

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

Miguel Viana

Good morning ladies and gentlemen. Thank you for attending EDP's First Quarter 2023 Results Conference Call. We have today with us our CEO, Miguel Stilwell de Andrade, and our CFO, Rui Teixeira, which will present to you the main highlights of the first quarter of 2023 financial performance. We'll 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'll give now the floor to our CEO, Miguel Stilwell de Andrade.

Miguel Stilwell d'Andrade

Thank you, Miguel. Good morning, everyone. Again, thank you for attending this results conference call. So, just we go into slide 3 and kick off the presentation. So, what I'd say is that what you can see on the slide is that the first quarter was marked by a very strong financial and operational performance. Mainly supported by the recovery of hydro conditions in Portugal. We had a very strong EBITDA of EUR1.4 billion mostly driven by the recovery of the hydro conditions in Portugal.

As I mentioned it resulted in a production of around 3.5 terawatt hours of 0.4 terawatt hours higher than expected for the quarter. Wind and solar EBITDA EUR0.1 billion higher year-on-year both driven by higher installed capacity, higher generation in the ramp-up of selling prices.

Electricity networks in Brazil also grew given inflation impact in the tariff updates and transmission expansion in Brazil. And we had improved energy management with a decrease in electricity and gas sourcing costs from the peak levels in 2022. Overall, going down to the bottom line, we get recurring net profit above EUR300 million, and this can be explained obviously by the EBITDA growth, which has been mitigated by an increase in financial costs and income taxes.

Given the improved results in Portugal and Brazil, two countries that have an effective tax rate above portfolio average and no asset rotation gains in the first quarter of 2023. I know this is something that some of you commented in earlier this morning and basically, just to give you a highlight on that. Also, just to mention, two days ago, EDP paid a dividend of \$0.19 per share. That represents a dividend payout ratio of around 86% so on 2022, recurring net profit.

If we move on to slide 4, as already mentioned hydro generation recovered from the very first or very weak first 9 months of 2022 and absolutely disastrous hydro in the first quarter of last year. So, on the left, you can see that we moved from a hydro shortfall of 2.6 terawatt hours in first quarter last year to 2.4 terawatt hours above expected in the first quarter of 2023, so quite a strong recovery here to more normalized levels.

Additionally, note that although February, March and April were dry months our reservoir levels remain high at around 80% of the maximum capacity which is higher than the historical average for this time of the year and it's considerably higher versus the 2022 abnormally low levels. This being said, good hydro generation levels in 2023 so far and high reservoir levels provide some comfort for the remainder of 2023. So, I think the fact that we're at these levels as of today already in May has set us up well for the rest of the year.

Moving on to slide 5. Once again, this showcases really the robustness of the Portuguese electricity system in terms of stable energy prices. So, as you know, Portugal has a significant weight of long-term contracted renewables in energy mix and it was able to maintain stable end user electricity prices during the European crisis, energy crisis of 2022. So, let's say good resilience, good robustness to the high electricity and gas wholesale prices. The Portuguese consumer, the domestic consumer was basically insulated from last year's escalation of prices and even this year as well. So, in general, we've been able to keep rather relatively stable and flat prices throughout this crisis. You can see that on the left, both residential and industrial segments had essentially price increases in the second semester of 2022 but very low according to the Eurostat data 2% for residential, 5% for industrials.

We also had some Eurostat data, which came out recently which showed that Portugal is actually become much more competitive in terms of the cost of energy versus the rest of Europe. This was all done without compromising financial stability and the Portuguese electricity system. So, let's just say system debt decreased by more than EUR2 billion over the last 2 years, so it's reduced in approximately half of this period. For 2023, the lower-than-expected wholesale prices in this first quarter implies some short-term negative deviations. This should be corrected very soon.

The Portuguese independent energy entity has already communicated its proposal to review the access tariffs starting from July 1, 2023 already taking into account this lower wholesale prices and so adjusting the access tariffs to take this into account.

We move on to slide 6. Wind and solar very much focused on execution as mentioned earlier this week, we've already contracted 1.5 gigawatts since the Capital Markets Day, mostly in Europe and in the US.

This leaves us with around 8.5 gigawatts of secured capacity about 50% of the capacity target for the business funds will start in '26 or in total 2026 and then of these 8.5 gigawatts, 5.7 are secured for '23 and '24, so around 75% of the target additions for this period were on track to deliver on our growth ambitions. Also, highlighting that we have 5 gigawatts of capacity under construction, of which we expect of solar around 3 gigawatts in 2023 and we continue to ramp up the capacity under construction over the next couple of months.

As I mentioned on Wednesday, we have about 0.9 gigawatts of solar PV installations in the US that are moving from 2023 to 2024 essentially related to the delay of solar modules from LONGI. I've mentioned this is unfortunately taking more time than expected to fulfill the Customs and Border Protection documentation requests. And I believe LONGI is working to get that done as soon as possible and in any case, we are assuming that is 0.9 and moving into 2024. However, we haven't been stopped obviously we've been adapting and diversifying our solar supply chain strategy to make sure that we can continue to deliver on the business plan. So, we secured 1.5 gigawatts with First Solar in the US for the post 2024 CODs and we're now working with more than 5 solar manufacturers for 2024 installations to guarantee we did not have similar setbacks in the future. All in all, we continued with good performance on securing new capacity to be installed and that gives us confidence on achieving the target as additions until 2026 despite some setbacks on the US solar additions in 2023.

We move on to slide 7 and let's talk about our Solar DG business. As of March, we had installed capacity of 0.8 gigawatts of which 0.3 were installed over the last 12 months. So very meaningful 66% capacity growth over this period. Since 2020, we've already secured 1.8 gigawatts of which 0.8 are installed, 0.4 are transactional, meaning that they are built and then transfer to the customer and 0.6 are under construction or secured to be added. We continue to be very confident on this technology's future prospects. Last week, we signed a framework agreement with Google and installed up to 500-megawatt AC in the local energy communities in the US. In Europe, DG is going through a high growth momentum with more than 100-megawatt AC of new DG capacity signed over the last two quarters. In Asia Pacific, we have around 120-megawatt hour AC of Solar DG under construction. So, in this region, we've already secured 40% of the additions for 2023 to 2026.

We'll move now to slide 8 and talking about interest rates. So, we continue to manage our exposure to interest rate risk. As of March, we have 73% of our debt with fixed interest rates and part of the debt with floating interest rates is matched by asset exposure to inflation in Brazil. Debt in Brazilian BRL represents around 15% of our total debt and the EBITDA from Brazil represents around 30% of the total, which clearly demonstrates that we are inflation hedged here. As I mentioned, in 2022, we closed around EUR2 billion of pre-hedge interest rate for '23 and '24 refinancing needs. So, we have EUR1 billion and \$1 billion pre-hedged at around 1.8% and 2.6% respectively, very competitive prices versus than the current one so, reducing the interest rate risk for upcoming refinancing needs. Regarding expectations on asset rotation, we stick to the capital gains of around EURO.3 billion given that the Clean

Energy and ESG Components of the assets more than compensate the move of interest rates over the last 2 years.

So, we're continuing to see demand. We're continuing to see the value there and I talked about that also as well. So overall, asset rotation transactions plan for '23 on track to deliver the expected returns.

Move on to slide 9, and just a quick word here on an update on the tender offer in EDP Brazil minorities. The auction is expected to happen in the third quarter. We've been working on this and already completed several milestones, and we expect the CVM approvals of the market, regulator in Brazil approval between May and June. As we mentioned in the Capital Markets Day presentation, the expected EUR1 billion of investment was already funded through the share capital increase that the EDP level carried out in March. So, we're very confident that the success of this transaction will be translated into a simplified corporate structure, and it's fully aligned with our strategy focused on renewables and electricity networks.

Moving on to slide 10, just before I pass over to Rui. Good performance in terms of emission reductions in the first quarter of 2023. We're fully committed to decarbonization with Scope 1 and 2 emissions intensity decreasing year-on-year by almost half. You can see this puts us on the right track to achieve our ambition of reducing those emissions by 95% in 2030 compared to 2020 levels. I'd also highlight that EDPs climate transition plan was submitted for advisory vote at the 2023 AGM and it was approved at 99.73%, which clearly shows the confidence that investors have in our ambition regarding net zero targets. Also supported by the normalization of hydro resources in Portugal and the subsequent decrease in thermal activity this year, renewables accounted for 88% of total generation, which is 10 percentage points increase year-on-year and the revenues from coal decreased 4 percentage points year-on-year to 4.7%. We also improved our alignment with EU taxonomy so, 67% alignment revenues. That's 14% higher year-on-year, and 97% alignment for the CapEx investments. Finally, just to reiterate our ambition to reduce the Scope 1 and 2 emissions, supported by being coal free by 2025 and 100% renewables by 2030. Focusing our investments and renewables and electricity grids. So, with that, I'll hand it over to Rui to give dive on the financials and then I'll come back for closing remarks. Thank you.

Rui Teixeira

Thank you, Miguel good morning to all. So, I'd like to go through the data EDPs financial performance in the first quarter. So, please go to page 12. Recurring EBITDA increased by two times year-on-year to above EUR1.4 billion in the first quarter of 2023. As we see it recurring EBITDA for renewables clients and energy management was up by EUR0.7 billion, mainly driven by the recovery of hydro in Portugal to normalized levels, improved energy management results due to lower electricity and gas sourcing costs and higher wind and solar EBITDA on the back of 11% increase generation, and 8% increase in average selling price.

Moreover, in electricity networks, EBITDA increased by 5% year-on-year, driven by the growth in Brazilian networks due to the positive annual tariff updates and the growth in the transmission business.

Please note that in the first quarter in 2022, we were heavily penalized by the extreme drought together with the record high energy prices.

So, if we move now to slide 13, EBITDA for EDPR increased 14% year-on-year. That was the result of 5% growth in installed capacity to 14.8 gigawatts that, together with the good renewable resources, led to 11% increase in electricity generation. The generation was sold at an average selling price of EUR62.5 per megawatt hour, which is 8% higher year-on-year, and this was across all the different regional hubs with the year-on-year growth. Europe growing 21%, North America 14% and South America and APAC more than 6 times, mainly due to a strong delivery of organic growth in Brazil namely the commissioning of three large plants Boqueirão, Jerusalem e Monte-Verde with a total of 0.6 gigawatts and the impact of Sunseap integration since February 2022. Also, please note that we have no results from asset rotation gains, neither in first quarter '22 nor in the first quarter of 2023.

So, now on Slide 14 from an integrated perspective, hydro clients and energy management was marked by an overturned in operating conditions following the extreme adverse First Quarter 2022. In Iberia results were positively impacted by the normalization of hydro resources with generation being 3.5 terawatt hours, which is more than double versus last year and approximately 0.4 terawatt hours above our expected production. This positive impact was mitigated by the decrease in thermal generation with coal and gas-fired power plants producing almost half of first quarter 2022 volumes. On energy management, there was a decrease in electricity and gas sourcing costs. This has mainly to do with the 58% decrease in electricity spot price in Iberia to an average of EUR96 per megawatt hour in the first quarter this year, and 47% decline in gas spot prices to an average of EUR52 per megawatt gas.

In Brazil, EBITDA slightly decreased by EUR2 million with better hydro conditions but lower volume from the sale of Mascarenhas hydropower plant in the 4th quarter last year.

So, now as we move into slide 15, just highlighting the year-on-year dynamics of integrated portfolio, the hydro clients and energy management has the negative EBITDA in the first quarter of 2022 mainly impacted by the negative EURO.4 billion from the hydro simultaneously with these record high electricity prices that we observed in the first quarter last year. And the mark-to-market on gas hedging contracts that last year was not recognized through hedge accounting and that suffered from a sharp increase in the spread TTF to Henry Hub. In the first quarter of this year, we saw a strong rebound in Iberia.

So, we have lower electricity and gas sourcing costs, given the decrease in electricity and gas spot prices, normalization of hydro resources in Portugal versus the first quarter last year, and finally, a positive year-on-year comparison with no material negative impact from mark-to-market on energy contracts in the first quarter of this

year, and this is mostly related to the derivatives on the Cheniere Gas contracts. You may remind that we address this and solve this since Q3 of last year.

So, this being said, we originally integrated EBITDA of EUR0.53 billion in Iberia, which we believe is above a normalized level per quarter, which should be more in the range of EUR0.3 billion to EUR0.4 billion.

So, now looking to the network's performance on slide 16, networks EBITDA increased 5% year-on-year, reflecting mainly a 16% increase in Brazil, with transmission expansion and the tariff updates to inflation. In Iberia EBITDA decreased 2% in Portugal actually, it increased EUR2 million year-on-year with increase in the rate of return on RAB being mitigated by the increase in OpEx. But in Spain EBITDA decreased 7%, given that first quarter '22 was impacted by a recovery of revenues from previous years. Excluding this impact, EBITDA in Spain, would have been flat year-on-year. So, please note that we will continue to work to be done efficiency, digitalization in terms of overall in our electricity networks. As of March, we have EUR6.7 million smart meters installed across all the geographies, of which EUR0.8 million installed over the last 12 months.

So, now let's move to the financial costs. On slide 17, if we exclude FX differences and derivatives adjusted net financial interest increased 27% year-on-year to EUR243 million resulting in a 90-basis point increase in the average cost of debt to 4.8%. But this is mainly explained by two factors, one is Brazil that represents around 15% of EDP debt and more than 40% of interest costs. Given the higher cost of debt in Brazilian reals from last year's 12.6% to more than 14.3% in the first quarter of this year. Please note that Brazil also has revenues indexed to inflation and that's why we have this floating debt on the financial side and therefore, hedging at the net profit level. Euro and US dollar denominated debt was also experienced increasing so, we also saw the increase in the cost given the higher interest rate environment. Overall cost of debt increased from 4.8 versus the 3.9% in the first quarter of 2022, if we were to exclude Brazil, cost of debt reached only 3.1% in the first quarter 2023.

And this is of course, important also looking at the financial liquidity on slide 18, strong financial liquidity remain in our balance sheet in the company with more than EUR10 billion of available liquidity of which more than 4 billion are cash equivalents and the remaining 6 billion of available credit lines from more than 25 counterparties. As we can see in the right-hand side of the slide, this liquidity covers the refinancing needs beyond 2025. However, and as Miguel said before, we already have around \$2 billion of pre-hedged benchmark interest rates for 5-year maturity representing about 70% of 2023 and 2024 bond maturities, and this will provide a positive impact on the evolution of the average cost of debt over the next two years.

On slide 19. Our net debt decreased to EUR13.1 billion as of March 2023 from four different factors. First of course is the recurring organic cash flow of 0.4 billion on the back of a very strong EBITDA performance in the first quarter. Regulatory working capital of 1.1 billion from the reversal of cash inflow that we received in 2022. Net expansion investments that amounted to 1.2 billion.

And finally, the EUR2 billion from the capital that the equity capital raises, of which 1 billion at EDP and 1 billion at EDPR. Finally, given the strong performance in the first quarter this year and the referred EUR2 billion of equity raise, we reinforce our credit ratios net debt-EBITDA at 2.8 times and FFO Net debt at 23% in the first quarter, and this is 3 percentage points higher year-on-year. To finalize and before heading over to Miguel, I would like to highlight on the net profit on slide 20 that's recurring net profit amounted to EUR306 million that's recovery versus the negative EUR76 million in the first quarter of 2022 slightly below the previous quarter although this time without any impact from asset rotation gains or any material impact from non-recurring items. So, below EBITDA, just to highlight the financial costs increase as explained before due to the higher cost of debt mostly coming from Brazil. Higher income taxes, given that we have higher weight of earnings before taxes from Portugal and Brazil, which have higher corporate tax rates than the average of the portfolio. So, with this, I will now hand over to Miguel for closing remarks. Thank you very much.

Miguel Stilwell d'Andrade

Okay, thank you, Rui. So, just to wrap up the first quarter performance. A good start to the year. That's for sure. Sound results, recurring EBITDA, EUR1.4 billion and net profit over EUR300 million. EBITDA growth supported by the normalization of hydro in Portugal, hydro volumes recovering obviously from a very weak 2022, particularly the first 9 months and generating around 3.5 terawatt hours of energy 0.4, higher than expected. Wind and solar very solid as well, 5% increase installed capacity year-on-year, 11% increase in generation, and also an increase in average selling price. In electricity networks as I mentioned, positive impact from inflation updates on revenues. For the remaining part of 2023, we have a positive outlook. So, we are seeing improving average selling prices as the hedges made last year rollover. Hydro reservoir levels currently above average at around 80% and lower electricity and gas sourcing costs. On renewables regarding capacity deployment, the CMD we secured 1.5 gigawatts of renewables reaching 8.5 gigawatt I mentioned around 50% of the target for 26 expecting to install around 3 gigawatts in our key markets and reinforcing our strategy to diversify the solar supply chain to avoid further constraints.

Funding and financial costs positive on delivering target asset rotations for '23, average cost of debt, being impacted by Brazil but being balanced by having 100% inflation linked revenues, EUR1 billion, \$1 billion pre-hedged on new debt issues for 2023 and 2024. And finally, reinforced balance sheet with the EUR2 billion raised in EDP and EDPR that will support the renewables growth and EDP Brazil minorities buyback. So, once again, thank you for attending this quarter's results. Miguel Viana tells me there are a lot of questions have already come in online, but we can now move to Q&A. And we'll take as many as we can. Thank you.

Questions And Answers

Miguel Viana

Okay. So, we can go to the first question on the phone, which comes from Alberto Gandolfi from Goldman Sachs. Alberto, Please go ahead.

Q – Alberto Gandolfi

Miguel, thank you and good afternoon. Given, we spoke about already quite a lot about the IRA opportunities in EDPR, I wanted to ask maybe two specific questions on numbers. And one, again a follow up on IRRs from the other day. So, I guess the first question is that I was wondering if you were surprised somehow by the evolution of the net debt in the first quarter. You raised EUR2 billion, the net debt is unchanged. I think that your waterfall chart is very clear. It looks like this is still entirely an issue having to do with the regulatory working capital. So, I guess my question is, is this correct? And when do you expect these to reabsorb, or should we expect incremental regulatory working capital for the rest of the year because this seems to be the biggest delta, if I'm right.

The second question is that I see that there was no guidance for earnings usual question Bloomberg consensus seems to be between 1.1, 1.2, 1.15 billion net income. May I ask if you, perhaps very comfortable or not comment. I mean you just delivered more than 300 million with lots of taxes in it and you're talking about the rising prices and lower sourcing cost, and more capacity for the rest of the year. So, to which we need to add asset rotation gains. So, it seems that if I were to guess, I would guess, you must be very, very comfortable with, with consensus.

The last question, the other day, you talked about PPA is moving to 60, 70 euros or dollars per megawatt hour. May I ask if this is anecdotal or actually you see this pretty consistently in the new auctions, the new PPAs. I just was trying to understand how sustainable is that because the other day you reiterate that you're comfortably above 200 basis points over WACC of returns and given so many investors are skeptical on the ability to create value. Any extra light you could shed will probably be much appreciated. Thank you so much for your patience.

A – Miguel Stilwell d'Andrade

Thank you, Alberto. So, a couple of comments and then I'll ask Rui also to comment on the net debt issue, but I'd just say there, it's well within expectations and something that didn't surprise us. But going to your comment on the guidance, so we are comfortable with the 1.1 billion in line with what we said in our Capital Markets Day 2 months ago. And then maybe just going a little bit deeper and giving you a bit more color on that. So, we see in 2023 obviously, as you've noticed in the first quarter, high

expected contribution from the Iberian integrated Generation and Supply business and I know there have been comments about the way we're presenting this, but more and more we see this as an integrated let's say, value chain, certainly on the Generation and Supply. We're not splitting it out, we may evolve again if we get additional comments on this, but we do think it reflects sort of this, this integrated margin that we see.

So rather than the volatility on the some of the pieces underlying it but a higher expected contribution here as we mentioned, we have had some capacity additions that have been delayed from '20 to '24 and also some decline in the average selling price for EDP renewal also some significant call also. We've been guiding, I think EDPR down certainly, that's what we mentioned on the call on Wednesday. I just wanted to reiterate that now. Financial results slightly higher than last year but penalized by the higher cost of debt, but we expect it to be stable at around 4.8%. Effective tax rate, as we mentioned in the first quarter is high, but we expect it to settle at around the mid '20s over the rest of the year. This is because of the mix of where the profit is being generated.

So, it's got a lot of Brazil, higher rate to Portugal, which has a higher effective tax rates as you know, it's around 31%. So, it's really a function of the mix over the year this mix will evolve as you also have asset rotations and other things coming in, and so it should be at the mid '20s and then going forward after that probably in the low 20 so, post 2023. So, hopefully that's a little bit of color on in terms of guidance, but just going back to the beginning until so, we're comfortable at the 1.1. On the PPAs, so the 60/70\$ per megawatt hour it's definitely something we're seeing in the US, I mean that's we're very comfortable with that. EUR60, EUR70 per megawatt hour in Northern Europe, it is also something that we are seeing. In Southern Europe, typically also has a higher resource both solar and wind and probably more than that the '40s so, this is not anecdotal. This is concrete PPAs that we're signing and that we're, we're locking in. So, as I mentioned, we secured 1.5 gigawatts over the last two months.

And these are sort of the prices that we're seeing in the said projects. This is obviously reflecting higher CapEx, higher cost of capital. But then you are having this higher PPA prices and so I've talked about on previous calls, we reverse engineer the PPA prices to make sure that we get the desired returns. And then we go out and we market it at those prices, and we've been able to lock them and informed with good customers both corporates and also regional utilities, particularly in the US. So, it's definitely not anecdotal or it's very concrete specific data points. On the debts Rui, do you want to comment a little bit more?

A – Rui Teixeira

Thank you, Miguel. Hi, Alberto so on the debt. In December, when we presented the results, we had about EUR1.1 billion of a positive impact in our net debt by then, and this was approximately 0.6 billion as regulatory payables effectively and 0.5, so that was 0.6 and then 0.5 billion of working capital, so some cash anticipation from 2023 into 2022 that we also provided visibility. So as of March, this impact in our balance

sheet has decreased significantly, it's approximately 0 right now. So that's why we are booking or we're showing this 1.1 billion of negative outflow in terms of the regulatory receivables. This pace of reversion, we were expecting this to impact the first quarter because as the wholesale prices started to decrease throughout the quarter and then, that is created between the wholesale price and the renewables tariffs that goes into the system that that positive delta started to reduce and on the tariffs were fixed. So, we were expecting this to have this impact by the end of the first quarter.

Given that right now the regulator presented already the proposal for the tariff revision for the second half in 2022–2023, we see that being proposed it will adjust the access tariffs to reflect the current wholesale market prices, and this should be stabilizing the regulatory receivables. In any case, this only applies to the second half of the year. So, we are expecting to see some increase in regulatory receivables during the second quarter in 2023. So what we are expecting is that we'll see that increase, then we should see sort of a more flattish into or settled into the second half and we are also expecting that whatever deficit or deviations could be created that we'll be working to securitize those throughout the rest of the year. So, our expected, that's now forecasted debts for 2023 is in around EUR15 billion. So, but that's really what explains the 1.1 delta that you see now in the first quarter.

Q – Alberto Gandolfi

Yeah. Thank you.

Miguel Viana

Thank you, Alberto. So, going to the next question on the phone from Javier Garrido JPMorgan. Javier, please go ahead.

Q – Javier Garrido

Thank you, Miguel. Good afternoon. I think most of my questions have been answered. The only remaining question I have would have is on the comment that Rui, made on the call that the normalized contribution from the hydro and energy management business will be between EURO.3 billion and EURO.4 billion first quarter. I was wondering, all these normalize. I mean, are you thinking about normalized contribution with power prices around the EUR100 per megawatt hour level or normalized contribution with lower power prices in line to where we were before the Ukrainian inflation. I just wanted to understand what is the concept of normalized you're thinking of for this range? Thank you.

A – Rui Teixeira

Hi, Javier, Rui here. So yes, I mean normalize in the sense that production was also higher than what we were expecting also the fact that all in all, from an integrated

perspective, we are seeing a margin that should be reducing for, I mean on a normalized basis for the coming quarters. So that's why I wanted to highlight. So, you don't take the 0.53 billion as sort of a reference for what a normal quarter should be and adjusting for volume for the integrated margin more towards the 0.3, 0.4.

Miguel Viana

Yes, I think I was in mute just, thank you, Javier. Going to the next question from Jorge Guimaraes from JB Capital. Jorge, please go ahead.

Q – Jorge Guimarães

Good afternoon. I have three questions, if I may. The first, if you can elaborate on the 0.2 billion of hedging mark to market that you mentioned in the presentation. What is exactly this game?

The second one is, if you see any risk for the take-out of the buyout of minorities in Brazil?

And the third one and probably the one where I'm most interested in it's if you see the current trend rate of pumping in Portugal as sustainable, because there was no, no rainfall in Portugal in April yet reservoirs are stable month-on-month, and you are pumping a lot but as time goes by, the reservoirs will go down. So, how far can you sustain the current pumping levels as the year progress? Thank you very much.

A – Miguel Stilwell d'Andrade

Okay, thank you, Jorge. So, you can probably talk about the first one. I'll just give you some color on the second one on the buyout of Brazil. And then I think we can comment also on the pumping. So, just in Brazil specifically, we're very comfortable. I mean, if we think about the current price is it around 24 BRL per share dividend adjusted it's 23.73, the current market price is below that it's 22.58, which is basically, let's say that value discounted for the Selic. So, I'd say it makes financial sense for the minorities to accept this offer. And we're certainly working on that basis, I'd take the risk of not achieving this is low, at least for national investors. So, we're confident about that. In terms of the mark to markets, Rui. You want to take that?

A – Rui Teixeira

Sure. So. Hi, Jorge. So, the mark to market is really year-on-year impact so the 0.2 billion is an area impact, just to recall in the first quarter of last year, we booked 80 million. Negative impact from mark-to-market and that was related to this year contract, the gas contract and the accumulated negative impact of approximately EUR0.2 billion by the end of the semester. Since June, you may remember, we start moving these contracts into hedge accounting. In the first quarter, we have no negative impact related to this to any mark to market. And we are benefiting from the higher gas margins, given the low sourcing costs that are booked in this quarter. And

also related to the negative mark-to-market book plus year. So, the negative mark-to-market was because it was hedging, then we would see this positive impact in '23, '24, it was actually, mostly in 2023. So, I mean the 0.2 the year-on-year and of course now, we see in the margin that the reversal of that negative impact.

And concerning the third question, on the pumping. I mean I guess what we are what we have been doing is from an energy management perspective. Given that we have a much more balanced position, then we can at some point, as we see the market price going down, we go short in the sense that we will stop producing maybe definitely the pool or start producing less gas, we may reduce as well the hydro production, and ultimately also buying electricity for the pumping. So that's something that has been managed very actively over the first quarter and that active management will continue to happen throughout the remaining quarters.

A – Miguel Stilwell d'Andrade

And Jorge, I'll just add that we see this as sustainable also not just short term but mid-to long-term and one of the things, you'll probably have seen certainly over the last two months is the duck curve right with more solar coming in and impression the prices sort of mid-day. So, I think pump storage is really coming in with so now and that's creating a lot of value as we have also been defending. So, we see this sustainable both in the short term, as we talked about and also mid-and long-term.

Miguel Viana

Thank you, Jorge. Moving to the next question on the phone from Manuel Palomo from BNP Paribas. Manuel, please go ahead.

Q – Manuel Palomo

Hello, good morning and thanks for also taking my questions. Sorry to insist on the first one, but I would like to ask a bit more on the hydro levels. It's true that there has been a big recovery in the month of November, December, January. But since February, I mean rainfall has been below average in Iberia. So, I wonder whether you could give us some indication on what is your better expectation about the hydro? I got there electricity production hydro in Portugal important to go the year 2023. Given that and it seemed pretty volatile in the last 3 years 12 terawatt hours in '21 and now even 6 in 2022. So, if you could give us a view on what's your production expectations that would be great.

The second one is just a follow-up one of our questions. He was asking about debt and about working capital. I was wondering whether you could give us an estimate on what is the level of TEIs that you assume for the year-end. And the last one in the EDPR presentation, I could see that the impact from non-cash items on the financial charges works in the region of 35 million. I wonder whether you could quantify what is the figure for EDP in this first quarter. Thank you very much.

A – Miguel Stilwell d'Andrade

Thank you, Manuel. So, in relation to the hydro yeah, as you say very rightly so December, January very wet month and huge buildup of the reserves, and then we've been managing that over the last couple of months, just what you mentioned. We've actually been managed to conserve a lot of water and just take the margin, buying cheaper in the market. So, we're above the average for the year. For the rest of the year, we assume an average year. So that's the typical. I mean, as you know it's almost impossible to do any predictions really more than two weeks or so. So, it's very volatile. I mean, we've looked at all times. We could have almost a morning's discussion on predicting weather patterns and well, whether El Nino will come back and the implications of that in the US and then in Europe. And I mean, we look at that. We have a great team for energy assessment – but basically the bottom line is almost impossible to tell the best predictor is to just assume the average for the rest of the year. There is more volatility, at least, at least intuitively, it feels like there is more volatility but around the stable long-term trend. But that's certainly the case more for hydro because as you know, wind and solar tend to be much less volatile than hydro. In relation to debt and the impact of non-cash, Rui.

A – Rui Teixeira

Okay. I think, I would probably see a pretty much in line with what we have today. Increasing also with some of the wind farms that we'll be commissioning this year so around this 1.1 commission this year. So, I would say excluding the plants that we are delaying for 2024 maybe an additional EUR600 million, give or take. So, from where we are today, an additional EUR600 million. Yeah, so, and then the third question. And here, I think you were referring to the negative impact on our financial costs from forex mark to market, is that it?

Q – Manuel Palomo

Yes, thanks.

A – Rui Teixeira

Yeah. So, basically what we have on our net investment policy, we are of course, protecting our equity against FX variation. So, we are contracting forward on FX for the different currencies. But there will always be some inefficiency because at some point, we'll be rolling this forward. So, there is a delta that is created by the difference between interest rates between euro and the currency that we are covering. That delta, we need to mark to market that, and it goes into our books. It's a non-cash item and it will be varying over each quarter. It will depend on the volatility of the different currencies versus the euro. But it is effectively that. So that's in consolidated levels in the first quarter 2023. We have about EUR22 million coming from that, but it will

depend really on the evolution of the forex, on the different exchanges. But really, it's just the consequence of having these net investments policy to protect the equity.

A – Miguel Viana

Okay. So we can go to the next question from the phone. So the next question comes from Fernando Garcia with Royal Bank of Canada. Fernando, please go ahead.

Q – Fernando Garcia

Thank you, Miguel, good afternoon, everybody, thank you for taking my questions. So, only two left for me, first on the recurrent tax rate of 31% in the first part, my question is, if this is a good indication going forward is asset rotation?

My second question actually these are a couple of questions on regulation. Do you think there is any rate across from the constitutional court ruling on gas distribution about the Portuguese's extraordinary tax for electricity that will be my first question on regulation. And the second one will be, if you can update on the Portuguese social tariff's financing? Thank you.

A – Miguel Stilwell d'Andrade

Okay. Rui, you'll take the first one?

A – Rui Teixeira

Yeah. So, I think that the tax rate for the year end were estimated to be around mid '20s. As we said this morning, I was, sorry, this year because of the impact from first quarter results coming from Portugal and Brazil where we have higher highest tax rate. That's where we land into this 31%. If you exclude the 1.2% tax in Spain is actually comes closer to 29. So, as we move towards the year-end that we see of course an increased contribution coming from the renewables from EDPR. And also, on the gas rotation side. We typically don't book any taxes on those capital gains. We expect the tax rate to come down. And so that's why we're guiding around the mid '20s.

A – Miguel Stilwell d'Andrade

Okay. On the regulation. So, in relation to the sales of extraordinary contribution what came out from the Constitutional Court for those of you that haven't followed us is relating to the natural gas sector. And essentially re-opened the debate on the maintenance of this contribution certainly over the short, medium and long term.

Essentially, what it does is that as of 2018 the extraordinary circumstances are no longer in place, particularly in relation to the gas, it makes no sense for them to be paying it. When a big part of it was going into the electricity sector was being sort of put into paying down the debt of the electricity sector. So, I think this, we are looking

at the arguments that have been used by Constitutional Court and we are looking at what should be our approach to this, where they can be applied also to the electricity sector.

We maintain, as we always have that this is a tax contribution, which makes no sense. It incentivizes investment because it's the percentage on investments. So, the more you invest more tax you pay. So, it's not a good incentive for investment in Portugal to need that. It's been public that it would be reducing over time with the reduction of system debt, 2/3 of this tax paid is going into paying the system debt. And so, we believe it makes sense and that it will happen at some point that this will start to reduce hopefully sooner rather than later. On the social tariff, two messages here, one as you know we appeal to the European Commission.

The European Commission, said that we were right, I mean we have no problem with the social tariff. We think that's it's fine. It's obviously the government's policy that we see a lot of merit in it, but it should not be financed the way it's currently being finance, which is by mainly by EDP in Portugal. So, as I said, European Commission said that we were right it should not be financed by EDP or mainly EDP. You should either finance it through the government budget or you should finance an alternative way for example in Spain. This is done by socializing there between the different markets operators that administered came out and said that they were looking at it and that they were going to review the financing scheme. And so, well, we expect that in the short term, that this will be resolved and that there will be fairer and more equitable way of financing the social tariff than the current one, so that's good, that's what I'd say about that. Thanks.

Miguel Viana

Thank you, Fernando. So, the next, the next and last question on the phone is from Olly Jeffery from Deutsche Bank. Olly, please go ahead.

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Q – Olly Jeffery

Thanks, good afternoon everybody. So a few different questions please. The first one is going back to the CMD and what's changed since the CMD to understand how you've seen kind of incremental changes on EBITDA. So maybe you got the headwind and EDPR with moving the one gigawatt solar into next year. Is there anything else we should consider that changed into CMD in terms of your view on the incremental EBITDA change so there's even a slight negative. But if you're able to quantify that, that would be useful.

The next question is going back to the China contract. I just want to understand this. So, the mark to market last year was 200 million which is meant to roll back of 70% this year. Are you expecting anything else to roll back through the rest of the year or is that now. The next question is on the normalized hydro, I didn't quite catch your answer. Did you say that you thought for the following quarters, you would expect 300 to 400 million or is that just in Q4. And then just one more, just on the asset rotation. I mean, I understand that you made it quite clear on the EDPR could it be

anything to do 300 million, kind of respect to the pricing this year. I believe that the EDP key level that you're probably unlikely that you'll get through any rotation this year. You got an indication and whether it's that's more likely 2024 event. And then I'll leave it at that.

A – Miguel Stilwell d'Andrade

Okay, Olly. Thanks for the questions. So, in relation to the CMD. I mean it was only two months ago. So, I don't think any structural has changed really. I mean you talked about the 1 gigawatt or 0.9 moving into 2024, I mean you will see some different moving pieces maybe the hydro in general has gone quite well, EDPR a little bit less well for this year, but certainly we see 2024 and beyond as staying reaffirming the guidance, I mean we see no reason to change what we talked about in the CMD just two months ago. About normalized hydro, Rui, you can probably talk about, but maybe just, I didn't quite catch the first question, so yes rotation \$200 million. I didn't quite catch what was 2024 event that you mentioned.

Q – Olly Jeffery

No, that was just asked the EDP level should our assumption be this year. That is probably unlikely you're doing rotation at EDP level I'm thinking of the transmission lines in Brazil. My expectation is probably more of a 2024 event. But if you're able to comment on that by the way, it would be helpful.

A – Miguel Stilwell d'Andrade

Yeah, okay. So just provide turn it over to Rui. On the EDP level, I mean we'll continue to look at different transactions including for example we've talked about, we'll be doing the same for sure. So, it's not exactly asset rotation, but just in terms of disposal the same property hydro some hydro in Brazil and anything else feel attractive to us. In terms of the transmission line I would say probably another 2023 event. But we can talk about that maybe in future calls. As of today, we're not necessarily counting on it 23 but we'll update you again if you want on the July call. Rui in relation do you want to take.

A – Rui Teixeira

Sure, absolutely. So, on the year, what we said impact also last year, is that about 70% of those mark to market losses would be reverted through 2023 and the rest in 2024. So, what you're seeing now in the first quarter is usually a part of that, but we'll see more coming through the rest of the year. Again overall, for the overall losses that we booked in 2022 or the mark to market losses to continue to 70% of those should be recovered during this year and, so to be clear my normalized comment is a more normalized first quarter. So, as know typically in the, on the hydro first and 4th quarter Our stronger second and 3rd typically not so strong. I just wanted to make sure that a

the first quarter result 0.53 billion, you don't take it as a normalized first quarter that would be more within the range of 3.3, 3.4.

Q – Olly Jeffery

Thanks. And then just one, just one follow-up on the social tariff within the kind of soft guide and I haven't given a guide, but you've spoken about happy with consensus at 1.1. Are you assuming that any of the social comes off this year or is that more mainly 2024.

A – Miguel Stilwell d'Andrade

We are assuming that they will find a model, which is more equitable this year, and which probably reflects better something like the Spanish model that is already built into that forecast some expectation of a change in financing. Given that the Minister and the European Commission of both being relatively clear about the need to do that. Yes.

Miguel Viana

So, move now to a couple of questions on the web from Jorge Alonso from Societe. Regarding the update on Brazilian assets potential disposals.

A – Rui Teixeira

Hi, so sorry. It's here. So just to be clear. Brazil, we are considering, as of now, the sale of Pecem the coal plants that is going as planned. We should be getting the binding when there's offer, there is second quarter or during the second quarter. Of course, we'll update you with that. Then we have the transmission lines that Miguel just said we may you as well coming further into the next conference call, Results Earnings Call. And then within the Renewables segment. This is one of the countries that we are also assessing whether we do or not an asset rotation this year on the renewable space. But we have already started engaging with potential investors and also to update you as we go far more into the process. And also, on the hydro sale may be something that we will be preparing. As you know, we concluded the sale of Mascarenhas, December last year. We know that at some point we will also work on this potential sold out. So, we'll provide you more color as this process is actually move forward. Thank you.

Miguel Viana

So, I think the other questions that we have more or less they were mostly covered. So, if anyone's will do follow up as IR level on that. So, I'll move now to our CEO for closing remarks.

A – Miguel Stilwell d'Andrade

Thank you, Miguel. Just very briefly, I think, great start to the year very strong start on the hydro business and setting us up well for to achieve the consensus targets for the year. EDPR, a little bit slower. We've talked about that on the previous call but everything else I think going well and I won't reiterate everything that we said but I do think we have a very solid start of the year and that will continue to go well. We also have some busy build on April, which is also going pretty well. So, I'd say we will update you again in July, but we are very comfortable with the consensus and with the target. Thank you.