



[Video Presentation] (02:54:07-02:55:33)

**Miguel Viana**

So, we can start now the Q&A section. Just waiting for the rest of the presenters to join. First question, from Macquarie, José Ruiz, please.

**José Javier Ruiz**

Thank you. Just two very quick questions for Mr. João Manso. Can you share with us what has been the share of minorities in the post-tax earnings by 2020 in EDPR?

And second question is if you can confirm that you are not including in your target of growth of net earnings the extension of useful life of wind farms? Thank you.

**João Manso Neto**

So, regarding the first question. So, the weight of minorities will be rather stable in terms of during this business plan, will be about 35%.

Regarding the second question. Yes, I confirm. The numbers I gave don't include any possible extensions.

**António Mexia**

Just in what concern shares of minorities at EDP level what we have seen for – what we anticipate for 2020 was – is at the same level what was already presented two years ago for 2017. So, it's a clarification that I want to give. So, in 2020, we will be as expected in 2017. So, it's not growing in the group.

**Miguel Viana**

Martin Young from Royal Bank of Canada.

**Martin Young**

Yeah. Two quick questions from me as well. You didn't mention the assumptions around tax and it's growth through to 2020. So, could you say something about your expected tax rate, that cost that period, and also what you expect for 2016 tax rate given the movements that we saw last night in your Q1. And then, the second question is about the extraordinary contribution that you're currently paying in Portugal. What are your latest assumptions about the evolution of that across your business plan period. Thank you.

**Nuno Alves**



Corporate tax – average for the period should be 26% and then in a couple of years, there will be some benefits but you'd have to deduct to the 26%. But typically if there's nothing special, that's the average rate you should use, 25% to 26%.

**António Mexia**

In what concerns extraordinary contribution let's be clear: this tax should already be out of the system. We are aware that, of course, it's already in 2016. In our basic figures, not because we accepted to be, but we consider that it will stay in 2017 and it will have a progressive reduction as it was already anticipated prior to this, on a phase out until 2020.

But let's be clear, it's a tax that is non-efficient, discriminatory and we will of course do what we have to do in what concerns removing what some think that does not make any sense or fair positioning. It's because it's not only our company. It's the sector by, as a whole, the energy sector. So, but we have been – not to be – to give figures that are based on optimistic vision but it's not to say that we are not working, we are not doing what we need to do to fight for what is fair and efficient.

**Miguel Viana**

Next question from Lawson Steele from Berenberg.

**Lawson Steele**

Thank you. First of all, perhaps, António, could you comment on carbon? I know you've been very positive in the past coming through your Eurelectric presidency. And you sort of, at that time, go back a couple of years or so hoping that the carbon might reach €15 per tonne. Obviously, you haven't saw, as kind of disappointed to both. Just a general comments on how you think the French decision on 1st of July may sort of spill over to Spain and Portugal, et cetera?

Secondly, on cost cutting, could you mention the implementation cost please and how does this split over the five years and whether or not you're treating those as ordinary or extraordinary in your net income guidance?

And then on the tariff deficits receivable in Portugal, what could derail the production in receivables in other words what commitment is there to allow or grant tariff increases of 1% to 2% per annum as you've said? Thank you.

**António Luís Guerra Nunes Mexia**



Okay. We'll talk about CO2 and tariff deficits, and then Nuno is the gatekeeper of the cost cutting, of the team of the cost cutting. CO2 is the variable that has changed last and fortunately compared to what we expected two years ago. I think that everybody believes that it will move – when it starts moving it will start moving faster than expected. So, the question is exactly when.

I believe measures like the French one are good, they put pressure to have a more global approach at this at the European level. So, I think the fact that you have already in UK, the fact that we are considering this in France is really the signal that if you want the market, the so called markets we have a role in – in taking carbon out of economy, the first ideas to have the right price. So clearly, hopefully, this will put additional pressure.

Whenever we talk in Brussels, everybody understands that we should be talking to the easily between – at least in the corridor but even in the official meetings – between 15 and 20, sometimes people talk about 20 in 20 but we have already even commissioners talking about 20 next year. What they would like to see. But it's a question that clearly, I have no answer, but I think also MSR as being underestimated the power, so we it will start having more impact on this. So, if anything, we will be contributing to a debate on a most dispensable CO2 price increase in the market. I don't know if you want to answer João.

In what concerns the cost cutting – tariff deficit, how it derails. Miguel Stilwell has already mentioned one thing that is important. The fact that you have a social tariff keeps also the discussion about any tariff increase but much more rational and much more framed in what concerns on an average bill in a country where you have 55 – an average bill that's a round figure 55 at 2% increase means 1€ a month.

So, even if the inflation is – would be zero, if we increase 2% above the inflation, we are talking about €1. So, I think the system is design in a way that you can have a normal discussion – normal decisions in what concerns these, these variables. By the way, we have proven that it was the case in the last three years in a row. With increases that respected that principles so I don't anticipate any need if the tariff deficit is supposed to be unwind until 2021 and when you compare to Spain where it's supposed to stay for longer. It's supposed to stay until the end of the next decade. You could move differently but I don't see any reason why to change this now because we are talking totally manageable tariff increases.

Costs?



**Nuno Alves**

Lawson, I don't know if I understood your question. Essentially the way we measure the cost is straightforward. It's – you do – you calculate what the cost should be under doing nothing, so you would include inflation and the upscale in the cost, and then by doing something you reduce those cost. So, you compare those lines and that's the cost you save and that's what we've been doing in the past. None of this cost are considered as extraordinary, okay? So, they come clearly from the accounting page of services and personnel. Those are the two lines that count.

**Lawson Steele**

Sorry. Just to give a clarification. What are the costs involved, implementation costs involved?

**Nuno Alves**

I would say that the cost already exist because it's totally developed in-house. So, we've clearly in the first round of this we had external consultants involved but they left us the tools, so we've got the software and since then it's sure. It caused a bunch of meetings between people, but it's all internal. So, we have no external cost for that.

**Miguel Viana**

And next question, Antonella Bianchessi from Citi.

**Antonella Bianchessi**

Yes. Hello. Good morning. Just three questions. The first one is that you mentioned that there is a lot of risk over the next few years also related to the rates. Why don't you accelerate the securitization of the tariff deficit? Is this a possibility, is this something that you are considering?

The second question is on EDPR. We see the CapEx skew towards the end of the decade. If you were to see an opportunity, a value-creative opportunity, would you reconsider the stake EDP owns in EDPR to, maybe, favoring the acceleration of the CapEx and the acceleration of the growth of EDPR?

And finally, on your generation strategy in Portugal, you are discussing about the coal margins and also the pump storage opportunity. Do you see any risk that the technology and the CO2 and some – will kind of reduce the contribution of those assets to your profitability in the medium term? Thank you.



**Nuno Alves**

So, securitization, as shown on the business plan, I think it was €800 million this year and the next. And then, going down to €500 million a year. What I can say today is that €800 million has been done. And at least for 2016, we can revise the guidance to well over €1 billion. So, as – we can have that. I think that answers your question more directly.

**António Mexia**

In what concerns changing our stake in EDPR. At this stage, changing anything is not in our agenda. In what concerns pump storage, the only thing is: in any case is always the cheapest technology. So, if anything in the world where you have renewables and water together they – by the way, they work very well together: it's good to have pumping when you have, in countries where you have a lot of wind and as you know Portugal has the second in Europe in terms of share – so, I think it's important to – there are things that will live happily together, hopefully forever.

**Miguel Viana**

Next question, Carolina Dores from Morgan Stanley, there.

**Carolina Dores**

Okay. Hi. Hello. I have three questions. First one, I just wanted to understand a little bit better the adjustment from the CMECs by the end of – by the mid-2017. One, what is the schedule? So, one, we want to know the size of the adjustment. And two, if these adjustments will flow through the P&L from 2017 to 2027?

Second question is regards to not sure if for João or Nuno, EDPR leveraged or we don't have targets, but if you then calculate EDPR is net-debt-to-EBITDA, you will get 2.3 times. If you don't want to be overly conservative, what is the cost of social tariff that it's included your business plan from now to 2020?

**António Mexia**

So, Miguel, you want to start the CMEC?

**Miguel Stilwell de Andrade**

Yeah. So the – on the CMECs, basically as I mentioned, we already have a certain part of the receivable, approximately €517 thousand in 2016. The final adjustments is done then in mid-2017. And as I mentioned, that value is going to be basically calculated as a difference the €61 million which was implicit in the original calculations, €61 million increasing to €70 million in 2024 and basically what the price, what the sort of price would

be calculated now for the same period. That will flow through to the P&L. It's basically in annuity, which will then be received until 2027. So, yes, that will impact the P&L. It will be basically on top of the market revenue.

**João Manso Neto**

Okay. So, regarding the leverage, I see in the case of EDPR, when we look at the leverage, we cannot look just for the debt, the financial debt. We have to add always the debt plus the tax equity. And in that case, I would say that the plan that we present gives a comfortable one but not an excessive one. So, but again, looking again only to the debt and not adding the tax equity investments, I would say would not give the right answer. So, the balance sheet is solid but not strong in that way, not if you add both things.

**António Mexia**

Carolina, last. By the way, the previous question, you didn't know to ask if it was João or Nuno? It's the same. In what concerns the cost of social tariff, we have considered more than €40 million a year starting with 0.5 million families so more than 1 million people at the end of this year but for us it's clear that – we have already stated this, it was already in the presentation – I think that the rule falls in Portugal. By the way, it's a standalone solution. It's the only country that adopted this. It's really not in those, it's not fair, it's not efficient and if we like the idea of social tariff but it should follow the rules that are proposed by the European commission, by the European parliament and so we will be working in order for Portugal to adopt something that is European philosophy and not just local philosophy.

**Miguel Viana**

Okay. Just for the sake of time we will take more one or two questions. Maybe here, Stefan Bezzato from Credit Suisse and then last one afterwards.

**Stefano Bezzato**

Yeah. It's Stefano Bezzato, Credit Suisse. Three questions if I may. First of all, in the planning presented today, do you have any room for non-organic growth should you see distressed assets or attractive valuations in the markets where you are already present.

Second question, can you provide the split of the net investments for 2016 and 2017 between the gross part, the gross CapEx and the asset rotation.

And one more question on your assumptions in terms of power prices. You're assuming the Iberia recovery to €50 per megawatt hour, what would be the impact of your EBITDA if we don't see this recovery coming? Thank you.

**António Mexia**

Okay. In any case, these plans and business plan never include non-organic. But obviously Setfano, I was clear in the sense that we – discipline is the key word and by the way stress assets is something that a lot of people have talked a lot in the last since 2008 but I have not seen a lot of cases where people basically did good decisions in acquiring those assets. So, it's not included and at this stage we don't see any reason to spend time in Iberia or considering – in Europe considering about this. And in concerns net investment growth, João?

**Nuno Alves**

Gross for the group. So, talking roughly about well over €4 billion gross and then asset rotation of €1.4 billion. Of those €1.4 billion, €1 billion is done.

**João Manso Neto**

€1.1 billion.

**António Mexia**

Assumptions in Iberia, Miguel?

**Miguel Stilwell de Andrade**

On power prices, so I think first in terms of thermal, it doesn't really have any impact because we're not assuming any difference in thermal prices from now, so we're assuming that growth or that state is sort of constant throughout the period. Regarding pumping, obviously as I mentioned what's important is the peak/off-peak spread not independent again of absolute prices. In fact, as we see increasing volatility from renewables, we think that stays constant.

In terms of the hydro, I mean naturally in what I mentioned in the presentation, we expect to have a good hedging in place also through our client portfolio. So, I don't have the exact number but well because it depends obviously on the sensibility of the impact but it should be relatively low or lower.

**Miguel Viana**

To the last question, Javier Garrido here. I don't see it very well. Sorry.



**Javier Garrido**

Good morning. It's Javier Garrido, JPMorgan. I have three questions. The first one would be on the Brazil. I still struggle to see the relative merits of a capital increase versus options particularly a disposal of Pecém – given that that could allow you to crystalize immediately also the tax benefits that you are chasing with the capital increase, could be the tax benefits that you are chasing with the capital increase – so, what is the relative merit particularly in light of Pecém status as not fitting in your portfolio of renewables?

The second question will be on an – I mean, back to the topic on minorities. I'm more interested if you have a figure of what is the FFO to net debt adjusted for minorities. Because in the – my sense is that the amount of FFO captured by minorities is bigger than the amount of net debt. So, if you have any guidance on the adjusted figure, that would be very useful.

Finally, apologies in advance because it's a sensitive topic, I guess. But is there any consideration about the role of China Three Gorges in a sense that it's regarded as a partner but it is becoming also a competitor in Brazil. Is there any consideration in the board about how the role of CTG can be considered in the future? And what would be needed to change this consideration as a partner versus a competitor? Thank you.

**António Mexia**

Miguel, they want to start with the...

**Miguel Setas**

Yeah. Concerning Pecém, we've focused our strategy in the last two years in consolidating its performance as I've shown you, we had a very sluggish ramp up of that power plant. So we are in the middle of that stability program. So, we understand that this power plant is under consolidation process.

We've improved operational – in operational terms as you've seen and we've reached the 90% threshold that is required by the regulatory commitment. We are working also in the regulatory engines to fine-tune all the rules that are applied to this power plant and to optimize its economic results. You've seen that we've been able to reverse the negative results of the last two years. But we consider that Pecém is still under consolidation process, is not yet ready to be considered for disposal.

**António Mexia**





In what concerns the minorities, we will give you to the exact figure later on. I think it's a good question. We'll give the detail. Consideration about CTG as partner or competitor. We don't have any issue. Since the beginning, we have proven that both parties would want to work together in Brazil. It's a market considered important for both companies. But we have always worked together to know when we should be together or when we should not be together, and an example was the auction of the old hydro power plants, both the scale and obviously the nature would not make sense for us but it was very meaningful and important for CTG. By the way, interesting also because companies with different refinancing issues down the road, that's obvious. So, this has been very transparent, very pragmatic and we don't see any risk. By the way, the nature of design of the Brazilian market reduces considerably any problem of confusion between a partnership and competition. So, we see ourselves clearly as partners.

**Miguel Viana**

So, we conclude now. We have the lunch out there. Just for the workshops at 2:00 PM in your badges you have a color. And so, the color corresponds to the color of four rooms which is the room where you'll stay. So, we'll have four workshops; one on strategy and financials, another one on Iberian business; another one on EDP renewables; another one at level of EDP Brazil. So, you'll stay – it's going to be half an hour, each workshop – so, you'll stay in the same room and EDP teams will move for each of these four teams, half an hour for each team.

So, thanks very much for your presence and please join us for lunch in the next room.