

# EDP – ENERGIAS DE PORTUGAL



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Chaired by Miguel Stilwell de Andrade

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## Company Participants

- **Miguel Stilwell de Andrade**, Interim Chief Executive Officer and Chief Financial Officer
  - **Miguel Viana**, Head of Investor Relations
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**Miguel Viana:** Good morning, ladies and gentlemen. I hope that you are all safe as well as your families and friends. Thanks for being with us today in the Conference Call on EDP's Results for the 9M20. As usual, we'll begin with the main highlights of these results, and then we'll provide an update on strategy execution. We will then move to our Q&A session in which we will be taking your questions both by phone and via our web page. The call is expected to last no more than 60 minutes. I'll give now the floor to our Interim CEO and also CFO Miguel Stilwell de Andrade.

**Miguel Stilwell de Andrade:** So hello, welcome everyone. It's nice to have you back. Thank you for attending EDP's third-quarter results call. I hope you're all well and safe as this pandemic rages on. First, I'd just like to take this opportunity to thank our EDP teams and I think our ability to adapt in the face of these unprecedented circumstances that we're living is being thanks not only to the measures we took as a Group but also definitely the individual actions of all those that work with us within the EDP Network and our supply chain partners, and together, we've remained alert and very aware of our responsibility towards all of our stakeholders. As we look to the future, EDP's investments in the energy transition can I believe -- played a key role in the recovery of the economies where we're operating as well as create much-needed employment.

Turning to our nine-month results. So I'm pleased to present a solid set of results this morning in a challenging period marked by the current COVID crisis. In the third quarter of 2020, we saw a recovery of electricity demand and electricity prices when compared to the remarkably lower levels we saw in the second quarter. EDP's positive performance in this volatile global economic environment is being very much supported by our resilient business model with more than 75% of our activities being long-term contracted and regulated, and also supported by conservative hedging policy in our energy markets. So as you know, EDP is being the first moving renewables our main growth driver. Today, we have more than 20 gigawatts of renewables installed capacity and despite COVID we've secured long-term contracts for over 700 megawatts in 2020. Looking ahead, we have currently 6.5 gigawatts of secured renewables additions providing a clear path for future growth.

In addition the strong public support for post COVID green economy -- economic recovery represents a crucial growth opportunity based on investments in new clean energy

infrastructures, which will help accelerate the decarbonization and the energy transition in Europe and in the US EDP's to main renewables development markets.

Over the last nine months, we've continued to execute our strategic plan with a proactive portfolio management, which aims to reinforce EDP's low risk profile in our alignment with the energy transition. This includes agreement with the acquisition of Viesgo, which we announced back in July for which we received antitrust approval from Brussels yesterday. As well as the disposal of the Castejón CCGT and the retail energy supply operations in Spain to total as agreed last May. The decision to anticipate the shutdown of our coal plants and Iberia was also very important in terms of accelerating our decarbonization target.

Finally, in August and September we announced two renewable asset rotation deals that we had planned for this year, which we closed at valuation multiples well above our initial expectations. So we continue to believe that all these transactions will close before year end. So you can see we will have a very busy next few weeks. We also maintain our commitments to sound capital structure and to our financial deleveraging targets with the execution of a EUR1 billion equity rights issue in August. In the debt markets, we issued EUR2.2 billion this year all green bonds at an average yield of 1.7% even including the hybrid emission. Green bonds already represent 30% of our total debt. So what's clear to me is that these challenging times can represent an interesting opportunity if we stay focused on our long-term strategic targets, but also maintain our flexibility to adapt to short-term circumstances and allowing us to deliver superior value to our stakeholders as the energy transition moves forward.

That's good to move to Slide four, the key highlights. But first, in the first nine months of 2020 our EBITDA fell 2% year-on-year to EUR2.6 billion. On one hand the EBITDA benefited from the recovery of the hydro resources in Iberia, but also robust results from our hedging strategy and in the energy markets. We saw a negative pressure on EBITDA from weak wind resources the depreciation of the Brazilian real and the contraction of electricity demand in our key markets versus the same period of last year.

Recurring net profit increased by 14% to around EUR700 million driven by Iberia and activities which compensated the lower net profit contributions by EDP Brazil and EDP Renewables. Furthermore, net profit benefited from the improvement in the average cost of debt by 80 basis points to 3.2%. Our reported net profit was down 8% to EUR422 million largely impacted by the non-recurring items I'll detail in the moment. Net debt went down by 6% year-on-year, or year-to-date actually EUR13 billion backed by higher recurring organic cash flow and the capital increase in August. So as a result the ratio of net debt to EBITDA was down to 3.4 times in September versus the 3.8 in September of 2019. So in this period we've also accelerated our contribution to decarbonization with the 47% reduction in our emission factor supported by 10% increase in the renewables production and 50% reduction in our total CO2 emissions.

Moving on to Slide 5. The third quarter showed clear signs of recovering the electricity demand in the City Markets where we have an integrated presence including distribution and supply. The demand in Portugal had a small growth in the third quarter compared with the same period of last year, while in Spain in our concession areas in Brazil, we saw declines of around 3% although this to represents a strong recovery from the previous quarter. Volumes evolution is particularly relevant for the short-term performance of our activities at distribution in Brazil, but also in supply

in Iberia. On prices, we saw recovery in the third quarter from the second quarter both in terms of spot and in terms of forward prices.

Moving on to slide 6, and talking a little bit about Hydro so as the utility was the strong focus on renewable energies, we are obviously exposed to the volatility of the renewable resources. On one hand in the first nine months of 2020, we saw good recovery of the hydro resources in Iberia. We had a very dry 2019 if you remember, and so now we're close to the historic average. But on the other hand, wind resources were 9% below the long-term average and this impacted our EBITDA by around EUR100 million. This volatility in renewable resources is one of the reasons why we think it's important to have a diversified portfolio, both in geography, but also in terms of technologies.

So moving on to Slide 7. So as I've mentioned before, consolidated EBITDA went down 2% year-on-year, but with this decline it was mostly driven by the Brazilian real depreciation in the period, excluding this impact EBITDA ex-forex increased by 3%. On Renewables, EBITDA fell 6% reflecting around 150 million decline in wind and solar EBITDA. So this brought about by weaker wind resources with the negative impact of close to 100 million in 2020 and a year-on-year decline of asset rotation gains, totaling 200 million in this first nine months of 2020. The decline of EBITDA from hydro in Brazil is mostly explained by the Brazilian real devaluation. On the positive side, we have Hydro Iberia EBITDA which increased EUR87 million supported by the recovery of the hydro production volumes.

Going on to networks. So, EBITDA decreased 12%, it's a 4% decrease if we exclude the adverse FX impact which accounted for most of the decline in Brazil. In local currency, the networks in Brazil showed an 8% EBITDA decline. Although, EBITDA from transmission more than doubled, it was based on the commission of new lines in the construction the EBITDA from distribution fell 24% year-on-year following last year's significant gains on the revaluation of the residual value of the distribution asset. So we discussed this last year and we highlighted in the presentation of the time, but also the 7% decline in electricity volumes. In Iberia, the EBITDA resolution reflected the decline in regulated returns. So 4.85% in Portugal and 6% in Spain. As you know, this is obviously following also the reduction in interest rates and in the case of Portugal -- the Portuguese bonds., and so it's more or less expected.

Finally, the strong improvement of EBITDA and client solutions energy management it's probably driven by the good performance of the energy management activity in Iberia. It's mostly Iberia. Consolidate EBITDA positively impacted by good OPEX performance in the period so, we had OPEX decreasing 4% like-for-like basis. It was obviously not just due to tight cost control it is also used to that but it's also supported very much by very fast acceleration of the digitalization fueled by all the changes associated with this pandemic. So it's natural that a part of this is as a result of less traveling and less cost associated with that.

Slide 8, moving on interest costs and financing costs. So the interest related costs went down 18% supported by an 80 basis points decline in the average cost of debt to 3.2%. So as you can see in the table on the right hand side, the yields paying the new bonds issued this year were clearly below the rate that we were paying in maturing debt, but we also saw a reduction in the benchmark interest rate in Brazil and the 5% decline of our average debt in the peer, which also contributed to this decline in interest cost. This is a downward trend that we expect to continue

over the next couple of years, and in Brazil I think it's worth highlighting that the Celiac is now at around 2% which is extraordinarily low levels.

Moving on to Slide 9. So I'm talking a little bit about cash flow and CapEx. So recurring organic free cash flow increased 36% to EUR1.4 billion. So it's almost twice the the EUR700 million annual dividend that we paid out in May, the net expansion investments rose by over 30% to EUR1.2 billion of which almost 90% was allocated to renewable project under construction or development.

Finally, the EUR1 billion equity rights issue that we did in August and also the EUR500 billion -- EUR500 million positive FX impact resulting from the Brazilian real and the U.S. Dollar versus the euro also contributed to the 6% decline in the net debt to 13 billion. Net debt over EBITDA ratio improving to 3.4 times so again low levels certainly by historic standards.

Note that we expect to cause a significant number of transactions before the end of the this year as I already mentioned. So the combine terms are not only fully aligned with our financial deleveraging commitments and we will also reinforce the weight of the long-term contracted and regulated activities in our portfolio.

Moving on to Slide 10. Recurring net profit increased 14% and the negative FX impacted EBITDA level is very diluted both at the EBIT level, even more so at the net profit level given that we're funding our operations and local currency and so this flows through the P&L. Below EBIT the positive impact from the lower net financing costs and also from lower non-controlling interest namely EDPR and EDP Brazil was partially offset by the slight increase of effective income tax. Reported net profit fell 8%, reflecting 250 million approximately of non-recurring costs in 2020. Mostly related to our conventional operations in Portugal. So in the third quarter, we made a provision of around EUR50 million after tax on the alleged overcompensation regarding the CMEC plans and the ancillary services. So, we will be contesting this decision in line with the recent appeal by EDP on the competition authority on the same subject.

So again, something that's that we will be contesting over the next couple of months. It's also worth noting that we've conducted a review on the various outstanding litigations, and let me just take a moment here to talk about two points in particular. First, in relation to the sales. We will be withdrawing the litigation against the Portuguese state, but this was done taking into account the current pandemic crisis and also following analysis we do periodically if the probability of success and the costs associated with these cases and the fact that the proceeds are being allocated to the system debt as we've always defended. So do we see some progress there. This issue will have no impact on financial results. It says the annual cost have been accounted every year since 2014, and EDP is up to date with all the sales due payment. The note, however that we expect assess to gradually decrease over the next few years in-line with the system debt as foreseen in the state budget.

The second point, I'd like to talk about which is social tariff. As you know, we've not been litigating on this or even though accumulated terms have been charged over EUR460 million including ERSE's estimate for 2021. We've all said, we understand and we agree with the social tariff but that we fundamentally disagree with the way it's being financed and I think we said that repeatedly over the years. We don't believe it's compliant with the EU directives and best practices. For example, the way it's done in Spain. So Spain as you know, has already had several

iterations of this and currently they are compliant with the EU directive. So as you know in Portugal its finance through the generation business, which has no link to vulnerable customers, and so as a result of this we will be requesting that Brussels review this issue and evaluate the conformity with the EU directives. So that's something that also will be moving forward now in November. So we think that these steps are important to stabilize the regulatory environment in Portugal.

And now move on to the strategy and just a couple of slides here on execution of strategy. So we've already achieved 86% out of the 7 gigawatts renewables growth target for the plan until 2022, even without considering the 500 megawatts that we're adding with acquisition of Viesgo. We have a total of the -- I think of already mentioned 6.5 gigawatts of renewable projects secured of which 2.2 gigawatts under construction and the rest is an advanced development stage to be added to our portfolio in the next couple of years. So all these projects have a name, location, execution, deadlines, and very importantly, they also have a long-term contract already signed. So I'd really like to stress that we have very good visibility on the returns associated with this project. Even considering some slowdown in the decision process associated with the COVID crisis, we've already secured around 700 megawatts of long-term contracts renewable projects in 2020.

So in rough figures, two-thirds of secured contracts are relating to onshore wind project, but I think it's also worth noting that solar and offshore wind are gaining weight and certainly versus historic or it was almost 100% onshore. In regional terms, our renewable investments are pretty well distributed between Europe North America and Latin America. You can see that in the graph here on the right hand side. So this is aligned with our strategy of diversification of investments both technology level and also geographically and in parallel it's also allowing us to consolidate some of our positions in those key geographies.

I think it's worth noting that we live in a moment of increasing global public support for the decarbonization and I think that will be a certain trend moving forward.

In Europe, the European commission has already favored an increase in the target of emission reduction to 55% in 2030 versus the 1990 levels, and the next generation EU fund will provide additional liquidity with at least 30% of the EUR750 billion been directed to decarbonization project so, clearly there's a lot of funds that are being allocated to the energy transition. In the US this year, we've already had the extraordinary PTC extension and they're also pretty ambitious renewable policy proposals out there as you know.

Moving now to Slide 13. So we've been conducting asset rotation deal since 2012, although initially on a smaller scale and selling only minority stakes up to 2018. 2018 onwards from December, which was when we announced the first majority transaction, we've really decided to intensify this activity and focusing on these sales of majority stakes. The asset rotation strategies, really allowing us to crystallize part of this value upfront and we've discussed this I think on several calls, and it also allows us to reduce the age of our portfolio and I think that's also an important variable to keep in mind. So after nine years of this type of activity. We see these deals as a key part of our recurring business and we certainly intend to continue to do this going forward. Since 2012, we've done over 20 asset rotation deals, totaling 4.3 gigawatts and more than EUR5 billion in proceeds of which EUR2.1 billion were in 2019 and 20. I think you all know that so far we are also exceeding the business plan estimates. We're getting higher EV or

megawatt multiples and the expected both in 19 and in 2020, and I think it's also important to note that these multiples depend though on the location of the portfolio, and they're quite different in Europe or if in there in the U.S. So in these two years we should reach roughly around EUR700 million of asset rotation gains. So this is in line with the amount. We're applying to achieve over the entire four-year period of the business plan so clear outperformance here. These transactions coupled with an apposite market environment, I think given us a lot of confidence on the performance of the asset rotation activity for 2021 and '22.

Move on to Slide 14. Talking a little bit about decarbonization. So, decarbonization as you know has been at the core of our strategy for a number of years now, and in the first nine months of the year, the weight of renewables in our energy mix increased to 74% versus 58% just five years ago. Coal of coal-fired electricity production fell by more than half year-on-year to just 7% of the energy mix, and the weight of coal in our revenues decreased to 5% versus 7% one year ago.

As a result and I think this is also a number which a lot of people are focusing on, our specific emissions factors almost half to 122 grams of CO2 per kilowatt hour. We have good prospects for the evolution of our carbon emissions for the near-term, and certainly if we factor in all of these portfolio which often deals that we've announced especially including the shutdown of the Iberian coal plant. So I really wanted to reinforce our commitment to a more ambitious decarbonization target for 2030, we will be reducing our CO2 emissions target our factor by 90% in 2030 versus 2015. I remind you that the previous target was a reduction of 90% versus 2005 and is now versus 2015 levels. This is equivalent to having the specific emission factor by 2030 to 30 grams of CO2 per kilowatt hour. So this target also been recognized by the science-based targets initiative and the line with the pathway to limit the global warming at 1.5 degrees, which as you know was something that was explicitly outlines has been a core issue for us.

So moving on to Slide 15 and just a word on Brazil and we got a couple of questions on this. So Brazil's currently 15% of our EBITDA and 10% of our earnings in the period. Obviously, and I think this is recognized by when the Brazilian economy is being impacted by the pandemic, but I think it's also worth noting that the institutions in Brazil's created several mechanisms to support the electricity companies and the consumers and so they've reacted I would say quickly and strongly to the COVID.

In the distribution in particular, I think it's worth highlighting the creation of the COVID account. This increased liquidity for the companies but it's also provided a pass-through of costs related to the estimated COVID impact on the increase of involuntary surplus of long-term contracted electricity volume. So, this is obviously key for that business.

In the generation business, and I think this is something that we discussed. New legislation has been published to solve the dispute on this GSF cost in the free market. The detailed rules are still being designed by the regulator. But approved solution was extending the concession period in some hydro plants in exchange for the settlement of the current legal disputes and that will solve the uncertainty that existed until now. Our expectation would be -- that would be in place by the end of the year. Obviously, we're monitoring that closely. Looking at the macro environment, the depreciation of the Brazilian real has obviously impacted our financials in Euro terms. Over -- the fact that we fund our -- fund in local currency and the fact that most of our regulated activities

have revenues indexed to inflation in the -- either the IGP-M or the IPCA depending on what you use. It significantly mitigates this impacted to net income level.

So on our distribution concessions, the recently had their annual tariff provision and the benefited from the update of the IGP-M. This is more correlated with FX changes in the IPCA. In the case of Sao Paulo, EDP Sao Paulo, it had a tariff provision couple of weeks ago so it's communicated by Brazil at an increase of 21% in the "parcel B", which is the part of the tariff which can be managed by the DisCos, and it's backed also based on an IGP-M of rise of almost 18%. In transmission, so we had some delays in construction as you know, relating to COVID but construction has resumed and we already have almost 80% of total CapEx for the six transmission lines already executed.

Slide 16 and we are moving towards the end. So guidance nothing but obviously key slides. First, we are upgrading our financial guidance for 2020 since we now have more visibility until the end of the year. But we now expect a recurring EBITDA at EUR3.7 billion, previously we were aiming for the EUR3.6 billion, and in terms of net income, so recurring net income, we're looking at around EUR0.9 billion. So towards the upper end of the range which communicated previously. So just to remind everyone in the past -- as in the past this net profit -- recurring net profit assumes that the sales in Portugal is a non-recurring item. So, what are the drivers that are leading to this upgrade in guidance. First, obviously the high levels of hydro reservoirs in Iberia. So we're having a relatively -- well it's an average year, but certainly better than last year. Better outlook also from the activities in Brazil quite frankly I think, we were little bit pessimistic about Brazil a couple of months ago, but I think things have started to shape up and so we're or more positive on Brazil now.

Good visibility on the after rotation gains. We expect an additional EUR0.2 billion versus what we - - our estimates a couple of months ago and then also some benefit from the increase in volatility in the energy markets -- in the energy management activity, and finally, also obviously the decline in the interest cost. I think, these solid results really show that in these challenging times, it's not just the resilience of our earnings in the business model, but I think it also really shows the focus of our teams in delivering the commitments to our strategic plan and I started out by thanking the teams, but I think it's really been tough times on the ground, we have a lot of people actually on the day-to-day business whether it's in the distribution networks or in the generation plant or in the supply business, and that are out there making sure we are delivering high quality service and electricity to our customers and I think that's something I really like to highlight.

I really believe, we're well positioned to deliver stronger long-term growth, that equation for our stakeholders. We have a unique starting point and I think we really continue to benefit from the green economic recovery programs in a post COVID world. I think we'll have a lot of good and positive news and targets to talk about when we go back to the market in the first quarter of next year.

Well, thank you all. I'll stop now and open it up for questions that you might have. So thanks, everyone.

**Operator:** Ladies and gentlemen if would like to ask a question at this time please press star 1 on your telephone keypad, to cancel your question please press star 2. We will now take our first question from Alberto Gandolfi from Goldman Sachs. Please go ahead.

**Alberto Gandolfi:** Thank you. Good morning, and thanks for taking the questions. I have three, but the price one is quite brief. The first one is, given there's a lot of moving pieces, assets leaving the business, Viesgo being consolidated, more disposals to close, CapEx potential acceleration, would you mind guiding on the net debt for year-end and maybe commenting a bit on your leverage situation? It looks to me as you are overshooting your own target.

The second question which is a continuation of the first one is, I mean, considering the exposure to contracted capacity and networks, do you really need to stop there or are you gearing up to capture some of the upside you're seeing in the industry? I mean, lots of your competitors are open to chase as much growth as possible. We are seeing a strong year ahead of us in offshore, more and more regions move into net zero from Asia to potentially even the United States. So I guess the question is, you're going to talk about that in the CMD, but is now the balance sheet no longer a constraint for CapEx upgrade? I think that's a very specific question on the funding.

And the last question is a little bit detail and perhaps boring, but I think very important, so the EUR900 million net income guidance, you talked about of EUR400 million gains. Two points. The EUR400 million gains, am I right in assuming they all come from EDPR? So we should take about 80% of those and they are largely tax free, so perhaps, but not fully. So perhaps in the EUR900 million, am I right in thinking there's a bit less than EUR300 million of gains. So the clean, clean net income would be 600, and you said two important points. One is that capacity factor normalization in wind is worth EUR100 million and COVID volumes was I think 57, 54. So what I'm trying to say, there's probably another EUR150 million we could normalize these figures for. So if I take out the gains, add back those items, are we talking about EUR750 million underlying net income before any asset rotation gain? Thank you so much.

**Miguel Stilwell de Andrade:** Hi, Alberto. So thanks for the questions. Also, very insightful. I'd say in relation to the first one, in relation to net debt. So we are aiming to definitely meet our target of net debt EBITDA by the end of the year and probably be close to around EUR12 billion of net debt. I think when you look at this, you need to take into account that, as you yourself mentioned, the pro forma of these various things. So we have for example a full year of the hydro or pretty much full year of the hydro. We won't have yet Viesgo consolidated. So when we talk about the net debt EBITDA, it's worth doing the pro-forma of all those different moving pieces, but I can say that from our forecast and our estimate, it would be net debt of around EUR12 billion as I say. Regulatory receivables -- well, EBITDA around EUR3.7 billion as I've said and regulatory receivables maybe about 0.8 included in that. So hopefully, that can help you get to the numbers that you need.

In terms of the second question, contracted capacity in gearing up. Listen, I think we've been gearing up over the last two years certainly since the strategic update. With the revised targets, we've been ramping up from 700 megawatts to around 2 gigawatts, let's say, the cruising speed

we're aiming for, and we continue to do that exercise and we continue to look forward and think about how we can continue to grow the business, optimizing the number of megawatts, the profitability of those megawatts, and the risk of those megawatts, and so, that as you say, that's something we will talk about I think more holistically at the CMD, but we're definitely thinking about it and are looking at what we can do in terms of additional growth or in terms of the growth of the business going forward.

In relation to your third question, which is a very specific question, but I think it's a good question. I mean, I'd say, yes, you can basically do that calculation that you've outlined. So I would tend to agree with those numbers. Obviously, bear in mind that this year we had - the pool price is already fully hedged and so we had a pool price of around EUR55 per megawatt hour, and as you know for next year, we have it at around EUR45 per megawatt hour already fully hedged. So that's something taken his account. The other things that are moving pieces, things like FX, et cetera, which can also vary over time, but then doing a simplistic calculation as you've done I think it's mostly right.

**Alberto Gandolfi:** Thank you.

**Operator:** We will now take our next question from Harry Wyburd from Bank of America. Please go ahead.

**Harry Wyburd:** Hi, everyone. Thanks very much for taking my questions. On the first one, if I could just add on a little extra to Alberto's question and talk about the set out the base I guess for this year, but just thinking about a few more, the coming year-on-year changes. So the most obvious one is Scope. So coming from this year into next year, obviously a lot of changes in scopes to account for in our models, and can you give us any kind of flavor, maybe even just a EBITDA level as to what you think the year-on-year Scope impacts are particularly from things like, if you add together all the asset sales and Viesgo and stuff, we're pretty familiar with the hydro sale, but if you could give an overall view for Scope changes year-on-year? And then also just on wind and hydro volumes, and I think on the nine months, you said in one of slides sort of wind is worth about 150 negative up to nine months, and also hydro is still this year, although it is much better than last year, it's still slightly worse than an average year. So again, maybe could you just give us any kind of sense for what the year-over-year impact of those volumes could be?

And second question just obviously, very busy year for M&A. So excluding EDPR, so just focusing on the other parts of the business, are you now happy with the scope of the business? Or should we be sort of bearing in mind that there's potential for further reshuffling either adding or selling assets in the non-EDPR business?

And then finally, this could be an incredibly naive question because obviously, there are lots of different arms of the state and the judicial system in Portugal, but we keep sort of returning to lawsuits both from part of the government on to you and now today you to part of the government and so on, and I guess, in the kind of olden days, when utilities were sort of seen as often politically as sort of punch bag, perhaps to use an unfair phrase, but nowadays, you guys are

the sort of Renewables leader, and particularly in the scope of Europe, you're a major export force now and Europe has the biggest Renewables developers globally, and is it still relevant in today's environment for the government to keep sort of attacking you from lots of different angles? And is there --do you think for EDP, the Scope now turns you to, and again this could be incredibly naive, but is the Scope just kind of some sort of settlement with the government to stop this treadmill of sort of you suing the government on for one thing and the government suing you back for another thing, and particularly with governments focus nowadays I just wonder whether there is scope to perhaps stop these headlines or reduce them? Thank you.

**Miguel Stilwell de Andrade:** Okay. So thanks Harry. As you say, I mean, the scope is, it's definitely in several moving pieces and so that's one of the reasons why I think it would be important for us to go back to the market and do the CMD at the beginning of next year when you'll have, let's say, we'd be able to give the full picture with more specific numbers. In any case, I think over time, we've given up -- given out some of the deltas for these different pieces whether it's the Viesgo, the asset rotation, the sale of the B2C/CCGT in Spain and also the sale of the hydro in Portugal. I don't have all those numbers specifically here sort of detailed so that I can give them to you, but we can give that after through the IR, so we'll get back to you on that with let's say what we said publicly about this so that we can make sure we're reconciling this with what's public information.

In relation to the question on reshuffling or the additional changes of scope outside of the EDPR, I mean, I'd say the answer is definitely, yes. We all -- we are constantly looking at our portfolio and thinking about how we can continue to optimize it, continue to align it increasingly with these energy transition trends, which we really believe in whether it's renewables or networks or some of the newer businesses. So, we will continue to do that going forward and look at it and think about what makes sense in terms of the portfolio. I'm not going to give you any specifics, rather this is not anything that we're specifically doing right now, but it is a constant exercise that we do.

In relation to your last point, and I think -- I don't think it's a naive question at all, I think, it's a great question. You know, we don't litigate to litigate. I mean, we obviously only do that if we think that something is unfair or not legal or not justified, and obviously, that's not our objective. So we would very much like and expect and hope to have a stable and let's say productive relationship with the Portuguese government or the Spanish government's or the Brazilian government, I mean, in whatever geographies we are operating in, we need to obviously comply with the local regulation and legislation and we expect everyone to do the same.

I do believe again and you mentioned that the utilities, the traditional utilities are becoming increasingly international, increasingly drivers of economic -- the potential future economic recovery. So this energy transition is a key part of example the green deal and the EU Recovery Fund. So it's something that we see a big political alignment around this industry, and so, I think we are all working in the same direction, which is to make sure that we can deliver the energy transition going forward and obviously make this a better economy and a better place to live in for everyone. So, what it does for the government are everything. So I think hopefully we will have a good relationship with everyone and that's certainly what we're working on towards.

**Miguel Viana:** Okay. Many thanks. Just to complement on -- Harry, just to complement on the numbers that we provided already in the presentation. So Viesgo EBITDA 2019, it was in the region of EUR240 million, so we expect to consolidate from the 1st of January. The disposal of the portfolio in Spain total, so it's an EBITDA around EUR35 million in 2019, and the hydro -- the hydro portfolio '19 again, EUR150 million EBITDA. So net impact would be around EUR40 million based on these numbers, that were historical and public ones that we provided.

**Harry Wyburd:** Okay. Got it. Many thanks.

**Operator:** Our next question comes from Arthur Sitbon from Morgan Stanley. Please go ahead.

**Arthur Sitbon:** Hello, thank you for taking my question. I have two. The first one is, it seems that the recurring income guidance of EUR900 million implies quite a sharp fall in net income in Q4 '20 versus Q4 '19. I was wondering if you could spend some time walking us through the moving part from, well, from last year to this one on the fourth quarter? And my second question is actually fairly detailed. Could you quantify the EBITDA contribution at EDP level of the transmission line in Brazil for the future years? Thank you very much.

**Miguel Stilwell de Andrade:** Okay. So thanks for the question. I think in relation to the 9 or you said around EUR900 million, okay. Obviously, this will depend very much on what happens now in November and December, which are typically important months for in terms of hydro factor and last year, so when you do a year-on-year, don't forget last year was very -- we had a very strong December. So you need to take that into account if you assume let's say an average month of December would certainly get it to a different number. Then some other points I think that are relevant when thinking about the fourth quarter. First in the asset rotations, we are expecting some positive impact and also EDP's share on those gains is around 83%. Another comment I would make is that the contribution of thermal and to a certain extent energy management is penalized by the young competitive coproduction from us winding down the thermal plants and so as you know, we're doing that in relation to Sines, which we expect to close it the first couple days of 2021, and then we're also assuming a relatively weak Brazilian real, so continued very low rate which we're assuming at around 6.7 and the average for, let's say, the first nine months of the year was 5.7. So I think there also may be a component of that there. So, I think that hopefully helps you think about that fourth quarter. In any case, as I say, let's see how these next two months come out. In terms of EBITDA of the transmission lines, I don't have a specific number with me, but to be honest, we can get that to you, so IR will follow up on that with the exact numbers. Thank you.

**Arthur Sitbon:** Okay. Thank you very much.

**Operator:** Thank you. Our next question comes from Sara Piccinini from Mediobanca. Please go ahead.

**Sara Piccinini:** Hi. Good morning, and thanks for taking my questions. The first one is on the upgrade of the guidance. Looking at the EBITDA, my question is are you including any impact from the lower demand in the fourth quarter related to the lockdown measure? Or there could be any risk that the slowing down of the demand could impact the guidance by year-end? And still on the guidance, the question is on the energy management. If I'm not wrong, in the first half, you had indicated that you were not expecting a strong contribution from the energy management as in the first half during the second half. So, I was just questioning, if you have seen an improvement in the energy management in the second half so their contribution will be stronger or so through the year end?

The second question is still on the net debt. You have clearly outperformed versus expectations. My question is, is there any managerial actions behind these reductions that the management has done to reduce this debt? And how do you see the evolution of the working capital and net debt provisions also related to the impact from COVID? Many thanks.

**Miguel Stilwell de Andrade:** Okay. So Sara, thanks. In relation to the EBITDA on the 3.7 and the upgrade in guidance. So, if I understood the question, are we taking into account the lower demand that could come sort of over the fourth quarter. I mean, we are being, let's say, hopefully "realistic" in terms of the adjustments we're doing. We're also taking into account things like what could be any uptick in bad debts from clients over the fourth quarter and also given everything that's going on. So we've tried to sort of build in, let's say, a scenario which takes into account the current pandemic situation. In relation to the second question, the energy management. So October was a relatively good month or okay month, I think but what's happened and what I think has been slightly more positive for us is an increase in volatility. I think we've always said we like volatility or we think that that it ends up being positive for the business. As I said, let's see also November, December, but October was already a relatively good month, and so that's also incorporated, let's say, into that upgrade of the guidance of the 3.7.

In terms of net debt and the outperformance versus expectations. To be honest, it's in line with our plan. So, I think we're delivering on what we said we are going to deliver, and obviously, we've been working hard to get there. So doing the various different transactions, the hydro sale, let's say, the sale in Spain of the CCGTs and the B2C. I mean, that was, let's say, unexpected probably

by the market, but it was then a very concrete action that we took to make sure that we were delivering on that as well as the asset rotations which have also come in better.

Finally, don't forget also that this also includes a rights issue, which we did of the, let's say, EUR1 billion to help fund the acquisition of Viesgo, and so that's also worked into that number of the, let's say, the EUR12 billion that I was giving you, and I think hopefully that gets you there, but I mean, we've been taking the actions that we need to take to deliver on the target and that's our commitment. You know, it's has been our commitment to the market and when we went back last year, I think people were, I won't say skeptical, but certainly there was some doubts about the delivery and I think we've managed to show over the last 18 months that we're very focused on delivering the targets and delivering the numbers that we'd outlined at that time.

**Sara Piccinini:** Many thanks.

**Miguel Viana:** Okay. I'll do just a follow-up on the other question on the numbers of transmission in Brazil. So EBITDA in transmission in Brazil, so in the first nine months was BRL276 million, so we expect to be, this year, clearly above EUR400 million, and as we said before, so we expect to complete all the six lines by end of 2021, and by that time, we should reach cruise speed above BRL700 million, okay? Maybe we can go now to the questions in the web. We have here a question that comes from Mammadov from Bloomberg, on how long do you think it will take for your social tariff dispute to be resolved? Will it be years before the final decision?

**Miguel Stilwell de Andrade:** Well, on the social tariff, I mean typically the European Commission is relatively efficient in looking at this type of cases. So I wouldn't expect it to be years, hopefully. I can't give you an expected time, because just to be honest it's up to them, but it's not years.

**Miguel Viana:** Next question comes also still from Mammadov. I think this we have already answered. What is the size of asset rotation gains you expect to book in the fourth quarter? So, we have already referred to EUR200 million. Also, how do you expect the evolution of system debt in Portugal to evolve in the coming years? How may prolonged COVID-19 situation impact that? That's also from Mammadov from Bloomberg.

**Miguel Stilwell de Andrade:** In relation to system debt, again, this is important because there's also impact of the sustainability of the system. We continue to see a long sustained downward trend in terms of system debt. We're expecting that it would converge to well, probably zero or around zero by let's say 2025. So that would be our best estimate at the moment. Obviously, COVID has delayed slightly this, but that's already in the 2025 number that I'm giving, but it's

obviously delayed it slightly. But I would just point out that this year, that there's a sustained decrease of both this year and next year, we are expecting a decrease in system debt despite the COVID situation. In total, by the end of '21, we should be at around EUR3 billion of system debt. So that sort of a number we're working with.

**Miguel Viana:** We have another question from Jorge Guimaraes from JB Capital regarding the pace of asset rotation assets per year - if we feel comfortable that 0.5 gigawatts per year is something that we see as the long-term potential of asset rotation in EDPR.

**Miguel Stilwell de Andrade:** In terms of asset rotations and so the volume or the amount that we do, I think that's very dependent also on the growth and on the number of megawatts we're developing and building. So, I prefer to treat that in a holistic way when we come back to the market at the beginning of next year because I think we'd like to show both sides of the picture, so the number of megawatts we're expecting and the amount of asset rotations we're doing.

**Miguel Viana:** We have another question from Phillippe Ourpatian from Oddo BHF, on our expectation regarding 2020 effective corporate tax rate.

**Miguel Stilwell de Andrade:** On the effective corporate tax rates, we're expecting let's say low 20s, and so for this year, that would be what we would guide for.

**Miguel Viana:** So the final list of questions from Jorge Guimaraes from JB Capital. Given the recent evaluation of Brazilian real, would you consider to increase your Brazilian exposure? What type of opportunities would you be looking in Brazil? And also, maybe putting together, could you consider to acquire energy networks in other LatAm countries?

**Miguel Stilwell de Andrade:** So in relation to Brazil - EDP Brazil has its buyback program in place. I mean, it's relatively limited size, I think around BRL400 million, which is ongoing and so that's something that is already out there and we announced that back in the beginning of September.

In relation to additional opportunities in Brazil. We will also look at different opportunities whether it's in Brazil or any other geography, if it makes sense from a strategy point of view or in from certainly from a financial point of view, we'll look at it and see if it's worth moving forward with the transaction there. So, we're constantly analyzing, but as I say, it's not specific to Brazil, it's in the various geographies where we are in.

**Miguel Viana:** Another question also from Jorge is regarding synergies in Viesgo, if we have some update on this?

**Miguel Stilwell de Andrade:** So in relation to the synergies on Viesgo, just to say that, well, first, you saw that we got the approval from the antitrust in Brussels this week. So that's good news, means we can move forward or we'll be moving forward shortly to the closing, probably early December. And in terms of the synergy, so we are working on the - and I've mentioned this before - that we're working on the 100-day plan, but we can then start implementing as soon as we move in. I mean the numbers are still the same that we've provided guidance on in the past, and the results essentially from work that's been done from sell-side, the 20 million to 50 million depending on whether you're taking into account just operational synergies or also factoring in tax synergies.

**Miguel Viana:** And the final question from the web is regarding pending regulatory change, if there is any other pending litigation which could risk turning into a loss, like the EUR73 million now booked?

**Miguel Stilwell de Andrade:** Yes. This is an important question because just to be clear. So there're at least two that I can think of, that are pending a decision. So one is or both relating to competition authority fines, one is around EUR25 million I believe, EUR25 million to EUR30 million relating to EDP/Sonae marketing campaign, which was done back in 2012, and that's not booked yet. We're waiting for the final decision on that. And also in relation to the ancillary services, which is around EUR48 million. So that's also something which is being - which is currently in court. That fine resulted from the competition authority review, but we obviously believe there's no wrongdoing and so we're taking that to court and that's not provisioned in the numbers.

**Miguel Viana:** We have one last question from the phone before we finish.

**Operator:** Alberto Gandolfi from Goldman Sachs. Please go ahead.

**Alberto Gandolfi:** Yeah, apologies for coming back. Just one quick follow-up given nobody asked. Miguel, can I ask what is your opinion on developing solar on a merchant basis in Spain? Do you see it as a way to boost returns? Or do you see it as unnecessary risk and interest in pursuing that path as well? Thank you.

**Miguel Stilwell de Andrade:** All right. So as you know, philosophically, we don't like investing in merchant project. We think, it's important to have some sort of long-term contract or visibility on the revenues for the, let's say, typically we look at least for 15 years -- 10-15 years, it could be -- that would be let's say the limit. But, so what we would look at is either auctions or corporate PPAs or some type of mechanism as you know, CFD or some other that would be in place, but we have no plans to invest on a purely merchant basis, and so we're not in solar in Spain.

**Alberto Gandolfi:** Thank you.

**Miguel Stilwell de Andrade:** Okay. So I think with that, we'd conclude the presentation and the Q&A. Obviously, as you know, IR is also available to take any additional questions or follow-up on that, and if we don't speak before, I guess we'll see each other, talk to each other beginning of next year for the full-year results. Thank you very much. Take care everyone.