EDP – ENERGIAS DE PORTUGAL

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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 afternoon, ladies and gentlemen. Thanks for attending EDP's First Half '24 Results Conference Call. We have today with us our CEO, Miguel Stilwell de Andrade; and our CFO, Rui Teixeira. We shall present you the main highlights of our strategy, execution, and the first half 2024 financial performance. 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 de Andrade.

Miguel Stilwell d'Andrade

Thank you, Miguel, and hello, everyone. Thank you very much for attending our first half results conference call. So just we move straight into Slide 3, and I don't know how many of you have had the chance to already go through the presentation. I know it was just released a few minutes ago, but I think it's when we look at these first half 2024 numbers. I think the first thing to say it's a really strong quarter, particularly in terms of renewable resources. 98% of EDP's generation came from renewable sources, hydro, wind and solar. The renewables generation increased around 20% year-on-year. So as you know, this reflects good hydro resources in the quarter, but overall, I think it's also part of our commitment to become coal-free and all-green by 2030.

So clearly a very important data point and one of the things I think I've stressed several times in some of the calls is that we were around 80% thermal and 20% renewable about 20 years ago. So I think we're a great case study of a company that has successfully and profitably transitioned and decarbonized its portfolio over time. If we look at our integrated business in Iberia, so on, hydro, as I mentioned, the quarter had a lot of rain, hydro resources 40% above average hydro volumes in general, higher year-on-year, although in an environment of lower crisis. On the other hand, we also had a positive contribution from lower energy sourcing costs versus last year's. And we'll discuss that a little bit later on in the presentation.

The semester was also marked by the contribution of around EUR243 million of asset rotation gains, including wind and solar, but also transmission in Brazil versus no gains recorded in the first half of 2023. So this is important when we consider the full year guidance. So don't just multiply this first half results by two, otherwise, you get a very big number. Excluding the asset rotation gains, net profit is up 15%. So still a good strong growth, even excluding the asset rotation component. Overall these effects, they lead to an EBITDA of growing around 8% year-on-year, so reaching EUR2.7 billion. And the EBITDA evolution, together with the improved performance below EBITDA line, positively impacted by the lower minorities. As you know, we took private EDP Brasil only in the second half of last year. So that leads to a net profit increase of 50%, reaching the EUR0.8 billion in the period. As I said, if you exclude the asset rotation gains, you get approximately an increase of 15%.

Finally, just to say we do, I want to say this is consistent with our guidance of EUR1.3 billion of net profit for 2024. We're not changing our guidance at this point on this. And we continue to feel comfortable with the overall figures, whether it's on an EBITDA level as well. And then Rui will also talk about that later in the presentation. If we move to Slide 4. So let's go in a little bit more depth on some of these different points.

On Hydro. Hydro volumes. So great semester for Hydro in Iberia in general, generation was up 2.7 terawatt hours above what's expected for this time of the year. It's 2.8 terawatt hours above the first half of 2023. Overall, as I mentioned, 40% above average the hydro resources, compared with the first half of '23, that was actually 21% below average. I think it was also, and I really want to highlight this point, a great first half in relation to pumping generation. It increased 37% year-on-year, reaching 0.9 terawatt hours. And here I'd like to highlight that we're able to achieve very attractive margins of around EUR50 per megawatt hour, driven by the increased hourly price volatility. I mean, EUR50 per megawatt hour margin used to be considered a good pool price in general. I mean, in this case, it's just the margin on the pump storage between buying and selling.

On the right-hand side of the slide, you can see that our hydro reservoirs remain at very healthy levels. So they're currently at around 75% and 10% or 10 percentage points above average for this time of the year. So that leaves us very confident for the hydro volumes for the remaining months of the year. So I think, feeling pretty good about that.

We move on to Slide 5, talking a little bit about prices. So, and how the electricity wholesale prices evolved, basically in Iberia. I think the first thing to note is that since our business plan update last May, the forward prices have actually moved up slightly for 2025 and for 2026. But they're still roughly aligned with our business plan assumptions. So we continue to feel comfortable with the guidance we provided at the time. For 2024, 80% of the base load generation volumes are closed at a price of around EUR90 per megawatt hour, and we expect integrated business in Iberia to have an EBITDA contribution in line with 2023. For 2025 and '26, we have around 50% of the volumes hedged at a price of around EUR60 per megawatt hour. And the recent slight increase in forward prices can have a positive impact on our upcoming hedging prices. So, as you know, we don't typically hedge 100% of our estimated volumes as we haven't over the last couple of years as a result of the energy crisis, and so the strategy is to be at around 80% to 90% hedged to mitigate this hydro volume risk.

We move forward to Slide 6, and just let's go over the electricity network's portfolio and the recent developments there. First, we continue to invest in this segment around EUR400 million invested in the first half of 2024. 45% in Portugal, 38% in Brazil, 17% in Spain. As of the first half of 2024, our RAB, Regulatory Asset Base stood at EUR7.2 billion, with returns of 5.6% in Spain and Portugal, and around 7.3% in Brazil. As we stated in the last business plan update in May, we're committed to investing around EUR3 billion in the period between '24 and '26. That's about 1.9 times higher than our depreciation and amortization over this period.

On the right-hand side of the slide, a quick update on the electricity network's concession renewal in Brazil. I think, as we announced in late June, the Brazilian government just published a decree that regulates the bidding and the extension of electricity distribution concessions in Brazil. And within this framework, the concessions, they can be extended for a period of around 30 years Espírito Santo as you know which is our concession there, or one of the concessions we have there. It was expected to expire in mid-2025. It can now be extended until July 2055 and EDP Sao Paulo until October 2058. This doesn't have any upfront financial burden. So as long as we have adequate investment levels and the minimum requirements in terms of quality of service and financial sustainability, then it should be fine. And as you know, we have best in class distribution networks in Brazil, and so we are very, very comfortable that we will meet these criteria. In terms of formalizing this so Espírito Santo we should have this renewal process concluded over the next 12 months, and the contract probably signed in the first half of 2025. So I think things are relatively on track there.

If we move on to Slide 7. A quick word about asset rotation. We already spoke briefly about that in the EDPR call, but so this year we've closed four transactions in the US, an 80% stake in a solar portfolio in Canada, 80% stake in a wind portfolio. In Brazil we sold two transmission lines, and more recently in Italy we sold 100% of a wind portfolio. I think overall these transactions were closed at very attractive multiples. For wind and solar, we had an average asset rotation gain over capital employed around 15% the EV per megawatt at about EUR1.6 million per megawatt on average. Regarding transmission, the transactions resulted in the 24% gain over invested capital.

So all in all, asset rotation gains booked at the EDP level reaching around EUR243 million as of the first half. For the remainder of the year, we are working on other deals, several other deals. We expect them to be closed in the second half or early 2025, but we would like to point out that most of the gains expected for this year are already recorded in the first half of 2024. These higher multiples, we believe, reflect our high-quality portfolio and we are confident on the successful execution of our asset rotation strategy for the business plan period.

On the right-hand side of the slide, you have an update also on the renewables growth execution. So we've added around 1 gigawatt of wind and solar capacity in this first half. This includes also Solar DG from client solutions and overall around 3.1 gigawatts over the last 12 months. Currently, as you know, we have around 4.5 gigawatts under construction, which leaves us on track to deliver the targeted additions for the period '24 to '26. Finally, just a quick note on the PPA signed as I had an opportunity already to mention in EDPR results conference call. We've signed 1.3 gigawatts PPAs year to date, so that gives us around 70% capacity additions for EDPR already secured and just giving you a little bit of color on these 1.3 gigawatts, more than 60% closed with global big tech companies, 60% in the US and here again, commitment we have the new technologies. So we have several long-term contracts for storage, primarily in North America and then around 100 megawatts in the UK, which account for 30% of the total gigawatts signed. So here, storage really beginning to ramp up in this first half.

Moving to Slide 8, just before I pass on to Rui. So ESG performance as I mentioned at the beginning, high-level renewable generations 98% of our generation coming from renewables, split between wind, hydro, and solar, and a 20% increase year-on-year. CapEx as would be expected, completely aligned with the EU taxonomy at around 97%. So highlighting the execution of our investment plan, focused on networks, focused on renewables, very much aligned with our strategic plan. Revenues from coal absolutely residual at 0.1% when compared to 4.5% last year. So significant progress here and on track to be coal-free by early 2025.

Finally, Scope one and two emissions intensity decreased 77% year-on-year to 19 grams of CO_2 per kilowatt hour. And so aligned with our commitment to be net zero by 2040. So in summary, once again EDP, as a leader in the energy transition and with absolute ESG excellence in all of these metrics.

I'd stop here and turn it over to Rui to go through the financial performance and then I'll be back for closing remarks.

Rui Teixeira

Thank you very much, Miguel. Good afternoon and let's move to Slide 10 to review our financial performance. Our recurring EBITDA increased 8% year-on-year to EUR2.7 billion in the first half of this year. Our renewables client and energy management with a strong contribution up by EUR0.1 billion, and this is mainly driven by EDPR's robust performance of additional EUR0.2 billion, including EUR171 million of asset rotation gains that more than offset EUR66 million of coal phase-out following the deconsolidation of Pecém and Aboño coal plants and the resilient performance of the integrated hydro energy management and customer business.

On the electricity networks, EBITDA ex asset rotation increased EUR41 million year-on-year, reflecting the steady nature of Iberian regulated asset base and organic growth in Brazil as well. Additionally, there's a EUR71 million capital gain resulting from the transmission deal closed in the first quarter this year, leading to a total impact of EUR0.1 billion from the network segment to the group's EBITDA.

Excluding these capital gains, electricity networks represents an important 30% of total EBITDA. Finally, I would like to highlight here our efforts on efficiency in a growth context. Opex registered a slight reduction in absolute terms versus the first half last year, reaching EUR966 million in the first half this year. So very tight cost control which allowed us to keep Opex stable against inflation and in a business that is growing.

So you move to Slide 11. Underlying EBITDA grew 4% and improved performance year-on-year and this is reflecting 10% growth in the installation or in the installed capacity year-on-year better wind resources with renewables index in line with long term average versus minus 5% or 5% below the average last year. This is supporting naturally a 5% increase in electricity generation and with a solid average selling price pretty much flat year-on-year supported by the higher prices in US and the hedging strategy that partially offset the decline in electricity prices in Europe. Additionally, the first half this year positively impacted by around EUR171 million of asset rotation gains versus the absence of gains in the first half last year, which were much more backend-loaded throughout the year.

If we now move to Slide 12 going through the EBITDA for generation and supply business. Hydro clients and energy management recurring EBITDA broadly resilient with only a 4% drop year-on-year in a context of a 56% drop year-on-year of electricity spot prices in Iberia that came down to around EUR39 per megawatt hour in this first half of the year. And this is also the reflection or the outcome of the very solid strategy hedging strategy that we have for this business. And also, we benefited from strong hydro volumes, which of course allows us to keep this recurring EBITDA as I mentioned broadly resilient. EBITDA in 2024 compared to 2023 also reflects the implementation of the coal-free strategy with the deconsolidation of Aboño a coal plant in the north of Spain, Pecém coal plant in Brazil whose contribution to EBITDA last year amounted to EUR66 million.

I would also like to highlight that for the full year, we expect that the EBITDA from the integrated business in Iberia will be in line with 2023 numbers which was around EUR1.4 billion. If you now look to the networks on Slide 13. Networks EBITDA increased 15% year-on-year. In Iberia, EBITDA increased EUR10 million backed by an increase in regulated revenues of 5% year-on-year and a diligent Opex management in Portugal. In Spain, EBITDA stood relatively stable with revenues increased due to the RAB growth compensating higher maintenance costs. And in Brazil, EBITDA increased EUR102 million for which contributes both the organic growth and operations, including lower over-contracting in the distribution business in this first half of the year and the capital gain of EUR71 million from the asset rotation of two transmission lines.

With this, I would like to move to the financial costs on Slide 14. Financial costs in recurring terms increased 8% year-on-year with the first half 2023 being positively impacted by EUR37 million from the settlement of US dollar pre-hedge. Cost of debt decreased from 4.8% in the first half last year to 4.6% in the first half of this year following the decline of the Brazilian-denominated or Brazilian real-denominated cost of debt and rebalancing the US dollar euro-denominated debt as part of the strategy to reduce the dollar in the mix. As you can see in the right-hand side of the slide, the dollar weight over total debt decreased from 35% last year to 22% in the first half this year, also highlighting that if we were to exclude the Brazilian real debt, average cost of debt was 3.3% this year compared to last year, 3.1%. So despite the average cost of debt decreasing, overall financial results reflect the higher average debt in the period, which was offset by capitalized financial expenses due to higher volumes of construction activity in the renewables, particularly in the renewables.

So if we now look to Slide 15, I would like to highlight again our strong financial liquidity positions. So, as of June this year, we had around EUR9 billion of available liquidity, of which EUR1.9 billion cash equivalent and the remaining EUR7.1 billion of available credit lines covering refinancing needs until 2027 as one can see on the right-hand side of the slide. Also important to highlight here that currently most of our debt is fixed, so around 78% of the debt is fixed.

And finally, we continue to be active in the debt capital markets, and as you may have seen, we issued EUR750 million of hybrid notes in May this year with the final maturity date May 2054 at the 4.875% yield. So, keeping active in the market business as usual. I would like now to highlight an aspect that impacts the balance sheet, which is regarding the regulatory receivables. So on Slide 16 as you know, in 2023 we faced an increase in regulatory receivables in Portugal, up to EUR2 billion, resulting from deviations in the electricity wholesale price that was being verified during the year versus the regulator's assumption for the tariffs, which we then securitized in December of 2023. This year until the end of the first half, we experienced also some deviations that led to this regulatory receivable stock in the balance sheet to stay at EUR0.4 billion and this includes EUR0.2 billion of securitizations.

I guess the good news this year is that there was an exceptional tariff revision from June onwards, which include access tariffs increased from EUR42 per megawatt hour to EUR63 per megawatt hour, and this is expected to seize regulatory receivables growth for the remaining of the year. And therefore we expect that the stock that we currently have in the balance sheet to remain stable and we are naturally considering that we will be securitizing it until the year end. So, commenting on the net debt evolution, we've closed the first half of 2024 with EUR17.4 billion net debt and the main drivers throughout the last 6 months were strong organic cash flow of EUR1 billion, dividend payment EUR0.8 billion, regulatory working capital of EUR0.4 billion as I just explained, net cash investments amounted to EUR1.9 billion, again mainly from the investment in renewables and including EUR0.7 billion of asset rotation proceeds.

The asset rotation in Italy that achieved financial closing already in July is not captured by the EUR17.4 billion number. But obviously, if we had received that still by the 30th of June, the net debt for the period would actually have been at EUR17.1 billion. Towards the year end, as we bring US projects online, we'll be closing tax equity funding. We also expect to conclude some of the ongoing asset rotation transactions. And as I just mentioned as well, the tariff deficit securitization is expected to be cash in by year end as well. So overall we maintain solid credit ratios, namely the FFO net debt at around 19% and remain fully committed to our BBB credit rating.

So finally, recurring net profit amounted to EUR775 million, a very strong bottom line figure. If we exclude capital gains, the underlying net profit shows a strong 15% increase versus last year. And this is the result of the EBITDA growth. The year end provisions, pretty much in line with last year. Net financial costs increasing EUR32 million year-on-year. Again, if we were to exclude the first half impact of that positive effect of EUR37 million from the settlement of the US dollar pre-hedge, we would have a broadly in-line net financial cost.

Income tax is pretty much in line as well with last year and this follows the lower effective tax rate due to the tax treatment of asset rotation gains versus no gains recorded last year and an important decrease in non-controlling interests primarily supported by EDP Brasil. If you remember, we had successfully took it out of the market and buyout the minorities by so let's say in July, so beginning of the second half of the last year. So we still have that positive impact here as we look year-on-year to the first half, 2024.

So finally, just to highlight that if including asset rotation gains, net profit showing a very strong increase 50% versus last year, compounding the positive performance of the underlying business and the asset rotation strategy.

And with this, I would hand over to Miguel for final remarks. Thank you.

Miguel Stilwell d'Andrade

Thank you, Rui. So, just to wrap up, before going to Q&A. I think first I just wanted to highlight the value of EDP's diversified and balanced portfolio. We're talking about hydro, we're talking about client solutions, energy management, EDP Renewables, wind and solar, electricity networks. So I think these underpin our performance, which is extremely strong for this first half, and shows some of the value of the diversification, and got all of these different businesses are pulling their weight. If we actually go then through some of these points here on the slide. So, first, the first half numbers are very good. I don't think there's any other way to say it. 50% up net income growth year-on-year, good generation supply business in Iberia, good growth in renewables, EDP Brasil minorities buyout obviously also helps to this.

So we remain confident in our EUR1.3 billion of net income guidance for 2024. I think we're also, we touched on this and I just wanted to reiterate that good efforts on the efficiency side in terms of keeping a flat Opex despite inflationary environment and growth. So I think that was also an important effort. And as you know, we've committed to keeping that Opex flat over the next couple of years. On the network side, clearly, this brings or continues to bring stable, low risk cash flow. It contributes around 31% to EBITDA. We had very positive developments, mainly in Brazil, and with the concession renewal process ongoing, I think the market was perhaps already discounting that risk, or discounting the sense of not considering the risk. But the fact that we actually have that visibility on that process and it doesn't have any additional financial burden, I think is extremely good news and a good precedent also for other geographies.

On the asset rotation side, good execution, around 0.8 gigawatts of wind and solar rotated in the first half. So three transactions, a good multiple of around EUR1.6 million per megawatt, capital gains of around EUR171 million, and EUR0.4 billion of proceeds from new transmission asset rotation deal in Brazil. So, overall, I think continuing to deliver on the asset rotation transactions. Balance sheet, Rui certainly talked about that. But just to reiterate, I mean, solid balance sheet, good FFO/Net debt at around 19%. I mean, yes, we recognize there's a net debt or seasonal increase now, and that includes the dividend payment also in May, working capital issues, Rui has gone through that, but I just wanted to reaffirm our commitment to the BBB and to say, converging to the EUR16 billion or around EUR16 billion plus at the end of the year.

Finally, on the investment plan, very much focused on leading the energy transition. I think the fact that 97% of our Capex is all allocated to renewables or electricity networks is, I think, worthy of note, and also the fact that we're doing good progress on all of the key ESG metrics. So, again, reiterating this data point of 98% of our total generation output came from either hydro, wind or solar. So I think that really shows how we've done this energy transition in a very successful way. So I'll stop there, I'll turn it over to Q&A and be back in a second.

Questions And Answers

Operator

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

Miguel Viana

We have the first question from Pedro Alves from CaixaBank. Pedro, please go ahead.

Q — Pedro Alves

Hi. Good afternoon. Thank you for taking my question. The first one on the low voltage concessions in Portugal. There has been some news flow in the Portuguese press. So can you please guide us on the process of the auction? What are your expectations? And whether you will participate? There is also some news that you will be facing competition in the process. So any visibility on that would be helpful. And then also in Portugal, we also got some news of the new public financing model for the social electricity tariff. And I guess there will be no material impact, but eventually, that can eventually ease any pressure on your supply margins. So if you can guide us on that will also be helpful. Thank you.

A – Miguel Stilwell d'Andrade

Sure. Great question. So, on the low voltage concessions, as you know, there's been, I mean, there has been recent news flow, as you mentioned. I think the key point is that the previous government had set out or approved some documents which foresaw the process, let's say, being launched and worked on over the next year. So that by mid-2025, that process would then formally take place and there would be some sort of tender or process.

The new government has come in and they have just set up a task force or a committee to because that's what we've read also in the press. So probably the same news that you've seen, set up a committee to basically look at this low voltage concession renewal process and come to some sort of additional conclusions, either to confirm or to change some of the parameters in relation to the process. The only comment I'd make here, first of all, the basics, is that, as you know, we've been managing these concessions, I think, very successfully for the system.

We've improved dramatically the quality of service over the last many years we've reduced dramatically the Opex per customer associated with the network. So we've managed to have better quality of service with lower cost to the customer. I think that's really important to stress. It just shows the value of managing these concessions on an integrated basis.

Now, the terms that came out in the previous, approved by the previous government, set out some sort of criteria which we think, quite frankly, didn't make a lot of sense because they basically meant that the process was not rational or it wasn't particularly attractive for new operators. I mean, the worst-case scenario is we get the EUR1.2 billion - EUR1.3 billion of RAB back if we don't participate in the process, or if we're not successful in the process, and let's say that's – that would be the worst-case scenario. The other scenario is we do -- there is a rational process which is put in place. It makes sense. We participate, we win, in which case we would carry on managing the low voltage concessions going forward. So let's say that's a little bit of the news flow and our comments on this.

On the second point, the social tariff, as you say, again, probably we were reading the same news, but apparently, that some of the social tariff could be financed by the public budget. As you know, Europe says that there are essentially two ways to finance the social tariff. You either finance it through the public budget or you socialize it between the different suppliers and the consumers, essentially, at the end of the day.

I think either model works. It's really a political decision, and so either can work and they're recognized by the European Directive. What didn't work was the previous model, where it was disproportionately allocated to EDP, and in a way which was not rational. So I think the new model made sense. If the government wants to change it in the direction, apparently that we've read in the press, I think it can also make sense.

I'm not going to speculate about impacts that it might have, because honestly, I think it's very early, we don't have any detail on it. So I can't actually estimate the values. I wouldn't assume anything different from what we had previously. But let's see if any additional news comes out.

Q – Javier Garrido

Thank you, Miguel. Good afternoon. More than a question is a friendly challenge, if I may. Can you let us know what can go wrong in the second half of the year? I know that we cannot take your first half results and multiply by two, as you said. But still, performance in the first half has been very strong. Your reservoirs are where they are. So what can go wrong in the second half of the year, because otherwise, inside your guidance of EUR1.3 billion looks a bit conservative. Thank you.

A – Miguel Stilwell d'Andrade

Hi, Javier. So, well, as you say, I think we're keeping the guidance. I think the point is that if you look at our results, which are good, but you take out the asset rotation gains, you're sort of in the EUR500 million of underlying. So what can go wrong is, I don't think it's a question of going wrong. I think it's a question of do the asset rotation gains come in this year or next year. Let's say that will depend on the timing of those transactions. So if you take the 775 and you add on an extra 500 plus of the underlying, if you assume, let's say, second half equal to the first half, or roughly, you'd get to the 1.3. So I think it's not a question of going wrong, it's a question of how we manage also the asset rotation transactions.

Q – Alberto Gandolfi

Thank you. Good evening, and thanks for taking my questions. The first one is that at the cost of something very obvious, could you please tell us how many asset rotation gains are you including in the EUR5 billion EBITDA and the EUR1.3 billion at the bottom line? The second question is, can you help me a little bit with the bridge '24 to '25? So, should we expect in a normal year, perhaps 3.5-4 terawatt hour reduction in hydro versus '24 versus your guidance? And are you telling us there's a EUR30 megawatt-hour decline on the hedged prices, which probably is EUR30 on the overall achieved prices on the hydro? And of course, that would be the big building block. Then anything else that needs to normalize other than that, we just, I guess, needs to just estimate ourselves growth in EDPR and networks.

And the last question, again, we briefly touched upon that when we did the call on EDPR, but I wanted to ask you more broadly. You have this big exposure in the United States in renewables, you have this big presence in Iberia. Can you tell us what you are seeing in terms of power demand? Do you see an inflection in the United States like other local utilities are talking about? Do you think some of the drivers are applicable to Europe? If so, how would this change the way of conducting business? I'm thinking of renewable returns, PPAs, investments in the grid, volumes, so revenues in retail. Can you maybe give us just a very qualitative, high-level overview? Thank you.

A – Miguel Stilwell d'Andrade

Hi, Alberto. So in relation to the first one, the asset rotation gains, what I'd say is that we expect to have around EUR300 million on average over this period. We obviously had a very strong 2023, around EUR460 million. We're off to a very great start for 2024 in terms of first half numbers, but we will do around EUR300 million on average over this period, '23, '24, '25, and beyond. So as you know, if we get better than that, that's great. But we're not, I'd say trying to maximize asset rotation gains just for the sake of it.

I mean for the sake of it, as in like obviously, we want the best results possible in each transaction, but we're not just going out selling all the assets at the same time just to have a maximum absolute amount.

And the second question, maybe I'll leave it to Rui, I'll just touch on the third question. So on power demand, definitely in the US, we are seeing increased power demand or increased demand for renewable projects, which is what we sell. So we're not, as you know, we're not an integrated utility in the US. So I can't really speak too much for, let's say, what other types of demand they're seeing on the networks. But certainly, in terms of renewable projects, there is a great amount of demand, and I think that's flowing through in terms of, I'd say the project returns and in terms of the willingness to contract in the short term for projects, for '25, '26, '27, that sort of timeframe.

So that's clear for us. And that's why I've mentioned on previous calls on the EDPR call that the US is doing well. It's doing well operationally or doing better operationally than it has over the last two years, but it's also doing well in terms of the projects and the PPAs that we're contracting. Is it applicable to Europe? I mean, I think certainly there is some flow through. I think we certainly, and I've talked about this, we do get, or we are seeing a greater number of calls, particularly coming out of people like the data center guys, et cetera, trying to get access to the network, trying to contract more power, but I'd say, let's say not as high as in the US and more focused, I think, at this point still on getting connection to the networks to actually then be able to build out the projects and then they would start working on the power demand.

So I think that the network, at least in Iberia, as far as we see, continues to be one of the main bottlenecks to doing that, but certainly, more bottlenecks because there's more demand and so people are trying to get more access to that.

Rui on the second question.

A – Rui Teixeira

Sure. Thank you, Miguel. Hi, Alberto. So I think that for 2025, the way we ran the numbers when we updated the guidance for 2026, we basically took forward curves for 2025. So if you go back to the let's say late April, beginning of May, and you take the forward curves, 2025 in Iberia and, different markets, that's pretty much what we used. In EDPR, we estimated around EUR50 per megawatt hour, average selling price for '25, '26 for the fleet as a whole. Normalized volumes on the hydro side, so we're considering a P50. So we did not consider that, for example, as of today, we have around 80% of the reservoirs on the hydro side in Iberia. But for the purpose of the

2025, we just consider a sort of a P50 scenario for the entire generation. So, not considering that we may end up the year with the higher or above average reservoir levels.

And then for the renewables, is just basically taking today's fleet, and considering that the additions that we will have throughout 2024, they will not be up and running from day one in some cases. So typically, the Q4 additions, they will have a ramp-up phase. You can take a view that the ramp-up takes between three to six months, depending on the projects, but that will give some additional volumes on the renewable side, based on the current installation rate.

And then on an Opex level, basically considering a flat Opex throughout the period. Asset rotation, as Miguel just said, even for '25, '26, again, actually for the average. So the way we look is that for the entire period, the sort of average 300 million or approximately EUR0.3 billion.

Q – Arthur Sitbon

Hello. Thank you for taking my questions. The first one on your numbers in H1, I noticed that the tax rate looked quite high on the second quarter, in particular. I was wondering if there was something specific going on there, and if that will still be the case at the end of the year, or if that tax rate should normalize by the end of the year. That's the first question.

The second one is just on Portugal. You talked earlier about the municipal concession renewal. The other topic, I believe, is the regulatory review for next year. I was wondering if you expect the same type of return uplift as industry players are talking about for the Spanish regulatory review, given the returns in Portugal are not that different from what we see in Spain at the moment. Thank you very much.

A – Miguel Stilwell d'Andrade

I'll take the second question. Rui can do the first. So on the Portuguese regulatory review, so, as you say, that will be kicked off, I guess, over the next year or so applicable for '26 onwards. I think the key difference between the Portuguese regulation and the Spanish one is that the Portuguese has the rate of return is indexed to the Portuguese bond. So it's Portuguese bond plus spread, and that's been pretty much the methodology over the last couple of regulatory periods, and we believe it will continue to be also that methodology going forward.

So when we can discuss the spread and let's say the rate of return, but it is this sort of sliding average, which I think is good because it means it keeps it sort of indexed versus the Spanish one, which is fixed then for a long period. Let's see if they change that now. But at least for the current period, it's flat. So I think it'll depend on where the Portuguese bond is. I mean, if it stays roughly where it is over the next 12 months or so, the regulatory, let's say the returns would stay roughly in line with what they are now or a little bit higher, quite frankly. We've made the case because we believe it to be true, that the return is low, particularly in a context when it is necessarily so much more investment to deal with the energy transition, with all these connections that we're talking about that I mentioned when Alberto also asked me about the increased demand.

So we think more investments, but you also require higher return to remunerate that investment. So that's certainly something that we will be advocating for with the regulator because we think it's fair and it would align Portugal more also with other markets throughout Europe.

A – Rui Teixeira

Hi, Arthur. So the tax rate. So basically it's strong results in Portugal, strong results in Brazil, but also some deferred taxes that will be normalized by year end. So by year end, I would expect it closer to sort of 25%, or if you want, full year tax rate around the 25%.

Q – Jorge Guimarães

Good afternoon. I have three questions, if I may. So the first one is around the tax outlook in Portugal, on top of the typical update on sales. If you can give us some color on what could be the potential impact if the corporate tax rate in Portugal is finally reduced according to the original Portuguese government plan. So this would be the first one. The second one, it's your view about the liberalized margins in Iberia. Can we assume that the current supportive outlook, supportive situation for margin, may stay for longer than originally anticipated? And the final one is just a clarification. I believe you mentioned in the beginning of the call that most of the gains with asset rotation already booked in first half. This mostly refers to EDP because of Brazil or also to EDPR. Thank you very much.

A – Miguel Stilwell d'Andrade

Hey, Jorge. So I didn't quite catch the second one, but I'll answer the first and the third. But then if you could just clarify what sort of it was in relation to the liberalized margins in Iberian and then I didn't quite catch the question. Jorge?

Q – Jorge Guimarães

My question is whether when you originally designed your plans – If the margin evolution in Iberia has been more favorable than what you considered originally, or if it does stay stable versus your original expectations?

A – Miguel Stilwell d'Andrade

Okay, Understood. So, listen, in relation to the first one. So, as you say, in relation to the CESE, there's not much, nothing new. It's being contested in court, and we believe it doesn't make sense. We're in 2024. This is the extraordinary tax from 2014. I mean, it should have finished a long time ago, certainly not extraordinary anymore and but in relation to the corporate tax, as you say, I think what I've seen announced is that the expected corporate tax rate would reduce from around 21% to around 15% over four years or something like that.

So, I mean, it will impact us to the extent that our profits in Portugal would also be impacted by this corporate rates. I don't think there's, as you know, we then this is just a nominal, let's say, marginal tax rate, because we then have an additional 9.5%, what they call the *derrame* in Portugal. So our actual tax rate in Portugal is significantly higher than this nominal rate. And on the second question, the liberalized margins in Iberia. Well, and actually, sorry, still on the first question, as you know, Portugal, if you add up the corporate tax rate of the 21% plus the 9.5%, it's actually one of the highest tax rates in the OCDE. So it makes sense that if Portugal wants to be more competitive, it should also be competitive on the tax side to attract more investment, more companies.

On the second question. So I say stable margin evolution. I don't think there's been any change versus where we were just a couple of months ago when we went to the market in May. There is a seasonality issue that impacts the margins sometimes on the liberalized market, but let's say it's a seasonal impact intra-year, but it doesn't change the way we're thinking about margin evolution over the medium term. And in relation to the third point, yes, I think more than half of our gains were in the first half, both EDP and EDPR. And so I think that's, yes, you understood correctly. I think certainly more than half or part of our gains in the first half, and then we'll see what happens in the second half in terms of capital gains.

Q – Miguel Viana

Thank you, Jorge. So we have run all the questions by phone, and so we have one question by the web. It comes from Alex Roncier from Bank of America. Regarding the EBITDA from the integrated business in Iberia. It's flat in the full year 2024 versus 2023. And regarding for 2026 guidance, what should we expect for hydro normalization and from the activity of clients and energy management?

A – Rui Teixeira

Hi, Alex. It's Rui here. So thank you for the question. So, as I think I mentioned that earlier in the call, so as I said, we took the guidance, we took the view that we will get forward prices in 2025, and normalized volumes will at the hydro and as well as the renewable fleet. So if, translating that into numbers '23, '24, we expect around the same level of EBITDA contribution from this segment. So that's close to EUR1.4 billion. The remaining years, '25, '26, we expect it to normalize. If we include Brazil, that's probably around the EUR1.1 billion. Excluding Brazil, that's going to be around EUR0.9 billion. So the ballpark, those are the numbers that we expect to have for this integrated business.

Miguel Viana

Okay. We don't have more questions. Miguel, if you want further closing remarks, please.

Closing Remarks

Miguel Stilwell d'Andrade

Okay. So I just reiterate to close first, great set of results. I think in the first half, I think it shows the strength of the EDP business, the value of the integrated portfolio, and it sets us up well, I think not only for the '24 guidance delivery on EBITDA and net income but also for '25 and beyond. I just like to say that we continue to see great projects coming in through EDPR and which will continue to drive future growth for '25 and beyond. I think these numbers in the first half also show the value of our Iberian hydro business, not just the flexibility of hydro in general, but also the value of pump storage. I mean, looking at the margin of the peak off-peak and as you know, this will become more and more relevant as we go forward and we have a high penetration of renewables. I think our networks business also great news in terms of having more visibility on the concession renewals in Brazil.

In general, I think we'll have then the regulatory discussions which you guys mentioned both in Portugal and Spain over the next 12 months or so. But I think there is potential then for more medium-term growth in the networks once you raise the cap on investment and hopefully have more interest in remuneration rate. So good results, looking forward to delivering for the rest of the year.

Last thing I'd say, I hope you all have a great couple of weeks off and I look forward to seeing you either in September during the roadshow or at the very latest at the third quarter results call. So thank you very much for listening and talk to you soon.

Thanks.