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

Operator: Good morning, ladies and gentlemen. Thank you for standing by, and welcome to today's EDP Conference Call Q1 2019 results.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session, at which time if you wish to ask a question, you'll need to press star one on your telephone and wait for your name to be announced. I must advise you that this conference is being recorded today, Friday the 17th of May, 2019.

I now would like to hand to conference over to your first speaker for today, Miguel Viana. Please go ahead, sir.

Miguel Viana: Hi. Good morning, ladies and gentlemen. We are here for the presentation of the first quarter 2019 results of EDP. And here with me today our CEO, Antonio Mexia; and our CFO, Miguel Stilwell.

We will go through the presentation, and then we'll have a Q&A session at the end, with live questions and also the possibility of making questions through the web. Our call should take somewhere between 45 minutes and maximum of one hour.

I'll pass the floor to our CEO, Antonio Mexia, for the start of the presentation.

António Mexia: Thank you, Miguel. Good morning, everybody, thank you very much for attending this results conference call. I'm going to share with you with you the slides. So, in Slide 2, the key highlights.

I really would like to start by highlighting that this quarter, we are reporting, for the first time, under the new business segmentation, which we have recently presented to the market in our strategic update.

These business segments are fully aligned with the challenges and the opportunities that we envisaged with the ongoing energy transition, and of course, giving visibility of our power goals in leadership this energy transition.

In the first quarter '19, our recurring EBITDA increased by 1 percent to EUR 921 million. This EBITDA was particularly penalized by very low hydro volumes in Iberia, 48 percent below historical average and also low wind volumes across key geographies which stood 7 percent short of the long-term average, an unusual figure.

On the positive side, our installed capacity increased by 2 percent, exclusively through renewables addition, and in parallel, the renewables average selling price went up by 5 percent, partially compensating the lower renewables volumes in the period.

Additionally, our networks operations showed some growth, namely in Brazil, through the commissioning of our first transmission line in December last year and the increased demand in distribution. While in Iberia, we had a positive contribution from OpEx reduction by 3 percent year-on-year.

Year-on-year comparison of net profits is also penalized by financial costs, mostly due to significant positive impact from mark-to-market and financial hedges last year.

The average cost of debt stood at 4 percent, in line with the guidance in our strategic plan, which is 30 percent basis above first quarter last year, naturally following the increasing rights of our debt in U.S. dollars and in Brazilian real, in line with our significant special CapEx mainly in the U.S., and of course, Brazilian market.

Effective tax rate, which is more volatile on a quarterly basis, was 27 percent in first quarter, significantly above what we have shown over the last couple of years and well above our expectations for the full year '19.

I would also like to highlight that in the first quarter, we paid the full annual amount of CESE, the extraordinary energy tax in Portugal, which reduces our reported net profit results by EUR 67 million to EUR 100 million, with a net loss of EUR 23 million in Portugal. So, we see that outside, we would have the profit of well above EUR 100 million and that it was penalized by these negative results in Portugal.

Thus, all in all, our recurring net profit stood at EUR 167 million. Our net debt fell by 1 percent year-on-year to EUR 13.7 billion.

And, when comparing to December, net debt increased 2 percent essentially due to a slight EUR 200 million increase of regulatory receivables in first quarter, which, in second quarter, should be more than offset by a significant reduction of those receivables in our balance sheet following the EUR 600 million tariff sale that we have just announced this week. So, clearly on track to do what we have committed.

Our recurring organic cash flow showed a significant 66 percent increase to EUR 465 million in the first quarter, supporting by EBITDA growth and positive impact from working capital, while net expansion investment more than doubled versus last year to EUR 858 million, following an acceleration of payments through fixed asset suppliers reflecting the sizable wind capacity commissioned by the year-end last quarter of last year, especially, of course, in U.S.

Note also that IFRS 16 adoption implied an increase of EUR 800 million of gross other assets and other liabilities at our balance sheet, having also some minor impact on P&L, without any expected impact on our key credit rating metrics, as Miguel Stilwell will explain to you in detail later.

Finally, I would highlight that last Wednesday, we paid to our shareholders an EUR 0.19 dividend per share, referring to 2018, fully aligned with our dividend policy on the plan of 2019-22, and representing a dividend yield of something about 6 percent at current price levels.

Going to Slide 3. As I mentioned already, the first quarter was very dry in Iberia, with Hydro resources almost half the historical average in Portugal or close to 3 terawatts hour lower than this historical figure.

As we have seen recently, hydro production in Iberia has a significant volatility in a quarterly basis, as it can be observed by 2018 performance, a year that showed rain flows just 5 percent above the historical average for the full year, but resulting from a combination of extremely wet second and third quarters, and a close to normalized first quarter and a significantly dry fourth quarter.

Note also that in April, there was already a significant normalization of Hydro resources, which are more in line with average.

Regarding our global wind portfolio. Wind resources stood 7 percent, as I mentioned, below long-term average, which compares to a windy first quarter in 2018, where resources were 5 percent above long-term average. Overall, wind generation fell by 4 percent as weak wind resources were partially mitigated by the 6 percent capacity increase.

As mentioned in EDPR's first quarter call, we have conducted the study on wind resources availability in our portfolio, and the conclusions are that there is no trend and that there is low volatility of wind. Furthermore, there is little correlation in wind availability across our geographies. I think this is important.

Moving to Slide 4. As announced in our strategic update in March, our new segments are renewables, which includes wind, solar and hydropower production operations; second, electricity networks, comprising activities in Iberia and Brazil; and finally, client solutions and energy management, which cover activities of supply, thermal generation and energy trading.

Recurring EBITDA increased by 1 percent year-on-year or 2 percent if excluding the impact from ForEx. Going into details. Let's see, first, renewables. EBITDA, down by 6 percent, propelled by lower hydro and wind resources in our key geographies, as mentioned, which, together, reduced our results by about EUR 150 million year-on-year.

About half of this impact was offset by higher selling price, mostly in hydro and in wind. Additionally, the increase in renewables capacity and the suspension of generation tax in Iberia also mitigated the low load factor effect.

In networks, EBITDA increased by 11 percent, mainly driven by solid performance in Brazil, with the beginning of operations in our first transmission line and that 5 percent increase on electricity demand in our distribution areas.

Finally, in client solution and energy management, EBITDA was 17 percent up. That, pushed by the turnaround of the supply operations in Portugal, supported by the normalization of the regulatory tax after the adverse conditions that we faced in 2018.

Solid increase in revenues from services to our clients in Iberia, which more than doubled, although still naturally from a small basis and a 5 percent increase in thermal generation in Iberia, following the adverse hydro conditions that I already mentioned.

Moving to Slide 5, and OpEx. We continue to see a strong performance of operating costs. Excluding ForEx, operating costs showed a 1 percent nominal growth in a period in which the number of customers connected to our distribution grids rose by 1 percent and our average capacity grew by 2 percent. Thus, if these growth effects were excluded, OpEx was down by 2 percent in nominal terms.

In Iberia, OpEx fell by 3 percent in nominal and almost 4 percent in real terms, in line with the 4 percent reduction in average headcount. In Brazil, OpEx in local currency increased 2 percent or almost minus 2 percent in real terms, considering the local inflation of 4 percent in the period of expansion of activity.

At EDPR, adjusted core OpEx per megawatt, excluding ForEx and one-offs rose 1 percent, again, below weighted average inflation in the countries where we operate, summing up basically. OpEx growth was below inflation in all our key geographies, leading to reduction in real terms.

Moving to Slide 6. Our reported net profit declined 39 percent year-on-year to EUR 100 million with, as I mentioned, Portugal posting a net loss of EUR 23 million, heavily penalized by taxes and regulatory costs, in particularly, the energy taxes that represents in '19 as EUR 67 million annual cost fully booked in the first quarter, in line with what happened in last year.

Of course, the scarce hydro resources also impacted significantly our performance in Portugal since it's where we have most of our portfolio, while in Spain, reported net profit remained stable year-on-year.

EDPR net profit declined 35 percent year-on-year, mainly impacted by the previously referred lower wind resources across all our geographies. Reported net profit in Brazil increased 28 percent year-on-year, propelled by the commissioning of the first transmission line and strong operational performance in distribution.

Moving to Slide 7. Following the strategic update, we are now fully focus on the delivery of our 2019, 2022 business plan, which is based on the deployment of 7 gigas of renewables capacity and significant growth in our networks, business mainly in Brazil, through greenfield transmission projects.

In renewables, we have currently 3.1 gigas of capacity secured, more than 40 percent of our 7 gigas target for the period, and slightly above the 2.9 that we have communicated at the strategic update, following a recent addition of 200 megawatts of wind in the US, to be commissioned in 2020.

Regarding development efforts of new renewables project, we are now focused on constructing wind capacity in U.S. to enter into production before 2020 year-end, still entitled with 100 percent of PTCs as well as contracting of corporate PPAs, mainly in Brazil. And also the preparation of our participation in some renewables option in several European markets during '19.

Regarding new capacity to be installed this year, we are on track to install 1.1 gigas of wind on short capacity, of which, 0.9 gigas in U.S. and Canada and 0.2 gigas in Europe.

Regarding the employment of our five greenfield transmission lines in Brazil, we have already stated the first went fully operational, commissioned, I also like to highlight once again, 20 months ahead of the schedule, and we are now at construction stage in two other lines in Maranhão and Santa Catarina.

The remaining two lines are still on licensing phases, and one of those is expected to start construction in the second half of this year. All these lines are now expected to be commissioned between second half of '20 and first half of '21, also ahead of the regulatory schedule.

Going to Slide 8. Regarding our strategy of crystallizing value upfront and leverage on strong market appetite for renewable assets, we are well on track to deliver the 4 billion assets rotation target announced for the period '19/'22.

Last month, we announced the sale of a majority stake in a 997 megawatts wind farm portfolio in Spain, Portugal, France and Belgium, representing EUR 0.8 billion of proceeds, and an expected capital gain of EUR 0.2 billion. Moreover, we will keep providing O&M services in these projects, reinforcing the recurring profile of our asset rotation strategy.

Looking forward, we continue to see strong demand from financial investors on this kind of assets, which support the ongoing analysis of some additional assets rotation deals for the next 12 months.

Regarding the execution of the EUR 2 billion disposal plan, also announced on our recent strategic update in London, the target is to fully on track to be executed within the announced time frame of 12 to 18 months.

I want to be very clear. Advisers are already engaged, and we are working on the analysis and preparation of the different potential transactions, keeping our plan reducing exposure to Iberia and merchant thermal assets.

Moving to Slide 9. Overall, despite this quarter's adverse weather conditions, we gave significant step ahead regarding the delivery of our strategy. We have increased our wind resource capacity by 6 percent and in parallel, we have announced a sizable, as I've just mentioned, EUR 800 million assets addition deal with the material value crystallization component.

Furthermore, we have reinforced our capital structure with an issue of EUR 1 billion hybrid green bond, and we continue to deliver efficiency improvements with the reduction of OpEx by 2 percent on a like-for-like basis -- clearly below inflation, as I mentioned.

Finally, we have shared growth, as usual, with a EUR 0.19 per share dividend which corresponds to the floor of the policy that we have announced in the strategic update. Thus, overall, we are performing well on what depends on us, controlling costs, crystallizing value, delivering new expense in investments at attractive returns and managing our portfolio on an efficient way.

I would also like to finalize by mentioning that we are comfortable with our EBITDA -- EBIDA in 2019 consists of around EUR 3.5 bn.

This view includes the adverse impact from low hydro and wind volumes in first quarter and our current expectations on the impact from assets rotations in renewables. As you know, already a EUR 200 million gain from the recent deals, and includes the impact from our IFRS of around EUR 70 million in '19.

In net profit, with the information that we have today, we clearly believe that the consensus of net profit of around EUR 800 million is achievable, depending, of course, on the hydro and wind conditions and assets rotation execution for the rest of the year. This last part we are very comfortable, of course. Rain depends, of course, not on us, namely in the last quarter.

So typically, we are focused on delivering the targets of the strategic update, and we are comfortable with the year '19.

I will now pass to Miguel Stilwell for a more detailed analysis, and I will come back to the Q&A session. Thank you very much. Miguel?

Miguel Stilwell: Thank you, Antonio. So, moving on then to more detailed analysis of the different segments let's start by moving to Slide 11. Here, we can see the focus continues to be on renewable energy with a 2 percent decrease in renewable installed capacity, but I would like to highlight there was a 6 percent increase in wind and solar capacity, as Antonio already mentioned.

So, with this, the renewable energy reaches a weight of 74 percent of EDPs installed capacity, and 69 percent of its generation despite the very dry quarter in Iberia and wind resources in our key geographies.

So, the renewables production was 18 percent lower than in the first quarter of 2018, due to the renewable resources scarcity that I just mentioned.

Moving on to Slide 12. You can see that the EBITDA for wind and solar increased 1 percent year-on-year to EUR 385 million, mainly negatively impacted by the 10 percent year-on-year decline in load factors since wind and solar resources were 7 percent below long-term average and 5 percent above average in the first quarter of '18.

So there's a delta swing between the first quarter '18 and first quarter '19. Also note determination of some PTCs and some wind farms that are 10 years old in the U.S., which means that there was a 10 percent decrease in PTC revenue.

However, due these effects on results were mitigated by the 6 percent expansion of wind and solar installed capacity as well as a 3 percent increase in the average selling price, namely due to price increases in North America and Eastern Europe.

Moving on to Slide 13. So, talking about hydro, EBITDA decreased 16 percent year-on-year to EUR 171 million, again strongly impacted by the very dry quarter in Iberia, in particular, Portugal. In Portugal, the hydro coefficient was 48 percent below the long-term average, as a result of hydro generation overall in Iberia declined 35 percent, to 2.6 terawatt hours.

On the other hand, as I mentioned, average selling price of hydro generation in Iberia increased 20 percent from prompted by higher pool price and also higher realized prices from hydro plants due to increased opportunity costs.

In Brazil, EBITDA from hydro was flat in local currency, but declined 6 percent in euros due to the Brazilian real depreciation. So, note that our hedging strategy in Brazil allows to smooth our exposure to the GSFF volatility, which increased from 113 percent in the first quarter '18 to 149 percent first quarter '19, reflecting the average seasonal weight in curve of the system's physical guaranty, which allocates energy more to the second half of the year.

Moving on to Slide 14, and regulated networks. Here, EBITDA increased 11 percent to EUR 243 million, mainly due to the contribution from Brazil.

In Brazil, the EBITDA from networks increased 30 percent or 39 percent in local currency, so this is the first quarter with a significant EBITDA contribution from the transmission activity, which stood at EUR 10 million, as our first line become operational in December 2018.

In distribution, the improvements in results was mainly driven by the 5 percent demand growth in our concessionaires on higher temperatures, and better economic context as well as due to the reduction of distribution losses. In Iberia, EBITDA from networks advanced 4 percent year-on-year, mostly driven by the 3 percent cost reduction.

Moving to Slide 15. So, slide 15 is about client solutions and energy management. Which is, we mentioned, as you know, activities of supply, energy management and thermal generation. So, EBITDA globally from these operations increased 35 percent year-on-year to EUR 160 million.

Operations in Iberia improved as a result of the normalization of supply margins in Iberia as well as the due to higher thermal generation, which, in turn, was driven by the dry quarter. Also, I'd like to highlight that there was lower regulatory costs, due to the suspension of the generation taxes in Spain and Portugal in the first quarter.

In Brazil, EBITDA from these activities declined, mainly due to lower volumes in the liberalized supply market. In Pecém, the coal plant, the slight decline in results was mostly due to the extraordinary effect in the first quarter of '18, as a result of the downwards revision of the referenced availability level.

Moving on to Slide 16, so net debt. So, net debt increased to EUR 13.7 billion in March '19, so it's a 2 percent rise versus December '18. If you exclude regulatory receivables, net debt was flat, in details.

So the regulatory receivables increased by EUR 0.2 billion, EUR 200 million, despite the overall electricity system debt decreasing by EUR 62 million in this quarter.

As you know, this week, we sold EUR 600 million of tariff deficits, which we announced, so the regulatory receivables in our balance sheet will reduce significantly in the second quarter.

Net debt was also impacted by roughly EUR 900 million for net expansion investments in the period, with a significant part of that amount dedicated to payments to suppliers of expansion investments, with proceeds from asset rotations expected to flow in the coming quarters.

Also, this quarter reflects the EUR 1 billion from the hybrid green bond issued last January, which has a 50 percent equity content. And basically, there's also some recurring organic cash flow of around EUR 500 million, which has also contributed significantly to reducing the debt.

So, moving on to Slide 17. So here are some of the key things to highlight. Cash and equivalents, EUR 1.7 billion. We have EUR 5.9 billion of available credit lines, so this covers our financing needs beyond 2021.

This note, also, in terms of three key issues here in 2019. So first, 1 billion subordinated green bond, which we issued at 4.5 percent. The second green bond, after the EUR 600 million we issued back in October.

Also S&P reaffirmed our rating of BBB-, this is our rating in April. And as I mentioned before, the EUR 600 million sale of the tariff deficits, which we did on May 13th .

Moving on to Slide 18. And here, I think a little bit more detailed explanation to understand some of the movements here. So the net financial costs stood at EUR 186 million in the first quarter of '19, which increased significantly relative to first quarter of '18.

So this is explained basically by, first, the adoption of IFRS 16, which increased the account of financial cost by EUR 10 million; secondly, there's a negative impact year-on-year of EUR 31 million due to mark-to-market financial noncash hedges, of which EUR 21 million are due to the relative evolution of the U.S. dollar versus the euro interest rates, as I mentioned, noncash.

EUR 10 million from mark-to-market of some hedging positions in energy markets which were booked in the first quarter of '18 and not this year. Thirdly and finally, last year's gain booked on the sale of the 20 percent stake in our U.K. offshore project Moray East with EUR 15 million.

If you adjust the financial costs for these effects, the figure would have been EUR 183 million. And so then, the interest related cost went up by EUR 3 million, which was basically impacted by the higher average cost of debt, which increased from 3.7 percent to 4 percent.

This 4 percent is mostly the impacted by the higher rate of the U.S. dollar the in the Brazilian real in our total net debt, which as you can here on the right-hand side together with the dollar appreciation against the euro.

Obviously, this also takes into consideration the issuance of the EUR 1 billion hybrid bond in January and also lower level of short-term debt in the first quarter, which, as you know, commercial paper typically has a negative rate since we took in a lot of cash, right at the end of last year. We had lower levels of commercial paper.

Going forward, and I think this is a question which has come up. We are still comfortable with the 4 percent rate moving forward. I think in relation to '19, bear in mind that we have several much more expensive financing that are terminated this year, and that we expect to refinance on more attractive terms than they are currently. And so, that will contribute to keeping the financing costs at around 4 percent as we mentioned in our strategic update.

Moving forward to the final slide, Slide 19. Here, reported net profit, so that means EUR 100 million in the first quarter, 39 percent below the first quarter of last year. Obviously, impacted by the financial costs which I just mentioned and the income taxes.

A word on income tax. So it went up by EUR 25 million year-on-year, following a higher effective tax rate this quarter. As you know, tax is typically quite lumpy on a quarterly basis. We expect this to be normalized then over the rest of the year and to be at a level below 20 percent, on a 12-month basis.

Moving forward, and this is something that we've also talked about in the strategic update. Obviously, we expect the tax rate to evolve toward the mid-teens, but for '19, clearly, below 20 percent.

Also, to highlight that in this first quarter, it's penalized for booking the full amount of extraordinary energy tax, so the EUR 67 million. If you exclude that, so on a recurring basis, the net profit would have declined by 32 percent year-on-year, impacted by the -- these various aspects that I've just described. And so with that, we close the presentation and move to Q&A. So thank you very much.

Operator: Thank you ladies and gentlemen, we'll now begin the question-and-answer session. As a reminder, if you'd like to ask a question, please press star one on your telephone and wait for your name to be announced.

If you wish to cancel your request, please press the hash key. Once again, that's star and one for any audio questions.

Thank you. Your first question comes from the line of Stefano Bezzato from Credit Suisse.

Stefano Bezzato: Yes, hi, good morning. Three questions for me please. The first one is on your -- on the selldowns of renewable capacity. You announced 1 gigawatt in April, that's already roughly 25 percent of your target for the four years. How quickly do you expect to achieve the EUR 4 billion target that you have for -- announced in March?

The second question's still related to the selldowns. You mentioned that you're comfortable with the guidance for -- with the current consensus for net profit in 2019 of around EUR 800 million. How much capital gain would you include in that guidance?

And, third question on the recent report on the excessive rents from the Portuguese parliament. Can you help us understand what can be the practical consequences for EDP? Do you expect any legal or government-driven intervention to implement the recommendations of the commission? Thank you.

Antonio Mexia: Thank you, Stefano. The selldown of EDP Renewables. So clearly, we have basically reached more, I would say, 90 percent of the target for the year. We still expect to do something until the end of the year. So eventually, we will be less.

As you know, we have presented in London that the figure will increase with time, but it means that probably, we'll be doing a little bit more than expected this year because the market is there. So, if anything, slightly quicker than expected.

But, of course, not one year in advance, just making the curve flatter than it was - flatter in the sense that '19 will be a bigger contribution.

In terms of guidance and the impact of this, we'd expect to be above the EUR 200 million, of course, that we have already presented. But it depends very much on the next deals, but clearly, slightly above this figure.

In terms of your questions of the Parliamentary Commission. First, I would like to highlight that the commission was -- the report was approved only by the parties -- the left-wing parties, including Socialist and everything that is left. It was voted against on the social democrats, and to the right.

So typically, it shows that it was a political exercise more than anything else. But I really would like to highlight three main issues raised in the report and to clarify our vision about these potential recommendations.

First, regarding the past results from tariff deficit sales, which, as you know, result in -- and everybody knows -- results from EDP taking the risk of mark-to-market interest rate evolution.

The government has already stated that any retroactive measure on this would not make any sense. And therefore, the future, they would not be ready to take these interest rate risks.

Because if they want to take the risk -- and the benefits we are ready to give them the tariff deficits. So -- and the question they are not ready to take this risk. So I think that we are clear on this front.

Second, on the issue of double subsidies received by -- alleged received by renewables projects in the '90s, EDPs and everybody else -- it was also already recognized by the government representative, there is no -- there is a total lack of legal support to implement this measure, which was initially approved more than three years ago, but never really enforced.

So the figures that -- in reality is that this does not exist. Finally, regarding Sines, the report recognizes, and I think it's very important, that Sines has been operating according to the law.

Regarding the future, it's very simple. We would like to point out that Sines' plant will generate electricity if market and regulatory conditions are there. Imposing taxes and double taxes on it would, of course, and not on others, will remove its competitiveness.

If there is no profitability, we'll shut down. But then, you will have a huge problem in terms of security of supply. So any anticipation of the closure of Sines will represent the problems for the system. It's not my statement, it's already recognized by everybody.

And of course, we agree -- we are totally focused on decarbonization. But of course, decarbonization should be applied through the markets of CO2 and we have been very clear on this. So it's a clear example about what we believe that -- are the measures that eventually will be coming out of the recommendations.

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

Operator: Thank you. The next question comes from the line of Jorge Guimarães, from JB Capital Markets.

Jorge Guimarães: Hi, good afternoon everyone. I have three questions. Firstly, can you clarify something on the guidance view? Maybe this is just a detail, but I understood that you are comfortable with the EBIT 3.5 billion EBITDA guidance. But then on the net income guidance, you said we could reach the EUR 800 million depending on wind and rain.

Should I assume that you need a higher than EUR 3.5 billion EBITDA to reach the EUR 800 million net income? This is the first one. Second, what is your view about full year '19 cost of debt? And finally, one on the Portuguese regulation.

What is your view about the generation clawback from Q2 onwards, because generation tax is now in place again in Spain. And so the reason why that there was no clawback in Q1 is not there anymore. So, what is your view about clawback for Q2, Q3 and Q4? Thank you very much.

Antonio Mexia: Jorge, I will talk about guidance and clawback and then I will pass Miguel. It should always be the CFO that talks about debt. No, to see that we are aligned. So the guidance, it's a pair.

So, let's be clear, the 3.5 and the 800 million. So the question is, of course, the hydro of the last quarter, it's an important element just to be clear on that 800 million. But we don't see any mismatch between these two figures.

So we feel they are connected, but, of course, we need of course to anticipate some, as I mentioned with the previous question, exactly what will be the gain above the 200 million in what concerns the assets rotation.

In what concerns the clawback? The answer is very simple, is that if the tax disappears in Spain, the problem is automatically solved, as it was the case in the first quarter. If the tax stays in Spain, there is a provision in the budget line in Portugal, so provided by the Parliament that the mechanism of clawback should be revised to be fair.

Because everybody knows that -- and recognizes that the systems that was implemented was basically double taxation in the Portuguese system. So, clearly, if it stays, we expect to see some 2-way revising according to the law.

Miguel, in what concerns debt?

Miguel Stilwell: So in relation to debt, just to reaffirm what I said a little while ago. So we're comfortable with around 4 percent cost of debt. As I mentioned, the first quarter was more penalized than what we expect the rest of the year, because of the high cash position, given the proceeds received at the end of last year.

And also, bear in mind, that over the rest of this year, we expect to go on refinancing some more expensive debt that we have, and which will come in then at lower rate. And so there will be cheaper debt coming in to do that refinancing. So overall, still comfortable with the target that we gave in strategic update.

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

Operator:Thank you. The next question comes from the line of Jose Ruiz from Macquarie. Please ask your question.

Jose Ruiz:Yes, good afternoon. Just two questions on my side. The first one is how much tariff deficit are you planning to sell in 2019? And what is the tax impact attached to that? Second question is a clarification.

You said -- sorry, talking about the EUR 65 per megawatt achieved in hydro, you talked about opportunity cost -- what do you mean by that?

Miguel Stilwell: OK, so I'll take that question. On the tariff deficit sale, so, as I mentioned, we've got -- done 600 million already. We have approximately 1 billion on our -- or expect to have 1 billion, roughly, on our balance sheet. We still expect to do some more transactions this year, either through securitization or bi-laterals.

And so clearly, we would expect to sell the rest of the tariff deficit that we have in our balance sheet throughout the year. On the EUR 65 megawatt?

Antonio Mexia: Basically, when you have less water, as it was the case, we basically managed selling the capacity when the difference between the base price and what -- and at peak price is higher. So basically, we just sold. Whenever you have lower volume, you sell it at the best moments. So it's the reason why the differential is bigger.

Jose Ruiz:Thank you, very clear.

António Mexia: Thank you, Jose.

Miguel Viana: Can we go to the next question on the phone, please?

Operator: Thank you. The next question comes from the line of Alberto Gandolfi from Goldman Sachs. Please ask your question.

Alberto Gandolfi: Yes, good morning, and thanks for taking my question. The first one is on portfolio restructuring. Would you be willing to push a strategy with -- I mean I might call it "shrink to grow?"

So would you be happy, for instance, to focus more on Iberia and renewables and perhaps swap out some of the assets to gain a bit more of strategic independence? Any thoughts on that would be really appreciated.

The second is again a little bit on strategy. How important do you think is scale to develop renewables? There's a very long tail of new entrants, but there's only a really handful of players -- and you are one of them, an elite that basically can add a couple of gigawatts a year.

And so can you maybe talk about scale? What are your advantages? And if so, would you be open to perhaps integrate yourself with another of the big guys to create certainly Avengers of Renewables, or like a super renewable development, if you're not into Marvel.

And the last question is a little bit more boring on the numbers. You talked about 150 million negative swing year-on-year from hydro and wind, but last year, you were above average. So versus average, is it correct, you're about 70 million, 75 million below average?

And if so, if next year we add EUR 75 million to the renewable division and you have an extra, I guess, EUR 2 or EUR 3 megawatt hour on the hedged price, would that be a fair approach to calculate your renewable division for next year over and above any capacity addition? Thank you.

Antonio Mexia: Alberto, it's a pleasure to have you back on the conference.

Alberto Gandolfi: Likewise, thank you.

Antonio Mexia: Portfolio restructuring and renewables, and I believe that your two questions, the first questions are related? We are very clear. I think that we are top player in renewables. So our restructuring, let's start.

Our restructuring portfolio is based on the fact that we want to reduce exposures to Iberia, we want to reduce exposure to merchants, we want to reduce, if, possible, the exposure to thermal. That's the key elements.

The recent past proved that we should be smaller in Iberia, especially in Portugal. So it's clear that we have been very clear in what we want -- where we want to start working on those sales.

It's the reason that I've mentioned that we have already designed the potential portfolio alternatives, and we are working on it as we speak. And what concerns -- so basically, diversifying renewables, of course, important.

But also we recognize that renewables will be a very different endgame in the future. I think that it's important to recognize this. It's one of the reasons why we like to crystallize value also on that farm down strategy included on the assets rotation.

Why? Because it gives you more value crystallization, optionality, lower risk and flexibility to adjust your path along the way.

Scale is important, of course. And of course, in terms of what? Having the right people, but also attracting them and keeping the right people. Working with the key suppliers, this is, of course, also very important in offshore, where you have a limited number of suppliers.

So it is slightly different where, I would say, that various ways we are much smaller. The scale of the project can be smaller, and so it's available for a totally different number of players, much higher than in wind and then, of course, much higher than in offshore. In that front, in any case, we have just proven that we have been able, last year, to go fast in this.

We have assured, last year, 500 megawatts and the key targets, especially for the U.S. with a specific pipeline, especially at the moment, where wind goes down and solar goes up, because of the PTC program going out and the ITC being kept. We have proven that we have both the team, the capabilities, and the pipeline. So I think that we are fully equipped.

So we don't want to integrate ourselves. Why? Because it's an element. EDP is, basically, a renewables company. So we are only open to things that makes us growing fast -- growing faster, but us at the driving seat. Because why? Because we are a key player. So -- in what concerns your last question?

Miguel Stilwell: In relation to your last question, so the first quarter of '18 was also not fantastic. The second and third quarter in '18 were significantly above average.

The fourth quarter was also bad. As a year that ended up being more or less, there's definitely swings between the different quarters.

Versus a normalized year, I'd say this quarter was around 150 million to 200 million below normalized, depending on the price we assume. Prices going forward for 2020, I mean, typically we go on closing these positions over the year.

And so if you take the current 4 percent to 5 percent, so I think it's around 56, I mean, I mean, it would be thereabout, depends obviously on the evolution. That's how I would look at it.

Antonio Mexia: But I would like to -- also people have mentioned, of course, the climate change and whatever. So, it’s a reason why, in introduction or at the -- I have mentioned the steady downwind resource availability in our portfolio and the conclusions that there is no trend, and that there is low volatility on wind.

So we have been monitoring this and the results are clear. And in terms of hydro, we don't see a structural change in either volumes in terms of long term average. We expect, however, more volatility.

By the way, related to what Miguel just mentioned. So typically, we don't see a change in the volumes, we see a change in the volatility in hydro, but no impact on the wind.

Alberto Gandolfi: Thank you.

Miguel Viana: Sorry, we have no more questions, and so for us to conclude.

Antonio Mexia: So, thank you, everybody, for being present. I think that we have been keeping our strategy one of the best definitions in life that I've heard about strategy is "Strategy is like rain dancing. You should always dance, not because you make it rain, but because you learn how to dance, is better."

So, typically what we have been doing is clearly doing everything that depends on us. Being rather sooner than later on those targets, cost cuttings, development of pipelines, asset rotation. So I think that we are basically dancing better. Thank you and see you soon.