

# EDP – ENERGIAS DE PORTUGAL

Thursday, 2<sup>nd</sup> March 2023

08:00 Hours Lisbon/UK time

Chaired by Miguel Stilwell d' Andrade



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## Company Participants

- **Miguel Stilwell d'Andrade**, Chief Executive Officer
- **Rui Teixeira**, Chief Financial Officer
- **Miguel Viana**, Head of Investor Relations

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## Miguel Viana

Good morning ladies and gentlemen. Thank you for attending EDP's 2022 Results Conference Call. We have today with us our CEO, Miguel Stilwell de Andrade, and our CFO, Rui Teixeira, which will present to you the main highlights of 2022 financial performance. We'll then move to the Q&A session in which we will be taking your questions both by phone or written questions that you can insert from now onwards at our webpage. Please note that later this morning, so at 10:00 AM London time we will host our Capital Markets Day in which we will update our business plan. So, this call should be shorter than usual and focused on 2022 results and short-term outlook.

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

## Miguel Stilwell d'Andrade

Good morning. Thank you, Miguel. So once again thank you very much for attending this results conference call. I know this morning there's been a lot of news flow around some of the market announcements we did. So we will leave that for later as Miguel mentioned. So for now let's just focus on the 2022 results that I think in themselves are worth going through in some detail. And as I said, then we can deal with the business plan topics in the next session.

EDP had a very good financial performance in 2022. It delivered guidance in an adverse market environment with all the volatility that we've seen. And it had a particularly strong rebound in the fourth quarter of 2022. We had a strong EBITDA, so if you look at Slide 3, we had a strong EBITDA which increased 21% year-on-year to EUR4.5 billion with the main moving parts being on one hand wind and solar on the back of capacity growth, good resources, higher selling price, the electricity networks in Brazil also had a good performance, mainly given the inflation impact and the tariffs updates and also ForEx, and then in Iberia we had higher thermal generation that compensated the weak hydro generation in 2022. So despite the very dry first

nine months of the year, the fourth quarter of 2022 was marked by a sharp recovery of hydro conditions mainly in December, leading to a buildup of our hydro reservoirs.

At the net profit level, we also delivered on our guidance with a 6% increase year-on-year to EUR871 million. This increase in net profit is mainly explained by the EBITDA growth, mitigated by an increase in financial costs, mostly due to Brazil, that's the result of interest rate hikes and FX, but also by the increase in minorities on the back of good performance from EDPR.

On net debt, I think this was definitely a strong performance, we saw an improvement in net debt versus guidance and versus the nine-month 2022, mainly on the back of strong recurring organic cash flow and this was supported by the strong results in the fourth quarter. 2022 was also marked by a solid investment execution. We had 56% ramp up of net expansion in investments of which 90% in renewables.

Finally, and it is typical for this time of the year and for this call and for this proposal, we will be proposing to the shareholders meeting a dividend of 19 cents per share. So in line with the dividend policy that we defined for the '21, '25 period.

If we move to Slide 4, you can see here, this slide is mostly focused on the recovery of hydro production and also on the reservoir levels in the fourth quarter in the beginning of 2023. As you can see from the graph on the left, the period between the fourth quarter of '21 and the first nine months of 2022 was an extremely dry period. In fact, and we've mentioned this several times over the last year was the third driest over the last 90 years in Portugal. So the production shortfall and the increase in the average electricity spot prices led to a negative impact as we've mentioned throughout the year. The positive news is that the fourth quarter was marked by a strong recovery in rainfall in Portugal, mainly in December with the hydro coefficient being 1.67, so above the average. The result of all this was a recovery of the hydro production as well as the buildup in hydro reservoirs.

So if you look at the graph on the right, you can see that the hydro reservoirs in Portugal went from a historical low in November of 2022 to the historical highs in January 2023, which is the red line, so from the yellow line '22 to the red line in '23. And that gives us good confidence for the performance of 2023.

If we move to Slide 5, talking about the volatile gas markets and drought, mitigated by a higher thermal position. So to compensate the hydro shortfall in Iberia we just mentioned, there was a need to increase the thermal generation in the period of peak gas prices. And so, the thermal generation in Iberia increased roughly 50% year-on-year to around almost 16 terawatt hours in 2022.

Regarding gas, last year was characterized by a lot of volatility in the European gas markets, which we've all seen that throughout the year. And this ended up negatively impacting EDP. So we've mentioned in previous presentations, we had a negative EUR0.2 billion impact from mark-to-market on gas hedging contracts. This was mostly booked in the first half of '22. It will be almost fully reverted in 2023 and 2024. Also EDP was penalized by the gas sourcing costs, which together with the increase in the spread of the TTF to the MIBGAS, namely in the third quarter of 2022 resulted in a negative impact, which is mitigated by the decline in the European gas prices in

the last quarter of '22 and the beginning of '23. Putting all of this together, the first nine months of 2022 were penalized by a hydro shortfall, volatile European gas markets, but then this ended up being compensated by strong thermal generation throughout the year and a very strong fourth quarter of 2022, that had the recovery of the hydro resource and the decline of the European gas prices, which benefited our current position.

So move on to Slide 6. So on Slide 6, talking about the investment execution, on wind and solar, we invested a record breaking EUR5.2 billion. We added 2.2 gigawatt capacity in 2022 and ended the year with around 4 gigawatts of capacity under construction, which gives us good confidence for the additions in 2023 and beyond.

Additionally, in 2022 we entered Asia Pacific and Germany with the acquisitions of Sunseap and Kronos respectively. And we continued developing our offshore wind portfolio through Ocean Winds. On networks, we remained committed to our investment goals with around EUR0.7 billion invested in expansion in Brazil, namely with the acquisition of EDP Goias. And in Iberia our investment remained very much focused on grids modernization, digitalization and efficiency around EUR0.5 billion invested in '22.

Moving to asset rotation. So, as we mentioned in the EDPR results conference call, we were able to achieve around EUR0.4 billion in asset rotation gains in 2022. This is above the target that we had in the business plan typically around EUR300 million. And we only sold 1 gigawatt which is below the 1.4 gigawatt per year average that we assumed in the business plan. So it meant that we had a higher average enterprise value to megawatt of around EUR1.8 million for the five transactions and an average 34% of asset rotation gains over invested capital.

So very attractive returns, more attractive return than we expected, and given the volatile environment that we had last year. So I think that was a great performance there. We've also continued to optimize our portfolio. And we've also committed to the sale of the hydro plants in Brazil and Peru or one of the plants in Brazil and the plant that was being built in Peru.

If we move to Slide 7, we can see here talking about the energy transition, I mean, we continue to be fully aligned with the energy transition. We've stepped up on the green leadership position. So with a strong performance across the metrics, just a couple of key highlights here. So our CapEx was 96% aligned with EU taxonomy. So it's slight increase versus 2021, just shows our commitment to investing in networks and renewables. 44% of our nominal debt came from sustainable sources, so EUR2.2 billion of green bonds in 2022, and our first sustainability linked loan of EUR3.7 billion. Finally, in 2022, 74% of our generation came from renewable sources, which we believe is very positive, especially given that we faced one of the worst hydro crisis over last 90 years.

So as a result of all this EDP's performance was highlighted by top tier institutions, we were number one integrated utility in the S&P Dow Jones Sustainability Index for 2022, for the third consecutive year we're included in the Bloomberg Gender Equality

Index, and we were also certified by the Top Employer Institute both at EDP and EDPR for the best practices in people management.

Finally, just a word on our performance since the last Capital Markets Day. We scaled up delivery on the back of a sound balance sheet, we have a truly global organization. During these two challenging years, we've been able to deliver on our commitments, scaling up the delivery and reinforcing this position. We doubled delivery of capacity additions, we have an average of 2.4 gigawatts added in '21, '22. And as I say, we've got 4 gigawatts under construction as we speak.

We've clearly outperformed in the asset rotation strategy and achieved gains of EUR0.5 billion per year. We continued strengthening our presence in the network segment. So we had the successful integration of Viesgo, we captured the synergies there. We had good growth in the transmission lines in Brazil.

And on the balance sheet, we reached the BBB rating as you remember back in '21 and have an FFO net debt above 20% since then. During this year Moody's, Fitch, and S&P all reaffirmed their rating and the outlook. Regarding being a future proof organization, we consolidated our global presence, we introduced the Asia Pacific hub, so we're now in four global hubs, Europe, North America, South America and Asia Pacific.

And finally on ESG excellence, our net zero target by 2040 was approved by the SBTi, the Science Based Targets initiative. Once again supporting our commitment to green energy transition. So, overall, I think positive delivery over the last two years. I'll turn it over to Rui, and then come back from just – for some closing remarks. Thank you.

## **Rui Teixeira**

Thank you, Miguel and good morning to you all. So now I would like to go into EDP's financial performance for 2022, so I'd like you to move please to Slide 10. So here we can see that our recurring EBITDA went up by 21% year-on-year, propped by good performance across all business platforms, and we reached a number above EUR4.5 billion in 2022. Our recurring EBITDA for the wind and solar platform was 23% up on the back of higher average installed capacity, a 10% increase in electricity generation, and 21% increase in average selling price. On an integrated basis, EBITDA from client solutions, energy management and hydro presented a very good recovery in the fourth quarter of 2022 with a 33% increase year-on-year mainly driven by hydro recovery, particularly in December and by higher thermal generation. And finally in electricity networks, recurring EBITDA increased by 12% year-on-year, driven by the growth in Brazilian networks due to the positive annual tariff updates and the significant depreciation of the Brazilian real.

If we now go platform by platform on Slide 11, we can see that wind and solar EBITDA went up by 23% year-on-year. As I said, this is very positively impacted by the 9% growth in installed capacity, together with a recovery in renewable resources, which were 3 percentage points higher year-on-year leading to a 10% increase in

electricity generation. This electricity generation was then sold at an average selling price of EUR65 per megawatt hour, that's a 21% above last year's. Finally, also on this platform, the five asset rotation deals that we closed in 2022 generated EUR423 million in capital gains. The year-on-year variation in asset rotation gains is just a consequence of the portfolio composition, but I would like to stress that the amount of capital gains booked is significantly above the EUR0.3 billion target that we presented two years ago, once again demonstrating the high quality of the assets and successful execution of the strategy.

Now moving to Slide 12 from an integrated perspective, hydro and client solutions and the energy management benefited from a very strong fourth quarter in 2022. The hydro conditions recovering from the severe drought during the first nine months of the year with recurring EBITDA increasing 33% to EUR869 million. In Iberia the result in 2022 were impacted by the drought with hydro resources in Portugal being 37% below the average. This was compensated by the increase in thermal generation. Additionally, the decline in gas and electricity prices in the last quarter of 2022 was also positive for energy management activities, namely by decreasing sourcing costs given their position. In Brazil, EBITDA increased 25% in euro terms on slightly better performance in local currency, coupled with the appreciation of the Brazilian real versus euro.

Now moving to the networks platform on the next slide, and I think that we have been saying this throughout the year, we closed 2022 with a very strong performance, recurring EBITDA increasing 12% to EUR1.5 billion. In Brazil, EBITDA rose almost from EUR200 million to EUR615 million. As we mentioned throughout the year, Brazil was very positively impacted by the inflation update on the tariffs, the increase in electricity demand as a result of the recovery of the economic activity and growing number of customers, lower losses from the sale of electricity volume surplus in the wholesale market, the integration and this is an earlier integration than expected of EDP Goiás in EDP Brazil's transmission activities, and favorable FX effects driven by the appreciation of the Brazilian real. In Iberia EBITDA decreased 3%. If you remind in Spain, the year-on-year comparison is impacted by a positive impact from Lesividad recovery in 2021. In Portugal OPEX increased given the recovery in the economic activity post COVID.

So now if we move to financial costs on Slide 14. If we exclude ForEx differences and derivatives, adjusted net financial interest increased EUR332 million or that's a 61% year-on-year increase, resulting in a 90 basis points increase in the average cost of debt. But I would like again to highlight that this is mainly explained by Brazil, which more than doubled its financial costs to EUR320 million given the rising cost of Brazilian reals denominated debt. But as you know this is indexed to inflation and represents 14% of our total debt financing. The increase impacted by inflation and FX is more than compensated at EBITDA level after tariff readjustments. So if you see our average cost of debt in Brazilian reals increased from 10.8% to 13% in 2022. Also, the 20% increase in average gross debt with almost 34% of it coming from ForEx, so at the end if we exclude Brazil, our financial costs go up by 20 basis points from 2.5% to 2.7%.

On the next slide, we can see the increase in net debt, naturally the result of accelerating the net expansion investment but supported by a very strong recurring organic cash flow. So, it's a really strong balance sheet, net expansion investments in total covered by the organic cash flow. As I mentioned, net debt reaching EUR13.2 billion, then an organic cash flow of EUR2.1 billion, and of course this is on the back of a very strong EBITDA performance. There is a EUR0.5 billion of cash that is the anticipation of funds of regulatory receivables that will be or that are used to mitigate the increase in the electricity energy bills for regulated customers. This will be repaid to the system in 2023. So, it was an earlier cash-in than expected. Acceleration of the expansion investments that amounted to EUR3.1 billion following the growth in renewables and networks of course through also the acquisition of Sunseap, Kronos, EDP Goias, the investment in offshore through Ocean Winds. But on the other hand, we had a EUR2 billion cash-in of proceeds from the asset rotation. And that's why I mentioned before, the net investment figure. Annual dividend payment that was made in April, and we do have here an impact of about EUR0.4 billion from FX and other, of which EUR0.3 billion are negative impacts from FX of the exchange rate fluctuations due to the Brazilian reals and US dollar appreciation. So, finally, we continue committed to our current credit rating and maintain a sustainable level of leverage with a net debt over EBITDA of 3.5 times and an FFO net debt ratio of around 20% in 2022.

Just to finalize on the Slide 16, our recurring net profit goes up by 6%. This amounts to EUR871 million. And this was mainly impacted by of course the very strong EBITDA performance, the increase in financial costs in Brazil, driven by the FX and the higher cost of the Brazilian debt indexed inflation, and also higher non-controlling interests on stronger performance mostly from EDPR. But at the end of the day, it's I think a very strong number and a supportive number in terms of the business profile, particularly in a very, very challenging year.

So with this, I will hand back to Miguel for closing remarks. And thank you all.

### **Miguel Stilwell d'Andrade**

So, thank you Rui. So just before going to Q&A, just some closing remarks. First of all, as Rui already mentioned, solid financial performance in 2022, recurring EBITDA, up 21% year-on-year, recurring net profit up 6% year-on-year. So, delivering on our guidance despite the adverse market context and the all the uncertainty throughout the year.

Secondly, renewables showed strong performance, higher installed capacity, higher generation, solid asset rotation execution and record capacity under construction. So highlights I think EDP's strong investment and provides good visibility on next year's additions.

Third, the weak hydro generation, volatile gas markets in the first nine months were compensated by the thermal generation during the year and also recovery of hydro in the fourth quarter. And this allows us to face 2023 with a higher level of hydro reservoirs.



Fourth, dividend proposal of 19 cents per year, fully aligned with our '21 to '25 dividend policy.

Finally, and the last comment, and this is important, although we don't typically provide guidance at this stage of the year for 2023, given the good start of the year, we believe we will be clearly above the 2023 target of the previous business plan of EUR1 billion.

So, with that I'd stop here and we can now move to Q&A. Thank you.

## **Questions And Answers**

### **Miguel Viana**

We have the first question from Javier Garrido, JP Morgan. Please go ahead.

#### **Q – Javier Garrido**

Thank you. Good morning. Yes, I mean, I know you said you are not giving typically guidance at this stage. But if you can at least clarify about both EBITDA and financial cost. Starting with financial costs, there is a big swing in the other financial cost line. So would you be able to give us some visibility of how the, let's say, non-financial debt related cost will be moving particularly in '23.

And then the second question also on EBIT outlook, this time on the EBITDA, it's been very volatile year, you mentioned in your results statement, you have EURO.2 billion of negative mark-to-market, which will reverse in '23, '24. But is there any other negative mark-to-market from previous years that should reverse in '23. And I remember you have a big negative mark-to-market in the second half '21, also is there anything that should be reversed also in '23.

And on the other hand, is your energy management business booking any positive mark-to-market in your power positions different to the negative mark-to-market in gas, so if you could provide some visibility on those items it will be very welcome. Thank you.

#### **A – Rui Teixeira**

Okay, Javier, it's Rui here. So in terms of the financial costs, and I'm sorry can you repeat, were you asking me for guidance for '23 or just a question on the '22 financial costs because I didn't get it? I'm sorry.

#### **Q – Javier Garrido**

Well, sorry, Rui, it was not very clear. It's a combination of the two in the end to understand to which extent those other financial costs are one-offs or should be recurrent and therefore what to expect in '23?

**A – Rui Teixeira**

Okay, understood. So I mean, yes in 2022 we have some impact from FX derivatives, which we don't consider it recurrent. So at least I would exclude it from your numbers as you think about 2023. So in 2023, I think we should be above the EUR900 million. But as I said, we are not considering any sort of FX impacts coming from these derivatives. What you saw here in Q4 was primarily coming from the renewables business and had to do with the different derivatives that we used for our net investment policy.

On the mark-to-market, so yes, you may remember that throughout the first half of 2022, we booked about EUR200 billion of negative mark-to-markets in gas. We are expecting that in 2023 we will recover about two-thirds of that through the P&L. And then from June onwards, we changed the accounting policy so that, that would effectively be treated as a hedging accounting, which is effectively what they are those derivatives for. And therefore, since June, we are not booking any additional negative mark-to-markets from gas. But the one that we booked in the first half, we expect around two-thirds to be unwind now on during the 2023. We don't have any other negative mark-to-markets material ones that would be unwind now into 2023. And on the energy management business, the power side, everything is pretty much hedge accounting. So unless there was some sort of inefficiency that typically works on the margin in these contracts, we are not expecting any material mark-to-markets on the power side.

**Q – Javier Garrido**

Thank you.

**Miguel Viana**

We have the next question on the phone from Enrico from Mediobanca. Please go ahead.

**Q – Enrico Bartoli**

Good morning. Thanks for taking my question. First question, I understand you don't provide a guidance for '23, but if you can guide us by qualitative point of view on the drivers, the evolution of the single pieces in the liberalized business in Iberia that you expect in '23. Hydro is expected to be significantly better than last year. If you can give us a hint of what you think about the evolution of the supply margins and the thermal power generation. And if you can give us some update on your hedging policy?

Second question is regarding on net debt. There was a very significant reduction in the fourth quarter. Finally, then that was significantly lower than the guidance if you



can also here give us some details on what happened and the reason why there was this significant gap with the guidance?

And finally, if you can provide some color on what you expect in terms of evolution of cost of debt during 2023?

Thank you.

#### **A – Miguel Stilwell d'Andrade**

Thank you Enrico. So in relation to your first question on the guidance for 2023, so as I mentioned we don't typically talk about at this stage. But I did mention at the last point of the presentation. We are expecting to be clearly above what we had in the 2023 target in the previous business plan. The reasons for that are, we see good hydro conditions coming into the year. So as you know this is typically the most important quarter from a hydro perspective. We have good gas sourcing costs. The Poland and Romania costs have gone down versus the expected. So that's something that we also mentioned on the EDPR conference call. In terms of the hedging policy, as you know, we've implemented a hedging policy, we don't fully cover all of the expected production, so that we don't take on all the volume risks or we're at about 80%. And in the terms of supply margins, I mean we continue to see good supply margins particularly in Iberia. So I'd say that there are several positive factors that we're seeing in which make us feel confident in relation to the 2023 numbers. I mean obviously given the usual qualifications that we see as the year goes on, and we'll talk about it in future quarterly conference call obviously. But I'd say, at this point in time, we are feeling quite confident.

In relation to the net debt, I mean, clearly a couple of moving pieces. I don't know, Rui, if you want to take the net debt and the cost of debt.

#### **A – Rui Teixeira**

Yes, I can do that Miguel. Thank you very much. Hi, Enrico. So net debt, one of the positive one was that anticipation of the regulatory receivables that cashed-in in 2022. And that will revert to the system in 2023, it's about EUR500 million and that's why I wanted to highlight that. But even if we exclude that, I mean, the net debt would be EUR13.7 billion. And there we had of course the normalization, a bit more normalization of working capital throughout Q4, several initiatives internally to make sure that either we would be optimizing any sort of collaterals, but also very importantly receivables. And also very important the fact that we successfully closed some asset rotation transactions before the year-end, primarily in US. So I think all-in-all contributed to a robust balance sheet. Then as I said a bit more normalized working capital, but also structurally coming from strong EBITDA, cash flow, and also the asset rotation.

And in terms of cost of debt, I think towards 2023 we are seeing pretty much around what we are today, the 4.4% maybe 4.5% that's I think where we'll be landing.

**Q – Enrico Bartoli**

Thank you.

**Miguel Viana**

So we have no more questions on the phone and we have one of the questions on the web that was already answered around the gas derivatives.

So, I'll move to the other one that we have on the web from Fernando Garcia, Royal Bank of Canada.

I understand you have to return to system 0.5 regulatory working capital, and the question is, if this will have to be returned in '23, if that is correct, so it's a little bit to hear about regulation in Portugal.

**A – Miguel Stilwell d'Andrade**

Okay. So Fernando, just in relation to this point, I mean, I just first start off by highlighting I think that the Portuguese electricity system has really shown a very strong resilience and robustness in these volatile times. And I think that's been a major or certainly a very positive factor over the last year. You've had the benefit of stable feed-in tariffs in renewables at around EUR90 per megawatt hour, clearly below the market prices, and that's allowed the tariffs, the access tariffs, to basically make up for some, let's say, reductions to make up for some of the increases in the energy prices. So the Portuguese domestic consumers in Portugal have actually had a very stable outlook or very stable evolution of energy prices compared certainly to many other countries in Europe. So I think it's a good example, even within Europe. I mean, in relation to the question, yes, so it's a positive working capital item that impacted '22. It will be returned to the system over '23, and so it won't be there by the end of 2023. But for me, really what's most important is that this resilience of the system in Portugal has been a source I think of strength, it's been a source of stability for the Portuguese consumers, but also for the operators in Portugal. And I think that's something that we continue to see also going forward.

**Miguel Viana**

So this was the only one question on the web. So we will meet you at 10am London time.

**A – Miguel Stilwell d'Andrade**

See you in a bit. And we'll talk about forward-looking projections and we're very excited to talk to you about that. So see you in a bit. Thank you.