EDP - Energias de Portugal
Friday, 3rd March 2017
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Chaired by António Mexia

Company Participants

- **António Mexia, Chief Executive Officer**
- **Nuno Alves, Chief Financial Officer**
- **Miguel Viana, Head of Investor Relations**

António Mexia:

Hello, good morning, everybody. Thanks for being on the phone for the conference call on our 2016 results. And my first words would be to highlight that I like the figures that we have in front of us. We have full delivery of all our commitments for the year in all the key financial metrics. And the first page, I think, it shows it rather well. In May, when we met during Investors Day, we had given a guidance that was already at that moment slightly above consensus. We revised the guidance in July, and we now present the figures that in all lines are better than the guidance that we have given revised in July.

I think it's important to show that this comes not only from above the line and also from below the line. I know that there are people that don't like below the line especially when there are positives but clearly, you have to deliver this, deliver above the line and we will see that we have done it and we have also delivered, and to deliver, you need to do it below the line. So, let's go through this presentation and to show exactly why I mean that these figures are good.

Our EBITDA reached €3.759 billion supported by good performance of energy management, hydro production in Iberia and the 6% increase in average installed capacity reflecting the commissioning of new hydro and wind capacity. Our net profits stood also above our provision guidance reaching €961 million benefiting from the outperformance at EBITDA level but also the 14% decline of interest costs.

Below EBITDA in 2016, we have several negative one-offs on financial results, mostly related to the anticipated payments of some more expensive debt and the similar amount of positive one-offs at the tax level which together compensate each other resulting in almost neutral impact at net profit level.

So, basically, I believe that a lot of today will be about one-offs and about debt. And so, let's start with the debt. We have also outperformed on our commitment for net debt, of course, strongly due to strong free cash flow generation and the 62% decline on regulatory receivables, taking advantage of the strong appetite in credit markets for tariff deficit sales.

Let me help you in these figures. When you see the €15.9 billion, you have to consider four elements that I would like to stress. The first one is €300 million extra payment in terms of taxes where obviously not only it's already paid, but due to the fact that they have a positive interest in present value. We are doing what we need to do management-wise so it was a management decision that creates value. But of course, in the short term, you see this impact in the debt side of €300 million. But it makes all the sense.

The second is that €100 million provisions that were transferred to the pension fund, and everybody knows, or at least they should know, EV doesn't change, and in any case, it's positive. We have also €100 million of prepayment of debt or early debt and more expensive that I believe it's also, again, a good management decision, and it should be taken into account.

Finally, you have €300 million of FX effect. So, clearly you have €800 million, €500 million of them that makes a lot of sense management-wise. It was a decision that we've taken that creates value for the shareholders, and of course, the fact is – so trying to read these without taking in attention what makes sense for the shareholder in value creation, I believe it's not the best way to look at it.

So, in what concerns the dividend, I think also the last line in the first page, as we have stated, we proposed an increase of 3% to €0.19 per share. That corresponds to a payout of 72% inside the target payout range positive. So, we are doing exactly what we have committed in May, once again, in Investors Day. And I believe that we have been doing this for the last 10 years. So, I think it should be reassuring that when people do what they say for a decade, I think it's – especially at the dividend policy but everywhere, it helps a lot on people feeling relaxed.

In what concerns slide 2, let's start with recurring EBITDA. We can see that excluding one-offs, recurring EBITDA grew 6% based on the portfolio expansion and efficiency improvement, and including a 1% negative impact from forex. Let's move business by business. EDP Brazil recurring EBITDA reflect a 4% average depreciation of the real versus the euro. And then a 3% decrease of recurring EBITDA in local currency, penalized by demand decline in distribution in the regions where we operate, but it was overall in Brazilian markets.

EDPR, contribution to EDP increased 8% as a result of an 11% increase on average installed capacity and wind volumes 4% below historical levels. So, sometimes we speak about weather and we have seen people have talked a lot and we have talked a lot about rain in the beginning of the year. But then we have lower wind than usual and as we see in the last quarter was also weather-wise, was not fantastic. So, it's important to see what was recurrent and non-recurrent. And clearly, in EDPR, we have this effect.

Regarding our Iberia business, it grew by 9% above the EBITDA growth of the whole group, supported by the strong contribution of energy management, the growth in other production, the increase on regulated revenues in electricity distribution in Spain. I think it's a good news also where our market share, in terms of new revenues, was much bigger than our market share in terms of the part of the segment we have, and finally the good performance in terms of operating cost as we can see in the next page.

So, moving into costs, in terms of efficiency, the measures associated to our OpEx IV achieved €15 million of savings in 2016, 22% above the target presented last night. Once again, this good performance was supported by all key business area. In Iberia, which represents 58% of our operating cost, total OpEx remained flat despite the 1% increase of average installed capacity, and a 2% in number of customers.

At EDPR, the ratio or OpEx per megawatt installed decreased by 5% reflecting not only the economies of scale, but also the good results from the insourcing strategy of parts of the O&M services mainly in U.S. Finally in Brazil, operating cost in local on a pro forma base decreased 2% year-on-year when adjusted for inflation, as a result of 4% increase of pro forma OpEx in local currency and 6.2% inflation in the same period. So, I think that I'd like to talk about cost because we have now the ratio of the net OpEx of the gross margin on 27%, the lowest ever and I believe that clearly a reference in the industry.

Let's move into slide 4 with net interest cost. Last year was also marked by a steady decline of net interest cost, 14 percentage reduction as a result of a 5% decline on average debt and a 30 basis points reduction on average cost of debt. As you can see in the chart, we continue to access the credit market for long-term maturity at the marginal cost of debt much lower than the 4.4 average cost of debt showed in 2016 and also, clearly below the 5% average of our debt that was reached and will reach maturity in 2016 and 2017.

Taking into consideration the prepayment of some of the more expensive debts over 2016 and 2015, namely through the bond buyback closed in the last quarter and the prepayment of project finance at EDPR and EDP regional levels, we expect to decrease our average cost of debt to 4.3 in 2016. So, I think that clearly it was a good year in what concerns liability management.

On slide 5, let's go to the second topic that I like to address here, clearly after that, recurring net income. And we have two ways to show it, on the left and on the right. Let's start on the left. Net profit amounted to €961 million, standing 5% above 2015. There are several non-recurring impacts in 2016 that we, hereby, detail. They are positive, they are negative, as most of them offset each other. Their ultimate impact on net profit is only nearly €40 million, corresponding to capital gain both in the sale of Pantanal in Brazil and of our stake in Tejo Energia that, by the way, were already foreseen and mentioned in May.

On top of this, there are additional costs with impairments and costs related with prepayment on more expenses with offset non-recurrent impact at tax level. We have already talked about that I have lower tax accounting but I have cashed out because it creates value. So, I think this is important for people who recognize the impacts at P&L and also at the balance sheet. So, I think that we end up with recurring net profit of €919 million.

So, moving into the right, if you see, we have an increase of 23% of €169 million supported mainly, as you can see, by the growth of recurring EBITDA but also by the improvement of recurring financial results. At EBITDA level, there was a significant contribution from our Iberian operations as we have already mentioned, demonstrating the value of portfolio diversification.

As to the recurring financial results, the contribution to earnings growth was prompted by the 14% decline on net interest cost which offset the reduction in financial revenues related to regulatory receivables and assets and the construction.

But let's take another 30 seconds. Even if you put the recurring net profit at €850 million, a figure that, by the way, we have mentioned in May, taking into consideration the hydro situation, basically, you would have also 8% increase on recurring net profit. So, you can pick those numbers, either 8%, either 23%. In any case, both of them are clearly above the 2% that we have commitment on average to grow between 2016 and 2020 in the business plan. So, whatever the perspective, whatever the view point, we are clearly above what we have committed last night.

Outlook for 2017. We continue highly confident that we will continue to deliver financial performance, fully consistent with the targets established in the business plan. 2016 has proved it very strongly, and we feel comfortable to do this until 2020. In Iberia, our EBITDA performance will benefit from further growth on activity. In generation, average hydro capacity will continue to increase with one hydro plant commission in the first quarter of 2017, and the last one, that still remains under construction expected to be commissioned by the summer.

In the supply business, we continue to see low single digit in terms of the number of contracts. In terms of market environment, we will have a test year-on-year comparison the strong performance in 2016. Of course, it's raining a lot and a lot of wind outside the room where we are speaking.

Although the market environment in the first two months of 2017 marked by low hydro were not favorable to our portfolio, hydro, we don't anticipate any deviation from our previous expectation for 2017. Let's be clear, given our strong hedging positions for the year, namely in terms of fuel procurement costs and increasing EBITDA contribution from our thermal plants. We will continue to also focus on delivering our commitment in terms of control of operating costs, not only in Iberia but in all the subsidiaries.

At EDP Renewables level, the expected increase between 7% and 9% of the average installed capacity benefiting from the capacity additions in 2016 and 2017 will support a sound EBITDA growth. While at the level of EDP Brazil, the positive impact from Escelsa review will support EBITDA growth in distribution, and in Euro terms, we expect a positive impact from the Brazilian real appreciation, taking into consideration the strong performance versus the euro over the first two months of the year.

So, clearly, what we have seen at the first two months is the portfolio value. The fact that we have a diversified portfolio has been very important for us in the past, it's important in the present and it is important for the future. At earning levels, as we have already said, we expect further positive contribution from the decline in the average cost of debt expected to decrease at least 10 basis points.

So, moving to slide 7, and I would like to say on track to deliver the 2020 targets. We are clearly very well on track. So, I would say we are more advanced than we expected in May in what's concerned delivering those targets. The delivery of renewables capacity additions continues evolving as scheduled in terms of timing and as budget in terms of cost supporting and the growth of recurring EBITDA. Note that the growth of 6% in 2016 is the double of our target, as I already mentioned.

Regarding the leverage, we moved faster than plan regarding the reduction of regulatory receivables, taking advantage of the market conditions. So, improving significantly our non-adjusted net debt-to-EBITDA ratio and reducing our absolute net debt figure by 8%.

So, I think that nevertheless, the negative forex impact on both sides, net debt and EBITDA, the anticipation of CapEx in other to secure comfortable “safe harbor” growth options in U.S. that we have been explaining in the area of renewable, and third, some one-off tax and pension plan payments implied at our adjusted net debt remains still just slightly below for tax, but once again totally consistent with our 2020 target close to three times.

Regarding efficiency, we are already ahead of the targets presented in May, and we expect to continue to outperform those targets in the next couple of years in order to be able to beat the €200 million targets for 2017 of annual saving, so more than €700 million total cost saving for the period. Finally, in terms of delivery of attractive returns, we were ahead of our EPS target for 2016, and we expect to continue to benefit from our diversified portfolio of high-quality assets over the next several years, allowing us to be confident on the delivery of our sustainable and predictable dividend policy where we have been always doing what we have prioritized. Our commitments are always delivery based on the target payout between 65% and 75% with a dividend floor of €0.19 per share.

So, clearly, when we look into a utility, what do I like to see? Asset allocation, are you putting the money where it makes sense? Are you going for projects where the returns are feasible or are you diving into the pool just to show megawatt? It's not our case. Clearly, I think allocation is in the right place and the right dose.

Are you doing what you need to do cost-wise because it's what you need to do? We are doing cost-wise what we need to do. Are you doing also below the line everything that you need to do interest rates, tax everything? Are you doing what we need to do and we are supposed to do? Yes. We are doing. So, clearly, it shows that as we have been doing in the last 10 years, once again, if you do – it was a number that I saw yesterday in the last decades. They have been around for more or less 10 years. We are the second best utility in total return to shareholders in terms of integrated utilities and our intention is to keep the same track record.

So, I think that 2016 figures are good figures. I like what I've seen in front of me. But I also agree that we need and I've tried to do this already but then Miguel will go through with the third presentation, focusing on some of the issues that probably people needs to be really well explained namely one-off and below the line.

So, thank you. Miguel, go through and then I'll come back for the final remarks.

Miguel Viana:

Thank you, António. I will start with installed capacity of generation and of our portfolio. Our installed capacity has increased by 4% or 6% on average. Following an increase in terms of the weight of wind and hydro in Portugal, 0.8 and 0.4 gigawatts, respectively, and also the shutdown of one coal plant is Spain.

Regarding electricity production, it increased by 10% following the improvement of battery resources in Iberia and the new wind and hydro capacity additions and we reached the end of the year with hydro and wind representing 72% of capacity and 65% of the output.

Looking to the market environment in Iberia in 2016, we see that electricity demand went up 0.6%, hydro production also increased by 42% on a strong growth of hydro production, so 33% above average of the total average in terms of average hydro a year. These strong hydro volumes justify 21% year-on-year decline in terms of the average pool price to €40 per megawatt hour in 2016.

Moving to the EBITDA performance of the main business areas, we can see and starting with the generation and supply in Iberia, we had an EBITDA growth of 13% year-on-year following the referred hydro resources above average. Our hydro capacity increased 7% and our hydro production in mobilized market increased by 98%.

But also a good energy management we built with a decline in terms of the average sourcing costs by 23% following an average generation cost decline of 30%, and the hydro weight in generation mix reaching 43%. We have also benefited obviously from the long market position on clients with electric production in 2016 representing 56% of electricity volumes sold to clients.

Moving to regulatory networks here, our EBITDA went down 4%, impacted by this one-off gain of €89 million of the sale of Gas Murcia in 2015. Adjusted for this, EBITDA went up 5% supported by improved remuneration of electricity distribution in Spain and also a good performance in terms of costs.

Moving to EDPR, in renewables, EBITDA went up 3%. Nevertheless, excluding some gains in 2015 related mostly with ENEOP, the contribution of EDPR to EDP's adjusted EBITDA increased by 8% based on 11% average capacity increase, mostly in U.S. but also with some contribution already from Brazil and smaller from Mexico installed at the end of the year and also a wing production which was 4% below historical average with a strong decline in terms of wind resources in the fourth quarter 2016.

Finally, in Brazil, also, our recurrent EBITDA in local currency decreased 3%, so here excluding the gains on assets and acquisitions which were quite significant in 2015 and still relevant in 2016. So, the recurrent 3% decline includes a strong growth in generation following a strong decline in terms of hydro deficit cost which were very significant in 2015 but almost immaterial in 2016 and also the Pecém consolidation since May 2015. So, we have a full contribution of Pecém in 2016.

Distribution, we had a decline given that our operations were penalized by lower demand in the regions of our concessionary. So, we mainly declined on 5%, which is one of the reasons for higher losses regarding overcontracted energy problems in distribution.

Moving to the evolution of Portugal's electricity system debt receivables, we can see that the system generated a net surplus in 2016, a surplus of €118 million, which is the second year in a row of the tariff surplus. For 2017, this surplus is expected to increase to €0.5 billion according to the regulator's forecast. While the market evolution in the first two months of the year show that until now, the numbers in the market are more optimistic than the numbers that the regulator assumed for this year.

So, we have a stronger demand, so 1.5% demand growth. Pool prices are higher and renewable volumes are lower, meaning that the cost of regulated system with over cost with the renewables and with respect to regime production, should be lower than assumed for this year, at least that this is indication that we have from the first two months of the year.

At the level of EDP balance sheet, regulatory receivables in 2016 went down by €1.5 billion. Big contribution from Portugal, a decline of €1.2 billion, following the significant amount of sales of regulatory receivables to third parties and also the referred system tariffs surplus in 2016. We had also the contribution from Brazil, with a decline of €0.3 billion following energy costs below tariff assumptions in Brazil.

Moving to net investments, our net investments decreased by 30% to €1.2 billion, impact by close to €1 billion of sales of minority stakes in wind farms in U.S. and in Europe, while our amount of CapEx went up by 10% to close to €2 billion, reflecting expansion in investments, significant growth in wind due to investments related we've set with the Safe Harbor clause in U.S. and also a decline in expansion CapEx in hydro in Portugal, following the stage of conclusion of the works in the four idle plant that we are finishing in 2016 and 2017. Maintenance investments were mostly related with networks, but included also in 2016 a significant amount of pluri-annual work in Iberian generation which were concentrated in 2016.

Moving to our debt profile, the mix of consolidated debt by currency was quite stable, so close to 70% euros, 20$ dollars, less than 10% in reals. And we have extended the average debt maturity from 4.8 years in 2015 to 5 years in 2016. Regarding financial liquidity, it amounted to €5.3 billion, including €1.5 billion of cash and equivalent and €3.7 billion of available credit lines, covering the refinancing needs beyond 2018.

In terms of financial results breakdown, we have already seen the very strong performance in terms of net interest cost. We can see also that excluding one-offs, namely the €74 million in 2016 related with the anticipated payment of more expensive debt, we can see that net financial results went down by 5% following the already referred 14% decline of net interest cost with a strong positive contribution, which were then partially mitigated by decline of €64 million on financial revenues related with regulatory receivables, mostly related with the 62% decline of the amount in balance sheet and also the low returns of these receivables and also a 26% reduction in terms of the amount of capitalized interest related with the commissioning of the hydro plants in Portugal.

Other financials include some negative in 2015 and 2016, in 2015 related with the forex and in 2016 relative essentially with energy derivatives at EDPR level.

Moving to the next slide, slide 21 on the evolution of net debt. We can see that net debt went down by 8%, €1.5 billion, which is explained by €1 billion of recurring organic free cash flow. Here we are including interest cost, recurrent taxes, maintenance CapEx. And also obviously the €0.7 billion of cash dividend paid to shareholders paid in May 2016.

Then we have €0.1 billion net impact, which includes here as we referred before, now only the expansion CapEx, the disposals, the tax equity investment proceeds which are fully in line with the business plan, but also €0.3 billion of one-off tax payments done in 2016, €0.1 billion of extraordinary contribution to the pensions fund in Portugal, and also €0.1 billion of cost with prepayment of debt.

On top of this, we had obviously already referred a significant contribution of decline of regulatory receivables, €1.5 billion reduction, and also, the negative impact from the stronger real and strong dollar which impacted the net debt negatively by €0.3 billion. I would highlight that our net debt to EBITDA ratio goes down from 4.4 to 4.2, supported on decline of regulatory receivables.
The adjusted net debt to EBITDA as slightly increase from 2.8 to 4.0. Also I would highlight that this ratio is significantly penalized by the forex evolution even that – although as the real has been stronger in the recent months, the truth is that our EBITDA in 2016 is penalized by 1% because of the real average depreciation namely at the beginning of 2016, and also we have the full negative effect on the forex in our debt.
Finally, regarding net debt breakdown, we can see that following EBITDA performance, so 4% decline, but 6% growth on recurrent, financial results and income taxes with flat effective tax rate adjusted for non-recurrent and financial results with improvement of 5$ excluding a non-recurring issues, result on a net profit increasing by 5% or the recurrent net profit increasing by 23%.
So, following the presentation, we can go to the Q&A session, please.

Operator:
Thank you. At this time if you would like to ask a question simply press star one on tour telephone keypad. If you like to withdraw your question, press the pound key. Your first question on the phone line comes from the line of Rui Dias. Please go ahead.

Rui Dias:
Hello, good morning, everyone. And thank you for your time and for taking my questions. I have three questions. The first one is, regarding your 2017 outlook, could you just please give us a bit more detail on the expected EBITDA evolution in Iberia particularly? Q4 was extremely weak and Q1 has been weak as well. And so, I guess that the question is how well do you think 2017 could go based on the current market conditions? So this will be the first question.
Secondly, regarding your 2020 targets and apologies if I'm missing something here, but if we combine your EBITDA growth targets with cost savings, lower debt and lower cost of debt, I can't match your bottom line gross target. I mean, it looks too conservative unless you expect some negative impacts in the meantime that would offset an otherwise stronger performance. So maybe you could give us some color on that.
And also, you are assuming a cost of debt of 4.2% just slightly below 4.4% that you recorded in 2016. But given that you have 60% of total debts to refinance until the end of 2020 that's probably half or 25% discounts to this current debt cost, isn't this also too conservative, this 4.2%?

And finally, final question on Naturgás I understand that there are no talks to sell these assets at the moment but is this option on the table? And under the scenario that you would sell the assets, where would it make sense from a strategic point of view to allocate the potential proceeds? Thank you very much.

Miguel Viana:

Hi, Rui. Here is Miguel Viana on the performance of 2017 in terms of outlook in Iberia. So, I would say that on the regulated part of the business, no news. We will continue to lower work in terms of efficiency. If something, the rate of return can be slightly better in terms of evolution of 10-year bond deals but not a big impact. On the generation and supply, the first two months, as we said, probably it's below the average production in terms of hydro. So, we are in Portugal's first two months 0.63 of average production for this month.

But it's also true that the thermal production has been doing very well. We benefit this year from procurement of fuel at very competitive cost with closing of fuel procurement in the beginning of 2016. So, part of what we lose from lower hydro production will compensate with the very healthy margins in thermal given the good hedging that we did. Having said this, I think the portfolio effect that was referred even if generation supply can be slightly lower than what was the base case. I would say that we have other areas, namely Brazil which is doing quite well.

Nuno Alves:

I'll take care of 2020 targets and interest rate. As far as 2020, what we've mentioned or António mentioned over the call was that right now we are ahead of the game, but we see no reason, and it's too early to start changing 2020 targets. So, we are ahead of the game and we intend to keep it that way, but it's too soon to change.

Non-specific item, the interest rate, we've already – we have guided in 2016, 4.4% for our 2016 and 2017. We've already reduced the 2017 to 4.3%, and if the rates stay where they are, you're right. Probably the 4.2% 2018-2020 average rate is too high right now. I would have to agree, but we are not revising. We're revising 2017 already to 4.3%. If we see fit, then we will do it later on. But looking at it today, it looks a little bit to concern, you're right.

António Mexia:

And about your first question and the answer of Miguel, clearly, it means that we feel comfortable with the consensus of EBITDA for 2017. And so, we don't have any reason even with the lower range generally to change anything. So, clearly, again, I want to stress this. We feel comfortable with the EBITDA for 2017.

In what concerns Naturgás, it's our duty to, of course, study all the options concerning our asset portfolio. I think that we have been this in a rather good way. We are watching, of course, what's going on in the market. We are curious about what's happening in the sector – in the gas sector in Spain. We are following it attentively. All I can say today is that we are not taking any decision concerning whether or not to go ahead with any eventual sale of Naturgás. So, we follow this very attentively as you can imagine, but we are not today taking any decision.

Miguel Viana:
Thank you. We can go to the next question, please.

Operation:
Thank you. Your next question comes from the line of Stefano Bezzato. Please go ahead.

Stefano Bezzato:
Yes, hi. Good morning. Two question if I may. The first one is on the taxes. Given that you're showing the energy taxes in non-recurring item, what is the likelihood of this tax to be removed, then what could be the timing? Is there any update there? And the second question is on the securitization of the Portuguese receivables. Do you have a target for this year, and in general, how do you see the interest in the market given the recent increase in interest rates? Thank you.

Nuno Alves:
Okay. Let me start with the tariff deficit. So, the target is to do roughly about €1 billion for securitization. The market is as good as it was – at least as good as it was last year. So, we continue to see demand, and the prices are, if anything, tightening as compared to last year. So, we see no reason at least for now not to do the €1 billion that we have planned for the year.
In as far as taxes are concerned, and I'm not sure I understood fully the question, but let me try to give some power on it. This is nothing – part of it is nothing different from what was done in the past, which is you pay up front and then you have a lower cost on the taxes going forward. Essentially, what you're having here is you pay a certain amount upfront, that's cash out and you have to book the present value of – the fair value of those cash flows. And that's why you book a positive. So, essentially, the interest rates or the IRR that we have by paying upfront and getting a tax reduction going forward is a positive today, and that's why you book again. But in terms of cash, it's a negative upfront.

Stefano Bezzato:
Actually, my question was on the energy tax on the €62 million.

António Mexia:
Stefano, I think that's what Nuno mentioned. I think it's once again very important because it's value creation. In what concerns the CESE what we have today as sign is that extraordinary measures are being, let's say, reduced or eliminated elsewhere, we expect movement, as it was already the case, as you know. When we presented, we have considered that we would – in May, we talked about keeping the 100% tax in 2016 and a reduction in 2017 and 2018 and vanishing until 2020. So, we have no reason, as we speak, to believe that perception and that movement will be done. So, we expect a reduction, a progressive reduction until canceling into 2020. We have to see if it happens but we have no reason to change our vision that we have presented in May last year.

Stefano Bezzato:
Thank you very much.

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

Operator:
Thank you. Your next question comes from the line of Jorge Guimarães. Please go ahead.

Jorge Guimarães:
Hello. Good morning, everyone. Sorry. Just like to go back to the guidance issue. Your subsidiary EDPR just changed the depreciation policy from 25 to 30 years. And that should on its own would allow for an increase in guidance. This question is related also to what Rui asked before. But you are maintaining the guidance.
So, can you help me on explaining how this math? Because it seems to me that on an underlying basis, you are reducing your earnings guidance for next years or at least not raising it as substantially as it should. So, this is my – is it related to the tax anticipation effect of receiving now and then the tax rate increasing much faster over the next years?
Is it financial costs? I mean, what am I missing on this? Sorry, to be so direct on this question. But well, as of now, stock is down 5%. So, may be this is related to this, I don't know. Thank you very much

António Mexia:

Thank you for the question. That's also a good question and the answer is also very clear. When we – in May, we are told that we were analyzing that option. We have not rushed it. It has no impact in 2016. But when we talked in May, we already considering the impact for 2018, 2018 onwards of that provision eventually slightly below what is now reality but it was already included in the guidance.

So, it means that it was already in the figures that we shared with you after 2020 last May. So, we are not revising elsewhere anything. It was already there as we have mentioned in May. And just I want to reassure you of this that was already included in the management presentation. But thank you for the question. It helps us to clarify.

Miguel Viana:

We can go to the next one, please.

Operator:

Your next question comes from the line of Carolina Dores. Please go ahead.

Carolina Dores:

Hello. Good morning, everyone. Thanks for taking my questions. I have three. First one, could you walk us through you expect for deleveraging 2017? I understand that probably your FFO should theoretically improve because you don't have as much one-off payments as you had in 2016. On the other hand, I'm not sure if you're counting on as many disposals, so a bit of color of that would be helpful.

Second question, what are you expecting for tax rate for 2017? And my third question is that, commodities have moved a bit. If you can comment on what – ideally for 2018 because it's a full year without CMECs. What do you expect to be the cliff on EBITDA coming from the roll-off of the CMECs? Thank you very much.

Nuno Alves:

Tax rate for 2017, roughly 20%. Right now, in as far as the debt that we're saying is every year going forward, we will see that that reduction. What we're talking about as a number today, we would expect to see €300 million, €400 million lower in 2017.

António Mexia:

In what concerns the CMECs, we have no reason to change what we have been sharing is that the cliff should be around €50 million in the area of post CMECs, Carolina, as we have shared already six months ago.

Carolina Dores:

Okay, thank you.

António Mexia:
Thank you. Let's go to the questions...

Miguel Viana:
We can go now to the questions...

António Mexia:
Online.

Miguel Viana:
...online. So, we have question one question from James Sparrow, BNP. Can you show the movement in adjusted net – adjusted debt and explain the increase in adjusted debt EBITDA.

Nuno Alves:
Essentially the number goes up slightly. But that has to do if you don't – if you leave the actual ordinaries of 2015 in the EBITDA, it goes up a little bit. If you take them out, then it improves. So, it's just a question of the big gain that we booked in 2015 in relation to the Brazilian asset. So, in terms of ratios, it improved slightly from one year to the other.
On the last questions, spot prices in Portugal January, February, they have been above last year's. What's the outlook for 2017? Essentially, as I said, as most of you know, since the fourth quarter of 2016, and until today, we have several aspects which pushed the spot prices up, namely the nuclear stoppage in France which made the Iberian Peninsula going from a net importer to a net exporter, so, increasing the prices. And on top of that, as we've already mentioned there has been less rain in average pushing the prices up. But if we look at the prices for the days coming, we're back to the €40s. So, and that's the level at which we would expect it to normalize during the year.

Miguel Viana:
So, we go now to some final remarks just to conclude.

Miguel Viana:
I don't know if we have more questions on the line.

António Mexia:
We have one more.

Miguel Viana:
We have one more. So, last one.

Operator:
Okay. Your next question on the phone line comes from the line of Neil Beddall. Please go ahead.

Neil Beddall:
Thank you. Hi, folks. Apologies if I'm going to ask the same question that have been asked before. I'm not sure whether I am or not to be perfectly honest. I'm looking purely at the cash flow for the year and one of it has to do with the tax aspect topic. So your tax actually paid is going to quite significantly to sort of over €620 million for 2016 from €140 million odd. I mean, is that an ongoing thing? I mean, shouldn't that relate to what you are talking about but you pay tax up front when the IRR is better. But is that something that you do on annual basis or is this just a one-off a bit for 2016 and then the tax payment will actually go down quite significantly for the next two to three years or however long?
The other question was just on the securitization of the regulatory receivable which looks to me as if it came through a fairly significant proportion of the improvement in working capital. So am I right in assuming that if you continue to securitize the sort of €1 billion level that you are talking about, we'll see a similar improvement in working capital for 2017? And if that's the case, does that actually mean that the regulatory receivable is effectively eradicated in 2017 or does it continue to increase by about €1 billion for you so that it's a more – it takes a longer term to actually eventually get repaid.

Nuno Alves:
Okay. Well, let me try to answer both questions. In as far as the tax, yes, you see, it was an extraordinary payment in two places: in Portugal and in Spain. So, cash-wise, it was Portugal and Brazil. While they were extra measures that were taken, and we took advantage of those. These are not repeatable transactions, so the government is not going to put this up again next year. Even though part of the payment is over three years, the majority of it was this year.
So, I would not expect this to be continuous and then I would not expect for the government to keep on going at it. And even if it did, we would not have the assets to do it. So, it's a – there's a limit to what you could do. So, to answer that one, you should not expect this current level of taxes to be maintained cash-wise.

Neil Beddall:
Okay. So we should sort of go back to sort of more historic levels...

Nuno Alves:
Yes. Go back to about €350 million. That's why we say there's a next award, net of cash payment of about €300 million this year.

Neil Beddall:
All right. Okay. Great.

Nuno Alves:
And as far as the tariff deficit is concerned, what you have is the system is still generating roughly €1 billion of deficit, which has to be paid forward, but you have a surplus. So, the surplus today in the system is €500 million. Sufficient by the billion, and then it generates a surplus of €500 million. Meaning that if we sell €1 billion, by the end of the year, we'll end up with the same amount.
I know this is kind of confusing. But what you're having is every year, the surplus gets bigger and bigger and that's why we show the system deficit going down from €5 billion to €4.5 billion next year, and then we'll keep on going bigger and bigger. So, in essence, what you're all going to have is the deficit that we need to sell being smaller and smaller in every year until we remain the same in the balance sheet. But we are not expecting it to disappear prior to 2020. That's what we've been guiding and that remains still the best guess today that the system will still have a deficit by 2020, and at that point in time will disappear.

Neil Beddall:
Okay. All right. So, would I be right in assuming that will come down by, I don't know, something like €200-€300 million every year or something like that if it is going...

Nuno Alves:
The deficit?

Neil Beddall:
Yeah.

Nuno Alves:
The system deficit?

Neil Beddall:
No. On the...

Nuno Alves:
On our balance sheet?

Neil Beddall:
Yeah

Nuno Alves:
Thank you.

Neil Beddall:
Okay. Cheers.

Miguel Viana:
So, we go now to some final remarks just to conclude.

António Mexia:
So, thank you, everybody, for being here. Once again, just to stress that those above the line and below the line, we have beaten guidance and consensus. And talking about consensus, we feel comfortable with the consensus and the key metrics of EBITDA, net profit and the debt and even beating clearly this number. So, as we speak, we expect 2017 to be a good year. So, thank you very much and see you soon.

Operator:
Thank you. That does conclude our conference for the day. Thanks for participating. You may all disconnect.