, and for everybody, especially the investors, to feel comfortable.

So thank you for your presence and see you soon.