EDP - Energias de Portugal
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Chaired by António Mexia

Company Participants

- **António Mexia, Chief Executive Officer**
- **Nuno Alves, Chief Financial Officer**
- **Miguel Viana, Head of Investor Relations**

António Mexia

Hello. Good morning, everybody. As usual, thank you for being with us for the first nine months results presentation. Also as usual, I will start then I have with me Nuno Alves and our Head of IR, Miguel Viana.

So if we look into our first slide, what I really would like to highlight is the fact that EBITDA rose 10% in the period. And then even adjusting for several gains that were achieved in this period and comparing like for like, so taking these out, last year and this year, we have an adjusted EBITDA that still growths 5%. And this growth is supported basically by what? By new capacity commissioned by EDPR, so in renewables; the recovery of our EDP Brazil and we will see this very strong in the third quarter of 2015; and, of course, as it's natural, some dilution of the weak hydro production and low energy management results that, of course, were very important in the first half of this year. In any case, this was partially compensated by better thermal production in the third quarter.

And I will also at this stage want to highlight the following. Costs: we have a 3% year-on-year reduction in Iberia. We have a 2% increase in Brazil ex-Pecém. I think it's also a very strong figure considering the inflation in that country. And, of course, I would also like to highlight the reduction by a 4% on the OpEx per megawatt in renewables.

So it shows how committed we are in putting more efficiency, always being already the reference I believe at Iberian level and also in renewables.

Second, our installed capacity rose by 8%. We're talking about almost 2 gigawatts of capacity. The current assets under construction, basically wind and hydro, should imply the commissioning of 2 gigawatts in the next 12 months. And, of course, this contributes our -- to re-enforce our portfolio with competitive assets and stable returns due to the nature of those assets.

In what concerns Portugal… Well, I see that in the first nine months the electricity system created a surplus. I think that we have seen too -- the two last quarters have shown this. So once again, it proves what we have been stating for a long time is that the sustainability of the system and that we are at the peak and we will see a reduction from ’16 onwards into the target of around €500m in 2020.

I think it’s also very important at this stage is that on October 15, as every year, as the regulator proposed tariffs for 2016, and this includes a 2.5% average tariff increases and the 400 million decline in electricity system (deficit). So we are expecting basically the conditions for the sustainability namely and what concerns certain increases and it’s already recognized this decrease on the deficit. I think it’s important. So the proposal is fully in line with the commitment to reduce the system deficit. It has been consistent and it’s going for already more than three years.

Finally, our net debt adjusted to EBITDA has decreased from 4.0 to 3.8, mostly supported by EBITDA growth and also reflecting the positive impact from the hybrid bond issued in September. So we have re-enforcement of our credit ratio as we all like to see.

Then our financial costs were penalized by a strong U.S. dollars but also by a lower capitalized cost. But, I would like to stress this again as I did, mostly by non-recurrent and non-cash items such as the mark-to-market of the U.S. dollar against the euro and also mark-to-market of the equity stake in BCP, but also one-offs like, and I think it’s meaningful, early repayment in 2015 of more expensive debt. Of course, this will contribute to a lower financial cost going forward. At the bottom-line, these elements imply the 4% year-on-year decline on the net profit.

On the next slide, what we see, I think it’s important looking into the future in terms of prospects, our -- we need to consider what? We expect that four hydro plants conclude or close to conclusions in Portugal. By the way, essentially pump and storage, they have a positive contribution mostly from the next summer onwards. So typically, I think we should highlight this. Hydro always take time but when they are there, very important. At the same time, we have already achieved a significant level of hedging in the liberalized generation, which, of course, reduces significantly our exposure to spot prices in 2016.

In renewables, we should benefit from the gradual delivery of new capacity. It was already committed. And even in the small part of the business with the exposure to power prices, we have implemented a sound hedging policy.

Finally, Brazil, we have been talking about Brazil, we see several positive developments in our business in local currency, such as an improvement in GSF, and we will see this in detail further on. And, of course, in the performance of Pecém, and even on the potential anticipation of Cachoeira Caldeirão, the new hydro, that was in the first version expected for January 2017, and now, we expect it for the beginning of 2016.

Of course, we have to see the nature of the improvement of Brazil and, of course, being offset by the devaluation of the Brazilian currency.

We see also a steady decline as we have been convening to you of the lowering average cost of debt following the refinancing deals in 2015 and the maturity of more expensive debts in 2016.

In terms of net reduction, a typical question, we have a positive trend, supported by the measures that we have been structurally taken, a material reduction in CapEx, following the completion of the four hydro plants in Portugal, a consistent decline in the regulatory receivables in Portugal, and, of course, further steps in the execution of the partnership with CTG that we can talk in detail later on.

So overall, what can we see in terms of our review for year end and the next future in: we reaffirm our financial outlook and the guidance for 2015.

If we now go for next slide, slide 4, we would like to highlight the following. In terms of asset allocation, we have been basically re-enforcing our portfolio in a consistent way in the last decade. I think that asset allocation policy of EDP created the difference between us and the typical representative of the sector, being double our -- doubling our installed capacity since the beginning of 2006. And by the way, in this period as to - I think it's a good figure - we have commissioned 11 gigawatts with PPAs or feed-in tariffs, so clearly reducing future exposure to market volatility.

In terms of slide 5, this goes beyond 2015 with a stronger impact on financial from the close to 2 gigawatts of capacity to be added by 2015. We are talking about more or less 500 megawatts of hydro in Portugal, 1.1 in renewables, more or less half new and, of course, half of the ENEOP consolidation and, of course, the 360 megawatts of Pecém, and all this with a low risk approach, long-term contractors.

So what is our focus, of course, is execution on time and on cost in order to protect the investments returns. This is - as we have been talking about efficiency in OpEx, we are talking about the efficiency on CapEx.

Our partnership with CTG is one that is important. We are totally comfortable with the guidance on the timing and the volume that we have been giving to the market. And EDPRs' asset rotation strategy, both together we will play an important role in order to balance the execution of growth with a strict financial discipline, that, of course, is critical to the faster improvement of financial ratios that are committed until 2017.

Let's see. Regarding EDPR asset rotation, we see an improvement of market conditions for private deals with institutional investment but also in the more traditional U.S. market but also in some European markets relevant for EDP as it's the case for Portugal and Spain with several sizeable deals closed in the last month, the volume namely in Portugal I think is quite impressive.

Another concern is CTG, let's be clear about the numbers. We have closed EUR 1 billion with already impact on debt. We have given visibility of EUR 1.3 billion and we want to give visibility up to EUR 1.7 billion until the end of the year, and this, of course, should have material impact on the debt on the first half of 2016. So we will approach -- we are approaching the 2 billion and the big chunk of this will have an impact on next year's first half debt.

In terms of slide 6, I think that sometimes we don't announce this enough. Our intensive investment around renewables in the past should allow us to increase the average residual life of generation portfolio. I think it's a relevant item when we discuss about the Europe and the European sector.

By 2017, we have -- we should have reached a competitive generation portfolio with more than 75% of our capacity being wind and hydro, just 10% rate of coal in compliance with the DeNOx and a material exposure to nuclear plants.

So clearly, the age and the profile of our assets show that we will be well equipped for the challenges in the European market. And we also expect overall in our business to reach 2017 with regulated networks and long-term contracted representing more than 70% of our EBITDA.

So going back to the results, a good quarter, I think very good result on the nine months taking into account the business environment and the recovery in Brazil that has been the one hot topic in any conversation and I think that it shows that we have been selling well throughout tough market conditions.

So I would like to talk about, before passing to Miguel, I think it's an important reminder, and I think that we have a distinctive equity story, the balance between growth and deleveraging, the controlled risk, the attractive returns. And basically, the visibility on profitable growth driven by renewables, we know where we are growing our most earmarked project.

The deleveraging committee -- commitment in -- we have clearly improved visibility on the medium term free cash flow, keeping the low risk profile, the sustainable dividend policy, I think that we have been very consistent on this and our -- and what concerns our current statements about the present but also what concerns the future of this policy.

And I believe that this has been giving us a distinctive profile amongst European authorities, and I think once again, the nine months figures and the last quarter basically once again proved what we have been saying.

I would like to pass now to Miguel for more details and then we will go straight for Q&A. Thank you.

Miguel Viana
Thank you. We can move now to slide 9. As we've already referred, our nine months 2015 results were penalyzed by weak hydro and wind volumes in our key markets versus a very strong nine months 2014.

Our hydro and wind production went down 16% in the period, resulting from hydro volumes in Brazil ramping down 18%, hydro volumes in Iberia going down 38%, and the reduction of wind and solar volumes on a pro forma basis down 4% when excluding the generation output from new capacity even though hydro and wind have represented 59% of EDP's generation mix in the first nine months 2015.

Our EBITDA went up 10% year-on-year, impacted by some one-offs which when excluded imply a 5% growth of adjusted EBITDA. This 5% growth is explained by a 16% growth of adjusted EBITDA at the level of EDP Renewables which reflects the recovery of prices, the new capacity but also some positive ForEx as we'll see later.

EDP Brazil also improved the EBITDA, adjusted EBITDA, by 49% as a result of negative tariff deviation in distribution in the previous nine months. Also the consolidation of Pecém since May, but still losses with hydro deficits both in the nine months of 2014 and 2015, and finally, of course, the negative forex from the Brazil devaluation.

In Iberia, our regulated networks show the 1% year-on-year increase in adjusted EBITDA, while generation and supply EBITDA went down by 13%, penalized by weak hydro volumes and energy management results versus a very strong first nine months of 2014.

In terms of overview of Iberian market in the first nine months of 2015, we can see that electricity demand went up 2.3% on a mix between recovery of the economy and some favourable weather conditions.

Hydro production went down 35% with the hydro coefficient in Spain at 0.70 versus 1.20 in the first nine months 2014, which implied that the coal and gas production increased on a combined way by 30%, in order to face this increasing demand and lower hydro production which supported also an improvement in terms of the pool price which was up 27% to EUR50/MWh, with gas extending its role at marginal technology in the Iberian market.

Regarding EDP in this market context, our liberalized generation portfolio showed a 19% increase in terms of production, with coal and gas production compensating the decline in hydro volumes.

Note that in terms of our PPA/CMEC generation, the deviation was in the first nine months of 2015 close to zero in coal, while in hydro which amounted to EUR80 million mostly due to hydro volumes, 32% below average.

In terms of our liberalized activities in Iberia and in terms of our market positioning, if you look -- if you look to the left here, we can see that EDP's market position is characterized by a significant weight of hydro in this generation mix. Also, a long position in sales to final clients versus our own production, and this tends to imply low energy management gain in dry years as it happened in this first nine months of 2015.

As a result, as we can see in the next page, adjusted EBITDA in generation and supply in Iberia showed a 13% decline year-on-year, with EBITDA from liberalized activities going down by 23%, penalized by higher average generation cost on lower hydro volumes, also significantly less gains on energy management even almost non-existent in the first nine months of ’15 and also higher generation taxes on higher production volume.

Regarding long-term contracted generation, EBITDA went down 5%, reflecting low inflationary environment and also a decline in mini-hydro volumes.

Moving to regulated energy networks, we can see that both EBITDA and adjusted EBITDA go down by 1% year-on-year. Of course, we -- the adjusted EBITDA excludes the capital gain on the disposal of Gas Murcia, EUR89 million gain, and this 1% decline on the adjusted EBITDA reflects essentially the lower return on RAB in Portugal on lower Portuguese government bond yields and also the sale of Gas Murcia whose both impacts were partially compensated by higher efficiency achieved at our subsidiaries.

Moving to EDP Renewables, we can see that EBITDA of EDPR went up 22% or 16% when adjusted for one-offs, increasing by - in North America - by 13% in euro terms, including a strong positive impact from the dollars, EUR49 million, but also some negative one-offs by the amount of EUR41 million, excluding these one-offs EBITDA in dollars rose by 6% supported by a 2% increase in average selling price and the 4% growth in terms of production.

On the other hand, in Europe and Brazil, EBITDA went up 28%, impacted by gains at level of ENEOP but also some write-offs in Europe. Excluding these, its adjusted EBITDA went up 8%, reflecting the recovery of pool price in Spain, even considering lower prices in Romania and also impacted by higher average capacity and load factor in several markets namely Italy, Poland and Romania.

Moving to Brazil, we can see that there was a clear improvement in terms of the environment of the Brazilian electricity system in the third quarter of 2015 namely through a significant decline in terms of GSF losses.

As we can see, EDP Brazil GSF losses net of hedging went down to BRL24 million in the third quarter and significantly supported by a decline in terms of the spot price, PLD, and also an improvement in terms of GSF, meaning that our hydro plants were able to produce at levels closer to the contracted levels.

Also, the hydro reservoirs are now more than 10% above what they were last year by the same period, openings, good, and the more optimistic scenario for the next month although we know that we are starting the rainy season over the next couple of months.

In terms of EBITDA of EDP Brazil, we can see that in local currency, it went up by 94% including the capital gains in the first nine months of ’14 related with Jari & C. Caldeirão and in the first nine months of ’15 related with Pecém.

When we look to EDP Brazil adjusted EBITDA, we can see that in distribution, adjusted EBITDA goes up 9% supported by tariff increases, while in generation, adjusted EBITDA goes up by 44%, impacted by Pecém consolidation since May plus BRL244 million.

The negative -- including the negative impact from GSF losses, losses of EUR314 million in the first nine months of ’15 and losses of BRL212 million in the first nine months of ’14, but also in this year, some favourable seasonal allocation of electricity sales volumes given the recent decline on PLD.

Moving to operating cost at consolidated level, a 1% increase but in our core market, we see in terms of Iberian business a 3% year-on-year decline in terms of cost, with cost savings being driven essentially by I.T. and client services, but also a 3% year-on-year reduction in terms of headcount, mostly related with early retirement.

EDP Renewables, we see a 6% increase of cost in terms of local currencies but if you consider the 8% increase in average installed capacity, we see that adjusted OpEx per megawatt recorded a 4% decline year-on-year.

In Brazil, costs went up 11% in local currency, significantly impacted by Pecém consolidation. If we exclude Pecém, we have a 2% increase in cost which are -- it’s a figure clearly below the local inflation in the period.

Overall, we continue to implement the OpEx III efficiency program, which achieved in the first nine months of ’15 EUR132 million of accumulated costs savings or plus EUR22 million versus the same period last year.

Moving to net investments, our focus continues on the long-term contracted winds, hydro and also on regulated networks. So as we can see, expansion investments showed an increase focused on wind with PPAs and feed-ins, mostly at level of EDPR U.S. operations. Wind in Portugal, we continue to focus on concluding our pump and storage capacity under construction where we have achieved the completion rate of 91% for the four projects which are now in final stages of completion. And in terms of maintenance investments, it amounted to EUR360 million, mostly allocation to regulated energy networks in Portugal, Spain and Brazil.

Moving to the recent evolution in terms of the Portuguese electricity system, we can see that there was a slight tariff surplus again in the first -- again, in the third quarter '15 re-enforcing the trend in the previous quarter. So this tariff surplus for the first nine months of the year is now EUR55 million, supported by demand recovery, normalized wind volumes and stable pool price.

More than that, the regulated proposal for 2016 tariff assumes a 2.5% increase in average tariff for low voltage and also a EUR0.4 billion decline in terms of electricity system debt for 2016 fully in line with previous expectations.

At level of EDP balance sheet, regulatory receivables went down by EUR58 million year-to-date with a EUR98 million decline in Portugal, explained by EUR553 million of deficits and deviations but also more than EUR650 million of securitization. We see also a slight increase in Spain related with tariff deficit in the gas system. And in Brazil, it remains flat in euro terms, but it increased by EUR228 million in reais due to higher energy costs.

Moving to change in the net debt, we can see that the negative impact from Pecém amounted to EUR0.7 billion including both the acquisition of 50% equity stake and the full debt consolidation. Excluding this impact from the acquisition of Pecém, net debt would have decreased by EUR0.4 billion, impacted by the hybrid bond issue in September 2015 with a 50% equity content and also by no impact from forex as the impact from the appreciation of U.S. dollar was fully compensated by the impact from the depreciation of the Brazilian real.

In terms of financial results, we see an increasing net financial cost to EUR626 million which reflects higher net financial interest penalized by stronger dollar. Forex losses one-off of EUR46 million related to mark-to-market of the U.S. dollar versus euro but also U.S. dollar versus the real, including also some gains on tariff deficit securitization of EUR46 million in the first nine months of 2015; lower capitalized cost, most of that is with hydro in Portugal; and other issues as we already referred: mark-to-market of our equity stake in BCP, minus EUR22 million impact, and also some one-off costs related with early repayment of some more expensive funding - a one-off cost of EUR25 million which should support the decline of average cost of debt going forward.

Overall, in terms of bottom-line, we can see that at level of associates, we are penalized by the impacts of Pecém in terms of associates in 2015 versus 2014. Income taxes reflect a low tax impact from the gains on sales of Gas Murcia and the gain of Pecém acquisition and also the lower corporate rates in Portugal and Spain. We are booking the full annual amount of the extraordinary energy tax in Portugal of EUR61 million in both years. And in terms of non-controlling interest, you see an increase which is essentially related with higher allocation of net profit to EDP Brazil minorities, following the gain on Pecém acquisition. Overall, we see a 4% decline on net profit and the 18% decline in adjusted net profit during the period.

In terms of financial debt profile, investment in the operations continue to fund at the local currency as you can see by the different currencies of our debt with dollar representing 23% of the debt and the Brazilian real, 8% of the debt by September and we have extended the average maturity of our debt from four years in December 2014 to 4.6 by September 2015.

In terms of financial liquidity versus refinancing needs, we see that we have financial liquidity of EUR5.1 billion by September including EUR1.1 billion of cash and the EUR4 billion of available credit lines, which fully covers all our refinancing needs beyond 2017.

With this, we conclude the presentation and we will move now to the Q&A session.

Operator
The first question in the phone line comes from the line of Alberto Gandolfi. Please go ahead.

Alberto Gandolfi
Thank you. Hi. Good morning. This is Alberto Gandolfi in UBS. And thanks for the presentation. I have three questions from my side. The first one is that we have seen this week that one of your competitors is looking at reintegrating its renewable arm. So it seems like EDP is the last man standing in Europe now on keeping basically a separated renewable listed entity. Historically, we have seen acquisitions so buyouts made in cash. Your competitor is now looking at the merger integration. Is this something you might contemplate as a way to basically improve the cash flow management of the group, or if not, why not so effectively?

And the second question is, are you happy with 2016 bottom-line consensus of EUR965 million on a clean recurring basis because you're nine months clean is 564 and I know the hydro is bad, I know there is a lot of new assets coming on stream next year. I was just wondering, putting all the pieces together, including FX, if you feel comfortable with this figure.

And lastly, can you give a little comment what you are seeing in Q4 in terms of supply margins in Iberia and should we expect that to continue into Q1 next year and throughout '16 or what other drivers of supply Iberia into next year? Thank you.

António Mexia

So I was expecting that question honestly. It's not a surprise but let's see the first one. It's not on the agenda. It's not at our desk. And I believe -- so we have nothing to say and you, in any case, the difference between cash and mergers sometimes is not pure because mergers, you know, typically to give also the alternative to cash to shareholders.

So it's not like -- not as obvious as it seems, but in any case, we see no reason to change what we have until now. We have a clear commitment in terms of deleveraging and we don't see any reason to change our policy. And as EDP renewables also told in its conference, being the last man standing sometimes is not bad. So we don't see any reason to change our statements concerning this issue until today.

2016, we have tried clear here to give the -- where we see the plus and the minus for the future. We are budgeting next year. We will be, of course, presenting this at the beginning of the year then we will be talking about the plan until 2020. At this stage, we don't see any reason to change what we have been saying, and so no news and so we feel, we feel safe on that environment.

Third, Q4 supply margin, once again, we see no reason to change. As we see, we have been seeing stable forward prices in the Iberian market. We have been taking the decisions in our business units, including renewables, for hedging positions that will protect our margins.

We have already covered the -- more than half in what concerns the gas and coal positions. Clearly, we have been selling a big chunk, about EUR55/MWh final price to the -- to our clients so we are -- I think that we are prepared to have 2016 that looks normal in the sense that we see no major change in that market.

The only thing that I would like to stress also, we don't know what is the impact but the only commodity that is going up is CO_2, OK, going from 7 to 8.5. In the short term, this doesn't change immediately very strongly, but it's clearly a sign and let's see what will be the impact. So at this stage, supply margins, I would say, no major changes.

Miguel Viana
We can go to the next question please.

Pablo Cuadrado
Hi. Good afternoon, everyone. Three questions on my side. The first one will be I wanted to know which is your take about the investment decision from Standard & Poor's basically changing the rules for the hybrids, and if that decision should have any kind of implication on your recent hybrid that you issue. And largely on this front, if you -- if you consider to keep issuing new hybrids under the new rule that seems that they want to apply right now.

The second question, I'm afraid is going to be focused on the political side. Clearly, we had -- we still -- the elections in Portugal, the outcome and there has been a lot of comments on how the government is going to be pointing out that potentially there could be some kind of partnership with the left parties in order to form a government.

The question here is I don't know what you can comment, to be honest, but if you see any kind of danger from any government in order to change the current framework that has been in place really for a while, which is key to remove the tariff deficit I suppose.

And the last one is on Brazil. Clearly, you have explained that the situation has improved And also you have mentioned during the presentation that we have seen in the press the speculation about potential compensation regarding the GSF losses that you have been carrying out in the last few years. On this side, I was interested to know if you can provide a little bit an update on the negotiations, on the potential timing, and on the way that the Brazilian authorities may consider to make any kind of reimbursement here.

Nuno Alves:
Pablo, S&P, well, surprisingly this week we came up with the review of a bunch of hybrids. I think that -- or at least what we've seen so far that the reason for the change is part of the language that they have on the call trigger that exist in some of those issues, which have to do with the capacity of not only a call as a result of a downgrade to investment grade. Our own hybrid, which we issued last month, does not have such a provision, so we were not impacted by it, and that's all I can say about it as of today.

Our issuance in the hybrid was to give a cushion to our rating. Clearly, our view is we're not concerned we're going down. We are on an upward trend, and we expect the rating over the next few years to improve.

And let me be frank, our goal is not BBB minus or BBB. We want to get as fast as we can to a level close to BBB plus, that's why we would like to be in the near-term. And we'll keep on working towards that. In as far as new issuance, we have no plans for issuance of hybrids going forward.

Antonio Mexia
Let's see about the political scenario in Portugal. So the next weeks, of course, we will have a little bit more what's going on, what will happen. But let's be clear, concerning the sector and then concerning the rest, so let's say the macro and taxes.

First, sector itself. There is no reason at all for eventually changing the current framework for two main reasons mainly. First, the tariff deficit is clearly under control. The measures that were taken in the sector are clearly enough and everything is evolving as expected to control these deficits.

In what concerns tariff increases… We are talking about tariff increases at 2.5%, so keeping that basic rules of between 1.5% and 2% above inflation, I think it makes sense.

The demand side has been evolving in the right direction, so on the average, the 1% that we need until the end of the decade as a second key variable. But most of all, the system has introduced the component of social tariff, that allows clearly to have normal increases for everybody excluding those that need the most and where the impact is clearly significant in terms of even tariff reduction. The system is already in place. We have been seeing a normal increase at a rather medium pace, people that are applying for it. But so, yes, the system is under control and the social tariff is in place, so I don't see any reason.

On the -- on the other -- on the other front, the question of the specific tax on energy assets that affects all the companies in the sector, our statement has not change that we see these -- the need to remove these extraordinary measures. Of course, we can have different paces. The document that was delivered by the actual government in Brussels… were seeing a 50% reduction next year and then again 50% reduction to the canceling in 2018, so probably the debate will be more about this and everything else. So, the framework for them in the sector, I would say it should be clearly kept because there are no reasons to change it.

Third, Brazil GSF, we have fresh news from yesterday. We are still analyzing, but clearly what we see is the following. As you know, the kind of insurance scheme would allow you to recover the 2015 losses eventually with a discount. The last version from yesterday night is that these discounts eventually will disappear. And then the question is what will be the premium to be paid until the end of the concession. And, of course, here again we have something new that needs to be clarified; if it's an entity by entity or asset by assets, and also a very good premium according to what you are basically insuring, so it can be variable, so we need to discuss this internally, but what we have from yesterday night is a system that is probably more flexible, so eventually more interesting than was the case three days ago. So, but it's still early to say.

But what this is sign is clearly the Brazilian markets both at legal and regulatory side has given positive signals that show that structurally this market is interesting and people that know how to work on this - in these markets - of course, it has a potential.

We are seeing in Brazil responses that we would like to see elsewhere in more mature markets, namely in Europe. So there is no denial phase in Brazil, and I think that's good news for Brazilian business.

Operator
Your next question comes from the line of Javier Garrido. Please go ahead.

Javier Garrido
Good morning. I have two questions. The first one is on the outlook for power prices in Iberia. Looking at your slide 13, it shows clearly that the -- that the power price has been around EUR50/MWh in dry years and well below in wet years.

And then looking at your presentation, you were assuming that the hydro plants were coming from the PPA scheme to the market scheme in 2016, would at least make the same gross profit considering that they were selling the PPA at EUR52/MWh. The question is do you still think that your hydro capacity will be making the same profits that you were expecting in your strategic plan, or do you see any reason to be more prudent on the liberalized activities in Iberia given the experience over the last couple of years.

And the second question is on specific on politics. What - given that there is a lot of uncertainty in the equity, anticipated elections again - what would happen if we have effectively no government in the next few months in Portugal? What I mean is that the special energy tax, would it -- does it need to be removed or would it disappear automatically if there is no government decision for 2016? Thank you.

Antonio Mexia

Thank you, Javier. For the outlook price for Iberia and what concerns the hydro that are going up of the PPA, we don't see any reason to change our vision. On average -- on average, we will have at least the same.

I would like to recall you always the fact that the realized price by the hydro is above the pool price and especially when they have flexibility in terms of pumping. So, we don't see any change on this. If anything, this is either going out of the PPA. It should bring us more or less the same or slightly better.

In terms of politics, the question concerning the extraordinary measures is still to be clarified. You have different opinions about if you have a short-term government with only short-term power decision-making, if the extraordinary measures would be applied or not, and you still have people talking about these on the newspapers. We have each day different versions. So the only thing is I am not better than all those lawyers. We have no idea what is really the legal framework that applies here, so I'm sorry not to be more helpful.

Nuno Alves

It cannot get worse.

Antonio Mexia

No, worse it cannot be. So, if anything, it will be better. If it's canceled, it's better. If it's getting worse, it's not possible.

Javier Garrido

All right. Thank you.

Antonio Mexia

Thank you.

Nuno Alves:

Let me go to a couple of questions here on the email.

Cost of debt expected for 2015 and ’16, I think we’ve maintained the expected, so we were counting. This year, it’s going to be the 4.7 and 4.6% as expected, and we still count on 20 to 30 basis points fall in ’16 and in ’17, so we maintain that guidance despite the highest swap rates the last couple of months.

The view on the GSF evolution over the coming months…

Miguel Viana:
It’s 84% now, 84%.

Nuno Alves:
It’s 84% right now. But I think the issue today is not just where the level of the GSF is. It’s also the price that you have to buy to compensate that GSF. And since that has fallen significantly the last few months, the impact has been very small in the third quarter as we’ve shown. And as of today, the PLD is at about BRL200. Should it impact? Yes, it’s still negative, but it’s not huge as it was last year and the first half of this year.

CTG transactions, I don’t know if you want to talk a little bit about it, Antonio. I guess, we were clear in as far as announcement in cash, but you wanted to go a little bit further.

Antonio Mexia:
Yes, just eventually repeating, as you know, and it’s important. Of the view that we have already given the visibility, EUR1.3 billion, only EUR1 billion has already impacted on the debt, OK? We will give additional visibility of around EUR400 million until the end of the year. And so the big impact of those EUR 300 million plus EUR 400 million in terms of debt should be seen in the first half of next year. And then we will have to present also at the beginning of next year what we -- what would be the expectations about the last EUR300 million that we have to agree in the context of the framework agreement. So, typically, we will see the biggest impact on debt of those EUR700 million on the first half of next year.

Miguel Viana
I think we can go to the next question please.

Operator
Next question on the phone line comes from the line of Martin Young. Please go ahead.

Martin Young

Good afternoon to everybody. I've got two questions. The first one again is politics, but turning it towards Spain, I just wondered what your thoughts were for any possible changes post-election in the Spanish electricity market environment. And then secondly, back on the issue of the EDPR free float, as you say, you could well be the last man standing. You probably then would be having and enjoying a scarcity value. Given your strategy to deleverage the group, would they not be an opportunity to capitalize on that scarcity value and place some of the EDPR equity that you hold into the market and increase the free float? Thank you.

Antonio Mexia:

Thank you, Martin. Politics, we are discussing less rain in Brazil and more politics. That's... I think it's good.

You know, what concerns politics, we don't expect any major change. Let's see. The system in Spain is -- with all the measures that we're taking has clearly shown that, if anything, we will be creating a surplus, that surplus even being considered to reduce tariffs instead of paying quicker for the stock of the debt that was built for years. But in any case, what you see is we have some political flexibility to use that surplus.

But in what concerns the need for new rules, I don't see any reason, so structurally, I don't see major changes. I think that, in Iberia, electricity prices today is clearly out of the top agenda in politics. I think that's good news because reality proved that it was, by the way, wrongly inserted on that political top 10. But my guess is as good as yours. I'm sorry. We have been discussing a lot internally, but we don't see any major reason for change.

In what concerns EDPR, some people are saying why don't we buy and others are saying why don't resell. So there are no news. We have not changed our idea, but so once again I would say no changes in that direction.

Martin Young

OK.

Antonio Mexia:

Nuno?

Nuno Alves

There's another question here concerning the expectation, I guess, of the renewable of the PTCs in the U.S.

Antonio Mexia

Yes. Today the idea is that the possibility of having the extension seems today stronger in the sense that it should be part of a package that is going to be included in the House. So, if anything, compared to three months ago, that possibility is higher today. In any case, we have been doing our homework not only in what concerns the projects that we are developing this year and we'll have an impact on the next two to three years, but also having the adequate pipeline, if it's the case to do it in the future.

And once again I would like to stress that after the decision, natural decision of not doing the YieldCo, additional growth on renewables and namely in the U.S. can only come from additional assets rotation. And in this field, if anything, because of the evolution of the YieldCos, we have seen sound signals in the market for the secondary M&A private placements of a stronger appetite with the good valuations that will help, if it's needed, these assets - additional assets - rotation policy.

So, people are seeing that eventually our strategy, namely, in the U.S. market of asset rotation is clearly the more adequate, that creates more value for the shareholders and also for the guys that are partnering with us in the future.

Miguel Viana

Continue to the next question please.

Operator

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

Carolina Dores

Hi, hello everyone. Thanks for taking my questions. I have three questions. First is a follow-up from Alberto on the guidance because I just wanted to make sure that I understood Antonio's reply. In -- for 2016, assuming no -- assuming normal weather, let's say that, let's put it this way, and no deterioration on FX and interest rates, are you comfortable with the EUR960 million of net income for consensus?

My second question is on interest rates and that's for Nuno. The mark-to-market and the swaps, the non-cash effect, do you expect this to drag to 2016 or it was really just really a one-off.

And my third question is on Pecém, which showed up very good improvement in the third quarter. When you do expect the EBITDA from the same to be normalized? Is this '16 or '17? Thank you very much.

Antonio Mexia

So let's be clear, the fact that I was saying that we will talk about detail in the beginning of the year and then, of course, in the Investor's Day, it does not mean that we don't want to talk about the guidance in 2016. What I'm saying is that as of today we don't see any reason to change our vision for 2016, so let's be clear.

Nuno, and what concerns interest rates?

Nuno Alves

OK. We have had so far this year, in the first nine months, about just out of the U.S. dollar related with the renewables business a non-cash impact of I think roughly about EUR36 million negative in the accounts.

Clearly, that figure and until this gap exists, which is something that we can one day close if we so decide. As today -- as of today it's still exposed, meaning that if the dollar goes up, I'll have a financial negative. If it goes down, I'll have a financial positive. So, as of today, it will only depend on where the dollar goes. Typically, we don't play the FX game. If this gap of dollars becomes to big, we might decide to close this risk position, but that essentially is an accounting impact.

Now, we do have and we've had also in the third quarter, which is significant, a negative also caused by the dollar against the real on the Brazilian accounts. So, you're probably going to -- you saw -- there's a financial negative also on the Brazilian accounts, which is very untypical, and they probably will revert in the future. That's about it.

Miguel Viana

OK. As you know, the penalties in Pecém, they have -- they are moving average of 60 months. Obviously, with this decline in PLD, and the penalties are paid at spot PLD, that reduced significantly the penalties.

The plant is operating quite well even in the third quarter. We had some sales at spot -- at spot markets, so we were producing above the contracted level. So I would say that next year we'll be very close from what would be a normalized level, but not yet, probably slightly below the BRL400 million. But then going up for '17, probably in '17 we'll be already clearly above this 400, and without any material impact from the operating issues that we have in 2012 and 2013.

We can go to the last question now please for the sake of the time of the -- of the call.

Operator
Your next question comes from the line of Unai Franco. Please go ahead.

Unai Franco
Yes, hello everyone. First question on Portuguese hydro, the poor rainfall during H1 have let your reservoirs a little bit behind schedule, so I was wondering if you could give us an update on when you expect these plants to be fully operational next year, if you can be a bit specific on the -- on the three, four plants that should start pumping up or contributing to the EBITDA.

And then also what kind of impact would you expect with this new added capacity to, you know, into the wholesale prices and how important is the pumping of those assets in order to sort of maneuvering the pricing and get a better achieved price.

The second question is on CTG, on the CTG partnership. I understand that it looks as if there's not going to be another sort of formalized asset rotation plan, but I understand that you may remain opportunistic and do deal as you find the investment opportunities. Is that -- is that the message or am I understanding correctly?

And then on the -- on the CTG partnership, in terms of your EUR2 billion target, I mean, you're going to be nearing that target very soon. And the lockup period on the other hand is expiring in spring next year. Could you give us some color on the level of involvement of, you know, that CTG is expressing? Could we expect another firm agreement to consolidate this involvement further? I'm trying to understand what CTG's objectives were and how comfortable they are with the achievements so far and what next layer of involvement could potentially look like. Thank you.

Antonio Mexia:
Thank you. I will talk about CTG. First, let's see. CTG transactions and the framework agreement are not asset rotation, so we have the commitment for deleveraging in those co-investments or sell of minority stakes. We have been doing this in Brazil, in Portugal. And now, what I was saying is that on top of the EUR1.3 billion that we have given visibility, and that we have already cashed to EUR1 billion, we will be showing to the market what is behind additional EUR400 million until the end of the year. And these

two packages will have an impact of reducing debt by EUR700 million next year, concentrated on the first half.

In what concerns asset rotation is different. It is a policy that EDP Renewables is conducting in the sense that selling minority stakes leaving some money on the table of the new investor and reinvesting with higher returns in new wind farms.

So, clearly -- and on this what we have already stated is we have a target of EUR700 million up to 2017. We have already done more than 70% of this so it means that we are above the targets at this phase and that we can do more in a market that clearly is gaining track, even the European market and that one that is, of course, being there and obviously stronger today, that is the U.S. market. So that's the thing.

In what concerns future vision of CTG, and I think it's an important item. We have been fulfilling the framework agreement. We have been doing things together in Brazil, and we will do things together whenever it makes sense for both parties, whenever it makes sense for us obviously, and where it creates value and things that CTG could be interested in doing, but doesn't fit in our strategic agenda, we will basically not do it. So, typically we have the same vision of clean energy generation in the world. Whenever we can do it together, it makes sense. Let's do it. If not, we don't need it. So, typically, we have a very transparent approach in what concerns our partnership.

Miguel Viana:
Hi, Unai. On the new hydro, so just in terms of the four plants that we have, so the most advance is Salamonde II, 207 MW, which should be on stream in the next, I would say before the end of the year for sure, so November probably. Then we have Baixo Sabor, which is -- it's 114 MW, which is still dependent on hydro conditions, so the raining improved a little bit now in October, but we still have to see if operations can't start before the end of the year or just in the beginning of 2016. And then we have the last two plants, Venda Nova III, which now should have more impact essentially both the summer and also Foz Tua. So, as it was said in the beginning, I would say that for the winter '16-'17, we expect we have already the full capacity, but it's not yet the case in the winter '15-'16. So as you know, the summer for hydro is not -- is not so relevant.

So I think with this, we conclude all the questions. I will pass to the final remarks of our CEO.

Antonio Mexia

So, thank you, Miguel. Thank you for your questions. Thank you for all participating. I think that once again the quarter and the nine-month figures show that we are on track with the commitments in terms of business developments, asset allocation, efficiency, deleveraging, and that we have been addressing well challenging markets, and even, for example, Brazil that was a key topic in the last months having record figures, it shows that we know how to sell in these. And by the way, structural conditions both in terms of rain and in terms of regulation and legal, I think that we have -- we see the responses that are in need. And elsewhere, I think that we say that we are on track and, as usual, we like to say that we are delivering what was expected.

Thank you, and see you soon all. Bye-bye.