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 all for standing by. Welcome to today's EDP Conference Call 9M18 results. I would now like to hand over the call to your speaker today, António Mexia. 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 9-months results for 2018.

We will begin with a presentation, providing an overview of the results and the main developments of the first 9 months of the year, and then we'll move to Q&A session. Our CEO, António Mexia and our CFO, Miguel Stilwell, will be available to answer your questions. We'd like to highlight that we are taking questions submitted via the web, so please ask your question only through our webpage, www.edp.com. We expect this call will last no more than 60 minutes.

Now I'll give the floor to our CEO, António Mexia, who will give us an update on the main highlights of the period.

António Mexia: Thank you, Miguel, and good morning, everybody. Thank you very much for participating in this results' conference call.

So over this first 9 months of 2018, EDP has basically continued to execute its strategy of growth in renewables and Brazil, also, implementation of efficiency improvement measures and preserving the low-risk profile of our business.

Due to a lot of extraordinary results, I will start with the recurrents. Our recurrent EBITDA for the first 9 months decreased by 6% year-on-year to €2.43 billion. This include the 6% negative impact for ForEx due to year-on-year depreciation of Brazilian Real and U.S. dollar versus the €o. It means that excluding ForEx, recurrent EBITDA will be flat year-on-year. And why?

In Portugal, our performance was penalized by regulatory changes announced in last year, so known by everybody, which had a negative impact of €169 million in our EBITDA. On the positive side, we continue to perform well on OpEx, which shows a 1% nominal increase excluding ForEx, in a period of significant expansion of activity, including nominal OpEx decline of 2% in Iberia and 1% in Brazil, as you will see.

In terms of renewable resources and hydro production, and we will be detailed in this, showed a significant recovery; but on the other hand, the relevant wind resources to our wind farms stood at a 6-year record low in the third quarter, and so we continue to see decline in revenues per megawatt hour, as expected in renewables. So until now, good water and bad wind, in the sense that the wind was not blowing.

Finally, our operations in Brazil showed a strong performance, benefiting from significant operational improvements both in distribution and generation, and I stress this, from the successful low-risk integrated approach of our hedging strategy in energy markets.

All in all, our recurring net profit rose 2% to €570 million, positively impacted by the 14% decline of interest costs, following the decline on cost of debt by 40 basis points, so 3.7%.

Note at this level, that the reported net profit is significantly penalized in this period by the €285 million one-off provision that we have decided to do now due to an alleged past overcompensation in the contractual CMEC revenues at some of our generation assets in Portugal. On this subject, as we have already stated, EDP finds itself impaired by this administrative decision and is therefore taking necessary measures to protect its rights and interest, including all legal means. This material negative one-off in third quarter and the seasonal positive one-offs in the third quarter of last year from the gain of the Naturgás justify the sharp year-on-year decline on the reported net profit.

Finally, our net debt stood at €14.5 billion in September 2018, 4% lower than September last year, reflecting the 7% growth of our recurring organic free cash flow to €1 billion; the payment of €700 million annual dividend to shareholders in last May; and the acceleration of the net expansion CapEx to €1 billion, from which more than 90% was allocated to renewables with long-term contracts.

So in more detail, on Slide 3, in terms of the renewables. So what do we see? We saw a gradual improvement of hydro resource in Iberia since the beginning of the year. And after 2 very dry months of January and February, hydro production for the first 9 months managed to improve to 20% above historical average. This compares to a very dry period last year, which justifies 87% increase year-on-year of the hydro production.

On the other hand, as I've mentioned, over the first 9 months this year, wind resources evolved in the opposite direction, reaching a bottom in the third quarter or 6-year record low, with wind resources being 11% below long-term average.

So moving to Brazil. In Brazil, EBITDA in local currency grew 19%, propelled by our low-risk hedging strategy on hydro volume and energy prices; good results from our program from reduction of commercial losses, always important in Brazil in distribution; and the maintenance of high availability levels in generation, which is particularly important in the current high power price environment. So has more value to be there when you are needed.

In renewables. EBITDA, excluding ForEx impact, went down 9% year-on-year, reflecting not only wind resources 4% below long-term average in the accumulated period of the first 9 months; but also the decline in the average revenue per megawatt hour, a trend that, as you know, is associated to the increasing competitiveness of renewables projects more recently commissioned;

and also, the expiration of PTCs for wind farms in U.S. that have reached the end of the 10-years period, and as totally expected and shared with you.

Finally, recurring EBITDA in Iberia fell slight by 1% as the positive impact from the 83% increase of hydro production was fully offset by the €53 million increase of taxes in generation, also known, and the €116 million decline of regulated revenues in distribution, also already known.

Strong performance of operating costs, on Slide 5. I'd like to stress this. Moving here, what do we see? Our operating costs, excluding ForEx impact, showed a 1% nominal growth in the period, in which our generation capacity grew by 3% and the number of customer connected to our distribution grids rose by 1%.

Region by region, in Iberia, OpEx fell by 2% in nominal terms and almost 3% in real terms, particularly remarkable considering the 1% increase both in the average installed capacity and the number of energy supply customers.

In Brazil, OpEx in the local currency decreased by 1% in nominal terms or almost 5% in real terms, considering the local inflation of 3.5% in the period of expansion of activity, with a 2% increase in the number of customers connected to distribution.

In renewables, core OpEx per megawatt, excluding ForEx and one-offs, rose 3% year-on-year, reflecting essentially the build-up of our O&M internalization strategy a ongoing investments that we see as strategic and that we are sure that will allow us to achieve very significant efficiency improvements in the near future. So we have explained the self-performance strategy and the importance, medium-term, of this choice.

On Slide 6. Overall, our recurrent net profit rose 2% to, as I mentioned, to €570 million, benefiting from lower financial costs and the natural dilution at bottom level of ForEx impacts, given our low-risk approach of funding operations in local currency.

The recurring net profit increased by 4% in Iberia as the hydro recovery and OpEx nominal reduction was not totally offset by the adverse regulatory change, already mentioned, in Portugal. Note that the weight of Portuguese operations on reported net profits went down from 19% last year, same period, to 6% in the first 9 months of 2018, showing the impact of these regulatory measures are having on the profitability of our operations in Portugal.

The contribution of Brazil, our consolidated net profit, rose almost 50% or €29 million following the 80% increase of EDP Brasil net profit in local currency. The growth of Brazil contribution compensated this time the EDPR’s contribution, reinforcing, as we are also always stressing, our view of the value of the diversified portfolio of EDP.

Moving to the guidance, on Slide 7. We maintain our guidance for EBITDA in the region of €3.4 billion, which reflects what? First, the seasonal improvement of renewable resources in the first quarter of the year; the recent recovery of the Brazilian real; and also the positive impact from some sell-downs of stakes at some of our renewable assets, in line with the capital optimization and the value crystallization strategy, that in recent years, has become a recurring part of our renewables activities.

Regarding net profits. We maintain the previous guidance of a reported net profit, between €500 million and €600 million, that reflects the one-off CMECs provision, which has a €200 million net of tax.

We also maintain our guidance for recurrent net profit in the region of €800 million, fully in line with what we said in the conference call of the first half results.

Now I would like to talk about each of the business, basically. On Slide 8, what do we see? A strong improvement of fundamentals in Iberia. And I would like to highlight 3 key issues. The first one is energy prices. Over the last 12 months, we saw strong and steady recovery, also, because of CO2, which we have more than doubled in this period. This, together with the recovery of thermal costs (such as gas and coal), has contributed to an increase of the electricity prices in Iberia for 2019 by more than €14 megawatt hour. So we are talking about a 30% increase. This is obviously positive news for the long-term performance of our renewable portfolio also in Iberia, where we have a combined annual production of hydro and wind above 20 terawatts hour.

Second, we have also seen positive developments regarding demand recovery, with accumulated electricity consumption growing by almost 5% in Iberia over the last 4 years. Note that in the first 9 months of 2018, gross demand in Portugal has grown 3% year-on-year.

On top of that, the recent announcement of Spanish government regarding reduction of marginal taxes in Generation is a positive signal to reduce the fiscal burden in the system, with positive impacts for companies and consumers.

And finally, I would like to highlight the recent improvement of visibility regarding the next regulatory period in Spain for the allowed returns to electricity networks and renewables energy, as recently published by CNMC.

Brazil. Regarding the execution of our long-term strategy of low-risk and profitable growth, let me update on the evolution of our operations in Brazil. First, we have implemented an integrated hedging in the energy market through the utilization of several instruments, such as: the GSF insurance option, by keeping and contracted some residual generation volumes, by closing financial position in forward energy markets and last but not least, by the optimization of the positions in energy markets by our generation assets and by our supply division. This strategy allows us to keep a low exposure to volatility in hydro volumes, GSF, and the energy prices, PLD, and even to beat significantly these adverse factors through the optimization of our integrated market positions, as it was the case in the first 9 months.

Second, regarding new investments. Our expansion CapEx in Brazil is now focused on the delivery of 5 new transmission lines, a total expected investment of BRL3.1 billion, of which 95% is to occur between 2019 and 2021, and with expected commissioning dates at the end of that year.

At the moment of awarding of 2016 and '17 transmission auctions, we were assuming that these projects would provide us return on equity rates in the 12% - 14% range, but since then, we have managed to improve the profitability in a significant way of this project, which we now see at the top end of this range. Why? Because profitability improvements came from both anticipation of construction schedule and from the funding conditions more competitive than in our assumptions, improving significantly the expected NPV to shareholders versus our initial assumption. So cutting on execution time and improving funding, thus, clearly give good signs.

The Espírito Santo line, the most advanced one, has now achieved close to 80% of the completion and is 17 months ahead in terms of construction schedule. Our second most advanced line, located in Santa Catarina, has recently secured a competitive funding of BRL1.2 billion for 10 years, which covers 99% of expected CapEx. I think it's a striking figure.

Moving to renewables. We continue to focused on the execution of our organic growth, securing long-term contracts. And EDP Renewables has currently secured 3.4GW of PPAs and feed-in tariffs for new wind and solar capacity to be commissioned over the next years.

This year, we expect to install a total of 0.9GW, of which 0.2GW were commissioned in the first 9 months of the year; and we have currently 900 megawatts under construction, of which 700 megawatts to be commissioned in the last quarter and to start operations at the beginning of 2019.

For 2019 and 2020, we have secured long-term contracts for 1.7GW of new capacity, of which almost 60% in U.S., taking advantage of the last couple of years in which the new wind farms in U.S. will be entitled to 100% of the PTCs incentives for the next 10 years.

Moreover, we have already secured long-term contracts for 1GW of renewable capacity to be commissioned post-2020, being relevant, and I would like to stress this, that solar projects represents already 40% of these contracts of new capacity, reflecting our strategic positioning in the increasingly competitive renewables technology.

Regarding offshore wind, the Moray East project in U.K., in which EPR has almost a 57% stake, will be with be equipped with one hundred 9.5MW Vestas turbines and is now reaching the final investment decision stage, in line with the schedule to reach full commissioning in 2022.

In France, the development of our 2 projects, Noirmoutier and Le Tréport, with a total capacity of 992 megawatts, in which EDPR has a 43% stake, is advancing well with the granting of several required permits and we continue to track to reach a final investment decision by 2020 with field commissioning expected to occur between '23 and '24.

A final word before I pass to Miguel about the current context.

As you know, we are still in the period of strong regulatory restriction regarding what we can comment with the market on everything that is somehow related through the preliminary offer announced by China Three Gorges on the past 11th of May. Still, as an update of the process, we can comment on the following: First, there are clear signals that CTG is doing the work in the context of the offer. The Competition Authority in Brazil, the CADE, has recently conceded approval. Also, as stated by the European Competition Commission this week, a pre-notification to the European Union merger control was filed as well. So the process is progressing. There are several necessary regulatory approvals in different jurisdictions where EDP operates, to which the offer is conditioned and the process is ongoing.

Second point, the opinion of EDP’s Executive Board of Directors continues to be the one stated in our report after the offer, which was released to the market on the 9th of June.

Third, and this is very important to stress, management and everybody in the company, we continue to totally focus on shareholders' value creation while keeping sound financials. As you have seen before, we have secured low-risk projects in excess of our targets for 2020 and securing growth post-2020. We, and before you ask me, we keep, of course, we maintain dialogue with CTG and expect to update the market in the first quarter 2019, following further clarity on the offer. So let's be clear, we are doing what is expected from us.

Thank you, and now, I will pass the word to Miguel.

Miguel Stilwell: Good morning, everyone. Now I'll move back to the 9 months 2018 results. I will just walk you through some of the additional slides.

So if we move to Slide 13. What we can see is that our focus on renewable energy continued in this period, with the renewables installed capacity increasing by 3%. It means that the renewable energy in total now, weighs 74% of EDP's installed capacity and 2/3 of the generation mix, so already very skewed to renewable energy.

In line with this, the renewable production increased 25% in the 9 months of 2018, also benefiting from the strong recovery of hydro resources in Iberia over the last year, so again, reinforcing this idea of a very much CO2-free portfolio.

If we move to the next slide, talking about EDP renewables. So the average capacity has increased 6%. The EBITDA of EDP Renewables decreased 12% to €869 million, including a negative ForEx impact of 3%. Excluding the ForEx, EDPR EBITDA would have decreased by 9% year-on-year as a result of several different variables, which I'll just talked about.

On one hand, as I mentioned, the installed capacity rose 6%, however, this increase of the portfolio was offset by a much weaker wind resources in the period, as António mentioned just a little earlier. So it was 4% below the P50 scenario, and it hit a 6-year low as was mentioned.

EBITDA was also impacted by the 8% decrease in the average selling price, excluding ForEx. This was mostly due to lower prices in Spain, Poland, Romania and the U.S.; and also, the termination, as mentioned, of the 10-year old PTCs in the U.S., which led to a decrease in 11% of these revenues.

Moving on to Slide 15. So we are talking here about Generation and Supply in Iberia. So excluding the 2017 share of lower CMEC final adjustments, EBITDA increased by 24% to €640 million, boosted by the strong recovery of the hydro resources since March 2018. So as a result, the hydro production has increased by 87% to 11.1 terawatt hours in this first 9 months and accounted for 42% of EDP's own production. This prompted a 20% decrease in the average sourcing cost to €26 per megawatt hour, which can also be seen here.

So overall, the performance of Generation and Supply ended up being limited by the increase of regulatory costs, which was also up 29%. This is a result of changes in Portugal announced already last year, but which had impact, obviously, over the course of this year; and also, by the end of the CMEC deviation revenues, which were still in place in the first half of 2017, and we talked about this in the previous call.

Slide 16. EDP Brazil EBITDA in local currency reached to R$1.952 million, that's a 19% increase, mostly fueled by the efficiency improvements but also the successful hedging strategy in energy markets.

In terms of efficiency, this trajectory of decreasing non-technical losses in the most recent quarters was in our DisCos.

Our Pecém coal plant also had a very strong performance in these 9 months as we were able to manage availability levels well above the contractual benchmarks. And that translates into an availability premium of R$98 million in the period, which is compared to penalty of R$13 million in the 9 months of 2017.

Finally, worth noting that these good results came mostly from the integrated energy management strategy, which reached a net amount of R$186 million in the 9 months and represented an increase of R$135 million.

So moving onto Slide 17, talking about regulated networks. So excluding the gas distribution networks, which were sold last year, the EBITDA from the regulated networks in Iberia sold 19% year-on-year to €477 million. So this decrease reflects mainly the performance in Portugal, that represents 77% of the EBITDA in this segment. So the OpEx in Portugal had a very good performance - it dropped by 4% year-on-year despite the 4% growth in volumes this year.

So I think, here, a very strong focus on cost reduction, OpEx efficiency, and that's definitely something we will maintain going forward. However, this was not enough to compensate for the impact of the regulatory review in Portugal, which mostly justified the 12% decrease in regulated revenues.

In relation to Spain, the electricity distribution in Spain. So here, the EBITDA was €108 million, reflecting essentially relatively stable but also reflecting this prudent accounting approach to a possible regulatory change in the asset base, what we've called Lesividad.

Moving on to Page 18 and talking about net debt. I think there's also some questions on that. So net debt, €14.5 billion as of September 18, reflecting approximately €1 billion of recurring organic cash flow. So the dividends coming out of this €700 million were paid in the first half, and obviously, then we have our net expansion activity in this period, which has resulted in this increase versus end of year in net debt.

So regarding this expansion activity, just note that it's mostly dedicated to construction of new wind capacity and transmission and also transmission Brazil. It also includes investment in Celesc, the sale of 20% stake of the Moray offshore wind farm in Scotland, and also, the sale of Costa Rica, which is a small hydro plant in Brazil.

So the net debt was also positively impacted by the reduction in regulatory receivables during this period of approximately €200 million, and prompted by the sales of tariff deficits and also just a general good performance of the electricity system debt. So it had approximately €500 million surplus in the period.

As a result, the total debt in electricity system reached €4.2 billion in September 2018, benefiting from this increase in demand in Portugal and also past cost cuts.

So moving on to liquidity on Slide 19, liquidity and debt maturity profile. Here, essentially, the key issues are the total available liquidity is around €6.3 billion, as of September, including €1 billion of cash and equivalents and €5.3 billion of available credit lines. So this covers our refinancing needs beyond 2020, so relatively prudent.

I would like to highlight that on top of the €750 million bond issue that we did back in June, with a yield of 1.67%, we also did a securitization of €900 million of electricity tariff deficits in Portugal. But then, I guess, the news from this quarter is really the EDP issued its first evergreen bond, €600 million, 7-year maturity and a yield of 1.96%, in which I think was very well received by the market.

Moving on to financial costs. Here, the net financial cost decreased 25% year-on-year, essentially as a result of a 14% decline in the net interest costs of around €71 million, resulting from a 40 basis points lower cost of debt and also an 11% year-on-year decrease on average debt. Secondly, positive impact of €52 million from Results with ForEx and Derivatives that are essentially tied to the evolution of the dollar against the euro.

Finally, also included in the financial results is the €15 million gain on the sale of 20% stake in the U.K. wind offshore project, which is part of our recurring sell-down strategy, and we also had with a negative sign, the €15 million from badwill related with the acquisition of Celesc.

Moving on to the final slide, so Slide 21. Reported net profit amounted to €297 million in the 9 months of 2018. Obviously, the significant year-on-year decline was very influenced by the one-off impacts and António mentioned that earlier in the call. So essentially, we had €558 million from the sale of the gas distribution in Spain last year, which was booked in the third quarter, which obviously, was a one-off.

And in this quarter, we decided to take €285 million provision against the alleged past overcompensation on the contractual CMEC revenue at some of our generation plants in Portugal. Excluding the gas distribution in Iberia in the 9 months of 2017 and this one-off impact, net profits in the 9 months 2018 increased to 2% to €570 million. So as we've seen over the course of this presentation, it essentially benefited from the strong improvement in Financial Results and Associates, which increased by a total of €156 million in the 9 months.

So overall, this positive evolution of financial results, together with the underlying growth in Brazil and hydro recovery, more than compensated the decline in EBITDA prompted by the regulatory changes in Portugal, weaker wind resources and ForEx.

So I think this is the summary, essentially of our presentation and we'll now turn it over to Q&A. Thank you.

Operator: Ladies and gentlemen, we will now begin the question and answer session. To submit a question to the presenter, please type your question into the Q&A or chat panel at the bottom right hand of the corner of the screen.

António Mexia: Thank you. I will start. So let's try to pull the question. So disposals of small hydro, a question by Carolina Dores from Morgan Stanley, asking about the strategy, if you are going to keep this on. Manuel Palomo, asking us to explain the rationale and why they are not considered core. And Rui Diaz, talking about multiples of the transactions, and asking if there is anything that makes these assets so attractive.

So first of all, I would like to comment that the agreed sales are not yet closed or cashed - we are talking about €300 million. We are talking about the mini-hydros in Portugal as you've seen EV of €164 million for 103 megawatts. Brazil, we're talking about the price of R$591 million, 132 megawatts and the 50% of Bioelectrica, €55 million.

So what does it show? We are trying to reduce everything that is either subscale or in the case of Brazil, very far away from the rest of our business. And in the case of Portugal, the rationale is, of course, in these subscale elements, crystallizing value, reduce also our exposure to a market where if anything we are basically too big and also having more money to invest where we make the difference.

So I think it's more or less obvious. It goes also in the same direction as we have seen, we have sold the Portgás in Portugal. I believe, if you add all these, it shows clearly a strategy of focus.

In terms of the multiples, let's be clear, it was a very dry year. So the multiples, let's be fair, on an average year, with typical hydro, will be more towards 8 and not 13 times, OK? So as you remember last year was very, very dry, and so if you pick a normal year, it will be a multiple more than 8.

So second question from regulation in Spain, market reform, from Stefano Bezzato and the question of windfall profits: "So based on our discussions with the Spanish government, what should we expect from the upcoming reform on energy market, in particular, how do we expect the remuneration of hydro and nuclear can be changed?"

So basically, Spain for us is not very material, as you can imagine. But I would like to start by reinforcing some of the things that were said by other companies. Looking at this, and then talking easily about windfall profits is basically wrong, not to say more than wrong. Typically, assets are not fully amortized. They can be old, but they are not amortized - they are not young, from last week, but they are not amortized. And so they need to be amortized according to their residual life.

And by the way, a lot of those operators, including ourselves, they did a lot of investment to replace equipment. So the first thing that I would like to stress is that this talk doesn't make any sense. But going back to Portugal, as in Spain is not a critical issue for us, we have a net asset book of hydro plants of €4.8 billion - so it shows that clearly they are not amortized. The number of years that we still have of hydro concessions on average weighted by megawatts is up to 2056.

So our hydro plants already paid extra levies, to be more exact, of €328 million - the clawback, the social tariff, the CESE already paid - all these together represents €328 million. A detail that is very relevant is the CapEx in the new hydro in the last 10 years was close to €3 billion. So clearly, not amortized.

And finally, in Portugal, the concessions were bought, paid by the operators (including of course EDP) and in Spain it was not the case. So by the way, it does not make sense to talk about windfall profits and even less in Portugal so just to be clear, about this question.

So moving to the third one - Javier Garrido, JPMorgan, regulation: “When do you expect ERSE to update the calculation of clawback in Portugal. How do you think this calculation can change following the change in generation tax as recent approved in Spain.”

Of course, the clawback was there because of the tax in Spain. So once the tax in Spain goes, it's obvious that the clawback must go. And by the way, we cannot expect that the clawback could remain, because there is a distortion that already existed when social tariff and CESE were not considered part of the mechanism.

So clearly, our expectation is Portugal follows Spain because clawback existed to eliminate distortion between the two markets. So typically, in periodic reviews, Portugal clawback adjusts as part of the rule, so we look forward to knowing detail in 2019 tariffs and clearly what we expect is the clear alignment to Spanish situation, so we should know this very, very quickly and the signals that we have is of normality. It's what I want to share with you, Javier.

Fourth question also from you, from Javier: “We have seen recently a significant increase in clean dark and spark spreads in Iberia. Do you think these higher spreads will persist in 2019? When would you benefit from the increase in light of your hedging policy?”

Hedging policy, we have 17 terawatt hours, forward contracts with clients for 2019 at €58/megawatt hour, average price of +€3/megawatt hour versus 2018. And this does not include index volumes of 2 terawatt hours. Already secured average thermal spread at high-single digits per megawatt hour for around 40% of expected coal production.

Thermal spreads for 2019 are tighter than 2018. Clearly, when we talk, once again, this €58/MWh, as you, know there’s a difference between us and the others. When we talked about €58, it excludes realized price, profiling, supply margin, ancillary services, and grid losses, which all together can add between €10/MWh and €15/MWh to our final average selling price for the next year. So let's compare apples with apples. Just to remind you also Javier about this.

Fifth question, CTG offer, Carolina Dores from Morgan Stanley: “First, besides Brazil, has the CTG transaction received any other regulatory approval?”. The answer is yes. I don't want to talk because it's not for us to talk about this but, clearly, in a lot of countries, as you know, I believe there were 14, so a lot of them. And as I mentioned, they had already did the pre-filing in Europe because the most important is, of course, Europe. Everything that is competition, unbundling and then in U.S. And this is what I have conveyed is we see that they are doing what is expected for them in those filings. The rest, of course, the smaller ones are already behind us. So typically, they are focusing in what they need to focus.

Let me see if I answer all the questions. Now Miguel. Miguel, you can…

Miguel Stilwell: OK. So some questions here on balance sheet from Rui Dias and Manuel Palomo and also Carolina Dores. So essentially, around the targets and evolution of debt.

I mean, clearly, there has been a drag on the results from regulatory changes, I think that's clear. We have also managed to balance growth and the dividend policy and deleverage.

And one of the questions here is relating to how we would address the issue of the leverage. And I think what we've managed to show is that we have attractive growth opportunities. We continue to pay down debt. We continue to invest. We have been doing asset rotations where we are selling assets when we think we can crystallize value and reinvest that capital back into the business into new opportunities that can create growth and value.

A question here from Palomo, specifically, talks about the “free cash flow in the 9 months is €1 billion, the CapEx (net) is €1 billion, hence, the dividend continues to be paid through debt. So how do you expect to achieve your guidance?”

I think about this slightly differently. I think about it as the free cash flow pays the dividend and part of the expense in CapEx and the rest of the CapEx is financed through debt but it's because you're financing projects, you're financing growth, you're financing future cash flows. And essentially, if we're doing this in a profitable and value-creating way, then it makes sense.

Overall, we expect our net debt-to-EBITDA ratio to keep coming down over time and trending towards our guidance. So that is something, which has been done obviously, over time. And we managed these balance between deleverage, growth and dividends. And I think that we'll do what creates most value for the company and for the shareholders.

And Carolina asked specifically, “Given EDPR's accelerating investments above the level of the strategy plan, what level of net debt do you expect for 2018/2019?”.

So we finished the third quarter with €14.5 billion. We expect this to come down in the fourth quarter to €14 billion or even possibly below, and going forward, for it to be relatively stable to decreasing over time. So, I mean, that's the trend, and that's how we're managing the business going forward.

Just a comment maybe on the mini-hydros, which was also mentioned. I would just like to answer also one of the questions, which came up or a specific one, which is the mini-hydros in Portugal have relatively short residual average concession of around 14 years and quite a high tariff. So that also explains the multiple, which has been put forth. As I say, it depends very much on the hydrology and António has talked about that, but also bear in mind the shorter residual average concession life and the higher tariffs.

All right, back to António.

António Mexia: Thank you, Miguel. Going back to a question by Carolina Dores: “Does EDPR EBITDA in fourth quarter includes capital gains from disposals? If so, can you quantify it?”.

Carolina, note that our sell-down strategy in renewables is considered as a recurrent part of our business. I would say a second business line of our renewables since some years ago and some gains from sell-downs will occur in fourth quarter. This is reflected in our guidance. And so it's day-to-day business now.

It makes a lot of sense because it crystallizes value, you can de-risk, you fund new growth and you have always a gain between the moment when you invest and when you place it; so it makes a lot of sense and it's in included in the guidance.

I have a question from Juan Weik from Argus Media: “What is EDP’s view on the Portuguese energy regulator as proposed changes to increase efficiency in the local electricity markets, specifically opening up the purchase of PRE, special regime output, to third parties companies (and thus ending EDP Universal – SU – so last resort, exclusivity) and transferring the task of putting together the daily scheduled generation from these special regime from EDP to REN?"

If it's the case, those would be good news. So, of course, the first, it's associated with the creation of tariff deviations. And the second is, of course, the responsibility of calculating rights, the tomorrow's resources. So if it's the case, it's basically good news. And it should be like this, by the way.

Also, from Mafalda Pombeiro from GP Capital "Regarding the strategic update plan, are you thinking about presenting it in the near future?".

As I already told you, Mafalda and everybody, we maintain a continuous dialogue with, of course, CTG. You know our report. You know what is expected from us. We have stated what we are working on and expect to update the markets, including because of these regulatory issues that we've mentioned prior and the implications of these at the beginning of next year, following further clarity. So clearly, we'll be talking about the future in the first quarter.

Miguel Stilwell: Just another 2 questions here on more around the balance sheet and rating. So one question from Erica from Zürich: "Given the significant increase in debt, are you still committed to investment-grade ratings?" The answer is yes, definitely. So that is a strong commitment by management to be investment-grade.

Another question from Carolina, specifically, on "the level of regulatory receivables that you expect to have in 2018/2019". So this is stable to decreasing. To be honest, there's quite a lot of appetite in the markets for this. We can sell these regulatory receivables when we want it, depends on market conditions, on price. And we'll be doing that as we see the opportunity to do it.

But it's clearly something, which we'd be managing, and you've seen the conditions, on which we've been able to do it over the last couple of months. So we expect to continue doing that going forward.

António Mexia: So thank you, Miguel. As final remarks, I would like to say that, of course, we are in a period where we are under an offer but we are doing what we need to do and what we committed with everyone in the market.

Visibility on the growth, I think it's important. We have been able to everywhere we have committed (in renewables, in Brazil) we have been committed, (clearly) to give visibility almost with earmarked projects and, of course, goals and trying to anticipate everything. We did anticipate our targets and we will anticipate the targets for renewables. We are anticipating the targets for Brazil. So visibility on growth is something that I think that we have been performing rather well.

Efficiency. It's true, we have been once again, always doing more, at least slightly more, than we have committed, and we are very focused on this and I think the figures already showed this.

Focus and assets reshuffling. We have sometimes smaller, sometimes bigger, but you see everywhere that we are moving in the direction that you should expect from us. Selling subscale business, sometimes these deals take a lot of time, but they are meaningfully because they prove what we really want, that we don't have any constraints in what concerns looking at the assets and there is no emotion, that is what we do is what we need to do. And the biomass, the mini-hydros in Portugal, in Brazil and also what we are doing in terms of farm-downs, assets reshuffling in EDP renewables, shows that we are very focused on this and this clearly is part of the business. The asset reshuffling in a changing world is clearly part of the business and will be each time more part of the business. Because the cycle is changing so fast that you need to work on this.

We keep also very focused on the market and the importance of clients for the hedging, for the question of the supply and how you treat not only the retail but also industrial clients providing solutions, all the digital revolution that we don't show it a lot, but I think it's clearly one of the things that we have been presenting results and this appears not only in our market shares in the markets where we are obvious, what we have been doing in decentralised the solar solutions for clients in Iberia, in Portugal, where we have market share that is really, really a proof of this. But also Brazil, but also in other European countries where we already started with our strategy of integrating supply with the renewables part.

So it shows that we are anticipating what we need to anticipate. And I'm sure that you would like me to give more details on the offer, but it's what it is. We are restrained, but we are not absolutely zero restrained in what concerns managing the company, giving visibility about its future. And we will be meeting soon.

Thank you again and have a nice weekend. Bye-bye.

Operator: So that does conclude our conference for today. Thank you all for participating. You may all disconnect.