EDP – ENERGIAS DE PORTUGAL

Friday, May 10th, 2024
08:30 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 first quarter 2024 results conference call. We have today with us our CEO, Miguel Stilwell d'Andrade, and our CFO, Rui Teixeira, which will present you the main highlights of our strategic vision, first quarter 2024 financial performance, and then 2026 guidance update. We'll then move 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 d'Andrade.

Miguel Stilwell d'Andrade

Thank you, Miguel. Good morning, everyone. So once again, thank you for attending this first quarter results call.

We will also take today's opportunity to update you on the prospects for 2024 and our updated 2026 guidance. So as I mentioned in yesterday's call on EDP Renewables, what we're going to be presenting today results from a deep internal bottom-up analysis developed over the last three months. And so this has led basically to recalibrating our operational financial targets for 2024 and 2026, considering the most updated market outlook. But before I go there, I'll just start off by talking about the first quarter numbers.

So if we turn over to slide 3, I'll give you a quick overview of the first quarter numbers. First, it was a good quarter in terms of renewable resources. I'd like to say that one of the things that's particularly worth highlighting is the fact that 97% of EDP's generation came from renewable sources, so either hydro, wind, or solar. And this obviously reflected the strong resources in the quarter, but above all also our path to becoming coal-free and all green.

I mean, I still remember EDP being 80% thermal many years ago, and so this has really been a tremendous path that we've done to get to this point. The overall thermal generation was very low, basically some gas in Iberia, following the key transactions last year, the Pecém Sale and the Aboño 50-50 partnership. If we look at the integrated business in Iberia and looking at hydro, so this was definitely a quarter with a lot of rain. However, the strong hydro volumes were offset by much lower prices when compared to last year.

But when we look to the rest of 2024, we see better pricing with the forward curve showing an improvement in the power prices. We currently have the reservoir levels, as you know at record levels, about 90%.

On the other hand, the integrated business in Iberia, year-on-year comparison, is also being penalized by the lower integrated margin in the first quarter versus the particularly positive margin in the first quarter of last year. So please note that this is a temporary deviation. So if you look at the full year expected EBITDA, we don't expect a significant delta year on year.

The Iberian integrated business performance is the key driver behind the 5% decline in EBITDA year on year when compared to a very positive first quarter of 2023. We then had a very improved performance below EBITDA, positively impacted by changes in debt currency mix, lower effective tax rate and lower minorities following the EDP Brasil minorities buyout.

Overall net profit increased 20% year on year reaching EUR368 million and this is fully consistent with the guidance of the EUR1.3 billion net profit for 2024. So we reiterate the guidance we provided at the last results conference call.

So move on to Slide 4. So here I'd like to just take a step back and talk about EDP's key businesses performance.

First, highlighting that we continue to benefit from a very diversified portfolio structured around three main areas.

One, integrated generation and supply in Iberia. This is expected to represent around 40% of net income in 2024. So strong weight of flexible hydro, a resilient client base and an integrated approach to managing risk.

Then we have the electricity networks portfolio in Portugal, Spain and Brazil. And here we continue to see a strong growth in RAB with positive prospects on the regulated returns. And I'll get to this in a minute and go more in depth there.

And finally, our wind and solar subsidiary EDP Renewables with more than 85% of its capacity focused on low-risk markets in Europe and North America. A high percentage of long-term contracted revenues. And as you know, we have a strong track record on renewable development. The growth is set to continue and the weight in the net income is expected to increase over the next few years, offsetting the integrated generation business. So I'll go into more detail in the next couple of slides.

If we turn over to Slide 5, starting with integrated generation and supply business. I'd stress again and keep stressing this, but it's never too much to highlight the value of having a flexible hydro portfolio. So our portfolio in Iberia comprises 5.5 gigawatts, around 8 terawatt hours of net generation per year. This business has a strong weight in EDP's EBITDA and cash flow generation and we expect it to represent around 65% of the total EBITDA from the integrated segment in Iberia in 2024.

We expect that this fleet profile with reservoirs and pumping facilities will continue to benefit from an increase in realized prices with the premiums expected to increase due to expansion of intraday spreads. So as the renewable penetration grows in Iberia, we expect to see an increased discount for solar generation, while on the other side, hydro premiums are expected to rise. If we look at this quarter's figures for the EDP portfolio, hydro had a 30% premium and the solar had a discount of 35%. And we expect it to further increase to close to 50 % discount.

Now this is something we've been saying for many years. It's fully built into our modeling of renewable project profitability, but it is still worth highlighting because not everyone has that perception, but we've had it for a number of years and we've been saying it and incorporating in our modeling. In summary, the flexibility of hydro allows us to maximize our profitability in the context of lower electricity wholesale prices, and I think that's something that's worth highlighting in this slide.

If we move forward to Slide 6, so just a quick recap on our client's portfolio.

So EDP's portfolio in Iberia comprises a resilient customer base. We have around 3.7 million clients and more than 26 terawatt hours of electricity supplied per year. Of those 26 terawatt hours, around 18 terawatt hours are B2B Then we have eight terawatt hours of B2C in Portugal, where we have around 70% market share. Our strategy is to continue to expand the value per customer by increasing the number of services provided per contract. The rate of services penetration at around 32% in the first quarter, and that's a three percentage point increase year-on-year.

On the right-hand side of the slide, you can see how we've progressed in Solar DG worldwide. So we've been growing this portfolio. We have now more than 1.2 gigawatts AC as a service installed capacity, and from this capacity, one part, so around 0.8 gigawatt AC is EDPR. The remaining 0.4 gigawatt AC are at the EDP level.

I stress the AC part because I know some peers or some people present on a DC basis. AC, as you know, ends up being a slightly lower number than if you present it on a DC basis. In parallel, our global presence allows us to have global accounts and frameworks of multinational clients. And so, on the slide on the righthand side at the bottom, you can see we already have 7.5 gigawatts agreed worldwide with corporate customers.

And in large part, big tech, and we believe we are the right counterparts for clients that want to drive their decarbonization through the energy transition, and also with decarbonization solutions. So we have high ESG standards. We are recognized by the partners, and that's a big driver for signing new PPAs worldwide.

If we move on to Slide 7, I'm talking about electricity networks portfolio, which is perhaps an area where we don't get enough attention on.

Over the past few years, we've been reinforcing the weight of networks in our portfolio, so every chance we get to build up our networks in a value-creating way, we've done it. In 2020, we acquired Viesgo. We increased the presence in Iberian networks, and it was a very value-creating transaction. It was critical at multiple different levels, not just the networks at the time.

It also came with renewables interconnection points, but primarily, it was a networks business that we bought. In 2022, we expanded the transmission business in Brazil through the acquisition of CELG-T and we continue to increase the contribution of electricity networks to EBITDA and net profit at the EDP group level.

If we move on to Slide 8 and diving into the Iberian networks business. So we think it makes sense to continue to invest in electricity networks in Iberia. It's clearly a market with strong rationale for investment and Iberia has abundant wind and solar resources, has a strong potential for renewables generation. (Technical Difficulty) Okay. So they told me that there was a technical break and that you stopped hearing me.

Operator

You are now audible.

Miguel Stilwell d'Andrade

Okay, I apologize. It seems that there was a -- it broke down. And so I'll restart here on Slide 8.

Okay, so tell me in Slide 8. So apparently that's where I got cut off. So in slide 8, diving into the Iberian networks business. So just reiterating, we think it makes sense to continue to invest in electricity networks in Iberia.

It's a market with a strong rationale for investment. Clearly, Iberia has abundant wind and solar resources. I think that's recognized by everyone and it has a strong potential for renewables generation. So we expect growth in electricity demand to be driven by electrification, data centers, green hydrogen projects.

I mean, all of these are huge demand drivers in general for energy and for electricity, but in particular for renewables. And so we expect that as these projects are developed and as they come to market, that will continue to drive demand for electricity, for green electricity in Iberia. So that will also demand investment in electricity networks in Iberia, and that needs to be supported by attractive returns.

So, we have an attractive asset base in Portugal and Spain. New regulatory periods are expected to start in both countries in 2026. Currently, the return on RAB in Portugal is slightly below the Spanish one, but we think that there's room for improvement in both frameworks. Particularly in Spain, we think that the regulatory periods should have an upward revision on returns and a potential revision of the CapEx cap.

From our side, we will continue available to invest in this market, subject to attractive returns, obviously. And we have a forecasted amount of EUR1.8 billion between 2023 and 2026, representing around 1.3x the depreciation amortization of the business over this period.

We move now to Slide 9 and talking about Brazilian networks. So, we continue to see significant investment opportunities in Brazil in distribution as well as in transmission.

In distribution, we've been growing our RAB net minorities from BRL2.6 billion in 2020 to BRL7.9 billion currently. So, tripling of RAB net minorities over this period, a clear contribution from the EDP Brazil minorities buyout. And we continue to be a reference player on quality of service for electricity distribution in Brazil. And we know that that's been an issue for many of the players.

I'd just like to highlight in our case, we are ranked number two in the SAIDI index. So, it's an index that measures the duration of interruption in the power supply. We have a high investments acceptance rate, which is at 98%, meaning that almost all of the amount invested by EDP are accepted by the regulator. This is a critical indicator that has improved significantly over the last few years and show that the quality of our investments are recognized at a formal level and therefore incorporated into the RAB Just additionally, a quick note on the distribution concession renewal process.

As you know, EDP Espirito Santo, Espirito Santo State in Brazil is the first company to have its concession period finished in 2025. We expect that the terms of the renewal will be published in the short term. We've been following this very closely. The process is ongoing.

And I think we'll have positive news here. On the right-hand side of the slide, you can see that the transmission asset-base net of minorities continues to have solid growth. It's more than doubled since 2020. So, this is a business with high potential for further value creation.

As you know, we've been very disciplined in all of the auctions. So, when we win, it's because we're very confident that we will get very attractive returns on those auctions. And so, we stepped out or we continued to bid, but we weren't successful for many auctions. In the more recent one, we were successful.

And I think those would be excellent projects. So, we've been awarded three new lots, around 0.5 billion investment. The regulator expects the project to enter into operation between '27 and '29, although we see room to accelerate the construction ahead of the annual schedule, the regulated schedule. And we expect to reach low double-digit equity IRRs with these projects.

So again, great value creation opportunity in this business. Overall, we see that this value creation is sustained also by the asset rotation deals. So we recently concluded one, we had a 76 million euros gain booked in the first quarter.

So a 24% gain over capital employed.

Finally, we have an investment of around BRL4 billion between 2024 to '26. So that's a significant investment of around three times depreciation.

Moving on to slides. So that was Slide 9. Moving on to Slide 10. Talking about the wind and solar portfolio.

So just to conclude this section of the presentation for passing on to it. So once again, I'd like to highlight the high quality portfolio renewable assets. We went more in depth yesterday in the EDPR presentation, including the Solar DG from the client solution segment. EDP's wind and solar installed capacity reached 16.9 gigawatts in the first quarter.

Most of it, low risk European and North American markets representing 87% of our asset base. So most of this capacity is long-term contracted, 90% of the 2024 volumes sold to long-term contracted schemes. Average maturity of 12 years are fixed through medium-term hedges.

As I said, we provided more detail yesterday at the EDPR conference call, but just to recall that we are addressing the 2023 deployment challenges. We have a much improved position regarding the US Solar supply chain. It's 12 different suppliers and no risk of import tariffs or the US Forced Labor Protection Act. So that's a significant positive development. Regarding Colombia, on the other hand, we do continue to focus on getting the permitting to the transmission line before year end. We're not including it in the business plan targets or in the updated guidance. And we have a total exposure, including book value and other liabilities as expected as of year end of around EUR0.7 billion.

We have a track record on the renewables deployment of close to 20 years. So we'll continue to expand the segment. It's got an expected growth of around 35% in the installed capacity between 2024 and '26. And we expect to be adding around three gigawatts per year and reaching around '23 gigawatts of total wind and solar installed capacity in 2026.

So just recapping here what we said yesterday, for EDPR '24 to '26 additions, more than 70% is already secured around seven gigawatts, which 2.1 gigawatts are PPA secured with big tech companies. And we see continued strong renewables demand from data centers due to AI growth.

And I think just in general growth in the electricity market particularly in areas if we also have, for example, hydrogen projects coming online. So in summary, this is a quick overview of EDP's three key business pillars. I think it shows the value of a diversified balanced portfolio. And I would now hand over to Rui to walk us through the first quarter results.

And then I'll be back to address guidance for 2026. Thank you.

Rui Teixeira

Thank you very much Miguel and good morning to you all. So I will go through EDP's financial performance during the first quarter this year and I would like us to move on to Slide 12 where we start by showing the evolution of Iberian integrated business where I would like to highlight the following. On one hand there was a very strong growth on hydro volumes versus last year we produced more than 1.1 TWh of hydro. But on the other hand electricity pool price decreased 53% with this quarter marked by a high concentration of low power prices in Iberia and spot market.

As you can see from the green line in the left hand chart of this slide we have a high concentration of zero price hours over the first quarter 2024 when you compare that with previous years. Looking ahead since the forward prices for the remaining of the year are now higher and we have very high reservoir levels at 90% that's a 30 basis points above historical average we expect good results through the coming three quarters. From an integrated margin perspective this quarter is marked by the normalization of the margin when compared to a very positive first quarter 2023 where we had a higher percentage of the EBITDA booked in only one quarter. The full year EBITDA performance of the Iberian business is expected to be broadly in line with 2023 so 2024 broadly in line with 2023.

As you move to Slide 13 recurring EBITDA decreases 5% year on year to EUR1.3 billion in the first quarter this year. Recurring EBITDA for renewables clients and energy management was down by 0.2 billion mainly driven by the normalization of the integrated margin in Iberia as I just briefly explained in the previous slide but also reflecting our path in decarbonization with coal deconsolidation which had a EUR38 million contribution in first quarter 2023 in first quarter this year is of course zero.

EDPR EBITDA stood relatively stable with EUR58 million of asset rotation gains recorded this quarter that mitigated the slightly lower generation and lower average selling price.

Moreover, in electricity networks EBITDA includes an asset rotation gain of EUR76 million following the transmission deal that we closed in the first quarter this year. Excluding this gain networks underlying EBITDA increased 4% reflecting the growth in RAB and it does represent 30% of total EBITDA.

On net financial costs on Slide 14 recurring terms net financial costs decreased 14% year on year impacted by the lower average cost of debt which decreased from 4.8% to 4.7% following the decision to reduce the USD debt the US Dollar denominated debt weight in the debt mix and the reduction of the Brazilian real denominated cost of debt.

The net financial costs also benefited from higher capitalized financial expenses due to higher volumes of construction activity, namely in the renewables business.

So, if you now move on to Slide 15, net debt increased to EUR15.9 billion, mainly impacted by organic cash flow of EUR0.4 billion, and this includes EUR0.1 billion of asset rotation gains. The negative impact from regulatory working capital of EUR0.2 billion, and this reflects the increase in deviation from actual wholesale prices versus the Portuguese regulator’s estimate, and including EUR0.1 billion cash, EUR0.1 billion of cash that was a cash in from tariff deficit that we sold earlier this year.

Net expansion investments amounted to EUR0.7 billion, mainly from investment in renewables. That includes asset rotation proceeds. The asset rotation in Canada only achieved financial closing in Q2, otherwise net debt in Q1 would actually have closed at EUR15.8 billion. Of course, I mean, this will be seen in the first half results.

Overall, we are maintaining solid credit ratios, namely FFO net debt at 21% and net debt EBITDA at 3.5x.

And finally, on the first quarter results, recurring net profit amounted to EUR368 million, an increase of 20% versus first quarter last year, with EBITDA evolution mitigated by a strong performance below the line, from which I would like to highlight.

Financial costs, minus EUR36 million on year, a lower effective tax rate, given the higher asset rotation gains, but also the non-controlling interests that decrease year-on-year, positively impacted by the EDP Brazilian minorities buyout. So this was a brief view on the first quarter results, and I would like to share also a view about what we expect for the 2024-'26 period.

If we move on to Slide 18. Going into the guidance updates for 2026, over the last six months, we saw a significant decline of wholesale power prices in Europe, justifying an update of our 26 strategic plan assumptions. We are revisiting our estimate for the pool price in Iberia to EUR58 per megawatt hour versus the EUR82 per megawatt hour that we considered earlier in 2023. On the right-hand side of the slide, we provide some visibility on hedging position, and also on the average selling prices that we currently have for 2024-'26 period.

So to be clear, strong position at the integrated business in Iberia. For 2024, 80% of baseload production hedged at the price of around EUR90 per megawatt hour. And for 2025-'26, 50% baseload production base load production hedged at the price of around EUR60 per megawatt hour. At EDPR, as we have already referred, we expect the average selling price for the whole portfolio to be between EUR53, EUR54 per megawatt hour in 2024 and around EUR50 per megawatt hour in '25-'26.

On Slide 19, so this change in market conditions led us to focus on capital optimization and, of course, looking very much to the balance sheet and making sure that we have a very robust BBB balance sheet. And therefore, we reduced EUR2 billion in terms of accumulated investment for the period '23-'26 versus what we had foreseen in last year's plan. So now we are focused on forecasting around EUR17 billion to be invested during the period of 2024 to 2026 with the increased relative weight of electricity networks. We are deferring investments post-2026 and focusing on higher return and most advanced projects in the pipeline.

We increased the IRR minus WACC spread target above 250 basis points for the new investment plan, and this is versus the 200 basis points that we had as previous target. And of course, we do keep the risk profile unchanged with contracted NPV above 60%. Net investments adjusted for disposals are forecasted to stay at around EUR9 billion in 2026, supported by a EUR7 billion of asset rotation program until 2026 and hydro disposal in Brazil in line with the previous plan.

Now on Slide 20, I think it's important to show how this plan is fully funded. So we forecast gross investments of EUR17 billion between '24 to '26, as I just mentioned in the previous slide, plus EUR2.5 billion of dividends to be paid during the period.

And this results from our dividend policy, which remains unchanged. The dividend per share floor at EUR19.5 per share in 2024 and 2025, and EUR0.20 per share in 2026.

These are expected to be funded through EUR8 billion of organic cash flow, excluding maintenance CapEx, EUR7 billion of asset rotation, excluding gains. Again, this includes disposals, around EUR3 billion of tax equity proceeds and EUR1 billion of additional net debt. This funding plan allows us to maintain very solid credit ratios with FFO over net debt expected at around 20% in 2026, and therefore meeting the BBB thresholds rate or the thresholds that are required by all rating agencies. And as we have stated many, many times, this is a strategic goal for EDP So, with this, I will hand back to Miguel.

Thank you, Miguel.

Miguel Stilwell d'Andrade

Thank you. On top of a tightened investment policy, we will continue to focus on efficiency: we have a new corporate structure to reinforce the intergroup synergies between global business lines and providing a more integrated management function by both business line and region. So, full accountability on the regions to deliver the integrated margin as well as the megawatts on time and on budget.

And at the same time, ensuring that we extract maximum synergies and value from asset management, energy management, and client accounts across the company. Okay, I apologize. It seems that now we're back. So, today has been several technical glitches, but let's try and get through this.

Okay. So, I was saying, full accountability on the regions to deliver the integrated margin as well as the megawatts on time and on budget. But at the same time, we wanted to ensure that we get the maximum synergies and the value out of asset management across the board, energy management, and client accounts across the different regions. So, together with the update on capacity growth and continuous digitalization, we expect a stable OpEx level in 2026 versus 23, which is quite an ambitious goal, given that we'll have a lot of growth in the period and obviously inflation as well.

So, we will be tackling OpEx levels and hoping to keep it flat over this period, with some savings in the more mature businesses compensating businesses with higher growth.

And so, with that, we move on to Slide 22, to give you just a full picture on the updated guidance. So, based on the market context, and together with the selective growth approach, and as well as the efforts on efficiency, we end up with an EBITDA guidance for 2026 in the in the range of EUR5 billion to EUR5.1 billion. That implies a 3% compound annual growth rate from 2022 to '26 and a net profit ranging from EUR1.2 billion to EUR1.3 billion in '26.

So this is a 10% compound annual growth rate for this period, '22 to '26. The net debt for 2026 is expected to be around EUR16 billion, as already mentioned. So we have an increased weight of regulated networks and a long-term contracted revenue in the portfolio. We are obviously maintaining and reaffirming our commitment to the BBB rating.

Finally, we're also reiterating our dividend policy with a target payout of 60% to 70% and the minimum dividend per share of EUR0.20 in 2026.

And with that, I would just move on to the closing remarks. And I would say the following. First, solid first quarter results, 20% up net income growth year on year supported by strong hydro volumes, stable EDPR performance, resilient regulated networks performance, and enhanced by EDP Brazil minority buyout at the bottom line; second, and I already have the opportunity to walk you through EDP's key businesses.

We have a diversified and balanced portfolio between hydro, client solutions, energy management, EDP renewables, electricity networks. And we aim to extract the most value out of each of these segments. So as we said, hydro flexibility has particularly added value in the current macro environment and market environment. We'll continue to leverage our strong customer base.

Wind and solar generation, long-term contracted revenues and electricity networks provide stable and attractive returns. And I think it's a good portfolio for the current context, current market context. However, I think we also need to recognize, and as I've mentioned, the change in market conditions over the last 12 months means that we do have to have an updated plan for '24 to '26 to accommodate lower electricity price environment and higher interest rates for longer versus what was foreseen at the time last year. And so this '24 to '26 plan update has a stronger focus on capital optimization and maintaining the robustness of EDP's balance sheet.

So by de-accelerating some of the investment, and the target is now EUR17 billion in investment over 2024 to '26 with an increased weight on electricity networks. We will continue to have selective and disciplined investment criteria focused on top projects and prioritizing returns over volumes. Finally, just last couple of points. This plan is fully funded out to 2026, strong focus on solid financial ratios, compliant with our BBB rating, so we expect to keep an FFO to net debt of around 20% in 2026.

Efficiency efforts in place, also supporting this earnings outlook for 2026. So we expect to keep OpEx levels on a nominal basis flat over this period. And finally, all of these strategic pillars culminate in the reiteration of the €1.3 billion net income guidance for 2024, and for 2026, a net income incorporating the current market and macro outlook, we expect a solid compound annual growth rate of around 10% over this period. So, still good growth over this period, particularly if we take sort of a slightly longer view of where EDP has been and where it is today.

And with that, I'd stop there and turn it over to Q&A and pass it over to Miguel Viana to lead that. Thanks.

Questions And Answers

Operator

Question And Answer

Thank you. Ladies and gentlemen, the Q&A session starts now.

(Operator Instructions) Thank you.

Miguel Viana

Thank you. We have the first question from the line of Alberto Gandolfi from Goldman Sachs. Alberto, please go ahead.

Q – Alberto Gandolfi

Miguel, thank you, and thank you for taking my questions. I'll stick to the two question rule, and thank you for taking these. The first one, I wanted to go back a little bit to something we discussed yesterday with EDPR, which is the improvement in the return outlook for renewables. Again, this is the first time in a long while we hear that.

I was wondering, perhaps, if maybe you could elaborate even more on the competitive dynamics, on the regional skew. Do you see the improvement particularly in the United States? Do you think this is due to the fact that high financing costs are reducing competition? Is it due to much higher demand, data centers, and all of that? Is it a combination of all of the above? Again, if you can maybe elaborate a little bit on this value creation opportunity and what is the visibility you can give us for how long you think this may be lasting. It looks like potentially a relatively long cycle. The second question is on EDP Group earnings.

Now, '24 is a really strong year, but you are hedged at about EUR100 a megawatt per hour. You have a very strong hydro production. And so you could have potentially negative earnings growth between here and 2026. And I guess the question is, can you tell us a little bit more about the hedges in '26? Are you, what, 50% hedged, maybe at EUR80, EUR90 a megawatt per hour? And the reason I'm asking is because as these hedges work their way through and the Iberian curve are in the low 50s, perhaps we still may not see any earnings growth in '27.

So I'm trying to understand how can you get out of this loop where you're almost prisoner of your own success in 2024. And then you're investing all this EUR17 billion, but the bottom line struggles to to steadily grow for a number of years. And I know this is cyclical, not structural, but any commentary on that would be very, very helpful. And thank you so much once again.

A – Miguel Stilwell d'Andrade

Thank you, Alberto, and thanks for the questions. And apologies to everyone for the technical issues a little while ago. So on your two questions, so first, in terms of the improved return outlook, so I think this is actually playing out a little bit, I think you also indicated. I mean, the much higher financing costs, so much higher cost of capital has driven probably some people out of the sector.

We've also seen some of the oil and gas, explicitly leaving the sector or retreating. We do see demand, higher demand, and I think that's also been something that's been talked about. We do have very credible track record and the ability to actually deliver projects. And so I think a combination of higher demand, less competition, being a credible player means that we are in a good position to get good prices for the projects that we are developing and which, more than incorporates obviously the cost of capital plus the CapEx associated with these projects.

And so we've now been seeing that for the last couple of months. We see that very much in the US., a lot of good projects coming down in the pipeline, whether it's solar, whether it's storage, with good cash yields, that's certainly very true. In Europe, I think you've also seen sort of the result of auctions coming out, and governments revising up the auction, sort of caps.

And I think that's also a positive signal. So that's also helped us in terms of getting the returns. So overall, obviously when you're in a transition phase, sometimes it can be more difficult, but I think we are at a phase now where as a combination of the things I mentioned, we are seeing good absolute returns and good spreads. So hopefully this will continue for a while.

I mean, as you know, these things, there are always multiple different dynamics in these things, but at least we expect, and I mentioned that yesterday as well, we have about one gigawatt still that is in advanced stages of negotiation and that we're also feeling good about that in terms of pricings and in terms of spreads and so forth. So I think we're optimistic about where we are in terms of the outlook for renewables returns. On your second question, which is obviously a great question. So yes, we have obviously good hydro this year.

We have good hedges in place for this year. For 2026, if I'm not mistaken, I think we have around 50%. So for '25-'26, we have around 50% hedged at around EUR60, if I'm not mistaken.

So, it's far from that 100 number. What I'd say is that the decline in the margin in the integrated Iberian business is more than compensated by the growth or is compensated by the growth in the renewables business. And so, I wouldn't say we're a prisoner of our success, Alberto. I think what I'd say is that we had a big jump in net income in '23 and now in '24.

If you look at the compound annual growth rate, and that's why, we highlighted the 22 to 26, we're talking about a 10% compound annual growth rate to 2026. I mean, that's a, that's a double digit number. If you go further back in EDP's history, that's pretty much, we were sort of in that type of range, the EUR800 million. And now we're at sort of comfortably 1.2, 1.3.

So, I'd say that we're offsetting the lower energy prices with higher growth or with the growth coming through in renewables, and we're managing to then keep a good compound annual growth rate. Going forward, post 2026, it'll be a combination. I mean, depending on what are your estimates of energy prices at the time, what's the growth coming through in the renewables? And, the renewables will continue, we believe, over the structurally over the long term to deliver growth. And so, I mean, we'll have to obviously then work on the 27 numbers and beyond.

But what I'd say is, if you then assume energy prices flat thereafter, you should just start to see the structural EDPR growth coming through in the overall numbers, as well as the networks business, which is, as you know a predictable compound annual, growth drivers, well, smaller figures, but it's still there, I think, quite present, particularly if you have an upgrade then in the returns profile in, for example, Portugal and Spain. Maybe I'll stop there just to give time for the other Q&A Hopefully that helps.

Q – Javier Garrido

Yeah, good morning, everyone.

Thanks for the presentation. The first question would be on your forward selling into '26. Can you please comment on the liquidity of the '26 forward market in Iberia? And as a result, when do you think you can make substantial additional progress in the hedging of the 2026 position? Because I assume that in that 50% average hedge for '25 and '26, there is a skew towards '25, so there is still meaningful hedging to be done in '26, given the liquidity of the market, when do you think you can make progress on that.

And then the second question is on your disposals and asset rotations. If I compare your numbers today in EDP versus yesterday's EDPR figures, there is EUR1 billion more asset rotations and EUR1 billion additional disposals versus EDPR at the EDP level. What is the dilution that you are assuming for those extra EUR2 billion of proceeds from asset rotations and disposal? Thank you.

A – Miguel Stilwell d'Andrade

So, okay, good question.

I think liquidity in 2026, you're right, it's typically lower. I mean, we normally go on hedging 12, 18 months ahead. And so I'd say, the end of this year, beginning of next year is when we would start having sort of more meaningful percentages for 2026. And obviously, that's, as you know, we have a policy of not hedging all of our expected production and just being sort of at around 80%, because there is obviously the hydro risk that we need to take into account.

And so we're not aiming to get to 100%. At any point, we will leave a slight open position. And so hopefully, we'll keep you updated over the next couple of quarters on how we go on progressing on the hedges for '25 and '26. But you're right, the liquidity for 2026 is not huge, which is why typically people don't hedge forward on a significant basis.

And in terms of the disposals on the asset rotation, so I don't have the specific values, but what I can say is that the asset rotations, on one hand, are related more to the transmission, which we expect to be able to rotate. So as we did at the end of last year, and with the impact coming in the first quarter of this year, and on the disposals, it would be more around sort of some of the hydro in Brazil that we've talked about. The hydro in Brazil won't have very much dilution. We're talking about two power plants that where we own 50%-50%, -- where we own 50% of them.

And in terms of the asset rotation on the transmission, I think, let's say, low single digits impact. I mean, we've already seen some dilution, for example, from the sale of coal this year. So when we sold Pecem and when we deconsolidated Aboño, and those were obviously much more material, and those are incorporated into the numbers, both for '24 and beyond. For these others, I don't think they would be very significant values.

Q – Enrico Bartoli

Good morning all. Thanks for taking my question. The first question is I would like to go back to the evolution of margins in the liberalized business in the first quarter.

If you can provide a bit more a bridge on what happened in terms of lower contribution from supply, the average achieved prices in hydro, and the positive impact from the significant increase in the volumes, in hydro volumes, particularly why this year we are going to see a different split between the contribution of the first quarter compared to the full year?

The second question is on the solar distributed generation. This is going to contribute more to your growth. I was wondering if you can provide us some view on the returns that you expect from investments here and possibly on, let's say, some average EBITDA or CAPEX that we can consider for this kind of investment. Thank you.

A – Miguel Stilwell d'Andrade

Thank you, Enrico. So, on the bridge, first of all, I would say that '23 we had a very strong margin. I think that was the first thing to note. The selling prices were much higher, and the sourcing costs were not as high, and so that just expanded that margin.

In this quarter, we had obviously much more hydro volumes and a lower marginal price, and so the sourcing cost overall has come down, but the supply margin obviously had a much lower value as well because the sales price to the clients has also come down over this period. There is also a seasonal impact, and so our reference was just that for this first quarter, let's say, the margin is compressed just because of the cost of the sourcing over this period, and we expect that to expand over the next couple of quarters. And so, basically, maybe that's what I'd say. The excess volumes of hydro that we had or the above-average volumes of hydro that we had are either stored and can be used in the next couple of quarters with higher margins and sort of higher spreads.

Any additional volumes that we produced in the first quarter would not have had a very high sort of above and beyond what we already had sort of contracted with the customers didn't have very high values because basically very low energy prices. On the Solar DG, So I think one of the good things about Solar DG is that they typically have much shorter payback periods and much higher cash yields. And so you'll see IRRs that are very high single digits or low double digits, but above all, with very high cash yields because that IRR is basically over, let's say, a 15, 20-year period as opposed to being over a 30, 35-year period. I don't have the specific numbers for average EBITDA coming out of this.

Maybe we can get that to you offline. We'd have to do some work on that. But certainly, in terms of cash yields and in terms of payback periods, DG is much richer than your traditional utility volumes. Obviously, there's also additional costs associated with deploying DG, but let's say the intrinsic projects are much richer. So that helps everybody.

Q – Arthur Sitbon

Hello. Thank you for taking my questions. I have two.

The first one is I noticed in your press release that you were flagging there were negative earnings before tax in Spain in Q1. I guess there might be some quarterly volatility in there. But does that impact the way you think about your ownership threshold in EDPR? I think historically you said you needed to have 70% of it, partly in order to have full fiscal consolidation in Spain between the two entities. So I was wondering if having Spain in negative territory in earnings before tax had any impact on your thoughts on that.

And the second question, if we could just get an update on the energy levy, I think I've seen some press articles saying it was unconstitutional on renewables. Does that pave the way to a partial removal? And is there anything assumed for that in your trajectory to 2026? Thank you very much.

A – Miguel Stilwell d'Andrade

Thank you, Arthur. I don't have that reference on the earnings before tax in Spain.

But we'll check that and get back to you. So I can't make a comment on that. Maybe just a more general comment, I think, that you asked about the fiscal consolidation of EDPR. So yes, I mean, that's been one of the drivers. I think it's less relevant now than it has been in the past.

But definitely that was one of the considerations that we had when we looked at the ownership structure for EDPR. But in any case, I don't have that reference, specific earnings before tax, that you're talking about. So we'll take that offline.

A – Rui Teixeira

Hi, Arthur.

It probably is the impact of the fact that we do not have the contribution from the thermal capacity. And we also, some of what Miguel was just previously commenting about, if you were just looking at the supply business and given the sourcing curve, there is sort of a first quarter negative impact from an integrated margin at Iberian level, I mean, we actually don't see that because that is offset by the lower sourcing cost in the Portuguese hydro, but that could create sort of this quarter negative impact, but again, it doesn't change anything that we were discovering in terms of the dynamics of the business, and as Miguel said, it doesn't really fundamentally change anything regarding how we view the consolidated tax perimeter in Spain.

A – Miguel Stilwell d'Andrade

And on the second question, on the extraordinary tax in Portugal, the energy levy, yes, you're absolutely right, so there's been quite a few press comments or press articles resulting from decisions taken by the courts in Portugal around the extraordinary tax, there seems to be some, let's say, consolidation of an opinion that after 2018, the extraordinary tax is not constitutional, because we're no longer in extraordinary circumstances, and so an extraordinary tax should be for extraordinary circumstances and not become a business as usual tax.
So it's true for renewables, it's true also for the decision relating to gas, so we're still pending the results or pending decisions taken by the courts regarding our own litigation on the subject.

As we've said many times, for two key reasons, this tax makes no sense. One, we are no longer in extraordinary times, so we shouldn't have an extraordinary tax. And secondly, it's a tax which disincentivizes investment, so it's a tax which makes no sense. The more you invest, the more tax you pay.

Precisely in the energy transition, you should be incentivizing investments in the energy transition, not disincentivizing them. And so for these two reasons, because we're not in extraordinary times and because it's a tax which does not incentivize investment in the energy transition, we think that this tax should disappear. In any case, we're not assuming that for this year, for sure, but let's wait and see what comes out of any court decision, and obviously, we'll take it from there. Thank you.

Q – Meike Becker

Hi, this is Meike Becker.

Thank you so much for taking my questions. I have two. The first one is maybe also on the energy transition also on the hedging profile for 2025-2026, what should we expect in terms of EBITDA and net income guidance for 2025? You have given us the guidance for 2024 and 2026. Is it a simple linear extrapolation between those two years or should we expect a different shape, a different speed depending on the hedging profile, how the prices develop, how hydro normalizes and how your investments are coming through? My second question would be on your networks.

I think your '26 guidance increased a little bit by EUR100 million and I was just wondering what is driving that. Is that driven by Brazil, the higher up in the distribution, the new project on the transmission side? Also, what are your assumptions for the WACC in 2026 in Spain because some of your peers or all of your peers are very vocal that it should be higher and they are putting meaningfully higher WACCs also in their business plan assumptions. Thank you.

A – Miguel Stilwell d'Andrade

Okay.

Thank you. So, in relation to '25, we are not giving guidance on that. We will probably talk more about that towards the end of the year, beginning of next year, but I would say sort of flattish based on our current assumptions for forward prices. As I mentioned to Alberto, we have three different dynamics here.

We have one, which is the networks, which I would say will evolve as a function of RAB and as a function of the return on RAB. We have another one, which is the integrated margin, which will evolve as a function of what is the sort of market prices or the selling prices to clients in the market versus sourcing costs. And we have the third dynamic, which is the growth of EDPR based on the deployment of additional projects and investments over this period. And so, the combination of these three, we think will lead to a relatively flattish profile, but let us talk more about that more towards the end of the year.

On the networks, I mean, what I'd say is a little bit the combination of different things.

I mean, certainly, it's Brazil, it's regulatory updates for '26. I think we're assuming an increase, obviously, in the regulatory updates for both Portugal. In Portugal, as a function of the higher interest rates, but in Spain, mostly as a result of revising sort of the WACC assumptions that you talk about. And so, yes, we've obviously seen what our peers have said, and we, agree that clearly the cost of capital is much higher now than it was in the past.

And therefore, the returns on the distribution, if you are to incentivize the investment in the distribution in Spain to face up to all the challenges of connecting more renewables, of increasing electrification, you should then have a higher return on the investment to create the right incentives for that. And so I'm not sure we're giving you specific guidance or expectation, it will depend on the negotiation with the government, but clearly we would expect to be higher than what we have now, which doesn't reflect the current market environment in terms of cost of capital.

Q – Jorge Guimarães

Hi. Good morning. I have two questions.

One, if you can give us some visibility on the supply margin that you are considering for the Iberian liberalized 2026 EBITDA guidance of EUR1 billion to EUR1.1 billion? And the second, it's a follow-up on the question from Meike, on the Spanish networks. If you can clarify what WACC are you considering or rate of return are you considering for the guidance for networks in Spain in 2026? Thank you very much.

A – Miguel Stilwell d'Andrade

Okay. Jorge, on the first question, I don't know if we have that information here.

A – Rui Teixeira

I mean, Jorge, hi, it's Rui here. I would say pretty much around where we are today. So that's the sort of, if you build up the 2025-- sorry, 2026 numbers, I mean, we see the business integrated, as we've said it before. So, and I think it's actually an easy math, because in our presentation, we are providing sort of guidance for the networks EBITDA. Yesterday, we also presented EDPR's EBITDA, the delta is what you get from the integrated business, up to the target EBITDA at EUR 5-5.1 billion for EDP.

Q – Jorge Guimarães

And what, sorry to insist, what would be the supply margin, just ballpark figure as of now? Or megawatt/hour, I mean?

A – Rui Teixeira

I know, but the way we are looking into this is really on that integrated basis.

So it's not looking at specifically the hydro margin or the supply margin, because at the end of the day, I mean, to, simplify it as much as we can, we produce electricity, we buy it from the market. So that's a sourcing cost. And we sell it either through customers or hedges, or even merchants, that small merchant exposure. So ultimately, I mean, then it's a question of where that integrated margin may lie within the business.

But the integrated business, that's why more and more we are talking about, the full integrated perspective. So I think it's I think it's not that irrelevant to talk about the specific supply margin per megawatt hour, but it's more the integrated margin, how we are managing the business. That's why I say, I mean, you can, it's around EUR1-1.1 billion in EBITDA, full.

A – Miguel Stilwell d'Andrade

Yeah, I mean, just reinforcing this point of what you just said.

So, I think maybe in the future we can even begin to think about how we can present this. Because we will have a certain average selling price, as we said, to either clients or the market or merchant, the market hedges or through merchants. And then you have an average sourcing cost, which comes from your hydro, some thermal that you might have, or to the extent that we are buying, for example, from the market, or that we are sourcing, for example, from wind and solar. And then the way that this is split between generation or energy management or supply, then sometimes that depends on what the sort of intercompany business units are locking in between themselves.

But at the end of the day, for the purposes, certainly, I think, for the market and for investors, what matters is what is the overall average selling price and the average sourcing cost, and how are you, and what's the margin that you're getting out of all of that, and not so much the split. But in any case, we can then also carry on that discussion offline. In terms of the Spanish networks, so we don't give a specific rate of return. I'd say we would expect an increase, or we are expecting an increase, a reasonable increase.

I mean, nothing out of line with what our peers would also assume or what would reflect sort of a reasonable cost of capital in the market. So using a CAPM theory, average cost of debt, cost of equity structure, an average capital structure, so nothing very unusual.

Q – Jose Ruiz

Yeah, good morning, everyone. I just have one question. You have announced a cut in CapEx of EUR2 billion.

Most of your peers have been doing capital reallocation into networks. I understand you have a limited exposure to networks, so it's not possible to do that. You're mentioning taking care of the balance sheet and deleveraging, but you raised capital last year and you're up to date with the tariff deficit. So basically, my question is, what are you going to do with that EUR2 billion financial flexibility, if I can mention it? And basically, have you considered other things like share buyback, minorities buyout? Thank you.

A – Miguel Stilwell d'Andrade

Hi, Jose Ruiz. Thanks for the question. So we don't see, well, as Rui mentioned, we have a fully funded business plan. The adjustment that we're doing to the investment is really a function of the fact that there's less cash flow, because prices have come down, and so, and higher cost of capital, so that reduces some of the cash flow.

And so we are adjusting the investment plan to take that into account. One of the things I'd like to just reinforce on this call is, the way we look at this is, okay, we want to keep a triple B rating, which means we need to keep credit ratios like FFO net debt or net debt/EBITDA in line with what rating agencies expect. We will obviously keep our dividend policy. And so by difference, we have a certain amount of investment, net investment that we can do to comply with those criteria.

That net investment can then be grossed up by the amount of asset rotation that we can do, that we think is reasonable to do in this period. And so that net investment plus the asset rotations gives you, let's say, the gross investment that we can do. And that can then be allocated either in networks or in renewables, depending on where we see the best opportunities. We do see a lot of good opportunities.

And, one of the things we've talked about is increasing the expected returns around 200 basis or plus more than 200 basis points to more than 250 basis points for the portfolio of projects that we approve in any particular year. And so, we would continue to invest. And so that means that we don't, let's say, have a delta for share buybacks and everything. I think we continue to see good opportunities in the business to invest as well as to continue to pay out our dividends in line with the policy.

And that's what we're really focused on.

Q – Fernando Garcia

Thank you, Miguel, for taking my questions. In electricity distribution, you have a CapEx of EUR3 billion versus EUR7 billion RAB.

So this is a significant growth in your asset base. And this growth is currently above your EBITDA growth. So here I would like, you can provide the reasons for the low growth at the EBITDA level. And in particular, there were many questions about Spain, but I would like to focus about Portugal here, distribution remuneration.

And there, what are your expectations ahead of the next regulatory period that starts in 2026? Then my second question is a follow-up on a previous question about the extraordinary tax in Portugal. So I was reading the Constitutional Court ruling for renewables, no? And I think beyond your comment about the 2028 and that Portugal isn't any longer in an extraordinary situation, it also says that renewables didn't contribute to the creation of the port we studied. So I am correcting this comment, and then just a clarification if you are including any amount for this tax in 2026.

Thank you.

A – Miguel Stilwell d'Andrade

Fernando, I'm not sure I completely caught the first part of the question, but then you were talking about the Portuguese remuneration, so I can talk about that. So on the Portuguese remuneration, one of the good things I think is it's very predictable, it's very stable, we know exactly how it works, so there's not a lot of surprises that come up. It basically is a process where the regulator looks at our cost base of the past year, they look at sort of what is the cost of capital based on the government bonds, and then they sort of come out with, okay, what is the TOTEX that we can have for the following regulatory period. In relation to the cost base, sometimes they apply inefficiency factors to create incentives, and in terms of the return on the regulated asset base, they normally just assume, the CAPM and come up with then a proxy, which is like a spread over the government, the Portuguese government bond, and so that's the reason that it's like almost a clear mark to market every year on what is the return on the distribution assets here in Portugal.

So it's a very, I think, good, sophisticated, stable, predictable, so I wouldn't expect any surprises there. On the first part of the question, I don't know if you want to just repeat it, sorry, there was an increase of 3 billion in the asset base, but then you made a reference to the EBITDA level?

Q – Fernando Garcia

Yeah, That's very clear. It was regarding the difference between asset-based growth and EBITDA growth, if you can put a comment there. And also, I mean, there are many comments here about Spanish electricity and transmission and distribution remuneration being insufficient, but I don't think that Portugal is much better, but I mean, I would like your view there as well.

Thank you.

A – Miguel Stilwell d'Andrade

So, in relation the first part, there's sometimes a time lag between the investments and it coming through an EBITDA, because basically the regulator has to recognize the investment. One of the reasons I mentioned in the mentioned in the presentation, the fact that we have a very high percentage, 98% of our investments are recognized by the regulator, which is a good thing. And it's very high compared to other distribution companies in Brazil.

But it means that the regulator has to recognize it and then incorporate it into the returns that he's providing to the company. So there is a time lag between that growth in the asset base and what you're getting then in terms of the EBITDA. So that might explain part of that difference. In terms of Portuguese regulation and the returns, I'm not defending the Portuguese returns. I think they should increase clearly.

And I think that's one of the issues that we've been also very consistent about. I'm just saying that the regulatory system is very stable. So, like, basically, when there is going to be a regulatory review and sort of what mechanisms they use, I think we clearly see that the returns both in Portugal and in Spain are well below returns in other parts of Europe, which actually have lower cost of capital. So I think that's one of the reasons why you haven't seen in the past such high levels of investment in Iberia as you have perhaps seen in other parts of Europe.

And so that's something that I think that's a constant discussion both in Spain and in Portugal about the regulatory returns. On the second question, sort of on the extraordinary tax, you're right. So there's that reference to 2018. There's a reference to the extraordinary times.

There was a reference in the renewables piece about not contributing to the deficit. But I think the point that there now start to be several decisions among the judges that strengthen our view that the constitutionality of the extraordinary tax should be re-evaluated and, eventually an extraordinary tax should be phased out by definition. Otherwise, don't call it extraordinary. I think that's certainly one of the key things there. We did not consider it in 2026 onwards. So let's say that's not in the numbers. Let's see what happens over the next months and years.

Closing Remarks

Miguel Stilwell d'Andrade

So first of all, again, thank you for the patience and thank you for listening not just to the first quarter numbers but also our updated guidance. I think as you'll see, it's a strong, incredible analysis that has been done on the numbers, and try to incorporate sort of the most recent market context into these revised numbers.

But I think they do show what I talked about in terms of the different dynamics. So they show that we are able to continue to grow on the renewable side with good and profitable projects. It shows that the network is an increasing part of our business and we've taken every opportunity that we can to get value-creating opportunities. And so whether it was the Viesgo, whether it was the transmission, whether it's the taking private Brazil, that has continued to be a bigger part of our business, our EBITDA and our net profit.

And then on the integrated margin, I mean, we have great assets in terms of the hydro, in terms of flexibility. We have a good customer base, so we can manage a good integrated margin in Iberia. Obviously, it's also dependent on how energy prices evolve and how we can do our hedging. But essentially, at the end of the day, we start off from a strong base, which is a strong hydro base.

And we also have good wind and solar assets here in Iberia and a strong client base, which allows us to have quite a lot of flexibility there. So with that, I'd say we have a good portfolio and we have good prospects going forward. And we look forward to keeping you up to date over the next couple of quarters on how we're doing versus these targets. So thank you very much.