



Miguel Setas

Good morning, ladies and gentlemen. First of all, let me thank you all, for being present here today with us. Last time we met in London, we were in the midst of a very critical energy scenario in Brazil, with a significant risk of rationing. And the scenario has clearly improved since then, but politically and economically speaking, there was a clear degradation of this scenario.

As you know, we are facing an impeachment process in Brazil right now. We are waiting for the outcome of that process. In the next weeks, we'll know, depending on the votes – voting session in the Senate – if Ms. Dilma will be suspended and if Michel Temer, the Vice President, will take charge of the Brazilian government. So, this is clearly a very challenging and a surprising moment in the Brazilian history. And I think – I'm very glad that you could make it today to discuss that in our operation in Brazil.

I'm dividing my presentation into three parts. So, I will start with a very small recap of our corporate profile. Then, I will take some minutes to comment on the macro and energy and regulatory environment. And then, I will conclude with our vision about the 2016-2020 strategic agenda. And let me recall you that after the announcement of the capital increase that we've performed two days ago, we are in a quiet period. So, I request your understanding that I won't be able to give you guidance today in this Capital Markets Day.

Just a small recap of our corporate profile. We are an integrated utility along the value chain with presence in the three market segments – in generation, distribution and in trading. We have 51% of our capital structures owned by EDP. The remaining 49% are floated in the stock market in São Paulo.

We have a very balanced portfolio. Around 40% of our EBITDA is coming from distribution, 55% from generation and the remaining 3% to 5% in trading. We are the fourth largest private player in trading, the fifth largest in generation and the sixth largest in distribution. And we represent around 15% to 20% of EBITDA – of EDP's EBITDA overall. This depends on the ForEx. So, in 2015, it was 17%.

A quick overview of our geographic footprint. We are present in seven states with our generation portfolio accounting for 2.7 gigawatts of installed capacity, and we are building two new hydropower plants along with CTG – São Manoel and Cachoeira Caldeirão, Those are the new assets that we are constructing right now with our partner and also with Furnas in the case of São Manoel.



In distribution, we hold operations in two states in São Paulo and Espírito Santo, and we serve 3.3 million customers overall in these two distribution companies.

A quick word about the current macroeconomic and political scenario. António Mexia has already addressed that in his introduction, but you know that we had 7.5% GDP growth in 2010. It sank to minus 3.8% in 2015. So, it's a downward swing of more than 11 percentage points. This is obviously negative overall, but we are in a very defensive sector. So, the generation business obviously is not very effective. It has a low exposure to the economic cycle. Whereas, in the distribution, we have obviously the consequences of demand decrease and the pressure upon commercial losses.

If you look at the inflation rate, it soared above 10% which is not negative as we have inflation escalators that protect value both in generation as well as in distribution. So, the PPAs – our PPAs are inflation-adjusted and we have annual tariff adjustments, which protect value for – in our operation with an inflation rise. Obviously, the cost structure is affected by that.

If we go to the interest rates, they are currently above 14%. That's obviously negative for – well, it has consequences in the credit market, in the cost of funding and obviously increases the relevance of liquidity. And there's also a hint for the capital increase that I'm going to address later on to understand the capital increase that I'm going to address later on. Meanwhile – it's not in this graph. But meanwhile, you know that the currency has depreciated from a high of BRL 1.6 to the dollar to more than BRL 4 at the peak of the political crisis, so there was – that's also relevant to understand the capital increase that we've announced recently.

If we move on to the energy scenario, you'll see that there was a clear recovery of the historical reservoir levels. When we met in 2014, this low level of reservoirs was creating a concrete risk of rationing in Brazil. Now, that risk has vanished and we are close to 60% in the Southeast market, which is the level of 2012 and 2013, more or less. So, it has really improved the energy scenario since 2014. And the thermal power dispatch is already decreasing, allowing the energy costs to be relieved and to decrease also the tariff deficits that were pressuring the working capital and distribution segment in 2014 and 2015.

The spot prices, as you see, they've dropped dramatically. They are below BRL 50 per megawatt hour not only because of the demand retraction, but also because of the new capacity additions that created an oversupply situation in the market. So, along with these improvements in the energy scenario, we've got also a very relevant improvement in the



regulatory arena, in the regulatory environment, because the regulator took supportive measures to compensate for the risks both in generation and distribution.

So, in generation, there was the definition of the so-called GSF risk mitigation framework, which is some sort of an insurance that allow the generators to surpass the risk, the hydrological risk to the final consumer upon the payment of an insurance, and that has reduced severely the losses that we were incurring with this risk in 2014 and 2015.

And if you look also to the distribution segment, you'll see that the extraordinary tariff reviews, the tariff flags, the sectorial funds that were placed to solve this problem also were able to balance the revenue streams in distribution. So, we are now with a balanced situation in this segment. So, the regulator took supportive measures that addressed the main issues that were pending when we met in 2014 here in London.

So, despite the degradation of the political and the macroeconomic conditions, we think that the improvement of the bearish (01:46:18) scenario and of the regulatory environment clearly compensated and compensates this negative evolution of the overall framework of the overall environment.

And you've seen this morning, António Mexia and Miguel Viana showed you the results of EDP in Brazil in the first quarter of 2016 were consistent, were solid. So, the strategy that the company adopted over the last couple of years proved to be successful with the diversified portfolio, of course, the assets with a very healthy and conservative balance sheet, delivering operational improvements across the board. And we've managed to survive and to be resilient in this very aggressive and challenging environment that we are facing right now in Brazil.

A couple of words about our strategic agenda for the next four years. And here, I know that you understand that I cannot give you guidance for this period, but I will try to make a bridge between our past performance and our intentions to the future.

Five strategic pillars that are the continuity of our strategy over the last two years. So, the first one is what we call commitment to execution. And when we talk about commitment to execution, we are talking about delivering our power plants because – the ones that are being constructed on time and on cost to deliver our investments in distribution. We – you know that we took the decision to reinforce the investments that we are performing in the distribution arm, namely in the loss combat programs, so this is very relevant when we look forward to the next years.



The second point is what you call operational excellence and superior efficiency. And here, we want to follow the track record of the recent years. You've got – I will talk a little bit later about that, the operational stability of Pecém. We want to close the gap of the regulatory losses vis-à-vis the current loss curves and also to guarantee the trend of the OpEx, of the cost evolution below inflation.

The third point is the regulatory focus, regulatory agenda. We highlight the tariff review of Escelsa in August 2016, the tariff reviews of the next cycle in 2019 for both distribution companies and also the solution for the pending issue in the distribution business, which is the over-contracting situation in Brazil.

The fourth point is what we call portfolio optimization. So, the follow-up of our asset rotation and capital recycling strategy, an active management of our market exposure and also the expansion of our energy services portfolio. So, these three topics, we consider them relevant in this fourth pillar of our strategy going forward.

And then, the last one is what we call capital discipline and shareholder return. Here, we highlight the healthy balance sheet that we want to preserve and the access to the credit markets, the capital increase that was recently announced and our consistency of our dividend policy to preserve a minimum payout ratio of 50% of the adjusted net profit.

Now, let me go through all these points with certain detail. The first one, I'm very glad to announce here today that, as of yesterday, we got the commercial operation – the authorization to the commercial operation of the first unit of Cachoeira Caldeirão. Cachoeira Caldeirão is the second of these three hydropower plants under construction. We've been able to anticipate three and a half months in Jari in 2014. And now, we've been able to anticipate eight months in Cachoeira Caldeirão.

So, as of yesterday, we started the first unit of Cachoeira Caldeirão, which is a 73 megawatts generation unit and this is – for us, this is really relevant and you may wonder why the majority of the project – the infrastructure projects in Brazil are either delayed or with large CapEx overruns. So, EDP has been able to deliver its projects on time and on cost, and that's really outstanding in the Brazilian context, as you know.

So, that's what we've done for Cachoeira, eight months in advance and we are also working, well, to keep São Manoel which is a much more tough and much more harsh project on time and on cost. This is not only a question of economic relevance, it's a



question of reputation, credibility in Brazil vis-à-vis the regulator, the ministry, the government – Brazilian government. So, this is something that EDP and CTG together constructed this reputation and then we want to follow up with a strategy going forward, and it's also a signal that the partnership between EDP and CTG is working just fine. So, I think this is also very good news to understand the dynamics between EDP and CTG in these projects.

The other relevant comment is about Pecém. António Mexia has already addressed this in his introduction. Pecém had a sluggish ramp-up, as you know, in 2013 and 2014, below the regulatory levels of 90% of availability. We've managed to stabilize this power plant very close, in 2015, very close to the 90% and we are currently above 90% in the first quarter of 2016.

So, this is really important for us, as you know, because this is a relevant part of our portfolio, and this asset was a problematic asset, so we are really glad with this evolution, and we want to keep this availability stabilized above the 90% going forward.

I'm sorry to stress this, but we were criticized when we bought Pecém one year ago. It was an ugly frog. I hope it's now more handsome prince. But it was really needed to buy the remaining 50% to unlock value that was hidden in these assets. And I think there is more to come with this capital increase because, as I will explain later, we've got credit – tax credits, which we are not using so far. And with a possible prepayment of part of the debt in Pecém, we couldn't lock that tax inefficiency that we hold – we currently hold in Pecém.

The other point I think it is relevant to mention is the performance in loss reduction. And here, it's also a concern of yours. There is still a gap especially in Escelsa, a gap vis-à-vis the regulatory loss curve. But what you've seen is that there is a gradual convergence from this actual curve to the regulatory levels. And what we want to assure is that, over the course of the four cycles of tariff review, we are able to close down that gap – we totally closed down that gap. So, that's our commitment over the next years.

It's really important because it was a sticky difference, this gap between the regulatory curve and the actual curve. But obviously, we had to change the team to revise the strategy, to put more investment upon this objective. And I think, this time, we got it right. So, as you can see, we got almost a 3% reduction in this gap in 2015 in Escelsa and 1.55% in Bandeirante.



Let's talk a little bit about costs. And João and António and Miguel have also mentioned that – this focus. This is a wide – across-the-board objective in EDP. We've been able to reduce costs in real terms, so below inflation over the last two years. Not the last two years, I would say over the last 10 years in Brazil. And this is an obsession. We are now with what we call zero base budget. So, it's a clean-sheet budget. It allowed us to identify more than 100 initiatives to control costs. And our commitment is to preserve this cost evolution below inflation. We've done that over the last two years, over the last – if you look at our account over the last eight years, if you look back since 2008, 2009 – so, that's our commitment going forward.

A word about regulatory agenda. The next highlight of this agenda will be the tariff review of Escelsa in August 2016. Here, I would like to stress that we've been able, the sector as a whole, to improve the WACC from 7.5% to 8.09%. So, that has allowed a certain stability of the B Component of the tariff. This is the component that compensates for operational costs, for depreciation, for the remuneration of the RAP.

So, there is a continued – there is a, well, stability of this component. And above all and for us, that's very important also. There is a revision of the loss curve that, in our case, will be – will result in an upwards revision of the starting point and the downward decline, the downward reduction that was 1.4 on a yearly basis is basically a flat curve from 2016 onwards. So, we're not – we both obtained a revision of the starting point as well as of the curve – the decline of the curve, which is relevant in economic terms.

The other point which is relevant in regulatory agenda in Brazil is this over contracting situation in distribution. On average, the Brazilian distribution companies, they are 13% over contracted. Our two companies, Escelsa and Bandeirante, one of them is below the pass-through threshold. So, Escelsa is out of this concern, whereas Bandeirante is above the 5% threshold which assures the pass-through to the final consumer.

So, we are – together with the regulator and with the other market operators, we are studying a series of regulatory adjustments, fine-tunings to assure that we can solve this over contracting situation and normalize the pressure that is being put upon the margins in distribution. So, this is – I would say, this is well the most relevant after the tariff reviews and the extraordinary tariff reviews, so on and so forth, this is really the most important issue pending in the sector right now.

The other point I would like to mention is the portfolio optimization. And here, I'm not going to be very deep on this. But just to recall you, that over the course of the last two



years, we've performed four transactions. These transactions basically, as António Mexia mentioned this morning, they were performed with high multiples in disposal of two assets. So, we've sold our participation in the EDP Renewables Brazil and Pantanal small hydropower plants, and we've basically reinvested the proceeds of those disposals with a very interesting acquisition of Pecém with the – well, the consequences and the impact that I've already mentioned. And this is a strategy that we want to perceive in the next years.

The other point is the exposure to the markets prices. What you can see from this graph is that we are almost fully contracted over the next years. So, 2016, we have 5% of uncontracted energy, which is a relatively small amount of energy exposed to spot market. And we'll keep this policy to maintain, to preserve a controlled exposure to the spot market. So, I think this is really – was so aligned with EDP's risk policies converging to a controlled risk situation.

The other point, I think, this is the final pillar, the fifth pillar, concerning financial discipline and return to the shareholder, I would like some – well, to give you some words about our healthy balance sheet and our capital discipline. You see that we've ended up 2015 with a 1.7x net debt to EBITDA, 1.4x in the first quarter 2016. I would say that this figure is understated because it doesn't account for the projects that we are currently constructing. So, the project finance is not considered in these numbers and these figures, as well as the exclusion of non-recurring items, which are not taken from this EBITDA.

So, if we corrected these two effects, the consolidation of the projects as well as the non-recurring items that are not extracted or not taken out from these numbers, it would be a 2.8x net debt to EBITDA. So, it's much more close to the ceiling – the 3x ceiling that we've defined as our policy. But despite the restricted credit markets, we've been able to access the market and to roll over that at the holding level as well as at the project level.

A couple of words about our capital increase, which was announced two days ago. It's a €1.5 billion capital increase that's basically devised to strengthen our capital structure, to reduce financial costs and to meet long-term capital needs for operational and investments – future investments, investments, organic or inorganic investments.

Let me be more concrete about this in order for you to understand, I would say, with the concrete examples of what could be the outcome of the proceeds of this capital increase to concrete outcomes. The first one is the possible prepayment of part of the debt that we have at the holding company, at the holding level. This debt has taxing efficiencies and it's,



as you know, a very expensive debt. So, we've got a debt that is paying 70% of interest rates, clearly above our cost of equity. So, that's the rationale – the first rationale for the use of proceeds in this capital increase.

The second one is the case of Pecém. In Pecém, we are holding BRL 560 million of tax credits that we are unable to use for the time being because the asset is heavily leveraged, so it has negative results. We are not using that tax credit. And the possibility of prepayment, part of the debt in Pecém could unlock this tax value that is trapped in Pecém. So, if you do the mathematics for this, you'll see that this operation can be accretive on day 1, if we go through with these two examples of use of proceeds.

I know that Nuno will also talk about this later. The other point that I think it's important to mention is that we'll gain flexibility. That flexibility is not pressuring us to make anything that we don't make – we don't want to make. But in the future, we'll be much more prepared to use that flexibility, if needed. And also, I think it's relevant to mention we'll have an improvement of our credit outlook, which is obvious with this capital increase.

The dividend policy – basic words about the dividend policy. We – as you know, we have a commitment of paying a minimum 50% payout ratio of the adjusted net income. We've decided in the last two years to adhere to the lowest level possible in Brazil, which is 25% of payout ratio. It was a prudent decision to preserve cash flow. I think, going forward, we'll have the adequate conditions to recover to restore our dividend policy as it is stated.

So, to wrap up my presentation. Five strategic pillars that can, in the continuity of our recent strategy, commitment to execution, operational excellence and superior efficiency both in generation and in distribution, regulatory focus, addressing the main issues in the sector over the course of the next period, portfolio optimization and capital discipline and shareholder return. These will lead us to the installation of our current projects – São Manoel and Cachoeira Caldeirão – along with our partners, CTG and Furnas, so we'll reach the 3 gigawatt of installed capacity in 2018, preserving a very healthy and conservative balance sheet, 2.5x net debt to EBITDA and restoring and preserving our dividend policy of paying 50% of the net – adjusted net profit.

So, I think, with this, I'll end up my presentation. I think EDP is well positioned to play in the current challenging environment. We've shown that over the last couple of years, in a very difficult environment and we want to continue to play a relevant and decisive role in the Brazilian energy sector, delivering value to our shareholders. Thank you very much.