EDP – ENERGIAS DE PORTUGAL

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Chaired by Miguel Stilwell d' Andrade

Company Participants

- **Miguel Stilwell d'Andrade**, Chief Executive Officer
- **Rui Teixeira**, Chief Financial Officer
- **Miguel Viana**, Head of Investor Relations and ESG

Miguel Viana

Good morning ladies and gentlemen,

Thanks for attending EDP's 9M23 results conference call.

We have today with us our CEO, Miguel Stilwell d'Andrade and our CFO, Rui Teixeira, which will present you the main highlights of 9M23 financial performance.

We will then move to the Q&A session, in which we will be taking your questions both by phone, or written questions that you can insert from now onwards at our webpage.

I will give now the floor to our CEO, Miguel Stilwell d'Andrade.

Miguel Stilwell d'Andrade

Good morning, everyone. Thank you for attending EDP's results conference call. And as usual, let's start and go straight to the presentation and go to slide three and talk about the very strong performance in the nine months 2023 with a sound EBITDA of €3.8 billion representing an increase of 26% year on year.

This result has been supported by the recovery of the integrated margin in Iberia, reflecting a normalization of the hydro generation, up 58% year on year and the improved sourcing conditions also following the decline in electricity and gas sourcing costs from peak levels last year.

On the asset rotation gains, we had around 0.4 billion recorded this quarter as you know at the EBITDA level, mitigating the weak operational performance of EDPR, given we had lower wind resource and lower prices. Electricity networks resilient, roughly stable year on year with networks globally representing 30% of total EBITDA. Last month was also marked by positive regulatory update impacting Portuguese and Brazilian networks on which we will provide more color later in this presentation. So I'll talk about that in a couple of slides.

This quarter also brought the achievement of an important milestone. It is the first quarter with EDP Brazil being fully consolidated, following the minorities buyback we executed earlier this year, as you know, following the capital increase we did at the Capital Markets Day and that led to a decrease in the non-controlling interest of around 40 million year on year.

Finally, and as I'll comment later on, we're delivering on the strategy to become coal free by 2025. We have the signing of the sale of Pecém and plan to convert, and also the plan to convert Aboño into gas by 2025 through the 50/50 Partnership we've done with an industrial player.

All in all, recurring net profit stood at €1 billion, so doubling year on year fostered by this growth of EBITDA and the Brazil full consolidation. And because I know that many of you will probably be turning to the back pages to look at what is our guidance and before I go on with the presentation, just to say that we are reiterating our guidance of recurring EBITDA at around 5 billion, we're upgrading the recurring net profit guidance to 1.2 to €1.3 billion, and I'll explain why later on and net debt for the year, we continue to expect around €15 billion or even below that depending on the tariff deficit securitization and the positive contribution of the asset rotation proceeds. So we'll talk about that more towards the end of the presentation but just so you have that straight upfront.

If we go to slide 4, going into a little bit more detail on some of the factors I just mentioned.

So, looking at the hydro volumes for the fourth quarter of 2023 and the electricity market output since we last spoke, our hydro reservoirs are at the maximum of the last ten years for this time of the year. They're currently at around 70% and substantially above the 2022 levels. Additionally, during October, the hydro resources were 75% above average. So that leaves us comfortable with the volumes for the fourth quarter.

I just wanted to note that in accumulated terms, the hydro coefficients in Portugal as of October was still 14% below the historical average. So this year wasn't particularly wet. October was particularly in a much higher hydro than average. But let's say on a normalized basis, we're still fairly below for the full year.

Normally, as you know, we caveat our year end results, the hydro conditions for the fourth quarter but the fact that we've had this already very good conditions for October means we are confident for this final stretch of the year. And you can actually see that in the graph. You can see that recovery of hydro. When you look at it, last year we were at very low levels and this year we're already basically at the level that we closed last year after strong rain.

On top of this, we're seeing improved market conditions over the last three months. If you look on the right-hand side, you have the forward electricity prices for the 2024 to 26 deliveries, rebounding significantly versus when we last spoke on the call in July when forward price for 2024 deliveries was around 101 euros per megawatt hour, that's increased to around 120. So these prices are more or less aligned with our business plan assumptions, and they support our targets for 2023 to 2026 period.

So we get asked the question around, you know, comfort around the medium term targets 2023, 2024, 2025, 2026. And I think these prices are giving us comfort on that. It's also important to highlight that our base load production for 2024 is currently hedged at 50%. So this increase of forward electricity prices improved the prospect for next year versus the market scenario three months ago.

If we move on to slide 5 and onto a topic which I know that's been under also quite a bit of discussion, just the briefing on the recent regulatory updates applying to our networks business. So, in October, the Portuguese regulator published a proposal for the 2024 electricity tariffs. Once again, the retail tariffs are relatively stable. They increased only 1.1% versus 2023. I think this really shows the resilience of the Portuguese regulatory system. Over the last three years, the Portuguese domestic consumer has not been subject to the volatility of the wholesale energy market. And as we've explained in previous calls, I mean, a large penetration of fixed price renewables in the system covers the domestic consumer demand and protect consumers against this price volatility and I think that takes a lot of regulatory pressure off the system. The regulator estimates electricity system debt at €2 billion by the end of 2024. That means that despite the temporary deviations we've seen during 2023, the system debt continues to be under control, with a downward trend since 2015. Another important outcome of this proposal was the definition of the amounts and the conditions under which EDP can securitize these amounts by year end.

Regarding 2023, as we have stated in previous calls, lower than expected electricity prices in the first half led to a temporary increase in the regulatory receivables, which was mostly solved with the access tariffs increase since July 1st. We have already successfully securitized part of the 2022 deviation in the third quarter, so that was around €300 million cash in, and we're prepared to securitize the remaining regulatory receivables.

The sale process is already at an advanced stage, and we are working with investors and banks to ensure this gets done before year end. It's important to note that the Portuguese government is running a budget surplus and is expecting to bring debt to GDP below 100% next year, below other countries such as Spain, France, Belgium, etc... So, I think this is important also just, you know, to give investors confidence on the sovereign credit rating and, you know, there's no pressure to introduce additional regulatory measures.

If we move forward to the next slide and talk about distribution networks. So, looking at the 2024 tariffs annual review for distribution networks in Portugal, the regulatory revenues increased 4% or €44 million year on year. This was supported by the inflation update on the regulated asset base and the target OPEX and Capex costs and as well as an increase in the regulated rate of return.

As you may remember, the rate of return of electricity distribution in Portugal is updated annually based on an indexation to the average 10-year Portuguese government bond yields until October of each year. So as a result, the regulated rate of return for 2023 is now at 5.57%, close to 50 basis points increase versus last year.

And we've got the expectation of a slight further increase in 2024 based on the most updated bond markets data. So, the stable regulatory framework provides a hedge on inflation and interest rate volatility, which is I think particularly relevant in the current macro environment.

If we look forward at the next slide, slide 7, and we look at the left hand side. So again, just an update on networks in Brazil in this case we had a tariff review of EPP São Paulo for the 2023 to 2027 period. The outcome of the revision was very positive. We had our RAB increasing more than 70% following strong investments over the last couple of years and also record high investment acceptance rates.

So, as you know, it's not just enough to do the investments they need to get the regulator to accept them in the regulatory asset base. And in this case we had a record high level record even for all of the distribution companies in Brazil. And we also had the inflation update in the period. And so, overall, the return on RAB was set at 7.42% in real terms.

I also wanted to highlight the positive development for the distribution concession renewal in Brazil. So, concessions are expected to be renewed for 30 years. This will provide obviously long-term visibility for investments in distribution in Brazil. Our distribution company EDP Espírito Santo, which has its concession ended in July 2025. So, it's the first distribution company in Brazil to renew its concession.We should have more color in this process in the next few months. But the Brazilian government has already made a specific proposal that's under public discussion, and we think it's a very positive proposal. And it's obviously a very important data point since networks are a big part of our business in Brazil.

Overall, if you look on the right-hand side, on a consolidated basis, the regulatory asset base of our electricity networks net of minorities increased 29% year on year to €7.2 billion.

So, in Brazil, you know, the RAB net of minorities doubled in this period, supported not only by the referred regulatory review at São Paulo. We have also ongoing investments in greenfield transmission projects. We have the buyout of the Brazil minorities, which increased our stake in the electricity networks in Brazil from 57% to 100%. So basically, with this transaction, we acquired more exposure to our electricity networks and we have revenues that are fully indexed to inflation and have benefited recently from this reinforced visibility on the long term regulatory framework.

We now move to slide 8 and again, this is the slide I've already presented on Tuesday as part of the EDPR presentation, but I think it's important to show it again. So, we've been asked over the last couple of months about whether this environment of rising interest rates and inflation could compromise our returns. And I just wanted to reiterate that we have been very focused on value creation under the current inflationary and interest rate pressure; that means we've seen an increase in absolute project returns to make up for this inflationary context and preserve capital, but also higher absolute returns. In 2023 we have approved investments on wind and solar amounting to €3.3 billion across the many different geographical hubs. 84% of that investment is located in Europe and North America. On average, and you can see that on the graph, the returns range from 8% in Europe and APAC, 9% in North America, 13% in South America. And so the spreads of IRR for WACC are higher than the target at around 220 basis points. And again, just to reinforce something I've mentioned before, but I think it's important: the average contracted period is 16 years, contracted NPV more than 60% as targeted in the business plan and on average nominal equity payback period of 11 years. So, I think these are some key facts that support the target returns that we're looking at. We've seen the PPA prices adjust to this higher interest rates and inflation. If you look at the portfolio in 2020 versus the 2023 PPA prices in Europe, they've increased 70% while in North America 50% increase. And also, more recently, we've also seen CapEx decreasing mostly in solar. So after the spike in polysilicon prices last year, the price of solar modules has significantly declined over the last six months, mainly in regions outside of the US. And unfortunately, the U.S. solar panel prices are still higher than in the rest of the world, although the prices are also coming down in the US. And then just a note on the construction costs we also see a downward trend again, both for wind and solar. So all in all, very positive developments that we are already reflecting in our recent contracts and that will support future returns.

If we move now to slide 9. Again, talking about our asset rotation strategy, a couple of points that you'll already know.

So, you know, we closed the two transactions in Spain, Poland with attractive multiples. We had asset rotation gains that clearly surpassed the target €300 million per year. These assets are recent in our portfolio and FIDs were taken in 2019 when the cost of capital was low. So, I just wanted to reiterate something I said on Tuesday. This is not a cost of capital arbitrage. That's not the reason we're getting these higher multiples, it's not the reason we're getting these capital gains so we were able to invest in particularly in Europe, we see this, you know, the hybrids, the repowering potential, the merchant exposure, all of that contributing to having better, let's say, good capital gains. When we look at the asset rotation gains over invested capital, which I think is also a good proxy for cash-on-cash value creation, I mean, it's high for these 2023 deals, certainly above average for the 2021 and 2022 deals around 60% versus 40%.

And I think they show the high quality, you know, of our portfolio and also they show a key trend within the asset rotation market. So, an increase interest by more strategic players to value this optionality around the assets. Finally, just to say that we signed this week, on Wednesday, an asset rotation deal for two transmission lines in Brazil, that was part of our 2023-2026 business plan for an enterprise value of 500 million euros, at an EV/EBITDA of 11x and this is expected to represent an asset rotation gain in line with the average range assumed in our strategic plan. So within the 20 to 25% range of gain over Capex. We expect that transaction to be concluded within the next few months. And we are not including that within the guidance of the 15 billion or even below so if it would come in this year, it would be even better than the guidance I gave on the net debt. So wrapping up, on the left hand side, capital gains around 400 million, as I said, registered in the nine month accounts. And we're well on our way to, you know, to deliver on the target proceeds for the full business plan horizon.

On the right-hand side, just a quick update on the renewables growth. So we have had bottlenecks which are well known in particular, you know, when we look at 2023 and 2024, around 6.5 GW split between 2.5 GW in 2023 and 4GW in 2024, you know, we are feeling very confident and comfortable around four gigawatts. I got that question on Tuesday. I just wanted to reinforce that we have 5 GW already under construction in an advanced stage.

The 2023 capacity additions, as you know, we're impacted primarily because of the Longi panel importations into the U.S. but that issue is solved. And so, you know, we are seeing solar capacity adding in 2024 as we were expecting. In Colombia, as I mentioned in the EDPR call, situation remains challenging. Consultation period is extremely lengthy for the transmission line we're talking about 130 local communities. We want to do this well, involving all stakeholders, but it is substantially delaying construction. So, we're assuming that the 500 megawatts from the Colombian project will be delayed post 2024, and that's not included in that ‘24 number that I gave you, the 4 GW. Just highlighting, progress on solar DG which we've also talked about sometimes in a couple of calls, we've now reached 1 GW of solar DG installed capacity globally and that's about 40% of the total solar portfolio. And just wrapping up once again, we're counting on the 9.3 gigawatts already secured. That's around 55% of the target additions for 23-26, so well on track to reach the business plan targets.

We now move to slide 10, just to give you a note on efficiency, this is an increasingly important topic. And as you know, particularly in this context of high inflation, we are taking very concrete steps to become a more efficient organization, to simplify structures and processes. Obviously, we've grown substantially over the last couple of years, but we are looking at ways of simplifying the structure to make sure we continue to be not just agile but also extremely efficient.

The EDP Brazil minorities buyout is one example of how we simplify the corporate structure. It allows us a much more efficient resource allocation and allows us also to extract operational financial synergies between EDP Brazil and EDPR Brazil. We're also looking to capitalize on our integrated profile. We're combining renewable generation, client solutions, global energy management. We also centralized our main capabilities by increasing digitalization in the support services optimization.

So really leveraging on economies of scale and our global presence. So just to give you a very specific number which will positively impact the 2024 net profit, we're expecting a positive contribution from some of these efficiency measures of around €50 million of cost savings in here, including some of the potential synergies between EDP and EDPR Brazil and so an upside to our business plan in the short term.

Finally, before I turn it over to Rui, just a word on the energy transition, how EDP is on track to do that and talking about our collective strategy. If you look at the left-hand side of the slide, I think it's quite interesting to look at a company which has really evolved for the last, you know, 10, 20 years.

I mean, if you go back to 2005, more than half of our generation came from coal. Since then, we've significantly increased our investments in renewables and progressively phased out coal. Now, as of 9M23, 85% of our total generation is from renewable sources. So hydro, wind and solar. Very soon coal generation will have no contribution to our generation or our revenues and the final goal is being coal free by 2025. So we've taken very concrete steps, as you know, to do that, not just selling coal plants, but we're promoting a just transition on these plants. And starting with Brazil, just to give you a couple of highlights there. So we signed the agreement for the sale of an 80% stake in Pecém there are plans to convert the plant to other sources of fuel, namely natural gas and blends with hydrogen or biomass.

We are keeping the management of the pilot green hydrogen project that we commissioned at the end of last year. We're also assessing the potential to develop larger scale renewable hydro hydrogen projects in that region. Regarding the coal plants in Spain, we're moving ahead with the conversion of Aboño to gas by 2025. That decision is now taken. We need to ensure the security of supply in this region, which is why Aboño plant is so important there. We have signed a 50/50 partnership with a major local industrial player and we're also developing hydrogen projects where we've been very successful in getting funding from the European Commission and in different national funding. And so we should be in a position to take some decisions on that probably in 2024. For the remaining plants in Spain — Soto 3 and Los Barrios - we have already formally requested authorization to close those from the electricity system operator. So, we're still waiting to hear back from that. And then we have 18 months in which to execute it so we should clearly be in line with being coal free by 2025.

Interesting notes. We expect to be above 90% renewable energy already in 2024. I think that EDP is positioned really as a leader in this energy transition and clearly an integrated utility that has pivoted very quickly over time to being sort of renewables networks, you know, having this integrated position. We have this long-term commitment to be net zero by 2040. And we are, I think, well towards that goal while creating value. And I don't think the two things need to be incompatible. On the contrary, I think it will be a source of competitive advantage going forward for the next couple of years. And so, with that, I'll stop there and turn it over to you Rui.

Rui Teixeira

Thank you, Miguel. And good morning to you all. I know that the webcast has been breaking up and we're trying to address it. So hopefully that will be sorted out from now on.

So going to the financial performance of the nine months and starting at slide 13, recurring EBITDA increase 26% year on year to €3.8 billion in the nine months of this year.

The recurring EBITDA for renewables, client and energy management was up by 0.8 billion, mainly driven by the recovery of the hydro generation after the severe drought of 2022. And even with the nine month '23 hydro resources 14% below average. The jump performance, managing reservoirs and buying in the market at lower electricity and gas sourcing costs provided a strong support in terms of recovery of the EBITDA by hydro, client solutions and energy management in Iberia mitigated the decrease in wind and solar EBITDA due to a weaker underlying performance, offset by a strong asset rotation execution with €0.4 billion asset rotation gains recorded in the nine months this year. Moreover, in electricity networks EBITDA roughly flat year on year.

If we now move to slide 14, a good recap on hydro, client solutions and energy management in Iberia for the nine months last year. If you recall, in last year this was negatively impacted by a hydro shortfall in a context of record high electricity spot prices with increasing sourcing costs, which led EBITDA to stay at the €443 million.

On the contrary, in the nine month this year, we are seeing a strong recovery of hydro generation and supply integrated EBITDA, tripling year on year to €1.27 billion, and this is a result of the recovery of the hydro generation in Portugal, as I mentioned before, severe drought in 2022. 2023 still below the average but very importantly, the management on the integrated position with lower electricity and gas sourcing costs, given the decrease in electricity and gas spot prices and which allowed, of course, for the purchases in the market under these lower prices. For the fourth quarter, we expect supply margins to be negatively impacted by a seasonality effect, having a negative contribution to our Q4 23 EBITDA. And this is likely to be mitigated by improved hydro volumes. Regarding Brazil, I would say flattish EBITDA around, you know, -6 million year on year. And this is reflecting lower volume from the sale of Mascarenhas hydropower plant in the fourth quarter last year.

If we move now to slide 15, EBITDA from EDPR in the nine months positively impacted by approximately €0.4 billion of asset rotation gains from the sale of the Spanish and Polish portfolio deals, an increase of €130 million in asset rotation gains versus last year.

As we have explained in the EDPR results conference call three days ago, underlying EBITDA presented a weaker performance year on year, reflecting a 6% growth in installed capacity year on year mitigating lower wind resources with the renewables index 6% versus what would be long term gross capacity factor. And as we explained, this is mainly from the El Nino weather event in the US. Lower energy prices, a 7% drop year on year, mainly driven by the lower wholesale prices in Europe and the sustained increase in the US. Lower contribution from Ocean Winds following the drop in UK wholesale prices from the 2022 peak, with share of profit caption decreasing from €104 million in the nine months 2022 to just €7 million in the nine months 2023. All in all, underlying year on year performance was down in Europe, in North America, being partially compensated by a positive contribution in South America and APAC.

If we now move to electricity networks on slide 16, the EBITDA from this segment was pretty stable year on year, with transmission expansion being offset by higher over contracting costs in distribution and in Iberia, EBITDA decreasing 3%. In Portugal, EBITDA decreased €7 million year on year with increase in the rate of return on RAB being mitigated by the increase in OPEX. In Spain EBITDA decreased €16 million from higher OpEx reflecting the inflation impact and given that nine months 2022 was impacted by a recovery of revenues from previous years.

If we now move to slide 17, on financial costs, net financial costs increased 9% impacted by Forex and derivatives in the nine months this year, which had a positive impact last year.

Note that the higher volumes of construction activity, namely in renewables, explain the increase of capitalized financial expenses. Excluding the differences in derivatives, adjusted net financial interest, decreased 1% year on year to €619 million. The Brazilian real denominated debt which represents 12% of our consolidated nominal debt, have a more than 40% weight on net interest costs following the 14% average cost of Brazilian real denominated debt in the period.

I note that the Brazilian central bank interest rates have already started to decline since August, and as you know, there is a very clear asset liability management in matching assets and liabilities in Brazil so part of this, of course, you get recovered through or this is getting it covered through the top line.

On the slide 18, and maybe I'll spend a little bit of time here. Cost of debt at 4.9%, including the Brazilian real denominated debt, is 60 basis points up versus last year. If we exclude Brazil, the cost of debt is at 3.2% in the nine months this year flat versus the first half of this year and compared with 2.6% last year. The increase year on year, mostly due to the US dollar and euro denominated debt, given the higher interest rate environment.

On this matter, I think it's important to highlight that EDP is actively managing its funding costs, reducing the impact of the high interest rate environment. Firstly, since June 2023 we are rebalancing our debt currency mix, aiming to decline the US dollar weight in thus decreasing financial costs. We estimate around €100 million savings in financial costs throughout the business plan period 2024-2026. Again, this was not considered in our business plan financials. Additionally, we have been active in the debt market having issued three bonds this year using our pre hedge on two of those issuances.

So if you recall in 2022 we pre hedge the benchmark interest cost for €1 billion and $1 billion on new net debt issuances that were planned for 2023 and 2024. The latter in dollars was settled last quarter as we announced. For the €1 billion, this year we have successfully executed a senior bond emission by issuing a €750 million green bond.

The bond was priced at 3.875%, but since we had already the 5y mid swap pre-hedged for amounts to be refinanced in this year at 1.8%, this led to an implicit yield of 2.5%, which I would say is extremely low yield under the current market conditions. So, likewise we have issued a €600 million bond on which we partially applied the five year pre hedging at 1.8%, resulting in an implicit yield of 3.7%.

So this decrease in yields resulting from the pre hedge execution as well as the rebalancing of US dollar denominated debt weigh in the total debt mix demonstrates our continuous effort towards funding cost optimization to really mitigate the recent interest rate increase. We are also seeing positive development for the Brazilian real cost of debt. As I mentioned, the benchmark interest rates have been decreasing since August, so there will be a positive impact on the financial costs.

Now on slide 19, I would like to highlight the strong financial liquidity position of EDP. As of September 2023, we have more than €8 billion of available liquidity, of which 2 billion cash equivalents and the remaining 6.5 billion of available credit lines. If we consider the asset rotation proceeds from the transactions in Poland that was closed in October this and the Brazil transaction that is signed since August '23, this would be amounting to 0.8 billion and therefore our liquidity position would stay at 9.3 billion covering all the refinancing needs until 2026.

Finally, also important to highlight that, as you can see on the right-hand side of the slide, currently most of our debt is fixed around 74%, which together with the measures that we are actively pursuing and that I've commented in the previous slide, leave us more comfortable to deal with interest rates increase.

If we move now to slide 20, net debt increasing to €16.9 billion as of September, and this is impacted by the recurring organic cash flow of €0.9 billion on the back of a strong EBITDA in the nine months of this year and including the settlement of the anticipation of regulatory remuneration in 2022 amounting to 0.5 billion. Excluding this impact, organic cash flow stood at €1.4 billion.

Regulatory working capital of 2.3 billion from the reversal of the cash inflow effect that was reduced in 2022, together with the increase in deviation from actual wholesale prices versus the regulator's estimate and mitigated by the sale of part of 2022 tariff deviation total of 0.3 billion. This was executed in September and that has that positive impact in our net debt for the period. Net expansion investments that amounted to €3.9 billion reflecting the acceleration of renewable investments and €1 billion investment to acquire EDP Brasil minorities netted by 1.1 billion of asset rotation proceeds; €2 billion from equity capital increases of which 1 billion at EDP to fund the Brazilian minorities buyout and 1 billion at EDPR to foster the growth in renewables and dividend payment of €0.8 billion in May.

Also, just a quick note, the Polish asset rotation transaction, if it was to be considered as part of the Q3 net debt, net debt would have stayed 16.4 billion euros. So finally, despite the increase in net debt since Q2, we continue to have a sound balance sheet supported by the strong operational performance and of course, the 2 billion equity raises that were performed in March this year and the successful execution of the asset rotation strategy.

This results in a net debt to EBITDA of 3.3 times, FFO net debt at 19% in the nine months. If we were to include the proceeds from the Polish transaction Net Debt/EBITDA would be a 3.2 times versus 3.4 times in December last year. And as Miguel said, we are planning to stay at or below 15 billion depending on the closing date of some of the transactions that are proceeding to closing.

So finally, net profit on slide 21, just before handing over to Miguel, I would like to highlight, of course, the very strong net profit, 1,026 million euros doubling versus 9M22, when we recorded a €512 million net profit. And this is reflecting the strong operating performance on the integrated generation and supply businesses and actually the contribution from electricity networks.

Below EBITDA, I would like to highlight financial costs increasing, mainly driven by the higher cost of debt and the extra gains with derivatives booked in the previous years, the higher income taxes from higher earnings before taxes reflecting naturally the strong operational performance but importantly lower non-controlling interest that is already impacted by EDP Brazil minorities buyout. So with this, I would hand over to Miguel and happy to take questions later on. Thank you.

Miguel Stilwell d'Andrade

Thank you, Rui. So now just talking about what to expect for the full year 2023. And as I mentioned at the beginning, we are upgrading our recurring net profit guidance to 1.2 to €1.3 billion. We are reiterating our guidance of recurring EBITDA at around 5 billion. The upgrade on the net profit is really supported by the performance of our integrated portfolio, particularly the businesses we have 100%, so, Iberia and Brazil, backed by improved hydro prospects, good market conditions. I mean, our asset rotation execution was also very good so far. Strongly contributed to the 2023 results. We expect that rotation gains to be above €400 million this year, supported by the quality of the portfolio. Different markets, different regions, different contracted profiles but that's certainly contributing to this target.

The full consolidation of EDP Brasil has already been incorporated in 9M23. So, the net profit is there. And will obviously continue to do so for the fourth quarter as well. So it will be contributing close to €90 million net profit in 2023.

Net debt for the year, I think I mentioned that, we continue to expect around €15 billion it could be below, reflecting the positive contribution of the asset rotation proceeds and obviously the expected tariff deficit securitizations by the end of the year. So overall, very confident for the remaining part of 2023 based on not just the diversification of our portfolio but also backed by an improved energy market outlook, which I think more than compensates the higher interest rate environment.

I was just going through the final slide for some closing remarks. Seven key points. One, strong results in these nine months, positive prospects for the fourth quarter as I mentioned driven by the recovery in the integrated margin in Iberia, resilient electricity networks, better than expected asset rotation execution. So, all that's supporting an upgrade of the 2023 earnings guidance.

Second point is the buyout 100% of EDP Brazil minorities around €1 billion of investment that already came through in the third quarter. Obviously in the fourth quarter as well. Important to highlight the positive news flow both on the macro context with but also on the regulation. Brazil, we have decreasing interest rates in Brazil we have Brazilian real appreciation, positive update for the new regulatory period in EDP Sao Paulo and also positive prospect for the 30-year extension for the distribution concessions on track.

Third point is just ongoing efficiency measures not assumed in the 2023-2026 business plan and we're estimating cost savings of around €50 million, an upside to the business plan in the short term.

Fourth point, attractive returns in our renewables investments, supported by the increased PPA prices, stable or downward trend on CapEx costs, strong demand for renewable energy and generally a scarcity of ready to build projects, so the issues around permitting licensing have been improving in some countries, but obviously still a big ramp up that can be done in many places.

The fifth point is obviously strong focus on the strong balance sheet supported by the 2 billion equity raise as we did in March 2023. Good execution of the asset rotation plan, more than one and a half billion of proceeds that we're expecting this year, tariff deficits sales in the fourth quarter, so net debt EBITDA at a healthy 3.3 times. We are managing our cost of funding, we've just spoken about that cost of debt increases have been mitigated by pre hedged interest rates, we have a lower weight also of U.S. dollar debt together with a decline of interest rate in Brazil. So higher energy market prices and PPA prices, inflation linked to revenues as relevant interest rate mitigators.

And finally, just saying that we are taking significant steps to phase out coal. I talked about Pecém, and Aboño in Spain. So, I think we have very good visibility now in the strategy which was one of the strategic commitments that we had. And so, as I mentioned, this will bring EDP above 90% renewable generation hydro, wind and solar for 2024 and I think that's really something quite distinctive.

So, thank you very much for attending this call. And we can now move to Q&A.

Questions And Answers

Operator

Ladies and gentlemen, the Q&A session starts now. (Operator Instructions)

Miguel Viana

Our first question comes from Jorge Guimarães. Jorge, please go ahead.

Q – Jorge Guimarães

Hi good afternoon.

Thank you for taking my questions. I have three. The first one is if you can give us some indication about where you see hydro production in 2024, given the good evolution of reservoirs you just you just mentioned.

The second one, it's related to the special energy tax in Portugal. How do you see it for 2024. And if it is flat year on year, is it an indication for the things to come?

And the final one is the strategic one is regarding your closure of coal. Can it be read as the I remember that in the in the EDPR conference call you said that you are closely following the evolution of the share price. Can we read the coal closure as the initial step from higher integration of the group? Thank you very much.

A – Miguel Stilwell d'Andrade

Okay, Thank you. So, Hydro 2024 no one can predict the weather more than a couple of weeks in advance. So I can't comment on the hydrology for 2024. What I can comment on, and which I think is a good sign, is that we are, you know, certainly in the fourth quarter already with the very high levels of reservoir.

And, you know, there's still quite a lot of rain expected to come over the following couple of weeks. So we expect that to carry, you know, those reservoirs to continue filling up for the remain of November. As I say that it's difficult to predict. So I think we will come into 2024 with a strong hydro position. How 2024 then plays out, I would just assume an average year. I mean, that's certainly what we do. It's not I don't think there's any better estimate really than that. In relation to the CESE. So the government budget draft has come out. It's currently been discussed. There is some wording there that basically says that the CESE will not be applied to investments that are according to the EU taxonomy. So I'm literally sort of trying to reproduce what it says, which means that additional investments which are compliant with the EU taxonomy, which are typically green investments or renewables, even networks, would not be subject that says this is in a draft form. We need to follow it. I think for purposes I would just assume maintain it at roughly the current levels. So I wouldn't try to guide you to a sort of a more optimistic number on that. Certainly not at this point.

On the third point on coal. But listen, the closure of coal is just the reading you have to take of it is just we're closing coal. So, we are committed to net zero by 2040. Certainly we said we would be out of coal by 2025 and that's what we're delivering on that strategic commitment. I wouldn't want you to read anything else beyond that. Thank you.

Q – Javier Garrido

Good morning. Couple of questions on cost savings first. Firstly, is there going to be any cost to deliver the 50 million plus cost savings in 2024? If you are going to book any one off cost in Q4.

And then on the cost savings that you already announced here, the EDPR call of their financial level, is this reduction in cost, these hundred million cumulative to 2026 is going to be offsetting an increase in financial cost due to higher interest rates? Or is do you think this is going to be a net improvement versus what you have in the business plan?

And the second question is the on the financing of the Portuguese social tariffs, if there is any new news on this aspect.

And then and third question is on the guidance. You're reiterating the €5 billion guidance for 2023 at EBITDA level.

I understood you said that the Q3 performance was better than the expectations but is it fair to say that the expectation for the full year is now conservative or is there anything that should make Q4 the negatively impacted versus your previous expectations? Thank you.

A – Miguel Stilwell d'Andrade

Okay. Thank you. So on the cost savings, so the we're not expecting one off costs and certainly we haven't calculated that if there is anything, we would obviously give a heads up but that's not incorporated or we're not assuming that as part of that number that I gave you a pass on the question on the financing to Rui, but perhaps I'll just address the social tariff and the guidance questions.

So on the social tariff, so what we know and we're still waiting for the final details to be fully published, but is that the government has approved a social tariff financing. So as you know, we've always said that if the government chooses to have a social tariff, that's perfectly understandable. That happens in many different countries. The issue was how and by whom it's been financed. And that's if you look at the Spanish model, it's shared between all the different operators in the sector. So the government has now approved the change in the social tariff, which we believe will share this burden between the different operators. The details have not come out yet, so I can't give you very specifics. What I can say that we expect that for EDP, the social tariff costs will be lower than it has been in the past but we still need to see the final details to understand the full magnitude of that. So it should be material because, as I say, it would be then shared in the other operators the same way that we pay social tariff in Spain, as do the other operators as well but hopefully that will come out in the very short term and we can then provide further information on that.

On the final point. So I think it's more a question of mix.

So we're having a very strong performance on the businesses where we have 100%. So certainly Iberia and that integrated position. Brazil is also having a good performance. And so that's, you know, going straight to the bottom line and offsetting sort of any weakness that we have this year because of lower wind, you know, or COD delays on the EDPR where we have some additional minorities there. So I'd say that on the EBITDA guidance, we're not trying to be conservative here, but certainly we see the upside on the net income. And so that's why we're going into a 1.2 to the 1.3 and sort of for the full year.

A - Rui Teixeira

Hi, Javier, it's Rui here. On the EUR100 million, so just to be clear, this is the impact versus the business plan 24-26.

So if you recall, when we presented the business plan, we gave some guidance about the sort of assumptions we were taking for interest rates. So as assumptions just by the fact that we are changing or reducing the US dollar weight in the debt and given where we have the interest rates right now that will have that impact versus the business plan financials of about 100 million cumulative between 2024 and 2026.

Q – Alberto Gandolfi

Three on my end as well. Sorry to get back on the guidance, but would it be fair to say that you were expecting 5 billion euros all along, but now you have less contribution from EDPR at EBITDA level where basically there's much less net income and you have a 30% minority and you have more contribution from hydro in Iberia and Brazil. So, the same EBITDA leads you to a higher net income and then you have some financial expenses. So, what essentially, if I were to adjust EBITDA for the ownership stake, this would be an underline upgrade also on the EBITDA. You just don't see it because of consolidated 100%.

And the second question and tell me if I wasn't clear and ask it in a different way, because I'm not sure I was clear.

Second question is, can we look at the 1.2, 1.3 billion as a good starting point for incremental growth into 2024? And what I'm coming from is that you probably are going to book maybe 150 million incremental capital gains versus normal year. But on the other side, you have very poor load factors in EDPR... one-off taxes... So should this be seen also as a proper clean number upon which you can build proper and substantial incremental growth? Because as you said it yourself, power prices have actually been more resilient than you thought and you're delivering 1.2, 1.3 billion also let's not forget, with relatively disappointing capacity additions this year. For next year, you have also all of that. Are you still convinced you can deliver quite a lot of growth into next year? Maybe anything you can elaborate on that? I suspect you're giving us the next targets for a few years that are full year results. But directionally.

And the last question is something similar to what I asked on Tuesday. But I was just wondering if you have more details now. I think it's excellent to see the granularity on the IRR or what is under construction and development. Would you be able to share more lights on the IRR, on the existing portfolio and I think would be extremely helpful and perhaps would you be able to share I mean, if you have the numbers whenever you were winning the project at six, six and 8% at the trough of the cycle, you know, is that IRR now what, seven and a half, eight, seven, eight. Just trying to understand how inflation and power prices have supported rising profitability of the existing assets. Thank you so much.

A – Miguel Stilwell d'Andrade

So, a lot of good questions. Let me see if I can get to them or answer them all. So on the 5 billion and the link to the 1.2, 1.3, I think yes. We are clearly reiterating the 5 billion.

The mix is different and it's, as you said, and as I explained on the call, a big part of it is coming from a strong performance on our 100% owned businesses, let's say Iberia and Brazil. So I think this is a good basis. I mean, it's certainly some good numbers. We had €871 million last year of net profit. So even on a full year basis we're talking about the very substantial double digit growth year on year versus 2022. I think looking forward, you know, depends obviously on the energy prices. It depends on the COD of the different projects come in. But I would guide to consensus business plan numbers that we gave. I mean, we I think we gave specific numbers for 24 there. I think we're certainly well-positioned for, you know, to deliver on those numbers. I mean, just a little bit of history, but you know how quickly the world changes. If you remember the previous business plan, if you go back to 2021, we were guiding at the time to around €1.2 billion of net income for 2025. We're now in 2023 and we're at 1.2 to 1.3. So I think definitely the world has moved and improved, but stayed on this level. But so we've had very strong growth '23 versus '22. For 2024 we're comfortable with the business plan and just generally consensus, if obviously we can get upside to that and then we'll discuss that over the course of the year. But you know, sitting now in early November, I wouldn't want to go much beyond that.

On the issue around the granularity of the IRR. And by the way, then if you want to tell me if that was okay or want me to go deeper, but on the granularity of the IRR. We have a portfolio which goes back 20 years, so we have multiple different vintages, if you want, of the of the different projects. But let me just give you an interesting number. So yesterday we were looking at a project that we approved in the US, and one of the things I think we need to bear in mind, which I've spoken about, is the fact that in many cases we renegotiated PPAs and increased the prices. And so that's something that we've been doing on a relatively recurrent basis and that's happened in Europe, that's happened in the US as well. So, to make sure that the projects are always NPV positive. The project that was approved in April of 2022, it had an IRR which was something around seven, we renegotiated the PPA and we just re-approved it. It's now closer to eight and a half percent. It's the same project that we renegotiated PPA and increased up. I'm just giving that as a sort of data point of the type of work which has been done by the team throughout the year and throughout the last month to really make sure that we keep these projects, certainly NPV positive and keep them with a good spread. So, we're actually keeping the same spread. This project was approved, and I think we took investment decision in April of 2022. We re-approved it now. It has the same spread wide because we increased the PPA price, we changed the settlement location. We have pretty good visibility on the CapEx. And so we have kept that. That is one example. I can give you many others of how we are seeing sort of even projects approved in the past that we have managed to renegotiate and create value. So let's say for the overall portfolio, I think it's a harder number to come up with because, you know, we have projects going back 20 years and so I need to go and calculate, let's say, the IRR of all of those projects for the full portfolio.

But just also maybe I don't want to take too long with this question. But again, one of the reasons why we brought up the CODs and the FiDs of the projects that we rotated now this year, the Polish project, the Spanish project, also the project that we sold last year is to show that those projects were at the lowest point of the interest rate cycle. And so as I as I mentioned, it's not an interest rate arbitrage that we're doing here. I think in many cases it's the projects that have good value. I mean, I am not saying all projects are great, but I'm saying that overall as a portfolio, I think we're pretty comfortable that we're getting the target returns.

Q – Alberto Gandolfi

I mean, consensus for next year is 1.2 billion in Bloomberg and you're guiding 1.2 to 1.3 this year. If I assume an average hydro year, you know, let's say losing 150 million capital gains at EDPR level for, let's say 100 million for EDP bottom line. But theoretically I'm supposed to have 300 million normalization in EBITDA from EDPR from load factors, from a lapse in of levies and taxes. And then I have incremental capacity to put on top. So how can you be flat year on year on net income?

A – Miguel Stilwell d'Andrade

So, I thought the consensus actually was a little bit higher they just telling me is that. But for the time it was 1.250. Okay, but still in anyway and it's not the 50. So, we're still working on the budget for 2024.

So, I have to be honest. But I don't feel 100% comfortable in and giving too much guidance on 24 because we're still working at it. I think, you know, one of the data points I also gave is that this year actually we're looking at a great fourth quarter in terms of hydro, but the year as a whole wasn't that great in terms of hydro. So, if you normalize also for hydro, you know, we also see upside there. So, I think there are different moving parts. I don't have the budgets. We haven't gone through that exercise. We have the budget discussions next week and I'm sure I would be able to give you probably maybe a little bit more clarity on that. We're pretty comfortable for 2024. Maybe that's the key message.

Q – Manuel Palomo

Hello, good morning, everyone. I still have two, three questions. The first question is on the integrated margin that you have in Iberia, which I think that has been the highlight of these results. Making some rough calculations, I've seen that this margin at the EBITDA level, I'm seeing a Europe has doubled or even more compared to last year, but it's also very well above historical average. So I wonder whether you could give us some arguments to make us more comfortable about the sustainability of those margins going forward, that would be much appreciated.

Then I have a question on detail of the financial investments in assets held for sale, which amounted if I am not wrong to 3.5 billion versus 1.9 billion by 2022. Could you explain the 1.6 billion difference, which I guess it refers to assets held for sale and or what assets could be included? Thank you very much.

And the last one is whether you could share with us what is the expected impact on the minorities just coming from the buyout of the of the Brazilian minority. So, what is the expected decline in minority results of that transaction in 2024 versus 2023? Thank you very much.

A – Miguel Stilwell d'Andrade

Thank you, Manuel. I know you are breaking up a little bit, at least on my end, but if I understand correctly. So, on the integrated margin, getting comfortable with the margin going forward, is that it?

Okay. So, well I think first we need to look at the forward prices and that's why we provided that slide, you know, showing how there's been a rebound now of the forward prices for '24 and beyond 25-26 and sort of they're now back in line with pretty much the business plan numbers.

We already have around 50% hedged for 2024. So, we still have meaning obviously 50% open '24. So at these levels, that would mean that we would have a good margin for 2024. The 50% is hedged. It's close to €100 per megawatt hour. So, you know, 50% is, let's say, locked in the other 50% forward prices look good.

We'll be managing that over the period. As you know, our hedging strategy nowadays we don't lock in everything given the volatility. So we'll typically be a little bit open in that position, but we probably will we'll look at some additional amount over the next couple of weeks and months. So hopefully that gives you some comfort on the '24 margin.

On the other two points, I'll turn it over to Rui.

A- Rui Teixeira

Thank you, Miguel. So on the assets available for sale, so basically we currently have the Pecem, the coal plant in Brazil and the transmission line in Brazil. And those two they have an impact also on the net debt because they have third-party debt. Also we have the wind asset rotation in Brazil as well classified as available for sale and I would say those are the three main ones, at least are in the books in the nine months for EDP.

Q – Olly Jeffery

Thanks so much. I just have one question on capacity additions. Going back to the Half-Year presentation that you gave at the EDPR level, you indicated that the level of additions you might expect from '23 to '24 will range from 7 to 7.8 gigawatts. And in the most recent presentation you indicated it'll be 6.5. And I understand 500 MW of that gap is because Colombia's been pushed back into 2025 and beyond, and that still leaves a gap of 800 megawatts. So, could you please explain why that 800 megawatts has been pushed into 2025 and beyond? Is that because this discussion is around doing deals or is it wanting slow down execution and is execution, does that make it more challenging? Because in '25 and '26 you have significantly more gigawatts to try and add to the portfolio? Thank you very much.

A – Miguel Stilwell d'Andrade

Thanks. So, I think, for the two comments, I think around this, one is, yes, there's just an issue in terms of I mean, we are building currently five gigawatts. And so the way we've dimensioned ourselves is to sort of do around 4 GW per year. And so that means that for 2024 we're sort of looking at the I think I mentioned on EDPR call around 70 projects, 4 GW. So we have pushed some projects into 2025 just because it would not be humanly feasible to do them all in 2024. The second comment is that, I mean, we go on locking in PPA's that we think are value accreative and that, you know, where we feel comfortable that we'll have the economics and the value spread. And so, you know, we're already working on the '25 pipeline. Part of that is the '24 projects that moved to '25, and we continue to build that up. But let's day, we're aiming for 4 GW more or less on an ongoing basis. In the case of, let's say 2024, I think certainly the US team has got not just delivering 1.7 GW now to the end of the year, but they've already got 2 GW to be built in 2024.

I think to put additional megawatts on top of that would not be possible and we would then be running risks that we don't want to run. So we prefer to, let's say, manage that growth and make sure it's sustainable value creating. And that's what we're aiming to do.

Q – Arthur Sitbon

Thank you for taking my questions. I have two. The first one is on the net debt. I was wondering if you could remind us, help us with the key moving parts that will make you go back from €16.9 billion of net debt in nine months to 15 billion or below, as you were mentioning, by the end of the year. And the second question is on renewables. And so obviously you have higher cost on renewable projects with higher rates, higher CapEx in wind. And so far, what you've been showing is that you're able to pass through those higher costs into higher asset prices and thanks to that you maintain a good IRR.

I'm wondering, how much of that pricing power is linked to the fact that market power prices are high? And is there a risk that as power prices come down and if rates remain high, your pricing power would erode? Thank you very much.

A – Rui Teixeira

So, key moving parts. So, we have been working with banks, with investors, and that's something that is planned to happen. I would say that all third week of December, as we have the final tariff '24 published by ERSE we will pull the trigger we execute that securitization. We are estimating around 1.3 billion at least for that. Then of course we are expecting also the closing of asset rotation, namely the one in Brazil related to the wind farms. So the EDPR asset rotation the one that was signed this week on the transmission I think it's likely to be a 2024 event not a 2023. But we are working on the wind side. And then we have a few other initiatives which will be, you know, still material, but definitely smaller than the ones that I mentioned in terms of cash preservation and of course cash flow generation. But definitely very importantly will be the debt securitization. As I said, it's something that is being actively worked and discussed with investors so that we can immediately execute it once we have the tariffs published.

A – Miguel Stilwell d'Andrade

Okay. Arthur on the second question, so I mean the pricing power comes because the market has obviously adjusted. So the renewables market has adjusted, the PPA market has adjusted to these higher costs, higher CapEx, higher cost of capital. And so when you're competing for PPAs or CFDs that's essentially the metric that is most relevant and not necessarily what is the merchants price at any particular point.

Obviously, the merchant price is higher than the PPA's means customers are feeling particularly more confident in contracting at higher PPA prices. You know, we're talking about, as I mentioned, you know, merchant prices in many geographies still well above €100. And we're talking about PPA prices in some cases. In Iberia, you know, 40€ to €60 per megawatt hour. So energy prices would have to come down a long way to, you know, for people to start thinking that they want to leave, they don't want to close PPAs and they just want to go merchant. I think another point is that the clients in general have realized that volatility is not something that they want to manage that much. And so, even if prices do come down a bit, they are certainly, you know, we're seeing that they prefer to lock in. That's certainly a big part of their energy with at least a predictable price rather than speculate on whether the merchant price is lower today, higher tomorrow, you know, they're taking a more prudent approach. I mean, you don't just have short term debt and sort of at the end, if you did, you had a problem. Now with this spike, you know, you'll have long term debt. You'll have maybe some short-term debt, medium term debt, and that's how you should manage energy as well.

Just a third final comment on supply chain: we are seeing the supply chain coming down. I think that's going to be more of a driver in terms of lower PPA prices because generally you can price prices lower PPA and CFD is lower because that will bring down those prices and I think that will be more of a driver rather than necessarily what is the merchant price at any point in time. Hopefully that helps.

Q - Jose Ruiz

Good morning and thanks for taking my questions. Just two.

The first one is this transaction around the two Brazilian transmission lines. Is this an one off or are you going to continue or accelerate this process in Brazil.

And the second question is just a clarification. You mentioned you're going for 1.3 billion securitization. Does that mean that in the fourth quarter we are going to see an additional €100 million tariff deficit as you close nine months with, 1.2 billion tariff deficit? Thank you.

A – Miguel Stilwell d'Andrade

Okay. Thank you. I'll take the first one and Rui take the second one.

So, on the Brazilian transmission. So, we what we said is that the for transmission in Brazil, we also see it fitting in within the asset rotation strategy. In other words, we see lot of opportunities to invest in transmission in Brazil, whether it's through auctions or whether it's even in the secondary market sometimes for projects to build this transmission lines. And then once they've, you know, once you've built them, once you've brought them to COD, in many cases you can rotate them to other companies or funds that have lower cost of capital.

And, you know, we can redeploy that capital back into the business and build additional transmission lines. So, it's a little bit like what we see on the renewable side. We see where we are creating more value is on the development and the construction engineering and construction phase rather than necessarily holding on to all of the assets once there.

So that's how it fits in. So, yes, you know, we have sold other transmission assets in the past and we might sell additional transmission assets in the future. We don't have anything specifically on the agenda now, but it would certainly fit within this idea of investing in transmission projects and then rotating them and then redeploying that capital back into new projects.

A - Rui Teixeira

So, on the securitization, I mean, just bear in mind that we started the year with the regulatory payables. So, I mean, will be a net effect from that. But also bearing in mind that throughout Q4, depending on how the wholesale price evolves, we may have some fluctuation on the deficit. The 1.3 billion is based on what we currently have from the regulator on their proposal for the 2024 tariffs.

We already give 300 million, we have this expectation to go for 1.3 billion. I mean, once the number is clearly defined, then of course we'll adapt for that as well.

Closing Remarks

Miguel Stilwell d'Andrade

First thing just to note, I've been told that there were some technical problems on the call and that it was sometimes cutting off. And I apologize for that. But hopefully you managed to get through the key messages and if not, obviously, feel free to reach out to us again to clarify any issue. But sorry about that. We only sort of noticed that more than halfway.

And finally, just in terms of key remarks: Really strong results for the first nine months, feeling very positive about the fourth quarter. I think we are now stronger than ever going into this fourth quarter with super high reservoir levels, predictions of continued rain over the next couple of weeks, looking good in terms of energy prices for 2024 and even for the rest of this year. You know, we've now Brazil is doing well, Iberia's doing well. Hopefully wind will recover next year and we'll get the COD delivered on time. For 2024 we're feeling much more confident about that in terms of the delivery of the megawatts, as you say, we had one big issue this year, which we've sorted out to be very positive certainly about the rest of the year and going into 2024.

Overall, we've done well I think also on the phasing out of coal. So, we really are a leader in terms of being a green integrated utility. Next year we will be more than 90% renewable energy present on, I think really attractive geographies. Super strong focus on the asset management, super strong focus on the efficiency, good energy management capabilities within the company. So, I think really well positioned to continue to invest and to continue to create strong shareholder value over the economic cycle and that's really what we're focused on. So, thank you for taking the time to be on the call, and I'm sure we'll be talking again soon in the follow-up Road Shows. Thank you.