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. Thanks for attending EDP's Nine Months 2022 Results Conference Call. We have today with us our CEO, Miguel Stilwell de Andrade, and our CFO, Rui Teixeira, which will present you the main highlights of the nine months 2022 financial performance and update on strategy execution. 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're getting search from now onwards at our web page. This call should last close to 60 minutes.

I'll give now the floor to our CEO, Miguel Stilwell de Andrade.

Miguel Stilwell d'Andrade

Thank you, Miguel. Good morning, everyone. So, thank you for attending this results conference call. If we move into the presentation, to talk about the first nine months. I think the first thing to highlight is that we had a strong EBITDA performance in this period. So, we had an increase of around 21% to EUR3 billion. This is mainly, as a result of the wind and solar capacity growth, good resource, so higher wind and solar and higher selling prices.

On the electricity networks, given inflation impact in the tariffs updates and the ForEx in Brazil, there was also a good increase there in EBITDA. We also had an increased thermal activity. And finally, but on a negative note, we had the hydro production continuing very low in the third quarter of 2022. With the hydro shortfall increasing to around 3.3 terawatt hours versus the expected for this period. At the net profit level, we had a 1% increase year-on-year to EUR518 million, so we saw an increase in financial costs, mostly due to Brazil, just given the interest rate hikes in FX. But this was more than compensated by the inflation impact on EBITDA from networks that I just mentioned.

Net profit was fully supported by our international operations with net profit in Portugal staying at negative EUR181 million in the nine months, strongly impacted by the hydro shortfall that I mentioned. Also, in the first nine months of the year, they were marked by good investment execution, ramping up with gross investments amounting to approximately EUR5.5 billion, out of which 96%, practically all of it, focused on renewables and electricity networks. As of September, we've a record 4.3 gigawatts of capacity under construction in the 15 markets, and we're also investing in networks, namely with transmission growth in Brazil.

So, move on to the second slide, just to give you a note about the situation in Portugal and the 2023 electricity regulated tariffs proposal. As you know, that's typically comes out mid-October and then the final approval is in mid-December. In this case the regulator, ERSE, presented on the October 17, an increase of just 2.8% for 2023, which given the current market context and energy prices throughout Europe. I think shows that this is an extremely resilient system. So, it's a moderate increase in tariffs, any reduction in system debt.

So, as you know, the Portuguese system, so why is this happening. The Portuguese system has a high penetration of renewables. These are remunerated mostly through the feed-in tariff, a fixed feed-in tariff which is updated to inflation and that's around EUR90 per megawatt hour. So having these stable feed-in-tariffs, basically this used to be additional cost versus the wholesale price, it's now providing the surplus or discounts to the wholesale price, when the wholesale price is expected to be around EUR260 per megawatt hour for 2023.

So, the system is in effect buying at EUR90 per megawatt hour and then selling at EUR260, and so it generates tariff surplus to the Portuguese electricity consumers. This stability and the regulated prices for consumers is not being achieved at the expense of the increase in system debt, which as you can see has decreased this year already from EUR2.1 billion in 2020 to EUR1.4 billion in the end of September 2022. So, overall, I think this just shows it's the value of a system with a high penetration of renewables and a stable regulatory framework. We've actually talked about this as a case study for many policy makers throughout Europe, because it shows really the value of locking in these long-term contracts and the resilience that it gives to the system.

If we move on to the next slide, we can talk about networks, and networks in Portugal in particular. So, the proposal presented by us, also disclosures and update to the rate of returns for the Portuguese electricity networks. The regulated revenues should increase around 2% to EUR1.05 billion, based on a preliminary rate of return of around 5%. So, it's an increase of 33 basis points versus 2022. However, what I'd like to highlight is that this rate of return is indexed to the average 10-year Portuguese bond yield for the last 12 months, until September of 2023 next year. So, the preliminary rates of return of 5%, 5.03%, considers an average Portuguese bond yields of 1.4%. Well, taking into account that the average bond yields for the first 20 days of October was around 3.3%, this would result in a rate of return of 5.6%, as you can see on the graph on the right. So clearly room for upside in 2023 here.

Finally, it's also worth mentioning that the regulatory asset base and the Totex, our inflation updated based on the GDP deflator for 2023 was considered the average for the last 12 months and in June of 2022 of around 1.5%. For the 2024 tariffs, there'll be a clear upside since the IMF projected 7.8% GDP deflator for 2022.

Let's talk a little bit about Brazil. So here I'd like to talk about the positive macro trends we're seeing in Brazil. I had the opportunity to be there, with the team a couple of weeks ago and clearly seems to be counter cyclical to what we are observing in Europe and the U.S. The electricity wholesale price, the PLD, has declined to around BRL60 per megawatt hour, which will have a positive impact on final consumer tariffs and it reduces the regulatory pressure. As you know in Brazil, it's been raining a lot and that's obviously had an impact on the decrease in the wholesale price.

In relation to inflation, the Central Bank of Brazil has intervened in a very quick manner, and so that's the ramp up their interest rates, that's led to a slight slowdown. We've actually seen deflation in the third quarter of 2022. So, inflation seems to be under control, now in Brazil. If this decline in inflation is persistent then that would allow the Central Bank to start to cutting interest rates by the second half of 2023. So definitely counter-cyclical to what we're seeing in for example, the U.S. and in Europe.

On our presence in Brazil, we've seen a strong business execution with a total investment of EUR0.9 billion in the first nine months, focused on electricity networks and renewables, and this represents a 75% increase year-on-year. We're reducing our exposure to conventional generation as we committed to in the Strategic Plan, namely through the hydro-disposal completed in August. And we also, releveraged, we recapitalized the thermal plant, Pecem, which we announced in September. And that creates options to reach the goal of removing coal activity from the EDP Group revenue mix by the end of 2025. Overall, in euro terms EBITDA in Brazil increased 48% year-on-year and net profit increased 16% year-on-year.

Going on to Slide 8. I'm talking about renewable growth in both Europe and in the U.S. So, we've covered already quite extensively these two topics in the EDPR results call, just on Wednesday. But I'd just like to reinforce the unique long-term growth opportunity that we've because of the approval of the investment of the Inflation Reduction Act in the U.S. So that gives us 10 years of visibility on the renewable tax credits framework, and it allows us to really plan ahead and develop a good solid pipeline and set of projects.

Regarding the RepowerEU, the measures to foster renewable growth, we've already seen developments since some Member States, we have talked about Germany, Portugal, Italy, as examples where we're seeing simplification of some of the bottlenecks that exists to rolling out renewables. Also in Europe, just to mention that in the context of high prices is pushing European governments to take different price stabilization mechanisms and measures. And obviously, the idea is to provide stability of prices to consumers. In some cases, this is done through higher taxation of companies and other cases it's through caps. I think the important point in which we like to stress and value is that there should be an attempt and that's what the European Commission is doing, to try and create a transversal regulation. So, to avoid fragmentation and to avoid creating more regulatory instability and uncertainty in each of the European countries.

Now obviously there is increased political intervention risk, I think we're all seeing that. In the case of Romania and Poland, there have been some recent legislative drapes on price caps and windfall taxes, which have raised some concerns. We hope to see some more balanced final outcomes towards the end of 2022. In relation to Romania, I'd like to think that there would be positive developments there. Poland, I think is still out in terms of uncertainty. So, let's see what happens over the next couple of weeks.

Let's go on to Slide 9 and talking about capacity additions. So, over the last 20 months since we presented the business plan, we've already increased the secured capacity for the 25 period to around 11 gigawatts, 10.8 gigawatts, which represent 55% of the target. We've 18.1 gigawatts already installed or under construction, which is around 40% of the 20-gigawatt capacity additions target. However, I think we've recognized there are short-term challenges that mean that, some projects have been transferred, quite a few projects have been transferred from 2022 to 2023. On one hand we have supply chain delays and the regulatory uncertainty in the U.S., which has created challenges for the import of solar panels in particular, and that's moved projects to 2023. So, now we're expecting overall globally additions slightly above 2 gigawatts in 2022.

On the other hand, we expected more than 4 gigawatts will be added in 2023, of which 3 gigawatts are already under construction, that's more than 4 gigawatts, we will then go and updating over the next year as to exactly what that number could be. We also see that the medium and long-term renewables growth opportunity for 2024 and 2025 and beyond, continues to be supported both by the RepowerEU and by the Inflation Reduction Act initiatives. So definitely good for the medium, long-term growth perspective.

If we move on to Slide 10. So, talking about asset rotation strategy, definitely continues to deliver value. We're talking about EUR3.4 billion of asset rotation proceeds for the 2021 to 2023 periods of 40% of our EUR8 billion target. We sold 2 gigawatts in this period 2021-2022 so far, so below the 1.4 gigawatts per year average that we assumed in the business plan for 2021 to 2023, but we've already achieved with that EUR1 billion of total gain in this period, so an average of around half a billion per year. So, exceeding the target of the EUR300 million per year. So good execution there.

Overall, we expect a good performance in terms of value creation. We've shown this time and time again, gains per megawatt at around EUR0.5 million per megawatt which is more than two times the guidance provided in the business plan. So, we're selling fewer megawatts, but overachieving in terms of gains and in proceeds which is obviously a good place to be. And as you know, some of those portfolios have been sold very recently, both in Italy and in Brazil, showing that clear value creation.

Okay, let's talk about Iberia and 2023, and how we see since the electricity prices evolving and the hedging strategy. The first thing I'd like to highlight is that the generation the energy management businesses were penalized in this first nine months of the year, by the hydro shortfall. So, as you know, it's been very public, we've ended up with a short position in 2022 at a time when wholesale electricity prices were at all-time highs. The hydro shortfall, as I mentioned at the beginning of the call was around 3.3 terawatt hours below the long-term average in this period. And that resulted in over hedging, which caused higher sourcing costs on the energy management. As you know, the gas markets have also been quite volatile and gas prices were high in the third quarter of 2022. So, this implied an increase in the gas sourcing costs, since we have to buy gas in the spot market, given some slightly lower volumes from long-term contracts.

On the positive side, and I think that's what justifies that we ended up being in line with last year's net profit and above in terms of EBITDA. So, to mitigate the impact of the hydro shortfall in Iberia and given the energy crisis in Europe, thermal generation has increased around 5.6 terawatt hours year-on-year. So, for this period or for the next year 2023 to

2025, we're optimizing EDP hedging strategy through a structural reduction of maximum hedged volumes, and so to reduce the over hedging risks that could happen.

As you can see on the graph, electricity forward prices remain high for this period '23, '24 and '25. And as such, we can expect an average selling price upside, in the following years as the hedges rollover and hedging strategy is optimized.

Finally, just before I turn it over to Rui. On ESG, we continue stepping up on the green leadership position. We've had fantastic performance across the different metrics and on the ESG rankings. So, in August we issued our first sustainability linked loan, in which the cost is impacted by two ESG KPIs: the reduction in greenhouse gas emissions and the percentage of renewables installed capacity.

Overall, the Green Bonds already represent 46% of EDP's outstanding bonds, with EUR2.3 billion of Green Bonds issued just in 2022. In terms of recognition by top tier institutions, so we maintained our position in the Top 10 weight of the S&P Global Clean Energy Index. I think that's important given the tighter requirements from that index, which ended up impacting other integrated utilities. And we've maintained in the top 5% in the FTSE4Good Index, with an improvement in this quarter, in September 2022.

So, I think these are some of the key issues to highlight, I mean, other things on the slides. But for the sake of time, I'll stop there and turn it over to Rui, and I'll be back again. Thanks.

Rui Teixeira

Thank you, Miguel. Good morning to you all.

So going into EDP's financial performance for the nine months, I'd like you to move to Slide 14, please. So recurring EBITDA increased 21%, year-on-year to about EUR3 billion in the nine months 2022. The recurring EBITDA for the wind and solar platform was up 62% supported by higher average installed capacity, of course, the strong recovery of wind resource that were in line with long-term average and improved average selling price.

In electricity networks recurring EBITDA increased by 20% year-on-year mainly driven by the growth in Brazilian networks and due to a positive annual tariff update and significant depreciation of the Brazilian real.

Just finally on an integrated basis, EBITDA from client solutions, energy management and hydro decreased 32%. This is of course penalized by the 3.3 terawatt hour hydro production shortfall, that Miguel already referred to. Combined with high electricity Iberian prices, that reached an average of EUR186 per megawatt hour in the nine months this year. This was partly mitigated by higher thermal generation in Iberia.

Good morning again, apparently there was a glitch here and we went offline. I think by the time I was ending on Slide 14. So now I'll move on to Slide 15. I was going to explain the wind and EBITDA, sorry, wind and solar EBITDA performance, a 62% increase year-on-year. As I was mentioning this is of course driven by the 10% growth in installed capacity in renewables, the fact that we have achieved and recovered on the resources side, on the wind resources aligned with long-term average and of course the contribution from higher selling prices of EUR66 per megawatt hour, that's a 29% higher versus last year.

And also, the fact that we closed three deals, asset rotation deals in 2022 and with an impact of EUR264 million in gains.

Moving to Slide 16, on the networks, the nine months this year continued to demonstrate the very strong performance of our networks platform. Recurring EBITDA increased by 20% year-on-year to EUR1.1 billion. In Brazil, the EBITDA rose almost EUR200 million to EUR465 million. And of course, this is on the back of the inflation update on the tariffs, the electricity demand recovery also with a growing number of customers, lower losses from the sale of electricity volume surplus in the wholesale market and the ahead of schedule integration of EDP Goias in our activity, our transmission activity in Brazil. And effectively favorable FX impact and of course driven by depreciation of the Brazilian real.

In Iberia, EBITDA decreased 2%. So, while in Spain, the positive impact from less EBITDA recovery in the nine months last year was mitigated by the efficiency gains in Spain from the integration of Viesgo. In Portugal, OpEx increased given the recovery in the economic activity post-COVID.

If we now move to Slide 17, from an integrated perspective, client solutions and energy management and hydro, is where we see the impact from the drought in Iberia and the recurring EBITDA decreasing EUR207 million year-on-year. In Iberia the results in these nine months were impacted by the extreme drought and hydro resources in Portugal being 66% below average and in a period of very high energy prices. This was partly mitigated by an increase on our thermal generation, that was 5.6 terawatt hours higher versus last year. In Brazil, EBITDA increased 14% in euro terms, on a flattish performance in the local currency, but of course, impacted positively by the Brazilian real appreciation versus euro.

Now on Slide 18, just deep diving a little bit on the Generation & Supply business in Iberia. The third quarter EBITDA from Generation & Supply business was EUR69 million. This is slightly higher than the average obtained from the previous two quarters. And this was driven by, in one hand, hydro volumes, about 0.5 terawatt hours below the expected volumes. But on the other hand, thermal volumes with a 2.4 terawatt hours increase year-on-year with good spreads, both for coal and gas, and in some higher thermal costs, namely due to high TTF gas prices, since we had to buy some quantities in the spot market.

On Slide 19, as we move now into the financial costs. Excluding FX differences and derivatives, adjusted net financial interest increased EUR188 million, that's a 55% increase versus last year, resulting in a 100 basis point increase in the average cost of debt. But this is explained by Brazil, which is more than doubling its financial cost to EUR242 million, given the rising cost of the Brazilian real denominated debt, which is indexed to inflation and represents 14% of our total debt financing. This increase impacted by inflation and FX first, is more than compensated at EBITDA level, as I mentioned before, after the tariff readjustments. So, note that's our average cost of debt in Brazilian reals increased from 9.7% to 13%, so 9.7% to 13% in the nine months in this year.

Financial cost excluding Brazil increased only 20 basis points from 2.4% to 2.6%. So overall interest related costs, increase was mainly driven by inflation and FX impact on the Brazilian real denominated debt.

Now moving to Slide 20, an update on our financial debt. In 2021 and 2022, EDP issued around EUR4 billion, through green senior bonds and hybrids, closing significant volumes of long-term financing and the very attractive market conditions, which is especially important given today's market environment. So, in 2021, we issued a EUR2 billion grid hybrid bond, at an average of 1.7%. In 2022, we issued around EUR2.3 billion of green bonds, of which EUR1.8 billion and around US$0.5 billion, average cost 3.3%. So as of the nine months, we closed EUR2 billion of pre-hedge interest rate for 2023 and 2024 refinancing needs. So thus, we are reducing the interest rate risk for these upcoming refinancing in over these two years. The pre-hedge interest rate was close at an average of 1.8% for euro and 2.6% for U.S. dollar. And regarding the debt structure, roughly 70% of the debt is contracted at fixed rates, of which 38% represented by green bonds and more than 50% of maturities scheduled post 2025.

So, I think this places in a very strong liquidity position, as you can see on Slide 21. As of September, we had EUR9.3 billion of available liquidity of which EUR3.5 billion of cash and equivalents and EUR5.8 billion of available credit lines. Additionally, as mentioned in the previous slide, out of the EUR2.3 billion issued in 2022, EUR1 billion was issued in October 2022, EUR0.5 billion and US$0.5 billion, which puts us with EUR10.3 billion of available liquidity. So through the graph, that is on the right hand side of the slide, there is this financial position, that gives us confidence that our short and medium term needs are covered beyond 2024.

And finally, just a brief note on margin calls, we have been applying a conservative policy, thus reducing the exposure to energy price exchanges. And therefore, as of September 2022, EDP has EUR0.5 billion in cash calls, from Energy Market Derivatives.

On the net debt, on Slide 22, increases to EUR15.3 billion. This is impacted by a recurring organic cash flow of EUR1.4 billion on the back of, of course, the higher EBITDA, but impacted by EUR1.1 billion of temporary working capital due to higher commodity prices and higher financial costs. Accelerating, of course, net expansion investments that amounted to EUR2.9 billion, following the growth in renewables and networks, the acquisition of Sunseap, EDP Goias in Brazil and investment in offshore through Ocean Winds. And this of course also includes the positive impact of EUR1.5 billion of proceeds from asset rotations. Annual dividend paid in April. And finally, the effects of exchange rates, which have a negative impact of EUR0.6 billion on the net debt due to appreciation of Brazilian real and U.S. dollar, which is impacting the end of the period.

Just a final note on net profit that amounts to EUR512 million, just above the net profit for nine months in '21. This is mainly impacted by increased financial cost in Brazil, mostly is driven by the FX and higher cost of debt indexed to inflation and higher non-controlling interests on the stronger performance mostly from EDP Renewables.

So again, thank you very much for your time today. I'll now hand back to Miguel for closing remarks.

Miguel Stilwell d'Andrade

Thank you, Rui. So just before going to Q&A, like to give you an update on our expectations for the future. For 2022 and I know this is for sure one of the questions you'd be asking me, so I'll answer it upfront, we still expect recurring net profit to be above 2021 and we expect that would be driven by the continued strong performance of renewables, volume growth, good average selling prices, asset rotation execution. We expect the good performance also on networks to continue, namely with inflation updates and efficiency and also higher thermal generation.

Now obviously we are living in volatile times, a lot of uncertainty. I think we all know that on this call. So, there is a certain amount of uncertainty given hydro volumes for the remaining part of the year. And the good news, look outside and it's cloudy and October has been above average, it's still who knows what November and December would be. But at least will take the rain when it comes. So, we're assuming rain levels in line for the average for the fourth quarter, both lower hydro generation versus the average because we need to refill the current low reservoir levels. Okay, so, one thing is rain. The other thing is generation and also storage.

With respect to business plan execution, so we're on track to deliver the 25 target for renewable capacity additions. We've talked about this many times, but 55% of the 20-gigawatt goal already committed. On the asset rotation, we've been doing particularly well, I think front-loading a good part of that with good execution in 2022. We've already secured around EUR3.2 billion, which represents more than 40% of the EUR8 billion target in the '21 to '25 period.

Finally, just to say that we are expecting to come back to the market in March of 2023, to host a Capital Markets Day, in which we would present updated strategic and financial targets for the period reaching out to 2027, including that the world has changed dramatically since last year, on energy prices, regulatory frameworks, interest rates, effects, among others. So, the idea is to be able to update you and provide more visibility on how we see the next couple of years going forward.

So, with that, thanks for attending this quarter's results, and we can now move to Q&A. Thank you.

Questions And Answers

Miguel Viana

Thank you, Miguel. So, we go to now to the Q&A. We can start with the first question from Alberto Gandolfi from Goldman Sachs. Alberto, please go ahead.

Q – Alberto Gandolfi

Hi. Afternoon. Thank you for taking my questions. I think two out of three I had in relation of what we discussed couple of days ago. So, using Miguel's words, the world has definitely changed an awful lot in the past 12 months. So, considering that the investments that clearly under acceleration, we can tell from the accounts and from your words, the net debt to EBITDA on EDPR is actually going to continue to increase. And considering tighter credit conditions, higher cost of debt, how you're thinking about funding the CapEx, on an ongoing basis? I know you're going to address that in March, but just like every day, you need to take an investment decision. I was wondering, is any cheaper to use some equity right now, rather than issuing 6.5% green bonds in the U.S.? And if so, will you accept to be diluted or would you subscribe to, so are you keen basically to keep the same stake you have right now in EDPR in the next 12 to 24 months?

The second question is on farm-downs. We've seen lots of capital chasing these assets, you clearly outperformed. If we move into a world where cost of capital is 5% to 6%, even if you were to achieve 200, 300 basis points over WACC. Do you worry that the exit multiples on farm-downs may deteriorate? And if so, what would be the solution to invest a bit less? Or you would have to actually think a little bit capital allocation in that case?

And last question, just on 2023, because so much is going on between renewables, spreads, supply, energy management. If we assume, can you maybe tell us, give us some indication of unregulated activities? So, a bit of a guidance on what should be a level for client solutions and energy management? And if you can add to that, the achieved price in our regulated hydro you expect from next year? Thank you so much.

A - Miguel Stilwell d'Andrade

Okay. Thank you, Alberto, for the questions. So, in relation to the first one, I probably just reiterate what we said. I mean, when we went out to the market last year, we had a fully funded business plan and we continue to believe that's the case. We've been doing well on the asset rotation and we continue to execute on the portfolios. As I mentioned, both the Brazilian and the Italian are very recent ones, July and late September. So, talking about portfolios that are already incorporated not only an increase in asset, but in interest rates, but also the higher energy prices and that's reflected in the good value creation that was achieved.

So, asset rotation is going well. We've already raised equity last year. We see higher energy prices going forward, which I think will flow through to the EBITDA and cash flow. And so, I think that will also provide a good tailwind in terms of our ongoing results. So, I mean, we think that we are good on the balance sheet and obviously there is short-term volatility on the balance sheet around net debt and we can get more into that. It has to do with FX and it has to do with working capital margin cost. A lot of these things will work themselves out. And so, we need to look at that the medium-term ratios and we need to be comfortable that, that they are there. So perhaps I'll leave it at that. Obviously, we will be back in March and we'll have run a more in-depth analysis on updating all of the variables by that time.

On the farm-downs, so obviously cost of capital goes up, but so do the PPA prices and the returns that people are asking for. So, I think, I gave you a couple of data points, which are, for me are very interesting because they show in a very clear manner that there is a repricing of PPAs, there is a repricing of the returns to follow the increased cost of capital. So, in the latest PPAs, that I've been looking at and that we've closed or are closing, we're talking about still keeping the 1.4 times IRR over WACC, and we're talking about sort of 9% yields, cash yields in the U.S. So we're talking about pretty rich projects, which obviously reflect higher CapEx, they reflect the higher cost of capital. But in any case, I think they do give us some comfort that we are continuing to create value with these projects and that will be able to do that sustainably going forward. I mean, we're in this to make money, so we are certainly repricing, I think the sector is repricing as a whole. And so I think there is still demand for these assets as we've also seen. So, I think, I mean, obviously we'll continue to monitor the situation. If things change, we'll obviously update you, but as I said, the latest data points that we have are the ones that I mentioned.

And in terms of 2023, Rui, if you want to provide some guidance on that?

A – Rui Teixeira

Thank you, Miguel. Hi Alberto. I mean, without providing specific guidance, but what we would expect effectively is an improvement. When everything else being equal, we should expect an average hydro year. And we are seeing of course higher energy prices. And as we think about the hedging position, so we are at this point around 75% hedged, prices above 60 and we would be exposed to some of the upside on the power market. So, I would say that again even if you levelized for a normal hydro year, I would expect a positive evolution on these client solutions energy management and hydro.

Q – Alberto Gandolfi

Thank you so much.

Miguel Viana

We can go to the next question from Arthur Sitbon from Morgan Stanley. Please Arthur, go ahead.

Q – Arthur Sitbon

Hello. Thanks for taking my question. The first one is on FFO to debt. I was wondering where you expect to end the year on that ratio? And how that compared to the, I think the 19% threshold level, that S&O looks at for your current credit rating? And if you end the year below that level, I was wondering how fast would you expect to go back above that threshold?

My second question is, on the debt maturity. My understanding is that, you have around EUR6 billion of maturity in 2023-2024. I understand that you pre-hedged two of them. So, if I understand well that if EUR4 billion to refinance, I was wondering how much room for maneuver do you have left to avoid expensive refinancing here on this EUR4 billion? And if you can repay part of that, without issuing new debt, thanks to the cash you have on your balance sheet, or I don't know, maybe because of the risk of further margin costs, for example. Thank you.

A – Rui Teixeira

Okay. Hi. Thank you for the question. On the ratios, I think that, I mean, on the net debt to EBITDA, I think that we should be ending slightly below where we are today. FFO to net debt, I would expect to see a small improvement. What I'm expecting is that net debt by year-end to be around the EUR15 billion, of course EBITDA also recovering in funds from operation, also recovering a little bit. I mean, by the end of the year, of course, we are expecting the execution of the CapEx, the asset rotation proceeds, as mentioned in organic cash flow also improving. I'm now considering a stable FX, just from a math perspective, this would impact positively the ratio. Yeah, so I would say, roundabout EUR15 billion net debt and improvements from the current ratios, both on the net debt to EBITDA and FFO to net debt. On the refinancing, the way we have been approaching this is, as you know quite conservative, so throughout the year we issue different forms of debt to be prepared for the refinancing needs on the '23, '24. And also with this pre-hedging, we effectively locked in the cost of funding for these EUR2 billion of needs of refinancing.

Until the end of the year, we are not expecting to go back to the market. And as we move into 2023, we will see what is the best moment to go back and then refinancing. I would highlight still that, yes, whatever refinancing we may do in 2023 outside of the pre-hedging, there will be an impact from the mid-swap. But from a spread, we actually even saw the last euro bond, that we issued a small compression on the spreads. So, I think that the market is providing strong message also to, in what concerns the quality of the portfolio and the strategy going forward.

Miguel Viana

Okay. So, we can go to the next question from Jorge Guimaraes from JB Capital. Jorge, please go ahead.

Q – Jorge Guimarães

Hi, good afternoon. I have two questions if I may. The first one is still related to the cost of debt and the related to the cost of the bonds issued in dollar, 6.3%, what was the rationale of issuing at a such a high cost?

The second one is related to the evolution of working capital in Q4. I believe probably Rui also answered partially to it now, but what is your expected evolution of working capital in Q4, considering that TTF prices are going down?

And the final one, its related to your full-year guidance. Looking at the current guidance for EBITDA, financial cost and net income, it seems that you are guiding for the close to consensus of EUR0.86 billion. But financial cost guidance, financial cost consensus sorry, it's EUR0.68 and we're at EUR0.58 currently at nine months. So, should we assume that EBITDA should be above EUR4.1 billion, that financial costs would be above EUR0.68 and then we reached to the EUR0.84 billion, EUR0.85 billion, that your guidance is? Thank you very much. Sorry for the long question.

A – Rui Teixeira

Jorge, thank you for the question. So let me address, first, I mean, the rationale for issuing debt. Again, as I mentioned before, we run this conservative policy that we want to make sure that we are refinancing ahead, well ahead of the maturity date, so that we don't get into any liquidity squeeze. And as I mentioned in the presentation, the presentation, considering also the issuance in October, we have more than EUR10 billion of liquidity available. And I guess that, as we went through this year, we all know the importance of having strong liquidity and therefore be prepared for not only refinancing needs, cash calls, now this working capital impact and so on and so forth.So, I just want to highlight the robustness of our position.

So, as we think about issuing in bonds in euros, I think it's important, of course, the 6.3% yield that we are paying in, or coupon that we are paying in U.S. dollars, reflects effectively the mid swap, what is the current U.S. dollar yield. It typically has a higher, slightly higher spread versus a straight euro issuance. But that is also reflecting the moment. I think that we were one of the first new issuances in the market after a few weeks of being closed. And also, the fact that the European entities when issuing in U.S. dollars, typically have a slightly higher premium. But having said that, it is also important to have a curve, our own data points in U.S. dollars and then not being dragged by proxies by other issuers. And so, I think it's important to keep this. In any case, again highlight that, when we also issue in euros, we had, and of course it reflects the mid swap, but we had a compression on the spreads, and therefore it shows that investors are looking to robustness of our portfolio.

A – Miguel Stilwell d'Andrade

Hi, Jorge. On the guidance for the year, so yes, we are assuming, and we believe that the consensus EBITDA or our EBITDA for 2022 has room for improvement. I'd say there are couple of factors there. On one hand stronger FX rates, which should imply a higher EBITDA, but of course also higher depreciation in financial costs. So more limited impact on the bottom line, with a strong EBITDA, which then when it gets to the bottom line, because of the other effect is certainly more limited. But in any case, we think it does have the improvement. So, I'd say, yes is the answer.

Yeah, I'm sorry, you had a question also on working capital in the fourth quarter. How we expect that to evolve? Rui, you want to take that?

A – Rui Teixeira

Yeah. I mean, we are expecting an improvement on the working capital, so that could have a positive impact on the net debt by year-end.

Q – Jorge Guimarães

Many thanks.

Miguel Viana

Thanks Jorge. Next question comes from Olly Jeffery from Deutsche Bank. Olly, please go ahead.

Q – Olly Jeffery

Can you hear me ok?

A - Miguel Stilwell d'Andrade

Yeah, we can hear you.

Q – Olly Jeffery

Yeah. Great. So, three questions from me, please. The first one is on Romania. Just wanted to understand that, that risk a little bit better. I understand that the current plan you think that will change, hope that it will change. I'd just like to understand this based on the current plan, could this be a potentially triple-digit headwind heading into next year, assuming that it doesn't change? And if it were to change, I know it's a very aggressive tax, but do you think it could change because of what you're hearing from the Romanian government? Or just working under the assumption that it's so aggressive that, similarly to how things change in Spain, you would expect a similar change in Romania?

And then the second question is, just on the long-term contracts you have in the gas sourcing. You mentioned the shortfall in the call. Is this something that could be an ongoing issue, or do you see this has been more of a one-off? Just trying to understand if this is something we should expect to happen in other quarters going forward or not? Thank you.

A - Miguel Stilwell d'Andrade

Okay. Thanks, Olly. I'll take the first one, Rui if you want to take the second. So, in relation to Romania, what is the issue exactly. So, if they have talking about implementing, basically a clawback, above or extraordinary tax, where they tax 100% above RON450 per megawatt hour. So up to there, okay, that's fine, I mean, obviously, we may not agree with it. But it is what it is. The question is whether then includes hedges or not, in that calculation. In other words, when you do that clawback, obviously, we have hedges in many different countries is the way we manage risk. And what the European Commission mentioned that in the implementation of any of these sorts of clawbacks or caps or other things, you should take into account the hedges.

So, the emergency order which was published in September did not include the hedges in that calculation, which would mean, that we would be taxed on profits, which were not effectively being realized. So that's basically the description of the risk. They're looking at changing that, and that feedback heard from many different stakeholders in Romania. It could be a triple-digit impact where that to occur, it was this change not to happen. But as I say, our expectation at the moment is that it will happen, and they will correct it. But yes, otherwise it could be a three-digit impact which we would need to recognize at some point. Rui, want to comment.

A – Rui Teixeira

Yeah. On the gas, yes just, yeah, I mean, I think it's public information. Trinidad & Tobago has been experiencing some operational issues. And so, the calendar and the volumes they are not being at 100%. But I mean, it's something that we basically go out and buy spot to make sure that we compensate, and we fulfill our obligations. But that's it, I mean, it's more operational really.

Q – Oliver Jeffery

Thank you very much.

A – Rui Teixeira

And just to be clear, I think this is, as I said it's more operational information that we have, this is not necessarily going to continue over time, but again it's operational.

Q – Oliver Jeffery

Thanks. That's clear.

Miguel Viana

Okay. Maybe we'll take now some questions from the web. And the first one from Jose Ruiz from Barclays. News flag that you pulled out of selling Jari and Cachoeira-Caldeirão in Brazil, what are your intentions around generation assets in Brazil?

A - Miguel Stilwell d'Andrade

Okay. So, in relation to generation, the hydro, as we mentioned in Brazil, we would look at exiting at some point. So that's been clear we already announced the sale of Mascarenhas in the end of August. And there are two other hydro plants where we own a 50% stake, which is Jari and Cachoeira-Caldeirão and we are studying the best form of divestment of those two plants, but to continue with the strategy of reducing the hydro portfolio there. So, we want to build, obviously, in the right conditions and with an adequate profitability and remuneration for those assets. But as I said, Mascarenhas done, that was one that we controlled fully. The other two are 50%, we have 50% stake and we'll be looking to do it in the right conditions.

Miguel Viana

Okay. We have asked a question from Skye Landon from Jefferies. Please, could you remind us on your '23, '24 and '25 hedging positions, in Iberia, either in percentage terms or maybe even in volumes hedged?

A – Miguel Stilwell d'Andrade

Okay. Skye, in relation to this, I'd say that, I think this is information we've sort of provided, 75% of the base load volumes are currently hedged for 2023 at a price above EUR65 per megawatt hour. For the period '24 to '25, it's much lower percentage that hedge, it's 35% at around EUR65 per megawatt hour. So '23 above that, for '24, '25 around that EUR65.

Miguel Viana

Okay. The other questions, most of them have already been answered. So, I'll pass now to Miguel for closing remarks.

A – Miguel Stilwell d'Andrade

So perhaps, I'd just say the following. It's obviously been a tough year in many respects, with the hydro shortfall and the coal. But on the other hand, I think we've had absolutely fantastic performance on, certainly on the renewables front on Brazil, on the networks and that really has allowed us to more than mitigate the impact. So, we end up actually with an increase in EBITDA, which as I mentioned a little while ago, we expect will continue to grow up to the end of the year. So I think strong performance this year, strong EBITDA performance and over the three quarters we started-off as you remember with relatively bad first quarter, but we've managed to recover that in and our expectation is slightly up on last year for net income. I'd just like to highlight the investment program. So, we are accelerating the investment program in line with our business plan. Almost 100% of that in renewables and in distribution. So very much focused on the energy transition. We are doing particularly well, I think on the asset rotation strategy, and so that gives us good confidence in terms of the financing of our business plan. But in any case we will be coming back to the market, in a couple of months. We are looking at all the different variables, all the different parameters, to put together, let's say, from new guidance and new estimates for this next period 2022 to 2027. And say, the tailwinds are definitely very positive. I mean, we look at the Inflation Reduction Act, we look at the Repower, that's all let's say, providing a good support to the sustained growth. We are seeing the repricing projects to take into account the higher CapEx and the higher cost of capital. So the higher energy prices are definitely very supportive of the continued investment in that. It's obviously very important to have regulatory stability, and to have clear rules. I think the U.S. has that. There are still issues around transmission, et cetera, for sure it will be a bumpy ride, but we can see some good prospects there. And in Europe I think there are also good prospects here. I mean, need to simplify licensing and permitting, but that's it, structurally things are very much heading in the right direction.

So, looking forward to speaking to you again in a couple of months and giving you more visibility on how we see the next couple of years. Thank you. Take care.