EDP – ENERGIAS DE PORTUGAL

Friday, 21st February 2020
11:30 Hrs UK time
Chaired by António Mexia

Company Participants

- **António Mexia**, Chief Executive Officer
- **Miguel Stilwell de Andrade**, Chief Financial Officer
- **Miguel Viana**, Head of Investor Relations

Miguel Viana: Good morning, ladies and gentlemen. Thank you for being with us today in the conference call for EDP's 2019 results. We will begin with a brief introduction by our CEO, Antonio Mexia; then our CFO, Miguel Stilwell de Andrade, will provide us an overview of results and the main developments of the period. And then, we'll come back to our CEO for a more detailed analysis of the status of our strategic execution. Finally, we'll move to Q&A session in which we will be taking your questions both by phone and via our web page. We expect this call to last no more than between 60 and 75 minutes. I'll give now the floor to our CEO, Antonio Mexia.

António Mexia: Thank you, Miguel. Thank you. Good morning, everybody. Thanks for being here attending our conference call on the results of 2019.

On your Slide #4, just to highlight. I would like to start providing an overview of our performance. And first and foremost, I believe it's important to mention that we have achieved a sound performance in the fourth quarter. So since the last time we met, that supported the delivery of 2019 financial targets. In fact, during the fourth quarter hydro volumes were 56% above our historical average, which allowed not only to increase the hydro generation, but also to recover storage levels in our reservoirs.

The high volatility of the energy markets in the quarter also led to good results on our energy management in Iberia. Additionally, in Brazil, we booked in the -- in this quarter, the asset rotation gain from the sale of Babilonia wind farm and continue registering a robust growth in networks.

Lastly, another important remark worth mentioning is that interest cost started a downward trend and are expected to continue this path in the following periods. All in all, our EBITDA increased by 12% to EUR 3.7 billion, with strong growth across all our 3 business platforms. A number that is clearly above the EUR 3.6 billion that we reported and we are expected back in September.

In line with our operational performance, our recurrening net profit increased by 7% to EUR 854 million.

I would also like to stress that our net debt to EBITDA was reduced from 4.0x to 3.6x as of December 19, still not as much as expected in line with our deleverage committed.

Regarding dividends, the Executive Board of Directors will propose at the end of shareholders' meeting next April, the distribution of a dividend for the year of '19 in the amount of EUR 0.19 per share, which represents a payout of 81% on net recurring income. So clearly the floor is respected, the commitment and in the middle of the brackets that was proposed.

Now, I will pass to Miguel Stilwell for more detailed analysis of our results and then come back to talk about strategy execution. Thank you.

Miguel Stilwell de Andrade: Hi, good morning, everyone. And thank you, Antonio.

So, I'll start talking about -- on Slide 5, talking about the hydro and the wind performance which obviously impact our business throughout the year. So, in hydro we had basically 2 periods. We had the first 9 months, which were particularly dry as you know, and with weaker hydro resources and that was the drag, I think for most of the year, in particularly the first quarter. Then we had the last quarter, where in particular, December, we had very strong hydro resources. So overall for the last quarter, we were 56% above the historical average. So this basically allowed a recovery of the storage level in our reservoirs to above 0.4 terawatt hours above historical average, which meant that we've got a good start to the year also for 2020.

Regarding wind resources. It was 3% below the long-term average in 2019, but still better than last year. So overall the load factor from the wind farms improved from 30% in '18 to 32% in 2019.

Moving on to Slide 6, talk about EBITDA. So EBITDA, as António mentioned was up 12% to EUR 3.7 billion. All 3 platforms contributing to this growth. As you can see here on the right hand side. So renewables rose by EUR 89 million, mostly driven by the results from the wind and the solar, which more than compensated a decline in the hydro in Iberia and Brazil. EBITDA from networks went up by a EUR 160 million, which is pretty similar value closer to the increase in EBITDA from client solutions and energy management. The year-on-year boost from networks was mostly from Brazil. The client solutions and energy management was mostly in Iberia that increase. So moving on, I'll give a little bit more detail after that on the detail of the EBITDA from the different activities.

So moving on to Slide 7, and talking about the wind and solar EBITDA, it increases by 27%, an improvement of 6% in generation together with the 2% increase also in the average selling price. We also accelerated the execution our asset rotation strategies. We had gain -- total gains for the year of EUR 330 million. Basically from 2 deals; one in Europe, which we'd already announced in the first semester results, EUR 226 billion. And another now in this the fourth quarter in Brazil, EUR 87 million. So this compares with gains of a EUR 109 million in 2018 relating to the sale of our wind portfolio in North America. So basically, we outperformed what we set out in our strategic plan regarding the capital gains on this asset rotation.

Moving on to the next slide EBITDA from hydro. So here the EBITDA from hydro reduced 29% year-on-year. So both in Iberia and Brazil. In Iberia, the EBITDA went down 25%. It's relating to 2 things basically, 27% decline in volumes, but also a 14% reduction in the hydro realized prices as a result of lower pool prices. However, this was mitigated by our hedging strategy and so the net impact was substantially mitigated versus what would it been if we hadn't implemented this hedging strategy. In Brazil, the decline in EBITDA from hydro is, in great part relating to the sale of a small hydro plants in the fourth quarter of '18, where we booked the gain of EUR 82 million, which obviously is not there in 2019.

So moving on to the next slide, talking about regulated networks. So here the EBITDA from network increased 19% year-on-year, mainly driven by strong growth in Brazil, though here the EBITDA increased 75% basically driven by firstly the growth in transmission activities. We're finally beginning to see this coming through in terms of the EBITDA and it's a big part of our growth in networks in Brazil. A second piece that explains this growth is the revision of the regulated asset base of both of our distribution concessions. This is something we'd also talked about in the third quarter results. And finally in the fourth quarter, there was also a change in the medical plan in Espírito Santo which resulted in a gain also in the networks business.

In Iberia, we had a reduction on the return on RAB in Portugal, it reflects obviously lower yield on the Portuguese republic debt and so it was to be expected. We also had a one-off cost relating to previous periods. Basically, sharing of capital gains relating to the sale of real estate of which that some adjustments added up to approximately EUR 28 million. This was partly compensated by 4% OpEx reduction. So good performance there on efficiency in Iberia networks.

Moving on to Slide 10, client solutions and energy management. So here a very strong increase, 52% year-on-year, strong growth in Iberia. Here the results from the hedging strategy more than compensated the fall in the pool prices and the significant decrease in generation from our coal plants. In supply, we had an increase of EUR 93 million in EBITDA, mostly due to normalization of supply margins, since 2018 was a particular adverse year as in supply and Portugal, we'd already flagged that, I think upfront and so that's why we were quite optimistic about in the strategic updates regarding our supply business. But also we had increased sales of services, the digitization of processes which brought the cost down and just overall better quality of service. So all of this justifying the increase in supply margins.

In Brazil, the decline in results from thermals is explained basically by a gain in 2018 due to the downward revision of the availability level of our coal plant. So I think we've also talked about on previous call. Regarding supply and energy management in Brazil. The reduction in our results is due to lower supply volumes, which is also in turn relating to lower liquidity in the free market and also some lower results from energy management year-on-year due to the improved energy context.

So let's move on to financial leverage or deleverage in this case. So our net debt to EBITDA is down to 3.6. So I believe it's a historic over the last decade. This basically is a result mostly of the organic cash flow, which is up 20% year-on-year, supported by the strong EBITDA. We are increasing the pace of expansion investments amounting to EUR 2.1 billion, 70% of this is in renewables and roughly 30% networks. The EUR 1.2 billion of net expansion also reflects the EUR 1 billion of proceeds from the asset rotation. Half of the recurring organic cash flow goes to dividends. So very comfortable coverage. On top of that, the net debt is also impacted by positively by 50% equity content of the 1 billion hybrid bonds issued at the beginning of last year, as you know. However, this was then compensated or annulled by other effects, namely regulatory receivables and an extraordinary pension fund contribution in 2019. So net-net, we end up at 13.8. As I say, at a net debt to EBITDA ratio historic low. Just to remind you, if you didn't notice that. So the proceeds from the sale in Brazil were not received at the end of last year, they were received at the beginning of this year. So they'll be reflected in the first quarter. So obviously that, if we were to include that it would be closer. That puts regulatory receivables would be basically flat year-on-year.

Moving on to Slide 12, interest related costs. So they increase 2% to EUR 685 million. The fourth quarter already shows a downward trend. The year-on-your rise is basically 10 basis points increase in the average cost of debt to 3.9%, which is impacted then by the issuance of EUR 1 billion of hybrid bonds in '19. But then, one of the things which impact quite a lot is the mix of debt in our portfolio as we are investing more in the U.S. and in Brazil. Obviously, the cost of debt in this -- its currency is higher than the cost of debt in euros. So there's this shift in terms of the mix. Overall, we expect to see the cost of debt coming down.

Finally, moving on to net profit. So the reported net profit was penalized as you know and we'd flagged that in December, when we talked about the impairments mainly in coal in Iberia. So our reported net profit in '19 ended up at EUR 512 million. It's also impacted by the Fridão provision, which we'd also flagged in our third quarter results. In Portugal, in particular, we had a net loss of EUR 98 million. So it's a second year in a row of net loss in Portugal. However, obviously, this is impacted by the very low hydro conditions and a lot of these one-offs that I've talked about for the coal impairments and Fridão.

Finally, recurring net profit. So excluding some of these one-off items, our recurring net profit was up 7% to EUR 854 million. EDP renewables and EDP Brazil had record results this year. In Portugal recurring net profit went down EUR 160 million, but that's -- as I mentioned, mostly impacted by lower hydro production. Obviously, it continues to be impacted also by the high levies and taxes, but which were partially mitigated by the turnaround of results from the supply activities. So I think overall a solid set of results.

So I'll pass the word back to António to give you an update on our strategic plan. Thanks.

António Mexia: Thank you, Miguel. I think it's a good moment because we have presented the plan last year in March, I think it's a good moment to basically focus on what we've delivered and what is basically I think the strong credibility of the past that we have established and strategy that we established between '19 and '22.

As I mentioned, we presented our strategic plan. And that was based in 5 pillars, the accelerated and focus growth, the continuous portfolio optimization, efficient and digital enable, solid balance sheets and low risk profile, and attractive shareholder remuneration. So this is shared with you again in Slide 16. Having an idea that we wanted to lead clear value creation in the energy transition due to the fact also that we were a kind of first mover in this trend.

So let's start with the first pillar on Slide 17. One of the key questions was of course, is the company able to deliver what it committed for this plan. And I think, the answer is clearly yes. In March, we presented the 4-your target of 7 GW, so basically in the period, through PPAs and other long-term contracts. During '19, we agreed 3 GW of long-term contract for our plan renewables in addition up to '22, reaching as we speak a total of 5.4 GW secured representing 76% of our target. So I believe that, we can consider last year as a very intensive year, with an unprecedented execution. Close to half of our 3 GW of project secured were in the U.S., a market that we like and in which we have a strong position and we have all the conditions to strive. But it's also worth noting that we won important auctions in Poland, in Italy and we have increased market positioning in Brazil to #4 in the market, while entering into new geographies like Colombia and Greece.

Our next slide, another for me a very important issue. So even if we believe that this growth is rather astonishing, and yet another proof of several that we gave -- already gave to the market of our strong track record on securing projects, it's also important to mention that we did it while preserving our strict investment criteria. So the key question is, are these people able to grow profitably and keeping what are those criteria that we present to the market. And in this slide, we show that we have analyzed EUR 9 billion of opportunities, a top decision-making level, after all tight scrutiny of business unit level and only 2/3 were approved and successful. The context was challenge, but we maintain our criteria selected in average terms and we maintain our investment criteria both return and risk level, as you see on the right side. On the right part those 4 ratios that are critical and visibility, I think it's strong in terms of the quality of delivery.

Moving on to Slide 19. It means looking into the medium term. The future brings several opportunities not only for the development of new assets and new technologies like offshore wind or green hydrogen, but also for enhancing the value of the existing one, through hybrid project storage and as the time goes by wind repowering. All the opportunities supported by decline in the cost of the several renewables technologies. Also, public support in renewables has been increasing, namely in the recent news from the extension of PTCs in U.S, one additional year or the green deal of the EUR 1 trillion launched by the European Commission with even more aggressive decarbonization targets. For EDP, clearly this context is an opportunity and we are ready for it. Not only in the markets in which we are already present, but also in new markets.

Moving to an important element wind offshore. As you all know, we establish a 50% JV with Engie, creating a top global player in wind offshore, a technology that is new and is capital intensive. The JV current portfolio of 5.2 GW is progressing with 1.5 and the construction and we expect to increase the size of the portfolio between 2x and 3x in the year '25. Also in late '19, we were awarded more than 800 MW PPA in Massachusetts and we install in Portugal the world's largest wind turbine in a floating platform.

Going into Brazil. Let's start with networks. I think it's worth to highlight the recent regulatory reviews at EDP Espirito Santo and now EDP Sao Paulo, which had a very positive outcome. And net RAB gross of 36%, the maintenance of the return on RAB at 8.1%. And I believe an astonishing outcome on investment haircut of less than 0.5%, the lowest in the industry and the lowest ever. So the best ever verified in Brazilian history. These regulatory reviews provide poor visibility of returns up to '22 and '23.

Going into the last the other part of Brazil. Regarding transmission, we have already executed 59% of our total investment of BRL 3.9 billion in 6 transmission lines. One line was already operating during the whole year of 2019, and the second one is partly in operation since beginning of January, 2020. We expect this strong growth pace to continue and that by '22 transmission represents more than 50% of EDP Brazil EBITDA. So it's clear that we are delivering our growth in transmission with execution ahead of schedule and that better than expected funding condition, clearly enhancing the equity returns of the project.

Moving into client. The number of clients in Iberia, Slide 23, remained broadly stable in a period in which some of our peers have been experienced a decrease in their market share. This is possible due and above all to our quality of service. About this point, I would like to stress the 23% decrease in the number of complaints per 1,000 contracts that we had in Iberia, which clearly shows our full commitment to our clients. We are by far the number one in terms of quality in our market. On top of that, we increase services penetration, digitization and new client solutions. All-in-all, 2019, we are already above 2020 targets of more than 60 million.

Looking forward, this is a sustainable trend and we still see room for moderate improvement in 2020. So, well ahead of what we have foreseen in 2019, March. Second pillar. So how do you see after gross? How do we fund it? We also, as you know, the second question was continued portfolio optimization. This is critical for us. So, no taboos, crystallizing value, de-risking the portfolio, it's a critical element for us. So we had a target of more than EUR 4 billion and so far we have already concluded 2 deals with proceeds more than EUR 1.1 billion, at very attractive multiples. An EV MW of EUR 1.6 million for the European assets rotation deal and EUR 2.2 million for the deal in Brazil.

For the 3 years ahead of us, we see a positive outlook, giving the low interest rates context, which was not anticipated at time of the plan last year and in increasing appetite from investor for infrastructure and renewables assets. Therefore, we keep, of course, we are very focused in looking for new opportunities mainly in U.S. and in Europe that we can expect for this year.

Moving to Slide 25. We had a target of more than EUR 2 billion of asset disposals. As you know, we have agreed by year end a EUR 2.2 billion disposal of 1.7 GW of hydro portfolio in the north of Portugal with the multiple EV/EBITDA of 14.4x. This transaction also allowed for further steps in our de-risking role, with a decrease in market price exposure and customization of hydro risk in a particular region of Portugal. On top of that, this was a sizable value crystallization of an important asset class of our portfolio that was until now clearly undervalued by the market. So the read across I think it was an interesting element. I would like to highlight that the financial closing is expected in the second half and everything is going according to plan. Moreover, as we have stated last March and we have also reform over the last quarters, we have continued to look in parallel for alternatives of complementary options to the larger size asset disposal. These options must -- may still be considered, namely regarding other Iberian assets or assets reshuffling opportunities in Brazil.

Moving into the third pillar, in Slide 26, efficient and digital. So if we see OpEx, we continue to see a strong performance on operating cost. OpEx on a like-for-like basis shows 1% nominal decline, supported by all our platforms. In Iberia 2% reduction in just OpEx. In Brazil, OpEx in local currency increased 2% below average inflation, so in terms of normal terms. At EDPR adjusted core OpEx per MW, which excludes Forex impact and one-off effect was flat year-on-year. Summing up, OpEx year-on-year evolution puts us on track to achieve our OpEx reduction targets of EUR 50 million in 2020. As we remember, EUR 100 million 2022, after EUR 50 million in 2020 with an overall effect cumulative of EUR 300 million over the period. So well on track to this.

Moving to Slide 27, and pillar #4. Solid balance sheet and low risk profile. It's clear that we are delivering our commitment in terms of business risk and financial risk. On the business risk side, our contracted exposure was 79% in 2019, an increase of 4 percentage points compared to 2018. So I think, it's a clear sign of our commitment and very good signal to our portfolio.

On financial, risk deleveraging continues to be a priority and we are moving forward to fulfill this target. Net debt over EBITDA decreased during 2019, as I mentioned to 3.6x. I would like to highlight that it was the lowest since 2007. And we are on track to be below 3.2x in 2020, aiming to reach a solid investment rate.

Moving to Slide 28. In terms of refunding, the decline of marginal cost of funding both in U.S. dollar and the euro has allowed us to issue debt at lower rates than the debt that is maturing. This will allow us to sustain and reduce our average cost of debt going forward. And in fact, our 3.9 average cost of debt in 2019 is even below our 4% assumption presented in the strategic update.

Moving to Slide 29. Recurring organic cash flow has been increasing significantly, supported by EBITDA improvement, lower working capital needs and maintenance CapEx. We continue to see a moderate upside over the current basis for 2020. Taking into account 2019 results and our most updated view on 2020. In these 2 years, we expect to deliver more than 50% of source of cash and net investment assumed in the plan and the 100% of our debt reduction commitment. And I think it's clearly being ahead of the curve.

Moving to Slide 30, sixth pillar, attractive shareholder remuneration. I think that it's obvious that green is the spotlight over there. And that we have been focusing being a green company, even when green was not the trend. Decarbonization played and continues to play a crucial role for us. During '19, we managed to give a good performance both in terms of renewable generation and specific emissions despite weaker hydro resources in Portugal. And I would like to highlight that we were one among 87 global corporations that pledge to reduce emissions and ensure global warming does not exceed 1.5 degrees, since -- up to 2050 assuming as well a commitment with net 0 emissions by no later than 2050. We said, we want to be chemical-free before the end of the decade and we are clearly moving in the target faster than expected. Not only because of our willingness to do that, but also due to market conditions. As it's public, the Portuguese Government intends to shut down Sines coal plant by the end of 2023 subject to some conditions. From EDP side, the operation for this we will be conditioned on achieving positive market -- margins. But I would like to highlight here on this slide that the coal production in Iberia decreased by 49% and represents less than 1% of our EBITDA of the total of the group. So less than 1% of the total of the group.

Slide 31, distinctive green positioning. I think that we have been very consistent. We have a distinctive story that is not only about decarbonization. We have years of experience in ESG, and we have consistently been recognized by the main ESG rankings. Last year, brought us again the knowledge of our sound sustainable performance with several important achievements namely being ranked as #1 integrated utility for Dow Jones Sustainability Index in the world. In fact, 10 out of 11 years, we have been ranked #1 or #2 in this index from RobecoSAM. Additionally, we achieved other important recognitions this year and on past years among our peers, as you know, and you can see on this slide. Reinforcing both our achievements and continuous commitments to our ESG position.

Moving to Slide 32, our last slide. Overall, 2019, we had several positive developments, which have contributed to improve the visibility of our strategic plan execution. I think it's critical to highlight these. And I can share with you, that we are now even more confident than 1 year ago that we will deliver all the key targets, which we have committed in our 2019-'22 strategic plan both for '20, '21 and '22.

Thank you. And now we can move for the Q&A.

Operator: We will now take our first question from Stefano Bezzato from Credit Suisse. Please go ahead.

Stefano Bezzato: Yes. Hi. Good afternoon. Three questions from me. The first one on your sell down plans. Can you remind us, what the assumption in terms of capital gains that you had for the EUR 3.7 billion of EBITDA target this year? The second question is on your Brazilian strategy. Also looking at recent statements from the local management about a possible disposal of hydro assets. And will it be -- do you envisage a process similar to the one that you launched in Portugal last year? And the third question, if you can just remind us, what is the current situation for a possible reduction in the energy tax in Portugal this year? Thank you.

António Mexia: Thank you, Stefano. So sell down plans as you know, in 2019, the results were better than we expected with the figure that is above the EUR 300 million. In what concerns this year, in terms of farming down in renewables, the figures will be clearly above what also was foreseen of EUR 200 million. So I think that, we have -- we will have a good delivery in what concerns this outcome.

Second, Brazil. Miguel Setas, and we have been working on this and of course, mentioning -- mentioned there such reshuffling in Brazil. I think that, it gives you also the feeling that in any geography, wherever we are as it's reshuffling and crystallizing relevant and moving to parts of the value chain that we consider more adjusted to our strategy, we have no problems in doing this. And it's clear, that we have in the recent past, we have been focused more in the distribution and clearly very first mover in transmission with fantastic results. So we don't exclude the kind of asset reshuffling in Brazil basis. And we will be looking to a -- to do this in 2020.

In terms of the reduction of energy tax, as you know, the commitment was two fold, first step, two-thirds of the energy tax would be applied in the reduction of the tariff deficit. And mainly that tax of the 0.85 that applies to the asset base to all the sales, while the sector not only for EDP, will be reduced according to the reduction of the tariff deficit. So we expect what, as a tariff deficit reduces 15%, we expect these taxes to be reduced by 15%, so going 15% below the 0.85. This was included in the budget law that was approved in the parliament.

Operator: Our next question comes from the line of Harry Wyburd from Bank of America. Please go ahead.

Harry Wyburd: Hi everyone. Thanks for taking my questions. Three from me, please. So just the first ones on earnings. And if you look at, what you just went through in the presentation, there's a lot of areas where things have clearly improved since March. So you mentioned cost of debt is looking much better, rates are much lower. You've got certainty on the hydro sale and you got a very good multiple on that. And you've got lower ongoing coal depreciation, you've got good regulatory reviews in Brazil. And of course, you've got a good base here now, in 2019. So would it be fair to assume that you're more comfortable -- I mean, I guess you just reiterated the past guidance. Would it be fair to say, you're much more comfortable about that guidance now. Always there's something that's gone the other way a negative that we haven't seen that -- that's leading you to not to raise your targets?

And second questions on EDPR, I guess a lot has changed since, you last launched an offer for the EDPR minorities, the -- if I look it -- is just mentioned seems to be pretty good now, which probably means you could perhaps done like a bit of dilution if you made an all share offer there. So what's your thinking at the moment on the EDPR minority and the future of that? And your strategy?

And then just final one, just very high level. I guess, everybody's now looking at what could be a much more substantial outlook for renewables CapEx globally, you're one of the biggest global developers. And if we to think about a big leveling up in renewables CapEx in the business, what are the funding sources you could tap to that, and what would be your order of preference? And I guess you've done some conventional asset sales already in the form of the hydro, but would you look at potentially rotating some other conventional assets in Iberia? Or would you look to perhaps expanding JV so you can bring in outside capital? Or is there a more radical source of funding you could turn to perhaps just to level up from renewables CapEx, if you suddenly see a much bigger opportunity in that area?

António Mexia: Thank you, very interesting questions. First, guidance. I like to be clear that it just reinforces the performances, reinforces our guidance for 2020, as I mentioned, hydro disposal, we assume to closing in the second-half. We still assume it depending EUR 80 million in terms of EBITDA in the first-half or if you try the full-year will be 150. We expect the 2020 assets rotation to be in the second-half. We have good visibility on the hydro, as in January, we have 1.03 load factor. So I think it's good. We have started well -- regulatory uncertainties have been much more limited. So consensus was at 3.6, I think that in terms of EBITDA we feel now comfortably at 3.7, based in on our networks in Brazil, regulatory views, the Brazil transmission and better look for the TSCM in Iberia.

In terms of earnings, our guidance is aligned with the consensus that -- now that EDP is recurring that profit guidance, considered energy tax as a one-off. It also excludes the cost with liability management of our hybrid. We have been doing liability management. This is a one-off, of course, it does not impact our guidance in terms of recurring, but just to remind this. We expect to have a high average net debt in the first-half, this is as seasonal effect, just because of dividend and because of disposal on the second-half. And just to remind you also that the IFRS 16 was positive at the EBITDA, and negative -- slightly negative around EUR 10 million in that profit so. Overall, we feel comfortable with the guidance in the recurrent net profit, and we have improved our guidance in terms of EBITDA.

In terms of EDPR minorities. In terms of EDPR minorities, we as you know, we'll not be integrating anything in cash. It's not a priority. But of course, we continuously evaluate any option to the extent, it's aligned with our equity story. We haven't read any solution that must make sense in all terms for EDP shareholder. So, we reiterate that, we are not giving this a priority. We don't mind to have partners. We have been dealing well with those partners, so it's really not the focus. At this moment, we are focused on delivering the pipeline.

In terms of funding new projects. As you know, we are tripling the development of our -- on a nearly basis of EDP renewables. We went from 700 MW a year to more than 2 GW. So it shows that, we have already accelerated, does mean that, we cannot slightly move higher, but typically we have proven what our substitution is a critical element, because it makes all the sense in terms of keeping the fleet gain and crystallizing value. and de-risking the portfolio. It does not mean that, we will not be able to move as -- other asset reshufling, but we will be focused on also keeping EDP as a balanced company with energy transition, means renewables, means grids, means client solutions, and of course, I think that as we speak typically, we have been doing this with profitable returns everywhere, including the very challenging renewal spot market. So I think, that we want to keep this balance, because it makes all the sense. It's a quite unique portfolio, that we believe gives more value to our shareholders.

Operator: Our next question comes from the line of Alberto Gandolfi -- my apologies, from Javier Garrido from JP Morgan. Please go ahead.

Javier Garrido: Yes. Good afternoon. I think there is only one of my questions pending which is, you can elaborate on the energy profile of energy management. You had a very strong Q4. I assume that part of it is because of their ability to benefit from the collapse in spot prices, to which has turned -- you see that sustainable into 2020. And actually connected to this, you can elaborate on your views on gas prices and power prices in Iberia, given the profile of decline in energy prices that we have seen of late. And what is your view about, power prices and are you making any change in your hedging policy as subjected to this? Thank you.

António Mexia: Okay. Thank you, Javier. As you know, it's actually the good results. For 2020, we have hedged spreads for nearly all of our expected production, and renewal -- either on nuclear output for where the contracted at 55 MWh. Thermal spreads for contracted at mid-single digits. And I think that just to stress, our prices in spreads are based on base load as we know entire service or taxes increase this so -- it means that typically -- I'll stress again, we always compare more to the pool price and not what is typically other utilities presented is the final price to the client. So I think that, it's a good result.

For 2021, we have already contracted forward 5 TWh at base load prices of slightly above 50. So we – also in 2021, we expect to have a 3.4 TWh reduction in our Merchant electricity production Iberia, following the disposal of our hydro portfolio in last December. And I would also highlight that the 13 TWh of energy is sold to residential supply clients in Iberia '19, rest of it is in Portugal, it's very low churn rate, so a very stable time base, which less volatile than the wholesale energy market. Over 2019, we closed more contracts with SMEs client for longer periods than the traditional development. So I think it's good. And so, I think it answers your question.

Operator: Our next question comes from Alberto Gandolfi from Goldman Sachs. Please go ahead.

Alberto Gandolfi: Hi. Good morning, very soprano today. So thanks for taking my three questions as well. The first one is -- apologies to go back again to the EDPR integration. But I was wondering -- I mean, I understand negotiations here and expectations. But I would guess, would you agree that timing is not on your side, the renewable, top 10 industry is accelerating. Any CapEx upgrade you would announce would benefit more EDPR than EDP, so it seems that is almost like a reverse option here. So I do -- why wait, why not a higher priority here or anything I'm missing in this logic?

And the second question is, if maybe you can also be a little bit more specific about what power price you are assuming in your 2022 guidance, still as same as in the plan? Or have you already baked in lower power prices, but improvements you were talking about for instance in Brazilian transmission as an example in cost savings. So is thatsimilar to before plot for different reasons, or maybe we need to steal -- have some sort of concerns on the power prices on the back end of the guidance?

And the last one is, you've been very successful at delivering your 1.4x IRR versus WACC in onshore and the solar. Offshore, as we have seen in several instances carries much higher capital intensity and execution risks. And I was wondering, what is your IRR over WACC targets in offshore? What is it the IRR over WACC you already believe, you have locked in what has already been awarded so far, and can you maybe give us a little bit of granularity on how you think about it? Thank you.

António Mexia: Thank you, Alberto. We -- in terms of integration, we are open, as you have already seen by our statements to do a deal that makes sense for EDP. But we are not ready to buy it in cash. So alternatives could be studied, but of course, we don't want to compromise, we don't want to not to deliver the deleveraging targets that we have at EDP level. So, it's really especially in the current market context is clearly, not an option to spend cash doing this. And I also tend to address the following is, of course, we capture always 87 -- 83% of whatever you introduced in this pipeline. And frankly, I believe that, the evolution of the market in terms of energy transition gives an additional value for not just being developing renewable that of course, it's our core business, but also as we are at the overall group, very much focused on also everything that relates to grids, and that relates to final a client. So, I think that keeping this balance of the different pillars of the energy transition, it makes sense. And we don't just want to focus in only one of those pillars. So frankly, especially not spending money on that front, cash.

Power prices, the critical thing that, I have also shared with Javier is that, we have already been hedging well to 2020, very well in 2021 also. You are asking me about '22. Okay. Let's see, you can go, can be different, yes, but I think that we have a lot of things other elements that would compensate, if it's the case. And probably when discussing about those pool prices, what -- I would like to highlight is, against what is the case of other players, we have been, as you've seen including in renewables and including even in solar, we've been focusing just not in piling up MW in or buying MW, but clearly all in doing this when we feel that the value is there. And sometimes, I have even questions, why don't you do more tons of solar in Spain is, because I share the idea that we need to be protected. We don't -- I don't like merchant on that side. So I think that not only looking into our hedging policy, but in what concerns our location investment policy, I think that we have been probably being the more balanced utility in approaching the Iberian market. So, it's what I have this to share with you as global consideration.

And what concerns in offshore, I wanted to tell you that, we want a minimum of 1.5, we have been reaching more than 1.5 IRR on equity investment. So of course, as you know, it's very capital intensive, it's more risky, it's the reason by the way, we have been doing JV. We have been also doing asset rotation. We stated since the beginning, we want to be in more projects and to de-risk as soon as we can with other partners and we have been very consistent with this, that very consistent on demanding well above 1.5 equity returns on those projects.

Operator: Our next question comes from Jorge Guimarães from JB Capital Markets. Please go ahead.

Jorge Guimarães: Hi. Good morning. Thank you very much for taking my questions. I have three. Firstly, can you go back to the assets were shuffling in Brazil or possible assets reshuffling. Would the idea be to sell some hydro plants to reinvesting other hydro plants, or the idea would be to relocate capital from hydro into transmission or distribution project? In which case, my question would be, isn't that a bit against the trend of the importance of renewables on EDP, and the importance of that investments attributable to renewables on EDP? That would be the first one.

Then related to this, what is your -- what are your plans for Celesc and if you can elaborate on that?

And finally, a question related to Portugal, what is EDP's view about the outlook for the generation clawback in Portugal? Namely, what is the right incorporated in the guidance that now is being provided for the generation in the -- the clawback generation in Portugal? Thank you very much.

António Mexia: Thank you, Jorge. You know what concerns, yes, it's reshuffling in EDP Brazil. As you know, we act in Brazil through two companies, you have EDP Brazil, and then you have also EDP Renewables acting in Brazil. So when we talk about moving from hydro at EDP Brazil, we are talking of course moving from hydro into more transmission or distribution. It doesn't go against, what is renewables. Because as you know, we have a target already very strong in what concerns the renewables, the new renewables wind and solar for Brazil reaching of 1.5 by 2022. So Brazil is consistently been and will be important for renewable strategy of EDP group.

Why hydro? Hydro is of course the older renewables. The question of hydro is that, we believe that it is an area interesting, but where -- we'll not be growing in the future, because there are no real opportunities. It's basic in mature assets that we are now running. But I think if we can deploy more value, if we're able to reshuffle capital from those hydros in two areas where we have been clearly being very good at the distribution and transmission.

And your second question about Celesc, is exactly the moves that we like to do is. We have entered into Celesc, we are making as a minorities, shareholders were helping at Celesc to be a better company and creating an option if it's going to be prioritized. So I think it's -- it makes a lot of sense.

And what concerns your first question. EDP outlook for clawback. As you know, clawback now is again being considered as a netting mechanism that as it should always been. And you need to include both CESE and social tariff in the calculation. The calculation will be made by ERSE, but of course, we are now in a normal situation where we don't have a double taxation.

Operator: Our next question comes from the line of Arthur Sitbon from Morgan Stanley. Please go ahead.

Arthur Sitbon: Hello. Thank you for taking my questions. I have two. The first one is, I wanted to know, if you consider the recent extension in PTC in the U.S., as representing potential upside to your ambitions in U.S. renewables, even may be beyond your current plan, beyond 2022?

And the second question is, what do you think of the prospects for potential increases in CapEx in electricity distribution in Portugal? Thank you.

António Mexia: Thank you, Arthur. The first, PTC is basically, we were back to 60% in everything that will be built until 2024, with the safe harbor until 2020. So it means that wind will have basically one additional year. We don't expect it to have more than this. So, it's already a -- it was already a bonus that was not included in our business plan. So we moved part of the safe harbor from 19 to 20. The PTCs moved from 40 to 60, and it will basically allow to good projects until 2024. And our first estimate is that it can give us an additional between 200 and 300 MW of wind in U.S. to be developing this period, based on our pipeline. So, I think it's interesting, but it's a place that was not included.

In what concerns in EDP distribution in Portugal. The question is, we will be basically investing slightly more than EUR 300 million, that was this typically foreseen in the business plan with no change. The only thing is you have a movement from certain nature of investment into our smarter grid evolution. So I don't see any major change in EDP distribution investment in Portugal.

Operator: At this time, there are no more questions.

Miguel Viana: Okay, we don't have any more question on the phone. We have just one standing question on the web which is from Bloomberg Intelligence, Mammadov. It's the question is regarding the exposure to Brazilian real, if that is a concern for us for 2020?

Miguel Stilwell de Andrade: So I'll take this question. So Brazil accounts for what -- slightly below 20% of our EBITDA at the moment and even lessen than that at the net profit level. As you know, we have a ring fenced policy, so we raise local financing and most of are in real and so the assets and liabilities are typically mapped. Most of our revenues are inflation linked, and so obviously that translates into higher growth that you see in Brazil. So obviously, Brazilian FX has its volatility, but it's something that the way that the Brazilian operations have been set up offsets a big part of that.

Miguel Viana: I will pass now to rout CEO for just a final remark.

António Mexia: So thank you everybody as we present. Thank you very much for the questions. Hopefully, the presentation and also the sharing of those questions and answers, gave you a really the feeling that, we are very focused on delivering on our strategic plan. 2019, I think it was outstanding in delivering in all fronts. I think that '19 and '20 are showing that our strategy in terms of being an early mover in its position is the right one. We have been very pragmatic in terms of, okay, let's prove the market that we deliver the pipeline. Yes, let's show that we are able to finance it through assets rotation. Yes, let's show that we are not emotionally attached to any assets, but clearly to as a balanced portfolio and the Iberia sales shows this. Yes, that we are focusing on a balanced approaching every -- all the items of energy transition, and that we extend this pragmatism to different geographies in new market that is always highlighting the fact that we want to protect the returns, and that we have been able to really accelerate our growth, but always respecting the returns. I think it's really -- I stick to -- we stick as a board to growing, but growing profitably always there. I think it's indispensable. So thank you very much and hope to see you soon.