EDP – ENERGIAS DE PORTUGAL

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Chaired by António Mexia

Company Participants

- **António Mexia**, Chief Executive Officer
- **Miguel Stilwell de Andrade**, Chief Financial Officer
- **Miguel Viana**, Head of Investor Relations

Miguel Viana: Hi, good morning, ladies and gentlemen, thanks for attending this first half 2019 results conference call of EDP. We will start with the presentation by our CEO, ANTÓNIO Mexia, and our CFO, Miguel Stilwell de Andrade, followed by a Q&A session. Afterwards, you can -- at this Q&A session, you can use both questions by our website, www.edp.com or through the phone line.

And I'll pass now the floor to our CEO, António Mexia.

António Mexia: Thank you, Miguel. Good morning, everybody. Thanks for being present on this conference call. As usual, I will start with the highlights and key figures, and key comments that we want to share with you about the results. So, if you are following the presentation as you have on Slide 3, I would like to start by providing the overview on the performance over the first 6 months. Our EBITDA increased by 11% to EUR1.9 billion with strong growth across our 3 business platforms.

Let's see on the positive side. We had built out of 900 megawatts of renewable capacity over the last 12 months, mostly wind. And also the execution of our asset rotation strategy with one deal in Europe, already with a significant contribution to our first half results as you will see. We have reached basically -- we are close to 1/4 of our EUR4 billion target for 2019-22 at valuation assumptions above our business plan expectation.

Additionally, our networks platform showed also some growth. In Brazil, we saw significant demand growth in distribution. It's relevant. While in transmission, we have commissioned our first line and we have 3 additional lines currently under construction. In Iberia, the evolution was basically marked by the EBITDA benefiting from an OpEx reduction of 5% year-on-year.

On the negative side, our performance was significantly penalized by the weak hydro resources in Portugal, which in the first half of the year were 44% below average.

In terms of net profit, we see an increase of 7% to EUR405 million, benefiting from the 14% growth in EBIT, supported also by significant efficiency improvements with OpEx decreasing by 1% year on year on a like for like basis. Our financial costs were penalized by 30 basis point increase that we have already seen in the last time we met. Why? Because we have an increasing weight of our debt in dollars and Brazilian real.

And of course, the relevant issuance of a EUR 1.0 billion hybrid bond in January of this year. Our net debt fell by 1% year on year to EUR 14 billion in June 2019. Or plus 4% versus the end of December last year. Following organic cash flow of EUR 0.7 billion in this first half, 16% increase year on year. So, the 700 million euros represent a significant increase on a year-on-year basis, supported by the expansion of our activities and working capital improvements. While that expansion investments more than doubled year-on-year, of which 85% were investments in renewables.

Last but not least, something that everybody knows. On the 15th of May, we have paid the full amount of our annual dividend that amounts to EUR700 million. Fully aligned with our commitment on a sustainable and stable dividend policy.

So, if we move to Slide 4. As you can see, our hydro production in Iberia fell by 50% year-on-year following very low, as I mentioned, resources in the first half of 2019, 44%. As I stressed, below historical average, which compared to 15% above average in first half of last year. Regarding wind resources, they were close to the long-term average in the second quarter, but still 4% below average for the entire first half. So, the first quarter was bad, the second on average, but still on average below.

Moving to Slide 5, we see an 11% increase of EBITDA. So, let's move first in renewables. Renewables EBITDA increased by 9%. In wind and solar, the asset rotation transaction announced in April generated a EUR200 million gain. I want to stress that excluding this impact, underlying EBITDA in wind and solar rose by 6% following a similar increase of installed capacity. A 5% recovery over average selling prices more than offsetting the effect of weak wind resources that I have just mentioned. On the negative side, in hydro, the low volumes in Iberia implied a minus EUR 200 million impact on EBITDA, partially compensated by higher average prices.

Now our second platform, Networks. EBITDA increased by 12%. We see in Brazil growth driven by a 4% increase of electricity demand in distribution and a positive impact from the tariff updates, while in transmission, we benefited from the rollout of the lines that we have under construction. In Iberia, as I mentioned, EBITDA increased backed by sound cost performance with a reduction of OpEx of 5%.

Lastly, in client solutions and energy management, EBITDA was 24% up, supported by the supply operations in Iberia, following the normalization of the market and the regulatory context after the adverse conditions that we faced in 2018. And, also important, a 73% increase in gas generation in Iberia.

Let's move into costs on Slide 6. We continued to see a strong performance on operating costs. OpEx on a like-for-like basis showed a decrease of 1%. In Iberia, OpEx fell by 1% in nominal terms and 2% almost in real terms. In Brazil, OpEx increased in local currency in 3% or almost minus 1% in real terms in a period of significant expansion of activity. So, we are doing more with less.

At EDPR, adjusted core OpEx per megawatt also, of course, which includes ForEx impact and one-offs, fell significantly by 2% year-on-year. Summing up, OpEx year-on-year was below inflation in all our key geographies leading to a significant reduction in expenses in real terms.

Talking of net profit in Slide 7. We see a 7% increase to EUR 405 million, as I mentioned, supported by renewables and networks. EDP Renewables net profit increased by 147% year-on-year, of course, significantly impacted by the asset rotation. In Brazil, net profit increased 10% year-on-year in local currency, propelled by strong growth in networks partially offset by lower results in energy management. In Spain, the lower net profit reflects deterioration of dark spreads and the positive fiscal impact in last year. If it was not for this, we basically we are good. Finally, operations in Portugal, I think it's relevant, posted a net loss of EUR 18 million in the traditional business continuing heavily penalized by taxes and regulatory costs, such as the CESE, the social tariffs always supported by generators, the claw back levy and also of course as we mentioned, the low hydro resources in the first half. So, all the platforms with exception of Portugal are doing well.

Slide 8, strategy execution. I think it's important that from here we do something detailed on this because we have just presented 4 months ago in London our strategic update and I believe that a lot of things since that happened that consolidate the vision of this execution.

So, moving to Slide 9, the first element that is relevant is the increase of renewables secured projects. So, we are basically trying to talk about the key figures, the key elements that you are expecting us to deliver since we presented those targets in January. So, in our strategic plan, we have set the targets of deployment of 7.2 GW of new renewables capacity in the 4 years period, and we have been focused on delivery of projects that fulfil our investment criteria in terms of risk-returns proposition.

By June '19, we had 1.3 GW of renewables projects under construction, and over the first half of the year, we have secured more 800 megawatts of PPAs for renewables project to start operating before the end of 2022 across all our geographies. So, we have an increase to 3.3 GW representing 46% of the target in terms of solar and wind built out for the 4 years period. So clearly, we are delivering on that front, almost half for the 4 years until 2022.

Also, in terms of Brazil, regarding our now 6 Greenfield transmission projects, which represent a total investment of BRL3.8 billion, we have already reached 30% of execution of the total investment, of which 20% incurred in the first half of 2019. In last December, as you remember, we delivered the first line with 20 months advance to the schedule and we have currently 3 lines under construction and two additional lines in permitting stage, one of which added to our portfolio in last May. And all of this will be delivered before time. We have also been working on the funding optimization of this project that you know is relevant in Brazil, which has also provided a significant improvement of our returns. Up to now, we have already raised BRL1.6 billion of infrastructure in local debt or 50% of the expected funding needs for this portfolio.

The second element of the execution on Slide 10. The establishment of a JV with Engie at 50%-50%. I think it's relevant, offshore will be an important element for our growth throughout the plan, but also throughout the period out after 2022. And we expect to show significant growth over the next decade. So, with Engie, we have created really a top 5 wind off-shore player. We believe that this partnership will reinforce our competitiveness in this area, given our complementary competence and I think it's important to have complementary capabilities to achieve large scales of operations, which are required to succeed in such a capital-intensive business. This JV is also, I would like to stress, it's a natural development for 2 companies that have been partners in several wind projects since 2013, so we know each other well. The JV will have a dedicated team and share control governance, with the first CEO being proposed by EDP and the COO and Chairman by Engie, followed by a rotation agreed after 3 years mandate.

The JV has 4 wind offshore projects in construction stage, all with feed-in tariffs already secured spread around 4 geographies and include fixed and floating off-shore technology representing a total capacity of 2.5 GW. And on top of this, we have other projects under development amounting to 3 GW with highlights to Moray East project in U.K., where there will be a CfD auction this year. And the Mayflower project in U.S. which is eligible to the next PPA auctions in Massachusetts and Connecticut.

Third element on Slide 11. Asset rotation and disposals in Iberia. So very different, asset rotation is something that is structural to our business, something that is recurrent and disposals, of course, is the question of rebalancing the portfolio and also deleveraging. The assets rotation through the monetization of fully valued renewables projects to reinvest in new projects in development stage has become, as I mentioned, a recurrent piece of our business and an important part of our strategy, not only of ours but in our case, we are clear in this.

In this front, since our strategic presentation, so just 4 months ago, we have agreed one asset rotation in Europe, which follow our first deal of this kind closed in the U.S. last December. This deal was agreed at implicit valuations above our business plan assumptions, benefiting from the current downward trend in long-term interest rates and a strong market demand for quality assets, sustainable infrastructure assets of good quality. This transaction will provide EUR0.8 billion of cash proceeds over the second half of this year, representing roughly 20% of the EUR4 billion target in terms of asset rotation deals so -- and we will have more. Second, another important commitment in our strategy plan was the disposal involving assets in Iberia to be executed in a 12 to 18 months period, targeting to reduce the weight of the Iberian market in our portfolio. And there is an important contribution as I mentioned, to reduce our leverage. Over these 4 months periods, we have identified a portfolio of merchant generation assets in Portugal representing an installed capacity of more than 1.5 giga for potential disposal. These assets have raised strong market interest from a large number of potential investors, among which we have selected a restricted group of interest parties to present nonbinding offers until next week.

Moreover, in line with what we define in our strategic plan, we have been developing other options regarding potential disposals in Iberia, which we may execute depending on the evolution of the current merchant process. So, we have our plan A and Plan B. So clearly, we are very focused on these figures that we have committed in January. Overall, we reaffirm our expectation of delivering our commitment in terms of the asset disposal through attractive value crystallization to our shareholders within the previously announced timeframe that would assure the full delivery of the disposal program before 2020 year-end.

So finally, on Slide 12. I would say that the word is on track to deliver our targets on the strategic plan. So, regarding the key elements, so we are talking about visibility. Regarding our accelerated and focused growth ambitions, we have built quickly 900 megawatts and that is 800 megawatts of long-term contracts having the secured for, what I referred, the 46% of the targets up to 2022. The JV on the top, the new transmission line in network, so clearly all of these items are-- in 4 months explain exactly why we feel comfortable on this growth.

Second, continuous portfolio optimization. We have, as I mentioned, already crystallized EUR 800 million of assets in terms of asset rotation with valuations better than assumed in our plan and also we have clearly launched this process in Iberia and the nonbinding proposals next week is a good sign of all the homework done in the last 4 months.

Thirdly, in terms of solid balance sheet commitment, we have reinforced our credit metrics through the issuance of the green bonds, and we have secured -- securitized EUR 1.1 billion of tariff deficits in Portugal. Contribution to reach the EUR 6.7 billion of financial liquidity by June, which covers refinancing needs beyond 2021. So clearly, we have a very strong liquidity position.

On efficiency and digitalization front, we have delivered in the first half, 1% reduction of OpEx, as I mentioned. On the digital front, I would highlight as an example the successful ongoing rollout of digital meters in Portugal, which in this first half provided a 40% increase in remote readings with a significant reduction in operating costs. We continue to make the attractive shareholder remuneration, having delivered in last May the dividend as foreseen.

But finally, I would like to highlight that in terms of guidance for 2019, we maintain basically what we have stated in the first quarter 2019 results conference call. First, we continue comfortable with EBITDA consensus of EUR 3.5 billion, second, we consider it still possible to achieve consensus net profit close to EUR 800 million, depending of course naturally on hydro and wind conditions during the fourth quarter. So, I will now pass to Miguel Stilwell for a more detailed analysis and then I will come back for the Q&A session. Thank you. Miguel.

Miguel Stilwell de Andrade: Thank you, António. So now moving on to a more detailed analysis of the results. I would ask you to turn to Slide 14. So here in fact, 14 as we have shown in previous quarters, you can see that the focus continues to be clearly on renewable energy with a 2% increase in the renewables installed capacity. And I would also like to highlight that this represents a 6% increase in wind capacity. So, with this the renewable energy now weighs 74% of EDP’s installed capacity, and 68% of its generation mix, despite very high first half in Iberia, and also slightly weaker wind resources in some of our key geographies, although that was mostly in the first quarter. So overall, renewables production 16% lower than the first half due to lower renewable resources, but still over two thirds of our total production.

If we turn to Slide 15, here we can see that the wind and solar EBITDA increased 40% year-on-year to EUR 961 million, significantly impacted, obviously, by the EUR 219 million of asset rotation gain in Europe. Excluding this impact, the remaining underlying activities still grew by 6%, and I think this is extremely important. So, excluding the asset rotation, even so the underlying business grew 6% driven by the opposite increase in installed capacity mostly in the U.S., the higher average selling prices, mostly in North America and Eastern Europe, which more than compensated the wind volumes 4% below long-term average in the period. Let's move to Slide 16. Here we can see that the EBITDA decreased by 36% year-on-year to EUR302 million, obviously, strongly impacted by the very dry first half-year in Iberia as António has mentioned. He also mentioned some of the hydro coefficient was 44% below historical average. So, if you compare this on a yearly basis, the hydro generation in Iberia declined 50% to 4.3 terawatt hours. This was partially compensated by a 15% increase in the average selling price, which prompted higher realized prices associated with lower load factors generally in Iberia.

In Brazil, EBITDA from hydro declined 10% in local currency and 12% percent in euros, with the allocation of a higher percentage of our annual energy contracts to the second half of the year.

Moving to Slide 17. In our networks operations. Here you can see the EBITDA increase 12% to EUR 472 million. So, in Brazil, the EBITDA increased 26% or 33% in local currency, with the transmission activity contributing EUR 18 million already as the first line became operational in December 2018. And in distribution, the improvement in results was mainly driven by 4% demand growth in our concession areas, mostly in the area of Espírito Santo. And positive impact also arising from tariff updates.

In Portugal, EBITDA increased by 6%, despite the decline of return on RAB by 17 basis points to 5.26%, in line also with a slight reduction in the interest rates. And in Spain 16% EBITDA growth includes the unwinding of some previous year's costs. Finally, OpEx in Iberia fell by 5% in the networks business reflecting significant efficiency improvements, which António also mentioned earlier on.

Slide 18. So, Slide 18 touches on the client solutions and energy management business, which includes also the thermal generation. The EBITDA from these operations increased 24 percent year on year to 208 million euros. Regarding supply in Iberia specifically, EBITDA resulted from the normalization of operating margins following a particularly adverse first half 2018, and also the increasing penetration of new services in our client base. So, in the strategic update, there had been some doubts as to how this business would evolve to the target that we'd shown. I think these results this year show that clearly there is a very strong improvement in the supply business.

Iberian generation also benefited from the improvement in market conditions in gas with the CCGT productions increasing by 73%. In Brazil, EBITDA from these activities declined mainly due to lower volumes in the liberalized supply market. In Pecém the slight decline in results was mostly due to an extraordinary positive effect in the first half of '18 as a result of the downward revision of the reference availability level, which obviously, happened last year, but it's not happening again this year.

So, let's move to Slide 19, and talk a little bit about net debt. So net debt stands currently at EUR 14 billion, a 4% increase versus December '18. And this reflects a 16% increase of recurring organic cash flow to EUR 700 million. So that is positive, mostly due to the expansion of activities and also a big improvement of working capital. We more than doubled the net expansion investment to EUR 1.2 billion with a significant weight, around 85% of investments, in renewables. The payment in May of '19 of the annual dividends of EUR 700 million, and finally a positive EUR 500 million of impact from 50% equity content of the hybrid we issued in January. There's also a positive EUR 200 million impact mostly related to regulatory receivables. So overall, net debt to recurring EBITDA stands at four times.

Let's move to Slide 20 and talk about financial liquidity and the debt maturity profile. So here, the total available liquidity is currently at EUR 6.7 billion, including EUR 1.5 billion of cash and equivalents and EUR 5.2 billion of available credit line. So, this covers clearly our refinancing needs beyond 2021. As we stressed before, we have obviously reinforced our balance sheet with a hybrid and another important contribution was the securitization of EUR 1.1 billion of Portuguese tariff deficits, which we sold during the second quarter of this year, and that obviously has an impact.

Talking about financial results on Slide 21. So here, the net financial costs stood at EUR 371 million in the first half, so increasing from EUR277 million in the first half of '18. So, this looks like a big increase. Obviously, there are some significant nonrecurring items and others are recurring. But excluding volatile items, not directly related to interest cost in the first half of '18, so we didn't have the IFRS adjustment of EUR16 million. We had Celesc badwill impact of EUR15 million and we had an asset rotation gain of EUR19 million. So that was just first half of '18 and those are impacts, which we then don't have in '19. Impacts in both '18 and '19, so the results from net ForEx and derivatives, mark-to-market was negative year-on-year impact of EUR15 million. So, adjusted financial cost rose by just 3%, EUR11 million, justified by the 30 basis points increase on average cost of debt to 4%. I just remind you that at the end of 2018, this was already at 3.8% and it's now moved to 4%, but it's in line with what we indicated in the strategic updates where we would be.

Also, I think it's important to highlight that with the recent significant decline of medium and long-term interest rates, both in dollars, euros, and in the Brazilian real, we believe we will be able to gradually refinance our debt at rates significantly below the ones that we are currently paying in our debt, which is maturing in the short term. So, this should have a positive impact on the evolution of our average cost of debt, although more materially post 2019 because refinancing which will be done now towards the second half will obviously have more impact in the following years. So, this increase in the cost of debt is obviously, justified partially by the hybrid, but also in a great part by the higher weight of dollars and Brazilian real in our consolidated net debt because that's the currency that we are investing in and so that goes on gaining higher weight as time moves forward.

Let's move to Slide 22, last slide. So here, we have the 11% growth in our EBITDA. Our EBIT goes up by 14% to EUR1.168 billion. Financial results and associates go down by EUR85 million due to the previously referred adverse year-on-year comparison of non-interest-related items. And the effective tax rate is stable at 17% in this first half versus 16% in the first half '18. Again, I remember there was some concern in the first quarter results regarding the average tax rates and so as you can see, it's now below the 20% that we'd guided it towards. Obviously, in the medium term, this will converge to above 20% to the mid-'20s we talked about. Also, to highlight the results of the first half continue to be penalized by the booking of the full annual amount of the extraordinary energy tax of EUR67 million, which we have excluded from our recurring net profit. Regarding non-controlling interest, they increased slightly by EUR 10 million reflecting the increase of EDPR net profit. So overall, our net profit rose 7% to EUR405 million, while our recurring net profit grew 8% to EUR470 million.

So, with that I'll conclude my presentation and turn it over to Q&A. I'll just pass the ball to Miguel Viana.

Miguel Viana: Thank you very much. Maybe we'll start with the questions from the phone?

Operator: The first question we have today comes from the line of Stefano Bezzato from Credit Suisse. Please go ahead.

Stefano Bezzato: Yes, hi, good morning, this is Stefano Bezzato from Credit Suisse. Two questions from me. The first one, in relation to the asset disposals, assuming that the sale of the 1.5 GW of merchant capacity in Portugal goes ahead as planned, after that, do you still see the need to reduce exposure to Iberia further, maybe in light of political regulatory risk?

And the second question is on the strong performance of the Iberian supply in H1. Can you elaborate on the key drivers, how much is regulation, how much is new products, and how do you expect this division to evolve over the next quarters?

Antonio Mexia: Thank you, Stefano. I think that what we have been focused as you know on disposals in Iberia, and we are talking basically more about Portugal. We have been focused now in merchant assets, probably a package of hydro that makes sense. We have a huge market share in Portugal. If we reach this target, we feel comfortable. It means that we will comply with our commitments. So this EUR2 billion will be matched. As I mentioned, we have valid plans if anything doesn't please us or if anything is on the way but the target will probably not move a lot. So we want this. Of course, in what concerns thermal, as you know, we have been very frank in the sense that of course, we want to -- we would love to reduce even more there, but it relates also to a question of supply and demand and the question of the timespan of those assets and clearly the value. We are not ready to leave value on the table for nothing, just for the sake of a nice conversation. So clearly, we will be looking for value crystallization again at the same time as we de-leverage and de-risk. In what concerns the strong performance of Iberian supply, the improvement, I would like to highlight two things: it was basically both in Portugal and in Spain, so almost half-half. And the improvement in the first half is in line with our guidance in the strategic update but cannot be extrapolated for the full year. So, if we are talking low 40s in the first half, we will be reaching the end of the year in the 60s. So, it's not the 80s, it's only the 60s, okay. It will not double, but it will be more less half of what we have shown in the first quarter -- in the first half.

Miguel Viana: We can go to the next question, please.

Operator: Thank you very much, the next question on the line today comes from Javier Garrido from JPMorgan. Please go ahead.

Javier Garrido: Good morning, I would like to know if you could provide a bit more detail on your asset rotation. You mentioned predominantly hydro. You could give an indication about the mix, whether it's run of the river, pump and storage, reservoir. I mean, any detail you can provide about the mix earnings or the output contribution that will be very helpful. And also thinking of this disposal, would you be open to sign a contract where you would sell the asset where you would keep the operation of the asset, so you would continue to provide an O&M services in the long run. And also finally, if you are selling hydro, could you comment on what could be the implications for those asset sales, any decision in the future, if ever on the European Commission on the concession suspension in Portugal and the formal process through which the concession expansion was done. That was the first block of questions.

And then the second question would be on asset rotation. Would you be open to include any of the joint venture components into future asset rotations or now that you have created the joint venture with Engie, you feel comfortable with attributable stakes you have in offshore.

Antonio Mexia: Thank you, Javier. Let's start with the question on the hydro. Of course, we have built a mix that makes sense geographically, that people, that would keep those assets. Credible players will be of course also able to run something that makes sense in terms of integration of those assets, in terms of operations. So, our base case clearly is not to keep the operation. If it's needed, it's okay, but depending very much on the buyer. So, the base case is not that one. So, we did a mix. We had both run of the river, storage, everything that of course will allow somebody that with these assets to be more balanced in the market. So, we have clearly identified this and we have shared this with the key people that are really serious about this and, as I've mentioned, we expect already non-bindings at the end of next week. So, it means that we have been doing all this technical stuff.

In what concerns the question of Brussels, I think that, of course, extension of concession is, by the way, is not a Portuguese issue. It's an issue that involves a very large number of countries. That for different reasons of those of Portugal, because they did it later. Portugal did it in totally legal sound basis. So, with no questions until recently. So, the issue is that, if anything, if anybody is worried about having more players, more competition whatever, this is the path of course to reach in a quicker way the target. So, I think that the incentives are aligned between everybody, and so we expect this to go through. Of course, this is a reason why, we never know in terms of timing, whatever, it is the reason why we are also preparing as I mentioned B and C our plan because clearly, what we will be doing, I can assure you, Javier, is that we want to give visibility until the end of the year and we want to execute throughout 2020. So that's clear commitment and we will not change that.

Including of JV, offshore assets in terms of asset rotation. As you know, this is built mainly -- we had already done this. By the way, wind projects we have already, where we are already with Engie. So, the key issue is that now we will be -- together, we will be stronger and we will have more power to be the leader of consortiums together. As you know, nobody consolidates in these big projects. People basically want the leader and together we will have more chances to be the leader of any consortium provider in EU. So, this is more driven to do new stuff than just to lower what we have today. So, the key focus -- it does not mean that we cannot do it, we don't have any taboo. But the key issue is that we want -- we have now pulled teams together that are focused on this leadership of new projects in Europe, U.S. and also in Asia, including new markets in Asia.

Miguel Viana: We can go to the next question on the phone, please.

Operator: Thank you very much, the next question today comes from the line of Alberto Gandolfi from Goldman Sachs.

Alberto Gandolfi: Hi, good morning and thank you for taking my questions. I have 3 on my side. The first one is on Brazil. We have been reading about the possibility we have seen of assets injected in energy in Brazil. You becoming a minority shareholder there. I was trying to see what would be the attractiveness for your shareholders to do that? Is there any ground to it? And how would you create value for EDP holders in that scenario?

The second question is about capital allocation and EDPR in particular. Now let's say you carry out EUR2 billion of disposals, at least announced before year-end. That is clearly done to improving strength in the balance sheet. But could you have incremental disposal of something that you deem as growing much less or non-core and as a result, maybe upgrade investments in growth areas. You just mentioned the JV in offshore, and as part of all this discussion, where does in your priority you see the full integration of EDPR? Because I think you're now sharing about 17% of your growth from your core business with minorities and very limited liquidity there, why not bring it in and enjoy full growth from it. So, apologies, this is 2-part question.

Last one, very briefly, you seem to have more projects than balance sheet to carry out, to carry them out. So, the question would be, do you think you can stay independent on a 3-year basis, would you be open to consolidation? How is going to this whole renewable development impact your long-term strategy? It seems to become more and more and more a scale, really the type of business where size matters a lot. So, if you can share any thoughts it would be fantastic, thank you.

Antonio Mexia: Thank you, Alberto, for your ambitious questions and covering very interesting topics. I think that speculation in Brazil in this moment is not worth spending a lot of time, but I wanted to be clear in several items. First, Brazil plays a relevant role in our business and it has been value accretive for EDP. Of course, we continue to evaluate any option, any option to the extent it's aligned with our equity story and creates value for shareholders. I don't want to be vague, but in life the key issue is to keep your principles and what's the line that we will not cross. So, we will not do any evolution on Brazil platform that will not make sense for EDP. Of course, you need to respect minorities especially we will not move in any direction that does not fulfil the interest of EDP shareholders, that does not deliver to the full value of what we believe is the full value of Brazil. So, we are ready to do whatever. We have been flexible as in the past to do whatever we have to do when we think it's relevant, and it's a non-regret. But we will not be on a wishy-washy situation. If it's what worries you, we will not accept any wishy-washy middle-of-the-road solution.

The second is capital allocation and the question of EDPR. That's a recurrent question. I would like to say that we will not be integrating anything in cash. So, it's out of the question. It's also not a priority. I don't say that it does not make sense, it would make sense, but of course, it has to make sense in all terms for EDP shareholders. So clearly, we don't move just for the sake of something that is make it simpler. Of course, making simpler is nice, but of course, it needs to make sense, value-wise, but in any case, we will never buy minorities in cash. That's obvious. Whatever are the proceeds of any asset reallocation, we will not do it.

In terms of projects, bigger projects and balance sheet, consolidation fears. I think that your question, I think it's relevant for a lot of people in the scene. I really believe that our plan shows that we are focused. One of the critical elements of companies of our size is you need to be focused, you need to lead, but at the same time, it's true that size matters especially for example in the offshore, that's clear. But for the other items where eventually some moves have been done by really small players and sometimes not really creating a lot of value.

So, what we've been doing is let's keep focus, let's create optionality, namely in the group, everything that relates to client relation, new downstream that will be important to integrate on this leadership of any transition. But I believe that we have a story that makes sense and standby on its own, on its own feet without any need of integration in the future. We can and we will be delivering as it was the case until now. If you see the past in the last decade, we have delivered more value to our shareholders than the sector. So, I think that the story still makes sense, but of course you need to be focused, you cannot have middle-of-the-road solutions. You need to be ambitious and I think that our strategic plan shows that we have these in mind.

Miguel Viana: We can go to the next question please.

Operator: Thank you very much, the next question over the phone today comes from the line of Jorge Guimarães from JB Capital.

Jorge Guimarães: Good morning, thank you very much for taking my questions. I have three. First on the soft guidance that you gave us. You said that it includes gains from asset rotation. Should we assume it also includes the gains from hydro asset sales in Portugal? And secondly the OpEx evolution in Spanish networks division was very good in first half of the year, maybe as some recoveries of past costs. But what should we assume for the second half of the year? And finally, a question on your generation mix. You're still producing a lot of electricity from coal. Should we assume that your plants are still competitive against CCGT plants, namely the Sines plant in Portugal?

Antonio Mexia: Thank you, Jorge. Let's be clear. The guidance for the net profit as I mentioned is still possible to achieve. It does not include any gain on any of these asset disposals in Iberia. First, because probably even if you are able to show something, a sign or anything, probably the deal will be -- any deal will be closed only in 2020. By the way, we are not doing this because of capital gains. We are mainly doing this for -- we are looking for asset reallocation and deleveraging. We are not looking to do capital gains here. If they are there, they are perfect, but it's not the driver. The driver is really deleveraging and lowering our exposure because we have also invested a lot in the last decade in Portugal. So we -- it's a question of rebalancing that portfolio, and no inclusion.

By the way, in terms of assets rotation, we are working on new deals on the renewables front. Just to give you an idea, when you see the figures and people try to look into the end of the year. It also relates to all the questions that we received on the web, is that when we guided the capital gains, we have talked about between EUR150 million to EUR200 million with a downward trend towards the end of 2022 plan, where we would be reaching only EUR100 million. So, the reality is slightly different for good reasons. In '19 we will be above the EUR200 million. But I want it to be very clear, not because we sell more megawatts, but because we get more euros per megawatt than expected. So that's the reason why we think it's still possible to achieve the figure, and this figure does not include any item or whatever disposal in Iberia.

The OpEx, it's a trend. We have been very focused on this. Just an example, it's a detail, but we are doing zero-based budgets everywhere. In the company, we're pushing OpEx in terms of all the items. So, this minus is to go on and we can -- basically, we will anticipate what we have committed in our OpEx program that we are currently doing.

In terms of generation mix, I would like to stress the following. Our coal power plants both in Portugal and Spain are among the most competitive and Iberia, Sines and Aboño are clearly on the first quartile due to location, due to the fact that Sines is one of the most recent by the way, it is in the 70s but it is a recent one and designed to be -- so we still believe that it is competitive. And it still plays a role in both markets, both in Portugal and also in the North of Spain. They are very relevant still for the equilibrium, the balancing of the system. So, they still play a role. We don't see this role as we've already mentioned for going to 2030, but we see clearly in the next years' them to be competitive and needed in the system. And lastly, the rules of the game change and if they change, and if they are not there, of course, we will take all the decisions, but we have good coal power plants even if we are focused on just only investing in wind. By the way, as you know one of those thermal plants in Spain uses siderurgical gas, so we are always looking even when they ask are we a green company. Yes, we are a green company, but we always try to find a solution that protects the assets, but also makes anything that is brown greener if it is possible using better fuels. So, I don't want to take long, but we have been very cautious with this.

Miguel Viana: So, we still have time for one more question on the phone and then may be 1 or 2 from the web. Let's go for the last phone question.

Operator: Thank you very much, the next question on the phone today comes from the line of Manuel Palomo from Exane.

Manuel Palomo: Hello, good morning everyone, thanks for taking my questions. I have got one follow-up, one question, and one clarification, if I may. Follow-up is on the short-term guidance. You have just ruled out the capital gains coming from hydro asset divestments being part of this EUR0.8 billion. But I think to be very clear, could or should we expect more asset rotation deals also helping the company to achieve this full year target? Then the question which is on, maybe for Miguel, on the free cash flow statement. I see that maintenance CapEx has increased versus last year and I wonder why? And the last one is a clarification, is on the net debt figure. I see that this EUR14.04 billion net debt calculation, I wonder -- my understanding is that you are not including the impact from the IFRS16. Am I right? Thank you.

Miguel Stilwell de Andrade: So just to be clear, taking perhaps the last one first. In terms of the IFRS, we're not including that. So, it is clearly identified in the handouts and in the information. But we are being consistent in terms of what we gave in terms of targets at the strategic update and the way we are presenting the numbers here. But in any case, the information regarding the IFRS impact is clearly identified in the handouts.

In terms of the free cash flow, and maintenance, we have our normal ongoing maintenance, which is obviously, goes on increasing also as a result of the renewables businesses as it goes on growing. And there's a certain amount that is being accelerated relating to the networks business. And there's also a component associated with the payables to fixed asset suppliers, and so that has come through also in the first half. And so that basically explains the difference between the first half of this year and the first half of last year.

Antonio Mexia: And finally on the short-term guidance, as I mentioned, it does not include any results from any sale in Iberia. It relates only with gains of the asset rotation as normal business on the renewables platform, meaning wind and solar. And the answer is yes, we're looking into more asset rotation. It's not a question of needing it or not, it's -- as you know, we've targeted for the four years. We know exactly what are the assets that we consider for that farming down, and so we're just implementing this. And what we see today, it’s great opportunities in the market because of the quality of the assets, because of the situation of the interest rates, and we like to take advantage of these, I would say, suppliers’ market of good assets, and so it's true. So, I wanted to be very clear, we expect to be slightly -- to be above the EUR200 million this year, so above the average of the period.

Miguel Viana: We can now move to the questions of the web. We have here from Fernando Garcia, Royal Bank of Canada and Jorge Alonso from SocGen. Some clarification on the impact of the hydro impact in Iberia in the first half 2019. And so, what was the impact in terms of volume and in terms of price?

Antonio Mexia: The questions were mixed. Thank you, Fernando and Jorge. Let's see about the hydro. As I mentioned, the hydro impact was around EUR200 million of EBITDA, and this includes two things. First, the minus 4 TWh generated, it's a huge difference because of the hydro resource, clearly below the average for the last half. That also includes the positive of 15% increase in realized price versus a full increase of 3%, why? Because of course, hydro due to the flexibility on the system, on technology, you can pick better moments, so your realized price is better than the average price of the system. So, this, overall, explains the EUR 200 million. In what concerns the tariff deficit, we have been very clear about this figure. It was EUR3.79 billion in June, with a reduction smaller than expected in the first half of 2019 because of late received CO2 revenues, and also because of lower demand as by very mild weather in this winter in Portugal and in Spain. The demand was minus 1.9% despite the economic growth, so it's clearly a weather thing.

But we want to be very clear. We continue to see the system debt reducing this year, close to EUR0.5 billion this year. So, it’s the same trend. The trend is clear over the last years. The reasons that explain this trend are the same that eventually have basically just timing issues or revenues or weather season. So, no change on these tariff systems. So, then the last question was about the hedging. The hedging is -- we talk typically about the hedging in 2019. We are clearly above 90%. We want to -- we were clear in what concerns having so that EUR58 that compares to last year of EUR55. If you -- it also relates to if you compare pools EUR 52 to EUR 50. So, it means that relatively, we are in a good position and the spreads have improved.

And also I would like to include the mentioning to the gas as I think that more or less everybody did. We had a positive impact on the gas of EUR 10 million mainly on the second quarter of '19. Due to this hedging positions, we expect additionally EUR30 million, so it means EUR40 million for the full year. So, I think it's relevant for the figures.

I have seen also a question about Brazil, the strategy -- the first half, we've allocated only 40 -- 46% of our resource, so it means in the second half, we will be allocating the 54%, so it was already foreseen.

We have a question about CESE from Jorge. So, the CESE, we will have -- we have a commitment towards the system not towards us, but to everybody that CESE will evolve with the reduction of the tariff deficits. The tariff deficit has been reduced. So, we expect for the next years progressive reduction of the CESE and as you know, at the end of plan, still in 2022, we still consider the CESE to be there at 40% level. So, we expect this.

You've also asked about Brazil and Chinese interests on EDP assets. I think that we have already talked about this. We've made it very clear. We will focus on our shareholders. So, I think that we have answered all your questions.

Miguel Viana: So, I think with this we have answered all the questions, even the small pending ones, we will follow-up on the IR level. And I will pass now for the conclusion of the call again to the CEO.

Antonio Mexia: Once again, thank you, Miguel. I wanted to share with you the feeling that after meeting probably most of you and at least some of you in January and we are having already basically four months, less than five months after this meeting. We feel very comfortable with the strategic commitments. We've been very focused on the delivery. We've been doing all the home work, some is already visible. The figures are already there. The money is already in. The others are clear. So, we want to give that word of visibility of delivery. Of course, to us, the first half where we missed rain in Portugal and in Spain. So, we all missed rain. But I think that we have clearly adjusted our strategy to this and we have, if anything we have been over-delivering on everything that depends on us. On crystallizing value, on reducing costs, on capturing opportunities to grow. So, I think that on what depends on us, things are clear and so the guidance is also there. So, see you soon and thank you for your presence. Bye-bye.