

**EDP - Energias de Portugal**

Friday, 4<sup>th</sup> March 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:**

Good morning, everybody. Thanks for being present today for the 2015 results. As usual, I'm here with the CFO, Nuno Alves, and our Head of IR, Miguel Viana.

So let's start on slide 2 with the big numbers. I'd like to start by highlighting the fact that our EBITDA rose by 8 percent in the period, including gains resulting from several value-accretive deals achieved in 2014 and 2015. We will discuss later the importance of these deals and the nature of these deals. Excluding these gains and our non-recurrents, our adjusted EBITDA increased by 2 percent, when compared to 2014.

Where does this growth come from? Supported, of course, by the additional contribution of long-term contracted generation capacity, 1.8 gigawatts, both in renewables and in Brazil. This, of course, relates to 8 percent, translates an 8 percent increase on our installed capacity in 2015.

We also show and stress that our 2015 EBITDA was very penalized by weak hydro production and low energy management, as you will see they tend to be related. And, by the way, 2016 has started very differently. So it's a negative impact that becomes particularly significant at the bottom line. So growth, new additions, and a very bad hydro year in Iberia.

Our net debt rose 2 percent to EUR17.4 billion, but here I want to be very clear. We have closed, with a delay of two weeks what was expected to be at the end of December, a deal in the US market, tax equity. This would bring our debt to, according to our guidance, below EUR17 billion to EUR16.9 billion. So we reached the figure that we have proposed.

In terms of major investments, we need to stress that these figures include the EUR600 million impact from Pecém acquisition that, of course, was not foreseen. But it's a good way to solve a problem is to tackle these opportunities, I believe, and I think it's

transforming a problem into an opportunity. And this was partly compensated by 50 percent equity content of the hybrid issued in last September.

First, despite the 8 percent increase on EBITDA, the net profit fell by 12 percent to EUR913 million. This decline is basically justified by the referred negative impact of the adverse weather and market environment in Iberia; so it's clearly down in Iberia. But also because of an external result slightly above EUR100 million of EDP Asia on financial results in 2014. So taking these out would be more or less in the same figures.

Regarding dividends, the proposal of the management to the shareholders' meeting, they are going to vote of course, is EUR0.185 per share, flat to 2014, and fully in line with our commitment on a predictable and sustainable dividend policy.

Let's talk about the non-recurrents. This year we have a lot, but I would like to say that they are related - what I would like to stress is that they are related to our asset allocation strategy. So firstly, we have the acquisition of the remaining 50 percent stake in Pecém, which has a long-term PPA contract, a defensive move triggered by Eneva financial troubles, as you know, and it was agreed at the peak of Brazil's hydro crisis. And by the way, the assets in the turnaround is impressive; availability recovered from 71 percent in 2014 to 88 percent in 2015.

Since the acquisition was agreed, Pecém performance has been clearly above our expectations, not only in operational terms, but also in terms of market and regulatory development. The outlook for the years ahead was clearly improved. So the EUR132 million accounting gain booked in 2015 results from what we deeply believe to be a value-accretive deal in the short, medium, and long term. So it's those one-offs that, by the way, have a permanent impact in the future, positive.

Secondly, we have the EUR85 million gain in the disposal of the gas distribution network in Spain, something that was out of our region, so it was out of our focus. It's clear here what I want to recall is that we bought these assets at the EV/EBITDA 9.4 times in 2009, as a remedy for Gas Natural acquisition of Fenosa. And although we like networks, given the limited geographic synergies, as you know we are concentrated in also Spain, we sold in 2015 at the multiple of 13 times. So we bought at 9.4 times and we sold at 13 times. And I think it's important, we have already in 2016 reinvested 50 percent of the cash proceeds in acquiring an LPG gas network in our incumbent region, at the multiple of 8.9 times. So I think that the relation of these multiples shows how we know how to proceed in what concerns asset reshuffling.

Finally, at the EDPR level, we have the combined impact from assets split of ENEOP, which of course reinforces the weights of long-term contractor renewables in our portfolio. And some write-offs, mostly related to the focus on wind development efforts in the regions, with the soundest fundamentals. So clearly, as it was already stressed in

EDP renewables, we have been very focused in key markets with key fundamentals, and I think this is the difference to other players.

We consider that these deals, and their impact on earnings, reflect our investment strategy, focused on long-term contracted and regulated activities in our core markets, but focused also, and mainly of course, in value creation.

In any case, when you talk about deals, people talk about goodwill; I think it's always better to buy with goodwill than with badwill. I think that some of the problems on those goodwill acquisitions were the problem of the sector and not our problem.

So let's see slide 4, regarding our investment plan. As you can see, our focus, as it was expected in any case, continues to be on long-term contracted renewables and in regulated networks in our core markets. We are now finishing our new hydro pump storage in Portugal. Two plants are starting operations in the first half 2016, Salamonde 2 and Baixo Sabor. And the last two under construction will be ready by end of 2016. I'm talking about Venda Nova 3 and Foz-Tua. By the way, the conclusion of these plants will prompt a decline in our total amount of net investments from EUR1.7 billion in 2015 to around EUR1.3 billion as committed in 2016. So it shows clearly the commitment with the CapEx discipline that we have been stating all the past years, and we are now reaffirming this discipline on the back side.

In renewables, we are now working to deliver more than 600 megawatts of wind capacity as a PPA in 2016; of course, mostly in the US, where we have been establishing partnerships with long-term financial investors. But also in Mexico we are building our first wind farm with the PPA, together with a strong local partner.

In Brazil, we partnership with CTG, we are building both wind power plants and two hydro plants, all with PPAs, with fixed prices updated to inflation. By the second quarter of 2016, we plan to start operation of Baixa do Feijão wind farm, and Cachoeira Caldeirao hydro plant. This is when we will start operations more than six months ahead of schedule.

In regulated networks in 2016, we plan to maintain the level of CapEx in our current portfolio. Additionally, we are acquiring, as I've mentioned, the Repsol LPG network as minority stakes in our Iberia gas network. So focused on a disciplined approach on the regulated networks.

In terms of generation, in 2016 we are finalizing the investment of the DeNOX environment upgrade of two most efficient coal plants in Spain. These works will imply a two-month outage of the plant in 2016, and after they are finished, 80 percent of our core fleet will comply with the more rigorous European legislation in terms of emissions.

So overall, we continue to totally focus on delivering our investment on time, on cost, in technologies that make sense and in regions where it makes sense. We continue committed to the execution of some capital recycling deals, namely in the execution of

our partnership with CTG, under which we have already agreed, as you know, on the sale of 49 percent stake in wind farms in Poland and in Italy.

The closing of this deal and respective cash-in is expected to happen in the second half of 2016. We will continue to look for potential new asset rotation deals with financial investors, namely at EDPR level.

By the way, let's talk a little bit about the cash-in with CTG. We expect EUR700 million for this year, that will lead us at the end of this year of a total amount of EUR1.7 million since the beginning, so exactly what we have been announcing and committing to the market. So the partnership has been going as agreed.

Slide 5, hydro. I think hydro is a key element, and especially when we see on a normalized basis we really need to consider this hydro situation in Iberia. Showing more in detail the year-on-year performance in terms of hydro, we can see that EDP production in Iberia fell by 38 percent, with the hydro coefficient in Portugal standing 26 percent below the historical average.

This strong decline had a negative impact on our average generation cost, and also results on an energy management lower than expected. Why? As you know, hydro and energy management are related. We like volatility, and I think that clearly the beginning of 2016 is going, I would say, very well.

In Brazil, our hydro production fell by 23 percent year-on-year, due to a 15 percent hydro deficit. And of course, this is related with significant GSF losses in 2015 as a whole, when considering the clear recovery observed in the second part of the year. So even with the second half much better, the first half, as we have seen, was quite bad. So we had losses of GSF in 2015.

Hydro was a critical element to understand, as we have already stated this, because the beginning of the year is always the key. January, February and March are the key months to see how it goes.

Slide 6; let's talk a little bit about adjusted EBITDA. Adjusting for the previously referred recurrent items in 2015 and the ones in 2014, our adjusted EBITDA shows a 2 percent increase; as I mentioned, supported by capacity expansion, wind and Pecém mainly, and by some year-on-year improvement in hydro situation in Brazil on the second half.

In Iberia, our regulated network activities suffered with a decline of the return on assets at our electricity distribution business, while our generation supply operations were, as I have mentioned and stressed, affected by the weak hydro and, of course, related also lower energy management results.

The impact of ForEx is slightly negative by 1 percent, with the negative impact from the Brazilian real being mostly compensated by the stronger dollar versus the euro.

On the slide 7, efficiency. OpEx. It's always important to talk about what depends on our results, so efficiency improvement is continued to be one of the key priorities in 2015.

And you can see that our operating costs decreased by 1 percent, excluding the impact of capacity expansion in EDPR and EDP Brazil. The positive performance in terms of cost is very significant, especially if we see that local inflation in Brazil was 10 percent in the period. So when you compare to inflation I think that we must consider these figures very significant.

So with these results of our OpEx III, corporate-wide efficiency program has achieved EUR170 million of accumulated annual cost savings. And we are now starting to design a new efficiency program: OpEx IV; like the movies, it's a never-ending movie. It's critical for us, OpEx IV, which we'll share with you in our next Capital Markets Day in May.

Slide 8, adjusted net profit. I would like to spend a moment on this. People tend to do a simple math and I think that we should go through this simple math.

Overall, our adjusted net profit decreased 17 percent from EUR905 million to EUR750 million. I would like to highlight that more than two-thirds of this decline was justified by the adverse weather and market conditions affecting our generation and supply in Iberia, with strong weight on hydro and longs in clients. This is important to stress, so we are taking more than EUR100 million.

We estimate that the negative impact from this factor is, of course, as I mentioned, EUR110 million, and we expect to recover a big chunk in 2016, based on the normalization of hydro condition. We can say already this because we are in March, and so we have already seen the figures of January and February. Note that these prospects are reinforced by the recent performance, 50 percent above the average.

Other significant impacts on adjusted net profit were the negative impact from GSF losses in Brazil, a slight negative impact from ForEx at earning level, and EUR18 million cost after taxes with the early payment of more expensive debt, which will have a positive impact on financial costs from the next year.

So if you pick the EUR750 million, I would say that the normalized figure base were a base that you can see for the future would be EUR850 million. So, of course, you take the one-offs, you take everything out and then if you put the normal hydro, you would consider a normalized EUR850 million. We have not put it on this slide but clearly, it's the figure that makes sense to see as a basis for the year.

Slide 9, guidance. Let's see, we can say that in terms of EBITDA we now expect to reach an EBITDA slightly above EUR3.6 billion, so in line with the consensus. Why? Recovery of generation and supply conditions in Iberia. Positive impact from capacity additions, namely in hydro in Brazil, especially because new hydros that were there in 2015, they were there in 2015 but the water was not there. So not only we have new hydros in 2016, but also the new hydros in 2015 were there, but unfortunately they were not producing - they were there on the asset front, but they were not producing cash flow.

EDPR new capacity and, of course, in Brazil the 12 full months of Pecém and the start of Cachoeira Caldeirao, we're more than six months ahead of schedule. So we have these two positives. In Brazil, our vision is clear that the eventual negative impact from ForEx will be compensated by the positive impacts from the end of the hydro crisis. So we have lower currency but better hydro and overall, we expect this to be balanced.

In terms of net profit, we expect to reach a figure of EUR900 million, or above, of reported net profit without material impact from non-recurrent items, and taking into account our expectation of a decline in average cost of debt from 4.7 percent to 4.5 percent in 2016, in line with what we have been telling previously.

When you see the figure in 2015, of course, it was impacted with the acquisition of Pecém; that was not in our budget when we were talking in 2014 about 2015.

We expect to retake the path of decline of absolute net debt in 2016, so the target is maximum EUR16.5 billion. We should be there or below based on the previously referred free cash flow growth; the decline on investments from EUR1.7 billion to EUR1.3 billion; the execution of some tariff deficit securitization; and our partnership, that I've already mentioned, in CTG, in line with our previous guidance.

So slide 10, wrapping up. I think that it shows that EDP continuous focus on reinforcing our different profile among European utilities. We want to maintain a clear visibility on a growth base on what we know and do better, and what we have been delivering in the recent past, which is Greenfield renewables with PPAs, regulated networks in our core markets.

This growth will continue to increase the value of our portfolio with high quality assets in well-diversified markets and with competitive technologies. And, it's important, this growth strategy continues to be executed under strict financial discipline. We are guided by our financial deleverage objectives in order to preserve our low risk profile and EDP's access to competitive cost of funding. No doubt about this commitment from us.

Finally, both our growth objectives and financial deleverage targets are essentially subject to the achievement of attractive returns, at the level of new projects, clearly the new business portfolio as a whole, but also important the sharing of this returns with the shareholders. We want to keep sharing this return with the shareholders through an attractive and sustainable dividend policy. It's the reason why we'll be proposing the EUR0.185 in the next annual shareholder meeting. We will keep this floor for this year, and we will propose this and I expect the shareholders to vote the EUR0.185.

So, as usual, I will pass now to Miguel Viana for the detailed analysis and then we go directly to the Q&A. Miguel?

**Miguel Viana:**

Thank you, António. So, starting in page 12, regarding the performance of the electricity market in 2015, you can see that electricity demand went up by 1.6 percent in Iberia, with a split between 1.8 percent up in Spain and 0.3 percent in Portugal on a mixed effect from economic recovery and the mild weather conditions.

Hydro production, minus 34 percent, which was compensated by an increase of 27 percent of thermal production with coal continuing more competitive than gas.

Gas demand, up 6 percent, supported essentially for demand for electricity production. And this environment leads the pool price increase by 19 percent to EUR50 per megawatt hour, with gas extending its role as the marginal technology in terms of the Iberian market.

In this environment, as we can see on the next page, our electricity generation operations in Iberia were marked by a strong increase in coal and gas production, which compensated the decline in hydro volumes. PPA, in terms of power generation plants and the PPA/CMEC, the gross profit deviation versus market increased to EUR160 million, following hydro volumes 35 percent below average year, and coal benefiting from higher load factors and higher margins.

We'd like to highlight EDP's liberalized activities in Iberia have a market position that is characterized by a significant weight of hydro in generation mix, a long position in sales to final clients versus our own production in the market, meaning that our energy management gains stand to be reduced in dry years.

That was exactly what happened in 2015, with our performance in the liberalized activities being penalized by weak hydro production with lower gains in energy management.

As you can see in page 15, our generation and supply Iberia EBITDA adjusted went down 11 percent, or minus EUR112 million, year on year. This was the result of average generation cost up 22 percent; immaterial energy management gains in 2015; and also with the mini-hydro special regime production going down by 45 percent. This includes also generation taxes increase by EUR25 million on high thermal production.

This was partially balanced by electricity supply business in electricity, in which EBITDA recovered on lower costs with ancillary services and energy losses.

Looking forward, the recent decline in energy markets reinforces the value of EDP's long position in clients. Note that forward electricity prices in Iberia continue better supported than in Northern Europe and the reasons are that gas is the key marginal technology in Iberia. And you also have to consider the existence of specific power generation taxes in Portugal and Spain.

Another important fact in recent market changes is, of course, the commodity prices and the coal being more competitive than gas.

Regarding EDP, if you see in page 17 our hedging position regarding forward sales and forward acquisitions for 2016, we have currently forward sales of electricity amounting to 27 terawatt hours which were sold at an average selling price of EUR55 per megawatt hour, so fully in line with 2015, and mostly hedged through residential and SME clients. In these sales, we have to highlight also the improvement in terms of thermal spreads locked in versus previous year, so versus 2015, as we have already closed the sales for respectively 100 percent of coal sourcing commitment and, very important, around 90 percent of our gas sourcing commitment for this year.

Moving to the EBITDA performance of our regulated energy networks in Iberia - we can see that our EBITDA in this division went down 1 percent, or down 4 percent when adjusted for non-recurrent issues, reflecting in electricity in Portugal, a decline in terms of the rate of return on asset base from 8.26 percent in 2014 to 6.34 percent in 2015, which was just partially compensated by efficiency improvements; in electricity in Spain, slightly higher regulated revenues along with increased cost efficiency; while gas Iberia was marked by the EUR89 million gain on the disposal of Gas Murcia, but also the negative impact from the deconsolidation of these assets, which, in 2014, had contributed with EBITDA around (EUR14 million).

In page 19, we can look at the performance at the EBITDA level of EDP Renováveis, with an EBITDA growth, ex one-offs, of 20 percent backed by higher prices and capacity additions.

By major geographies, in North America the EBITDA went up 29 percent, impacted by stronger US dollar, or excluding non-recurrent effects, EBITDA in local currency, so in dollars, rose 10 percent supported by a 9 percent growth of production and stable average selling prices.

Regarding Europe and Brazil, EBITDA, up 25 percent, also including some one-offs. Excluding these one-offs, adjusted EBITDA rose 12 percent, impacted by an 8 percent increase in production, recovery in pool prices in Spain, and lower prices in Romania.

Moving now to Brazil. The fourth quarter 2015 was marked by a GSF insurance agreement closed in December 2015 and I would say the end of the hydro crisis which leads to a very significant decline in the spot price in Brazil.

As you can see on the left chart, GSF insurance agreement has reduced significantly EDP Brasil risk profile, providing a significantly lower downside risk in extremely dry years, with immaterial impact on upside potential in wet years.

In terms of market environment, the improvement of rainfall in the beginning of 2016 has led hydro reservoirs to be today above 50 percent. And recently, the government and the regulator have announced that the extraordinary tariffs which were associated to the dry weather to be removed. So the Brazilian consumers will pay extraordinary tariff, which is called the yellow flag, during this month, during March 2016 and in April 2016,

there will be a green tariff, meaning that consumers will not pay any extra costs associated to the normal dry situation.

Demand continues slowing down. It was more negative in the first months of 2016, also penalized by mild weather and reflecting the slowdown of the macro environment.

Inflation forecast for 2016 is now 7.7 percent. Given that our activity is essentially inflation-linked, this will partially compensate the negative impact from the devaluation of real versus the euro.

In terms of EBITDA performance of EDP Brasil, we can see that adjusted EBITDA in local currency went up 59 percent, fully in line with the increase of reported EBITDA. Reported EBITDA includes some positive one-offs; namely from Pecém acquisition in the second quarter of 2016, but also in the fourth quarter, the sale of EDPR Brasil. In distribution, it includes also a positive accounting of 2013 regulatory receivables.

Looking at adjusted, you can see that absolute figures are smaller. The growth is exactly the same. Generation growing more, 95 percent, given the full consolidation of Pecém since last May and also, benefiting from a decline of the negative impact from GSF losses which went down from close to BRL400 million to around BRL300 million in 2015.

Distribution EBITDA going up 30 percent on tariff increases, cost control and inflation update on assets terminal value.

Regarding the evolution of regulatory receivables in the Portuguese electricity system, we can see that, in 2015, it showed a tariff surplus of EUR66 million, so the first year of a tariff surplus in Portugal, leaving the electricity system debt at EUR5.2 billion, so better than our previous forecast of EUR5.3 billion, so reflecting a clearly good performance in terms of system debt during 2015.

For 2016, electricity debt is now expected to fall below EUR5 billion, despite the weaker demand and lower pool price in the first two months of the year.

Moving to the amount of regulatory receivables in EDP's balance sheet. We can see in page 23 that it fell slightly by EUR27 million, reflecting EUR79 million decline in Portugal, a EUR68 million increase in Spain following the recognition of our share of tariff deficit in gas system, and a slight decline in Brazil, mostly related with the devaluation of the Brazilian real.

Moving to page 24, we can see in terms of net debt the negative impact from Pecém consolidation was partially balanced by the hybrid issue 50 percent equity content. It's also important to highlight that, if we include the EUR0.5 billion proceeds in January 2016 from some US win deals, namely one asset rotation and one tax equity investment that were agreed in late 2015 and supposed to be cashed in, in late 2015 but that was postponed by a couple of weeks, our adjusted net debt would be below EUR17 billion, more precisely EUR16.9 billion, fully in line with our previous guidance.

Financial debt profile by currency and maturity. We can see on page 25 that we maintain a breakdown per currency which reflects that our investments and operations are funded in local currency to mitigate ForEx risk, providing as a natural hedging in terms of currencies. And during the year 2015, we have taken advantage of market opportunities to extend our average debt maturity from four years by the end of 2014 to close to five years, so 4.8 years by end of 2015.

In terms of our financial liquidity, by December 2015, it covered refinancing needs beyond 2017 based on EUR1.3 billion of cash and equivalents and EUR4.1 billion of available credit lines, totaling EUR5.4 billion of available financial liquidity.

Financial results. The net financial costs increased by EUR261 million in 2015. At level of net interest cost, no material changes, penalized essentially by depreciation of the dollar and the impact in terms of the interest debt we pay for our dollar debt. Average cost of debt was flat at 4.7 percent.

ForEx includes EUR35 million of losses, mostly related with mark-to-market of US dollar versus euro, and the dollar versus real.

In terms of capital gains, we had a different situation in 2014 versus 2015, so 2014 a significant capital gain of EUR118 million, while in 2015 we have just an impairment in terms of our equity stake in BCP which has a negative impact of EUR22 million.

And finally, so we have lower capitalized financial costs, mostly related with the hydro projects under construction in Portugal. And the other line including the early repayment of more expensive debt, which will have a positive impact on future cost of debt. And also, a decline in terms of gains of tariff deficit securitization related with the gradual decline in terms of the remuneration of regulatory receivables in Portugal.

Finally, in slide 28, and reaching the net debt breakdown 2015 versus 2014, we have already talked about the 8 percent increase of EBITDA. Amortization and provisions also increasing EUR31 million on new installed capacity, namely EDPR and Pecém.

Financial results we have already referred also, but I would highlight that associates are also penalized by the weaker performance of Pecém in the first part of 2015.

Income taxes; we had essentially flat income tax rate and also a lower tax impact on the gains of the sale of Gas Murcia and Pecém acquisition, and also the ENEOP consolidation.

I would highlight also that this net profit in 2014 and 2015 include the extraordinary energy tax, so 0.85 percent on net fixed assets in Portugal. And we can see a significant increase in terms of net profit attributable to non-controlling interests, essentially reflecting the increase of net profit, both at EDP Brasil and EDPR, on gains at our subsidiaries where we have minority stakes.

Overall, net profit going down by 12 percent, or adjusted net profit going down 17 percent year-on-year.



So with this, we conclude the presentation. I think we can now pass directly to the Q&A session.

**Operator:**

Thank you, and as a reminder to submit a question via the web, use the Q&A tab, otherwise just press star one on your telephone and wait for your name to be announced.

**Miguel Viana:**

We can go to the Q&A session.

**Operator:**

We'd like to take questions on the - one moment, your first question comes from the line of Alberto Gandolfi. Please go ahead.

**Alberto Gandolfi:**

Good morning, it's Alberto Gandolfi, UBS. I have three questions, please. The first one is, you talked about a normalized net income of EUR750 million, but you said if we adjust for hydro the EUR850 million, could you please go through that once more for me please? Because as I understand, I think you talk about EUR95 million impact negative for Brazil, but Brazil have like almost 50 percent minorities.

And Portugal, the liberalized impact, as I understand from the press release, was also much smaller, so I didn't quite understand how to get the extra EUR100 million; it's quite important as a base for the forecast.

The second question I wanted to ask you is, how do you see the securitization process evolving in 2016, and how do you think of the receivables? And particularly, can you give us some color on what you're hearing from the government, from the political side, any risks of changes in either the tariff scheme, social tariff or anything like that, that you think might impact your business and perhaps increase also the receivables?

And lastly, given that you are, yes, deleveraging, but your balance sheet is still relatively, you might say, suboptimal compared to your original targets, and given what is going on from a macro perspective, would you be more comfortable with accelerating your debt reduction? And could you do so via some sort of change in your parameter, being with

EDPR, be it with Brazil or be it with more disposal? So can you a bit elaborate on, let's say, your contingency plan if the credit situation were to worsen? Thank you.

**António Mexia:**

Thank you, Alberto. Going through from the EUR750 million to EUR150 million; just the weather conditions, normalized hydro would bring you more than EUR80 million in Portugal and Spain, so the Iberian market, and around EUR20 million in Brazil. So just these two will present EUR100 million. And of course, if you include the possibility of having energy management, it means that we feel comfortable with those figures moving from EUR750 million to EUR850 million.

And I especially mention this, because when you compare 2015 with 2014, 2014 was a very wet year; 2015 a very dry year. And now in 2016 we are back to normal - now when I go out in the morning and I see rain, I am pleased and it was the case in 2016 at the beginning. So at least EUR100 million is easy just because of the rain and, even if you take account of the energy management, it's very easy to go to these normalized of EUR850 million.

In what concerns the suboptimal balance sheet and the question of those kinds of deals you don't announce it, of course, but we don't see, at this stage, any reason to change our relation with renewables, our relation with Brazil. We are really focused on the discipline on the CapEx side, on delivering the visibility on the cash flows, and on the new projects to explain the market exactly what we are doing on a very detailed basis project by project. And we have been doing clearly an effort - even if it's small, it doesn't make sense to have on our portfolio, we sell it. So we don't see it, in this moment, any need for any plan B and we are focused on what we have been mentioning.

In what concerns securitization, Nuno, do you like to give a word?

**Nuno Alves:**

Yes. Just a couple of words on the tariff deficit and the securitization. I guess the good news is that the slide on the tariff deficit has not changed for the last three years, so the numbers that we've been showing for 2016 and 2017 are still the same.

The only one that changed was that the actual number for 2015 was EUR100 million less than what was expected. So we continue to view the tariff deficit as a resolved issue and, in turn, the system will get to a zero balance by the end of the decade. That's still our main target.

And as far as securitization, we have a certain objective to securitize at least EUR800 million throughout 2015, as we've had in the last couple of years. We've ended up doing a little bit more than that. If we can do more than that, then we'll be happy again.

There continues to be investors interested on the securitization that understand the asset and that the current prices are welcoming more of it. So I would expect to see some transactions done in the first half of this year, for sure, on that front.

You mentioned some on the politics have changed the tariff deficit. I frankly can say I have not heard any comment on any change that would have an impact on the tariff deficit as such. So I'm not concerned of it right now.

**António Mexia:**

Alberto, and also to stress, and I think it's important, I think the tariff deficit occupied, I would say, three years ago and two years ago, it was probably half of the questions were on the sustainability of the system. The system in Portugal has proven to be totally sustainable. The measures that were taken in the past prove it. The figures are exactly where we have stated, and I think this also takes any pressure to take measures sector driven-wise. So the sector doesn't need any measures.

Another issue is the fiscal stuff, but sector-wise, there is no need for any measure because the sector has proven to be totally sustainable. Thank you, Alberto.

**Alberto Gandolfi:**

Thank you.

**Operator:**

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

**Carolina Dores:**

I have three questions. One is a bit more detail on the guidance, if I may, because you mentioned guidance is on net profit reported, but no material impacts of one-off. If you can give a bit more detail of what type of one-off, if any, you're expecting for this year. Second, if you could comment on the government's plan in regards to the social tariffs in Portugal and what you are doing to stimulate the consumers to migrate into the social tariffs, and how much of the cost is included in your guidance for 2016?

And finally, I know this is a bit more forward-looking, but I was thinking about the May 2017/2018 when the CMEC lose the fixed return. And given current power prices, I would imagine that the hit on EBITDA would be something close to EUR200 million, given where power prices currently are. Could you talk a bit about the number, this is an estimate that makes sense or not? Thank you very much.

**António Mexia:**

Thank you, Carolina. In terms of guidance, the reason why we mentioned the EUR900 million without one-offs is at this stage, we don't foresee any one-offs. If we have one-offs, will be probably, as we have proven in the past, typically positive but, at this stage, we don't anticipate anything, so the guidance that makes sense is without the one-offs.

In what concerns the government plan of the social tariff, as you know, we have finally reached 100,000 at the end of the year. We are now at around slightly above 110,000. We estimate of the overall target of 500 thousand households, that means that the structural targets of these households and our clients, as we always mention, we anticipate that, at the end of the year, we will be more or less at half of the target, so reaching probably 250,000 clients. And we have included a cost in our budget around EUR12 million, I believe EUR12 million or EUR13 million in the budget for the social tariff program.

In what concerns CMEC, we will be talking on Investor Day on detail on this, but I will tell you that the key issue, as we have been stating with the CMEC, is not the hydro as you know. The normalized or, let's say, the proxy price of the hydro under the CMEC is probably not very different from the realized price, but we will be discussing this in detail. So this figure, the only thing that I can tell you today is it looks too big. It's clearly too big.

**Operator:**

Your next question comes from the line of Martin Young. Please go ahead.

**Martin Young:**

I'll just limit to the two questions. The first gets back to the issue of the tariff deficit. My understanding is that part of the plan to eradicate this is based on a positive evolution of demand and a positive evolution of tariffs. Could you just talk about that in the context of the decline in demand that we've seen in the first few months of 2016? I believe that there is a decline, even on a weather and working day adjusted basis.

And then the second question relates to the wider political environment in Iberia. Just wondered if you could share some thoughts on how you feel Spain might develop, given the uncertainties politically there, and also give an updated view on where you see the extraordinary tax in Portugal going. Thank you.

**António Mexia:**

Martin, thank you. In what concerns the demand January, February, in Portugal, not adjusted for temperature in the working days is plus 0.1 percent. We are more exposed to temperature effects than Spain, by the way. In Spain the adjustment was minus 2.1 percent. It was slightly positive in Portugal, so it's true that it's below what we need on a yearly basis.

But what I can tell you is it depends mainly on two variables, this and the other is the tariff increase. The overall tariff increase, as you know, was on high part of the range of the 1.5 percent to 2 percent above inflation. So demand is on the lower part of the range that we need. The tariff adjustment is on the range but on the high part of the range. So at this stage, we don't see any reason to see any material impact on the tariff deficit that would be on the wrong direction.

In what concerns political environment in Iberia, Spain is difficult to foresee what will happen, so we will concentrate in Portugal. As I've mentioned, the good news in Portugal is that, structurally, the sector is balanced, the tariff deficit is being reduced, so there is no need for measures in what concerns the rationale balance in the sectors health. So as I mentioned earlier, let's go to the fiscal part.

The first change is, of course, as we have already stated in previous meetings, is that the special contribution that was expected to be reduced at least of 50 percent, it was not the case, so it will last for 2016 if there's any difference of half of it, so we are talking about EUR30 million. What we have been stating very clearly is that we expect temporary measures to be temporary. Extraordinary measures should be taken out. This government is already reducing extraordinary measures elsewhere. That this movement should be as a bulk, so everything should be moving in the same direction. What I can tell you is we will act accordingly with this reality in the right place and with the right people. But in any case, I expect this to evolve clearly in the future and we will be working accordingly to what should be done in this front. At this stage, the only thing that we know is it will stay for 2016 and we will act accordingly to this.

Other stuff, it was the social tariff, and I don't see any other issue that has been discussed outside the political framework in Portugal.

**Martin Young:**

Thank you.

**Operator:**

Your next question comes from Javier Garrido. Please go ahead.

**Javier Garrido:**

First question would be a clarification on your guidance. If I understand correctly, around EUR900 million of net income assumes that the special energy tax is still in place in Portugal in 2016. Is that correct?

And then the second question would be on the hydro plants that are moving from the CMECs to the free market in 2016. Those plants were getting EUR52 per megawatt hour prices in CMECs. You are saying that you have, so far, over 90 percent of your output at EUR55 per megawatt hour. Is this EUR55 a comparable number with the EUR52, i.e., will you be making EUR3 per megawatt hour more on these plants? Or are not the numbers comparable? Thank you.

**António Mexia:**

Thank you, Javier. The answer is yes to the first. So the guidance takes into account the fact that the special tax on the sector will stay in 2016. It would not make sense otherwise even if, in the future, this could revert or whatever. At this stage, we of course included in our guidance the full tax for 2016.

In what concerns the hydro, it's true when we say, and I think it's an important element, the fact is, of course, the commodity cloud is hanging over a lot of sectors. We are not number one, but we are probably in the top three of the sectors that electricity could be affected by this commodity cloud. It's very important to see that we have taken measures for 2016, namely in having sold all the generation at this price that we have mentioned. And of course, we can compare the EUR55 with the EUR52.

**Javier Garrido:**

OK. Thank you.

**Operator:**

Your next question comes from Elchin Mammadov. Please go ahead.

**Elchin Mammadov:**

I have three questions. The first one is on guidance. If I look on the consensus estimate, your EBITDA guidance is in line, or could be even better than, consensus; however, if I look at net income, it's well below. Where do you think this discrepancy is? Is it in tax, is it in depreciation, or is it in the interest part?

The second question is for outlook for demand in Brazil and Iberia for this year and next. How do you think weather-adjusted demand is going to develop?

And the final one is on renewables, if you could give a bit more color on which area you're looking at, going forward. Are you going to step up the investment in North America, given the extension of PTC? Thanks a lot.

**António Mexia:**

Thank you. What I would like to tell you is, if you see the consensus we are talking about EUR910 million I think, or EUR911 million, so the number is perfectly in line and I don't see any mismatch between the EBITDA guidance and then net profit guidance in relation with the numbers that we are giving today. So I have those numbers in front of me.

For the outlook for the demand, as you know Brazil we expect 3 percent down, Iberia 1 percent up overall, so I think it makes sense, relates to the GDP expectation for those countries, for those regions.

And in terms of renewables, the answer is yes, we are mainly focused on US market. It has been clearly where it, probably in 2016, will be already the number one place where we're going to invest overall in the Group, then Mexico, Brazil and then Europe.

So we have been focusing where they have good resource, good structural basis for wind, and we have stability and visibility. So we have a lot of options to do in this market, so clearly I would like to stress the difference between us and some other players.

We are not growing all over the place; we have been focusing on where you have wind, where you have stabilized relation, where you have visibility, and where you don't tend to find funny things in the sector.

**Elchin Mammadov:**

Thank you.

**Operator:**

Your next question comes from Jose Ruiz. Please go ahead.

**Jose Ruiz:**

My question is about the fiscal measures in Portugal. If you could be more specific on this comment about the IMI, the regional tax on hydro plants? Thank you.

**António Mexia:**

OK. The question of IMI relates to a discussion about if the hydro plants are part of the public domain or not. The story proves that if you go down to the, I think back in the 70's, I was seeing this yesterday, they're mentioned as being part of the public domain, and why they should not be paying any IMI.

In any case, the figures are not enough to change our guidance for the year end, so we will work of course very thoroughly on this to protect our interests, and what makes sense. But in any case, the figures will not change our guidance, just to assure. There are other things that, of course, are material, like the special contribution; that's not the case of IMI.

**Jose Ruiz:**

Thank you.

**Miguel Viana:**

OK, if we can go to the questions that we have in terms of the web. From Manuel Palomo, Exane BNP, if you could comment on the hedging levels in Iberia, so volumes and prices, if possible, for 2016 and 2017?

Essentially, as we have said, for 2016 in terms of thermal spreads we are fully covered in terms coal. In gas, so more than 95 percent of the commitments; I would say that gas it's a very important position. Forward sales 27 terawatts hour of energy sold at EUR55, as we have said. So in practical terms, I would say that January and February are very strong months in terms of hydro, which put a good prospects in terms of lower generation costs, and in terms of energy management. So helping also slightly short position in terms of the market in 2016 is something also very, very positive.



For 2017 we can talk by the time of the Investor Day, but I can say that we have already started to hedge some thermal spreads, but we can talk more about that in the Investor Day. And I think this is what we have to say in terms of hedging policy.

I hand back now to our CEO just for a conclusion and final remarks.

**António Mexia:**

Thank you for the presence, also for your patience. Namely when you have a lot of one-offs, sometimes it's cumbersome to go through the figures. Hopefully, we also helped to guide you through the stats, but clearly I want to share this with you. I think that we understand exactly what are the conditions that basically might be the factor. I think that our asset allocation policy, our risk approach, our pressure on what depends on us, has been very clear.

And even when you see through these one-offs that, by the way, are positives, I prefer positives than negatives, that were a kind of rule of the game for the sector for a while, I think that we are doing what we need to do. And the question of 2016 is, some of the key elements that were negative in 2015 are starting at this stage, as we speak. We are still at the beginning, but they're looking rather positive, so getting better than the previous year, and some of the 2014 flavor, namely in what concerns the weather.

So thank you for this. And also, I would like to stress the commitments with the financials, and the commitments with sharing with shareholders the results, and the clear policy in terms of dividend.

Thank you very much, and see you soon.

**Operator:**

Thank you. That does conclude our conference for today. Thank you for participating. You may all disconnect.