



EDP - Energias de Portugal

Friday, 4th November 2016

11:30 Hrs UK time

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 with us today to talk about the first nine months results of EDP. As usual, I'm here with Nuno Alves, the CFO; and our Head of IR, Miguel Viana.

So, I will go through the first nine slides. And what I would like to start in the first one is, stating that I believe we are presenting good, quality results in line with guidance and with no surprises. I think that, by the way, nowadays is good in this sector.

I would like to highlight the strong growth of our recurring EBITDA, which showed a 10% year-on-year increase. And I would like you to note that this EBITDA still includes the negative forex impact of 2% year-on-year, resulting essentially from the 11% average depreciation of Brazilian real against the euro over this period. If the real is very strong today, in the same period, a year or two year, we had still a lower real.

As you know, due to seasonality of hydro and wind production, the third quarter is normally the less relevant for EDP annual performance. Even so, in the third quarter alone, our recurrent EBITDA showed a small growth of 1% compared year-on-year. Overall, this performance is fully consistent with last July's upgrade of our guidance for the full year to €3.75 billion. EBITDA growth was the major driver for the 17% growth year-on-year of our recurrent net profit to €661 million. I think it's also a strong figure.

Our reported net profit stood at €615 million, a 16% decline year-on-year, which reflects essentially the significant gain booked in the second quarter of last year with acquisition of an additional 50% in Pecém in Brazil. Once again, at net profit level, this performance is also fully consistent with last July upgrade of guidance for 2016; net profits were around €910 million to €950 million.

Another significant development was the 56% decline on regulatory receivables in EDP balance sheet, supported by €2 billion tariff deficit sale. As we speak, we are already above this, but in the period, it was €2 billion. From which €800 million sold in the third quarter, taking advantage of the current federal credit market conditions.

Regarding efficiency, our ratio of OpEx over gross profit shows a significant improvement from 27% to 26% in the first nine months, reflecting efficiency improvements across all major business areas. We will see this in detail later.

Finally, EDP's net debt decreased by 8%, or by €1.4 billion, versus last December 2015 fully in line and consistent with our guidance for the year, at the end of the year of 2016 as a net debt figure for end of December.

So, overall, I would say that our strong performance in the first nine months of 2016 is totally aligned with our commitment for the year and with the delivery of the 2020 business plan targets presented to you last May.

Going into the slide two, recurring EBITDA. So, let's see how this 10% growth on recurring was delivered. First, generation and supply in Iberia. We see a 17% year-on-year growth following the first half earmarked by clear improvement of hydro conditions and by positive results from a successful energy management strategy. And also, a first quarter with a more stable year-on-year performance despite outage of coal, Soto 3 and Aboño. They will build still until the end of the year, but these of course is not affecting our guidance because it was already considered by us.

We also continued strengthening our position on retail and small and medium enterprise customers, as you know, the ones that we prefer. A key component of our hedging strategy with our portfolio of electricity and gas contracts in three markets increasing by 10% year-on-year. Our installed capacity increased by 1% following the commissioning in January of two hydro, Baixo Sabor and Salamonde 2, which more than compensated the shift down at the same time of Soto 2 old coal plant.

Moving to regulated networks in Iberia. We see a 4% growth in recurring EBITDA. The positive performance was supported by 18% increase of regulated revenues for our electricity distribution network in Spain. According to the terms of regulatory review and the 2% year-on-year and I think it's important to highlight this, a 2% year-on-year reduction of controllable operating costs.

Regarding renewables, contribution to our recurring EBITDA is increased by 14% as a result of 13% increase of average in-store capacity, following new additions commissioned in U.S. and Brazil and the consolidation of ENEOP wind farms in Portugal.

In Brazil, recurring EBITDA in local currency grew 29% year-on-year with a strong growth in generation supported by the full contribution of Pecém in 2016. Hydro generation benefited from the end of the losses associated with hydro deficit following the hydro

insurance deal close in 2015. I think it was a good decision. And the decline in spot electricity price is driven by improved, of course, improved hydro reservoir levels.

Let's go and move to slide three with costs. Here I would like to highlight our good performance in terms of efficiency. With operating cost increasing 3% year-on-year, that compares with a 7% increase on average installed capacity. Why? Also because we are very focused indeed and our OpEx for corporate efficiency program is already ahead of schedule with €76 million of savings achieved until the end of the third quarter.

Once again, these good performance was supported by all key business areas. In Iberia, which represents 58% of our operating costs, total OpEx increased by 1% reflecting the 1% increase of installed capacity and the 2% growth in our total number of clients in Iberia, and the 1% natural head count reduction. At EDPR, the ratio core OpEx per megawatt, a key variable installed decreased by 5% year-on-year, reflecting not only economies of scale, but also the good results from the in-sourcing strategy of parts of O&M services namely in U.S. as explained previously.

Finally, in Brazil, operating cost in local currency on the pro forma basis when you compare including per se for the all nine months of 2015, decreased 7% year-on-year when adjusted for inflation as a result of a 6% increase on pro forma OpEx in local currency and the 8% inflation in the period. So, it shows that Brazil is performing very well in this front.

Going into regulatory update in Portugal. I would like to start by updating you on the proposal released two weeks ago in Portugal by the regulator and by the government. And on electricity tariffs and state budget for 2017. As you can see, regulated revenues from our distribution in last resort supply activities in Portugal for 2017 show an expected 1% growth year-on-year fully in line with our expectation. The rate of returns set at 6.5% in 2016, should not suffer a material change for 2017 as a result of the predefined indexation to the 12-months average 10-year Portuguese government bond deal.

On the negative side, the government's proposal for the 2017 state budget maintained the share of extraordinary tax of 0.85% on assets applied to the energy sector, which is costing us €62 million per year. Of course, I would like to consider that, when in last May we met in Capital Markets Day, we had already included this for 2017 guidance that we can talk a little bit later about this.

On the side of Electricity System Debt Regulator Estimates that the system will – overall debt will decrease significantly over 2017 by around €550 million, fully in line with the forecast that we presented last May. The system debt reduction for next year results from a 1.2 increase on average retail tariffs and includes €140 million expected throwback proceeds from the one-off kept on special regime, feed-in tariffs only for next year that the government wants to impose on some older renewal assets.

Note that EDP does not have material exposure to these other assets that are subject to this whole cut, and we estimate an impact between €10 million and €20 million at [ph] EDPR level. Overall, the decisions announced provide a significant improvement on the visibility on our regulatory and physical framework in Portugal for the next 12 months. The good news is, we see clearly the tariff deficit evolving in the direction that we have anticipated.

Slide five, low interest rate environments, clearly. So, regarding interest rate, we continued facing a lower-interest-rate environment for a longer than previously expected period. On this subject, I would like to stress that we continue to focus on delivering what we design in our business plan. Namely, we continued fully committed to delivery of our financial deleverage targets for the next years, preserving the clear investment grade credit profile of our business.

In the credit markets, our strategy has been to take advantage from the current environment to reduce gradually our average cost of funding, but also to reduce our interest rate exposure, concentrating new funding deals in longer maturity in fixed rates. So, lowering cost and increasing maturities.

As a result, over the last 21 months, we have already managed to extend our average debt maturity to five years, compared to four years, three years ago. And we have extended the period of coverage of our shorter-term maturity with financial liquidity from above 24 months to currently above 40 months. Even if it's today less relevant, I think that we need to highlight it.

Regarding investment and disposal. We maintain our conservative approach. We continue executing the investment program previously announced, focused on wind power and the PPA generation.

Over the last years, we have persistently developed a diversified number of potential wind farm projects in this market. And we are now in the position of reaping the fruits of their consistent work, taking advantage from the clear visibility of the PTC's framework until 2020.

Note that we are not considering the current low interest rate scenario, as an input when making our long-term investment decisions. As we believe that this is the better approach to protect the value of our assets in the long run, namely in the eventual scenario and probable scenario of increase on interest rates, sooner or later, it will arise. So, clearly, here I think that we are different from other players in the market.

Finally, regarding disposals, we continue to see increasing interest from long-term investments such as pension funds and infrastructure funds, on long-term contracted or regulated assets, not only in U.S., but also in Europe and mainly in Spain and also in Portugal. This environment is, of course, favorable to the execution of the disposal considering our business plan, namely EDPR asset rotation deals and some other

opportunistic small-sized disposal without affecting the low-risk profile of the company. As you know, we have already mentioned this in our Investors' Day last May.

Slide six, let's go for our growth investments. We have strong visibility on our growth CapEx up to 2018. With our new wind and hydro projects in the constructions or already contracted, representing a 13% increase on our electricity generation capacity until 2018, through the commissioning of additional 3.7 gigawatts.

Regarding Hydro Portugal, we are now finishing the two last remaining plants under construction. At EDPR, we have already secured 90% of our target growth until 2018, and I think it's good. While at EDPR and EDP Brazil, we keep on track to deliver São Manoel hydro plant by late 2018. In all these project, our focus is now on execution on time and the cost in order to protect the investments' returns.

Regarding disposals, following the recent completion of the sale of 49% stakes in wind farms in Poland and Italy to CTG, we have already executed 60% of the planned amount of EDPR asset rotation and the CTG deals from 2016 up to 2020. With CTG, we maintained further deal options in the on-shore wind in Portugal and off-shore in Europe. So what's concerned our partnership with CTG, we're fully in line with our commitment. We also continue exploring other small scale opportunistic deals that were already contemplated as I mentioned in the business plan.

Moving to slide seven, supply activity. Here I would like to highlight the continuous strengthening of our energy supply platform namely in the retail segments. We managed to continue to increase the number of clients in the free market, as a double-digit raise in the period of slowdown of switching of the electricity customers to the free market. As you know, our current market share on the retail is around 85%, but it's interesting to mention that our market share in the third quarter was 90% of the new clients.

Moreover, after they go live in 2015 of significant investment that we made in CRM system, we have reached significant improvements on customer satisfaction resulting in 27% reduction in the number of clients per customer. With more customers and much less claims. We have also continued to increase the penetration rate of our electricity and gas fuel offer and other services with very good results. We consider that an integrated view of energy supply and electricity generation is critical strategy in order to reduce exposure to volatility in wholesale energy markets and to preserve our low risk business profile.

Regarding wholesale prices, we saw recently significant increases, that's more evident in the short-term. For reasons not only Iberia, but also for our neighbor friends. For the fourth quarter 2016, we don't expect any material impact from these move as our electricity production and supply are almost fully hedged.

For 2017, we have already contracted 29 terrawatt hours of electricity sale, mostly we find a client at prices around €55 per megawatt hour and we also closed a significant part

of fuel cost below current market levels, which led us to be confident on our generation and supply activities in Iberia for 2017.

And I would like to also to highlight that for 2017, as you see there, the forward prices are better than in the business plan. So, above 42 and the business plan we are considering for the – about 44, in the business plan we were considering 42.

In slide eight, let's move to Brazil. Finally, in Brazil, just some words to recall that the Brazilian real is far now the best performing currency of the year versus the euro. So, if you assume the average currency rate of October 16, it was at BRL 3.51. This represents a 20% appreciation if you compare to first quarter 2015. I would also like to recall you that in our business plan, we took a more conservative approach on the evolution of the Brazilian currency when you compare it to the current drivers.

I remember that people may eventually, saying that we were optimistic about Brazilian real. Basically we were, in anything, we were pessimistic. Regarding EDP Brazil operations, over the next 12 months, we expect benefits from the recent favorable regulatory review at Escelsa. Moreover, we consider that we're now more protected from energy market base namely given – what we mention the GSF Insurance, which became more relevant in a moment of recovery of electricity prices.

Cost of funding. We are in the middle of the process of paying down our most expensive debt in Brazil, it was costing us around 17% with the cash proceeds from the successful capital increase. And we are finally seeing a reduction in market interest rates after the Brazilian Central Bank cut our interest rates for the first time in five years.

On the growth side, the company is now well-positioned to explore relatively small-size opportunity as it was the case of the recent participation in the electricity transmission auction in which we were awarded with a relatively small transaction, aligned across Escelsa concession region and makes a lot of sense for our operations in that state.

Overall, all these developments led us to continue positive on the performance of our operations in Brazil for the last quarter and also for 2017. So, for me, last slide, about the overall performance. What can we say? Overall, we consider that our performance in the first segment shows that we remain on track to deliver both our 2016 financial guidance, the new guidance and our medium term targets.

In terms of focused growth, we grew by 10%. We maintained a clear visibility on growth with our average install capacities growing on average 7%. Wind and hydro, these growth strategy continues in a strict financial discipline. With net debt going down by 8% compared to year-end, plus 18%. So we are able to reinforce our distinctive profile amongst European utility with high-quality assets and competitive technology on one hand; and of course, long-term contract and regulated activities on the other hand. If we see, hydro and wind, represents almost 70% in the first nine months. And then what

concerns long-term contracted, we see that 85% of EBITDA in the first nine months were regulated long-term contractor.

Efficiency, we are on target. The revenue, weaker than expected, the new improvement commitments. And finally, in terms of our recurrent net profit that increased by 17% year-on-year, all of these underpins our commitment to deliver attractive and sustainable returns to our shareholders. And that allows us to reiterate our commitment on the 3% growth of the 2016 dividend to be paid in 2017 to the level of €0.19 per share. So, thank you. And let's go now with Miguel to do the details and – more detailed presentation. Then I'll come back for the Q&A. Thank you.

Miguel Viana:

Thank you, António. Going more into details to our nine months 2016 performance. You can see that the installed capacity increased 2% or 7% on average terms, following additions of 0.5 gigawatts in wind, 0.3 gigawatts in hydro in Portugal and also reflecting the shift down of 0.2 gigawatts of coal in Spain. This has led to the weight of hydro and wind in our portfolio to increase to 71%, while the total electricity production increased by 15% following the improved hydro resources in Iberia and also the wind capacity additions.

In terms of EBITDA and the EBIT performance. Our reported EBITDA in the nine months 2015 included €424 million of positive one-offs that justify the 3% year-on-year decline of EBITDA. On a recurring base, EBITDA was up by 10% year-on-year, and our recurring EBIT was up by 15% supported by all business divisions as we have already seen.

Looking to the market dynamics of the Iberian energy market in total, namely electric and gas in the first nine months of the year, we can see that electricity demand was up by 0.2%, plus 0.1% in Spain and plus 0.3% in Portugal, following the recovery in the third quarter to 0.6% year-on-year.

Hydro production increased by 51% following an improvement of the hydro coefficient namely in Portugal from 0.78 to 1.66 which together with strong wind leads to coal and gas power plants production to go down by 29%. Regarding gas demand, it went down 1% in Iberia, essentially due to the decline of the electricity production, usage of gas minus 9%, and the average coal price went down 32% to €34 per megawatt hour.

By major divisions, and starting for our EBITDA performance in terms of Generation & Supply Iberia, it has increased by – the EBITDA has increased by 15% and supported by a 111% growth of hydro production and also a decrease in terms of average sourcing cost by 33%, highly supported by the 40% reduction on the average generation cost.

These decline in average generation cost is due to higher rate of hydrogen generation mix which has increased from 28% to 51%. Other positive contributions were our long

market position on clients and also the active management of strong volatility in energy markets which has a positive result in the first nine months of 2016.

Moving to regulated energy networks in Iberia, EBITDA went down 8% year-on-year, essentially following the €89 million gain in the first nine months of 2015 on the sale of Gas Murcia. While the adjusted EBITDA goes up 4% supported by improved regulation for electricity distribution in Spain, and also some efficiency improvements mostly in Portugal.

Moving to EDP Renovaveis, we can see that the average installed capacity went up 13%, production plus 20% year-on-year, and adjusted average prices are going down 7%. If you see the – excluding the one-off in the first nine months 2015, namely the €40 million due to ENEOP bad will and also some write-offs, EDPR's contribution to EDP recurring EBITDA went up 14% to €847 million in the first nine months of 2016.

Finally, at level of EDP Brazil and in local currency, we can see that EBITDA went down €16 million following the one-off impacts of Pecém in the first nine months of 2015 and of Pantanal in the first months of 2016. If you exclude these one-offs, EBITDA in Brazilian local currency on a recurring basis went up by 19% following the full consolidation of Pecém. So, nine months in 2016 versus after May in 2015.

Hydro production showing EBITDA improvement of 23% following the hydro deficit costs significant in the first nine months of 2015, and immaterial in the first nine months of 2016. And finally, in distribution a 5% decline on EBITDA, penalized by a lower demand and losses on over-contracted volumes, partially offset by concessions' revaluation.

Moving to the evolution of Portugal electricity system regulatory receivables, it showed a €99 million surplus in the third quarter 2016 alone leading to an accumulated €14 million decline of the debt in the first nine months of 2016. As we said before, a significant decline is expected now for the fourth quarter 2016 benefiting from higher pool price environment.

At level of EDP balance sheet, net regulatory receivables decreased by close to €1.4 billion as you can see in slide 19. We'd mentioned contribution to this decline coming from Portugal. In Portugal, we had a decline of €1.1 billion following \$2 billion from tariff deficit sales and €900 million of additional receivables attributable to EDP created in the period. In Brazil, the €0.3 billion decline is explained by the decline of the energy cost and recovery of past deviations.

Moving to net investments, they decreased 53% year-on-year. Here, I would say it was essentially impacted by the asset rotation deals in the first nine months of the year, which totaled €0.4 billion. CapEx went down much less, just 5% to €1,160 million following the decrease in hydro CapEx in Portugal. Expansion investments continue 100% concentrated in wind and hydro with PPAs and feed-in tariff. Hydro in Portugal with

pump and storage, and hydro in Brazil with PPA inflation link. While our maintenance investments, which also shows an increase are now mostly allocated to regulated energy networks mainly in Portugal, Spain and Brazil.

Regarding net debt, in slide 21, we see that this showed 8% decline or €1.4 billion decline in the first nine months of the year, and strongly supported by the €1.4 billion decline on regulatory receivables during the period. Adjusted net debt stood flat year-on-year at €14.9 billion even post the full payment of the annual dividend, which occurred in the second quarter 2016.

Regarding financial debt profile by currency and maturity, we saw no material change in the debt breakdown by currency as our investments and operations are funded in local currency to mitigate forex risk. While in terms of average debt maturity, it was extended once again from 4.6 years in September 2015 to 5 years in September 2016.

Looking to financial liquidity versus refinancing needs in page 23, we see that by September 2016, we had €1.7 billion in terms of cash and equivalents, and €4.1 billion in terms of available credit lines, totaling €5.8 billion of financial liquidity which covers our refinancing needs beyond 2019.

Financial results. It showed an increase of net financial cost by €13 million year-on-year. In terms of breakdown, we had a positive impact from the decline in terms of net interest costs, positive impact by €89 million, following the decline in average net debt by €0.5 billion, and also a decline in terms of average cost of debt from 4.7% to 4.5% in nine months 2016. Revenues on regulatory receivables went down by €48 million following the decline in terms of the amount of regulatory receivables in our balance sheet as we have already seen. And also, the low interest rates that these regulatory receivables are paying to EDP.

And we had also a €22 million decline on capitalized financial costs following the previously referred commissioning of two hydro plants in Portugal. While in other financial costs, we had an increasing cost with tax equity investors worth €10 million year-on-year following our continued investments in wind in U.S. and new tax equity deals. And also we had a reduction by €15 million on revenues on loans to associated following the full consolidation of ENEOP since September 2015.

I would like also to highlight that the first nine months of 2016 other financial results include one-off of BCP impairments €31 million and include also a significant amount of debt prepayment fees amounting to €26 million mostly at EDPR level.

Finally moving to net profits breakdown, we can see that in terms of depreciations, it increased the cost of depreciation by €33 million following an increase of installed capacity at EDPR in Brazil, Pecém and hydro in Portugal. Income taxes, we had a low effective tax rate in first nine months of 2015 due to one-off gains in Pecém and Gas Murcia, and higher-than-normal effective tax rate in the first nine months of 2016.

We maintained the line of extraordinary energy tax in Portugal flat at €61 million which represents 0.85% on net fixed assets in Portugal and non-controlling interest significant decline following a low impact from one-off namely at Brazil following the Pecém badwill in first nine months of 2015.

So, finally in the last slide, you can see that excluding one-off at net profit level, we have a 17% increase of our recurring net profit from €564 million to €661 million.

We can move now. With this, we conclude our presentation and we can move now to the Q&A section.

Operator:

Thank you. At this time if you would like to ask a question simply press star one on our 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 with UBS. Please go ahead.

Rui Dias:

Hello, good morning, everyone. And thank you for taking my question. And I just have one, and it's regarding your current dividend policy which you presented on your Capital Market's Day in May, because there were a few things that came in above your expectations since then, for example, you generated more cash than originally expected, which allows to improve your debt reduction target for the full year.

The Brazilian real increased by roughly 10% since then as well. The latest debt refinancing came in also at a lower cost than you were probably expecting. Hence, at least in my view, this is likely to continue, and achieve power price in Iberia. At least for now, remain above the expected levels that you also presented in May. So, overall, with all these positives, what would prevent you from being a bit generous on your 2017 dividends, and perhaps deliver at payout ratio at the top of the range which will be clearly above current market expectations? Thank you.

António Mexia:

I think that the name of the game of the dividend policy, thank you, Rui, is credibility and visibility with clear rules. When we presented the strategies some years ago of a floor and then explaining the dividend. Of course, dividend payout ratios and between specific brackets, I think we have introduced a good concept. We have committed already what will be paid in 2017 based on 2016. I think that the fact that we are above what was expected in 2016 just makes us comfortable with that commitment.

And if the evolution as you know is we want to share growth with our shareholders, we have been doing this for the last 10 years. And the only thing is, it gives additional credibility for our wish to share that with our – but it doesn't make sense at this stage to

change what I've already committed for next year. Of course, for the future, the better the future, the brighter this policy will be.

Rui Dias:

Very clear. Thanks.

António Mexia:

Can we go to the next question, please?

Operation:

Our next question on the phone line comes from the line of Antonella Bianchessi of Citi. Please go ahead.

Antonella Bianchessi:

Hello. Good morning. I have a very simple question. Can you help us in understanding how you will be able to reach your target in terms of net profit in 2016? So, what you expect in Q4 to basically support the net profit? And the other question is, when we look at the financial charges, because of a lot of bit and pieces, the real cause of debt is not coming down. Can you elaborate on what we expect going forward? And what we should expect for 2017?

And last, again on the situation of the power prices in Spain and the peak in the gas demand in CCGT because of the outage in France. How does it play, how you are positioned considering the forward sales and so on and so forth? Thank you.

Nuno Alves:

It's Nuno Alves. Well, let me start with the net income and the guidance for €950 million. As we mentioned in previous phone calls and as we've had in the past, we've continued to expect to end the year with a tax rate of below 20%. We've had some negatives in the tax in the first nine months that will be more than compensated in the fourth quarter and that will help us reach the €950 million level. But the tax rate will come up, similar to what we have in the last few years.

And as far as the interest rates that we have, I think we will end up the year as we had guided at 4.4%. What we stated is that, as debt matures and we issue new bonds, what you'll see is that rate will slowly come down. If you ask me today and if the market stays where it is, what we'll have will be a better impact in 2017, 2018, and 2019 as we go, because rates today are significantly lower than they were six months ago. So, what you can expect is when we guided 4.4% and 4.2% for 2018, those numbers for 2017 and 2018

might come up a little lower, but this has to do with when you do new issuance and when you pay maturities, it will come down. But until then the move will be this one.

António Mexia:

Now what concerns the power pricing in Spain. We are basically hedged for the 2016. So, it has no impact on our figures. For 2017 this movement is important in the sense that it will help us in what concerns the mating season, when you basically close most of your client volumes between now and the year-end. So, it will help, especially the slightly better forwards and expect it will help us in closing the positions that we have not yet closed. And in any case, we don't have – the question is, we are not – we don't have any problem in what concerns the coverage of what we bought in terms of the gas and coal. So, I think it's an important issue for us.

Miguel Viana:

We can go to the next question, please.

Operator:

Thank you. Your next question on the phone line comes from the line of Carolina Does of Morgan Stanley. Please go ahead.

Carolina Does:

Hi. Good morning, everyone. Thanks for taking my questions. I have two. First on the opportunity that you see in Brazil. You won a small transmission project. Is transmission the new focus in Brazil or is – this was just a one-off? I'm just wondering on, what you could look to acquire to invest there? And second, you already touched about hedges. I just wanted to confirm, is 2017 hedged on coal, especially from Sines which come off of the CMEC by midyear. Thank you very much.

António Mexia:

Thank you, Carolina. Opportunities in Brazil. You know Brazil well. First, the important thing is – the general statement is, we will not take opportunities that will unbalance us in terms of size that would represent any change to our commitments in terms of deleveraging. So, as you know, we have then – we have a very successful rights issue, we have presented the idea that we will be doing rather small scale adjustments in our portfolio.

Why transmission? And especially this transmission, because it's small. It's in the state where we have the distribution company. It's evolved so it makes a lot of sense in terms of also helping the quality, the service of our distribution of Escelsa. So, in terms of size,

in terms of economies of scale, in terms of integration of what – with the operations we have, it makes a lot of sense.

In terms of looking more into this transmission, transmission has a very clear regulatory framework, in certain cases even slightly better than the distribution in Brazil with lower risks. And so, keeping in mind the scale of what we can do, we will be looking into these area as something that makes sense if it fits into our portfolio.

Miguel Viana:

Regarding the issue of coverage of fuel procurement, so we have around 70% of fuel needs procured for 2017, obviously at significantly lower cost than what you have today in the market. So, this protects significantly our margins for next year. So essentially, if the availability of the plant is okay. We are quite protective and obviously, we have this remaining 30% that we can still have some upside on the contracting season that is going on for energy contracts for 2017.

We can go now to the question in the web and regarding the question from Stefano Bezzato from Credit Suisse. “What is your expectation for the future evolution of historical tariff deficits and when do you expect it to be erased?” Then he's asked two additional questions. “Has the recent budget law changed your expectation regarding the impact of the special energy tax in the coming years?” And the final question is, “are you planning new disposals in particular, given recent press articles, could the gas grid in Portugal considered nonstrategic?”.

Nuno Alves:

Ok, so, tariff deficit evolution, as we showed in the presentation and as we've seen from the regulator, for the 2017 year-end number, we're pretty much in line with what we've been guiding since three years ago. So, we would expect as a system deficit to go to €4.4 billion to €4.5 billion by year end 2017. So, that continues to be right on target. And our expectation is that by 2020, 2021, the deficit should be all paid off and no longer be an issue. So, we have no reason to change our expectation in that matter. So, it continues to generate a surplus which will get bigger and bigger every year, and we'll see how it's managed by the regulator going forward, but no expectations are changed.

António Mexia:

In what concerns the maintenance of the special energy tax (CESE) at 100% of its level. It was already – as you know in May, as I have stated in our guidance and in the business plan for 2017. We have included the case of – that was the final decision. Of course, we would like to have a small signal. We see that we have at least the postponement of the decrease that I believe will be progressive and not one stroke of CESE. So, it does not

change our expectations in what concerns the future. I think it's consistent in a way with the fact that they are taking extraordinary measures first out of people and then out of companies. But let's be clear, we will act accordingly to the fact that the decision was not taken for the budget of 2017 to protect our rights.

In what concerns new disposals and especially the question on gas, no, we have nothing to add today in what related – what we have told you last May. Last May, national distribution in the north of Portugal, was included as one of the possible disposable, what we call tactical disposals. And clearly, the list – it was already in the list, and as we speak, I have nothing to add on this. So, I repeat what we have told in May, we are looking into tactical disposals, adjusting our portfolio and when it make sense. So, nothing new. Thank you, Stefano.

Miguel Viana:

With regards to the next question on the web. From Isidoro from BBVA. He asks your results in the liberalized activities in third quarter on a standalone basis are flat year-on-year despite higher volumes in hydro output and higher sales to customers. Could you please explain the flattish performance?

So, Isidoro, yeah, it's true, if you look to the production on third quarter 2016 versus third quarter 2015, you can see that we had significant improvement in terms of hydro production but also a significant reduction in terms of coal production. So, as you know, we are now in the stage of doing the environmental upgrade of our coal plants in Spain, Abono 2 and Soto 3, and this implies some outages which had also some impacts and some costs in the third quarter. So, it's true, better in hydro, but slightly worse in coal overall, year-on-year flat.

I don't know if we have more questions on the line. No. We don't have. So I think we'll move to CEO.

António Mexia:

If we don't have any more questions. Thank you for those that raised the question and I really want to reaffirm the fact that the first nine months we performed better than it was presented in the Investor Day. I think it's mainly due to the things that we did manage well. I think it's important, so it's a structural movement of the recurrent net profit to €950 million that we have revised in terms of guidance when we met last time. And if anything, we have also in front of us in different levels, information that give us additional visibility for 2017. So, we keep comfortable with what we have stated in May and with the guidance and the market expectations for the future.

So, I think that we are in a good moment and we will confirm this again next time we meet. Thank you for all being here with us today and see you soon. Bye-bye.