EDP - Energias de Portugal
Wednesday, 11th May 2018
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Chaired by António Mexia

Company Participants

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

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the first quarter results 2018. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. If you'd like to ask a question over the phone today, please press star then one on your telephone keypad. Alternatively, you may submit a question on the web by typing it in the ask a question box and clicking submit. I must advise you the call is being recorded today, Friday, the 11th of May 2018. I would now like to hand the conference over to your first speaker today, Miguel Viana. Please go ahead.

Miguel Viana: Good morning, ladies and gentlemen. First of all, thanks for being with us today in this conference call for the presentation of EDP's 2018 First Quarter Results. As usual, we'll begin with the presentation, providing an overview of the results and the main developments of the first quarter of the year, and then we'll move to the Q&A session. Our CEO, António Mexia; and our CFO, Miguel Stilwell, will be fully available to answer your questions, as usual through the Q&A platform on our website, www.edp.com, and also, this time, through the phone. Now I will give the floor to our CEO, António Mexia, who will give us an update on the main highlight of the period.

Slide 1

António Mexia: Thank you, Miguel. First of all, thank you for being here, participating in this conference call. As Miguel Viana already mentioned, we will be going through also at the end of Q&As through the platform, but also live question over the phone. So hopefully, this will answer some of the demand that some of you raised in the past. And I personally prefer.

So starting in Slide number 1. I believe that our operating performance is clearly marked by specific events. On one hand, by our healthy underlying growth both in renewables and in Brazil, which was obviously partially hidden by the negative ForEx impacts. On one hand the positive underlying growth and on the other hand, by the negative year-on-year impact from regulatory changes in Portugal, most of them implemented during the second half of '17, and so well-known by all of you, by all of us at this stage. This combination justifies the 4 percent year-on-year decline of the current EBITDA to EUR911 million.

In terms of growth, our average generation capacity increased 4 percent, fully driven by new renewables capacity, namely – 600 megawatts additional wind and solar capacity, which increased our rate of renewables to 74 percent of our generation mix. I think it's a quite distinctive ratio. We continue also showing the positive developments on efficiency, with a 1 percent rise in operating cost, excluding ForEx impact, falling short of 4 percent growth in generation capacity and 1 percent increase in the number of customers.

Our net debt went down to EUR13.8 billion, with the average net debt decreasing 15 percent year-on-year, leading to an adjusted net debt to EBITDA of 3.8. And it's clear that interest cost improved 16 percent, driven by a 50 basis point decline in average cost of debt to 3.8 percent.

The net profit declined 12 percent on a pro forma base, excluding the disposed gas network, while recurring net profit fell 5 percent, excluding extraordinary energy tax in both years, so like-for-like. And in first quarter, the revision of the CMEC final adjustment related to 2017.

This bottom line performance results from the combination of one hand, as I mentioned, the strong earnings growth at our subsidiaries, EDPR and Brazil; second, improved operation conditions in Iberia free market; third, better efficiency, which, on the other hand, was more than offset by the previously referred regulatory changes of last year in Portugal.

Finally, and as fully expected, on 5th of April, EDP shareholders' meeting approved the annual dividend of EUR0.19 per share, which was already fully paid in cash on 2nd of May, representing a dividend yield of 6.4 percent, reflecting once again the delivery of our strong commitment with shareholder return.

Slide 2

So let's move to recurring EBITDA. 4 percent down as the 8 percent underlying growth, mostly driven by renewables in Brazil, was eroded by ForEx and regulation in Portugal. So we see, as I mentioned, I would like to stress this underlying growth, driven by renewables in Brazil, but also the recovery of Iberia market conditions versus an extremely difficult year in 2017 and the previously referred benefits from efficiency improvements.

This strong underlying performance was eroded by the 6 percent negative ForEx impact due to devaluation of U.S. dollar and Brazilian real versus the euro, and a EUR66 million negative year-on-year impact from the regulatory changes in Portugal that I would like to stress 90 percent of which resulted from regulatory measures taken during the second half of '17 and that are currently fully reflected on our guidance for 2018.

Slide 3

Going to Slide number 3, we see that the recurring EBITDA ex-ForEx rose 1 percent, normalized even with the regulation in Portugal. If we focus on the breakdown of this underlying recurring EBITDA, we can see that 1 percent consolidated growth ex-ForEx results from a very distinct performance by geography and segments.

Renewables business, which represents 42 percent of our EBITDA in this first quarter, showed a sound EBITDA growth of 8 percent, excluding ForEx or 2 percent in euros, following the 7 percent increase of average installed capacity, mostly in U.S. and Brazil. The EBITDA from our generation and supply electricity operations in Portugal was the only negative contributor in terms of underlying EBITDA, falling by 29 percent, even considering the demand growth and the increased hydro production. So a decline fully justified by the adverse regulatory changes.

In generation, we faced not only already known the end of CMEC annual adjustments since July 2017, but also the more recent decision on the downward revision of the CMEC final adjustment that had a negative impact of EUR6 million, and this final revision is still under our analysis.

Still in generation, we were also penalized by the increase of the clawback tax since last August, as you know, and the new coal consumption levy in place since last January, totalling a negative EUR17 million impact. But basically, it's the first element, the second is rather small.

In distribution, the 14 percent cut on regulated revenues decided on December '17 and in force since the beginning of '18 implied, the already known EUR43 million reduction on EBITDA, even considering the 4 percent year-on-year growth on electricity consumption in the period is good news.

EDP Brasil showed 18 percent growth of EBITDA in local currency, on good results from integrated hedging strategy in energy markets and efficiency improvements, namely the lower losses in distribution and higher availability in generation with the best ever in our power plants, mainly in the coal power plants.

Finally, EBITDA from generation and supply and distribution in Spain showed 24 percent increase, highlighting the better operating conditions in the Iberia free market versus last year.

Slide 4

Going to Slide 4, what do you see? Strong recovery of hydro resources allowed year-on-year improvement in production and recovery of the reservoir slightly above historical average.

As you can see, we had a strong improvement in rainfall, particularly since March, which allowed a 1-terawatt hour improvement in our hydro production, and the recovery of our hydro reservoirs, which moved from extremely low levels in late February to above average by the end of the quarter. Nevertheless, volumes produced were still 2-terawatt hours less than in a normalized year. Of course, reservoirs brings us good expectations for the rest of the year, as we will see.

Slide 5

Sound performance on operating costs across all divisions. In Iberia, OpEx fell by 1 percent, particularly outstanding as we regard the over 3 percent increase in average capacity installed and an enlarged portfolio of customers, and 0.8 percent inflation.

At EDPR, adjusted core OpEx by megawatt improved by 1 percent on the back of control over costs and the O&M strategy in place. Finally, in Brazil, OpEx decreased 3 percent in local currency, while inflation stood at almost 3 percent. An impressive performance backed by several cost-cutting initiatives, mainly, the third year in a row of 0 budget – 0-based budget. Note that after a highly successful execution of our last OpEx program, we are currently working on the new OpEx plan that we expect to present to the market after the summer.

Slide 6

Steady decline on interest cost backed by, what, 50 basis point reduction in average interest rate and lower average net debt, so we have steady improvement. 50 percent decline on cost of debt, so 3.8 percent; 15 percent decline on average net debt; and also, I would like to highlight, 70 basis points year-on-year decline in the marginal cost of debt. This reinforces the positive outlook for our cost of debt.

Slide 7

Moving to net profit. Basically, the drivers are the same, but even reinforced. Growth from renewables, Brazil and Iberia free market was eroded by regulatory changes in Portugal. Renewables added 48 percent growth to earnings, combining the impact from the increase in our equity stake to almost 83 percent and the EDPR's net profit growth by 39 percent. Note, I think it's important, that EDPR has represented close to 50 percent of our net profit in the first quarter.

The contribution of Brazil to EDP net profit increased by 31 percent in euro terms, following EDP Brasil, 59 percent increase in net profit in local currency. Performance in free market also improved in Spain, but all of this was overshadowed by the 65 percent year-on-year decline in Portugal prompted by regulatory changes that you already knew last year. But you see, if you add that EDP Renewables to EDP Brasil and EDP Spain, you have 90 percent of the net profit coming from these 3 business units.

All in all, this performance makes very clear why it makes sense to diversify our portfolio and also to grow our growth strategy outside Iberia, while keeping focused on reinforcing visibility. And it's a critical element of our gross platform's attractive returns, as shown in the next 2 slides.

Slide 8

Let's talk about this visibility. So on Slide number 8, in renewables, in the first quarter, we reinforced visibility on growth, preserving attractive returns. I repeat this because I think it's important. We started the construction of new 0.2 gigawatt in U.S., reaching 1 gigawatt of assets under construction by the end of the quarter. 80 percent of this will be commissioned in 2018.

Moreover, following the recovery of the PPA markets in the U.S. post the tax reform clarification, we have signed 5 PPAs for additional 600 megawatts, reaching 1.4 gigawatts of secured PPAs or feed-in tariff for renewables projects. And I would like to stress that returns of 10 percent is familiar figure to us. So equally important to stress is that the lower long-term contracted price is reflecting the increasing competitiveness and the improved efficiencies, so attractive returns have been preserved, an element that I really want to stress.

Regarding our 1.9 of wind offshore in U.K. and France, I would like to mention the following. In U.K., we are on track to reach a final investment decision during the second half of this year, and we have recently concluded the 20 percent sell down in Moray East, anticipating a value creation in an early-stage project. In France, we are confident on a reasonable outcome from the expected government decision, which should assure the feasibility of the project.

Slide 9

Brazil, we have been delivering growth through the execution of value-accretive deals and delivering projects ahead of time and under strict capital discipline. We delivered São Manoel ahead of schedule, 4 months ahead of schedule for the first turbine, and the revision of contracted volumes improves economics and reduces GSF risk.

As you know, we have 5 wind field transmission lines, representing a total investment of BRL3.1 billion to build until 2022. The expected returns on equity ranges from 12 percent to 14 percent, but has room to improve on back of better funding conditions, reinforcing value creation. And I really want to highlight that the first transmission line is currently 17 months ahead of schedule. And I think it's important in terms of increasing the returns and having more money ahead of time.

More recently, we have completed the acquisition of 19.6 percent stake in electricity distribution company, Celesc, for a total investment of BRL300 million. With an implicit EV/RAB of 0.8, we are creating new optionalities in Brazil, paving the way for a significant involvement in management decision and capturing the value from potential efficiency improvements with expected net savings of more than BRL130 million over the next 4, 5 years backed by the ongoing, mainly, HR restructuring plan.

To conclude, regarding solar PV distributor generation and this is part of a new growth agenda in the supply business. We consider solar important in taking advantage of the exceptional solar conditions that we have in Brazil. We currently have 11 megawatts peak under development, representing an investment over – slightly over BRL100 million. Overall, this value-enhancing investment should allow us to almost double our earnings in Brazil over the next 5 years.

Slide 10

And I think it's important to stress this, overall, comparing to our previous call, we have some positive developments in what concerns of the year-on-year recovery of the hydro volumes and electricity demand, and we assume hydro normalization for the rest of the year.

The regulatory framework is known, namely the impact on distribution and generation in Portugal for the rest of the year, and we expect to continue to deliver on efficiency gains and operating cost control. At EDPR, we expect we have full visibility throughout this year the 800 megawatts of new capacity, mostly in U.S. and Brazil, which EDP Brasil should continue to show solid growth in local currency.

We continue to assume a negative ForEx impact for the rest of the year, but much smaller on a year-on-year basis, mainly following the recent rebound of the dollar relating to the euro. On net interest costs, we should continue to benefit from the declining average cost of debt and lower average net debt. Overall EBITDA EUR3.4 billion; net profit, EUR800 million. So the main things of our guidance.

Regarding medium-term outlook, we expect to update our financial targets in our Capital Markets Day 2018 to be held after the summer, in which we keep with our strong focus on value creation and shareholder return. So my key message in this last slide is with what we know since we met last time, the evolution, clearly, we keep our guidance for 2018.

Now I will pass to Miguel Stilwell, the CFO, for a more detailed analysis of the first quarter. And then we will move to typical Q&A with now phone. So, Miguel, please.

Slide 13

Miguel Stilwell: Good morning, everyone, on the call. I will walk you through the next couple of slides. If we turn to Slide 13, basically talking about EDP generation portfolio.

In here, what's quite clear is that the strong focus on renewable energy represent more than 70 percent. And we see that, in the first quarter, EDP continued to investment in this area, and installed capacity grew 3 percent year-on-year. So we basically added approximately 600 megawatts of wind and solar capacity and 200 megawatts of hydro. So we put the renewable energy, altogether, which is a weight of more than 70 percent, both in installed capacity and in overall production.

Slide 14

We move to the following slide, we then start doing deep dive in each of the business units, starting with EDP Renewables, which currently represents over 40 percent of our EBITDA. So EDP Renewables kind of being the main contributor in absolute terms. Its EBITDA increased 2 percent to EUR381 million. However, if we exclude the negative impact from ForEx, basically, it would have increased by 8 percent. So showing the strong underlying performance that António mentioned just a little while ago.

So this growth is mainly supported by new capacity additions in the U.S. and Brazil, but also by a higher load factor, approximately 2 percent higher, reflecting better-than-average wind resources in Iberia, essentially 5 percent higher than historical average. This was all partially offset by a 5 percent decrease in the average selling price, excluding ForEx and also by the termination of some 10-year-old PTCs in the U.S., which basically is expected by definition when we get to the end of those 10 years following.

Slide 15

If we move forward to the next slide, Slide 15, talking about generation and supply in Iberia, which represents approximately 23 percent of our EBITDA. We see that, excluding the lower CMEC adjustment, the recurring EBITDA increased 1 percent to EUR204 million. As mentioned before, the regulatory changes in Portugal impacted the positive impact from improved market conditions.

So this was mostly the increase in the clawback tax, which is mentioned in the second half 2017 effects, and so already incorporated, and also the end of the annual adjustment of CMEC which ended in June of 2017 as well. So those negative impacts partially offset the positives, which were 2 percent increase in the average selling price to customers and a 17 percent decrease in the average fuel costs. Once again, it's worth noting that the hydro production was higher year-on-year, clearly, and we also built up our reservoirs. However, the production, at least in the first quarter, was still below the historical average by about 2 terawatt hours, hence, the guidance.

Slide 16

Moving on to Slide 16, talking about EDP Brasil, representing 18 percent of our EBITDA. So this was a very positive performance in the first quarter, particularly in local currency, increasing by 18 percent. This was mostly to do with the integrated energy management, so how we manage our contracted and non-contracted volumes as well as just general overall operational performance. And we really see this coming through in the high availability of Pecém, our coal power plant, which increases 4 percent availability to 98 percent, which is I think is a pretty good number. And also by the reduction of distribution grid losses in both the distribution networks in Espírito Santo and in São Paulo area.

Slide 17

Moving on to Slide 17. So talking about regulated energy networks in Iberia, so 17 percent of our EBITDA. So here, we're excluding the gas distribution, obviously, which was there in '17, but we sold. So the EBITDA excluding that falls by 23 percent, reflecting mostly the EUR44 million cut in regulated revenue in Portugal in December. This was partially offset by 7 percent OpEx decrease and a 4 percent growth in volumes distributed, which I think, once again, in terms of the underlying performance of the OpEx and volume, I think is positive.

In Spain, we also had a relatively prudent approach to the possible regulatory changes of Lesividad and so we have a decrease of EUR6 million there in our regulated revenues.

Slide 18

Moving on to net debt. So here, we have a decrease of 1 percent year-to-date to EUR13.8 billion. Again, the cash flow was approximately EUR300 million in the first quarter. It is impacted partially by working capital since most of the rain came towards the end of the quarter, around March, and part of that revenue was only received later in April. So as of the end of the first quarter, there's a cash part missing there, but it will be recognized later on. Obviously, there's lower hydro in the first 2 months. We don't have the gas business, so that was also a part, so that explains, generally, the difference in organic cash flow.

In terms of expansion investments also around 300 million, so we have the new wind capacity. We have the investments in Celesc, the distributor in Brazil, and also the sale of the 20 percent stake in the Moray offshore wind project up in Scotland. Then also, some ForEx fluctuations, which the overall impact was a decrease in net debt of EUR0.1 billion. So the adjusted net debt to recurring EBITDA ratio is around 3.8, I guess, mostly impacted on EBITDA side by the hydro.

Slide 19

So moving on to the financial liquidity and debt maturity profile. So in the first quarter, I think we did some important things. We extended our average debt maturity and flexibility. So essentially, by replacing revolving credit facility which was maturing in 2020 to one that matures in 2023, with an extension of up to another 2 years, so it can go out as far as 2025.

Important to note 2 things. First, it can be drawn down either in euros or in U.S. dollars, it was an improvement over the previous revolving credit facility. Since we do a lot of our investment in dollars, this was an added flexibility. And also, we've done on more competitive terms, so with lower cost than the previous revolving credit facility. So we're pretty satisfied with that.

As of March, we had EUR6.3 billion of available liquidity, which basically covers our refinancing needs out till 2020, beyond 2020. We also went to the market with EUR250 million of tariff deficits and possibly expect to go out with some further securitization of the tariff deficit.

Slide 20

Going on to the financial costs, so they're down by 36 percent year-on-year, and they're essentially due to the following: first, a decrease in our net interest cost of 16 percent, so continuing to show the clear downward trend on a quarterly basis. So as mentioned by António, this was supported by EUR2.4 billion decrease in the average net debt as well as a decline in the average cost of debt. Secondly is the positive impact from the net results, with the foreign exchange and energy derivatives, which improved by EUR29 million this quarter. This energy derivatives are essentially tied to the energy contracts, but for accounting reasons, they come below the EBITDA line.

The revenues from regulatory receivables and capitalized interest worsened by around EUR15 million. Nevertheless, this should now be flat with the current level given the stable volumes and the rates and the regulatory receivables and the conclusion of the hydro construction in Portugal.

The capital gains increase reflects the sale of the 20 percent stake in the U.K. offshore wind project, which is already known, which is part of our sell-down recurrent strategy. So you know this is something we do on an ongoing basis. Finally, the unwinding registered positive impact due to the dollar devaluation on tax equity investments in the U.S.

Slide 21

Finally, on the last slide, net profits. So net profit at EUR166 million in the first quarter, 12 percent lower year-on-year, excluding the gas operations in Iberia and mostly impacted, obviously, by the decrease in the EBITDA. Excluding the gas distribution in Iberia, we see the depreciation and amortization increased by EUR7 million, mainly reflecting the new capacity additions in the last 12 months. The financial results in associates registered a positive evolution due to the lower interest costs, and the income taxes were EUR17 million higher basically due to an increase in the effective tax rate, some 15 percent to 18 percent, so still below the 20 percent guidance given in the previous conference call.

So summing it up. The net profit decline in the first quarter was essentially justified, as mentioned earlier, by the decline in the EBITDA, which had good underlying performance in renewables, EDP Brasil, the operations in Iberia, then eroded by the regulation in Portugal.

So I think these are the key issues on the numbers. And with this, we'll conclude the presentation and take just a quick break before moving on to the Q&A. Thank you very much.

Q&A

Miguel Viana: Thank you. We'll start with one question from the net, from Harry Wyburd from Bank of America Merrill Lynch. The question is regarding the improvement of hydro and the significant improvement in recent peaks, why the fiscal year, as you know, final year guidance only appear to improve from EUR770 million to EUR800 million, so to justify.

António Mexia: So thank you, Harry. I would like to start. So April 2018, hydro production, 0.5 terawatt above average. Accumulated the first 4 months, production is still 1.5 below historical average. Period January to February typically normally represents 50 percent of annual production.

Looking into next months, hydro reservoirs now at 83 percent, so above historical average of 73 percent. Typically, May to September are normally 5 dry months that historically represents 20 percent of the annual hydro generation.

So having this into account, plus the downward revision on the assumption of the final CMEC adjustment that means for the 2018 EBITDA, something probably between 10 and 15. We see, at this stage, no reason to change our previous guidance of EUR800 million for the generation supply. It's in line with what was said in early March. I think that we have – we are comfortable with this. But of course, you have again a key uncertainty in the future is the last quarter of 2018 level of rain. But all in all, I think that the last 2 months give us a good mood, but no reason to change that number that for now.

Miguel Viana: Thank you. We can go now to the questions on the telephone.

Operator: Thank you. As a reminder, to ask a question over the phone today, please press star then one on your telephone keypad. The first question we have today comes from Rui Dias from UBS. Please go ahead.

Rui Dias: Hi, good morning everyone. Just to clarify, so do you now assume 2018 as a normalized year in terms of hydro? This is just one of the questions that I have, just to clarify.

António Mexia: OK, thank you. From now on, yes. But basically, as you know, we for a normalized year, you would see a figure of EUR900 million. And now we are seeing the figure for this year as a EUR800 million. So it's normalized until the end of the year, but with a figure of EUR800 million, OK?

Rui Dias: OK, OK, clear. All right, so my very first question is more on energy policy in Portugal. Basically, because last weekend, as you've seen, the Portuguese Secretary of State of Energy says in an interview to the press that his main goal is to see electricity prices in line with the European average until the next elections. And I think the next elections will take place in October 2019, if I'm not wrong. So basically, the government would like to see electricity tariffs to drop by roughly 10 percent within the next 1.5 years. So I think we are talking about a total cut in the revenues of the system of around EUR600 million, EUR700 million. And correct me if I'm wrong, but it's quite a significant cut. So the question is how could this be achieved without a negative impact on EDP? So this is the first question.

The second, and I make it the last, could you just give us some more detail on what is happening to your supply business? I mean, apart from regulatory risks or regulatory issues, why is it so weak? I mean, the margins that you achieved were quite low in Q1 despite improvement in market conditions. And also, what is the reason behind the rough 10 percent, 15 percent drop in electricity volume sold in the business segments during the quarter? Thank you very much.

António Mexia: I will start with the question of the target of 10 percent reduction. So I would like to say that without any further regulatory measures, so that's because it could be behind – the question could be behind, such a tariff decline naturally comes up when system debt gets to 0 by early 2020. In any case, this is even more clear following last year's cost cut and this year's demand evolution. So we have seen something that, as you know, the reduction of going down in the curve of the tariff deficit is clearly also driven by demand, and demand have been – currently been very, very positive.

And as you know, we have been we are now seeing a superavit of the system of more than EUR700 million. So I don't see any reason why the system could not cope with the reductions without – through its own dynamics. And by the way, as you know, only 10 percent of the consumption is under the tariff system because the rest is in the free market. And as you have seen, the movement, even with the possibility of the client going back to the regulatory market, the movement was basically 0. By the way, it's negative. The free market had been growing in Portugal.

So I believe that this idea is totally compatible with the dynamics, the actual dynamics of the system. The system that is no longer an issue. The main issue there is that EDP finances that system that was down year-to-date (120) from 4.6 to 4.5, system delivering is backed by our consumption. Consumption is, in April '18, was up 6.6 percent. So I think that the dynamic is clear there to support an evolution without any additional risk.

So on the supply, Miguel? Miguel was responsible until recently, so it's good to see him here.

Miguel Stilwell: Yes. So going to one of your questions on the volumes. We are generally long in client, and so our opportunity cost is basically buying energy in the pool and selling it to customers. We have a very strong policy of not selling below cost. People would agree with in terms of the discipline on margins. We had some large B2B customers, some in Spain, which we've had in the previous year and which we didn't have in this year, and so that explains, basically, the decrease in the volumes. So basically, the focus on margin discipline will be as aggressive as possible, but it comes to a point when it doesn't justify keeping volume just for volume's sake.

In relation to the supply and to the evolution of margins, there is partially a seasonal effect. So in the first quarter, higher acquisition cost, which then smoothed out over the year. So the energy is bought but – and locked in, got a fixed price to the customer, and then over the year there will be a certain smoothing out of this margin effect, the negative margin effect and will end up positive on the year.

Rui Dias: Quite clear, thank you.

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

Operator: The next question today comes from the line of Javier Garrido from JPMorgan. Please go ahead.

Javier Garrido: Good morning. Thanks very much for taking questions on the line. My first question would be on your statement about doubling profits in Brazil in 4 years. Which profit line you are you thinking of, EBITDA or EBIT? And then also on Brazil, you have stated that you are 17 months ahead in the works on the first transmission line. How sustainable do you think this anticipated delivery can be? Is it feasible to deliver this spread with such an anticipation? Or should we expect something more in line with what you achieved with São Manoel?

And the second question would be on the regulatory situation in Portugal. You were very clear about the levers for the government to lower prices without having an impact on EDP, but I would like to know if we have come to an end on the date on the CMECs – on the adjustments to the CMECs with the decision to rotate EUR154 million as a fine adjustment? Or whether the government could open up the file again at some later point and come back with some adjustment? And I'm particularly thinking on the original debate about the EUR500 million of additional potential cuts that's highlighted that seemed to not to have been adopted by the government. But – is the government able to come back with some additional cuts? Thank you.

António Mexia: Thank you, Javier. Relating to Brazil, here we are talking about the bottom line, so really the last line. So we expect this to double. I think a lot of this of course relates to the new transmission line. They have a huge impact. And as you know, they will have an impact even before being concluded and the fact that they have been concluded. And we expect clearly to be closer to the 17 months anticipation than to the 4 months of São Manoel. So as you know, we have a good team on that front. We were cautious in the first approach. So clearly, this, coupled with the interest rate going down, plus everything that is efficiency-wise, risk management approach integrated, I believe that Brazil has proven very strongly the value of having distribution both in generation and even if you don't have the self-dealing, you have an hedging even with the hydro situations in Brazil and the pool prices. So clearly, I believe that the doubling is very sound target. And we will be, of course, more detailed in the capital markets, but I feel comfortable as we speak.

On the regulatory in Portugal, what I would like to share is that we believe that, first, as I mentioned, more than 90 percent was already known. I think that we have reached, I would say, the bottom of what could be considered a recurrent basis. As you know, we are disputing some of those issues. But in our figures, we have what we have now. We are disputing of course some of those because they are clearly, some of those doesn't make any sense like double taxation.

And what concerns the final revision of the CMEC, as you know, we have seen a small impact, a provision of EUR18 million that, by the way, was also questioned by Manuel Palomo. Clearly, the EUR18 million is a non-recurrent. It was due to the second half of '17. The figure was higher than when you see on an annual basis from now on because it was hydro and Sines. Now full year in '18, you have only what I mentioned between 10 and 15 and relates only to hydro.

Let's be clear, we – for us, the final CMEC is the final CMEC. And we, in what concerns any consideration for our other items that people would like to reanalyze, we feel totally comfortable in what concerns just doing exactly what was mandatory by whatever law at that moment. By the way, everything was approved on a yearly basis by the authorities and the regulators. So on that front, we are very comfortable no matter what. And we, of course, we will make this our key message all over.

In what concerns the EUR500 million, let's be very clear, and sometimes people make this confusion. They're eventually mentioning our EUR500 million that was, as you remember, mentioned in – by the regulator in the 2 lines comment in when they provide the final revision of the CMEC. We have already access to the comments of the regulator between 2007 and 2016, including even the comments before 2007, as you know when they started being enforced. And clearly, that's very obvious, the approvals were there, and any change would be – would imply that the law of 2004 would needed to be changed.

So we are very comfortable. I don't want to be very long on this. The more information we have about this, namely this annual documentations of the regulator, the more comfortable we feel of a totally – unexistence of any excessive rent based on the Decree Law 240 of 2004. So let's be clear, let's not make a soup of these elements. Final CMEC is the final CMEC.

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

Operator: The next question today comes from the line of Jorge Guimarães from Haitong. Please go ahead.

Jorge Guimarães: Hi, good morning, everyone. Thank you for taking my questions. Still sorry to go back to the final CMEC adjustment. Kind of taking Javier's question about the features or the innovative features. Are you also comfortable with the past environmental CapEx in the finished plant? Isn't there the risk that it could be taken out of the final CMEC adjustment?

Secondly, and still on the regulatory issues in Portugal. When should we expect a decision about the final clawback rate? And where do you see it ending, remaining at the current EUR4.75 per megawatt hour or below that value?

And finally, regarding the low-voltage concessions in Portugal, which are to be renewed in 2020. You always seem to downplay a bit the profitability of this concession. So could you see a scenario where, one, another Portuguese company takes one of those concessions or a Spanish company? Thank you very much.

António Mexia: I see that have spending a lot of time about only 10 percent of our net profit, so I really would love to talk about the 90 percent. But let's see, and I thank you for the question because we want to be precise. Now what concerns the investment was on the SOx and the NOx, all the investments were in line with contracts, all were approved by relevant authorities. They were mandatory.

So by the way, all the other players have been rcognizing this investment because they were mandatory. And if it was not for these investments Sines would not be – would not have been able to operate under environment rules and so would not be able to prove their contracted availability level. So we were demanded to be available, we were demanded to supply. And we could only supply under those legal binding laws so – and everything was approved. So we were not really innovative, we are just complying with the law.

In what concerns the clawback, as you know, I'm going putting this together with, also, question of Manuel Palomo. Just to be clear, when we see the difference between previous year and this year of regulatory impacts, we have EUR150 million on distribution, it was known; EUR60 million on clawback, it was known (And I will go back), EUR7 million on coal. And the only thing that is new is the final CMEC provision that will effect on a yearly basis recurrent between 10 and 15 percent, typically a small figure. In what concerns the clawback, as you see, we put here the full figure. But we expect that, of course, a normalized situation where you don't create a distortion that makes power stations in Portugal, either EDP or anybody else, with an unfair competition could be clarified down the road. But for now, our guidance includes the clawback for the full year.

Low voltage, sorry, sorry. Low voltage, I think it's too early. The key issue is, of course, we don't know what will be the rules of the game. That will clearly – I think that the key restriction of the system is that whatever happens, it should maximize the synergies in the system and should imply the best solution for the final customer.

So the only thing is, clearly, we will be there if and when it makes sense. And our job at this stage is to help, as anybody else should be doing, on making something that makes sense for the system. By the way, in any case, we will always receive the full RAB if we will not – if we don't want or if whatever happens – so that's clear, so that's clear. So let's wait, it's too early.

Miguel Viana: We now go through some questions on the web. The first one comes from Manuel Palomo from Exane BNP. Given your increased focus on renewable energies, the question is what our thoughts regarding the full ownership of EDPR. And maybe I'll put together also the question Antonella Bianchessi from Citi regarding targets of disposals for 2018. If you can elaborate on this and our progress and what are our plans.

António Mexia: Very well. In renewables, as I mentioned, I'm going to repeat myself. Down the road, a lot of things can make sense. There is no sense of urgency or whatever. So we will not, in the current environment, ask people to be waiting for some things standing up. So clearly, no surprises.

So in what concerns disposals. As you know, mini-hydros in Portugal and in Brazil are classified as assets held for sale. In what concerns asset rotation or farm downs, it's the new normal and the focus will be the U.S. So typically, there is nothing new on the table compared to what we stated 3 months ago.

Miguel Viana: Two more questions from the web. One is regarding electricity distribution in Spain. If we can elaborate on the detail on the decline on EBITDA and what is our expectation for the full year, and also regarding tax rates guidance for 2018.

Miguel Stilwell: So I'll take those questions. In terms of tax rate, part of the second question. So we maintain our guidance of less than 20 percent for the full year. Obviously, this depends on several variables, but that's our guidance and we're fairly comfortable with that.

In terms of distribution in Spain, so as you know, the regulatory terms are set till the end of 2019, and any changes before that do not make sense. However, formally, there's process called *lesividad* in Spain, which is declared at the beginning of April, targeting changes to the useful life of assets. So it doesn't change the rules, but it just paves the way for a possible support in the Supreme Court challenge.

So we just took a prudent approach. We're optimistic about the outcome but in this case, we just have provisions for – we're adjusting for that amount. In any case, a final decision would probably happen sometime over the next year, and so we'll have visibility on that then.

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

Operator: Thank you. The next question comes from the line of Carolina Dores from Morgan Stanley. Please go ahead.

Carolina Dores: Hello, good morning, everyone. Thanks for taking my questions. I have 3. One, it's a very quick one. What is the time frame that you expect to communicate on the business plan, is it 2020, 2022 or, I don't know, 2021? Second, Brazil, the operations are going very well. Do you expect to make more investments? Or is just your focus on delivering the transmission lines at this point? And third, you mentioned about the tax or the levy on coal and the clawback. And I understand, especially on coal, the economics would – there's tax increase over time. So what is the plan? Do you expect some negotiations with the government? Or would be the plan to potentially shutdown Sines? Thank you very much.

António Mexia: Thank you, Carolina. We will be presenting after summer, that 2022. So it's also a very quick answer to your simple question. So 2018-2022, and it will probably beginning of October. So we will set the date where we'll hopefully be meeting all of us.

Brazil, new investments. We have not been involved in the last interesting and exciting auction for a distribution company there. I like the idea of having – creating optionalities with Celesc with 0.8 RAB. That, of course, gives us a lot of room in what concerns whenever this company will be in the next stage of our life going into the market. I think it makes sense. Meanwhile, we are helping the current shareholders to make a more efficient company. So I like this idea of optionality. I like the idea of also going into, so you will not see ourselves, you will not see us on those big bids 2-point-something RAB acquisition, so let's be clear.

On what concerns also tactical opportunities, adjusting even percentage of our portfolio, as you know, we have assets where we have 60 percent, the others were only 30 percent. We will try to move around, as you have seen selling mini-hydros, shows that we are keen in crystallizing value and capturing, as it was the case in previous assets, to buy additional stakes if it makes sense to optimize our value on that assets and I'm considering – I'm talking about, for example, existing hydro projects, as we have already. But we see, clearly, transmission. But now, we were one of the first. Now everybody looks into transmission. We will be looking in transmission whenever it makes sense at the prices that makes sense with clearly double-digit returns. But basically, optionality and balanced approach.

Tax on coal. Of course, I believe that any tax on coal that, by the way, I think was introduced the concept because the CO2 price was very low, and now, as you see, the market is clearly finally picking up. So creating individual piecemeal and being alone doing whatever they want makes less sense, especially in the integrated market. So we see ourselves, Sines, as a very competitive one or the most competitive and the cleanest coal plant in Iberia. And of course, it would not make sense import-wise, balance payment, employment, imports of energy. We have much worse power plants in Spain occupying the place of a much better and more recent coal-fired plant in Portugal. Of course, having in mind that up to 2030, they will be all gone. The transition phase should make sense. And I believe that we will be working and everybody should be working on this front.

In what concerns the clawback, I just wanted to repeat myself, is we need to approach – once again, the concept is people should have the same playing field whatever side of the border in an integrated market they are. So we expect this to be taken into consideration because if not, it would make Portuguese-located power plants, whatever, a disadvantage compared to location in Spain. But once again, for the full year, this year, we expect, we have in our guidance of the figure that we have again confirmed, we put the delta of the EUR60 million compared to the previous year.

Miguel Viana: OK. Just for the sake of time, as we are reaching the – this call is reaching 60 minutes, which is our timing target, we'll look for last question on the phone, and then we'll follow up at IR level the remaining questions.

Operator: The next question today comes from the line of Jose Martins from JB Capital Markets. Please go ahead.

Jose Martins: Hello there. I hope everyone is well. I have 2 questions. One is about CESE. We recently, in the Investor Day, ran – disclosed that they expect news in 12 months instead in a matter of years. I was wondering if you could share that view or if you have anything linked to that as through that? Something related to that, provisions for the payment of CESE already, do you have an actually – it's not a cash outflow. I just wanted to clarify that.

And then the second question is, well, you seem to find growth options, whether it's renewables, whether it's Brazil. I think, probably, we should approach it in a different way. You want to maintain optionality and you want a balanced approach. But have you ever considered that if you have more capital, would you grow faster? You seem to have had historically a wise investment process. But if you have more capital, would you deploy it? And would you consider tapping the capital markets to do that? You have 2 listed subsidiaries, rather than removing the minorities, you could probably use them to invest at a higher price. Those are my questions. Thank you.

António Mexia: So thank you. In what concerns CESE, I will be probably repeating what was said at REN. As you know, we have challenged CESE as well as the other 2 companies, so Galp and REN. It's true.

Advancing to your second question. We have provisioned, but we have not cashed out in the sense that we consider that not only the repetition, but especially the fact that the cash of the CESE was not growing as it was foreseen into sector made this decision of giving warranty and not cash makes it a fair one. So the sooner the better we have a decision. So hopefully, what was said in many terms of timing, it happens because I think that all of these issues should be clarified as soon as possible. And in that case, it would be good news.

In what concerns growth. Let's be clear, we have been doing – we will not have any rights issue, especially not EDP. We will not have at EDPR. As you know, EDPR the decision is taken. The equity story of the group is what it is for now. It's clear.

We clearly prefer to do what we have been doing, as we did with gas. We have cash 2.5, 16 times EBITDA. And we have redeployed money also to invest in Brazil to have more or less 90 percent more of the EBITDA at the beginning of next decade with one third of the investment. We have, as you know, recently, because I think it makes all the sense in terms of de-risking and in terms of crystallizing value, updated our strategy in terms of asset retention, including farm-downs. So we can grow faster and we can be also developer. I think that the nature of the business in renewables has changed, at least in what concerns our vision and our key strengths.

So I don't, I really don't see any need to do, I feel totally comfortable with the muscle that we have and the strategy that we have in terms of building the optionalities. And by the way, we have talked a lot of times about what represents today the smallest part, a very small part of our, unfortunately, of our profit. But I think that and eventually, the fact that no question was raised there is that 5 PPAs in the last months, full visibility 800MW for this year. It shows what? That we know exactly earmark what we are doing. And whenever people hesitate because they feel a weakness in a specific market, namely in U.S., “Oh, but now it will be more difficult, the PTC market facing down, and then the tax equity market will be difficult. As you'll see, as we have seen, we have been delivering always. And if anything, we could be, as we mentioned, be doing more. And of course, the farming down asset rotation strategy will allow us to develop more, crystallize more. And the cash positioning of EDP at the level of EDPR, we're definitely comfortable. And so liquidity of having capital is not the issue.

So thank you for your questions. And Miguel will follow with some, Miguel Viana will follow some details and maybe some of the guest and some smaller questions. But once again, I would like to highlight that, probably, our looking into the company that has bottom part of his problems in what concerns the framework of regulation in Portugal and legal and framework, legal and regulatory framework. And clearly we wanted to share the view, this possibility that we have, all the possibilities that we've been creating both in renewables, especially in U.S., but also in Brazil, giving a sound basis for what will be presented just after the summer. So I think that we will have a good moment. So thank you for your presence, and see you soon.

Operator: Thank you very much. That does conclude the conference for today. Thank you for participating. You may all disconnect. Speakers, please stand by.