EDP – ENERGIAS DE PORTUGAL

Friday, March 1st, 2024
11:30 Hours Lisbon/UK time
Chaired by Miguel Stilwell d' Andrade

Company Participants

• **Miguel Stilwell d'Andrade**, Chief Executive Officer

• **Rui Teixeira**, Chief Financial Officer

• **Miguel Viana**, Head of Investor Relations and ESG

Miguel Viana

Good morning, ladies and gentlemen,

Thanks for attending EDP's 2023 results conference call. We have today with us our CEO, Miguel Stilwell de Andrade; and our CFO, Rui Teixeira, which will present you the main highlights of 2023 financial performance.

We'll then move on to the Q&A session in which we'll be taking your questions, both by phone or written questions that you can insert from now onwards at our webpage.

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

Miguel Stilwell d'Andrade

Thank you, Miguel, and good afternoon, everyone.

Thank you, obviously, for attending this results conference call. I'd like to dive straight in to talk about 2023 and say it was really an important year for EDP as a group.

As you know, we had a harsh 2022. We had the very severe drought in Iberia, the worst in 90 years, and top of it on a year where we had the war and a huge spike in prices with a very strong increase on the wholesale prices throughout Europe. And that obviously impacted us quite severely in '22. So '23, I think, was a good year where we normalized a lot of the situation and that's clearly reflected in the numbers that we presented for the full year.

If we go through to Slide 3, just to look at some of the key highlights that I wanted to talk about. The first one is just that we have reinforced the balance sheet. We raised 2 billion euros as you know, 1 billion euros in EDP, another 1 billion euros at EDP Renewables and then we used that money certainly on the EDP side to go ahead and take EDP Brazil private, so buy the minorities. That increased our exposure to Brazilian regulated networks in renewables and basically was earnings accretive as soon as we closed the transaction.

So, the second half of the year was already enhanced by the net income of the transaction. So, I think it was a great transaction. We managed to do it on time, or even ahead of time, and let's say in line with the estimates of value.

More recently, we also announced the buyback or the buyout of the minorities in the EDP Renewable parks, wind farms in Poland, Portugal and Italy. That's another earnings accretive transaction that should contribute also positively to our net income in 2024.

And then 2023, was also a great year in terms of the asset rotation execution. We booked 460 million euros of asset rotation gains and 2 billion euros of proceeds. And overall, the asset rotation gains over invested capital stood at around 60%, which I think shows really the strong valuation of our portfolio.

As I mentioned on the previous call earlier this week, when we placed ourselves a year ago, there were a lot of doubts about whether there would be demand for these assets and whether we would be able to get capital gains on them. And I think that we showed really the value and that there was that demand and that investors were willing to step-up and buy these types of assets. All of these achievements put together resulted in an improvement in the debt ratio. So the net debt to EBITDA in 2023 reached around 3.3x and FFO net debt at 21%.

And these efforts towards a strengthened balance sheet also allowed us to then get a credit upgrade from EDP by Moody's. So we're now at BBB on all three credit rating agencies, which I think was also an important thing for EDP. As you know, for many years we had a weaker balance sheet and we've managed to really recover over the last couple of years.

Finally, for 2023, it was also an important year where we took some significant steps for being coal free by 2025. We sold 80% in Pecem, Brazil, the coal plant, and we also agreed a partnership to convert Aboño into a gas fired plant. So we have a clear line of sight to being coal free by the first half of 2025 in line with what we committed to in the strategic plan. So, two key steps really in our ESG strategy.

We move forward to Slide 4. We're focusing on the 2023 results. So we had a very solid financial performance, had a good performance in Iberia on the integrated portfolio. We had strong asset rotation gains and we had resilient networks business. EBITDA increased around 11% year-on-year to around 5 billion euros.

The key moving parts were essentially the integrated margin in Iberia, 2.6x versus what we had in 2022, reflected obviously the strong recovery of the hydro following the drought in 2022. We then also had the valuation of the asset rotation portfolio, as I mentioned, so the capital gains there. So we overall passed the target of the 300 million euros per year that's in the business plan. As you know, EDP Renewables was very negatively impacted by low wind resources and capacity delays, so that was on the negative side. And then we had a solid performance by networks which represented 30% of total EBITDA.

So at the recurring net profit level, we delivered on our guidance with 48% increase year-on-year to 1.3 billion euros. And this increase in net profit is mainly explained by the EBITDA growth as I mentioned. It's enhanced by the EDP Brasil minority buyout, which had a positive impact of 80 million euros in recurring terms already in 2023. Net debt increased to 15.3 billion euros, it's in line with the latest guidance.

Unfortunately, we're hoping it would stay slightly below the 15 billion euros, and that was depending on getting the cash in from some of the asset rotation deals, which unfortunately just concluded in the first month of 2024. So we're around the EUR15 billion, EUR15.3 billion to be precise, still in line with the guidance.

And finally, we will be proposing for the shareholders' approvement a dividend of 0.195 euros per share. So this is a payout ratio of just slightly over 60%, so it's in line with the dividend policy defined in last year's business plan, and it represents an increase of 3% year-on-year.

If we move forward to Slide 5, I think this is an interesting graph, so two graphs. Hydro performance, 2023, we see the normalization of hydro resources versus the droughts in 2022, so 8.2 terawatt hours versus the 4.4 in 2022. Even so 2023 was not a very wet year, and if you actually look there at the circles on the slide, you can see we're even slightly 1% below average, basically in line with average, but obviously compares with the minus 37% below average in 2022. So this recovery of hydro resources led the hydro production to basically double year-on-year to the 8.2 terawatt hours in 2023.

Since we last spoke, our hydro reservoirs continue to be substantially above average. They're currently at around 85%. You can see that on the graph on the right-hand side. And additionally, during January and February, hydro resources were around 20% above average, leaving us very confident on hydro volumes for 2024. As you know, the first quarter is typically the one that has the greatest impact on the year. The fourth quarter is also pretty relevant. The second quarter and third quarter are less relevant from a hydro perspective.

If we move forward to Slide 6, flexible hydro generation. So the first thing I wanted to do is to just highlight the value, particularly as time goes by and we start having more renewable penetration, but the value of having a flexible generation portfolio. And so when you have decreasing electricity wholesale prices and volatility, this value becomes even more relevant.

On the left-hand side, you can see that the renewable technologies, namely the increasing of solar production, weighed over total production leads to high spreads between intraday electricity prices. So you have basically peak/off peak arbitrage, which you can do with flexible generation. And so that creates a big opportunity for us to use this pump storage to basically capture that arbitration opportunity. And that begins to be a relevant amount of money, certainly in Iberia.

The trend going forward is that as the solar weight in generation mix increases, the intraday spreads will tend to increase. So they'll also increase the hydro realized price. So I think one thing to note is that the profitability is not just a question of absolute prices, but it's also a question of intraday prices and hourly variation. And we're well positioned to benefit from this trend.

Portfolio in Iberia, as you know, comprises around 5.5 gigawatts of hydro installed capacity, 75% of which reservoir and 45% with pumping. So this flexibility optionality allowed us to sum in hydro realized prices at 25% premium versus base load in 2023. And with very strong pumping results, we had around 50 million euros of margin, and that's expected to grow in 2024 and 2025. So definitely something we've been talking about this for a while, but definitely seeing the value coming through.

We move forward to the next slide, talking about integrated generation and supply. So on the left-hand side of the slide, you can see that EDP has a balanced position between generation and clients in Iberia, around 18 TWh generated between hydro, thermal, wind and solar. And that is approximately the same as the 18 TWh of client need, including sales at a fixed price. For 2024, we expect to continue this balance with the delta between generation and supply volumes expected to be around 2 TWh.

But depending on the electricity wholesale prices, this position can also decrease. So as you know, we actively manage our hydro reservoir levels and we optimize the generation in function of market prices. So in the context of decreasing energy prices, we can opt to generate less, buy electricity in the market. So we'll store the water, buy the electricity in the market, and sell it to customers if we find it more efficient or more profitable to do that.

So in this context, I think also just to highlight our hedging position for 2024 already has 75% of base load generation volumes closed at a price of around 100 euros per MWh. And as I stated, I think in previous calls, to reduce volume risk, we do not hedge 100% of the volumes since our strategy is to be around 80% to 90% hedged to mitigate renewable volume risk.

On top of that, this decrease in energy prices also benefited EDP's gas business in 2023, since it decreased the sourcing costs, and we expect this impact to persist in 2024. So overall, positive outlook for 2024, showcasing once again the value of having an integrated and diversified portfolio, a strong client base, and really managing efficiently risk return for the Iberian business.

If we move forward to the regulated networks, so networks have a significant weight in EDP results. As you know, it represents around 30% of EBITDA, and now also 30% of net profit, particularly since Brazil was taken private, and that's reflecting also the strong growth of the regulatory asset base.

So on a consolidated basis, if you see on the left-hand chart, we've got the regulatory asset base, the RAB of our electricity networks, net of minorities, it increased 29% year-on-year to 7.2 billion euros. In Brazil, our RAB net of minorities doubled in the period, so this is supported not just by the tariff review of the EDP Sao Paulo, but especially the EDP Brasil minorities buyout, which increased our stake in electricity networks in Brazil from 57% to 100%.

So I just wanted to stress again with this transaction, we increased our exposure to electricity networks, which have revenues indexed to inflation and a stable and highly visible regulatory framework. I also wanted to highlight the positive developments we had in our networks platform. So starting with Brazil, as you know, so I mentioned we had the tariff review of Sao Paulo, positive outcome, doubling our RAB versus the last regulatory period.

And we have visibility on the revenues until 2027. Also in Brazil, the process for the distribution concession renewal is ongoing. We expect to have more visibility by the middle of the year. And the concessions are expected to be renewed for 30 years. So that would give us obviously long-term visibility for investments in distribution in Brazil. And our distribution company, EDP Espirito Santo, in the state of Espirito Santo, actually has its concession ending in July 2025. So it's the first company to renew the concession, and that's why we're obviously following very, very closely the renewal process.

Moving to Portugal, we also had a positive regulatory outcome for ERSE. We had the 2024 regulated revenues increasing 4% versus '23, so that reflected a 52 basis points increase in the return on RAB to 5.57%, and we had an inflation update of around 5.3%. And in Spain, we also had a positive court decision regarding retroactive remuneration of older regulated asset basis, so what's called a Lesividad.

So overall, networks are an important part of our portfolio. They act as a portfolio stabilizer, they give a strong visibility on returns, and they've got inflation-updated revenues. So as such, we will further invest in the business. We're investing about EUR1 billion planned for 2024, which is 1.8x depreciations and amortizations, and that's part of our target of investing around EUR4 billion in the 2026 business plan period.

We move forward to Slide 9, just a quick note here. So two important transactions executed in '23 with an impact on the earnings outlook. So we have the Brazil's minorities stake or buyout or if you want the Brazil take private. It already contributed EUR80 million of net income in 2023 on a recurring basis.

For '24 onwards, we expect a contribution of around EUR120 million. And the value created by this transaction, I think is showcased and is really apparent. And you consider that since the tender offer launch, the EDP Brasil peer group total shareholder return increased 46% compared to the 22% premium paid by EDP. So I think this is really important to stress. I think we got the timing right and good conditions in which to do this, take private with good multiples. I think that's going to pay-off, so not just in the short term, but I think also in the long term.

Also on this point, in terms of minorities, so by the end of 2023, we also announced the acquisition of 49% in the 1 GW of wind farms that we had in Poland, Italy and Portugal. So that transaction should also contribute with around EUR30 million of net profit at EDP level and around EUR40 million full year at EDPR level.

And again, they enhance our earnings, low risk. We already know the assets well. We know the markets. And after the transactions, we get 100% of the results and the cash flow immediately. And that gives us a lot more flexibility and not just to manage the energy, but to talk about things like hybrids, repowering and all that. Another point is just to highlight that the 100% owned activities already had a strong contribution to our results in '23. And so they'll continue to do that in '24, reinforced by these two transactions, especially the EDP Brazil one.

Looking at the right-hand of the slides already in '23, we see that the net income attributable to non-controlling interests decreased versus 2022. So we expect it to even further decrease in 2024, and that the percentage of net income attributable to minorities over total net income should be less than 20%, down from 41% in 2022. And that should support the earnings outlook from 2024.

I still remember many years ago, sometimes some of you would tell us that it looked like a Swiss cheese because there are a lot of minorities in different parts of the company. And I think, we've made a good effort to really simplify the structure, take out some of those minorities, and that's obviously coming through in the net profit line.

If we go to Slide 10, and a word on the asset rotation strategy, which I think you already know well, but we're able to close a few transactions, Spain, Poland, Brazil, total of around 700 MW, attractive EV/MW of 2.1x. And with these transactions, the asset rotation gains, we got the EUR460 million I talked about, and so well above what was in the business plan. And the 60% asset rotation gains over invested capital, again, for 2023, that compares well also to 40% for the '21 to '22 deals.

Moving forward in '24, we recently closed two deals that we've already announced, the sale of 80% in a solar portfolio of 340 MWac in the U.S., total enterprise value of around $0.4 billion, and also part of the sale of two transmission lines in Brazil for an EV of around EUR 0.5 billion. We've also signed another two deals: in Canada, the sale of 80% stake in around the 300 MW portfolio for EV of around CAD 0.6 billion. In the U.K., on offshore OW also sold 16.6% stake in Moray East, the offshore wind farm, total gross around 950 MW and at an EV per megawatt of around EUR3.6 million for EDPR.

So I think all this bottom line, we continue to see strong interest from strategic investors, focus on renewable assets linked to the ESG targets versus the usual financial institutions. So there's been a change in the profile of the type of buyers of these assets, but the demand continues to be strong.

Going forward for '24, the remaining transactions, they've already been launched. So I guess our base expectation as usual is to be in line with the strategic business plan target. So we don't count on any upside from that. If it comes, it comes. But basically, we're just aiming for business plan numbers in the guidance.

If we move forward, to Slide 11, just a word on the EDPR execution prospects. So as you know, last year, we added 2.5 GW of wind and solar. Big concentration in the last quarter typically is backloaded in the last quarter. Maybe '24 will be slightly different because some of the projects, from '20 to '24, they will come over the next three quarters without perhaps so much back-ended.

And clearly, if you look at the graph on the left-hand side, you can see the 2023 additions are 4x more than what we had since 2017. So if you go back to the decades of 2010 to 2020, and I think that's really reflecting the sustained growth that we're having. I mean, sometimes I'd like it to be even faster. This year, we're on good track to reach the 4 gigawatts, but overall, it is an impressive growth in the number of megawatts that we're adding in all the different regions.

So as I mentioned before, these 4 gigawatts that we're building this year are 100% secured, 85% already under construction. The rest is starting for the next couple of months. And most of the capacity that's still to be constructed is Solar DG, which, as you know, typically has an average construction time of around six months. So it should be in line to deliver those 4 gigawatts by the end of the year.

In terms of geographies, North America and Europe are expected to be the main growth contributors in '24, around 80% of total additions. And if you look at the right-hand side of the slide, we have around 10 gigawatts of secured capacity for the next couple of years, most of it secured during 2022 and '23, and with 40% expected to enter into operation in 2024. And one of the things I wanted to highlight here, and I mentioned that on the EDPR call as well, is that 61% was already secured in an environment of high PPA prices.

So we're able to lock in good prices over the last two years. And so for projects to be installed from late 2024 onwards for also '25 and '26. If we do have an easing of interest rate environments and a low inflation rate, then that would be obviously positive, and not just for CapEx, but also in terms of valuation for these assets. So I think this gives us with an overall positive outlook for 2024 in terms of the renewables execution.

Going on to Slide 12, just a word on the EDP solar DG business. I think we are one of the leaders in this, certainly in terms of scale and in terms of, I think, sophistication. It was a really great year in terms of growth, around 1.1 gigawatts as a service capacity. So it's a 60% capacity growth year-on-year. For 2024, we expect to continue a fast pace of installation adding around 1 gigawatt, of which 0.8 as a service capacity and about 0.2 build and transfer. So as-a-service is as you know when we basically invest the CapEx and then we get a return on that CapEx out to through a rent or some sort of fee, so it's closer to a utility-type model.

And we've been a pioneer in this business. I mean, we've been building this over the last couple of years. We really do have a strong distinctiveness in the different geographies and in the regional deals and the partnerships that we've done. I mean, we did one just recently with Decathlon across six European countries to install 21 megawatts of Solar DG across 85 stores. And then we did another one with Draxton to install 14 megawatts of DG across six manufacturing sites, including Spain, Italy, and China. So I think these are interesting studies, I mean, or interesting projects. You're talking about dozens of megawatts, but when you add them all up, it starts to be already quite material. I also wanted to talk about one big project that we announced last year, which was the DG project with Google. So it's the largest C&I DG partnership in the market.

And another one that we also announced very recently, sorry, that we announced recently, which was 200 MWp in the Solar Nova government tender program in Singapore. So this is essentially installing DG capacity, Solar DG capacity, across more than 1,000 public housing buildings and around 100 government owned buildings, including 55 schools. So 200 MW in Singapore at a good return. I think that's a pretty relevant project.

Wrapping up, just on this section, EDP has a leading position among the Solar DG players. And overall, we're investing about EUR 2.5 billion in Solar DG around the period '23 to '26. So look at the right-hand of the slide, just talking about some of the other technologies. So hybrids. We've talked about hybrids, now we're actually beginning to show, but conceptually, now we're actually showing hybrid projects coming in.

So 107 megawatts in six operational hybrid parks in Portugal, Poland, and Spain, 1 GW of projects under development, as you know, it's in some cases, it's not just wind and solar, it's also hydro. And that's, I think, quick wins with good profitability on these types of projects.

And then on the hydrogen front, we have one project, small project in the Pecem plant in Brazil and several projects in Spain, two of which were selected for funding from the EU Innovation Fund. So we're continuing to progress those and expect to take some sort of investment decision over the next 12 months or so.

Finally, last slide in the section on ESG. So fully aligned with the energy transition at the group level, and the key ESG metrics. In 2023, our CapEx aligned with the EU taxonomy is already 96% of total CapEx. And obviously highlight, I mean, this just shows the commitment in renewables and networks. I think this is an extremely high percentage, 87% of our generation came from renewable sources. So 13% increase year-on-year.

Revenues from coal down to 4.3%, decreasing 6% or 6 percentage points year-on-year. 2022, as you know, since we had the big drought in Iberia, coal was working flat out. Obviously with more hydro, the coal has come back, reduced significantly. And as I said, we have a clear line of sight to phasing coal out over the next 12 months or so.

Finally, Scope 1 and 2, CO_2 emissions decreasing 50% year-on-year and all of that adds up to us being recognized as we've got the highest performance in the S&P CSA index. So out of 256 companies worldwide, we had 88 points. So the most sustainable electricity company globally, I think this is a position we've had for the third time in the last 10 years, and it also means that we're part of the Dow Jones sustainability index, so that's obviously key for us as well.

2023, I mentioned, so we sold out coal, and finally, just to talk about perhaps our net zero targets by 2040, so this is a target that was also recognized by the SBTi, and I think 2023 is really important in terms of showing that we are progressing and moving forward to actually achieving those targets, I think, in a very diligent way.

And with that, I'd stop there and turn it over to Rui to go through the numbers.

Thank you.

Rui Teixeira

Thank you, Miguel, and good morning to you all.

So I'd like now to move into Slide 15, and talk about the great financial performance of 2023 achieved by EDP. So as you can see on Slide 15. Recurring EBITDA increased 11% year-on-year to EUR 5 billion in 2023. This recurring EBITDA split by businesses for renewables, client, and energy management was up by EUR 0.5 billion, mainly driven by the improvement on the integrated margin in Iberia, which more than doubled year-on-year, reflecting the recovery of the hydro generation after the severe drought that you may remember of 2022, and lower electricity and gas sourcing costs.

The rebound on the integrated business in Iberia mitigated the decrease that we have already announced for EDPR EBITDA, following a weaker underlying performance that was partly offset by a strong asset rotation execution, with EUR 0.5 billion asset rotation gains recorded in 2023. Moreover, in electricity networks EBITDA, roughly flat, year-on-year representing around 30% of our total EBITDA.

If we move now to Slide 16, again, as you recall, hydro clients, energy management, I mean, this business segments in Iberia in 2022 was negatively impacted by a hydro shortfall, also in the context of record high electricity spot prices with increasing gas and electricity sourcing costs, which led to EBITDA to stay at around EUR 869 million.

In 2023, this business has strongly recovered following the normalization of hydro resources, which stood at 1% below average in 2023 versus the minus 37% back in 2022. This effect together with the lower electricity and gas sourcing costs given the decrease in electricity and gas spot prices led the unitary integrated margin to be 2.6x higher versus 2022. Regarding Brazil, EBITDA decreased EUR 18 million, reflecting the lower volume from the sale of Mascarenhas Hydro Power back in 2022.

On Slide 17, EDPR in 2023 was positively impacted by around EUR 0.5 billion of the asset rotation gains, as I said before. This was the result of the sale of the Spanish, Polish, and Brazilian portfolios, and an increase of EUR 37 million in asset rotation gains versus previous 2022.

Also as we said in the EDPR results conference call, underlying EBITDA presented weaker performance year-on-year, reflecting a 12% growth in installed capacity, mitigating lower wind resources with the renewables index 6% below long-term gross capacity factor mainly from the El Nino weather event in the U.S.

Also lower energy prices, 6% year-on-year drop, mainly driven by the lower wholesale prices in Europe, and also lower contribution from Ocean Winds following the drop in U.K. wholesale prices after the 2022 peak, with this line of share profit caption decreasing from EUR 179 million in 2022 to EUR 24 million in 2023.

Now, on the networks in Slide 18, EBITDA stable year-on-year. In Brazil, EBITDA increased EUR 6 million, following improved EBITDA in transmission due to inflation updates on revenues, and the completion of reinforcement works in Lot Q and EDP Goias. Distribution EBITDA stood relatively stable year-on-year, as over-contracting in distribution partially offset the increase in regulated revenues.

In Iberia, EBITDA decreased 3%, Portugal flattish, with the increase in the rate of return on RAB being mitigated by the increase in OpEx. In Spain, EBITDA decreased EUR 8 million from higher OpEx, reflecting the inflation impact, and given also that 2022 was impacted by a recovery of revenues from previous years, so a positive in 2022 that was not recorded again in 2023.

So as we move to Slide 19, as you know in 2023, we faced an increase in regulatory receivables in Portugal, resulting from deviations in the electricity wholesale price verified in 2023 versus the regulator's assumption. As we've stated in previous calls, those fluctuations are normal, and as usual, we opted to securitize those amounts. So in 2023, we ended up securitizing around EUR 2 billion of their deficit, leaving regulatory receivables at balance sheet with a residual amount at the end of 2023.

For 2024, regulators' final tariff proposal presents electricity system debt under control, despite the regulations occurred in last year, 2023. However, I would like to point out that for 2024, we may also have some deviations between the regulators forecasted prices and the real prices. Based on the current forward prices, we estimate that tariff deviation may reach close to EUR1 billion throughout the year, which as usual, we will securitize whatever expected deviation occurs.

On the right-hand side of this slide, highlighting the proceeds from the tax equity investors received in 2023. Tax equity proceeds reached EUR 0.5 billion in Q4 last year, following the commissioning of a significant volume of capacity. In 2024, given the expected increase in the volume of capacity additions in U.S., we do expect cash-in proceeds of around EUR 1.5 billion, and we are working on different options such as tax equity transferability, which also should be increasing our investor base.

If we move now to Slide 20, net debt increased to EUR 15.3 billion year-end 2023 and this is mainly impacted by organic cash flow, EUR 1.1 billion, on the back of strong EBITDA performance in 2023 and losing the quasi-regulated receivables of EUR0.8 billion, mainly from the settlement of the anticipation of regulatory remuneration in 2022, amounting to EUR 0.6 billion. Excluding this impact organic cash flow stood at EUR 1.9 billion.

Regulatory working capital of EUR 1.2 billion from the reversal of the cash inflow effect registered in 2022, together with the increase in deviation from actual wholesale prices versus the regulators estimated, and mitigated by the sale of part of the 2024 tariff deficit amounting to EUR 2 billion that we successfully executed in the last days of 2023.

Net expansion investment that amounted to EUR 4 billion, reflecting the acceleration of renewables investment and the EUR 1 billion investments to acquire EDP Brazil minorities, netted by the EUR 2 billion asset rotation proceeds. EUR 2 billion from equity capital increases, of which EUR 1 billion at EDP to fund EDP Brasil minorities buyout, and EUR1 billion at EDPR to foster renewables growth.

Dividend payment of EUR 0.8 billion in May 2023. And also I would like to highlight that since we last spoke in the results call of the nine months, some asset rotation deals were moved to 2024. If we were to include the proceeds of those asset rotation deals, namely the two that we have recently closed, the transmission deal in Brazil and the solar portfolio in the U.S., and the deal for the wind portfolio in Canada that was also recently signed, as well as this week's sale of the remaining EUR 100 million tariff deficit, our net debt by year-end would have decreased by EUR 1 billion to EUR 14.3 billion, so really just a timing impact moving from the 31st of December, now into January and February.

Overall the reinforcement of the EDP's capital structure through EUR 2 billion capital raises together with the strong operational performance and the successful execution of the asset rotation resulted in improving our credit ratios with net debt over EBITDA at 3.3x and FFO to net debt at 21% by the end of 2023.

Now, if we move to Slide 21, I would like to highlight how strong we are in terms of our financial liquidity position. As of December 2023, we have more than EUR 10 billion of available liquidity of which EUR 3.4 billion cash and equivalents and the remaining EUR 7.1 approximately of available credit lines covering the refinancing needs until 2027, as you can see on the right-hand side of the slide. Also important to highlight that currently most of our debt is fixed, around 79%.

Slide 22. Net financial costs flat year-on-year, with the cost of debt increase being mitigated by an increase in financial revenues, including namely higher capitalized financial expenses due to higher volumes of construction activity, namely in renewables. Excluding ForEx differences and derivatives, adjusted net financial interest decreased 2% year-on-year to EUR 855 million. Cost of debt at 5%, including Brazilian real denominated debt, that is 60 basis points above 2022.

If we were to exclude Brazil, cost of debt at 3.4% in 2023, comparing to 2.7% in the previous year. The increase in average cost of debt year-on-year is mostly due to U.S. dollar and euro denominated debt, given the high interest rate environment as of now, we have been actively managing this, and as you can see on the right-hand side of the slide, since June 2023, we have been rebalancing our debt currency mix, aiming to reduce the U.S. dollar debt and decreasing as well the financial costs.

From the chart, you see that U.S. dollar weight in the total debt decreased from 36% in 2022 to 28% in 2023, and this decline is reinforced also by the recent repurchase of almost USD 370 million with a 6.3% coupon. As a result, we have a higher weight of debt in euros, increasing from 48% to 52% in '22 to 2023, and we are seeing the marginal cost of euro financing decreasing, with effects already shown in early 2024. Remember that we issued already EUR 750 million maturing in 2030 at a 3.5% coupon.

So finally, recurring net profit amounted to EUR 1.29 billion, an increase versus 2022 of 48%, when we recorded EUR 871 million, and this reflecting, obviously, the strong operating performance of the integrated generation and supply business, as well as the stability in the electricity networks.

Financial costs remaining stable, mainly driven by the higher cost of debt mitigated by higher capitalized interest.

Income taxes increased year-on-year, given the strong operational performance and reflected in earnings before taxes, but also the non-controlling interests decreasing year-on-year, positively impacted by the EDP Brazilian minorities buyout.

With this, I will now give the floor to Miguel for closing remarks. Thank you very much.

Miguel Stilwell d'Andrade

Thank you, Rui. So just finally, and very, very briefly, so that we have time for Q&A. So here on the last slide, on Slide 25, just to reiterate the guidance of recurring net profit of around EUR 1.3 billion, and that's supported on the back of, first, we have high hydro reservoir levels, as I showed earlier in the presentation. We have been optimizing also the portfolio in terms of some of the buybacks of the minorities. We have a strong hedging position for 2024, and we also have a balanced position between generation and supply. So I think, overall, that positions us well for this. We don't normally give guidance so early in the year, but let's say this is what we're seeing as of now.

Also I just wanted to reinforce the value of our electricity networks business, which sometimes gets a little bit less attention, but I think it is an important part of our business, both 30% EBITDA and net income. It is acting as a portfolio stabilizer and definitely providing some resilience in the context of decreasing energy prices.

And finally, just highlighting also the value from, say, from having, taking EDP Brasil private, 100% earnings contribution in 2024 with an expected impact of EUR 120 million in net income. So I think on track to deliver 2024 guidance in line towards the top end of what we'd said last year in the business plan.

And with that, I'd stop there and turn it over to Q&A. Thank you.

<u>Questions And Answers</u>

Operator

Ladies and gentlemen, the Q&A session starts now. (Operator Instructions)

Miguel Viana

Okay, thank you. So I would ask also to try to address maximum of two questions to give the opportunity to everybody to make questions. Then at the end, if we have more time, we can then continue. But the first question comes from Javier Garrido from JP Morgan. Javier, please go ahead.

Maybe we should go to the next in line, Pedro Alves, CaixaBank BPI. Pedro, please go ahead.

Q — Pedro Alves

Hi, good morning.

Thank you for taking my question. So the first on your business plan targets. So your guidance for 2024 is obviously more than welcome. But I think the market is also a bit uncertain on the longer term outlook in the current scenario.

So given the perhaps lower expectations at EDPR in terms of average selling prices, your message of prioritizing value over volumes, which we can read as capacity additions probably below the 17 gigawatts targets of your business plan. Can you give us a sense of how much you could be eventually behind your target in terms of EBITDA or net profit for 2026?

And secondly, also related to business plan, but on the balance sheet, given these potential downside risks in terms of EBITDA and particularly from EDPR, plus the fact that you have bought minorities which I understood it is on top of your business plan target, I'm talking about the minorities in renewables. I was wondering the consequences that this may have for leverage ratios to keep the current credit rating and therefore, the need that you may have to work on a new disposal program.

Thank you very much.

A – Miguel Stilwell d'Andrade

Thank you, Pedro. So your first question, if I understood correctly, is basically looking forward. So 2023 went well, '24 is doing well, or it's the start of the year, obviously, but seems to be shaping up well and towards the top end of the guidance that we've given in the business plan. I think, if we look forward past that, I mean, obviously there is some impact from lower power prices versus the business plan. I think we were already assuming in the business plan some decline over this period.

However, I think one of the things that I really like to highlight is that the business model is quite resilient to lower pool prices. And you've seen that in the past. I mean, the same way that when pool prices jumped in 2022 and early '23, we didn't capture all of that because the -- but then we go on adjusting the prices because you have clients, or we have quite a lot of clients in Iberia and those prices go on adjusting on the upside, but then they also take time to adjust on the downside. So we continue to see, I think, value in that integrated position with the client's business.

I think the other thing that I mentioned on earlier in the presentation was the value of the hydro flexibility, the flexible generation, if you want. On hydro, we have more flexibility to concentrate the generation on the better, let's say to get a premium. I mean, I talked about the 25% premium to pay so that we got, and then there's the clients. And then obviously we've got the networks as just the resilient part of the business.

On EDPR, I just wanted to go back to one of the slides that we presented on Wednesday, where we have 90% already locked in for 2020 or '23 and '24, and then 85% already for the next couple of years. So a lot of our EDPR is already locked in and long-term contracted or hedged. So the volatility around those numbers is much lower than that.

On the other question, which is value over volume. So I think here really the minorities of CTG was on top of the business plan, but we have space to accommodate that within our overall balance sheet. In terms of targets overall, we continue to work on reaching those targets. As I said, we will prioritize the returns over volume, but we are still seeing good investment opportunities over this period.

So there are issues around the bottlenecks and the permitting and stuff that we've talked about in the past, but in general, we are seeing good opportunities that would be at least in line with what we're doing this year. Hopefully that helps answer your questions. If not, we can follow up. So it shouldn't -- on the CTG, it doesn't impact our leverage ratios. We can accommodate that within the overall CapEx plan.

Q – Javier Garrido

Yeah, thank you, Miguel. Good morning, everyone.

So I had, if I speak to the questions, the first one would be, what is the contribution that you are assuming to your net income target of EUR 1.3 billion from the asset rotation gains in Brazilian transmission, because I assume you are assuming around EUR 300 million pre-tax for EDPR, as you said, in Wednesday's call. So it would be just on the Brazilian portion, which is the net income contribution.

And then the second question would be, if you can provide guidance on other items below EBITDA, as you have done, with minorities, particularly for financial costs, and I'm linked to this also on net debt, because you have shown what would have happened with net debt if some transactions were to be included, but what is the outlook for net debt and financial costs for '24?

Thank you.

A – Miguel Stilwell d'Andrade

Thank you, Javier. So on the first one, on the contribution to net income from the asset rotation Brazil transmission, I believe it's around EUR 50 million, but obviously, we'll be showing that then in the first quarter numbers. On the second one Rui you take that.

A – Rui Teixeira

Sure. Absolutely. Hi, Javier.

So in terms of net debt, we are looking at around EUR 16 billion, EUR16.5 billion by the end of 2024. If you look at, actually, let's put it this way. If you look year-on-year below EBITDA, I think that we are looking at around minus EUR 200 million in minorities and an additional EUR 200 million between amortization, financials and taxes. So this is, I think, should help you get to the EUR 1.3 billion.

Q – Alberto Gandolfi

Miguel, thank you, and thank you, management. So I think we debated yesterday more structural questions on Renewables. So I'll stick to two questions on guidance, please. The first one, on the EUR 1.3 billion for 2024, can you tell us, please, if you have assumed an average hydro year, or if you take into account high reservoir and better January-February in that figure?

And the second question is on 2026, and that's not the focus today, but because looking at your CMD, you were assuming a baseload price a little bit north of EUR 80 MWh, and because the forward curves are roughly at EUR 50 MWh in Iberia, there's quite a bit of a gap.

And so I was wondering if you maybe can shed more light on the hedging policy for 2026 in terms of maybe percentage, prices hedged and consensus seems already to be below the bottom end of your '26 guidance. So maybe if you can comment on being comfortable with the current consensus on a market-to-market basis or if you prefer to postpone that discussion for a bit later.

Thank you.

A – Miguel Stilwell d'Andrade

Thank you, Alberto.

So on guidance for 2024, we are assuming an average hydro year. So we're not making considerations on being above or below in terms of going for that. So just assume and not taking into consideration the fact that we already have high hydro volumes reservoir capacity, so yeah just hydro average year.

2026, well on the hedging, so we have around 40% at around EUR 70 MWh for the next two years. As you know, we don't typically hedge everything. As I mentioned earlier, about 70%, 80% of the overall is what we would be aiming for. So we already have a relevant part already done. And as I said, for the rest of the EDPR parts, I just talked about that.

In terms of that's long-term contracted and hedged. And I think we gave that information also in the EDPR call. I hope that helps. In terms of the '26 targets and consensus, I'd rather not comment on that now. I think probably throughout the year we'll provide more visibility on that at some point.

Q – Arthur Sitbon

Hello, thank you very much for taking my question.

So the first one is actually on your 2024 guidance and the bridge for the future years. I think, so EUR 1.3 billion of net profit for 2024. I was wondering if the implicit guidance on non-EDPR assets, because you've already provided quite a lot of indication of EDPR, the implicit level of profit on non-EDPR asset, is that a sustainable level for the future year or is there any improvement or deterioration that you would expect from this base level for the years coming after? That's the first question.

And the second question is actually on the, I think you're going to have regulatory review in your networks in Portugal and Spain in the next two years for the two. So I was wondering what you are ideally asking for, what type of spread between a large return and cost of capital are you usually targeting in these reviews and if there is any other thing than just your large return at stake here for you? Thank you very much.

A – Miguel Stilwell d'Andrade

Thank you, Arthur.

So if I understood in your first question what's implicit in the non- EDPR part and whether that's sustainable? So it's very much dependent, I think, on the perfect part of that is networks and that's let's say pretty resilient and the rest is obviously partly that hedged.

I just answered Alberto on that and the rest is going to be very dependent on the pool prices or the energy prices as we go forward. So in the business plan as I mentioned we already assumed the decline in those prices. The forwards will move as they do, but I think they are now down to around the EUR 50 MWh level. So basically, that would be the impact, let's say, on the non-EDPR part. On the regulatory reviews in Portugal and Spain. So the way that it's structured, I mean, by definition, the networks should be getting their cost of, recovering their cost of capital. So the regulator provides your calculates, certainly in Portugal, it calculates, let's say, what is the WACC or the cost of capital, and then provides some targets in terms of efficiency and targets in terms of losses and quality of service.

And then you get incentives, if you are able to achieve, if you're more efficient than what the regulator expected, or if you can achieve certain targets, you get then, let's say, outperformance on that. And then Portugal's, let's say the returns are already indexed to government bonds, so they already reflect to a certain extent the cost of capital. So we don't expect major changes when you do go through a regulatory period, you just get an adjustment, let's say, to the targets that you're expecting there.

In Spain, it's slightly different. In Spain, you have a basically fixed rate of return until there is a full review. It's difficult to tell at this stage, we're still quite far away from that. We haven't even really started discussions with the regulator, with the government around what would be a reasonable rate of return.

But by definition, you aim to get the cost of capital on that. That's just the way the regulatory model works for the networks. So the delta in value comes from us outperforming either on the efficiencies or on some of these other operational targets, typically, rather than counting on a delta between the returns and what would be the specific cost of capital. I hope that helps.

Q – Manuel Palomo

Hi, Miguel. Hi, management. Thank you for taking my questions. I think that after all the questions have been asked, I will start -- I will just stick to one. And it's on the pumping hydro. I understand that well, the profitability of the pumping hydro and how you can produce more pumping hydro electricity thanks to the renewables penetration.

However, I also understand the business model relies on a spread, which now look will be significantly lower than maybe you were projecting by March 2023. So my question is, is there any specific offsetting factor in order to compensate for those lower spreads, maybe the bigger volumes?

Thank you.

A – Miguel Stilwell d'Andrade

Yeah, Manuel. Okay, great question. But actually, so we don't think that there's necessarily a difference versus what we had in the business plan in terms of spreads. I think that the volatility continues to be there in terms of the peak/off-peak. And so we don't think that there would be a material change versus what we had.

Q – Enrico Bartoli

Hi. Good afternoon. Thanks for taking my question. The first one is related to – back to the guidance. You highlighted the level of hydro that you're expecting. I was wondering if you can share some color on the evolution of the supply margins that you are assuming in the guidance and if the recent decline in gas prices and power prices can provide some upside compared to the assumption that you have in the full-year guidance.

Second question is related to Brazil. If you can share some light on the evolution that you expect there, you announced some disposals of hydro assets. What do you expect evolution in 2024 in terms of tariff increases, the liberalized market and the contribution from distributed generation, what kind of growth you are expecting there this year and maybe some words also on 2025 and '26?

Thank you very much.

A – Miguel Stilwell d'Andrade

Thank you, Enrico. So on the first question, in terms of supply margins, we're expecting relatively stable supply margins. So the margins in terms of market price and what we're selling to customers. We're not assuming any expansion from that. It is just true, as I mentioned, but it's not so much on the supply side, but let's say, on the intermediation side, on the energy management side.

If we're able to then buy energy cheaper in the market, and just store the water, then eventually there's a delta margin there. But in terms of pure supply margin, as we define them, which is, let's say, the price that we're selling to the customers, minus the energy that's locked in internally with the energy management team, we're expecting to be a relatively stable margin.

On Brazil, so definitely distributed generation continues to grow strongly. I think we've seen, just recently I was with the team and seeing a really sustained growth there, and I think there are good opportunities there going forward. In fact, not just in Brazil, but in Singapore, we also had a great example there, and the Google one I also talked about.

Brazil certainly is a good market that's growing. On the liberalized, I mean Brazil is slowly liberalizing. We see some opportunity there but it's not, let's say, a major driver for our growth in Brazil.

So the major growth in Brazil for us is on networks, distribution primarily. So when we go to auctions and we can get good projects then that's also a big driver of growth. And then the hydro that's pretty much locked in that's inflation linked. So that doesn't have a lot of volatility. And so I think those are really the key drivers for growth in Brazil.

Q – Fernando Garcia

Thank you for taking my questions.

So keeping to the two requested. First on your 75% hedge at 100€/MWh, is this only for hydro and is this based on your strategy to hedge just 80% of your expected hydro output? So in that scenario, taking into account that so far in 2024, you are well above average in terms of hydro output, could this mean that the volumes actually open are higher? And then if this 100€, we are talking about base load price, no?

Then second question is regarding the comment that you have in your results handout about the good prospects of your Spanish electricity distribution business from the Lesividad, the court ruling.

Thank you.

A – Miguel Stilwell

Okay, Fernando, I'll take the second question and maybe if Rui could take the first question. On the prospect for the Spanish distribution, so the Lesividad, basically that was a court issue that we had already for now a number of years. Where we were arguing that we weren't getting the recognition on the assets, that once they'd reached a useful life and continued to be in service, and we weren't getting the value in that from the regulator.

It doesn't have an impact or material impact on the P&L, I believe, but it is a cash impact. So we were already recognizing that because we're very comfortable that we're going to win that court case. We are recognizing that, but we weren't getting the cash, and now we will be getting the cash corresponding to those revenues. So that's the good part. On the first point, I'll turn it over to Rui.

A – Rui Teixeira

Thank you, Miguel.

If I understood properly, the question is for 2024, the level of hedging that we have. So it's about 75% of the conventional generation that we have in Iberia, so just because of the total generation.

So as you know, for the hydro, we don't typically hedge more than 80% of the expected hydro volumes, but that's from a risk perspective. But again, if you look overall, between what we have sold at fixed price to our customers and what we have bought in the market and the total generation, it's about 75%, and that is hedged at around EUR 100 MWh. So that's a base load price we have hedged for.

Q – Jorge Guimarães

Good afternoon.

One of my questions is for clarification on the full year '24 guidance. I'd like to understand how much of the temporary effects on, if any, of the temporary negative effects on EDPR are included in the recurring net profit figure.

So that would be the first one. And the second one, it's a clarification on the 2025 expected installations of EDPR. Should we expect an acceleration versus '24 or something stable at the 4 GW level?

Thank you very much.

A – Miguel Stilwell d'Andrade

Thank you, Jorge. So on the 2024, yes, so this is consistent with the EDPR guidance and with the EDPR calculations. And so the various different impacts that we talked about in EDPR are incorporated in the overall EDP group.

On the second question, in terms of the 2025 installation, so we have good prospects already. We have several of the projects, like a significant amount of gigawatts already secured for 2025, and we're continuing to work throughout '24 for the projects in '25. So I'd say we are assuming, in terms of capacity additions for '25, at least what we had for 2024.

Q – Mike Becker

Hello, everyone. Thank you for taking my question.

It's on competition in the renewables market. I'm wondering if the competitors putting back, we have seen some of them bringing back their expectations for capacity addition. Is having any visible effect on the competitive dynamics in the market yet?

I'm asking because if we look at connection ques or what the network operators are saying, one could have the impression that at least project ideas, maybe also including a lot of early stage, are very in oversupply of what various markets actually need in terms of renewables demand. So I'm just wondering whether, sort of say, competitors putting back in that environment is having a meaningful effect or if it is not really visible for individual developers.

Thank you.

A – Miguel Stilwell d'Andrade

Thank you. So on competition, great question. I mean, yes, we are seeing pulling back definitely on, well, certainly from oil and gas. I remember getting a lot of questions on these calls from the oil and gas companies coming into the sector.

I think they're clearly on their way out, if not already out to a great extent. And I think even on, let's say, some of the more conventional or smaller developers, I think also getting out or at least pulling back just because of issues around balance sheet and supply chain, et cetera.

So yes, I do think there's less, let's say, less tense competitive environment, which I think is allowing us to get good profits or good profitability on the projects that we are moving forward to investment decisions. So that's why I continue to believe that the projects that we are locking in today, and I talked about some of those on the EDPR projects, are with high PPAs, high absolute IRRs, and I think there'll be great investments over the next couple of years. So hopefully that helps on that competition issue.

Q - Gonzalo Sanchez

Hi, good morning. Thank you for taking my question.

I'll make two, if I may. One is a clarification on the guidance, and I appreciate that you are not providing a specific number of growth, but obviously, you're not looking at the EUR 1.3 billion net profit guidance for 2024. That could be, flatly, slightly positive, slightly negative. I just wanted to understand a little bit the moving parts here in your mind.

If I look at the comments you made throughout the Wednesday presentation and today presentation, it looks like networks are going to grow a little bit. Brazil is growing contribution given the buyout and also the dynamics in the Brazilian market, EDPR could potentially grow a little bit. So obviously there's some negative effects there playing out as well.

I guess it's basically the sale of Pecem and some of the shutdowns on the coal plants, but I would like to understand what are the negatives, basically, factors that you're seeing there that are making this more or less flattish or slightly potentially positive or negative. That's the first question.

And then the second question is on the dividend. You have a 63% payout, which is obviously within the 60% to 70% range that you provided in the last strategic update. So I was wondering if we should expect 63% or it could go up and down and what would be the criteria behind that. So that's it.

Thank you.

A - Miguel Stilwell de Andrade

Thank you, Gonzalo. I'll take the second question and ask Rui to take the first one. So on the dividend, as you said, it's 63%. So I think we had a good year. As you know, we prefer to be steady on the dividend. And so we are, we gave out specific floors for the dividends over the next couple of years in terms of EUR 0.195 and then converging to EUR 0.20 by 2026.

And so I think we expect to stick to that. I mean, if we have, let's say, if we have a different view at some point, we'll probably do an update, but it would be together with sort of the wider business plan. But for now, we're sticking to the dividend path that we set out on the first one.

A – Rui Teixeira

So Gonzalo, hi. I would say, so first of all, if you look more or less at EBITDA, I would say probably also to flattish versus last year. So we will have, we spoke about EDPR two days ago. Also on the other hand, we would have a small improvement on the networks. And also I would say that we would have a good contribution from the integrated margin, pretty much in line with what we have in 2023. So that would be a good operational results impact.

And then, as I said before, also today, in terms of minorities down by EUR 200 million and then amortization financials taxes, they would be up by EUR 200 million. So that's where pretty much it gets to sort of like flattish or pretty much in line with EBITDA and it's EUR 1.3 billion guidance for '24 in net profit.

Closing Remarks

Miguel Stilwell d'Andrade

Well, just first of all, thank you for the call and for all the questions. I think 2023 was a good year for EDP, I think a record year for EDP, obviously different moving parts as we talked throughout the presentation. On EDPR, certainly much more challenging.

But that's part of having a diversified group. And so if EDPR wasn't listed, probably wouldn't have such visibility or transparency on all the different moving parts because in 2022, we had a great year for EDPR or a good year for EDPR and less good for the rest. And in 2023, then it inverted.

So that, I think, is one of the values of the EDP consolidated, having a diversified not just geographic mix, but also business mix. For 2024, I think we're quite optimistic. So I mean, we've given you the guidance, let's say, in terms of net income. We talked about the 4GW.

So these are sort of two of the key numbers that we talk about. And let's see how the year goes. But hopefully, we will be back to provide some further guidance for '25 and '26 and beyond over the course of the year. And I think that will be good to just then be able to talk about how we're seeing the market and the sector as a whole.

And I'd probably stop there and say, thank you very much. Have a great weekend, and talk to you soon. Take care.