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: Good morning ladies and gentlemen. Thanks for being here with us today for the Strategic Update Presentation of EDP 2019-2022. Just going through the agenda. First, we'll start with the 2018 results presentation, which was already released to the market before market opening today.

The first part of main highlights will be presented by our CEO Antonio Mexia and then more detailed part by our CFO Miguel Stilwell. Then we'll have a short Q&A session and we'll move to the strategic presentation, which in the meanwhile will be also made available in the CMVM. We'll also make available to the people in the room pen drives with the presentation, so we'll not have hard copies given our sustainable policy. And the strategic presentation, the first part will be presented by -- with the strategic part by our CEO, followed by the presentation of the platforms and financial part by our CFO Afterwards, we will have a Q&A focused on the strategic presentation and we'll invite everybody to a light lunch afterwards. So we'll start then with the 2018 results by our CEO Antonio Mexia.

António Mexia: So thank you Miguel. Thank you everybody. Good morning. We will have basically two parts when thinking about -talking about '18 and when talking about a bright future.

Just to note, the question of not having the small book that everybody loves to take notes is because of saving the planet but also being digital. So it's mandatory now. So but thank you again and I would like to today to start with the results, and let me see. So I'm just showing in the screen -- can we move this to this screen to the left? So we see on this first slide that with the -- starting with the recurrent EBITDA, it decreased by 3% to around 3.3 billion.

This includes of course the positive contribution from the increase of 2% of our installed capacity, 100% of it through renewables addition. On the negative side, and we need to talk about this, our results were penalized by a very weak wind resource year, namely in the second half. We fell short 6% of the long-term average and we were at six years low.

While regarding the hydro resources, despite the full year of 2018 in line with the annual average, the fourth quarter alone was marked by very weak hydro conditions.

Our performance in '18 continued extremely penalized by heavy taxes and levies and adverse regulatory decisions in Portugal. They were already anticipated. They were basically introduced in 2017, but of course the impact, the full-fledged was in '18. We will see these in detail because I think it's important that you analyze the '18 regarding these figures.

We also had a strong performance regarding OpEx, posting a 3% decline in Iberia and 1% improvement in real terms in Brazil. I think that you will see now but also looking to the future, now we all need to talk about efficient. We have been talking about efficient for a long time, and clearly, we have been delivering. Our recurring net profit rose 3% to EUR797 million, positively impacted by the 12% decline on interest costs, following the decline on cost of debt by 30 basis points to 3.8% out of -- down from 4.1%.

Note that the reported year-on-year profit slightly above 50% is strongly impacted by non-recurrent items, namely a negative one-off provision of 285 million related to the decision, as you know, of retroactive cuts on the CMEC's revenue, which EDP is currently challenging in court. And also, the second item was a 600 positive, so it's a very sizable gain on the sale of Naturgas in '17. That is one-off. We are going to challenging them. We are sure -- pretty sure that we'll be successful. Not tomorrow; it will take time, but anyway. We fully provisioned the 297.

Our net debt was down from 13.9 to 13.5 comparing December to December, reflecting a 50% growth in our recurrent organic cash flow. I think that's an important item that we want to share with you. So we grew for a little bit more than EUR600 million to EUR1.2 billion. So -- and also this is due to a good news is we have also a 600 million decrease year-on-year in regulatory receivables.

Regarding dividend distribution, the management is proposing the maintenance of a dividend per share of 0.19, which corresponds to our floor. We are committed to this floor. Of course, subject to the approval of our annual shareholders' meeting that will take place on the 24th of April, and we expect that this dividend will pay -- be fully paid in May.

Moving to slide 3, highlights from focused growth, optimization and efficiency. What we see is that we were rather busy in terms of our business plan execution, despite all the challenge that we have shared with you. We have continued our growth strategy based on renewables and also in Brazil. Regarding wind onshore and solar, in '18 we have built over 800 megawatts of capacity and secured PPAs of 1.3 gigas, of which 0.4 gigas refer to big solar projects, one in US and another one in Brazil.

Regarding offshore, we also had a busy year. On Moray East project in UK starting construction following the closing of final investment decision and the project finance in December. In France, we finally got full visibility after a long work on the long-term tariff regime, and our project were granted the environmental permits. Finally, in the US., we were awarded a lease area in Massachusetts, as you know, which could accommodate up to 1.6 giga and which we will now start to develop in the partnership. Moving to Brazil, clearly, the keyword in terms of growth is networks.

We have commissioned our first transmission line last December, 20 months ahead of the initial schedule. And I think it's important. Basically, we have been repeating here what we did also in the generation project well ahead of and clear a difference to the other players in the market.

Furthermore, we have built a 23.55% stake in Celesc, which we had as management involvement in the company and of course optionality for the future.

We were also very active on portfolio optimization with the execution of the first sale of majority stake in the portfolio of wind farms, 500 megawatts in US and Canada, which allowed us to recycle capital with upfront value crystallization. So in order to maintain a low risk profile for our investors, we have also reduced our stakes in wind offshore projects from 77 to 33.3 stake in Moray East and from 42 to -- 43 to 29.5 in our two French projects. Lastly, we have disposed several noncore assets during 2018, namely mini hydro assets in Portugal and Brazil and biomass operations in Portugal with more than 218 million cash effect. I think it's a step. There are steps in the clear direction that shows exactly what we want to do.

In terms of efficiency, we have kept a steady outperformance of our targets, reaching 200 million savings in 2018, anticipating our OpEx target by two years.

In terms of financing, we have sold EUR1.3 billion of tariff deficit as mentioned, and we have been pioneers in green bond issuing in Portugal with a seven years, EUR600 million bond in October with a yield of 1.95. And more recently already in January, we issued a EUR1 billion green hybrid priced at a yield of 4.5. So I think it's two important instruments.

Moving to slide 4 and understanding Iberia. Clearly, we are heavily penalized by adverse regulation. So the last negative regulatory item was the decision of the alleged innovatory costs of CMEC representing what, as I mentioned, the EUR285 million provision and the lower than contracted final adjustment of the CMEC as decided by the government, which together represented 303 million one-off costs in 2018. Since EDP considered such decisions violate contracted terms, it has taken the necessary steps to protect its interests and rights. Notwithstanding this, EDP presently provisioned these issues.

The energy tax (CESE) corresponding, as you know, to 0.85% on assets kept in place despite it's supposed extraordinary nature and represented a negative impact of 65 million in earnings, 40 million in generation and 25 million in distribution. Worth is to note that, something that people have talked a lot in the past, the Portuguese electricity system debt decreased by EUR800 million to an overall debt of EUR3.8 billion, proving the system steady, deleveraging past, which will enhance the progressive phasing out of the energy tax as envisaged in the public account. So clearly, we are on the phasing out and this gives rooms and credibility to that idea of the sales vanishing.

So in terms of generation tax, in '18, this amounted to 65 -- 56 million, reflecting the changes introduced in the second half of '17 until the suspension of clawback since October 2018. In any case, contrary to the European Commission recommendations, the cost of social tariff in Portugal continued to be supported by conventional power plants representing an 84 extra cost to the EDP. Finally, the start of the new regulatory period for electricity distribution in Portugal has also an adverse impact on regulated revenues, which showed a 164 million year-on-year decrease last year.

All in all, our results in 2018 encompass a EUR672 million negative impact from sector taxes and devised retroactive cuts on CMEC and year-on-year cuts on regulated revenues. So some -- of course, a lot of them are one-offs, but the figure is big.

Slide number 5. We control what we can control. Of course, we can work. Then we challenge what we cannot control, but talking about another thing that we cannot control, but we see that 2018 was marked by the normalization of hydro resources in Portugal, although very weak, as I mentioned, in the last quarter, and abnormally low wind resources in our main markets. So we have a gradual improvement, significant gradual improvement of our hydro resources but six years low for wind. Hydro production was 5% above historical average despite a dry last quarter. This compares to a very dry period last year, which justifies the 85% year-on-year increase on our hydro production area. On the other hand, wind resources, as I mentioned, was at this record low.

On slide number 6, talking about recurrent EBITDA. It increased 2% ex-ForEx because of this hydro improvement and growth in Brazil offsetting weaker wind resources and regulatory cuts in Portugal. So recurrent EBITDA is penalized by a 5% negative impact from ForEx, was significant last year, resulting from the depreciation of Brazilian real and US dollar versus the euro. So excluding ForEx, recurring EBITDA would have grown 2% versus last year.

First in Brazil. EBITDA grew 14%, 14% in local currency, propelled by a decrease in energy losses in distribution and higher demand coupled with our low-risk hedging strategy on hydro volumes and energy prices. Secondly, in Iberia, an increase of 1%, minus 2% in Portugal and plus 12% in Spain due to the increase of hydro production, partially mitigated by regulatory measures in Portugal. Finally, in renewables, EBITDA excluding ForEx impact went down 2% year-on-year, reflecting not only the wind resource, as I mentioned, 6% below long-term average, but also the decline in average revenue per megawatt, as you know, expected with the extension of some of the PTCs after 10 years in US. This trend, as I explained in previous conference calls, is associated to the increased competiveness of renewables and of course with this change of the US market.

In slide 7, the strong performance. Let's go through what really you control. Strong performance on operating costs. We continue to see a strong performance. Excluding ForEx, operating costs showed a 1% nominal growth in the period in which our average generation capacity grew more than 1% and the number of customers connected with rose by 1%. In Iberia, OpEx fell by 3% in nominal terms and almost 4% in real terms, in line with the 4% reduction in average headcount in Iberia. We had less 275 people. In the last three years, we are talking about less 560 people.

In Brazil, OpEx in local currency increased 3% or almost minus 1% in real terms considering the inflation of close to 4% in the period of the expansion activity with 2% increase in the number of customers connected in distribution. So recovery clear in Brazil.

At EDPR, core OpEx per megawatt excluding ForEx and one-offs rose 3%, reflecting the development of our O&M self-performing strategy. We are sure that will allow us to achieve significant efficiency improvements in the near future.

Moving to slide 8, let's talk about recurring net profit. Overall, our recurring net profit rose 3% to EUR797 million, benefiting from lower financial costs, hydro recovery from weak levels in '17 and underlying growth in Brazil, which more than compensated the effect from adverse regulatory changes in Portugal and weak -- the non-offs and weak wind resources in 2018.

Recurrent net profit in Portugal decreased by 16% as the hydro recovery and OpEx nominal reduction was offset by those regulatory changes. In Spain, recurring net profit rose by 8%, and note that in Portugal, the company showed a reported net loss of 18 million for the first time since the first privatization stage of the company in 1997. The contribution of Brazil to our consolidated net profit rose 29% or EUR25 million following the 108% increase of EDP's Brazil reported net profit in local currency. EDPR's contribution also increased by 21%, propelled by a 14% increase of EDPR's net profit and our EDP stake, 82.6% since August '17.

So and once again I would stress, the organic cash flow, growing and being enough to -- not only to support the dividend proposal that we will -- we have presented and we will be voted by shareholders, but also the expansion CapEx. Having said this, I will pass to Miguel. So thank you.

Miguel Stilwell: Thank you, António. Good morning everyone. So moving on to some of the more detailed results analysis, and we see here on slide 11. You basically see that the focus continues clearly to be in the growth in renewables. And so now renewables by capacity already represents around 75% of the total capacity. This is including also hydro and wind and solar. In terms of electricity production, also representing two thirds of the total production. So an increase in 22% in the year of 2019, mostly driven by obviously the increase in hydro production versus the previous year.

Moving forward to look at the different business units, if you look at EDPR EBITDA, obviously, this decreases 5% year-on-year to approximately 1.3 billion. This includes a negative ForEx impact of roughly around 3%. On one hand, EDPR's average installed capacity rises by 6% to 10.8 gigawatts. However, some of these benefits were offset by the weaker wind resources, which António just mentioned, which were 6% below the long-term average in 2018. The EBITDA was also impacted by a 7% decrease in the average selling price excluding ForEx. This was a consequence mostly of the lower prices in Poland, Romania and the US and also by the termination of some of the ten-year PTCs, which led to a 15% decrease or 14% decrease in PTC revenues. Again, this was already anticipated when we were looking at 2018.

Moving forward to look at generation and supply in Iberia, so here there's an increase in recurring EBITDA of roughly 40%, mainly driven by the hydro resources, which increased overall to roughly 800 million. This has got to do with obviously the normalization of the annual hydro resources despite the weak hydro resources in the fourth quarter. Overall, we have roughly 13.7 terawatt hours of production in 2018, which accounted for 39% of EDP's own production, prompting a 14% decrease in the average sourcing costs to roughly EUR29 per megawatt hour, which you can see here, so a 14% decrease. The end of the CMEC of the old regime, which ended in June 2017 also had an impact of roughly 103 million year-on-year in terms of EBITDA. The 5 million left over is just a correction from previous years.

Looking at EDP Brasil in local currency, we see that there's an increase of 12% in EBITDA to roughly BRL2.5 billion. So in terms of efficiency, the trajectory is very good, so a decrease in the nontechnical losses over the last quarters, which we've been seeing in the dis-cos. So we see here both for Espírito Santo and Sao Paulo, a decrease of 0.8 and 1.1 percentage points. Pecém coal plant also had a very strong performance in 2018, and we were able to maintain the availability levels well above the contractual benchmarks. So this translated into an availability premium of BRL135 million compared to the penalty we'd had in the previous year. This was partially offset by the programmed maintenance that occurred in the second half of 2018.

Finally, and I think it's worth noting, the good results on the hedging strategy, which reached a total amount of BRL151 million, so 121 million greater than the previous year.

Looking at regulated networks in Iberia, so this decreased 19%. This is already excluding the gas distribution networks which had been sold in 2017. So this decrease reflects mainly the networks in Portugal which represent obviously 77% of the EBITDA in the segment.

The OpEx had a good performance, so it improved 3% year-on-year despite the 3% growth in volumes distributed. However, this was not enough to compensate the impact from the regulatory review in Portugal, which mostly justified the 13% decrease in regulated revenues. Additionally, in terms of EBITDA from our distribution network in Spain, it's amounted to EUR145 million and reflects a relatively prudent accounting approach, some possible negative regulatory changes which we have called the *levisidad*.

Now let's look at net debt. So net debt decreases to EUR13.5 billion as of December 2018. This reflects, as António mentioned earlier, EUR1.2 billion of recurring organic cash flow. Reflects the dividend payments to our shareholders of 700 million and also around 400 million of net expansion investments in the period, mostly allocated to wind onshore in the US but also to regulated networks in Brazil.

Additionally, the net debt was also positively impacted by the EUR600 million reduction in the regulatory receivables, which we sold over 2018. This was relating to the tariff deficit and also a good performance of the electricity system debt, which, as was mentioned, reduced roughly 800 million over the period of 2018. So as a result, the stock of debt in electricity system is now roughly 3.8 billion in 2018, benefiting from the demand growth in Portugal and also the past cost cuts. Overall, the net debt to recurring EBITDA stood at roughly four times.

Now talking about financial liquidity. We have EUR7.6 billion of liquidity, including the EUR1.9 billion of cash and equivalents. We also have EUR5.7 billion of available credit lines. Part of these were recently extended as of March 2018 for another five years, plus extendable for another two years. So this covers our refinance needs beyond 2021, so a very comfortable position.

It's also worth highlighting the EUR750 million Eurobond issue we did in June with a yield of 1.67%, the securitization of EUR1.3 billion of tariff deficit in Portugal and then, as has already been mentioned, the first ever green bond of 600 million, which we issued in October with a seven year maturity. 2018, we continued down this green path, and we're now reinforcing the balance sheet as of January with a EUR1 billion subordinated green note of the 4.5% mentioned.

Looking at financial costs, the net financial costs decreased 32% year-on-year. Firstly, this is related partly to the net interest costs which reduced by 12% or EUR77 million year-on-year. This is supported by a 30 basis points decline in the average cost of debt to 3.8% overall, and 11% year-on-year decrease in the average debt, obviously relating to - in 2017 when we sold Naturgas. Secondly, there's a positive impact of EUR30 million from ForEx and derivatives that are essentially tied to the evolution of the US dollar against the euro. And thirdly, a EUR87 million gain on the reduction of our equity stakes in wind offshore, mostly in the UK and France, just part of our recurring asset rotation strategy. Finally, 46 million, which is relating to other items, mostly the bad will associated with the acquisition of our stake in Celesc, some higher financial guarantees, revenues in Brazil of around 14 million and also lower costs with our tax equity investments of around 8 million.

And finally, in terms of last slide, so reported net profit amounts to 519 million in 2018 with obviously a significant year-on-year decline, which is very impacted by one-off results. In particular, when comparing with 2017, the EUR574 million gain from the sale of the gas distribution in Spain, which is was booked in the third quarter 2017 and also the 285 million one-off provision relating to the CMEC, which Antonio mentioned. There's also an issue that the higher share of results in EDP Brasil and EDP Renewables, as they had better results. There's also more significant percentage of minorities coming out on that line.

So excluding some -- these extraordinary items and one-off impacts, the net profit in 2018 increased 3% to EUR797 million, which benefits, as has been mentioned in this presentation, from the strong improvement in financial results and associates, which increased by 238 million and also the very strong net profit growth in EDPR and EDP Brasil. So overall, this positive evolution of financial results together with the underlying growth in Brazil and hydro recovery more than compensates the decline in the EBITDA prompted by the regulatory changes in Portugal, the weaker wind resources and ForEx. And so that basically would conclude the presentation. I think the idea now would be to turn it over to Q&A. Thanks.

Miguel Viana: Thank you, Miguel. So we will go for a short Q&A session on the results before moving to -- we have there Rui Dias from UBS The micro please just that people in the webcast could listen. In the third row there. There.

Rui Dias: Good morning everyone. I have a few questions, but I'm going to keep this one -- I'm just going to start with one specifically on the 2018 results. It's about the other cash flow line. Just very quickly, just to confirm if the 300 million of other cash flow includes CESE that you haven't paid since 2017.

And also if you -- I mean, you mentioned that you have extraordinary pension contributions on that line, but last year you also had extraordinary pension contributions. So the question is when should we expect to see these extraordinary contributions to stop? Thank you.

Miguel Stilwell: So in relation to the first question, yes, the CESE payment was done in 2018 and so it's included there in that cash flow item. In relation to the extraordinary pensions, so this -- we were contributing to the pension plan in relation to Medical Act, and that's, if you want, that's sort of the technical term -- the particularly strong contributions over the last two, three years. It will now settle into a more recurrent lower level of contribution to the pension plan along a more foreseeable line. So the contribution should reduce quite significantly going forward versus what they were in the previous years.

Miguel Viana: Next question? I don't know if someone else has some more questions on the results. Well, if there is no more questions, we will move for a short video, an introduction of the strategic update and then our CEO, Antonio Mexia, will start with the strategic part of the presentation.