



EDP - Energias de Portugal

Friday, 31st July 2015

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**

Antonio Mexia

Hello, and good morning, everybody. Thank you for being present once more for the presentation of the first-half 2015 results.

When looking to both EBITDA and of course net profit, I would like to start that the six months were very marked by rain -- by two events: rain and dollar. We had really low rain in Iberia, but also low rain in Brazil and we have a really big change in the exchange rate of dollar/euro. And even with these two events, we have delivered according to the expectations. I would like to stress this at the beginning.

As you see, the EBITDA goes up to €2.13 billion, 7% year-on-year, and the adjusted EBITDA, if you correct by the Pecém deal built up 1% year-on-year to €1.74 billion. I will go this in more detail but, before we detail this, I would like to stress another thing that is important for the first semester is the sustainability of the Portuguese system.

We have for the first time, as it was already anticipated by us and shared with you, a slight tariff surplus in the second quarter. So clearly, we are in line in those concerns. The fact that we will see a flat tariff deficit stock in 2015 and then starting decreasing in 2016. So, this issue has been around for a long time and it's important that we stress that we are exactly where we expected.

In terms of net debt, we see an increase of 4%, but basically the increase is due to the Pecem deal, the increase of €700 million is exactly the same amount of the realized through the Pecem deal with the consolidation. And as you see, you have €300 million due to the ForEx, so the increase of the dollar. That is more or less the same as the disposal that we have done in this moment. So clearly, we will be where -- without the Pecem deal we were where we were expected to be.

The net profit is 7% down to €587 million, mainly penalized by financial costs with a huge percentage of non-cash items and I will talk about these later.



So let's go back to the results, to the EBITDA. First, as you see on page 3, the GSF in Brazil was 80%. That compares with 95% last year. In Portugal it was 0.75 (hydro coefficient) compared to 1.37. And the wind is also lower, but here it was compensated by higher prices and of course higher capacity. What you see clearly is, when it rains less in Brazil you have 18% lower generation, hydro generation.

And in Iberia, the big impact, less 40%. And here, this has a triple effect, the lower rain in Iberia. First, less revenue in liberalized activities. The second impact is we have already completed new hydros, but the lack of water means that they will start later than expected on a normal year. And third, of course, low rain, some slower wind, lower volatility on the pool, low energy management possibilities that were very, very strong in the first semester last year. And as you can see, wind and hydro represented in the first half 65% of the generation mix compared to almost 80% in the same period for last year. So, climate change in this semester is really impacting the figures.

In terms of adjusted EBITDA, 1% above supported by basically EDPR, EDP Brazil. And it's interesting to see what are the adjustments. Last year you had Jari and Cachoeira and also the benefits with the restructuring of the labor agreements that were as you remember were €129 million and €129 million. And this year, if you compare, you take away the disposal of Gas Murcia and the goodwill gain on Pecem acquisition and with these adjustments you still have an increase on EBITDA.

On the generation and supply, as you have seen, very strong impact of the lower hydro and lower energy management gains, but EDPR was positive in terms of recovery of the prices. EDP Brazil we have the positive impact of the new accounting of tariff deviations that, as you remember, was only decided at the end of last year, legally.

In terms of regulated networks, of course I would like to stress we've seen higher efficiency and a lower return on RAB due to the decreasing risk perception in the market for Portugal, as you know, for the indexation. So clearly, this is compensated elsewhere. It's good news elsewhere. It's of course lower return here. So overall, delivering what was expected even in a weak semester, mainly due to rain and a stronger dollar than expected with impact of non-cash item.

Miguel, if you like, you do the presentation and I will come back for the future and Q&A.

Miguel Viana

Thank you, Antonio.

Going through the market conditions in Iberia in the first half 2015, we can see that much lower hydro volumes versus last year and also an increase in demand, as we will see, lead to a surge in term of production and also pool prices in the first half 2015.

Regarding energy demand in Iberia, as we can see in the next page, electric demand in Iberian market went up 1.8% with a breakdown of plus 1.2% in Portugal and slightly higher, 1.9% in Spain, which show an economic recovery in both countries. Adjusted for temperature and the working days, demand was flat year-over-year in Portugal and showed an increase of 0.5% in Spain.

Gas demand went up 6.4% in Iberia and supported essentially by strong growth of demand for power production and CCGTs (plus 36.8%).

Regarding our electricity generation in Iberia, our production in liberalized market went up 17%, reflecting a strong increase in coal and gas production, which compensated the decline in hydro volumes.

Our hydro and coal plants in Portugal under PPA/CMEC showed a deviation between the contracted and market revenues; close to zero in the case of coal and UR 96 million deviation in the case hydro, explained by hydro volumes 39% lower than expected.

Moving to next page, we can note that our first half 2015 operations in liberalized market in Iberia were penalized by, as we have already stated, the weak hydro production, but also lower gains on energy management. These results are essentially from the market positioning of EDP, which includes significant weight of hydro generation mix and also a long position in sales to final clients versus our own production in the market, meaning that, as it can be seen historically, energy management gains tend to be much lower in dry years versus wet years.

Moving to the next page, as you can see in terms of adjusted EBITDA in generation and supply in Iberia, excluding the gain of new collective labor agreement in the first half 2014, EBITDA went down 21% year on year.

Regarding liberalized activities, EBITDA went down 40%, reflecting average generation costs going up 62% in the period on lower hydro volumes, and gains on energy management almost nonexistent in the first half 2015 versus very significant in previous year, and finally, also higher generation taxes.

Regarding long-term contracted generation in Iberia, our EBITDA went down 3%, mostly due to mini-hydro volumes decline by 44% versus previous year.

Moving to regulated networks in Iberia, our reported EBITDA went up 2%, including in 2015 the disposal of Gas Murcia capital gain of €89 million and, in 2014, an €87 million gain on the new collective labor agreement. Excluding these adjustments, adjusted EBITDA went up also 2%, reflecting the significant efficiency improvement as already referred, despite the lower return on RAB in electricity in Portugal.

Regarding EDP Renovaveis, our EBITDA went up 11% in the period. By major market segments, EBITDA went up 25% in North America in euro terms, or 2% in local currency, in dollars, supported by increase of 3% in terms of average selling price. EBITDA in Iberia



was stable, including a recovery in power prices in Spain, but also decline in terms of wind volumes, while other European markets went up 12% in terms of EBITDA reflecting higher capacity and also better average load factor, despite slightly lower prices in Romania.

Moving to the first-half 2015 environment in terms of the Brazil electricity system. We can see that the rainfall levels continued below historical average, but being better in the second quarter. So, 93% below historical average versus 58% below historical average in the quarter of 2015, so a slight improvement in second part of the semester. And this implies a strong thermal dispatch that continued during all the semester. And also, of course, with the hydro generation deficit going up 4 times from 5% in the first-half 2014 to 20% in the first-half 2015.

The good news came essentially from hydro reservoirs recovery from 19% in December 2014 to 37% in June 2015. Spot prices, so the PLD, going down by 43%, also reflecting the revision downwards of the cap. And also the material tariff updates implemented by the regulator with the support from the government, which also reduced the regulatory receivables at level of our distribution companies. The decline in power demand also was minus 2.1% year on year, which reduces the pressure on the system as a whole.

Overall, the risk of electricity rationing in 2015 is now extremely low, but hydro generators with PPAs, such as our case, continue to be highly penalized by declining hydro dispatch in Brazil.

As a result, as you can see in terms of EBITDA in Brazil, first we have our reported EBITDA in local currency going up by 98%, but strongly impacted as it was already stressed, one, the capital gains last year on the sale of Jari and Cachoeira Caldeirao to our partner CTG, 50% stakes, and this year the acquisition at discount of 50% in Pecem, which generated both gains in the first semesters of both years.

In distribution, our EBITDA in distribution last year, BRL 28 billion, was penalized by the non-accounting of BRL 340 million of negative tariff deviations in distribution. Adjusted for this impact, we can see that adjusted EBITDA of the Brazilian local currency was essentially flat year on year.

In generation, EBITDA is going down by 11%, reflecting higher generation losses, BRL 290 million versus last year near BRL 46 million, which were partially mitigated by more favorable seasonal volumes allocated to the first half of the year in 2015, and also the first EBITDA contribution from the operation of Pecem, so 45 days already in our consolidated EBITDA in second quarter 2015.

Distribution EBITDA went up 12% year on year, reflecting essentially the tariff increases that were implemented during the last 12 months.

Moving to operating costs, at consolidated level they went up 1% year on year or flat if we exclude the ForEx impact. By geography, in Iberia Peninsula operating costs went

down 2%, including the execution of our OpEx III efficiency program and also supported by headcount reduction mostly related to early retirements in Portugal. At level of EDP Renovaveis operating costs went up 2% excluding ForEx, despite the 6% increase in installed capacity. And finally, in Brazil operating costs in local currency went up 5%, clearly below inflation in the period, and including also 45 days of Pecem operating costs. Overall, the OpEx III efficiency program achieved €88 million of cost savings in the first-half 2015 showing a 19% improvement year on year.

Moving to net investments, they went down 14%, essentially reflecting €339 million of asset protection deals of EDPR -- at EDPR level. In terms of investments, 68% of the investments were related with expansion; expansion in wind power in US with PPAs, the conclusion of our hydro program in Portugal, and also the two hydro plants under construction in Brazil, and 25% of our investments were allocated to our regulated asset bases in our energy networks in Portugal, Spain and Brazil.

Moving to the next slide we can see that, regarding the evolution of regulatory receivables in Portugal, we have this time to highlight a slight tariff surplus in the second quarter of 2015 for the first time in several years. So, €10 million of tariff surplus in the second quarter, or still a slight tariff deficit of €38 million for the first 6 months of 2015, even being still penalized by the low hydro volumes in the period and also the slightly above average wind volume. So, wind volumes still 6% above average in Portugal.

We would complement that for this month, or for the month of July, the positive trend continues. We continue to see high power prices, CO2 prices recovery, which are both good in terms of cost and revenues. Also demand showing a good behavior. And also, finally, in terms of special regime production, not only a volume slightly below average, but also the lower cogeneration tariffs which are indexed to regulated gas tariffs. So, we continue on track to deliver an expectation of €5.3 billion tariff debt by the end of 2015, representing a zero tariff deficit for the year of 2015 for the Portuguese electricity system as a whole.

Looking to regulatory receivables at level of EDP balance sheet, they went down by €157 million, impacted essentially by more than €200 million decline in Portugal, which includes the positive impact from securitizations, the ex-ante tariffs deficit for the period of €750 million, but also positive (annual) deviations of more than €300 million.

In Spain the amount is very small, reflecting essentially our share of gas tariff deficits in Spain. And in Brazil, the increase was almost immaterial due to slightly higher energy costs than the ones incorporated in tariffs in Brazil.

In terms of net debt evolution in the first-half 2015, we can see that it is significantly impacted by the consolidation of Pecem. So Pecem increases net debt in this second quarter by €0.7 billion, so €0.6 billion from the full debt consolidation of Pecem and also €0.1 billion from the price paid for the acquisition of 50%. The other significant impact is the ForEx, so the stronger dollar. And note that 23% of our gross debt is US dollar denominated, essentially in natural hedging to fund our US operations of EDP Renováveis

and we had this negative impact in the first semester of €0.3 billion at net debt level. It includes also, of course, as normally in the second quarter, the full payment of the annual dividend in cash of €670 million, which always impacts our second quarter net debt figure.

Still on financial debt and in terms of average cost of debt, we can see that there was still an increase in this quarter, 10 basis point increase to 4.7% due to lower cost of some debt maturities during 2014 and during the first semester of 2015. While in terms of average debt maturity, it continued to increase of 4.6 years by June versus 4 years by December on refinancing at lower maturities.

In terms of financial liquidity, it amounted to €5 billion by June with a breakdown of €1.4 billion of cash and equivalents and €3.64 billion in terms of available credit lines, which cover the refinancing needs that we have until 2017.

Moving to financial results, we can see that the costs in the financial results increased from €245 million to €364 million, impacted by adverse ForEx and also the lower capitalized costs. This year-on-year change includes higher net financial interest, so it refers to 10 basis point increase on average cost of debt, and also the 23% appreciation of the dollar versus the euro, which affects the interest paid in dollars. Also the ForEx impact, essentially €14 million of losses in the first half of 2015 versus €33 million of gains in the previous year. This is non-cash essentially related with the US dollar and also with energy markets mark-to-market positions. We have also the gains on tariff deficit securitizations which are smaller this year, so less €20 million versus the previous year. And also the lower capitalized costs which are mostly related with the hydro projects under construction in Portugal, which are reaching conclusion.

Overall, in terms of P&L breakdown we would highlight that the adoption of IFRIC 21 accounting rule, we changed the account of levies at the moment in which they are due versus the previous linear accounting over the year. Impacted our first-half 2015 results by minus €45 million and by minus €43 million on the restated figures for the first-half 2014.

Overall, after the 7% increase on EBITDA we have a similar increase of EBIT in absolute terms; in relative terms, plus 12% at level of EBIT. Cost with financial results and associated companies increasing by 63%, as we saw before. Income taxes going down by 19%. We have the extraordinary energy tax in Portugal fully accounted in this first half of the year, reflecting the accounting change of IFRIC 21, so €61 million for the first half of 2015, which will be the same figure for the full year. And the increase of non-controlling interest by 79%, which reflects the gain of Pecem acquisition at level of our subsidiary EDP Brasil, which has 49% weight of minorities. Overall net profit going down by 7% to €587 million and adjusted net profit, adjusted for the effect of debt we saw before, going down by 23% year on year to €431 million by the first-half 2015.

I will pass now to our CEO for the final outlook.



Antonio Mexia

So, the further two slides. When you look into these results, I would say the results delivered according to expectations, both at the EBITDA level and net profit, despite the really low hydro both in Iberia, Portugal, Spain and also Brazil.

I would like to stress the cost control. We are flat ex-FX and even with the increase in dollar, we are just slightly 1% up. So, it means that we have been also focusing very much on the efficiency side. It tends to be less sexy, but for us it's critical we have been delivering as we remember all the OpEx programs. And once again we are above what we have committed to the market.

So before going and looking into the end of 2015, so year end, I would like to talk a little bit about Brazil. And why Brazil? Because in previous conference calls and also in all the road shows and our meetings, Brazil has been the topic. Half of the, eventually-- more than half of the questions have been always about Brazil in the last six months, not to say the last year.

And in Brazil, what I have say is that the recent developments in that market improve our perspective. We are today much better than we were a three months ago for several reasons and the first one, of course, is rain and the hydro reservoirs. As you see, the gap that was almost 80% compared to last year. It was already not fantastic. It was around 8%. And as we speak, we are -- today we are almost 1% above the same level on the key reason in Brazil. And I think that's a very significant change and a very important change.

As it is related also with the decrease spot price. As you'll remember, the limit was revised this year. In the first half, on average we were close to the ceiling of BRL388/MWh days, but in July we have already a decrease of almost 30% on the spot price.

At the same time, the demand evolution is in the right direction in say to put less pressure on the system and the decrease of 2.8% in the second quarter for the system overall is good news. So, this plus everything that is being discussed around the treatment of GSF means that we can only look into the future in a more optimistic way. And by the way, on distribution, the lower PLD also reduces the regulatory receivables. Of course it reduces pressure on customer service. And on the regulatory front the new return on RAB of 8.1% and all the negotiations involved with on this implementation also have been improving and so it's also good news.

So, Brazil clearly today -- we will be talking of course again in three months about rain in Brazil and how things are evolving, but today Brazil is much brighter than it looked three months ago and I expect to spend less time talking about Brazil.

In what concerns the end of the year 2015, we expect adjusted EBITDA reaching the consensus. If you see the reported EBITDA, our guidance is being above the €3.85 billion. If you take the capital gains and bad will, so the good news on the M&A front, and you



see the GSF impact also, if you incorporate this -- and we expect this of course to be lower than the figure that we have mentioned three months ago, so lower than the €150 million impact on the EBITDA, you are basically in line with the consensus.

Talking about net profit. Net profit, we are talking now about €950 million, assuming the average cost of debt of 4.6%. And to travel between EBITDA and net profit, I think it's probably what everybody is doing on the envelope so let's talk a little bit about it. The only addition, non-recurring impact on net profit that we are adding now is Pecem, around €130 million. Our previous guidance of the EBITDA was 3.6. As I mentioned the net profit was above €900 million. Already included the Gas Murcia and a significant GSF negative impact on the EBITDA.

The new guidance, excluding Pecem, above €950 million, brings let's say the adjusted slightly above the €820 million. The deviation to the 900 is basically divided in two things. First, I would say less than half around €40 million due to the lower legalized activities in Iberia. So we are talking of around €40 million with lower arbitrage opportunities compared to what we like. And the rest is basically non-cash mark-to-market accounting impact because of the dollar evolution. So, more than enough of it is non-cash, a small impact on evolution of real to the euro, but basically the €40 million is typically connected with expected legalized activities giving a lower impact. Lower why? Because lower than expected hydro volumes and so typically we see this as a normal evolution.

Talking about extraordinary adjustments. Capital allocation. I think that we have a balanced and value-enhancing approach. And even when we take out extraordinaries, it's important to see that they are decided because they are value enhancing. We see items where we can say that we have sold well. Eventually you say, okay, but now it's easy to sell. We need to do it in any case. I think that namely the asset rotation policy, the gas assets in Spain, the mini-hydros in Brazil that will only have an impact on the first quarter next year, but also a good deal, show that we have been doing well on the sales side. But we have also performed very well on the buying side. We have transformed an eventual problem at Pecem in a good opportunity, as we all know. The acquisition of Eneva's 50%, I think it's clearly a very, very good deal with a 70% discount to book value and of course value creating for our shareholders. We have the hydro on time. We have the wind under the construction. We have also the Brazil in terms of new hydros well developed. So clearly, all these investments and disposals, we see these as very positive and giving visibility to the financial commitments in the business plan up to 2017. At the same time, talking about YieldCo of course gives the visibility about crystallizing value of course value-enhancing opportunities in markets as we like, like the US.

So overall, we feel comfortable with the results. We feel comfortable with the year end. And especially also, we feel comfortable with the capital allocation policy that I think has been always value enhancing for our shareholders.

So, let's go for the Q&A, please.

Carolina Dores (Morgan Stanley)



Hi. Good morning, everyone. Thanks for taking my questions. I have three. First one, I understand the business, the reduction in expectations for net income for 2015, but I wanted to know how do you see 2016 numbers? Last quarter you said you were comfortable with the consensus which, from memory, was around €1 billion. Just wanted to know if you're still comfortable with that.

Second is your net debt. You need to bring it up by €700 million. Mainly, where is this coming from? Is it more securitizations?

And my third question is on Pecem, if you can give us an update on the status of that plant and when you expect to be operating as you would expect. Thank you very much.

António Mexia

So, I will talk about 2016. Basically, we feel comfortable with the consensus, both consensus EBITDA and net profit for 2016. At this stage we feel comfortable with it. So Caroline, no worries in that front.

Net debt, Nuno.

Nuno Alves

Look, the net debt figure of the €17 billion does foresee €200 million on securitizations of a deficit in the second half. It does foresee about €300 million of asset rotation in the US on the renewable side. And it does expect at least partial payment still this year of the CTG transactions which we expect to announce at the beginning of the fourth quarter. And with that, we should reach the €17 billion. So that does not clearly account on having a YieldCo in there because if we do the YieldCo then the number will be substantially below the €17 billion.

And as far as Pecem...

Antonio Mexia

So Carolina, in July we are above 90%. So, everything is going as we like. So Pecem has proven since the beginning of the year that structurally the problems are gone. The fact that now we are in full control of the company also helps. And we are at July, as we speak, above 90%.

Miguel Viana

Can we go to the next call, please? Next question?

Lawson Steele (Berenberg)

Yes, hi. Good afternoon, everyone. Thank you for taking my questions. First of all on Brazil. You're right, everybody asks about it. But what expectations do you have today for 2016 EBITDA for both distribution and generation? Obviously, assuming constant exchange rates and clarifying your hydro expectations and any other assumptions you



have. And maybe if you can also crystal ball into 2017. I know it's tough, but it would be helpful.

Secondly, we also know the short-term growth drivers for the Group, hydro in Iberia, Brazil, renewables and so on, but can you talk at least in general terms about longer-term growth possibilities for the Group, or is it just too difficult to contemplate about growth given the balance sheet constraints?

Thirdly, just a sort of a number one, really. In 2014 you had capitalized costs of €169 million. This year it declined by €36 million. So, what do you expect for the full year for 2015 and 2016, please?

And then just finally on the YieldCo, if you could update us on your thoughts. I know this is a long-term study, but you're obviously seeing what share price behaviors are happening to other YieldCos and I just wondered if you have any takeaways so far. Thanks.

Miguel Viana

Hi, Lawson. Regarding Brazil in 2016, so we have first in distribution the positive impact from the revision of return on RAB, so in the case of Bandeirante from next October onwards. And in the case of Escelsa, from August 2016 onwards, with revision of the return on RAB from 7.5% to 8.1%. So, we expect to have also positive news in terms of some benchmark in terms of the cost base.

In generation, of course 12 months of Pecem versus 7 months in 2015 and then, in the part of hydro. So, we would expect these developments more recent, both in terms of PLD, in terms of hydro reservoirs and in terms of eventually changing regulation to bring positive news flow on that front. But I would say that this is the more difficult parts to forecast.

In terms of currency, of course, as you know, the real has been a little bit weaker in the last couple of months. We have still also this expectation in terms of the gain with the sale of Pantanal, which expects regulatory approvals which can impact some EBITDA levels something like €80 million and level of net profit something like €20-something million in 2016 and that's also -- we have here some moving parts. I would say that this uncertainty in Brazil coming more of course from ForEx and from the part of the rain, namely in terms of generation.

Antonio Mexia

In what concerns long-term possibilities. As you see, we have been always trying to show exactly where we are going to invest and, if possible, being detailed on the projects. As you know, we are finalizing the hydro project in Portugal. In Brazil we are still -- we have of course Cachoeira Caldeirão and São Manoel. You have clear -- we have very clear detailed the targets for renewables in the short and medium term with visibility on the projects. So, that part is obvious. After this, what we have been trying, as you know, is we will be focusing on renewables in markets that we are already, much more important



than diversifying into ten new markets is developing further in a market that we are already. I think you would agree it's the best strategy and with low risk and better returns.

And as we have mentioned, but with no impact probably until 2017, is of course trying to find new possibilities in hydro with CTG in what will concern small and medium hydros where you can find good regulations, long-term contract, so in markets that basically must fulfill all the conditions that we want; visibility on the cash flows, the right to framework in terms of regulatory fronts, the right of taking, everything. So, these we will give visibility as soon as it makes sense. In any case, it will not have any impact on the next two years, which will be mainly driven by what everybody knows in detail.

The balance sheet constraint. It's a word that could look negative. The only thing that I would like to stress at this level is that we are fully committed with the targets with -- the balance between the growth and deleveraging, with the dividend policy. So, this is not -- we don't see this as a constraint. We see these as key targets that we have committed with the shareholders.

In what concerns the YieldCo, as you know, we cannot talk about this at this stage. We have been studying the possibility of listing a minority stake of an EDPR YieldCo. The only thing that I would like to say is a kind of Lapalisse. We will only do it if it makes sense for the EDP shareholders.

In what concerns capitalized costs...

Nuno Alves

Capitalized costs, just round numbers, total for 2015 around €85 million, for 2016 about €70 million.

Next question.

Lawson Steele

And there's a YieldCo question, too.

Antonio Mexia

The YieldCo, I've just told you. We cannot talk about it because we are just studying the possibility. And the only thing that I am saying is we will only do it if the market is there and in the conditions that will be value creating for the EDP shareholders. I am saying something that is obvious, but that has implications in what concerns the possibility of doing it.

Lawson Steele

Okay, super. Thank you very much.

Antonio Mexia

This looks simple, but it has a lot of meaning.

**Miguel Viana**

We can go to the next question, please.

Stefano Bezzato (Credit Suisse)

Yes, good morning. Just one question for me in relation to EU power market reform. Over the past few days your competitors have sounded pretty positive about the progress at EU level on power market reform. Someone has even mentioned the possibility of a reintroduction of PPAs in the future. What are your expectations, both in terms of timing and how we should imagine the future EU power market?

Antonio Mexia

Stefano, as you know, probably we were the first company, or one of the first, to talk about this market design reform and we have been passing the word and trying to explain to people how we need to work in a new environment where the new additions have zero marginal cost and where marginal pricing does no longer work and both have optimization and investment signals. The UK market is a good example of it. Whenever you need to do the investment, you need to recognize that you need to change something.

PPAs in the future. I think that this kind of hybrid model where you have no longer an marginal market alone, but you have a kind of an ex-ante competition with the competition mainly being made with auctions is something that we will see in the future. So the question is timing. As soon as you need new capacity. All the markets that need new investment will recognize reality. You need new kinds of models that will be kind of hybrid.

A little bit of the Brazilian flavor as you see Brazilians have been talking, not because the model is bad. The model is very good. It's because it was ill-implemented. So I believe that we will see rather sooner than expected a mixture of hybrid markets with spot markets and ex-ante competition with PPAs. And of course capacity payment is part of it. As you know, there are countries that don't like it because they believe that they can live without it, like Germany. But even at the that front we see evolution. But, it will be to our speculation, but we -- I feel more comfortable today than six months ago about this, as we have seen in the market. And we have been pushing. I've been pushing.

Nuno Alves

We've got some question here from the internet. There's a couple of questions here asking you to comment on the energy tax in Portugal and how you see it going forward.

Antonio Mexia

Energy tax, a typical question. The answer will not be different from what we have given three months ago. Our position is clear. The tax should go away in 2016. Being realistic, we know, facing what was already the commitments of the actual government saying that they will reduce it first to 50%, then to 25% and then it will go away. We have elections. As I have stated, it's -- when they look in a sustainable market as we see today



in Portugal so we don't need new measures, if anything we need to extract measures because the sustainability is there. We see energy tax as something that, going out of an extraordinary situation, it should go out as soon as possible, as quick as possible. So if it's not the case, we will take a decision in the right place, in the right moment, but let's wait for the measure next year. But in any case, we see it going away. The question is about the speed of it going away.

Next question.

Miguel Viana

We can go to the next question, please.

Unai Franco (Bank of America Merrill Lynch)

Hi to everyone. Thanks for taking my questions. First of all on Brazil. What exchange rate are you assuming in your plan for the second half? And then, could you please give us or elaborate a little bit on the GSF solution that the local press has been talking about, whereby the GSF risk would be eliminated in exchange for lower contract prices from 2017 onwards. And in the meantime, just if costs will be paid by concession extensions. That's what we've been reading in Brazil, so could you please comment on that?

And then next on the YieldCo. Sorry to go back to the story, but my understanding is that the idea is basically to unlock capital to invest in more profitable wind. Now, you've been successfully selling down on wind assets on an ad hoc basis, so why not pursue that route also in Europe? Do you really -- I mean do you expect better multiples if you go down the YieldCo route?

And then, in connection to this, if you were to raise more cash being with a YieldCo or more asset rotation, could you indicate to us please how could you redeploy that cash? What kind of -- potentially, what kind of contract -- or sorry, what kind of pipeline could you be envisioning in the US under the current PPC umbrella?

And then last, would you also consider selling down distribution assets instead of the YieldCo, both in power or gas?

And then a last question on the Iberian liberalized generation supply. The EBITDA was down 41% due to hydro, Spanish taxes, gas supply margins. Is this a new H1 -- so is this H1 sort of a new normalized level? How could be or should we think about H1 next year considering a normal hydro year? What are basically the comps there in terms of EBITDA? Thank you.

Antonio Mexia

Okay. Thank you, Unai. Exchange rate, I think at 3.5.

GSF extensions. We have been discussing with authorities -- by the way, we have been feeding the discussion with ideas, namely the concession extensions, capture the value, as I've mentioned earlier. So, we exported some of the ideas of Europe into Brazil, I think



it helps. What I believe is that the government really wants to find a solution. By the way, it is being pushed to find a solution because, as you know, they have some legal decisions, even if they are preliminary, that allows players to reduce the GSF risk to zero. I don't think that we need that zero. What we need is clearly the hydros to be less affected by decisions that don't depend upon them because it's not -- it was not only a question of rain, but also of management of the system.

What I really can tell you today is that we are discussing something that was denied three months ago and the discussions are detailed in the sense that we are discussing measures. The mix of measures. I rather not to be very detailed because I really don't know what will happen. But in any case, we are optimistic on that front.

In what concerns the YieldCo, unlocking and reinvesting it. The idea, why the YieldCo and not just the typical asset rotation. YieldCo is a proxy to asset rotation, but better asset. It must be better than the typical asset rotation that we have been doing. It's a reason why we have separated the US market in terms of asset rotation and the European YieldCo. It would be European. And the idea is, clearly it gives you -- it must give you better value -- the unlocking must be better than the typical asset rotation and that's one of the key criteria. If not, it doesn't make sense. And of course the idea is to reinvest in a pipeline where we have good visibility in the sense that, due to the stock of projects that we have, we feel comfortable on the possibility of unlocking and reinvesting. So, that movement will be a movement that will be simultaneous.

In what concerns question number five, distribution, selling and distribution instead of -- namely other deals on the YieldCo that we are now analyzing. The question is, no. Why? We like the profile of EDP. I think that we have stressed this in the recent past. Changing this profile in terms of stability of the cash flows and the lower risk approach and -- it doesn't make sense in our opinion and we prefer to keep it.

Liberalized market. Let's be very clear -- we don't see -- and hopefully I was clear enough, and also Miguel. We don't see this as a new normalized Iberian market. Last year was, as we have state at that moment, a very good one, more -- better than normalized. But this year is clearly worse than the normalized one because we basically are almost half of the hydro capacity and 25% below what is a normalized year. So, you should not consider this as a new normalized. Last year was better than normalized.

Miguel Viana

We can go -- on the sake of time, we can go to the last question, please.

Martin Young (RBC):

Good afternoon, gentlemen. I'm just going to limit it to two questions. The first, to pick up on the issue of your position in the liberalized market in Iberia and your strategy towards it, given that long position that you have in customers, have you not thought about trying to close that volatility gap to a degree by buying some elements of power forward and, hence, obviously presenting shall we say less volatile results quarter on quarter?



And then secondly, getting back to the YieldCo, are you just looking to establish a vehicle which is fully populated with assets from the off, or would you be looking to establish a vehicle which has dropped downs and assets built up in it over time? Thank you.

Miguel Viana

Hi, Martin. Regarding the strategy in terms of clients, as you know -- so after 2017 we will change the regime of our PPA/CMEC plant. So, we'll have Sines coal plant and several hydro plants in the market. So today, the long position in clients will become essential neutral post-2017 given that we will have new generation already in the market without needing to buy any kind of assets. We have already the assets in our portfolio.

Regarding the YieldCo?

Antonio Mexia

Martin, regarding the YieldCo, I apologize but I cannot talk about it for obvious reason. We are considering the possibility. We will talk about this next time we meet, but at this state we cannot talk about it. The only thing that I would like to convey is clear that notion: better than asset rotation for the European market. Value enhancing for EDP shareholders, crystallizing value and rebalancing the risk portfolio, and of course taking -- focusing on assets in markets that we believe that this is the best solution to provide them. And what concerns the strategy and the rest, I can only talk when we take a decision. I'm sorry. I would love it, but I can't.

Martin Young

Okay. Thank you.

Antonio Mexia

Thank you, Martin.

Thank you, everybody, and have a good vacation, hopefully starting tonight, and see you soon. And if you come to Portugal, the good news, good weather and eventually we'll meet around. Thank you. Bye-bye.