EDP – ENERGIAS DE PORTUGAL

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Chaired by Miguel Stilwell d' Andrade

Company Participants

- **Miguel Stilwell d'Andrade**, Chief Executive Officer
- **Rui Manuel Rodrigues Lopes Teixeira**, Chief Financial Officer
- **Miguel Viana**, Head of Investor Relations

Miguel Viana

Good morning, ladies and gentlemen. Thank you for attending EDP's 1Q22 results conference call. We have today with us our CEO, Miguel Stilwell d'Andrade; and our CFO Rui Manuel Rodrigues Lopes Teixeira, which will present you the main highlights of 1Q22 financial performance, and also they have some updates on the strategy. Will then move to the Q&A session, in which will be taking your questions both by phone or written questions that you can insert from now onwards at our website page.

This whole session should last around the 60 minutes I'll give now the floor to our CEO, Miguel Stilwell d'Andrade.

Miguel Stilwell d'Andrade

So, jumping straight into the presentation and talk to you about the first months of 2022.

I mean, this was obviously a challenging context for EDP. It was characterized by uncorrelated combination of very adverse effects that significantly impacted our financial performance. On the one hand, we saw very weak hydro resources in Portugal, which obviously limited the energy generation from hydro and created a short position in the wholesale market. Just to put this in perspective, The Portuguese institute for the Ocean and Atmosphere talked about the '21-'22 winter rainy season as the driest of the last 90 years, so since 1931. So that I think places in context the extraordinary event that it was.

On the other hand, or let's say, simultaneously, we also have the energy prices escalating very significantly throughout this period, with the Iberian pool prices at all-time highs. So obviously the negative combination of both of these factors, had a very significant negative impact on the financials. However, this was partially offset by the outperformance of our renewables business, our electricity networks business, and also the thermal activities. And this is a trend that we expect to continue throughout the rest of 2022.

Also, at the start of this year, it was marked by a good improvement of the prospects for the medium and long term, namely there's a current expectation of higher power prices for longer, as the demand and supply imbalance in the energy market seems to persist in the medium term. There's also much more focus on the need to reach energy independence and keep inflation controlled, which should improve renewable growth prospects. So, these are I think, good medium and long-term improvements in prospects.

Moving to Slide 4 and diving into the hydro context in Portugal. So, the drought that I mentioned, it didn't begin just in the first quarter of '22. Since the last 3 months of 2021 that the hydro resources, were below average, and therefore, the reservoir levels decreased through this period.

Needless to say, the lack of precipitation in the first quarter aggravated the situation. So, we had hydro resources 70% below the long-term average versus the hydro resources 28% above average in the first quarter of 2021. So naturally the hydro generation was severely penalized, decreased to 1.5 terawatt-hours in the period, so 2.6 terawatt-hours below the expected hydro generation, which would be normally 4.1 terawatt-hours for this quarter. And this had been fully pre-sold to clients at roughly EUR60 per megawatt hour. This shortfall then had to be bought back in the market in a period where the average electricity price in Iberia was EUR229 per megawatt hour, resulting in approximately EUR400 million of loss at the EBITDA level.

It is worth highlighting that this loss could have escalated further if we had not disposed the 25% of our Iberian hydro portfolio back in 2020 to Engie, substantially reducing our exposure to hydro concentration risk. So, if we still have that portfolio, the impact would have been significantly higher. So, I think that clearly shows that, that was a good decision. I mean, obviously, we didn't know about the drought that was coming, but it shows there was a good risk management.

If we move forward to Slide 5, and looking at the first quarter results, we had several factors that impacted our financial performance. Obviously, the dominant one was the previously mentioned, EUR400 million of windfall loss, not profit, sometimes as being indicated by some stakeholders. So, this impact was mitigated by EDP renewables. This had almost EUR100 million increase in EBITDA year-on-year, driven by big capacity growth, double-digit, good wind resources, above average, and also improvements in the average selling price. The strong performance of the electricity networks was also a good positive, had an additional EUR50 million of the EBITDA level year-on-year, on the back of ongoing efficiency programs and the rollout of the digitalization in Iberia, tariff inflation updates and favorable ForEx in Brazil. Finally, better thermal optimization in Iberia where the EBITDA rose around EUR100 million year-on-year on a higher generation output.

All-in-all group EBITDA stood at EUR710 million, 16% below last year. EDP's net profit went down by EUR235 million and it reached a negative value of EUR76 million. Once again, strongly impacted by the previously mentioned EUR400 million hydro shortfall loss.

If we move onto Slide 6 and talking about growth prospects and renewal developments for 2022 onwards, we're on track to deliver the renewable capacity addition targets. We already have 6 gigawatts secured for this period '22-'23, which is 86% of the growth target for this period.

As I mentioned in EDPR's conference call on Wednesday. We have been able to secure this capacity at attractive returns and in line with the disciplined investment criteria. We've also secured capacity across the renewable technologies. We're above all our investments thresholds. Both from a return and risk perspective. However, we expect some short-term challenges, particularly in so lar, related with supply chain, compromising delivery times, and resulting in CapEx inflation.

Talking about the anti-circumvention investigation in the US, which I also mentioned in the call on Wednesday, it's been led by the Department of Commerce, and we believe that this is inducing delays, the beginning of the construction of solar capacity across the entire sector in the US, us including. Overall, these two hurdles are expected to postpone some of the solar capacity additions from 2022 to the beginning of '23. So overall 6 gigawatts for the period, but clearly significant amount of capacity moving to 20 23.

Moving on to Slide 7. So, since our Capital Markets Day back in February 2021, we've added 3.6 gigawatts to our secured capacity of long-term contract. So that led us to reach almost 9.6 gigawatts of committed capacity, of which 3 gigawatts already operational, over the last 12 months or so, and 2.4 gigawatts are under construction. So, all together these 9.6 gigawatts are roughly 50% of the target additions until 2025.

From now on, we believe that the recent developments make us optimistic about executing our business plan, so I think we've been showing good delivery on the side. And particularly when we take into account that in Europe, the decarbonization concerns that are well-known, are also now complemented by having the need for more energy independence, and so governments throughout Europe are really ramping up renewable developments and putting out much more ambitious targets not only for the short term, but medium long term.

In the US renewables which has been consistent over the last couple of years in terms of growth. I think there again it's been recognized as critical for the decarbonization targets, but also for keeping energy costs under control. And so we have some expectations that this might be boosted by supporting legislative packages. Let's see if the build back better or at least some components of it are still approved in the next couple of months. As I've talked about previously, I think one of the big highlights or one of the big values of renewables is it has long-term, predictable, stable prices and so it's not dependent on gas prices or oil or Brent prices, and then inherent volatility of

that.

I think it's also worth highlighting, although Europe and North America EDP's main markets, 80% of our investment is allocated to these regions. There are the markets are playing an important role to meeting these targets. And so, South America is one of these regions, has a very competitive energy resources, a lot of sun, a lot of wind. It's also a fast-growing economy, there's a lot of energy demand there, just with electrification. So, we're seeing a lot of demand there for renewables or growing amount of demand for renewables.

And also, Asia-Pacific, again, lot of energy demand there, a lot of growth, very high dependence on fossil fuels currently, but also targets for decarbonization, and so, a lot of potential for the penetration of renewables. And I think with the entry into Southeast Asia through the acquisition of Sunseap, I think that's giving us also a lot of upside there. In a nutshell, the 9.6 gigawatts as I mentioned around 50% of our target for '25 booked with good contracts, attractive returns, and so good visibility on the delivery of the business plan.

If we move to Slide 8, so in terms of capacity additions, we continue to move forward with our asset rotation strategy, which is important for our business plan. As you know, we intend to rotate about one-third of the total capacity that we build out until 2025, over this period. And despite the uncertainty in the markets, we're seeing strong market demand for these assets, and we get asked this question a lot, but we continue to see very strong demand.

As of today, we've dosed already one transaction in Poland at an attractive easy to megawatt multiple, EUR2 million, that we announced very recently. We're expecting to also dose another Spanish portfolio also very soon certainly this quarter, and so we're just waiting for the financial dose of that together with the US one, which will also hopefully happen later this year.

We also have two additional processes that have already been launch ed. And again, as 1 mentioned we're seeing strong demand there and good prospects in terms of the multiples that will result from that. So overall I'd say that we are confident that we will reach and surpass the EUR300 million of capital gains that we had marked for 2022. Although we expect it to be lower than the 2021 number, which was obviously a record high.

Move on to Slide 9. So, talking about networks and here, I think it's interesting because we've seen CapEx increasing to around EUR500 million in the first quarter. This business segment is extremely resilient in our portfolio. I mean, we've also talked about this as being a portfolio stabilizer. It also plays a critical role as the energy transition enabler. In Iberia, most of this investment was aimed towards digitalization of the grid and just make it more resilient. And in the first quarter of 2022 we invested roughly EUR73 million in CapEx, focused on the smart grids and the network resilience.

We had the lowest ever average interruption time, which is obviously a critical quality of service indicator, and there's also the installation of around 700,000 smart meters year- on-year in Portugal, which means that we are ramping up towards getting almost the full coverage of smart meters in Portugal. So, I think the distribution business showing good execution on this side of the Atlantic.

In Brazil, also important steps in terms of expanding the operating asset base. As you know, we signed at the end of last year, the acquisition of CELG-T, which we then completed in the first quarter; it's now known as EDP Goiás. We're now really focused on making sure that we have a good integration of this asset. I think we're building up a good experience in terms of integration of distribution and transmission assets. We have that with Viesgo, and we have that now also with EDP Goiás. So, I think the teams are doing good quality work in terms of managing that integration. Additionally, we also started the operation of two new transmission lots. So, line 18 and 21, which are sort of the names of these transmission lines, and we've moved forward now towards organic growth, I mean, in this period in Brazil, we had about 72 million years of CapEx execution in this period. So, networks doing well and with the strong investments program also have been executed.

Slide 10 and talking a little bit about Brazil. So, we've seen a good appreciation of the Brazilian real versus the euro. Average exchange rates increasing 12% year-on-year, with the increase of inflation but as you know in Brazil there's all the revenues inflation-linked I mean, obviously the Brazilian economy is very much used to having inflation volatility, and so there is this link between the revenues and the inflation.

These positive effects on the revenue side were only partially mitigated by a big increase in the interest rates, which obviously aggravated the net financial results, which is then seen at the overall group level. But overall, these were positive tailwinds, and they are matched also with the double-digit tariff revision on inflation in our distribution activity. So, on the distribution side, we're doing well as a result of inflation. And then, we also had a big improvement on the hydro resource. So, we had one of the worst droughts in the past century in Brazil. And now there was a very strong recovery there. So that's also helped the Brazilian business move forward. So that plus the buyback programs that we've been doing in relation to the EDP Brazil shares, and the share cancellation means that our stake has now increased slightly to 57%. So that's something which I think is also positive in, certainly in this context.

Moving on to Slide 11 and talking about thermal and energy management. So, I've talked about the hydro shortfall and also the increase in energy sourcing costs. We expect this to be mitigated throughout 2022. And one of the reasons I mentioned is because of the upside we're seeing on the thermal generation. So, we're expecting this to increase to about 12 terawatt-hours over the year, driven by strong thermal demand in Iberia, in electricity market and also by net exports to France. We're also seeing a good improvement of thermal spreads despite the big volatility in energy prices. So overall in relation to the baseload production for 2022, we don't expect any material positive financial impact since it's fully hedged at around EUR60 per megawatt hour, so thermal contributing well I think to mitigating the shortfall on hydro.

Moving on to the Slide 12. So, we're optimistic about the '23 to '25 period, and just to talk a little bit about how we're positioned in terms of our energy management. So, we're hedged close to 45% of the expected baseload generation at prices of around EUR60 per megawatt hour. So clearly above our business plan assumptions. I think this really shows the flexibility around our hedging policy and we've been reassessing this hedging policy, anticipating a structural reduction of the limit for hedged volumes mainly to reduce the risk of over hedging. So given the volatility that we know is inherent in some of the natural resources like hydro, but given also the expected high energy prices, so adjusting our hedging position to take that into account.

Additionally, we've seen an increased demand for longer-term contracts, certainly from customers and across the board. So, this just make prices also more predictable and stable, going forward. So, all-in-all, we're seeing potential pricing increases or upsides in the medium long term, particularly given the structural rise in electricity prices for 2023 to '25 as our hedges rollout and hedging strategy is optimized. So good upside potential here.

On Slide 13 and talking about ESG. So, I wanted to highlight also some important metrics as we deliver on the ESG excellence and the good performance across the board. I think we've had here, including some of the recognitions on international ESG ratings. So, we've been committed to expanding our green footprints globally, we've kept a substantial share of renewable generation; it's already 75% of EDP total production coming from renewable generation. And CapEx also aligned with the taxonomy 97%, showing that high investment level aligned with the energy transition and also EDP is committed to accelerating the decarbonization and achieving carbon neutrality, but without leaving anyone behind.

Also, I think and as I was mentioning EDP's performance has been highlighted by top-tier institutions, so we don't work for these metrics, but I think they are important recognitions. We've kept a position as top-10 in the S&P Global Clean Energy Index. I think this is an important achievement particularly given the tighter requirements from S&P Global and which has impacted other integrated utilities. We've kept our strong position here because of our clean green footprint and I think that's an important recognition.

Also, we've been recognized as one of the world's most ethical companies by Ethisphere Institute for Management Practices, and the consistent business ethics policy for the 11th year running. We've put a lot of effort into not just in terms of the culture, but also the infrastructure around ensuring that we have the best ethical practices across the board in the multiple geographies that we operate in.

And finally, we're also proud to be in the Bloomberg Gender Equality Index for the second consecutive year. So, again, recognizing EDP's commitment to the promotion of equal professional opportunities between men and women, so again, I think that's an important highlight. So all of these are important metrics for our ESG positioning.

Finally, I wouldn't want to wrap up this section on ESG without talking about the current humanitarian crisis in Ukraine. And obviously our thoughts are with all of those that continue to be impacted by this social emergency. As mentioned, I've had the opportunity to be in Poland and Romania with our teams, but also to truly feel the situation on the ground. And clearly, our priority is being with our people, but also we've developed an integrated action plan to try and mitigate as much as possible the consequences of this war. So, we've partnered up with some NGOs, provide direct support to refugees in Ukraine. We donated more than 30 tons of electrical supplies to contribute to the reconstruction efforts. We've been collecting and sending to Ukraine more than 1.1 tons of goods through our employees. So, also contribution of our employees throughout the company, so I'd also thank them for that.

And we've also been offering a discount electricity tariff to support families that are providing housing to refugees in Portugal. So, this is clearly a difficult situation, particularly for those that are more directly involved, and we'll also continue to assess how we can best assist Ukrainian people during these difficult times, and also our teams in the countries that are closest to the situation.

Just before I turn it over to Rui, moving on to the left side of the section. So, for 2022, we expect that the negative performance in the first quarter of the year is penalized by significant hydro shortfall loss. But this will be mitigated over the next quarters by stronger performance of other parts of our resilient integrated portfolio. We have good prospects for EDPR, good prospects for electricity networks and also for the thermal optimization for the rest of the year.

Now, there's naturally a lot of uncertainty regarding the impact of regulatory intervention. However, we still believe that in 2022, it is possible to reach a net profit above '2l's figure. We are certainly working hard to make that happen. There are a lot of variables which are outside of our control, but haven't thrown the towel yet and we are working to make that happen.

On the additional positive notes, I think certainly looking forward for 2023 and beyond, we see substantial tailwinds for EDP's activity, so positive upsides. As I've mentioned before, strong pressure from governments to accelerate renewables growth, mainly in Europe and that will definitely impact our renewable development positively. But also, higher energy prices in the medium long-term which would result in a positive re-pricing impact in our portfolio.

Overall, putting together all of these different factors, we're are more confident than ever on the achievement of our net profit targets of EUR1 billion for 2023 and the EUR1.2 billion for 2025, which we currently see as conservative. So, there is some upside on these goals versus our strategic presentation of February 2021, so just a year ago.

So what I can say is basically just slightly over a year after we presented our business plan, we are more comfortable than ever in relation to the achievement of our net profit targets going forward. And I think, we had a difficult quarter I mean, short-term pain clearly in the first quarter, no doubt about that. But for the rest of the year, we think there is good chance of us making better than 2021, and going forward, we have no doubt that will be better than what was in the business plan.

I Turn it over to Rui. Thank you.

Rui Manuel Rodrigues Lopes Teixeira

Thank you, Miguel. And good morning to all. So, now going into EDP's financial performance for the first quarter, I will ask you to move on to Slide 16. So, our recurring EBITDA decreased 16% year-on-year to EUR710 million in this first quarter. Recurring EBITDA for the wind and solar platform was up 46% supported by higher average installed capacity, the stronger recovery of the wind resources, particularly in North America and Europe, excluding Iberia that improved average selling price.

In the electricity networks business, recurring EBITDA increased by 17% driven by the growth in the Brazilian networks due to positive annual tariff updates and significant appreciation of the Brazilian real as well as some OpEx savings in Iberia due to the rollout of efficiency programs and the ongoing grid digitalization.

So, finally on an integrated basis, our client solutions, and energy management and hydro platform, was penalized by the 2.6 terawatt-hour hydro production shortfall and this combined with the historically high energy prices that reached an average selling price of very close to EUR230 per megawatt hour. And this is the first quarter.

So, move to Slide 17, EBITDA from EDPR increased 46% year-on-year. This is positively driven by the double-digit growth in installed capacity, the improvement of renewable resources, and these of course contributed to 14% increase in electricity generation. That was all at an average selling price, 12% higher year-on-year. So, good performance on the wind and solar platform.

From an integrated perspective on Slide 18, client solutions, energy management and the hydro, is where we see the impacts from the drought and the recurring EBITDA decreasing by EUR323 million year-on-year. So, in Iberia, EBITDA decreased EUR354 million, versus last year, negatively impacted by what we've mentioned before this combination of the driest winter in 90 years, which created a shortfall of 2.6 terawatt-hour in hydro and the highest wholesale electricity prices ever recorded in a quarter.

On the other hand, Brazil. Brazil EBITDA increased 16%. We have a very strong hydro recovery with reservoirs levels enabling an 18% increase in generation. However, due to the lower GSF, as a consequence of our hedging strategy, which allocated more energy to the rest of the year and the higher production, EDP was more exposed to the PLD prices which were lower this quarter than when we compared to last year.

So now we move to Slide 19 and just give you further details of the dynamics of our integrated portfolio. So, the hydro shortfall mentioned before resulted in approximately EUR400 million deviation in sourcing cost versus what we have estimated for this period. This impact is partially offset by higher uncontracted and healthy margins on the thermal generation. And then increase also on the realized price premiums in the hydro production versus what we had estimated. There is also a negative view I mean, around EUR100 million deviation on the integrated margin versus the first quarter that is justified by the mark-to-market of the financial hedges. This will reportedly revert through higher operational margins and mostly through the remaining of 2022 and 2023. We already had some positive impact already in the first quarter. But also, I mean, although offset by the overall update on the mark-to-market on these financial hedges.

So now moving to Slide 20 and where we can see the performance of the electricity networks. It's a very strong performance versus last year with EBITDA increasing 17% year-on-year. Iberia increased 6% and this is on the back of high regulated revenue reflecting also larger network investments and the rollout of digitalization and efficiency programs I mentioned before, that results in substantial OpEx savings particularly in Spain. And of course, this means that we are fully delivering on the operational synergies of our integrated operation in Spain.

In Brazil EBITDA rose 51% to EUR144 million, impacted by the increased electricity demand as a result of the recovery of the economic activity and the growing number of customers connected to the grid. The inflation indexation on annual tariff and update in the concessions, via asset residual life. And also, lower losses from the sale of electricity volumes surplus in the wholesale market. Naturally the integration of EDP Goias in the EDP Brazil's transmission activities. And last but not least favorable ForEx effects driven by depreciation of the Brazilian real. So that would be a good performance in the networks business and particularly with performance at EBITDA level from the Brazilian operations.

So now moving to Slide 21, to see how we went through the financial costs. So, if we were to exclude ForEx differences and derivatives, adjusted net financial interest increased EUR50 million, and this is on the back of one hand a 70 basis point increase in average cost of debt, mostly driven by the rising cost of the Brazilian real, the nominated debt, which is indexed to inflation, and represents about 14% of our total debt financing. I'd just like to note that the average cost of debt in Brazil in real, increased 480 basis point to 13.4% but I think it's important as well to highlight that excluding the Brazilian debt, the average cost of the remaining Euro and US denominated debt actually fell around 20 basis points year-on-year. And one of the important drivers for this decrease was the EUR1.25 billion, 7.5-year green senior bond that we issued last March at 1.9% which, of course, lowers the average cost of debt and also solidifies the share of green financing.

So now I'd like also to use this opportunity to highlight the portfolio sensitivity to inflation and yield increases, particularly in the current market economic context. So, if we move to Slide 22, regarding inflation we can break down the gross profit in three main building blocks. So close to 35% of merchants hedge mostly concentrated in the Iberian electricity market, which carries potential upside in a rising prices context, particularly as hedges roll over. And as we mentioned before we have a very high level of hedging for 2022 and 45% hedged for '23-'25 period of which 65% in 2023 going down to 30% in 2025. And the second building block is roughly about 40% linked to inflation and this acts as a natural hedge. So this block refers to almost 100% of our operations in Brazil, networks in Portugal at around 30% of EDPR's revenues.

And finally, the third block/revenues, that represent about 25% of the whole portfolio and are mostly related to the electricity networks in Spain. And roughly also, another 30% of EDPR's revenue mix.

Regarding the debt structure close to 70% is contracted at fixed rates. 41% represented by green bonds. And more than half of the maturities are scheduled post 2025. So, all-in-all, I would say that we remain well-protected against inflation and rising yields with a significant share of the revenues linked to inflation and the debt structure that is mainly contracted at fixed rates.

So now looking at the net debt on Slide 23. Net debt increased EUR1.5 billion to EUR13.1 billion by the end of the quarter. This was driven by recurring organic cash flow of minus EUR0.5 billion that is penalized by total negative impact of around EUR0.7 billion of margin calls that are associated with increase of energy prices. I think it's worth noting that adjusted by this effect our organic cash flow would be positive by EUR0.2 billion even after including the negative impact from the higher shortfall.

Additionally, the net expansion investments amounted to EUR1.4 billion following the acceleration in growth, mainly in renewables and networks and of course, also with the acquisition of Sunseap and CELG-T. On a gross basis we had EUR2.2 billion of gross expansion investment. Just finally, effective exchange rate fluctuations have a negative impact of about EUR0.4 billion, of course, due to the Brazilian real depreciation and a positive impact of EUR0.7 billion reduction of regulatory receivables mostly in Portugal.

Just to finalize, and before I hand over to Miguel, recurring net profit decreased from EUR135 million to minus EUR76 million in the first quarter of 2022. And as I said before, these are related to the increased financial costs driven by the ForEx, higher cost of debt indexed to inflation in Brazil, of course, the shortfall at the EBITDA level but also higher non-controlling interest on bigger EDPR in EDP Brazil's net profit that had a very strong performance.

Just a quick note, we did not book any net non-recurring items at that profit level in this first quarter. So, despite the first quarter poor hydro performance, we continue to be very committed to with what's ahead as Miguel said just before, definitely I'd like to thank you all for being here. Willing to take any questions you may have. And I will pass back to Miguel for any closing remarks. Thank you.

Miguel Stilwell d'Andrade

Thank you, Rui. So, reaching the end of the presentation, just to order to summarize some of the key points from the conference call. First, the results were weak and are driven by very poor hydro resources and the record high energy prices in the first quarter of 2022. This was partly mitigated by the EBITDA growth in wind and solar, electricity networks, thermal and Brazilian activities as a whole. So, one very weak part, the rest was strong. I think this shows the value-added diversification of our asset base, good risk management and also the quality of the portfolio.

Regarding short-term growth, we are on track to deliver the '22-'23 target for renewable capacity additions with 86% of this goal already committed. In the medium-term renewals should benefit from the global ramp-up of capacity deployment, given the now new urgency on energy independence.

In relation to the '22-'23 targets as I've mentioned in previously part of this will move from '22 to '23. But let's say the impact on cash flow should be absolutely residual in that perspective. In regard to asset rotation, 2021 was a very strong year and although we don't expect to be at it. We do expect to be over the 300 million of capital gains in '22 that we had in the business plan. And so, we've already closed approximately EUR850 million of proceeds in the first quarter of the year and as I say we have other transactions closing in the short term.

In parallel, we see potential pricing upsides on surging electricity pricing structure mainly from '23 onwards as the hedges rollover and hedging strategy optimized. Coming into 2022 on the ESG front, we have been recognized for ESG excellence. And S&P Global has been allocating the top-10 weight to EDP in its Clean Energy Index, which reinforces our commitment to becoming carbon neutral by 2030. So, I think we are advancing well on this front. We think it is a differentiating factor for us and that we are totally committed to.

All-in-all EDP's high quality and resilient integrated portfolio is expected to compensate the first quarter results throughout the remaining year, while we expect some potential upside in our business plan, net profit targets on improved medium long-term growth and pricing prospects.

So, I'll stop here, so we can turn it over to Q&A and thank you for attending the call.

Questions And Answers

Miguel Viana

So, I think the first question comes from Harry from Bank of America. Harry, please go ahead.

Q - Harry Wyburd

Hi. Hi. Good afternoon, everyone. Thanks very much for taking my questions. I've got three. So, on the guidance for 2023 and beyond, just wanted to understand how much of that sort of, I guess more positive outlook is coming from just simply higher power price expectation versus how much is coming from other parts of the business, maybe Brazil or the renewables business? And on the power prices, how confident are you that you can actually benefit or capture higher prices, given the kind of regulatory outlook with the gas price cap, and then obviously there's been more news on windfall taxes in Austria and Greece in the last couple of days. So how confident can you be that the Portugal might not add something else on top of the gas price cap? So that's the first one.

The second one on hydro, and this year's guidance. So, from the data I'm looking at, hydro in the early part of the second quarter wasn't that great either and seems to have picked up in the last few days, but it looks like you might be short as well a little bit in the second quarter. So, I just wondered if that's right. And I guess, you probably need an even more offset later in the year to kind of stick to your guidance of growing net income. So, I just want to understand a bit what was the hydro situation been like, in the second quarter, and you having to sort of work even harder because of that.

And then, final one, just on the structure. I think the holdco discounts, and I think market, stock market cap briefly went negative, the market implied market cap in the Iberian, there's a negative in March. So just wanted to know, has there been any advance in your thinking about the structure of the company?

I guess, slightly inauspicious comparison to make, given the share price reaction was interesting, looking at Naturgy we're planning to do, to sort of split the company in species, and I know in past conference calls you talked about potentially putting the hydro assets into EDPR and various things that. But would you rule out a more perhaps transformational restructuring in maybe something like Naturgy styled in species split, perhaps with the renewables business? And then maybe sort of network and supply company that would look a bit like EON, without the Russian gas exposure.

So, is that something that you rule out or is something more transformational? I guess, a separate company can't physically trade and negative market caps suggest there might be some upside there. So, just interested to see if there's any development in your thoughts on that? Thank you.

Miguel Stilwell d'Andrade

Okay. Hi, Harry. Thanks for the questions. So, I'd say our positive outlook on '23 to '25, I mean it's a combination of things. Obviously, it does include higher prices, but I think also just in terms of where we're seeing other parts of the business, like Brazil and renewables as you mentioned. So, we do see that feeding through. What I would say is that, when we talk about the potential upside and going to your point about windfall taxes. I mean, windfall taxes is for extraordinary prices and situations, what we had in our business plan was power prices below EUR50 or getting up to around EUR50 per megawatt-hour. Anything above that we can be relatively prudent, would already signify a good increase on those.

As you know, we already have part of that energy for '23 to '25 hedged at a higher price. So that's around EUR60 plus per megawatt-hour. I think that hardly constitutes a windfall profit. And so, I think in that sense, we wouldn't see any rationale at all for that. It's not like, so I think we're going to get the EUR200 per megawatt-hour for all of that energy. So, I think we're being prudent, we're being reasonable. We've been, I think very, very committed to our customers. We've been living on the contracts, at sort of the pre-agreed prices. So, I think there's no reason to think that there would be any justification for additional windfall taxes in the markets where we're operating, personally not in relation to ourselves.

On your second question on hydro, this year's guidance. So good point. April was weak in terms of hydro, but let me also give you the flip side, which is wind was very strong. And actually, if I'm not mistake, the upside in wind was even more than the downside in hydro. So, I think we need to look at renewable resource. We already have such a large amount of wind volume, that it's important to look at the overall resource as a whole. And so, on that sense, April is not a concern for us in relation to the hydro piece, because we have seen wind much further, much higher for that month.

In relation to your last question. Listen, we don't rule anything out. We would never rule anything out by definition. I mean, in that sense as you know, we're very pragmatic about the way that we manage our portfolio in the business and we would certainly analyze all different structures that might help create value as you say. I mean, Naturgy was an example, which I'm not going to comment specifically on that. But I mean, we've seen lot of examples out there, good and bad. We would look at these things if they make sense. We continue to believe that an integrated company, which was an integrated portfolio has value, but it's something that we're happy to continue reassessing over time. And if our thinking changes, we'll obviously communicate that to the market. Thanks.

Q - Harry Wyburd

Thank you very much.

Miguel Viana

Thanks, Harry. The next question comes from Alberto Gandolfi from Goldman Sachs. Alberto, please go ahead.

Q - Alberto Gandolf

Hi, Miguel, and thanks for taking my questions. I have two questions and usually a comment. Not sure if it's going to be of any interest. I'm still going to do it.

So, the first question is on 2022. I think you've been clear, Miguel, already but just to be a million percent clear. When you say growing versus last year, I mean, again two days ago in the EDPR conversation, you told us about 350 million gain. Do you expect to book incremental gains from the EDP portion of the business? Or are you talking about more than last year, just with the EUR350 million? And if so, what is it said to improve in the rest of the year? So, are you repricing your supply portfolio? Is there any particular hedges we need to be aware of or maybe more growth in Brazil? I don't know, but just maybe if you can give us building blocks.

Second question is on '23-'25. It's a similar question to Harry, but I wanted to ask you the following. Would it be possible to tell us a little bit more, okay, you told us power prices, great. You told us Brazil, great. When it comes to renewables, can you maybe elaborate in '23-'25, if you see an upside to megawatts as well? I guess it's a bit too early in '23, but any upside to megawatt and or returns. I mean, excluding the 30% merchant within the renewables, which we assumed is already classified as power price. So is there any upside to returns in megawatts that we should be thinking about in '23-'25?

Now my comment is the following, and if you want to counter-comment, I'd love that, because it's a semi-question. I mean, if you continue to trade like that with basically zero value for stub, excluding Brazilian EDPR. Why not use an EDPR to reverse takeover EDP, they're managed by the same people. So, I guess that why not, with these questions.

Miguel Stilwell d'Andrade

Hi, Alberto. Okay, taking your questions, and then your comments. So, in relation to 2022, just to be clear, I don't think I talked about 350 million. I said more than 300, which is what we have in the business plan, and less than last year 2021. So, in terms of the capital gains from asset rotations. So that's the expectation we have in relation to the capital gains from renewables. Then the corresponding part would be let's say, seen as a consolidated basis of EDP.

The rest of the business is doing well. And so, as I mentioned, Brazil is doing well, distribution is doing well, thermal is doing well. And looking at the spreads, looking at expected production, just generally looking at the positions that we have for the rest of the year, putting that together we get to, let's say a result where we think it's just, it is possible. Obviously, there are a lot of variables in here. So, I do want to qualify that, but we think it is possible to be higher than last year in terms of net profit. So, we're not assuming like an extraordinary gain or something like that in terms of asset rotations or anything. Obviously, as I say, I don't sound like I'm qualifying too much, but it does depend then also the hydro at the end of the year, stuff like that, but I'd say it's just generally positive around the portfolio with the big negative having being hydro in the first quarter.

On your second question on the returns, and sort of, is there additional upsides on the megawatts or, I mean in terms of renewables, we are not counting on additional megawatts beyond the business plan. As I said, I think we are doing well, in terms of the execution, I think it's still early, we're 50% of the way in terms of securing the capacity for 2025. So, it's a bit earlier. I talked about going above that. But, what we have said in the past is that we are seeing good returns and in the projects we are managing to close, and meeting our investment criteria or even being slightly above. And so, we continue to believe that, given the tailwinds in terms of growth in the different geographies that it would be possible to continue to, let's say to capture value there in that business. Obviously, part of the value will also come through in higher power prices in the merchant side of the EDP Renewables. Let's say that's also part of what is incorporated. Remember also that we have a big chunk of EDPRs hedges done in 2023, more than half, but in 2025, it's only 28%. So, there is upside there to the forward prices on that side of it. But that's classified under power prices.

On your comment. I mean, it's obviously, an interesting and provocative comment. I don't know, if I'm going to comment on your commented apart on saying that, the actual structure at the end of the day depends how you look at it, but I told Harry as well we will look at all structures. And honestly, I think when we do, the things we do it because we believe that there's a strategic rationale, there's a fundamental business reason, value creation reason for doing these things or in terms of, whether it was for example, selling hydro because within the overall portfolio, we thought it was better to reduce risk in hydro volatility, which is a regulatory risk in Portugal and also strengthen the balance sheet. So, the strategic reasons for doing that. When we sold some CCGT in kind in Spain, the thought was also to reduce some of the thermal, and also, the B2C customers where we didn't see a lot of value added. So, we will take the decisions that we need to take, but I mean, we'll look at these different options including the ones that you're looking at, but I wouldn't say it's something that's on the table. I think I will stop there.

Q - Alberto Gandolf

Thank you. Thank you.

Miguel Stilwell de Andrade

Thank you.

Miguel Viana

Thanks, Alberto. So, the next question comes from Olly Jeffery from Deutsche Bank. Olly, please go ahead.

Q - Olly Jeffery

Hi. Thanks for taking my question, guys. I'll try and tap my line this time. So, a few questions, please. The first one is, just going back to the April week hydro data from actually looking through how much you typically produced in April and that production for hydro, and it goes around 45% down year-on-year. And average Spanish prices are 160 a month. Our estimate actually only if we had a headwind around 30 million EBITDA in April in hydro. Can you just confirm that that type of low double-digit figure is about right? That's question one.

Question two is on the capital gains going to the full year being an excessive 300 not as much as 500. I mean obviously, that's another very good year, sounds like you're onto a good year, following last year. And then going forward, if you were to redo the business plan today, would you expect to have higher capital gains in future years and what you envisage at the time of the business plan? So, when you're talking about having upside to P&L numbers from 2023 and 2025, because of renewables doing well, is that partly factoring in the higher capital gains you initially assumed?

And the last question is on how much hydro do you plan to leave open in future years in '23 to '25, so that you're going to have a structural reduction at the maximum hedge volumes. How much are you planning to leave open? And lastly, if I may. Do you have any hydro volumes open at all for the end of 2022 or are you fully hedged for 2022? I think you are but just want to double check. Thank you.

Miguel Stilwell de Andrade

So, in relation to your first question and the hydro for April. So, we were down about 0.1 terawatt-hours for hydro. But as I mentioned, to Harry. We're up 0.25 terawatt-hours on wind. So, there is a slight negative impact from the hydro, but a positive impact on the wind side, which more than compensates that. So, 0.1 down 0.25 up. On the cap gains, do we expect higher cap gains? We do not necessarily, we didn't put that into the business plan, we put in what we thought was a prudent approach, particularly given that we were already expecting yields to increase somewhat over this period. And we certainly didn't want to count with cap gains that let's say based on the assumptions that perhaps would be too aggressive or turn out to be too aggressive. What we've observed in reality is I think everyone is been observing is that both in '21 and '22, we are doing, and we will do better. Going forward, I think that is a potential upside for sure. So, with the same number of megawatts, having let's say our megawatts or even with less megawatts, having potentially higher cap gains. But obviously, let's see as we start also going into 2023 and the different portfolios that we put together, how we feel about that, and then we'd give more specific guidance on that later.

On hydro, going forward, how much we leave open? So, we're close for 2022. I mean, we have the positions locked in and going forward, post 2022, I mean, just generally, I'd say independently of whether it's hydro or other marginal technologies, we would not be fully hedged. We would try and leave some merchant exposure and that's just the result of let's say the energy management optimization models, given the volatility and given the energy prices. So, we optimize any energy management portfolio looking at -- so, let's say the optimization strategy, which makes more sense. But what is that indicating at the moment is that you should leave some of that energy open structurally, whether it's hydro or others is then -- I'm not going to say it's been different, but essentially what's important is that you leave some position open from a risk management perspective.

Q - Olly Jeffery

Okay. Thanks very much.

Miguel Stilwell de Andrade

Thanks.

Miguel Viana

Thank you. We can go now to Fernando Garcia from Royal Bank of Canada. Fernando, please go ahead.

Q - Fernando Garcia

Good morning. And thank you, Miguel, for taking my questions. I have two. So, first, could you explain the meaning of the higher procurement cost for B2C customers that you commented in your first-quarter results. And there regarding the demand and supply, can you explain maybe the main drivers in terms of what you expect in the following quarters?

My second question is regarding cash derivatives impacts in P&L and margin goals in working capital. Then I don't know if you can maybe comment on the main drivers to look at in the following quarters, if this is a question of gas prices and maybe volatility anything as well. Thank you very much.

Miguel Stilwell de Andrade

Hi, Fernando. So, on the first one, it's -- I mean to be honest, this has to do with some small deviations in terms of the consumption patterns of B2C customers, which just given the high energy prices are then magnified hugely. So, this is within the normal deviations that we have because it's -- there's also when we buy energy, when we pre-buy energy for customers, we're also assuming certain consumption patterns. Typically, the deviations are absolutely residual, when you're talking about pool prices of EUR40, EUR50, EUR60 per megawatt-hour. When you're talking about EUR200 per megawatt-hour, any small deviation on that consumption then ends up being amplified. So that's essentially, I think the explanation for the high procurement cost. So, there's slightly more consumption than estimated, which meant that was amplified into a higher procurement, overall procurement costs ends up being incorporated. On the cash derivatives, I'll probably pass it over to Rui, who can give you a more detailed explanation.

Rui Manuel Rodrigues Lopes Teixeira

Hi, Fernando. So just to put this into context. So, we have as you know two long-term contracts. One with Cheniere and another one with Atlantic LNG. So, the first one is around 11 terawatt-hours of gas on an annual basis. It's Henry Hub-indexed. So, what we do is that we lock in the spread of Henry Hub TTF with the financial hedge and we have financial hedges in place until '24-'25. So, what happens is that if the spread widens between TTF and Henry Hub, some of these hedges will lead to mark-to-market and that's what has been creating these negative impacts on the -- on a quarterly -- on the different quarters. But then as we get closer to date where we are effectively burning that gas, then we are then winding that impact and that has a positive impact in the books. So just to give you a sense of the numbers for this particular contract in the first quarter, we have an EUR84 million of negative spread driven by -- sorry, of negative impact, driven by this wider TTF to Henry Hub spread. It will be compensated later. And actually, in the first quarter, we have already compensation from previous mark-to-markets, which was a positive EUR43 million impact, as reported the gas and then of course, this becomes a higher operational margin. The second contract is the Atlantic LNG. It's about 9 terawatt-hours of gas per annum. I mean, in here, we also hedge. This is indexed to Brent. We also hedge to TTF. So, we follow the same -- pretty much the same mechanics. So, in that sense I mean, it will really depend on how the spreads TTF to Henry Hub and TTF spreads will evolve throughout the following quarters. But definitely, those negative mark-to-markets that we have been booking, we will start seeing the positive impact of that in the operational margins as we burn that gas. Thank you.

Miguel Viana

Okay. So, I think we have a couple of questions on the web, but they were already answered anyway. So, I think we can go to the last question from Arthur Sitbon from Morgan Stanley. Please, Arthur, go ahead.

Q - Arthur Sitbon

Hello. Thank you for taking my question. So, the first question I have is, actually we hope these renewable investments increase generation,while I suspect, it will probably require more network investments too. Now I was wondering where we could see the organic growth in Iberian electricity networks regulated, asset-based pick up. I saw 5% year-on-year organic growth in Iberia network in Q1, which is better than in the past. And I was wondering if these should be considered as the new normal and we could extrapolate that for future years. That's my first question.

And my second question is actually on your plan to be completely green by 2030, given the current environment, I was wondering if you were still confident for the sale of your gas plants and whether or not the timing could change? Thank you.

Miguel Stilwell de Andrade

Hi, Arthur. Sorry, could you just repeat the last question? I didn't quite catch it. So, sale of gas plants?

Q - Arthur Sitbon

The second question is regarding the sale -- the potential disposal of your gas plants to reach your objective of being fully green by 2030. I was wondering on timing realization.

Miguel Stilwell de Andrade

Okay. So, in relation to the first question in terms of the RAB growth. I mean, we expect low single-digit growth, medium-to-long-term on the rev in Iberia. So, we do see additional investments as a result of renewable projects of consumption, some new connections coming on. So, that's important. But at the same time, we also see the concept optimization of the technology and the investments. And so, we would expect some growth, but probably the 5% sounds a bit high -- on the high side, which from our perspective I know, maybe others have other different opinions. But from our side it sounds more on the high side.

In relation to the second question. So, what I'd reiterate is that we have the commitment to getting out of coal by 2025, either by closing or decommissioning the Iberian plants and also Pecém plant in Brazil. In relation to the gas plants, that would be a 2030 target. So, we don't have any ongoing sale process -- of sort of active sale process at the moment for the gas plants. So, I'd say that's probably further back. We're more focused now on the coal side, and on how we manage that over this period.

Q - Arthur Sitbon

Okay. Thank you very much.

Miguel Viana

We can go for our final remarks from our CEO. Please Miguel, go ahead.

Miguel Stilwell de Andrade

Okay. Thank you, Miguel. So, just to wrapping up the call. I think, clearly, the first quarter was challenging for us. I think you all have been following us closely for many years. And certainly, over the last couple of months you've seen there's been really, very big impact from the hydro combined with the high prices. These are uncorrelated events. We believe it's a one-off at leats of this magnitude, but it has significantly impacted our financial performance. And now it's behind us.

We are optimistic about the remaining part of '22 and '23 with positive developments on several fronts, including renewables, networks, thermal in Brazil. Obviously, this depends on different variables namely, how the regulatory framework intervention turns out. And also obviously, depends to a certain extent a little bit on how the rain is at the end of the year. That's a usual caveat that we put into these guidances. But, in any case, I would say that -- I certainly wouldn't extrapolate from this first quarter, let's say, in relation to for the rest of the year.

And then what I'd say is we're even more enthusiastic about the long-term opportunities, particularly as we're looking at the energy transition and sort of all -- everything that's coming out in terms of news flow about the increase in targets from various different countries, in which we're well-positioned in or planning on entering.

I think also just taking a step back, the global context is also just a reminder that moving forward with the energy transition and increasing production from renewable sources, it's good for three reasons. And I've mentioned this, but I reiterate it because I sincerely believe it, not only for environmental reasons and for meeting the Paris Agreement, but increasingly also because of energy independence and because of price stability. And the fact that you can lock in renewable energy for 10, 20, 30 years and have total visibility of what that price is, and without the inherent volatility or risks you have regarding fossil fuels, I think is a positive. And I think when you associate that with the fact that wind and solar are also not that volatile, if you take in the overall scheme of things, I think this should really reinforce the importance of accelerating renewables globally, and in the countries that were in. So, I think it's really important that not only the companies, but governments and just everyone, really take advantage of the current momentum to act and to also unlock some of the bottlenecks that exist with licensing, permitting, interconnection, which is holding back the renewables to a certain extent, but hopefully, this will be improved over the next couple of months and years.

So all-in-all, I think, short-term pain, but medium-to-long term, I think we're very optimistic. Thank you very much, and I'm sure we'll talk again soon. Thanks.