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EDP - Energias de Portugal S.A.

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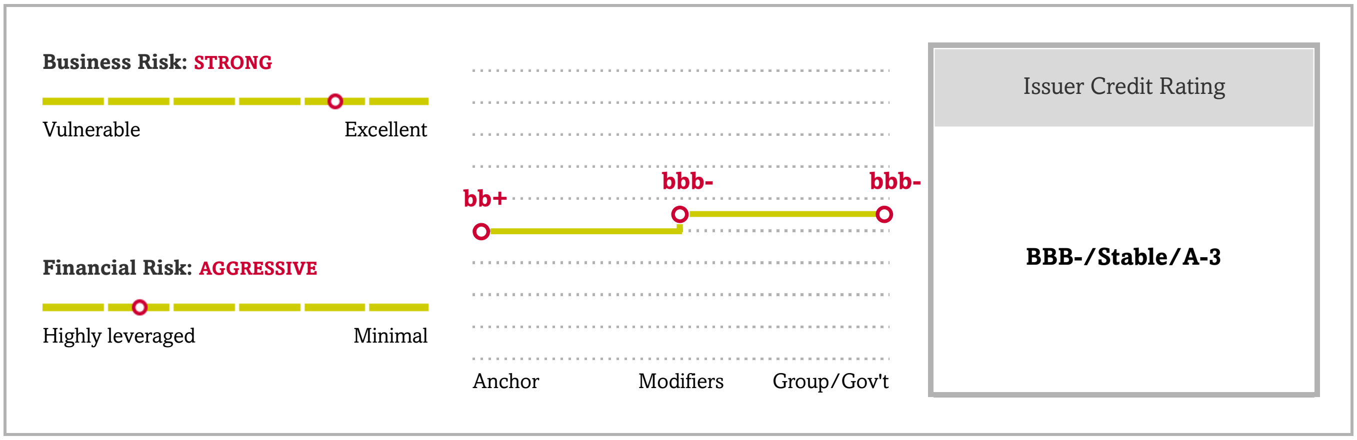
EDP - Energias de Portugal S.A.



Credit Highlights

Overview

Key Strengths	Key Risks
Dominant electric utility in Portugal in a still-supportive regulatory environment.	Limited rating headroom after slower-than-expected deleveraging.
A high share of cash flows from networks, renewable activities, and long-term contracted asset-based operations.	Lack of visibility on impacts from the China Three Gorges' full takeover offer for EDP in May 2018.
Significant degree of business and geographic diversification.	Significant exposure to merchant risk following full liberalization of the power generation market in Iberia at end-2017.
A low-carbon and modern generation fleet.	Exposure to foreign exchange risk through its operations in Brazil and the U.S.
Proactive liability management that allows cost-of-debt reduction with refinancing needs covered beyond 2020.	

EDP generates stable and predictable cash flows. This is because a high share of cash flows stem from networks, renewable activities, and long-term contracted asset-based operations. These activities should represent about 75% of 2018 EBITDA.

EDP has limited headroom within the ratings, due to slower-than-expected deleveraging resulting from challenging hydro conditions in Iberia in 2017 and an unfavorable regulatory review for power distribution in Portugal. EDP sold its gas distribution activities in Spain and Portugal worth more than €3.0 billion in 2017, of which €200 million will be received over 2018-2022. However, the difficult hydro conditions in Iberia and unfavorable regulatory review for power distribution in Portugal in January 2018 (with an impact of €150 million) materially slowed down the expected deleveraging process. We therefore now expect EDP to achieve adjusted funds from operations (FFO) to debt of about 16% only in 2019 rather than in 2018.

The potential takeover offer for EDP by China Three Gorges (CTG) has uncertain credit implications. On May 11, 2018, the Chinese state-owned power company CTG announced an all-cash tender offer for 76.7% of EDP. The credit consequences for EDP's stand-alone credit quality are uncertain, and will depend on the financial policy of the resulting structure. CTG has publicly committed to maintaining EDP's investment-grade status. It is too early to tell, because the process might be lengthy in light of the different regulatory approvals needed.

EDP faces some exposure to merchant and hydro risk, affecting about 25% of EBITDA, following the full liberalization of the power generation market in Iberia in July 2017. As of July 2017, EDP's power generation activities in Portugal, previously remunerated under the stable and predictable Contractual Equilibrium Maintenance Cost (CMEC) mechanism, were fully liberalized. This creates additional cash flow volatility that can significantly affect its results, as was already demonstrated in 2017.

Outlook: Stable

The stable outlook on integrated power company EDP - Energias de Portugal S.A. reflects our expectation that its financial risk profile will continue to strengthen over the next two years on the back of an improving operating performance. This should lead to FFO to debt of close to 16% in 2019. Management's perceived commitment to maintaining the investment-grade rating, and its policy to bring reported debt to EBITDA down further by 2020, underpin the outlook. We continue to monitor the evolution of CTG's takeover offer, and its potential impact on EDP's credit quality.

Downside scenario

We could downgrade EDP if FFO to debt does not improve as expected and stays materially below 16% through to the end of 2019. This could be prompted by, for example, continuously challenging conditions in the Iberian power generation market, a material heightening of Portuguese and secondarily Brazilian country risk (including adverse regulatory or fiscal effects), inability to effectively securitize tariff deficits or achieve its asset-rotation target in 2020, or debt-financed acquisitions significantly beyond that included in our base case.

Upside scenario

We see ratings upside as remote over the next two years since it would require EDP to achieve FFO to debt above 20% by the end of 2019, which is highly remote in our base case scenario.

Our Base-Case Scenario

Assumptions

- Real GDP growth in Portugal of 2.3% in 2018, 1.9% in 2019, and 1.7% in 2020. Real GDP growth for Spain of 2.7% in 2018, 2.4% in 2019, and 2.1% in 2020.
- A gradual recovery in economic growth and therefore electricity consumption in Iberia. This could minimize affordability issues, allow a cut in the electricity system's costs, and a moderate increase in the system's revenues. This would reduce the outstanding tariff deficit in Portugal, which was €4.7 billion as of Dec. 31, 2017.
- Continued structural oversupply of the liberalized power market in Iberia, although market conditions will improve slightly, with forward power prices remaining at about €50 per megawatt hour over 2019-2020. EDP's hedging strategy allows it to hedge 70%-80% of the electricity volumes in Iberia over the next 12-18 months.
- Reported EBITDA at about €3.4 billion in 2018 (down from about €3.8 billion in 2016) following the sale of gas distribution assets in Spain and Portugal, and regulatory cuts in Portugal. EBITDA will then increase at a compound annual growth rate of 3% over 2019-2020, supported by capacity additions in the subsidiary EDP Renovaveis, a recovery in the energy markets in Spain, new power transmission investments in Brazil, and resilient operating performance at EDP Brazil and in the Iberian power networks.
- We assume about €1 billion of securitization in 2018 and €500 million in 2019-2020, as per EDP's business plan.
- Income taxes averaging €280 million over 2018-2020 and the rollover until 2020 of the €70 million extraordinary levy.
- Net capex of about €1.7 billion over 2018-2020.
- Average dividend payout (including dividends to minority shareholders) averaging €800 million over 2018-2020.
- Investment of Bazilian real (BRL) 3.1 billion for power transmission lines in Brazil over 2019-2022.

Key Metrics

	2017A	2018E	2019E
EBITDA (bil. €)*	3.5	3.4-3.5	3.7-3.8
FFO (bil. €)*	2.6	2.6-2.7	2.8-2.9
Capex (bil. €)*	1.9	1.6-1.7	1.6-1.7
Dividends (mil. €)*	851	800-900	800-900
Debt (bil. €)*	18.5	17.5-18.5	17.5-18.5
FFO to debt (%)*	13.9	14.2-15.0	15.5-16.0
Debt to EBITDA (x)*	5.3	4.8-5.3	4.5-5.0

* All figures are S&P Global Ratings adjusted.

A--Actual. E—Estimate

Base-case projections

We expect EDP's 2018 adjusted FFO to debt to be lower than the level of about 16% requested for the current rating. The utility's third-quarter 2018 results were affected by foreign exchange rate and regulatory changes. Reported EBITDA for the first nine months of 2018 was €2.4 billion, €860 million lower than the same period of 2017, due to the Iberian gas network disposals and tariff update in January 2018 for power distribution. Reported net debt increased to €14.5 billion as of September 2018 (versus €13.9 billion as of end-2017), with additional capex spent on renewables.

EDP's 2018 net profits will be lower than last year, partly affected by the likely need to pay back alleged overcompensation from CMEC. EDP's net net profit for the first nine months of 2018 was €297 million versus €1,147 million a year ago), impacted by a €285 million provision and translations from last year's €514 million one-off from the sale of the Iberian gas networks. The company booked this provision to pay back the alleged overcompensation it could be charged for having allegedly having received overcompensation under the Contractual Equilibrium Maintenance Cost mechanism. This has no immediate rating implications (see "EDP's Payback Of Alleged Overcompensation From CMEC Would Reduce Financial Headroom, But Has No Immediate Rating Impact," published Oct. 16, 2018, on RatingsDirect.

Company Description

EDP– Energias de Portugal, S.A. is a vertically integrated utility company. It is the largest generator, distributor, and supplier of electricity in Portugal, the third-largest electricity generation company in the Iberian Peninsula.

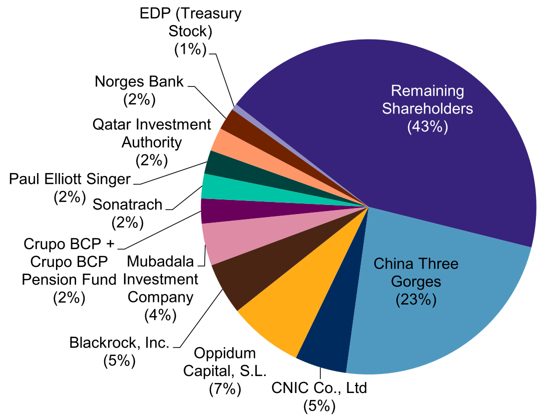
EDP is one of the largest wind power operators worldwide, with wind farms for energy generation in the Iberian Peninsula, the U.S., Canada, Mexico, Brazil, France, Belgium, Italy, Poland, and Romania. Additionally, EDP generates solar photovoltaic energy in Portugal, Romania, and the U.S.

In Brazil, EDP is the fourth-largest private operator in electricity generation, has two electricity distribution concessions (EDP São Paulo Distribuição de Energia and EDP Espírito Santo Distribuição de Energia), is the fourth-largest private supplier in the liberalized market and recently entered power transmission activity.

As of Sept. 30, 2018, EDP had an installed capacity of 27.0 gigawatts (GW) and generated 54.1 terrawatt hours (TWh) of electricity, around 66% of which comes from renewables.

Chart 1

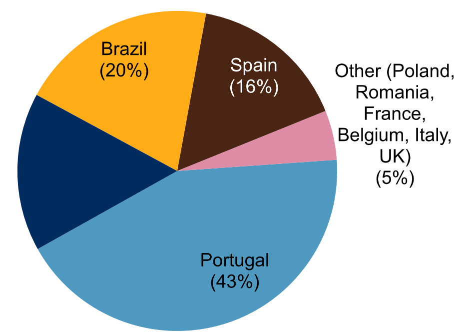
EDP Shareholding Structure 2018



e--Estimate. Source: S&P Global Ratings.

Chart 2

EDP Geographic Split 2018



e--Estimate. Source: S&P Global Ratings.

Business Risk: Strong

Strong position in regulated and renewable segments

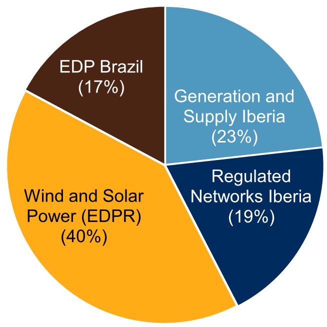
Our view of EDP's strong business risk profile remains supported by the very large contribution to regulated cash flows from its power electricity networks in Iberia and Brazil and from long-term contracted renewable activities at EDPR. We estimate that these, combined, should contribute more than 70% of consolidated EBITDA by 2020.

EDP also has a strong position in its key markets, being the largest generator, distributor, and supplier of electricity in Portugal, and the third-largest electricity generation company in the Iberian Peninsula. Our assessment also reflects EDP's cost discipline and solid operating performance, as well as the group's significant global scale and low-cost, low carbon-intensive, diversified, and modern generation portfolio (including a leading global position in wind energy). Moreover, EDP benefits from significant diversity, with 57% of its EBITDA in the first nine months of 2018 generated outside Portugal, mainly in Spain, Brazil, and the U.S.

Key relative weaknesses include EDP's exposure to uncertain and volatile power prices in Iberia, as well as its above-average country risk exposure to Brazil.

Chart 3

EDP EBITDA By Segment 2018



e--Estimate. Source: S&P Global Ratings.

High share of cash flows networks, renewable activities, and long-term contracted asset-based operations

We expect EDP to generate about 75% of 2018 EBITDA from network and renewable activities, as well as long-term contracted asset-based operations. We also expect that results should benefit from the remaining useful life on contracts (in excess of 10 years, on average), which leads to above-average visibility on future earnings.

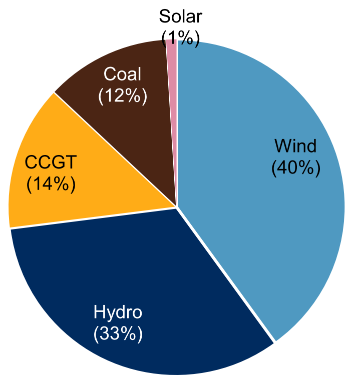
EDP's position is also underpinned by its strong standing in its key markets, being the largest generator, distributor, and supplier of electricity and the third-largest electricity generator in Iberia.

A low-carbon and modern generation fleet, with about 75% of capacity coming from renewable sources

EDP benefits from a low-carbon and modern generation fleet, with about 75% of installed capacity and 66% of power production coming from renewables. We note that EDP, through its subsidiary EDPR, is the fourth-largest renewable operator in the world, with a geographical footprint in Europe, notably Iberia, North America, and Brazil. As of September 2018, EDP had 0.9GW of renewable production under construction.

Chart 4

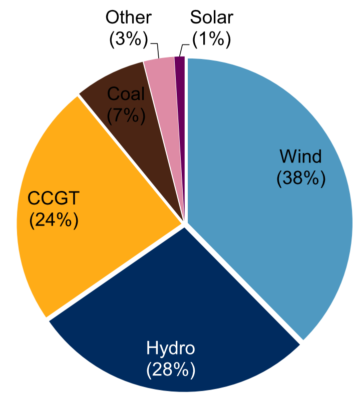
EDP Installed Capacity By Technology (GW) 2018



e--Estimate. Source: S&P Global Ratings.

Chart 5

EDP Electricity Production By Technology (TWh) 2018



*Other = cogeneration, biomass, and nuclear) e--Estimate. Source: S&P Global Ratings.

Some exposure to merchant risk following the full liberalization of the power generation market in Iberia in July 2017

Key weaknesses include EDP's rising exposure to uncertain and volatile power prices in Iberia as well as to hydro levels, since Iberian power capacity is fully exposed to market prices given the expiration of the CMEC mechanism in June 2017. This was particularly evident in 2017, when the recurring EBITDA for generation and supply Iberia declined 44% year on year notably on lower hydro production and lower margins.

We expect that the liberalized power market in Iberia will remain structurally oversupplied, but market conditions will improve slightly, with forward power prices remaining at about €50 per megawatt hour over 2019-2020.

Peer comparison

Table 1.

EDP - Energias de Portugal S.A. -- Peer Comparison

Industry Sector: Energy

	EDP - Energias de Portugal S.A.	Naturgy Energy Group S.A.	Iberdrola S.A.	Enel SpA
Rating as of Nov. 30, 2018	BBB-/Stable/A-3	BBB/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2
	--Average of past three fiscal years--			
(Mil. €)				
Revenues	15,286.0	24,168.3	30,632.4	73,226.3
EBITDA	3,567.8	4,589.0	7,532.7	14,649.6
Funds from operations (FFO)	2,398.5	3,293.5	5,896.0	10,207.0
Net income from cont. oper.	995.5	1,238.7	2,727.9	2,848.3
Cash flow from operations	2,438.2	3,197.9	5,441.1	10,224.6
Capital expenditures	1,890.9	1,889.3	5,114.0	8,367.7
Free operating cash flow	547.3	1,308.5	327.2	1,857.0
Discretionary cash flow	(291.4)	43.0	41.3	(834.5)

Table 1.

EDP - Energias de Portugal S.A. -- Peer Comparison (cont.)

Industry Sector: Energy

	EDP - Energias de Portugal S.A.	Naturgy Energy Group S.A.	Iberdrola S.A.	Enel SpA
Cash and short-term investments	1,635.4	2,557.6	1,930.3	8,503.9
Debt	20,179.4	18,609.6	34,035.9	46,456.5
Equity	13,562.6	17,748.7	41,029.5	54,502.5
Adjusted ratios				
EBITDA margin (%)	23.3	19.0	24.6	20.0
Return on capital (%)	6.2	7.0	5.2	9.1
EBITDA interest coverage (x)	3.8	5.2	5.9	5.3
FFO cash int. cov. (X)	3.6	5.0	6.4	3.0
Debt/EBITDA (x)	5.7	4.1	4.5	3.2
FFO/debt (%)	11.9	17.7	17.3	22.0
Cash flow from operations/debt (%)	12.1	17.2	16.0	22.0
Free operating cash flow/debt (%)	2.7	7.0	1.0	4.0
Discretionary cash flow/debt (%)	(1.4)	0.2	0.1	(1.8)

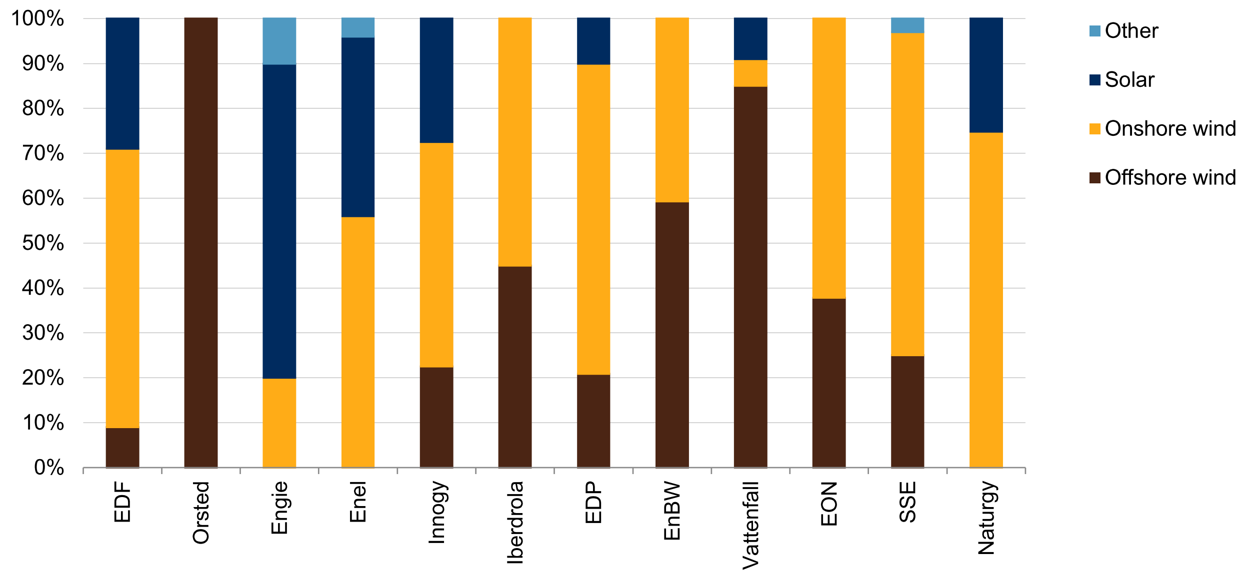
N.M. - Not Meaningful.

We view EDP's business risk profile as weaker than the other global integrated utilities in table 1. EDP is the smallest of these, with an adjusted EBITDA of €3.5 billion as of end-2017. At the same time, EDP has a lower contribution from pure network activities (about 30% of 2018e EBITDA), which is above 50% for Iberdrola, Naturgy, and Enel.

EDP enjoys a higher production from renewable sources than Enel and Naturgy, being one of the global leaders in renewable production. EDP will continue to invest in renewables, with onshore and offshore wind, representing about 90% of the growth investments until 2020 (see chart 6).

Chart 6

EDP Pipeline Split By Technology 2018



e--Estimate. Source: S&P Global Ratings.

Financial Risk: Aggressive

EDP has currently limited rating headroom, as we also mentioned in our latest report "EDP's Payback Of Alleged Overcompensation From CMEC Would Reduce Financial Headroom, But Has No Immediate Rating Impact" published Oct. 16, 2018. EDP credit metrics are strained because of its sizable debt due to major growth-related capital spending, continued generous dividends and a delay to its deleveraging plans.

Delay in deleveraging plan despite material disposals in 2017

EDP sold its gas distribution networks in Iberia for above €3.0 billion in 2017, €200 million of which is to be received over 2018-2022. However, challenging hydro conditions in Iberia and an unfavorable regulatory review for power distribution in Portugal in January 2018 (with an impact of €150 million) materially slowed the expected deleveraging process. For this reason, we now expect EDP to achieve an adjusted FFO to debt of about 16% in 2019 rather than in 2018 previously (see “Portuguese Utility EDP Upgraded To 'BBB-/A-3' On Expected Debt Reduction And Financial Discipline; Outlook Stable,#? published on Aug. 8, 2017).

However, following the disposals, adjusted debt declined to €18.5 billion from €20.8 billion in 2016. We expect EDP to continue to gradually reduce its debt burden, mainly thanks to an increase in EBITDA, which should lead to an adjusted debt of about €18.0 billion in 2019. This, coupled with the aforementioned growth in EBITDA, should result in an adjusted FFO to debt of about 16%, which is commensurate with the rating. In our base case, EDP will face difficulty reaching its net debt to EBITDA target of about 3.0x in 2020.

Uncertain credit implications following the China Three Gorges full takeover offer in May 2018

In its preliminary announcement for the launch of the general and voluntary tender offer for the acquisition of the EDP shares, CTG clearly stated its intention to continue contributing to the long-term sustainable development and growth of EDP. It stated possible asset injections to further strengthen EDP's market position. These would aim to rationalize the combined business portfolios and potentially enhance EDP's credit profile through the reduction of its leverage ratio and cost savings. CTG publicly stated its intention to reinforce EDP's credit profile and ensure it maintains at least an investment-grade rating in line with its current one.

That said, we also see two main factors that could adversely affect EDP's stand-alone credit quality:

- Acquisition debt. Notwithstanding CTG's track record of not leveraging the target for the acquisition, depending on how the financing of the proposed acquisition will be structured, we may extend the scope of consolidation of EDP. This would aim to fully capture the debt that needs to be serviced by EDP's cash flows. Ultimately, such additional debt could deteriorate credit metrics and our assessment of the group's financial risk profile, which may lower our assessment of EDP's stand-alone credit profile.
- Change in financial policy. Similarly, a change of financial policy toward more aggressive shareholder remuneration or debt-financed acquisitions to accelerate growth could be detrimental to EDP's SACP. However, we understand that EDP currently has a financial policy targeting a 'BBB' rating, which is aligned with the intention stated by CTG's preliminary announcement to enhance EDP's credit profile by reducing its leverage ratio.

Proactive liability management allowing cost of debt reduction with refinancing needs covered beyond 2020

EDP was able to proactively reduce its cost of debt, owing to liability management, with the average cost of debt declining by 40 basis points (bps) to 3.7% in September 2018.

Moreover, the recent debt issues allow EDP to cover its refinancing needs beyond 2020.

Financial summary

Table 2

EDP - Energias de Portugal S.A. -- Financial Summary					
Industry Sector: Energy					
	--Fiscal year ended Dec. 31--				
	2017	**2016**	**2015**	**2014**	**2013**
Rating history	BBB-/Stable/A-3	BB+/Positive/B	BB+/Positive/B	BB+/Stable/B	BB+/Watch Neg/B
(Mil. €)					
Revenues	15,746.0	14,595.2	15,516.8	16,293.9	16,103.2
EBITDA	3,458.4	3,753.9	3,491.0	3,393.4	3,543.8
Funds from operations (FFO)	2,559.1	2,216.5	2,419.8	2,534.0	2,500.4
Net income from continuing operations	1,113.2	960.6	912.7	1,040.4	1,005.1
Cash flow from operations	1,657.3	3,346.2	2,311.0	2,478.6	2,759.5
Capital expenditures	1,887.7	2,032.8	1,752.0	1,567.4	2,129.4
Free operating cash flow	(230.4)	1,313.4	558.9	911.1	630.1

Table 2

EDP - Energias de Portugal S.A. -- Financial Summary (cont.)					
Dividends paid	850.9	864.0	801.3	795.7	829.8
Discretionary cash flow	(1,081.3)	449.4	(242.4)	115.4	(199.7)
Debt	18,454.4	20,827.1	21,256.6	21,601.2	21,025.5
Preferred stock	375.0	375.0	375.0	0.0	0.0
Equity	13,937.9	14,192.1	12,557.8	11,996.2	11,140.5
Debt and equity	32,392.2	35,019.2	33,814.4	33,597.4	32,166.0
Adjusted ratios					
EBITDA margin (%)	22.0	25.7	22.5	20.8	22.0
EBITDA interest coverage (x)	4.1	4.0	3.4	3.2	3.4
FFO cash int. cov. (x)	4.2	3.3	3.4	3.5	3.8
Debt/EBITDA (x)	5.3	5.5	6.1	6.4	5.9
FFO/debt (%)	13.9	10.6	11.4	11.7	11.9
Cash flow from operations/debt (%)	9.0	16.1	10.9	11.5	13.1
Free operating cash flow/debt (%)	(1.2)	6.3	2.6	4.2	3.0
Discretionary cash flow/debt (%)	(5.9)	2.2	(1.1)	0.5	(0.9)
Net Cash Flow / Capex (%)	90.5	66.5	92.4	110.9	78.5
Return on capital (%)	6.1	6.5	5.9	6.4	6.7
Return on common equity (%)	11.4	10.0	9.6	10.2	10.4
Common dividend payout ratio (un-adj.) (%)	62.0	88.3	87.8	76.5	82.6

N.M. - Not Meaningful.

Liquidity: Strong

We view EDP's liquidity as strong, reflecting the group's proactive financing and healthy cash-flow generation. In particular, projected sources of liquidity--mainly operating cash flow and available bank lines--exceed projected uses (mainly necessary capex, debt maturities, and dividends) by more than 1.5x for the next 24 months. Our assessment of EDP's liquidity position is further supported by the company's strong bank relationships, prudent financial discipline, and proven access to the debt capital markets under better conditions than the sovereign.

Principal Liquidity Sources	Principal Liquidity Uses
(As of Sept. 30, 2018) • Unrestricted cash of about €1.0 billion; • About €5.0 billion in available committed lines maturing beyond 12 months; in particular, EDP has a €3.3 billion revolving credit facility (RCF) maturing in 2023 and a €2.24 billion RCF maturing in 2023, which is partially used; and • Forecast cash FFO of about €2.7 billion over the next 12 months.	(As of Sept. 30, 2018) • Short-term debt of about €1.7 billion maturing in the next 12 months and €2.3 billion in the following 12 months, including subsidiaries' short-term debt; • Estimated €1.7 billion of committed net capex; and • Dividend payments of about €800 million, including dividends to subsidiaries' minority shareholders.

Debt maturities

- 2018: €0.6 billion
- 2019: €2.0 billion
- 2020: €2.0 billion
- 2021: €1.9 billion
- 2022: €1.5 billion
- 2023 and thereafter: €7.8 billion

Environmental, Social, And Governance Factors

Governance factors are relevant to our credit analysis of EDP, environmental and social less so. From an environmental standpoint, EDP is a pioneer and a world-leading player in renewable energy generation. More than 75% of its 2017 installed capacity comes from renewables (mostly hydro and solar) and it has a significant investment pipeline of further expansion in the coming years at its subsidiary EDPR. Only 12% of its installed capacity is coal, which we expect to be gradually phased out in Iberia in the coming 20 years. Socially Responsible Investors (SRI) hold 4.9% of EDP social capital. Norges Bank Invesrment Management is EDP's major SRI investor, and combines traditional interests with environmental, social, and governance concerns.

Following the CTG's pending takeover offer, the governance factor has become more relevant as EDP's strategic plan update was delayed and has not been updated since 2016. Despite EDP being the incumbent energy player in Portugal, the company has faced many adverse political actions, which weigh negatively on the visibility of the company's cash flow profile. These include the redefinition of the CMEC, namely the Portuguese government recently requesting EDP to pay back alleged overcompensation for the CMEC.

Other Credit Considerations

EDP Brazil has its own independent management, a stand-alone funding model, and accounts for less than 20% of EDP's EBITDA. All debt issued in Brazil is completely ring-fenced and nonrecourse to EDP.

Issue Ratings - Subordination Risk Analysis

Capital structure

EDP's policy is to issue all debt at the parent company (via its financial subsidiaries) and lend the proceeds to its operating companies. Our calculation of structural subordination is 14%, however, because of the amount of operating debt at the subsidiaries (trade payables and pensions). We believe that EDP's size, diversity of cash flow generation, and direct ownership of a fair amount of operating assets offer a strong mitigant to structural subordination issues.

Analytical conclusions

The issue rating on EDP's senior unsecured debt is 'BBB-', in line with the issuer credit rating, since no significant elements of subordination risk are present in the capital structure.

Reconciliation

Table 3

Reconciliation Of EDP - Energias de Portugal S.A. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2017--								
EDP - Energias de Portugal S.A. reported amounts									
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	17,630.6	9,545.9	3,993.6	2,317.9	735.6	3,993.6	2,235.6	830.8	1,921.0
Standard & Poor's adjustments									
Interest expense (reported)	--	--	--	--	--	(735.6)	--	--	--
Interest income (reported)	--	--	--	--	--	105.4	--	--	--
Current tax expense (reported)	--	--	--	--	--	(178.4)	--	--	--
Operating leases	706.7	--	84.1	48.0	48.0	36.1	36.1	--	--
Intermediate hybrids reported as debt	(375)	375.0	--	--	(20.2)	20.2	20.2	20.2	--
Postretirement benefit obligations/deferred compensation	990.6	82.6	18.2	18.2	44.7	(60.8)	82.1	--	--
Surplus cash	(2,343.9)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	33.3	(33.3)	(33.3)	--	(33.3)

Table 3

Reconciliation Of EDP - Energias de Portugal S.A. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. €) (cont.)

Share-based compensation expense	--	--	1.4	--	--	1.4	--	--	--
Dividends received from equity investments	--	--	32.4	--	--	32.4	--	--	--
Asset retirement obligations	326.8	--	6.0	6.0	6.0	6.4	0.4	--	--
Non-operating income (expense)	--	--	--	116.9	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(683.8)	--	--
Non-controlling Interest/Minority interest	--	3,934.3	--	--	--	--	--	--	--
Debt - Guarantees	361.6	--	--	--	--	--	--	--	--
Debt - Fair value adjustments	(94.4)	--	--	--	--	--	--	--	--
Debt - Put options on minority stakes	2.2	--	--	--	--	--	--	--	--
Debt - Tax Liabilities	1,249.1	--	--	--	--	--	--	--	--
EBITDA - Gain/(Loss) on disposals of PP&E	--	--	16.4	16.4	--	16.4	--	--	--
EBITDA - Business Divestments	--	--	(624.3)	(624.3)	--	(624.3)	--	--	--
EBITDA - Other	--	--	(69.2)	(69.2)	--	(69.2)	--	--	--
D&A - Impairment charges/(reversals)	--	--	--	250.1	--	--	--	--	--
FFO - Other	--	--	--	--	--	49.1	--	--	--
Total adjustments	823.8	4,391.9	(535.2)	(238.0)	111.8	(1,434.5)	(578.3)	20.2	(33.3)
Standard & Poor's adjusted amounts									
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	18,454.4	13,937.9	3,458.4	2,079.9	847.4	2,559.1	1,657.3	850.9	1,887.7

Ratings Score Snapshot

Issuer Credit Rating

BBB-/Stable/A-3

Business risk: Strong

- **Country risk:** Intermediate
- **Industry risk:** Intermediate

- **Competitive position:** Strong

Financial risk: Aggressive

- **Cash flow/Leverage:** Aggressive

Anchor: bb+

Modifiers

- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : bbb-

- **Group credit profile:** bbb-
- **Related government rating:** BBB-

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology And Assumptions: Assigning Equity Content To Hybrid Capital Instruments Issued By Corporate Entities And Other Issuers Not Subject To Prudential Regulation, Jan. 16, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- EDP's Payback Of Alleged Overcompensation From CMEC Would Reduce Financial Headroom, But Has No Immediate Rating Impact; Oct. 16, 2018
- The China Three Gorges-EDP Deal: What Are The Potential Credit Implications?; May 18, 2018
- China Three Gorges Corp.'s Proposed EDP Acquisition Will Stretch Its Financial Metrics But Has No Rating Impact, May 16, 2018
- Full Analysis: China Three Gorges Corp., Dec. 14, 2017
- Portuguese Utility EDP Upgraded To 'BBB-/A-3' On Expected Debt Reduction And Financial Discipline; Outlook Stable; Aug. 8, 2017
- Why We See Spain's Electricity And Gas Regulatory Frameworks As Mostly Supportive, May 11, 2017

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	Significant	**Aggressive**	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	**bb+**	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of November 30, 2018)

EDP - Energias de Portugal S.A.	
Issuer Credit Rating	BBB-/Stable/A-3
Commercial Paper	
Local Currency	A-3
Junior Subordinated	BB
Senior Unsecured	BBB-
Short-Term Debt	A-3
Issuer Credit Ratings History	
08-Aug-2017	BBB-/Stable/A-3
30-Jan-2015	BB+/Positive/B
28-Jan-2014	BB+/Stable/B

Ratings Detail (As Of November 30, 2018) (cont.)	
Related Entities	
EDP Finance B.V.	
Issuer Credit Rating	BBB-/Stable/A-3
Commercial Paper	
Local Currency	A-3
Senior Unsecured	BBB-
Short-Term Debt	A-3

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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