João Manso Neto

Good morning, ladies and gentlemen. So, I think everybody knows EDPR today is a company with sizeable – a sizeable company with 9.7GW installed. We are one of the market leaders. We are concentrated basically in Europe and U.S., also in Brazil. We belong to EDP Group, which has 77% of the capital. So, this is well known. I would like in this – in my presentation basically to address three issues. One is to make a short review of what had happened in the last years; afterwards, to speak a bit about how do we see the market internationally; and finally, to present what are our objectives for the period 2016-2020.

As you know, our strategy was based – it was a very simple strategy based in three pillars: having a selective growth, having operational excellence of the assets we have, and have a self-funded business. I think this 2014, these last years, we were able to deliver on the three dimensions in terms of the growth. We were able to exceed the targets. We expected 1.5GW and we did – we'll do, and we did 1.1GW between 2014 and 2015, always respecting our goals in terms of lower risk and concentrating in our core markets. Operational excellence, notwithstanding the lower load factor last year, we were on track in terms of availability, in terms of cost control, with a reduction of 2% in core OpEx per megawatt.

And finally, in terms of the self-funded business, we were able to exceed two years in advance the asset rotation strategy. I will speak more about this. But we did – the important is not to exceed – the important is that we exceed with higher prices, meaning that our asset fell has a higher value than what we thought and the market thought in the beginning.

Going more precisely to one of these pillars, the growth was slightly over the budget, but the objective – but fundamentally, with very – with high rates of return, which enable us to have – just for this component, an increase in EBITDA of 13%, which together with the cost control I speak about, we were able to increase the EBITDA between 2014 and 2015 by about 20% unadjusted by extraordinaries, and the net profit by about 14%. So, both beyond the objectives we had – 9% and 11%, as we remember.

Cost control. This is something that, because we work in an industry with low variable cost, that sometimes are under looked. But clearly, this is an area in which we are obsessed. The cost – we were able to reduce the cost per megawatt 2%, control the cost of supply and the personnel costs. And this was not really by chance. I would say if I had to put one or two reasons for these results, firstly, concentration. We are not – we had – we decided to

concentrate in our core markets, so – which enable us to have economies of scale, which would not be like that if you had the policy of going to several markets at the same time.

Second point, we had the policy of internalizing a very important part of the core activities. And when we internalize the core activities, we have more quality and we are able to escalate the production without increasing the cost. And finally, and we'll speak more about that, we have the policy, very determined in terms of O&M, which enable us to internalize the value of activities and reducing the cost.

So, growth, profitable, lower costs. And finally, in terms of self-funded business, we were able to give it, to do it. We said from the beginning that we did not need and we do not want to increase the debt, and we did it. So, we were successful in asset rotation. But, before I speak about asset rotation, sometimes we turn from the route, the left side of the equation, which is strong cash flow. Our company generates, after paying dividends, after paying interests, after paying all the operational costs, about €600 million per annum. And this is the most important part of our funding. And so, the company has been able – in this moment, we have – we do have the size, which enable us to fund substantially part of our investment through the cash flow that we generate.

Besides that, we did the asset rotation, which was a concept that a few years ago nobody spoke about that. I think we were part of the introduction of the generalization of the use of this way of acting, which is not a liquidity measure, a way of generating liquidity. This is strongly accretive basically because we are able to sell on equity, about 6.5 on average, and these rates are going down, and to reinvest that in double-digits in terms of IRR. And so, because of that, this is accretive.

The multiple as António Mexia has referred at the beginning of €1.5 million, which is much higher than the implicit price in our share, shows that. And in the past, people tend to say, sometimes people said, “no, we are selling just the good assets, the better assets, and you don't have lots of scale to do it”. The last transaction that we did in last months show that our assets are globally good and the transaction that we did in March, the European basket in which Iberia and, in particular, Spain had the majority weight shows that – and at which we sold about €1.7 million per megawatt – shows that our ability and our flexibility in terms of asset rotation is really strong.

So, asset rotation is important and is very accretive. And it's a complement of the most important part of our funding, which is the cash flow. So, we deliver in all the three fronts:

operational excellence, meaning cost and availability; growth accretive and with low risk; and sound financial policy.

Now, what's the future? I would say that the future – one – there is no product in the world which can be – can succeed and can improve if it's not competitive. People may like to very fancy things, very expensive for a minute but not for – on a sustainable basis. And I would say that fundamentally what we are seeing is that wind, onshore wind clearly, and gradually, more and more, also solar, we are being competitive. Clearly, today, we are competitive. We can compete on a full scale cost basis with all the technologies.

So – and this is the point. So, we are market leaders in an industry which is more and more competitive. And this trend, which in terms of reduction of cost per year, was about 2%/2.5% in the last five years, and in case of solar, which was more the north of the 4%, will continue through the next decade even without any specific revolution. The evolution meaning higher – taller towers, larger blades, more flexible softwares will continue. So, I'm not including here revolutions of store, which changed it on the positive side dramatically, but just counting on the evolution, the expectations is that, that it will continue.

And this strong advantage in terms of costs make everything much more simple. We know that the planet, the humanity, has to do important changes in terms of environmental. I'm not speaking only on CO2, I'm speaking about other pollutants like mercury, like DeNOx. And the strong technical progress and the decreasing costs make all this transition much easier. Why much easy? Because, in fact, the replacement of this in a just a transition is going to be done without increasing the cost for the consumers.

And this was well understood, so that's why we see on a much simpler way, we saw last year on a much – with a very big consensus, things that in 2009 in Copenhagen did not happen because the costs are low. So, we saw strong commitment on the medium term regarding the global decarbonization in Paris. We saw measures very strong in the U.S., in Europe, in China, everywhere. We see more and more strict rules regarding coal, and so all these environmental concerns enable more and more renewables, and this is possible because they are cheaper.

On the other side, electrification, which is clearly one of the ways of decarbonization, it's again going to be simple because the electricity tend to be cheaper and finally, the same: everybody – nobody wants to be too much dependent on the region. Nobody wants to be much dependent on the tools. So, the renewables enable this situation again because it's cheaper.

And that's why all the forecasts, all these institutions see that most of the new capacity will be – in the world will be basically made of what? Wind, first place; wind-solar utility centralized PV, second place. (01:11:20) So, the reasons where EDPR are – again, we don't need to go to different and strange markets – are represented by about 70% of these utility additions.

Be more precise where we will see the increases. Firstly, I will say the U.S. Why? Because of PTCs, of course, and having five years of PTCs do help, new visibility. But, again, PTCs alone without technical progress, PTCs alone without the will of decarbonization would not be enough. So, PTCs create conditions for the technical progress and the decarbonization objectives go ahead. So, what we are seeing today is that some states have – had happen, and we are going to see and we are seeing not many states increasing the RPS, the quotas of renewables year by year. California is the case, Oregon, New York and Vermont, several states are increasing the quotas. And so, it's, again, easy because it's cheaper.

Even in states which they have no objectives of CO2, and that can take more time than expected, they have to replace coal. The rules are more strict in the U.S. in many cases than in Europe. And so, they need to replace coal, and how are they going to replace coal? They will replace coal by the cheapest technology. Again, wind and solar compete in many places, mainly with PTCs, with gas which is the alternative.

So – and on the other hand, one thing which is very distinct is that we are seeing U.S. more and more companies, not only utilities, but also private companies adapting and securing long-term power for long term. Why? (…) mostly because it's, in fact, it's a way of having 15/20 years power at fixed price, cheaper. I'm speaking about companies like Amazon, Google or motorcar companies like GM, Bloomberg's, supermarkets. It's clearly one of the areas where we are seeing an enlargement of this.

So, U.S., on average, we expect to have about 15GW per year in the next 10 years between wind and solar. Wind, on average, will represent in the beginning, more. And then on average, should be about 7GW. But growth in the U.S. will be, because of the specificities of PTCs, with more concentration in the beginning, so we're expecting to have strong – very strong years in the U.S., not in terms of wind personally, but gradually also in terms of solar.

Europe. I do believe and we do believe that Europe has strong prospects in medium term. The objectives that were defined for 2030, in which double the decarbonization objectives, goes from 20% to 27% in terms of renewables, and again, because renewables are cheaper, create – consider – make us consider Europe, where we are clearly in a strong market in the medium term.

But we must be realistic. Today, the Europe still has an overproduction of power installed. Europe has doubts as António Mexia referred at the beginning of how to conduct the energy policy, which is strange things in Europe is that energy policies today in Europe is being direct than managed by competition, which is odd. But on the medium term, then the prospects are very strong; on the short term, and the short term for us is the next until – two/four years, I would say, until almost the end of the decade, the growth in Europe is going to be not very big, with exception of certain pockets that we being there should be able to profit from, and also with exception of offshore, which has an important weight in certain countries. So, Europe is going to be a good and will be always a market slower now, strong in the future, which is different from U.S. in which the strong – the biggest push is going to be now.

On the other hand, in emerging markets, namely the markets where we are, Brazil and Mexico, here, the demand of power is clear. And, again, costs – those countries have excellent resources of wind and also, solar. And plus the new power, they have load factors on the north of 40%.

Brazil, we can speak today without being very surprised, we are moving to 60%. And so, power is cheap. And those two countries have – need power, cheap way of producing power, and market or regulator regime based on long-term agreements. So, we see that in all the three markets where we are, the demand is going to be very strong.

What does it mean? Being ourselves a market leader in a sector, which is going to grow very strongly based on strong fundamentals. Being the market very strong, the business plan could not point to other direction, and being our company more and more strong in ability to generate its own cash flow; so, putting those things together, the three things together, our plan could not be other than continue an intelligent and profitable growth.

And this is what we try to summarize here. So, we'll keep the three pillars. I think the three pillars make sense. We have no problems in change, but we have a lot of problems in keeping. So, we'll keep the three pillars. When we are right, selective growth, operational excellence and self-funding business. Of course, the numbers are going to be slightly

changed and the sum of debt will be slightly changed considering the situation of the market, and the additional size and the additional capacity of – ability of generating capital of our company.

So, be more specifically, we expect to move to about 700 megawatts per year, again, in our core markets. Why? Because as explained, the core markets are strong and have profitables, so we should not – we don't have need to go to strange places when we have so strong markets where we are and we are fine. Always low risk, long – always long-term agreements, and this is clear. This is a sector, energy-intensive, capital-intensive. So, we need to have – we don't need subsidies. We need feasibility based on market. So we are 100% in favor of long-term options based on CFDs or fixed price or whatever you want, but market ones.

We would – we have a strong visibility, more than 50% of the projects that we are going for 700 megawatts per year. We know with names and address, what we are going to do, namely in this first period, about 80%. And in this moment, as you have seen before, solar is being competitive more and more.

So, we are not – we don't deny. And so, we don't deny, so we have to put and we will put and we are putting already solar in our business plan, not as the core because core continues to be wind onshore, but as one of the areas in which we are looking and working on. And offshore, on a selective base because I've told you, one of the big pockets in Europe is clearly offshore.

Costs, clearly, we are not making – we are adding excellent projects that – which increase the load factor for about 33%. Strong increase because we are adding new megawatts of new projects very productive, but, of course, we are not – if the megawatt – if the turbines are not available, having very good wind is not enough. So, keeping high levels of availability is continuing to be an obsession, as I've showed before, we've exceeded it in the previous period. And again, reducing the cost, the core cost per megawatt, again, an obsession.

Finally, in terms of self-funding business, we will continue to – or we – this 700 megawatts will translate more or less of about €4 billion in the period. An important investment, and again, most of the invested – of the funding will come from our free-fund from operation. This is a very strong cash generator, which is our – sort of repeating, but sometimes it's under looked. We are generating at this moment, €600 million, and we expect to move to

about €900 million in terms of free-fund from operation, and asset rotation is going to be a complement.

Very interesting that the fact that we were able to do this European deal of €500 million that I spoke before, gives us for the – until the end of the period. Only, an expectation of about €600 million, which is a small amount in terms of asset rotation, which gives us a very strong feasibility in terms of when, how and what kind of assets to do it.

So, it's not a revolution in terms of the plan, it's a transformation, keeping in mind the growth market and our capabilities.

Going to the details, so, as I told 700 megawatts per year, which moved from 500 megawatts. Markets clearly – it could not be differently, strongest market where we are comfortable and we are acting as a local company is U.S. So it will absorb U.S. and Canada. And some of you in Mexico, we are talking about 65% of investment. Europe in this period will have a more residual area in small pockets, 15%; Brazil about 10%; and solar has a footprint here about 10% of the capacity installed. Always projects with long-term visibility, with long-term agreements, and then basically, of keeping so – growth, but keeping the core, core markets, core technologies.

Going market by market rather quickly. U.S., as I told before, PTCs do help. It's an advantage. The PTCs, as you know, have their face down. So, to have until the project until 2018, we will have full – 100% of the $23 PTC. So our project done in front loads, the investment in U.S. for the first three years; and 2016, 2017, and 2018 will be the strongest years. And for 2016 and 2017, we have practically nothing – practically, exactly what we are going, and as we are very transparent as we normally are, we show here where we are, what the names and address of projects secured, and you can see very strong geographical diversification. We are not only in the middle in – in Midwest. We are also strong positions mainly in the East, which is strong. One thing which is interesting, as I've told before, it's the new kind of off takers. Private companies have a big and bigger weight to present, in this case for us, about 70% of the – of what we have already secured.

Canada and Mexico can be interesting. I would say Mexico, as you know, we are building a very interesting project, 200 megawatts, that will be finished this year. We believe the fundamentals are there, but clearly, we are not obsessed with countries. And we would do and we would be happy to develop our operations in Mexico provided the prices of the PPAs are attractive. If not, we'll move to other areas. We have good projects, but we don't

have to increase. We'll do it. But, sometimes, the markets are – very enthusiastically, we have to choose the moment.

Canada, for instance, which is a market – was a market – and it's a very good market, some of the states, very competitive, it's not so fashion today. And we were able to, in the end of last year, to secure 100 megawatts long-term PPA in that area. We are studying other states in which they will launch projects. Again, Ontario will have another one, Alberta. And we are – basically all states, where we have long-term PPAs.

As I told you, Europe is not going to be a very big market, but we must be intelligent in finding the pocket which exists. Portugal, as you know, we had secured the ability to license to build 200 megawatts with a fixed tariff. In Spain, we are going to do 90 megawatts. That with very strong load factor, and we're putting value investments we had already made.

France, we have – we are number five in France. We have – it's a country which has a good – a big market. Growth is always a – it's a market for people who like marathons, so we have to have patience. We have to be persistent. But in the end of the day, it pays for. And so, we are there since the beginning. And we'll continue to do there. And Italy, which is a market which has a system that we like, basically options, long-term options. Last week was approved by European Union, the new auction for this year. So, we are confident that we'll be able to transform projects in Italy.

So, again, Europe is going to be very strong in the future. In this period, is only 15%. But, again, it's important to, even if we need slower, to be intelligent enough to be able to tap the opportunities.

Brazil is a market that we like. So, we like to be in market sometimes – we prefer to be in markets when people are not overenthusiastic with that. So, in the past, we had a small position in Brazil. Now, we are beginning – now, we did not – we were not aggressive when the prices were too low. We begin to build, our PPA portfolio when prices began to rise. The last transaction – the last auction we did was last year, 140MW (…) this one Babilônia and Baía.

Again, projects, solid long-term agreements, higher – with high load factors. So, we put 45% as an average, but the new projects I speak about are much near 60% than 45%. High double-digit IRRs, more than 20%, we'll say, on the 20% in terms of equity IRR. And again, it's a system notwithstanding political – short term political issues. It's a system in which

administration, regulation, financial system works, and that gives us a secure – a way of investing in Brazil, which would represent, that would refer about 15% of it.

So, again, we – our position in solar in this moment is very small. As you know, it's less than 100 megawatts. But we cannot deny and we will not deny that the competition, that the competitivity of wind is increasing – of solar is increasing. And in certain states of U.S. mainly, it begins to be more attractive.

We know how to do it. What we need to have is to have more dedicated teams, a more systematic approach. What we have here is, as you know, besides the fundamentals in U.S., besides that, we will have a certain – bigger visibility of solar regarding wind because in the end of the day, projects built into 2023 can and will have 30% ITC, so the full value. So, this gives an advantage.

So, what we are expecting, and we are not thinking about – we have already teams in the field securing and being in the areas, developing greenfield opportunities that I would say will be vast, about 10% of the megawatts to be installed in the period. So, it's not as strong, we know it. We need to develop our resources and create, and extract value from that. If you want it to grow quickly, it will be easy, we just buy assets which were done, but it's not creating value. We have to build from the beginning.

So, within U.S., I would say the most important market, I believe that some – the fundamentals can create certain pockets in Europe, Brazil and Mexico. And so, we don't exclude that. So, our teams in the field, our synergies will be able to do that.

And speaking about technology, as I've told you, in Europe, there are many countries in Europe which are delayed for 2020, and offshore is going to be one of the areas. We have decided, as you know, we are in offshore since a few years, we won two projects in France. We are working in UK since the end of the last decade. And so, we expect to develop these two projects together with Engie in France, very attractive projects, and in UK, we'll participate next bidding.

Again, why you can say – why are you in offshore if it's so expensive? Firstly, offshore, the cost is going down. In the last auctions in Denmark, it was about €100, so, the cost is not so expensive. And on the other hand, there are countries in which it's not possible for physical reason to build onshore because of space, because they don't have sun, whatever. So, let's say offshore makes sense, but again, these are different projects, more complex, bigger with other different risks. So, we are going to concentrate and we'll concentrate on

these projects which will represent, nevertheless, less than 10% of the investment during the period.

So again, focus, concentration. Offshore is important, but never forget that our core business is onshore, solar is an alternative, and offshore is important, but concentrated on the position it should have.

So, growth, focused growth in the markets where we are, with low risk. Costs, so the costs is clear. We are adding excellent projects, expect to increase the – from 30% to 33% of load factor, but we have to have the projects – the wind farms available. So, it's an obsession to have over 97.5%. How to do it, being – not only doing what we know how to do, but being more and more precise in the predictive maintenance which will help us in reducing the wattage.

But besides being available, we have to reduce costs. Objectives are very clear. 1% reduction of core OpEx, meaning personnel plus supplies and service per megawatt during the period per annum, and 3% in terms of the core OpEx per megawatt hour per annum. This is based on what? First, we'll keep the economies of scale. We'll concentrate in the markets which counts. The internalization helps to diversify, but we will continue, and I will speak just one more slide on this, which is important, in terms of our policies, in terms of O&M.

The traditional days, as we remember, to us, the things were simple. We were using in the past, in our case, very far past, I would say, to outsource fully, the O&M. This is for us, very simple, very convenient, but very expensive. We understood a few years ago that it will – we were leaving money on the table that we should keep in-house, the high-value – the value-added activities and do it – decreasing costs and improving quality.

We began that in Europe, and with this, what we call, in free Modular Maintenance Model in which we divide the value chain in different areas, some of them, the most strategic we keep with us, the very simple ones we can give to anybody to make – solve troubleshooting or to repair simple electrical and mechanical things. We can hire other people, which reduce the costs and increase the supply; and the one hurdle will be use, of course, utilized for the bigger spare parts.

But – and we are going to do this, but in U.S., because the wind farms are larger, because there is concentration of people in terms of wind farms, and because the labor market is much more flexible, we move to begin one year and a half ago, we did another step, which

is what you call self-performing, meaning doing everything we can do. And so, absorbing the wind farms, having your own people managing the wind farms.

With these two measures, M3 and self-performing, we expect to reduce the cost comparing with the full scope analysis of about between 10% to 30%, which is a lot. And that explains those objectives I shown in the first page.

Have we finished the process? No, we haven't. And it's going to have 70% which is normal also because our wind fleet is young. But the penetration of the M3 and self-perform will move from about 30% today to about 50% in 2020.

You could say why we are not being ambitious, one of the main reasons why it does not go up so strongly because we are building new capacity, and the new capacity during the first three years is managed by the OEM, which is good in the past. But that's why – but the trend is very clear and the savings are very strong on this area.

So, with this growth, profitable growth in term – profitable and safe growth in terms of megawatts, with this cost efficiencies, and notwithstanding the fact that some PTCs will expire, some tariffs will begin to expire, we will expect – we are expecting the growth of EBITDA per annum of about 8% per annum, during the next five years.

And what about financing? Third pillar. We would keep with our policy. We don't need and we are not going to increase the debt. But – and so, we'll keep with these two sub-pillars, asset rotation and mainly retained cash flow. And, again, if you look at the weights, clearly, retained cash flow is going to be bigger and bigger. I was speaking a previous period about €600 million. Now, we are speaking about – on average, about €800 million in terms of retained cash flow.

Again, this is the amount after paying dividends, not only operational costs, dividends to minorities, paying the interest, paying the tax equity and the cost of the tax equity investments, so this is the money which does – the company, in fact, do generate.

So, this is going to be the main source of growth. Asset rotation is going to be important, but as I told you, we have today, the biggest flexibility of our debt in this moment regarding this issue. The €500 million that we did with the European assets with the price we spoke about was important, not only because decreases in the amount that they have to do in terms of asset rotations is now to be the one I want, €600 million in five-year, I would say almost nothing.

So, I can choose when – and so I can choose when to do it. And on the other hand, this prove that asset rotation is nothing, which is specific from – of U.S. assets. We have shown that we could do it in France, in Italy, but now we showed strongly that we can do it in market conditions in Iberia, namely in Spain.

And so, with this, we have all the flexibility to do it. We – the moment and what kind of the assets to use is going to be the ones that will best – better fit the investment schedule and the market price.

And what about profits, what about EBITDA, and then sometimes people say this way of financing with no debt, this is very – it's not accretive in the end of the day. We explained that it is, 6.5, double digit, but sometimes there are doubts.

The way we are putting this is a very basic way, if you ask. As the minorities, the non-control with the non-financial expenses, we are having to have this with this period of 5% increase per annum, which is much lower than 8% of EBITDA and the same amount of EBIT. That means that this police of controlled growth, focused growth, cost control, self-funding is accretive. And so we expect a net profit increase of about 16% per annum on a recurrent basis.

Putting everything together, I would say that this is – I would, simpler, it's not a revolutionary plan, it's a continuation, but the message are very – the objective is very clear: 10% growth, with higher production, better wind farms with more capacity, very productive, 8% increase in EBITDA, €900 million retained cash flow in 2020 – if you divide €900 million by our market cap, will be on deep double digit – 16% increase in net profit per annum for shareholder.

And as we believe that the growth is going to continue to be good opportunities to have healthy growth, we will keep a moderate dividend payout between 25% and 35%. So, this is our plan. Visibility is strong. The commitments from our side, from our management and from EDP is total.