



**EDP - Energias de Portugal**

Friday, 29<sup>th</sup> July 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. Thank you for being with us in the conference call, as usual, for the 1H16 results. Also, as usual, I'm here with Nuno Alves, who is the CFO, and our IR Head, Miguel Viana.

I will start at the beginning of the presentation, then I will pass to Miguel, and then we will go back to Q&A. The first thing that I would like to stress is that we have, basically, five highlights; five highlights about results that, I believe, that are very strong and positive.

The first highlight is the strong growth on recurrent EBITDA, 15 percent year-on-year to slightly above EUR2 billion. And this growth includes, of course, a negative ForEx impact of around 4 percent, resulting from the 20 percent depreciation on the Real against the Euro when compared to last year. So, very strong recurrent EBITDA and we will then see that this comes, basically, from all over the place, in all the business units, in all geographies.

This stronger growth – second highlight – this strong growth of EBITDA was the major driver for the 20 percent growth on the recurrent net profit to EUR517 million. We have reported profit of EUR472 million, 20 percent decline year-on-year, which reflects, of course, and basically, the significant gain booked in first half on the acquisition of the 50 percent of Pecém, as you remember. We will then explain this in detail, but, basically, a 20 percent growth on recurrent net profit.

Third highlight, I believe, we should stress. We have a 34 percent decline on regulatory receivables in EDP balance sheet. This was enhanced by a EUR1.2 billion sales of tariff deficit in the first half. As you know, we have already done, in July, additional EUR800 million, so we have until now sold EUR2 billion for the period, as we speak. Why? We have, of course, taken advantage of the current favorable credit market conditions. But I think it's an important element.



I also like to stress the fact that we have flat operating costs. Efficiency is, as you know, a key driver for us. And these operating costs being flat, despite an average increase in capacity of 8 percent. And we have, of course, a strong performance in all the major business areas, and with very focused efficiency plans all over. This leads us to a 25 percent ratio of net OpEx over gross margin; the best ever in the company, and, I believe, also a reference in the industry.

And finally, the fifth highlight is that, even with the full payment of the annual dividend in this quarter, the net debt decreased by 5 percent, around EUR900 million, to EUR16.5 billion.

On slide 3, we go and start explaining why we have increased 15 percent on recurring EBITDA. As you see, we split this by the core business.

So let's start. The first is generation and supply in Iberia. This represents more or less 30 percent, 31 percent of our recurring EBITDA. It has increased by 28 percent, benefiting from a favorable year-on-year in hydro conditions; but also, reflecting a very successful energy management strategy, as you know, something that we have been typically being used to do, in a period of strong volatility in the energy market, delivering a performance that is more in line with our historical, good track-record in this area.

And, of course, we have also commissioned new hydros. And we have done also restructured the coal, the thermal fleet. So, typically, we also continue to focus on strengthening our position in retail and customers. This is a key component of our hedging strategy, with our portfolio of electricity and gas contracts in Portugal and Spain increasing by 5 percent year-to-date. This represents, more or less, 300,000 contracts with final customers more, compared to last December. So I think it's also a good result that, in the context of the liberalization of Portugal, shows that we have a very competitive approach.

In terms of our portfolio, as I was mentioning, in terms of generation, we have Baixo Sabor and Salamonde II that started operation in January this year. And two additional ones, Venda Nova and Foz Tua, are on schedule to start operations between late this year and early 2017.

As I mentioned, we have also actively restructuring our coal fleet. In general, we shut down Soto 2, while the DeNox environment upgrades are now mostly done at Abono 2; and should be completed at Soto 3 plant by the year-end. It's important. As you know, we have a competitive thermal fleet in Iberia.

Moving to regulated networks, that represents, more or less, 25 percent. We see an increase of 3 percent on a recurring EBITDA, with good news regarding our electricity distribution operations in Spain with 2016 regulated revenues increasing 18 percent versus 2015 as a consequence of the transition to a more transparent regulatory



methodology, based on return on regulated assets. And, to be clear, this is not a one-off; this is a recurrent effect.

In terms of EDP renewables, the 18 percent EBITDA growth results from a 14 percent increase on average installed capacity with our growth efforts focused on commissioning new wind capacity in U.S., totally based on energy sales through long-term contracts at fixed prices, in a market that we know well, and that we like in terms of risk return mix. Clearly, very different from other markets. The wind resource was 1 percent above historical average.

In Brazil, recurring EBITDA in local currency grew 29 percent year-on-year; and when you transfer it to euros because of the devaluation, is 3 percent up year-on-year, with a strong growth in generation, supported by the full contribution of Pecém to first-half EBITDA. Hydro generation benefited from the end of losses associated with the hydro deficit. We have now a load factor that is close to 90 percent, of course, following the significant improvement of hydro conditions; and the importance of the declining of the spot price, and the positive impact from the hydro insurance that we have explained, when we closed it late 2015. So, Brazil also with good results.

So, as we see, strong improvements in all major business areas.

Moving to costs, I like to highlight this. Why? We have, as you see, staying flat year-on-year, despite the increase of average capacity of 8 percent. Our OpEx for corporate efficiency program is on schedule with EUR43 million savings achieved in this first half. Once again, this good performance was also supported by all key business areas.

Let's see. In Iberia, which represents 58 percent of our operating costs, total OpEx decreased by 2 percent in a close to zero inflation environment, with significant savings achieved on external supply front, and with a 1 percent natural headcount reduction. So we have a cost program that does not depend on paying upfront to have cost reduction; we have stressed this already in previous presentations. And we are focused on having clear net cost reduction all over.

At EDPR, if we consider the key ratio of OpEx-per-megawatt installed, we have decreased by 4 percent, reflecting not only economies of scale; but also, the good results from the insourcing strategy of parts of the O&M services, mainly in the U.S.

Finally, in Brazil, on a pro forma basis that fully includes Pecém also in first-half last year, operating costs in Brazil, the Brazilian Reais and adjusted for inflation, decreased by 4 percent, as a result of a 5 percent increase on pro forma OpEx in local currency, and a 9 percent inflation in the period. So, once again, focus on Brazil on costs.

As I mentioned, this leads us to a 25 percent Net-OpEx-over-gross margin.

Moving to slide 5, I would like also to share with you our actions in terms of portfolio management, of fixed and financial assets, but also, regarding financial liabilities.



At EDP corporate level, we have been active on the sale of Portuguese tariff deficits, taking advantage, as I mentioned, of the financial assets to financial institutions, in an environment of very low, and sometimes even negative, interest rates in Europe.

With the additional EUR800 million deal closed in July, we have already, as I mentioned, sold EUR2 billion. As you remember, our target was EUR800 million, we have clearly passed the target for the full year. This significant decline of regulatory receivables in our balance sheet does not affect our adjusted net debt, but we understand it will improve the credit ratios screened by some rating agencies when they look at EDP, and so these deals reinforce the credit profile of the Company.

Although, in terms of interest, we leave some money on the table considering the interest paid by these financial assets is higher than the interest currently paid in cash deposits, we are using this liquidity for debt repayment on maturities. The debt that we repaid in first-half was costing us, on average, 5.4 percent; and in September we have an additional EUR1 billion bond maturing, on which we are paying 4.75 percent, so, clearly, more expensive than the return that we were getting on these tariff deficits and much higher than our current marginal cost of funding. So I think these are smart moves.

At EDPR, we continue adding wind power assets, mostly in U.S., under PPA, crystallizing value through the sale of minority stakes, not only in U.S. but also, in 2016, in Europe, with a very good deal that we have already presented in the first quarter. On the debt side, EDPR has also been actively prepaying some selected project finance debt, which, in the first moment, represents a one-off cost, but that will be clearly earning-enhancing, taking into consideration the access to cheaper intra-Group funding. So we are replacing high cost debt with lower cost debt.

Finally, at EDP Brasil, we executed in June a very successful EUR1.5 billion capital increase, with a strong demand from institutional investors, and in which EDP subscribed its 51 percent stake at an exchange rate, by the way, of BRL4 per EUR1, so better than today. This equity injection puts EDP Brasil in a strong position on a relative basis versus its Brazilian peers in terms of soundness of capital structure. And the cash proceeds are being used to repay the most expensive debt in which we are paying around 17 percent interest cost. So not only the cost was high, but also, given the significant restriction on intra-Group fiscal consolidation in Brazil, a key element, these interest costs were not contributing to reduce our income taxes. So, this clearly reinforces the earnings-enhancing profile of this capital increase, even without considering any eventual investment opportunity.

I would like to say that this active management of assets and liabilities will result on a reinforcement of EDP's capital structure and credit profile; but, at the same time, will also allow the Company to improve on earnings dynamics by investing on assets with an



attractive risk return profile, and selling assets when and where we see market condition as more favorable.

Another source of earnings enhancement is clearly to pay down the most expensive debt, and raising funding from cheaper available sources, thus, gradually decreasing our average cost of debt.

Slide 6. As our results for the first half of 2016 show very clearly, we remain on track to deliver on our medium-term targets and we have made solid progress in all five cornerstones of our strategy that was, once again, presented in London, in our Investors' Day.

Starting with focused growth, our recurrent EBITDA grew by 15 percent compared to last year, as I've mentioned, supported by strong performance all major business areas. We maintain a clear visibility on growth with our installed capacity growing 5 percent, focused on wind and hydro. This growth strategy continues, executed under a strict financial discipline, with net debt presenting a 5 percent decline.

By pursuing this strategy, EDP is able to reinforce its distinctive profile amongst European utilities, with a portfolio of high-quality assets and competitive technologies, on one hand, as shown by the weight of hydro and wind in electricity generation in the first half, which achieved 75 percent, and with a strong contribution from long-term contracted and regulated activities to EBITDA, on the other hand, which has represented 83 percent of EBITDA.

Efficiency. We are well on track to meet our targets. The 25 percent ratio shows that we are serious in this field.

Finally, our recurrent net profit increased by 20 percent.

All of this underpins our commitment to deliver attractive and sustainable returns for our shareholders, and allows us to reiterate our commitment on the growth of the 2016 dividend, to be paid in 2017, to the level of EUR0.19 per share, as the new floor.

So, on slide 7, looking into year-end. In terms of financial outlook, the first-half performance, and our expectation for the second-half, leads us to upgrade our guidance for three key financial metrics.

Let's start with EBITDA. The better-than-expected performance in first-half by our generation and supply, and also in terms of operating costs, together with the improvement prospects on Brazilian Real, and the forward sales already closed for the second-half of the year, leads us to upgrade our previous guidance of EBITDA, above EUR3.6 billion, to a new guidance of around EUR3.75 billion.

Moving to the net profit level. The stronger EBITDA growth should be partially mitigated by some negative one-offs on the financial results, leading to an increase in our expectation from around EUR900 million, it was the previous one, to around EUR950 million.

Regarding net debt, already including the EUR200 million impact from the capital increase in Brazil, which was not in our previous guidance, together with a stronger organic free cash flow generation, the higher amount of sales of regulatory receivables allows us to guide on a sharper reduction in net debt. Rather than a EUR900 million reduction in net debt during 2016, we now guide over EUR1.4 billion reduction in net debt, to around EUR16 billion. So the new target is, instead of EUR16.5 billion, to be around EUR16 billion.

Looking beyond 2016, even if we are now focused on this, since our Capital Markets Day in May, we saw, globally, some positive developments in all the markets, but also a few positive regulatory and fiscal developments in some of the main countries where we operate.

So, on regulatory terms, we expect a positive impact from regulatory review of Escelsa, was better than expected, to be announced within a couple of weeks, with a material impact. On fiscal terms, the flexibility of PTC's rule in U.S. that was announced after our Capital Markets Day, is definitely good news for our medium-term growth prospects in the U.S.

So we are moderately more optimistic towards regarding prospects for our financial performance result for 2017 versus the moment in which we presented at our Capital Markets Day. So we feel today better than in that day in London.

As usual, I will pass now to Miguel, Head of IR, for a more detailed analysis; and then, we can go back for the Q&A. Thank you.

**Miguel Viana:**

Thank you, António. Starting for slide 9, in terms of EDP's global electricity generation portfolio, it was strengthened, during this first-half, with the more competitive renewables.

Installed capacity went up by 5 percent, mostly with new capacity in wind, in U.S., Portugal, and Brazil; also, new capacity in hydro in Portugal; and the shutdown of one coal plant in Spain.

Electricity production went up by 19 percent, benefiting from new capacity, but also from improved hydro and wind resources in Iberia.

In terms of EBITDA and the EBIT performance, the year-on-year comparison is significantly impacted by some gains in the first-half 2015. Our EBITDA fell by 3 percent year-on-year. Nevertheless, if you adjust for the EUR384 million impact from Pecém acquisition, badwill, and the gain on the sale of Gas Murcia in the first-half 2015, and, in the first-half 2016, the gain on the sale of Pantanal in Brazil, our adjusted EBITDA grew by 15 percent. At level of EBIT, due to the same factors, EBIT with 8 percent decline year-on-year; excluding these adjustments, recurring EBIT going up by 20 percent.



Regarding the overview of Iberian market in first-half 2016, we can see that electricity demand was flat in Spain, and with a slight negative performance, minus 0.3 percent in Portugal, penalized by weather, and also slowdown of economic activity. Hydro production went up by 58 percent in Iberian markets with hydro coefficient in Spain of 1.50, so 50 percent above average in the first-half 2016. This implied a decline on thermal production by 37 percent year-on-year. And moving now to gas demand, we see a 2 percent decline, mostly related with a decline in terms of use of gas for electricity production, minus 12 percent, while conventional demand in gas was flat year-on-year. Overall, this means that the strong hydro volumes that we refer justify the 36 percent decline in terms of average pool price to a level of EUR30 per megawatt hour in the first-half 2016.

Moving to generation and supply in Iberia, it showed an EBITDA growth of 27 percent to EUR137 million, with our own hydro production going up 117 percent, reflecting hydro conditions, and also the new capacity increases and with hydro weight in our generation mix increasing from 35 percent in first-half 2015 to 64 percent in first-half 2016. This has strongly contributed to a decline in terms of average sourcing costs, which results from a 45 percent decline in terms of average generation costs and also, even the low pool price, a strong decline of 33 percent in terms of average cost of electricity purchases. We also maintained a long market position on clients, with electricity production in these period representing only 57 percent of the sales that we did to clients. These results are also impacted by a good result in terms of active management of the strong volatility in energy markets that we saw in this first-half 2016.

Moving to regulated networks, in page 13, we can see that our EBITDA went down 13 percent. Nevertheless, when we exclude the impact from the gain on the sale of Gas Murcia in the first-half 2015, our adjusted EBITDA went up 3 percent year-on-year, supported, essentially, by the improved remuneration for electric distribution in Spain.

At EDPR, our renewable business, show an EBITDA improvement of 18 percent, with our EBITDA of our renewables operations in North America going up by 11 percent, reflecting an 8 percent capacity increase, higher load factors (although still below historical average) and 11 percent decline in average selling price.

In Europe and Brazil, so EBITDA going up by 24 percent, reflecting the full consolidation of ENEOP assets since September 2015 and above-average load factor and a 4 percent average selling price decline in Europe.

Finally, in Brazil, our EBITDA of EDP Brasil is strongly impacted by capital gains: in the first-half 2015 from Pecém, so BRL885 million, and, in the first-half 2016, the gain on the sale of Pantanal, BRL278 million. If we exclude these capital gains, we can see that adjusted EBITDA growth of EDP Brasil was 29 percent, with generation increasing 34 percent, given that in last year we were penalized by hydro deficit losses, something that



it is not occurring any more in this year. And also, in 2016 we have the full impact of six months of Pecém, while in 2015 we had only 1.5 months. Distribution, a decline of 38 percent, penalized by a decline in demand; also here, an increase in terms of the costs on the resale of over-contracted volumes, which penalized our distribution division.

Moving to slide 16, in terms of the total amount of the regulatory receivables in the Portuguese electricity system, in the first-half there was a EUR85 million increase, impacted by strong wind volumes, so 13 percent above annual average; also, the low pool price, which increases the over cost of renewables, this is related, essentially, with a very low pool price, EUR30 per megawatt hour, impacted by the strong rain in the period, and also demand slightly below what was assumed for this year. Overall, we expect a decline of the total regulatory receivables on the Portuguese electricity system during the second-half of the year, benefiting from the seasonal lower renewables volume and also the recovery in pool prices.

At level of EDP balance sheet, net regulatory receivables decreased by EUR851 million, mostly impacted by Portugal, in which we saw an increase close to EUR600 million from change in system debt attributable to EDP and with a tariff deficit sales having a positive impact of EUR1,250 million. In Brazil, we saw also a significant decline, even moving from regulatory receivables to regulatory payables, following the decline of energy costs in Brazil.

Net investments stood at almost EUR21 million in the first-half 2016, significantly impacted by a big amount of asset rotation, so more than EUR800 million, two deals, one in U.S., and the other one in Europe. And we continue having our expansion investments, focused in wind PPAs, mostly in U.S., hydro conclusion in Portugal, we have still have two hydro plants to finish, and also the conclusion of Sao Manoel hydro plant in Brazil. Our maintenance investments continued focused in our regulated energy networks, namely, in Portugal, Spain, and Brazil.

Moving to net debt, in page 19, it has decreased by 5 percent in the period, EUR0.9 billion, reflecting EUR0.5 billion of free cash flow; EUR0.9 billion of decline in regulatory receivables; close to zero adjusted net expansion investment; dividend payment of EUR0.7 billion, so we have already paid the full annual dividend; a slightly negative impact from ForEx, namely, due to stronger Real; and the positive impact from EDP Brasil capital increase.

So, overall, the EUR0.9 billion decline of regulatory receivable support the debt reduction and the adjusted net debt being flat year to date, post the full payment of annual dividends.

In terms of profile of financial debt, we continue with the diversified mix in terms of currencies, with our investments and operations funded in local currencies, to mitigate



ForEx risk. And our average debt maturity stood at 4.8 years, on average, which represents an extension versus the 4.6 years that we had by June 2015.

Regarding the position of financial liquidity versus refinancing needs, we can see that by June we had a financial liquidity of EUR5.6 billion, resulting from EUR1.5 billion of cash and equivalents, and EUR4.1 billion of available credit lines. This EUR5.6 billion fully covers the refinancing needs that we have until the end of 2018, which stand now at EUR4.4 billion.

Financial results, down by EUR25 million. But I would highlight that net interest costs went down by EUR56 million, reflecting the lower average net debt and also the decline in terms of average cost of debt by 20 basis points. Financial results also penalized by the BCP impairment, EUR27 million, and lower gains related to tariff deficits. And also, at level of "Other" includes EUR22 million from EDPR project finance prepayment fees, and also the lower interest on regulatory receivables. So financial results, essentially, penalized by the impairments on BCP, and EDPR project finance prepayment costs.

Looking to the adjustments on recurring net profit, we see that last year, big impact in terms of non-recurrent from Pecém, EUR132 million; the sale of Gas Murcia, EUR85 million; and, of course, the extraordinary energy tax, EUR61 million. This year, much small impact, which, on a net basis, is minus EUR45 million - essentially, the impact of BCP impairment, and the maintenance of the extraordinary energy tax.

So, overall, post these adjustments, we have the recurrent net profit going up by 20 percent, supported by EBITDA growth, namely, in Iberia and also, the decline of net interest costs.

Overall, in terms of P&L, the EBITDA decline of 3 percent; depreciations, going up by 7 percent, reflecting the increase of installed capacity; financial results, as I've already referred, penalized by some one-offs; income tax increase reflects a lower effective tax rate in the first-half of last year, due to one-off gains, namely, Pecém and Gas Murcia; and the maintenance of the extraordinary energy tax at close to EUR60 million.

Finally, we have lower amount of non-controlling interest, which also are related with lower one-off gains at EDP Brasil level.

Finally, we reach to a net profit which goes down by 20 percent, but, adjusted for non-recurrent items, represents a 20 percent increase year-on-year.

I'll pass now to the Q&A session, and we can go for the first question.

**António Mexia:**

Thank you, Miguel.

**Operator:**



Thank you. If you wish to ask a question via the phone line, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the hash key. You can also submit a question via the Q&A tab on your presentation.

The first question on the phone line comes from Pablo Cuadrado. Please go ahead.

**Pablo Cuadrado:**

Yes, hi, good morning to everyone. I have just three questions, please.

The first one is on the net CapEx. We have seen a negative number during H1, and, clearly, that's leading from all the asset rotation at EDPR. I remember, from the Capital Markets Day, that the guideline for 2016 and 2017 was on net CapEx of EUR1.2 billion. I wonder whether you can update that number, and which is the figure that you are expecting for this year?

Second question will be on the electricity distribution business in Spain, following the new regulatory terms that has been approved. I was wondering whether you can provide the wrap of the business. And where do you see the EBITDA at the end of the year with the new terms that have been approved, that imply an increase in the revenues for you?

The third question is on the net debt, and the new guidance. Clearly, the new guidance is EUR16 billion, which is a EUR500 million reduction versus the figure that you have reported at the end of H1.

But given that the dividends is already paid, and also taking into account that you should have the cash in from disposals at EDPR level, which, I think, if I recall, were at least EUR400 million, and also you have the recent securitization of additional EUR800 million that you have done in July, shouldn't be the net debt decreasing farther? Or, basically, is that CapEx is going to increase massively or strongly during H2, in order to make the math? So just if you can run either with the numbers, or if I'm missing anything here. Thank you.

**Nuno Alves:**

This is Nuno Alves. I'll try to answer the first and the third, and leave the second.

The commitment on the net investment to EUR1.2 billion is maintained. We have no reason to change it today, or everything is got a name and a surname, so we're right on track on it. It might even be slightly higher, due to the new tax equity requirements in U.S., but it's immaterial for the calculations. So EUR1.2 billion net investment in 2016 and 2017 is the number.

Clearly, we have an asset rotation this year, which is a bit higher than we had planned, so you're probably going to have a little lower in 2016, and a little higher on 2017, but on average of EUR1.2 billion will be maintained.



And as far as the net debt number guidance, you're correct - most of the impact's up and down, is that the CapEx that we will have on the second half and, as usual, and because most of it today is on wind, typically, it comes after the summer, and it's in the fourth quarter that is fairly heavy. So that's the numbers run today, I give you a rough number of 16. I'm not saying it cannot be better, but it won't be materially better than that.

**Miguel Viana:**

Pablo regarding the RAB base in terms of electricity distribution in Spain, there was no material change versus the preliminary figure that we presented in the Capital Markets Day, so EUR0.96 billion, which is fully in line with previous guidance.

**Operator:**

Thank you. Your next question on the phone line comes from Carolina Dores. Please go ahead.

**Carolina Dores:**

Hi, good morning. Thanks for taking my questions; I'll limit it to three.

The first one, on the comments on commodities looking better on 2017, I wonder if you could share what is your hedging level 2017? And how does that compare versus the 2016 price?

Second is tax rate has been a bit higher in the first-half, and I know part of it is related to the tariff deficit securitization, but just wondering if you could give us an idea for the year.

Third question is you've done EUR2 billion of securitization, part of it you ended up giving back to the system, or collecting less in the second-half, so I wonder what do you think would be the level of receivables by year end? And what do you think is the optimal level of receivables that you can hold on the balance sheet, since this year you clearly speeded up the securitization? Thank you very much.

**António Mexia:**

So, Carolina, thank you for the questions.

In terms of commodity, as you now, the hedging season, typically, is the second-half, towards the end of the third-quarter.

At this stage, we have exactly the same hedging ratio that we had last year, in the same moment, so we feel comfortable with this. And compared to the guidance that we gave when we met in London, and we meet today we have rather the same feeling, if anything, slightly better. But in terms of hedging policy, we have exactly the same rate as we had last year, in this moment.



In terms of tax rate, you are right, in the first-half it was; but we will end up the year end, between 20 percent and 22 percent. So much lower than we have in the first-half, because of the reasons that you have mentioned.

In terms of receivables, Nuno, following...

**Nuno Alves:**

In terms of receivables, I would expect the year end to be EUR1.2 billion to EUR1.4 billion, mid number, EUR1.3 billion, I think is best guess today. But, obviously, that can change if we'd have some more interesting trades going on throughout the year.

So, I would say, as of today, that would be the maximum, 1.3 by year end. In terms of the definition that we have for receivables, we've always stated that we have no problem with the risk of the asset. We have defined internally, with the Supervisory Board of the Company, that the maximum we would carry would be EUR2.5 billion. We've never got to that number. We got very close, but we never went above. And, clearly, with the sales that we've done this year, we'll never get close to it again.

So, from a balance-sheet perspective, we have decided to reduce it. We can never get close to zero. I think we can get close to EUR1 billion. Below that, until it's gets fully paid, we'll probably have to carry it in the balance sheet. But I don't think we'll go back to EUR2 billion anywhere in the future.

**António Mexia:**

Thank you, Carolina.

**Operator:**

Thank you. Your next question on the phone line comes from Javier Garrido. Please go ahead.

**Javier Garrido:**

Good morning. Three questions, if I may.

The first one is on guidance. Your previous guidance on 2016 is very clear, and there are clearly provisions that are exceptional for 2016, like the hydro situation. But a few of the reasons are sustainable, like the OpEx, or the lower financial costs.

How do you feel about the 2017 consensus estimates, which, at present, would suggest a broadly flat EBITDA, and a decline in net income versus your revised guidance for 2016? Do you think that we can extrapolate a portion of the upgrade you made today into 2017?

The second question is where we are on the situation with the Portuguese Government. Do you have any conversations about the profile of the elimination of the Portuguese

tariff deficit; whether there is any ongoing discussion to extend that beyond 2020; if there is any discussion about the special energy tax?

And the third question is did I understand right that you are looking for a 20 percent to 22 percent tax rate for the year? Or is that for the second-half of the year? Thank you.

**António Mexia:**

So, let me see. The fact that we improve the guidance for 2016, of course, has to do with a better environment for Iberia; but it's also, we have seen positive all over the place. So I think, as you mention, the character of sustainable makes sense.

In what concerns 2017, and also having in mind some questions that already raised today, the only thing is it's not the moment. Of course, we feel comfortable with the consensus, but I am more optimistic today that I was in May. But we will talk this later on. But the good news today is that we feel much more comfortable for 2016; that, at least, we feel more comfortable also for 2017.

In what concerns the tax rate, it's for the full year, so 20 percent to 22 percent for the full year.

In what concerns the Portuguese Government, as you can imagine, Javier, we have been talking about tariff deficits, and other issues, on a recurrent basis. Tariff deficit: as everybody knows, the tariff deficit was supposed to turn to zero, with exception of the tail of the first bond that was sold in 2009, that is staying until 2024. We are talking about, in any case, of EUR500 million.

We see the dynamics still in place, clearly, to assure that the tariff deficit will evolve in that direction. We see a reduction in 2016. We see then a stronger in 2017, as it was foreseen. So we feel comfortable with the assumptions behind; and I think that one year more, one year less, we are there.

In what concerns CESE, our position has been very clear. We have accepted, between brackets, the sense that it was a temporary tax, where everybody was supposed to do an effort. We have a very clear position and our reaction will follow what will be the discussion of the budget for 2017.

As you know, in London we have already showed what we expect for 2017: that, clearly, we expect a movement, in the sense that this is unjustified, discriminatory, unfair. And we want to see a progressive reduction of the sales, as we have already stated in investors' room, but also all over the place, including with the Government.

But we will react according to what will be included in the 2017 budget. As you know, it's too early.

**Miguel Viana:**

A question from the web, Jorge Guimarães, Haitong. It's to clarify if net profit guidance includes or not the cost to either extraordinary energy tax? So, yes, it includes. So these numbers that we are giving is in terms of the total net profit.

**António Mexia:**

It includes everything that are, let's say, the negatives in what concerns the more political decision, like sales, like social tariffs. So the guidance includes all those negatives not vanishing until the end of the year, of course.

**Miguel Viana:**

Can we go to the next question please?

**Operator:**

Thank you. Your next question in the phone line comes from Martin Young. Please go ahead.

**Martin Young:**

Good afternoon to everybody. Firstly, may I congratulate you all on your country's victory in the Euro Championships? We haven't had a chance to speak since that event.

Then, two questions, kind of picking up on what's already been discussed. Around the 2017 guidance, as Javier suggested, there were a number of items in 2016, such a stronger Brazilian Reais, and operating costs, which undoubtedly will roll through into 2017.

When I combine that with what you were saying around Escelsa and the PTC situation at Renováveis, why can't you be more positive on 2017, unless, of course, there are some things that are working against you? And, if so, what are those things that are working against you?

And then secondly, on the tariff deficit, obviously, you've securitized, in the first-half, EUR1.2 billion, yet your share of the Portuguese deficit went up around about EUR600 million, so it's a net impact in Portugal, EUR600 million in. Why has your share gone up by EUR600 million in the first-half, given that the tariff deficit in its entirety is broadly level? Is that because that broadly level position is the net of two reasonably significant numbers? Thank you.

**Nuno Alves:**

OK. I'll try to explain the tariff deficit. The tariff deficit is an annuity of capital and interest. Every month the system pays part of capital and part of interest, so when you sell the deficit to investors they are receiving capital and interest every month. That part of the capital, and the interest, comes from the system, and we are financing that part.



So every time you sell something you will continue to support and pay to those payments. So when you sell EUR100 million, by the end of the year, net-net, you probably negative only EUR80 million, because you had to pay another EUR20 million to the outside.

So it's never like a balloon payment that they will get only at the end. If it was, you would be correct; but because they are paying principle every month there's the EUR1.2 billion that you saw is only about EUR600 million/EUR700 million of net for us. And that's why I've also guided EUR1.3 billion at the end of the year, despite having sold another 800.

**António Mexia:**

Martin, concerning 2017: we have time. We are now at August, after the celebration of - thank you for remembering our first big cup for the Portuguese football - I look more or less lunatic in a restaurant, where I was surrounded by French; and then I started running all over the place alone.

So, as usual, we are distinctive. I think that the capital markets are better; energy markets are better; ForEx market is better; the cost front is better; the asset rotation is better. So, clearly, it shows that we feel comfortable with this new guidance for 2016. We will have time for 2017. Let's see if the winds are in the same direction. And now, let's all benefit from our vacations. I think that we are in a good moment in the Company, with a good results, and we will talk about 2017 closer to 2017. But, as I mentioned, I feel I'm much better today, much more optimistic today, I feel better today than in May, in London, overall. But let's start with 2016.

Thank you, Martin. And I think it was the last question, so, thank you, everybody. Enjoy August. Hopefully, a lot will come to Portugal to enjoy the nice weather, everything will be around between 33 and 34 degrees next week. So, we wait for you.

Thank you. Bye-bye.

**Operator:**

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