FINANCIAL RESULTS

H1 2019

July 30, 2019

Good morning, ladies and gentlemen, and welcome to the conference call on Engie's 2019 half-year results, organised by Engie, along with Ms Isabelle Kocher, Chief Executive Officer of Engie, and Ms Judith Hartmann, Executive Vice-President and Chief Financial Officer.

Isabelle Kocher

Good morning and thank you for being with us today. I'm very pleased to welcome you, alongside Judith Hartmann, our CFO, to present our results for the first half of 2019.

I will start with a few key observations and an overview of the numbers, and Judith will then provide an analysis of our results and also full-year outlook. And Judith and I as well as Paulo Almirante, our COO, will then be happy to take your questions.

Our first-half results, which you saw earlier this morning, are aligned with Management's 2019 phasing expectations within the year. And I'm pleased to report that these numbers reflect a performance improvement in our Client Solutions business line. A very positive Q2 swing in our Client Solutions COI trend was reported. Q1 was atypical, as we told you; Q2 is much stronger and much more in line with what we expect for the full year. And this stronger underlying performance was accompanied by some positive one-offs coming from Suez.

Looking at H1 overall, our growth was driven primarily by, first, Energy Management, which drove performance through some successful long-term supply contract renegotiations, and by optimising the positions of our businesses. And, second, and very happily, the long-awaited performance recovery of our Nuclear operations, with improved operational availability, output volumes and prices. These positives were partly offset by a reduction in our Networks contribution, as we anticipated, mainly driven by temporary gas transmission volume impacts.

In Renewables, very strong fundamentals – in particular strong growth in Wind and Solar – was more than offset by weak hydrology. We continued to make positive strides in the implementation of our strategy, which I will describe in a moment. Progress was particularly notable in Renewables, as we took some big steps in our organic expansion, as you heard from the team in our recent investor seminar. And, as Judith and I described in our call last month, the TAG acquisition represented a significant step in the growth and diversification of our Networks activities.

For H2, we expect our prior-year comps to ease, comparatively, in particular, in relation to nuclear availability and French hydrology. And we expect continued growth momentum in Client Solutions and Renewables, with organic growth in Thermal and an improved trend in Networks.

Given these expectations, we are confirming our previous full-year 2019 guidance with growth expected to be weighted towards H2.

Let's now have a look at our key H1 numbers.

EBITDA and COI were €5.3 billion and €3.2 billion, rising organically by 2% and 6% respectively.

Net Recurring Income (Group share) on continued operations is flat year on year due to a higher implicit tax rate, as in 2018 we benefited from tax optimization.

Net Debt stands at roughly €26 billion, a gross increase of 2.8 versus the end of 2018, mostly due to the TAG acquisition and the extraordinary dividend that we paid in May in lieu of a 2019 interim dividend.

CFFO decreased, mostly due to commodity margin call timing and movements in other financial derivatives, but our Operating Cash Flow increased in H1.

Before we cover the financials in more detail, I'd like to briefly review our major H1 business developments.

In Client Solutions, our strategic progress continued with the win of a significant DHC contract in Canada and the acquisition of Conti, an American energy services player with strong capabilities and an attractive customer operations footprint.

In Networks, our TAG acquisition in Brazil has now begun to generate meaningful earnings accretion.

In Renewables, we commissioned 1.4 GW across North America, Brazil, India, Australia. As regards Brazil, I'd like to congratulate our team for the commissioning of our biggest windfarm ever, Umburanas, with 360 MW of capacity. We have also made further progress towards our 9 GW incremental capacity target. We have now secured 8.7 GW with some of these new projects already under construction.

In our Thermal and Nuclear power generation activities, our teams in Belgium have now successfully restarted all of our nuclear plants, while we continue to decarbonise our portfolio through various coal disposals this year.

Turning now to key challenges, in Client Solutions, we faced some difficulties in our Canadian entity, which are currently being addressed by a dedicated action plan and costs related have been taken in H1 accounts. We continue to see very substantial growth opportunities in North American Client Solutions. We are accelerating our development, hence the integration of recent acquisitions with short-term integration costs expected to drive significant growth acceleration in the medium term.

In Thermal, we have been impacted by the UK capacity market suspension. Last November, the European Union's general court annulled the Commission's decision to accept a capacity mechanism scheme for Great Britain. We expect resolution of the matter and a reinstatement of this mechanism later this year.

In Renewables, hydro volumes in France and Brazil will continue to be subject to climate volatility. And, as we have highlighted earlier this year, H1 volumes were low, very low, and we expect a better, more normalised trend for H2.

Finally, over the next few months, we will have the regulatory review of the remuneration and investment plan of most of our French regulated assets.

On another positive note, we are on track to deliver on our Lean 2021 target. Our primary cost actions in H1 are related to IT, real estate and procurement. We are confident in our delivery plans for the programme over the coming years, covering both cost efficiency and revenue optimisation as a meaningful contributor to our earnings momentum.

And I will now hand over to Judith to look at our financials in more detail. Judith, your turn.

Judith Hartmann

Thank you, Isabelle, and hello, everybody. Let's now look at our H1 performance by business line.

First, Client Solutions. As we flagged in Q1, Client Solutions profitability had a soft start into the year due to a few recent contract timing effects and renewals. In Q2, those headwinds began to reverse, and the business line delivered a much improved underlying performance, benefiting from higher decentralised energy results and on-site generation performance. Indeed, excluding Suez, Q2 was up 9%. H1 revenues were up 10% and COI increased 4% excluding the favourable 50 M€ settlement between Suez and the Argentine government earlier this year. We experienced some difficulties in a few entities, for which action plans have been launched, and I expect improvement to be further evident in H2.

Finally, development costs have increased, constraining margins in H1, as we continue to lay the foundations for a range of newer growth businesses, particularly in the US, including startup costs in the electric mobility and microgrid segments.

We thus remain confident in our Client Solutions outlook for the rest of the year and we expect mid- to high-single-digit COI growth for FY 2019, again excluding the one-off at Suez for the Argentina benefit.

We expect Q2's strong underlying performance to continue into the second half, as we expect continuing revenue growth momentum supported by an increasing backlog. Our recent contract phasing headwinds are expected to subside, notably in the UK. We continue to address some selected market dynamics with performance plans to further improve our competitiveness. And contributions from tuck-in acquisitions will deliver greater impact in H2.

Let's now move to Networks, where COI was down 6% in H1, primarily driven by gas transmission. This was in line with our expectations and due to two factors. First, a negative volume effect in France, mainly due to the merger of the North and South gas market zones. This led to a curtailment of North-South transfer revenues in H1, the impact of which will be largely recouped over the next two years through a regulated expense and income clawback account. Second, and as anticipated in our current regulatory mechanism, GRTgaz 2019 revenues are subject to smoothing, a delayed true-up mechanism to cover operating costs, which covers the 2017–2021 timeframe. The April 2019 annual revenue revision only partially covered the additional operating and D&A costs incurred by GRTgaz, primarily related to the Val de Saône project.

We also had several headwinds in other Network activities. In Storage, technical issues in France during the withdrawal period incurred penalties due to clients and we renewed some contracts in Germany at lower prices in a difficult market environment. And, as already mentioned in Q1, we faced a tough comparable due to positive 2018 one-offs in Latin America, notably, as you will remember, a liquidated damages settlement in Mexico.

Lastly, the major negative temperature effect that we had to face in Q1 has been largely offset by relatively cold temperatures in Q2, resulting in a limited negative year-on-year volume impact on H1 financials for French gas distribution activities.

Finally, I'm pleased to note that, late in H1, we saw our first incoming earnings from the TAG acquisition, following the June closing of the transaction.

And, turning to our total-year Networks outlook, notwithstanding the H1 headwinds, we are upgrading our full-year outlook for Networks to a low-single-digit COI decline in 2019. The most significant driver here is the inorganic earnings contribution of TAG, which will of course continue for the full second half of the year. Additionally, H2 will benefit from increased French distribution revenues in the summer.

Let's move to Renewables. COI was down 6% in H1 on a gross basis. Organically, Renewables COI is slightly down, with minus 2%, as a result of negative foreign exchange mainly coming from the Brazilian real.

Much lower hydro volumes in France, given both exceptionally strong 2018 hydro conditions and weak conditions in 2019, had a very significant impact on year-over-year performance, and alone drove the Renewables decline. At normalised hydro conditions in France, Renewables COI would have been up 10% organically.

Indeed, our Wind and Solar activities are posting impressive performances, with more than 50% organic COI growth driven by commissioning of new capacities. As mentioned by Isabelle, we have commissioned 1.4 GW in the semester, to be compared with 1.1 GW commissioned for the full year of 2018. And we benefit from the contribution of these assets together with the ramp-up of the ones commissioned last year.

Looking at the rest of 2019, we thus anticipate an acceleration in our Renewables profit delivery in H2 to a full-year growth rate of mid to high single digits. Although the weak H1 hydrology comparisons will inevitably impact 2019's overall growth rate relative to our medium-term run-rate expectations, our H2 performance this year will be enhanced by increasing Wind and Solar contributions in Brazil as well as the expected settlement for Brazilian hydro producers for past losses incurred in the free market environment. And the H2 performance will also be enhanced by a more favourable comparison for French hydro in H2.

DBSO project sell-downs and our associated booking of P&L profits across a range of targeted geographies are intended to take place mainly in H2 2019, as was the case in 2018. Their absolute level may be lower than 2018 given the extraordinary gain from the sale of historical French assets recorded in 2018.

Compared to Q1, the reduced full-year COI indication is a consequence of the lower hydro volumes in H1 together with a slightly less favourable foreign exchange in Brazil.

On the next page, you can see our Thermal and Nuclear businesses, which both delivered positive organic performance in H1 if you add them together. Thermal rose by 5% on an organic basis but was down 7% due to a combination of inorganic and partly non-recurring factors. The disposal of Glow in March 2019 had an impact higher in LNG sourcing costs for EcoElectrica, which is a gas plant in North America; the suspension of UK capacity market mechanisms payments since October 2018, are impacting our First Hydro business, of course.

These headwinds were only partly offset by positive 2019 one-offs (mainly in Chile), the ramp-up in Latin America PPA contracts and positive market price conditions in Chile, strong Australian performance (including higher power production volumes and prices) and, lastly, dynamic management of the optionality of our European gas generation portfolio.

Conversely, as expected, Nuclear COI was up 29% in H1, on the back of better achieved prices (up €3 per MWh), a lower depreciation charge following 2018 impairments, and the successful restart of all of our Belgian reactors, resulting in higher output volumes, up by 4% compared to H1 2018, as availability rose by close to 600 basis points this year.

For the full-year outlook, we are thus upgrading our expectations for Thermal and Nuclear. We expect Thermal COI reduction of approximately 15% (versus 20% anticipated 3 months ago), largely due to the positive one-offs booked in Latin America in Q2. The other drivers remain unchanged versus end of Q1, namely the impact from disposals closed year-to-date, partly offset by continuing PPA growth in Latin America and by higher Thermal spreads in Europe. And we're assuming the reinstatement of a capacity market mechanism in the UK. Excluding the inorganic impact of the Glow disposal, we expect a 3% increase in Thermal COI for this year. We also upgrade our Nuclear outlook. We now expect to reduce 2018's losses by 75% (versus 66% in our previous outlook). One driver is the recent postponement of plant maintenance of Tihange 1 from H2 2019 to H1 2020.

In Supply, the significant COI reduction of approximately 20% in H1 was mainly driven by continuing margin pressure in French retail and negative temperature effects in Australia. This was only partially offset by increased power margins in the B2B Supply business.

In other activities, our Energy Management business performed well in its renegotiation of long-term gas contracts and its international development. The year-on-year performance is partially offset by the 2018 comparable regarding the cold snap that we had last year (you will remember this).

In addition, our latest Group efficiency programme, Lean 21, has begun to deliver cost savings, also at the corporate level, and that is translating into our numbers.

In Supply, we now anticipate a slightly lower year-on-year decline in 2019, with COI to be down mid single digits. The upgrade mainly reflects a better outlook for our B2B supply power margins and colder temperature recorded in Q2.

In the Others segment, we expect 2018 losses to be cut by 15%, a slight improvement versus our expectation at the end of Q1. This reflects the good performance of Energy Management activity, yet in H2 this should normalise.

To conclude on the review of our operational performance, let's take a step back and have a look at our new matrix, providing you the granularity of financial contributions by business line and by geography.

By business line, first, as you can see, Networks is the largest contributor to our COI (about 42% in H1). Ranked by size, the other main contributors are Thermal (22%), Renewables (18%) and Client Solutions (14%). I also want to highlight the strong reduction in Nuclear losses weighing far less on our results compared to what we experienced in 2018.

In terms of geographies, beyond France, which represents 51% of our COI, we have two other segments largely contributing: Latin America (26% of the total) and Middle East, Asia, Africa (with 12% of the total).

Turning to cash flows, on the next page, CFFO was down by 800 million in H1 year on year, mainly due to timing effects from commodity-related margin calls and financial derivatives. Our operating working capital and operating cash flows have slightly increased. We expect CFFO to substantially increase by the year-end, mostly on the back of a significant reversal of the margin calls and financial derivatives. Our CFFO H1 2019 was significantly below versus H1 2018 (we mentioned most of this already in Q1) and so, again, this should reverse in H2.

If you now look on the next page, Financial Net Debt increased by 2.8 billion to 26.1 billion at the end of H1, mostly due to the TAG acquisition and the extraordinary dividend of 0.9 billion. Cost of gross debt at the end of H1 is 2.86% and decreased by 13 basis points since 2015. Financial Net Debt to EBITDA stands at 2.7x and Economic Net Debt to EBITDA at 4x. Excluding the TAG acquisition, which does not contribute yet to EBITDA, the Net Financial Debt to EBITDA ratio amounted to 2.5, slightly increasing compared with the end of 2018 and on the target of less than or equal to 2.5x.

S&P and Fitch have confirmed their ratings (A- and A respectively), both with a stable outlook, and Moody's has downgraded its long-term rating to A3 following the adoption of the *Loi PACTE* in France, that has prompted a reappraisal of its one notch uplift for government support.

With that, let me hand back to Isabelle.

Isabelle Kocher

Thank you, Judith.

So, to very briefly summarise the key points, our H1 2019 results are in line with overall Group expectations and phasing outlook for 2019. We expect growth to further accelerate in H2. Therefore we reconfirm today our full-year guidance for 2019.

And we are now happy to take your questions.

Q&A

UBS

Hi, good morning, everyone. Thank you for the presentation. I've got three questions.

The first one is regarding the Nuclear provision in Belgium. I think we have the triennial review later this year, which could imply, potentially, an increase. Could you provide us some details regarding the review process, the potential timeline, and also share with us your expectations of scenarios that you could have in mind?

The second one is on the Client Solutions: could you help us to quantify the growth you expect over H2?

And the last one: could you also update us regarding your M&A policy: what are the assets you're interested in mainly, and also the geographic and the area you are targeting?

Thank you.

Isabelle Kocher

Thank you very much. I will start with the M&A part of your question and then I will let Judith answer on Nuclear and Client Solutions.

On M&A, we continue to work on a pipe of small and medium-sized acquisitions. And they are – I'd like to insist on that – they are always extremely selective. We target key geographies (typically the US, as I mentioned with the recent Conti acquisition) or they target specific technologies (we recently for example acquired a player in the UK specialised in EVs, green mobility, electrical vehicle charging stations). So that's typically the kind of target we look at. No transformative M&A in our pipe, but really something that is extremely structured and selective. And with – I'd like to insist on that because that's really something we built over the last years – an integration process that is now much more systematic and much more efficient, "organised" let's say, than it was in the past. Judith, on Nuclear and Client Solutions?

Judith Hartmann

Yes, absolutely, thank you for these questions.

So, the nuclear provisions: you're right, there is a triennial revision that is going to happen this year. So, the way it works is that, in H2 there will be information exchanges with the commission of the nuclear provision and they will update their scenarios both on the discount rate but also on the industrial hypotheses / assumptions. And so we will get news by the end of the year, like you probably saw in our accounts notes, there is no impact of course on H1 yet (it's way too early) but we will have news on this at the end of the year. And we will of course keep you posted as news becomes available.

On your second questions, on Client Solutions, so, like I said earlier, the full-year outlook is up mid- to high-single-digit growth for the total year, which, you know, means that there is some underlying acceleration in H2. We mentioned it earlier: Q1 was quite unusual for us, in Q2 you can already see some improvement and we're really starting to see the topics kicking in that we were expecting to see, and so we are confident on the mid- to high-single-digit growth for the end of the year.

Isabelle Kocher

And, to complete that answer, I'd like to highlight that we are very confident in our Client Solutions dynamic. Our fundamentals are very solid, commercial dynamic is good (with, as you've seen, 10% Revenues growth). And I really would like to say that our asset base strategy is really promising. We have on the DHC (District Heating and Cooling) segment a lot of successes already and during H1, and a very promising pipe of, more generally, I would say, asset-based projects that are currently already under discussion, like of course DHC, but public lighting in a lot of geographies with interesting prospects in Brazil, in Europe, with integrated solutions, with on-site generation included, exactly as we did for Ohio State University, with a very interesting pipe of universities, again, in particular in the US.

Société Générale

Good morning, everyone. I have a few questions of details regarding H1 and the outlook for the full year.

Number one, the negative impact of the poor hydro situation: could you help us quantify in euro-millions how much it cost you in H1 versus last year? Or, more interestingly, to help us with our forecasts for next year, how much worse was it than a normal situation?

And the second question was trying to assess how much you booked in terms of DBSO margins for H1 19. You highlighted that most of it would be booked maybe in H2 and that 19 would book lower again than 19. Nevertheless, I'd be interested in the situation for H1.

The next question is on the Chilean one-offs. You did mention positive one-offs from that country. Could you help us quantify, please?

And last question would be on the Lean effort: how much cost savings did you book in H1 versus your FY budget? Thank you very much.

Judith Hartmann

So, bonjour Emmanuel, a good list of questions, thank you! So let me take them one by one.

On the Chile one-off positive impact in H1, it is related to liquidated damages. So, very often, when we build plants, they might be delayed by some of the contractors. Quite often, it leads to liquidated damages. And that was the case in the most recent Chile plant and the amount was, you know, between… was close to… was higher than 50 million, let's put it that way. So that was positive and, like I said, that's quite usual to have it when we have plants going online. And so… And we have this every year.

You had another question on the hydro in France, which, like I said, you will remember that last year we had higher than normal hydro conditions and this year we had lower than normal hydro conditions. And so, you know, you add it all together, versus last year it was a variance that was close to 100 million in terms of euros. And your question on, you know, forecasting for next year, I wouldn't take that as a normal year. I think we're going to continue to see variations in hydro, just like we always have seen, and that is of course going to be one of the elements that is going to flex. And, like I pointed out on Renewables more generally, the underlying improvement is very significant. You know, we're putting online close to double the Wind and Solar for the total year than we did last year. So, quite frankly, we're very happy with our Renewables performance. And then, like I said, the underlying hydro might flex from one year to the other.

Your question on the DBSO: indeed, like we said, it was lower, much lower, in H1 than what we are expecting in H2, and it was round about 20 million in H1.

And then you had one last question on Lean, which is a very significant driver of our continuous improvement of course, and it's important to stay competitive. And the impact in H1 was around 120 million this year.

Bernstein

Thank you very much for taking my questions. I have three at this point.

In terms of your guidance, you are confirming it; could you give us a little bit more detail, maybe if we are at the upper end or at the lower end, where your confidence level is with regards to the guidance range.

Question number 2 is on Client Solutions: you mentioned the contract in Canada and what you're doing to improve the situation. If you could expand a little bit more?

And also you mentioned – my second question on Client Solutions – the growth rate of high single digits for this year: are you still comfortable with the growth rate that you have given for over the plan, of your business plan, which was a little bit higher (if I remember correctly, 11 to 14%?). So, if you could just put these two numbers in relation, that would be great.

Thank you.

Judith Hartmann

Okay, thank you for the questions.

Let me start with the guidance: it's too soon to be more specific on high-end, low-end, but what I will say is that we're very confident. You know, I look at the H1 results, quite frankly they're better than our internal budget. We don't give quarterly guidance, of course, to the market, but we have our internal budgets and I really feel that we've created some buffer here, and so we are really confident in reaching the guidance for the total year. You know, what could be some risks and opportunities, as usual you could have, of course, Price and FX movements that could go both ways for that matter. Of course, you could have additional temperature effects. In H1, we were very happy that the temperature effects are close to zero, quite frankly, after a very big impact in Q1 almost completely offset in Q2. So that's very good. Again, it gives us some, you know, some confidence going into the rest of the year. And then of course I would mention two things that are on the regulatory side: we mentioned the capacity payment in the UK. It is our assumption that it's going to be reinstated and that assumption comes from the fact that this was contested on administrative reasons and not on the actual content of this. So, we are confident that this is going to be reinstated. But that's an assumption, of course. And then there is also an assumption in there, like I mentioned in my presentation, on out of merit order reimbursements in Brazil and it is also something that we have included in our assumptions.

Now, with respect to your questions on Client Solutions, yes, indeed, we're confident in the growth rates. I think the examples that Isabelle gave were great examples of showing the underlying commercial dynamic that we're seeing and the types of topics that we're going after. And, again, I mentioned it, that the COI growth of Q2 was 9%, we mentioned the 10% sales increase, so quite frankly we're confident that we can reach the guidance that we've just mentioned on Client Solutions. And, yes, we are committed to execute on the guidance that we had given, the mid-term guidance that we had given at the Capital Markets Day. You'll remember that we had mentioned that there will be some tuck-in acquisitions that are going to help us. Quite frankly, we're going to see it in the second half of the year already, with a contribution from some of the acquisitions done last year and early this year. But that's going to continue over the course of the next years.

Bank of America

Good morning, just one question from me, on the Client Solutions business again: you mentioned that there'd been some difficulties in a few small entities and that you'd sort of launched an action plan to deal with these. I was just wondering if you could give us a little bit more detail as to exactly what's happening: has this been some sort of systemic problem across a couple of businesses or something specific to particular projects?

Judith Hartmann

So, Peter, thank you for the question. No, it's not systemic. You know, we want to make sure when we present the results that we're balanced and not just talk about all upsides but also talk about some of the things that we're working in terms of pressure points. And clearly this is a business where every now and then we're going to have pressure on certain contracts. I had mentioned, at the beginning of the year, you know, some timing of contract renewals, H1 versus H2, some pressure on UK and Italy, you will remember these contract prices. And then we're working also on some action plans on costs in certain areas – especially Canada is a point in case at this point in time. But, again, I think, you know, we will have those kinds of topics in this kind of business. We're obviously staying close to it and we have very quick action plans that we put in place and so that's where the confidence comes from for the rest of the year.

J.P. Morgan

Yes, good morning. I just wanted to get your views on the consultation paper that was published by the regulator regarding the ATRT7, so the gas transmission regulation. The range they provided seems actually fairly good. What is your take on it? And, basically, do you see some level of read-across on the general approach of the French regulator towards gas assets? Thank you.

Judith Hartmann

Bonjour Vincent. Thank you for the question. Indeed, there was a communication by the regulator earlier this week, or earlier this month I would say. You know, it's too early to speculate about potential outcomes. Obviously, there's going to be an exchange of information and the process has only started. So we're going to have more detailed news in H2. The CRE consultation, like they mentioned… a range of 3.6 to 4.4%, I would say this is relatively in line with the expectation that we had borne… I mean, interest rates have come down in the last six months, again, so there isn't any big surprise there. I would note that this also includes assumptions on a lower tax rate. So, you know, that would impact your COI but then of course below COI would have a positive because we're going to benefit from the lower tax rate. So it's early days. But we're going into this with a positive spirit and are looking forward to a constructive exchange with the CRE on the topic. On the read-across, quite frankly, yes, there will be a read-across on some of the other businesses but, like I said, constructive exchanges and looking forward to the exchange with the regulator.

J.P. Morgan

Thank you and, just to come back on the tax element, actually (we saw that), would it be possible for the regulator to actually go to this range making the assumption of a lower tax or should we expect something which may be more reasonable to say we would have, basically, a range which is 30 bps higher on the return and, if the corporate tax goes down, then you would have an adjustment for the pass-through? Thank you.

Judith Hartmann

So, on the tax rate, I guess I want to put two things forward. One is – I complete what I said earlier – is the remuneration of the asset base is an important element but it's obviously not the only element of our financial results. And so the point I was making… because, you know, then you have the other… you have topics that are indeed pass-through, you have the operational performance on the operating costs, and so you have different topics that can impact your bottom line at the end of the day. The remuneration percentage is an important input into this and the point I was making on tax is, you know, if the regulator looks at tax rates going down and they implement this in the remuneration range, then that's obviously due to the expectation that tax rates will go down. But, conversely, when you then look at Net Income, we should see that benefit also on the reduction of the tax rate. And so that will be partially offset. One of the discussions that are ongoing is whether or not this should be a pass-through element. But, again, it's early days and so it's way too early to give you specifics on this.

Isabelle Kocher

To complete that answer, just for the full clarity of that topic, the intent of the regulator is to have an adjustment mechanism. That is to say, if by chance the tax rates stay at their current level, there is a CRCP mechanism that allows the regulator to adjust the remuneration rate of the regulated asset base.

Morgan Stanley

Thank you but, actually, my questions have just been answered. So that's fine, thank you.

Kepler Cheuvreux

Hi, good morning. One question on my side, on the capacity market in the UK, you assumed that it would be reinstated in H2: can you please quantify what would be the impact of this and what has been included in your guidance? Thank you.

Paulo Almirante

So, as you know, the capacity market in the UK has been suspended, as it was mentioned before. We expect something of the order of €50 million to €60 million of capacity remuneration for this year and we are confident that it will be reinstated by Q4 2019. As you probably know, the money continues to be collected from the clients by the TSO and it is not distributed to the power operators at the moment, but we believe that it will be reinstated.

Isabelle Kocher

Well, thank you very much for attending this call and we all wish you very good holidays.