EDP – ENERGIAS DE PORTUGAL

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Chaired by Miguel Stilwell d' Andrade

Company Participants

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

Miguel Viana: Good afternoon, ladies and gentlemen, thank you for attending EDP's first quarter results conference call. We have today here with us with our CEO, Miguel Stilwell d'Andrade; and our CFO, Rui Teixeira, which will present you the main highlights of first quarter 2021 financial performance and an update on strategy execution. We'll then move to the Q&A session in which we will be taking your questions, both by phone and recent questions that you can insert from now onwards at our webpage. This call should last no more than 60 minutes. I'll give now the floor to our CEO, Miguel Stilwell d'Andrade.

Miguel Stilwell d'Andrade: Thank you, Miguel. Good afternoon, everyone. So, I hope you're all doing well. Perhaps just before diving into the results of the first quarter results, I think it's just important to take a step back, recognize that the last couple of months, particularly since the presentation of our strategic plan in late February, have been marked by several important milestones. I think one of them is certainly the reinforcement of our balance sheet. The outcome has been recognized by both S&P and Fitch, which upgraded EDP's long-term rating outlook to BBB Stable and Moody's as well to positive outlook. I think this is a major milestone for the EDP Group. Obviously, this was impacted by the execution of EDPR's capital increase of EUR 1.5 billion, which we did shortly after the strategic update, allowing us to significantly de-risk the funding of the business plan. I think that was also a major milestone over the last couple of months.

But just another one I'd mention before going into the results, since the strategic update, if anything, the long-term and medium term political and regulatory outlook has even improved versus what we thought and presented back in the strategic update. And I think that's just given the statements in the draft proposals that we've seen discussed in Europe and in the US over the last couple of weeks and months. I think that's also very positive and constructive undertone to the whole sector and in particular, to what they call the electric decade of the next couple of years.

Anyway, now let's turn to the first quarter results. In spite of some headwinds, which I think we've recognized, particularly on the EDPR side, recurring EBITDA ex-forex was flat, reaching EUR844 million. This was obviously penalized by the Texas weather event, which we talked about in the

EDPR call and weak wind resource, particularly in the US. On the other hand, in Europe and in Brazil it was actually very much in line or even slightly above. Moreover, It's also a tough comparison year-on-year versus last year, particularly on the Energy Management side. As you know, the first quarter of last year was exceptionally strong and quite extraordinary. So obviously, that year-on-year comparison makes it slightly tougher comparison.

Another point to note on the first quarter numbers, is that the diversified portfolio allowed us to partially mitigate the impact of the weaker wind resource, and seize the very positive hydro performance in Iberia and the strong growth in networks, not only in Spain with integration of Viesgo, but also in Brazil, where we had a good recovery of demand and an inflation update of our regulated revenues, which more than compensated the 26% (or partially compensated the 26%) devaluation of the Brazilian real against the euro.

Overall, recurring net profit increased 6% to around EUR160 million, benefiting from the improved financial results and lower effective tax rate. Net debt increased this quarter to EUR13.1 billion, mostly explained by proactive increase of working capital. Essentially, what we did was take advantage of the increased liquidity that we're expecting from the capital increase and reduced the cost of having cash in the balance sheet. We managed the working capital by anticipating some funds to suppliers. That ended up, let's say, reducing working capital and increasing debt. But overall, it has a positive financial impact because of lower cost of having cash. Taking into consideration the EUR1.5 billion capital increase at EDPR, which we concluded in April. Consequently, post the closing of the first quarter, the adjusted net debt to EBITDA ratio decreased to 3.4 times. Now, if we move on to slide four, just three highlights. As I mentioned, we had some headwinds in the first quarter, particularly on the weak wind in the US, but the global platform and the diversified portfolio helped offset the main challenges that we had from the first quarter. So, as I mentioned already, the strong performance in Hydro Iberia, reached 28% above the historic average. On the regulated and contracted revenue in Brazil, which is indexed to inflation, helped to offset the negative impact of the euro versus the Brazilian Real depreciation.

Finally, another point I'd like to mention is the risk management strategy in renewables, which is quite prudent and as you know. We typically have long-term contracted or feed-in tariffs or CFDs. In fact, 94% of EDPR revenues come from this type of contract or schemes. Obviously, this helped hedge against short-term adverse market events like the Texas freeze and so we ended up having some impact, but relatively limited at least compared to perhaps what others have seen. So again, I think this just shows that we have a pretty resilient business model and a low-risk approach, which pays off when you have these type of extreme weather events. Moving forward to slide five and again, to talk a little bit about the big picture and what we've seen coming out of both the US and in Europe. Since we last spoke, as I mentioned at the Strategic Update, the outlook was very, very robust. The last couple of months have only reiterated this positive growth expected for the overall sector. There is very strong continued political support towards decarbonization, in which we very much believe, thinking it’s going to be a very long-term trend.

So, in the US, the Biden administration announced in March that the US will raise its offshore wind power targets to 30 gigawatts by 2030. In relation to the Americans Job Plan, it also raised expectations on a significant upgrade of public support and acceleration of renewables growth. However, it's still dependent on the final outcome of the discussion on the legislative package. I'd just like to remind you that the US represents around 40% of our EUR24 billion investment plan until 2025.

In Europe, the Next Generation EU Funds are a critical mechanism to revitalize the economy and as you know, the EUR750 billion envelope that's going to be applied between 2021 and 2026, represents a pretty unique opportunity to leverage the energy transition and to stimulate the European economy. Overall, in relation to these funds, we will be focusing on six key areas across nine European countries. Key areas of focus are going to be renewables, green hydrogen, intelligent networks, sustainable mobility, decarbonization, energy efficiency and digitalization. In fact, these are obviously the ones which are more related to our core business and that's all we'll be focusing on, expecting a significant amount of projects that we'll be able to submit for this.

If we move on to slide six, I'll be talking a little bit about strategy execution. So, we've already achieved a 6.4 gigawatts of secured capacity additions until 2025, representing more than 30% of our 20-gigawatt target for the period. We've added 1.2 gigawatts of wind and solar net capacity over the last 12 months, 0.3 gigawatts in the first quarter and we have 2.9 gigawatts of capacity under construction, which represents a massive increase in the build-out of the capacity. This is a significant effort obviously for the teams, but it just shows that this ramp up of growth that we're experiencing, and which is obviously positive for the company. In the last couple of months, we've also signed an additional 0.5 gigawatts in PPAs and we have another 2.5 gigawatts of PPAs under negotiation and shortlisted. So, that gives us comfort going forward in terms of additional PPAs we'll be able to have.

On the right-hand side, we'll talk in terms of asset rotation. All combined, we've already signed EUR1.1 billion asset rotation deals with expected closing in 2021. Close to EUR0.2 billion of asset rotation gains already secured for the year. We have good visibility on additional deals in Europe on which we're working on, expecting to close them still this year, which means we would see asset rotation gains north of EUR300 million in 2021.

Perhaps if we move forward, I'd make a quick note on the EDPR capital increase, which I think many of you already know well. I think it was well received by the market. It allowed us to execute something we announced at Strategic Update quickly. We de-risked the funding of our business plan upfront. We raised a EUR1.5 billion through an ABB. It was one of the largest of the year in Europe, at least so far, and EDP ended up with a stake of 75%, in the center of increasing the free float of EDPR by 60%, significantly increasing the free float and liquidity and this generally ends up being quite positive, not only for the balance sheet, which as I mentioned was recognized by the credit rating agencies and the upgrades, but also in terms of presence in some of the key indexes and the available liquidity for investors in EDPR.

So, move on to slide eight. Slide eight is not a particularly "numbers" slide, but I do think it is an important slide because companies don't just survive on operational and financial data. We've moved fast on the management side to drive organizational change and fast-track execution. We implemented a simplification of the structure to align the organization with our global business platforms and to make sure that we can continue to be a global agile and efficient organization. I think this helps streamline some of the operations. The management team as you know, is much leaner, it has now got global responsibilities per platform and I believe that this certainly enables increased knowledge sharing and efficiencies and better governance practices across the board.

Finally, we've also launched an internal program, Changing Tomorrow Now, which has got 40 different initiatives to really fast-track execution and to make sure that we have a clear roadmap in place to deliver the next growth cycle. So, along with the numbers, we have a purpose, which is very clear for us. We have a plan and we have the team. I think the good news is, we are on track to deliver and to execute.

On slide nine and this I think is also an interesting slide, again, very much showing how the renewables is increasing its weight in our generation mix to 85%. As you know, we have the target of being carbon-neutral by 2030 and 100% renewables production and this keeps stepping up. We had a good hydro quarter, indicating that in any case, I think step by step, we are getting there.

Revenues from coal fell 37% year-on-year. Obviously, as you know, we shutdown Sines last December. In 2021, we expect to shutdown two additional coal plants in Spain, Soto 3 and Abono 1, which will allow us to become coal-free in Iberia in the very relatively short-term and globally by 2025. Specific CO2 emissions continue to decline, with a 9% reduction year-on-year. So, that's already 69% below 2015 levels. And as I mentioned before, we are committed to being carbon neutral. So again, all positive indications in that sense. I think this reinforces that we have a really distinctive green positioning, and this is something we stressed over the years, but in particular more recently. We are one of the European integrated electric utilities that are moving very quickly to becoming a pure energy transition player. And I think that's been recognized by the market. As you know, last April, EDP, meaning the overall Group, was included in the S&P Global Clean Energy Index. EDPR was already there, but EDP has also been included there, which I think is a testament to how we positioned ourselves.

Finally, on this section, just before I turn it over to Rui to discuss the results in more detail, I just wanted to give a note on governance, which is also very much aligned with our commitment to deliver ESG excellence. So, now we have a renewed and newly appointed Supervisory Board, which was elected in April at the shareholders meeting. It has a leaner structure. It has gone from 21, down to 16 members. It has a reinforced majority of independent members and also improved gender diversity. If we take a step back and look at the overall Board changes at EDPR and EDP, a number of non-Executive and Executive Board Members of EDP and EDPR decreased by 27% from 45 to 33 members. I think this is also a good step in terms of corporate governance best practices. Finally, also relating to this, the shareholders meeting also approved almost unanimously with 99% approval, the new remuneration policy for the Executive Board of Directors, in line with best practices, which includes long-term incentive settled in shares with a deferred payment with a three-year period for the assessment of long-term performance over that period and ESG linked compensation, amongst others. So again, I think this represents a positive step in terms of making sure we are at the top and second to none in terms of our ESG commitment.

All of this clearly reinforces our commitment to delivering the business plan. It also shows that we are implementing best practices on all dimensions of the ESG, so that we can continue to be a reference in the sector, and that's something that, as you know, we take very seriously. We are working on all dimensions: Operational, financial, environmental, social, governance. On all of these dimensions, we keep moving and keep raising the bar. I'll pass over now to Rui, for a more detailed analysis and then come back for closing remarks. Thank you.

Rui Manuel Rodrigues Lopes Teixeira: Thank you very much, Miguel. Good afternoon to you all. I'd like to move on to page 12, just to show the good results in our view, given the context, at an EBITDA level. It was flat year-on-year, if we exclude forex. Recurring EBITDA first quarter 2021, including forex saw an 8% reduction. This was primarily driven by the Renewables segment, where we have a reduction of EUR47 million at EBITDA level. Most of it coming from the ERCOT and Polar Vortex and as you know, which was a very unique event back in February. It impacted our EBITDA at around EUR35 million. Also, driven by the Polar Vortex in itself, we experienced a lower wind resource in US, that's around 7% below the long-term average. So, these two elements were the significant impacts at EBITDA level. But on the other hand, these were compensated by a very positive hydro quarter. We had a positive impact of around EUR24 million coming from the both Iberian and the Brazilian hydro, given the good hydro resources that we have in Portugal, that was 28% above the long-term average.

On the Networks, we saw a very sound increase of EBITDA, that represented plus EUR74 million for the segment, mostly driven of course by the incorporation of Viesgo, meaning an additional EUR47 million. On the other hand, as you know, there is an update already foreseen in the regulation. All in all, the net impact was a EUR39 million at EBITDA level in Spain. In Portugal with improvement on the OpEx, we saw a EUR15 million increase. In Brazil, the distribution, we had a very positive impact both from tariffs and demand. At the transmission level, an important contribution from CapEx execution at the transmission lines represented a EUR7 million positive impact in this segment.

In Client Solutions and Energy Management, I would say that this is a normalization of energy management. As you know we have a very extraordinary first quarter in 2020. Regarding the first quarter of 2021, we see a more normalized quarter. Also, in 2020, we had Sines coal plants still contributing with the EUR27 million at EBITDA level, but also important growth in terms of service penetration rate from the supply business. All in all, EUR844 million EBITDA recurring on the first quarter 2020.

So, if you move to page 13, we get a more detailed view on the wind and solar part of the Renewables platform. In the US, the reduction is fundamentally driven by these two factors that I mentioned before, the ERCOT event in itself and the small exposure that we have to this event in the ERCOT market, but also, broadly speaking, the wind resource in US that was impacted by the Polar Vortex. On the other side, we see Europe with a very positive contribution, which is 5% above the first quarter 2020, on the back of a recovery of the load factors, more in line with our long-term average. So, indeed a good recovery from the European side. All in all, we see EUR269 million of EBITDA from wind and solar on the first quarter 2021.

And then in page 14, there is a positive impact from the hydro capacity both in Iberia as well as in Brazil, relating to EUR177 million of EBITDA. That's a 16% increase year-on-year. Excluding forex, meaning the Brazilian real depreciation, we would have a 25% growth. Naturally, this is on the back of the hydro resources. So, this quarter we had a 28% above the long-term average, representing a significant recovery vis-a-vis the first quarter 2020, but also, on the Brazilian side, with a normalization of results from our strategy of quarterly allocation of sales and a weak first quarter 2020. All in all, EUR177 million from our hydro portfolio, a very sound contribution to the Group's EBITDA.

In page 15, a look into the Networks business, the Networks platform, relating to EUR310 million. That's a 31% year-on-year increase. It would be 45%, excluding forex. Of course, here the Viesgo contribution is very much relevant as I mentioned in the beginning. Also, in terms of OpEx, the OpEx supply point in Iberia saw an improvement of 9% year-on-year and a very important impact in the Portuguese business, but also in the Brazilian case, a good recovery on the distribution EBITDA, with a 61% increase versus the first quarter 2020. This is a reflection of the positive inflation updates on the annual tariff revisions and the increased demand. So, you see that there was a 4.4% increase on electricity distributed, as well as transmission level, amounting to BRL157 million, that's a significant increase vis-a-vis last year and construction is going according to plan. We will have six lines fully operational during 2021.

And the last segment on page 16, Client Solutions and Energy Management. What I called in the beginning, a more normalized quarter. So, as you know, in the first quarter 2020, we had an exceptional strong performance. At that time, that accounted for 60% of the 2020 full year EBITDA of this business. So, I would say now more into a normalized number. Also, on the Client Solutions side, very important penetration of new services, amounting to 29% versus 25% in the first quarter 2020. Also moving forward on the distributed solar installations, with adding already 36-megawatt peak, year to date. On the Brazilian side, here of course, a strong impact from the Brazilian real depreciation. And as I said in the beginning, in the first quarter 2020, we also had around EUR27 million of EBITDA contribution from the Sines plant. It's closed and therefore, this contribution is no longer within the Group's EBITDA.

But also working on efficiency, on page 17, looking at the OpEx cash recurring, on a like-for-like basis, has seen a 3% reduction vis-a-vis the first quarter 2020. Of course, at the renewables business, we are increasing headcount, but making sure that we keep a leaner organization. If we look to the OpEx per average megawatt we see a 3% reduction vis-a-vis last year and that's fundamentally driven by the O&M strategy and of course, overall cost control. In Networks, if we were to exclude growth that would be an 8% reduction year-on-year. We have been investing in digitalization, of course, making sure that we keep reducing headcount. So, very focused on efficiency. We have already launched internally a new efficiency program. Already 250 initiatives have been identified. With these initiatives, we are covering already 60% of the OpEx targets that we communicated in the Capital Markets Day, until 2025. So, really on track to meet these efficiency numbers that we committed to in our business plan.

On page 18, I would like to highlight that on a comparable basis, meaning if we were to exclude the cost in the first quarter for repurchasing some bonds and the forex gains, namely the first quarter 2020 and some forex gains in the first quarter of 2021, on a like-for-like basis, net financial costs are around EUR141 million. That's a 2% reduction versus the first quarter 2020. Again, just a reminder, that back in January, we issued a hybrid bond with a 1.95% yield, definitely below the existing bond portfolio for maturities, being on track to work on reducing the financial costs at the Group level.

And on page 19, the net debt. This increase is mostly explained by the fact that we were cashing in during April the proceeds from the capital increase at EDPR of EUR1.5 billion. Of course, we were very active in terms of treasury management throughout this first quarter. So, we actually anticipated some payments to suppliers that has an impact in terms of the working capital on fixed assets suppliers. So, that's why the net debt raised to EUR13.1 billion. If you were to include the EUR1.5 billion from the EDPR capital increase, net debt would be at EUR11.6 billion. That's a 3.4 times net debt to EBITDA. And also, with a very important contribution on FFO to net debt. So, including this capital increase and adjusting for the capital increase, FFO over net debt would be at around 21%. Again, just reminding how important it is for EDPR to keep a very strong balance sheet. And the fact that this has been recognized by S&P and Fitch with an upgrade to BBB and Moody's placing us as a positive outlook to be revised over the next months.

Just to finalize before I hand over back to Miguel. Net profit up by 6%. So, we ended the period with EUR159 million. If you were to exclude forex, actually this would be a 15% increase. So, very good results, given the context that I mentioned in the beginning. I'd like to highlight that at the income tax level, we have a 17% tax rate, that's on the back of some tax credits allotted to research and development in the US. The year-over-year contribution from the non-controlling interests, the decrease is driven by the decrease in net profit from EDPR. All in all, EUR159 million at net profit on a recurring basis is a very good improvement from last year. Just to finalize, the difference to reporting this year is driven by the capital gain from the sale of our 50% at CHC, that's a supply business that we have in Spain with another shareholder, CIDE. So, we sold them our 50% stake, that contributed to a EUR21 million capital gain. Looking at the non-recurring items back in 2020, of course, we are correcting for the asset sale that we have in Portugal and Spain and the bond repurchases. So, with that, the reported net income at the EUR180 million, that's a 23% increase in year-on-year. So, I would say very strong net profit, will be important growth vis-a-vis 2020. And with this I would hand over to Miguel. Thank you.

Miguel Stilwell d'Andrade: Thank you, Rui. So, as you know, we are deeply committed to delivering superior value for our shareholders and all the stakeholders and I think some of these numbers or some of the highlights are worth mentioning. I'd just like to reiterate them. First of all, on the investment side, we presented an ambitious investment plan until 2025, back at the Strategic Update. It had a strong focus on growth in Renewables, but also Networks and we started working on its delivery since the first day. In fact, I would even say even before that. We were already just working to make sure we would be able to deliver that. In this first quarter, the investments increased 50% to around EUR0.7 billion, more than 90% of which is allocated to renewables or electricity networks. Also, we have a total of 3.2 gigawatts of renewables under construction already deployed over this first quarter and that's in line with the targets defined for this year. So, on the investment side, I think we are beginning to see that very big ramp-up in growth.

In terms of PPAs and future growth, again, since the Strategic Update, we've already contracted more than 0.5 gigawatts of renewable PPAs. We've reached 6.4 gigawatts of capacity for delivery until 2025, that's more almost a third of the 20-gigawatt target in our plan. So again, on the growth side and in future PPAs, it's also going very well. On asset rotation, we've already secured for this year deals in the US amounting to EUR1.1 billion and we have other deals in advanced stage in Europe. So, we have good visibility for asset rotation gains well above EUR300 million in 2021.

On the balance sheet and funding for growth, the successful execution of the EUR1.5 billion capital increase of EDPR, just after our Strategic Update and given the volatility in the equity markets, I think that was a significant step. As I've said, this allowed us to really strengthen our balance sheet and get the BBB rating from the S&P and Fitch, and the upgrade from Moody's. It's also significantly allowed us to de-risk the business plan. So, I think that's something that, that really protects our company's growth plan from any future volatility in the financial markets because we've managed to get that funding in place and so we can concentrate on executing and finding those attractive PPAs that you know as well.

Now we can focus on execution and that's what we've also been working on. Once again, we've simplified the structure. We're working on the organizational alignment, we're working on efficiency and we're very much focused on delivering the strategic targets. Finally, but not least, we continue giving major steps towards the ESG excellence. So, corporate governance, the model talked about that. We've updated the best practices. We are very much aligned now with the energy transitions. On this first quarter, our total production was already 85% renewables. Clearly, EDP is a clean energy player and it's got the ambition to become all green by 2030 and so we are working actively on that.

I'll take the opportunity to reiterate what I've said before in earlier calls. So, in 2021, we expect to show some growth on our recurring net profit versus the 2020 figure of the EUR780 million. That excludes the 2020 contribution from disposals, namely Hydro Portugal and the CCGTs in supply in Spain.

Finally, and I think this is just to wrap it up before turning over for Q&A, Rui, myself and the full team are really enthusiastic about the prospects for the business development on the various fronts that we're working on. This is a really exciting time to be in the sector. As I've said, this is the electric decade and EDP is very well positioned for that. We have strong public support for the energy transition in general and renewables in particular. We see continued strong demand for the renewables PPAs. We see strong demand for asset rotation deals and good pricing. And we're very comfortable with the recent reinforcement of our balance sheet. So, I think all of these are very important factors, which allow us to continue to create value for our shareholders and that's something that we are very much focused on. And it also allows us to continue delivering the financial targets that we presented less than three months ago at the Capital Markets Day. All in all, from a strategic perspective and operational and financial perspective, we are on track to continue to deliver. So once again, thank you for attending this quarter results call. And I suggest we now move to the Q&A session. Miguel?

Miguel Viana: We can start now with the questions via the phone and then we'll move to the questions via the web.

Operator: The first question on the phone comes from Harry Wyburd of Bank of America. Harry, please go ahead.

Harry Wyburd: Hi, good evening, everyone. Thanks for taking my questions. I've got three. Firstly, would you mind just updating if there is any news on your plans for selling assets in Brazil? Could you give any kind of guidance on the time frame you expect for the potential asset sales there? The second one is on your exposure to power prices. Obviously, you've got the hydro in Iberia, but could you remind us what the all in exposure you have to outright power generation in Iberia is, in Terawatt-hours and then how hedged you are on that, for 2022 and also 2023, if you're hedged, at all? Just to try and get a sense of your potential exposure to the increases in power prices that we've seen. Then the third one, on net income for this year. You sort of briefly mentioned earlier, you expected some growth. So, I wondered, if it'd be possible to be a bit more specific? I believe the consensus you send around earlier was about EUR880 million of net income for the year. Obviously, that would require you to do significantly better in the next three quarters than you did in the first quarter, but obviously that's a pattern as to how it's happened in the past. So, I just wonder if you could give us any kind of sense for how you feel versus that consensus of EUR880 for this year? Many thanks.

Miguel Stilwell d'Andrade: Hi, Harry. Thanks very much for the questions. I'll do the first and the third and I'll pass to Rui, to talk about the second one. In relation to Brazil, we've talked about this, we are looking into potential implementation of an asset-rotation model in Brazil in the transmission segment that would allow us to crystallize value and then rotate capital into new greenfield projects. So, we are progressing well. I would expect that to be probably a 2021 transaction.

In relation to hydro, we are also looking to reduce some of our hydro risk in Brazil, like we did in Iberia in 2020. So, we currently have three hydro plants; Jari, Cachoeira-Caldeirao and S. Manoel, which are equity consolidated, partly because we have them in partnership with CTG, in which we have share control. And so, we would look also to do that, and that might also be a '21 transaction. Then we have a target, but this is more medium term for Pecém as you know, to, to be coal-free by 2025. So, Pecém has a current PPA which lasts until 2027, but its concession contract actually goes to 2043. That's something we're also analyzing and trying to identify when would be the best timing, so that's not a 2021 transaction. But the other two would be.

Perhaps I'll just take your net income question and then pass it over to Rui. I'll take the net income question, but I'll also talk, just taking a step back, about EBITDA. So, on EBITDA on consensus, we are comfortable with the 3.7. Obviously, we have the Texas slight impact, on the other hand, we probably expect slightly better capital gains. Viesgo synergies will probably be coming in more into 2022. Capacity in 2021 will also come more towards the year-end and so that's just some comment I would make probably on the EBITDA, but we can go into more detail, if someone has more questions on that.

On the net income in particular, I'd like to say the following. I don't want to comment specifically on the consensus because I believe there is still a significant number of analysts by our estimate (around half of them) that are updating their forecasts, with the impact on the 2021 net profit from the capital increase in EDPR. So, as you know, the minority has increased from 17% to 25%. I mean this will end up then being compensated by the new investments, generating earnings, but mostly from '22 onwards. So, I won't give you a specific guideline on that. What I did say in the presentation was that we would expect some growth versus the recurring net profit of the EUR780 million, which was in 2020 and which excluded the hydro in Portugal and activities supply in Spain. And so, I think I'd probably leave it there for now. Rui, the power prices.

Rui Manuel Rodrigues Lopes Teixeira: Sure. Thank you very much. Hi, Harry. So, on hedging, as you know, we are pretty much fully hedged for 2021. So, no material impact there, but there is some upside for 2022 and '23, mainly for the 9-terawatt hours of baseload capacity that we have with a hydro capacity in Iberia. So, for '22, we have around 30% of this production still unhedged, that, of course, would benefit from increased prices. The remaining is hedged at around EUR50 per megawatt hour and this is actually above what we used as an assumption for the business plan. And for 2023, we have around 25%, 30% hedged at pretty much the same EUR50 per megawatt hour.

Harry Wyburd: Okay, thank you. Just a quick follow-up. So, just to check I heard correctly. So, 70% hedged, 30% unhedged for '22 and then sort of 70% unhedged and 30% hedged for 2023, have I heard that right?

Rui Manuel Rodrigues Lopes Teixeira: That's right.

Harry Wyburd: Okay. And then the 9-terawatt hours of hydro in Iberia, is any of your wind or solar in Iberia merchant at all or should we just assume that zero merchant?

Rui Manuel Rodrigues Lopes Teixeira: So, for renewables, we have around 80% hedged for '22 and around 30% hedged for '23.

Harry Wyburd: Okay. And that would apply to all of your wind and solar in, in Iberia. Is that right?

Rui Manuel Rodrigues Lopes Teixeira: In Iberia, that's right, in Spain, as you know, Portugal has been fronted on, so that's applicable only to the Spanish fleet.

Harry Wyburd: Got it, okay. Thank you. That's very useful. Thanks.

Miguel Viana: We can go to the next question, please.

Operator: The next question comes from Sara Piccinini from Mediobanca. Sara, your line is open.

Sara Piccinini: Hi, good evening, and thanks for taking my question. The question on the guidance regarding net debt, what is the level of net debt that you expect by year-end and considering the EUR1 billion impact of working capital for this quarter, do you expect this to be reabsorbed by the year-end? Can you give an indication of net debt to EBITDA or level of debt that you expect for 2021? The other question was on the synergies on Viesgo, but I guess if you have any additional comment otherwise, that is fine. Many thanks.

Rui Manuel Rodrigues Lopes Teixeira: So, Sara, this is Rui. So, net debt to the year-end, we expect around EUR11 billion. The decline is on the back, of course, of the EUR1.5 billion capital increase that we cashed in, in April. Executing the business plan in terms of the growth, the CapEx plan on a gross basis is around EUR4.5 billion throughout the year. Of course, we are also expecting proceeds from the asset rotation as well as closing the tax equity structures in US, although this is expected to be more towards the second half of the year. Regarding Viesgo integration synergies, it's going according to plan. As you know, we don't disclose the synergies, but they are not far from the consensus that we see in the market for the synergies to be captured.

Sara Piccinini: Many thanks.

Miguel Viana: We can go to the next question, please.

Operator: The next question comes from Javier Garrido of JP Morgan. Javier, your line is open.

Javier Garrido: Thanks. Good evening. I think I only got one question left, which is, if you can explain a little bit about your realized price in hydro, because you have delivered, if I'm correct, a realized price of EUR52 per month in Q1, when your hedge price for this year is EUR45?

Also, Last year, when your hedge price was EUR55, you deliver an average realized price in hydro in the 40s. So, it would be very much appreciated if you can give us an indication of these deltas, what happens in addition to the margins in pump and storage, what drives these discrepancies between the hedge price and realized price of hydro? Thank you.

Rui Manuel Rodrigues Lopes Teixeira: Okay. Thank you, Javier. It's Rui. So, the hedges are at the baseload and of course, the realized price is just taking advantage of modulation in the production. So, in the reservoir dams, of course, we will select the best hours to operate and of course the hours with lower prices and will be used for the pumping. But really, when you look at the realized price, the difference versus the hedges is that the hedge is baseload and the realized price is just how we modulate the production throughout the quarter. But maybe if you want then some more details, we can take it offline.

Javier Garrido: Yes, please. Thank you.

Rui Manuel Rodrigues Lopes Teixeira: Thank you.

Miguel Viana: Next question, please.

Operator: The next question comes from Alberto Gandolfi of Goldman Sachs. Alberto, please go ahead.

Alberto Gandolfi: Hi, good afternoon and thanks for taking the question. I guess I just wanted to first like a comment. Thank you for clarifying earlier on the EDPR coal that you have absolutely no exposure to cost inflation, so you fixed your procurement cost. Just to be on the same page on that one. I guess the first question is: You have nearly 3-gigawatt under construction of renewables and nearly 6.5 gigawatt in total already secured. Now given the skepticism on returns, can you tell us if on those secured and under construction, you are on track to deliver your 200 basis points of a watt, if you're above, if you are below, if there is a region or a technology that surprise you on the upside or downside? Just to put to rest an argument with facts instead of speculation. I guess second question is: I couldn't help noticing, maybe because the transfer price, but your EBITDA from Brazilian network is up nearly 70% in local currency. And your supply in Iberia is up nearly 200% and your Energy Management is down 90%, just to name three big changes. So, can I ask you if there is any division for which in the first quarter is not representative of the true underlying earnings power? So, anything that we should consider on any of these? I'm talking local currency here. That's about it. You have already replied all my other questions. Thank you so much.

Miguel Stilwell d'Andrade: Hi, Alberto, always good to hear from you. So, on the first point, I mean, yes, (inaudible) EDPR call, so no risk of cost inflation on the projects that we've already secured or have taken an investment decision on and are under construction. And obviously that means that the returns are also completely locked in for those projects. Also, in relation to the 6.4 gigawatts that we have secured, that means that we've also not only locked in the PPAs but have also typically locked in a big part of that CapEx. So, you know, we are very comfortable with the more than 200 basis points WACC and as you know, historically in comparison with our 200 basis points above WACC spread, we've actually been far better than that. We're very comfortable with that.

Typically, as you know, over time, this inflationary pressure would be passed through on to new PPAs that are done going forward and people are looking for similar returns and so they just incorporate the best estimates, on whether it's interest prices or cost prices, into their models and into the financial calculations that they're doing. So, you know, we continue to be very comfortable with the level of competition and the fact that we can continue to find profitable projects.

In terms of the different businesses that you mentioned, I think things are going pretty much in line and well for the different businesses and we'd expect that to continue on for the year. Energy Management, we would actually expect to go up. As you know, Energy Management in the first quarter was below the normalized level that we typically see for the year, and so, we would expect a positive increase on the Energy Management for the remaining quarters. The RES supply is relatively stable in Brazil, obviously apart from the FX. I think the business is doing well in Brazil and as you know we had a much better year. At one point there was some concern, maybe a year ago, about Brazil in the middle of COVID, et cetera, but it actually turned out very well for us and actually had fantastic results last year and we expect it to continue to do quite well going forward. So hopefully, that answered your questions.

Alberto Gandolfi: Okay. We can go (Multiple Speakers) sorry.

Miguel Stilwell d'Andrade: Alberto, have you finished. You want to, to ask something else?

Alberto Gandolfi: No, I was just pointing out that you are doing more than 200 basis point over WACC on your extremely visible renewable projects. So…

Miguel Stilwell d'Andrade: Yes.

Alberto Gandolfi: Thank you so much for pointing out. Thank you.

Miguel Stilwell d'Andrade: We're even above 300 basis points on average for the portfolio. Obviously, the 200 basis points is, let's say, what we typically have as a floor, but for the portfolio, we are currently above 300 basis points.

Alberto Gandolfi: But including everything installed, you mean?

Miguel Stilwell d'Andrade: For the projects that we have under construction and locked in.

Alberto Gandolfi: Thank you. So, what's coming, is above 300 basis points. Thank you so much.

Miguel Stilwell d'Andrade: Yeah, yeah, that's right.

Alberto Gandolfi: Thank you. Thank you.

Miguel Viana: Thank you, Alberto. So, we can now go to the last question on the phone and then we can go to the couple of questions that we have also on the web.

Operator: The final question comes from Jorge Guimaraes from JB Capital. Jorge, your line is open.

Jorge Guimarães: Hi, good afternoon, thank you very much for taking my questions. I have three. The first one is your view about the recent comments from ENDESA's a CEO, where he mentioned there is a significant increase in competition of supply in Spain? Do you see any cross read of that to Portugal? That would be the first one. The second one is actually, a follow-up and just a clarification on your after to Alberto now. When you say under construction and locked in, you mentioned the 6.4 gigawatts of EDPR. Is this correct? So, this would be the second one. And the third one would be, if you can provide us with an update on the regulatory situation in Portugal, regarding CESE and claw back, because I see that CESE went significantly down in the quarter to EUR50 million. So, if it's possible to give us an update on where things stand now in terms of CESE and in terms of the generation claw back? Thank you very much.

Miguel Stilwell d'Andrade: Thank you, Jorge. So, in relation to supply, as you know, we sold the supply business last year to Total in Spain, so, the B2C in any case. In the B2B, we continue to be there, but so, we no longer have necessarily an opinion on the B2C competition in Spain. In Portugal, in any case, you'll have seen that the supply margin actually went up this quarter. So, I would say the answer in terms of the competition is, yes, there is competition in Portugal. Portugal has actually been liberalized since 2006 and more intensively since 2012. We have more than EUR5 million of the EUR6 million already in liberalized market in Portugal and so there is competition, but we don't see any change in the level of competition in terms of aggressiveness. I think it's been relatively stable over this period. And in fact, as I mentioned, the supply margins are also reflecting partially that.

The second question, if I understood correctly, is about the under construction and locked in. So, yes, it's the 2.9 gigawatt and the 6.4 gigawatt that we have at EDPR. And in relation to the regulatory situation in Portugal (so the CESE), there is a decrease, but don't forget that we've sold the hydro last year, so, there's less assets in the CESE as applicable, as well as a percentage, meaning 0.85% of the assets that we have. So, if you have less assets, we pay less CESE, obviously in this case, ENGIE will be paying that delta in the CESE on those dams. Going forward, we maintain the expectation that, since this is an extraordinary tax, it will evolve in line with the system debt and it will come down. Our expectation is that by 2025, we would be down to, in line with the system debt, zero. On the claw back, so last year we had EUR20 million to EUR30 million of claw back. It's calculated on a yearly basis by the regulator. I don't think that number has come out yet, but I would assume that, that type of number it would be ballpark. So, we'll have to see when it comes out, but we're not expecting major variations in that.

Miguel Viana: Okay. Thank you, Jorge. We have one final question, final one maybe we can accept.

Operator: Okay. The final question comes from Manuel Palomo from Exane. Manuel, your line is open.

Manuel Palomo: Thank you very much and good afternoon everyone. I've got sort of a follow-up question on the renewable returns. I mean, for me, it's very, very clear. You've demonstrated that for those assets and which you have done asset rotations, you have made, clearly more than 200 basis points or 300 basis point or 400 basis points spread, but I'm a bit curious. I mean given that there is a big gap (or a gap), at least between the useful life of the asset and the lifetime of the associated PPA, I would love if you would tell us how you build your assumptions in terms of prices for that period after termination of the PPA?

Miguel Stilwell d'Andrade: Okay. So, let me just give a first go at that and if Rui wants to complement... Clearly, when we're valuing the renewable project, or anyone is valuing a renewable project, they'll be looking at the PPA price, which is very easy number to calculate, and they'll be discounting that at the appropriate cost of capital, unless it's a 15-year PPA and then they'll be looking at both PPA period, this is merchants, and assuming what are the merchant curves post that period. I mean we have a view that prices will continue to be indexed to gas price or the merchant price will continue to be indexed to gas prices post PPA period for the foreseeable future, while there is the current marginal system is in place. So, what you'll have is perhaps a differentiation in terms of realized prices between the different technologies, but let's say the base load price will continue to be set by that. Wind in particular, has a relatively low adjustment factor, so the realized price is typically only a small discount to the baseload because it's pretty irregular throughout the day. So, it's not so defined. Solar maybe has a higher solar adjustment factor and so, you'd be discounting or incorporating that into the power prices post PPA period to get to your estimate. So, that's how we would look. And that's how we would value a renewable project and that's how we see the market evaluating it. I don't know, Rui, if you want to complement.

Manuel Palomo: Thank you, very much.

Rui Manuel Rodrigues Lopes Teixeira: Maybe I will just complement to two different aspects. One is that we have our own internal estimates that are based on looking at the fundamentals in terms of commodities and supply/demand to come up with these long-term projections. Perpetually, we also use third-party curves to make sure that we compare the numbers. I think the second aspect, which is very important, according to, and it's something that we shared, the Capital Markets Day. It's not only meeting this profitability that is part of our work, but also, that in terms of risk profile, as a rule, typically have at least 60% of the NPV and their contracts revenue and we have been achieving actually much more than that. So, it's not only about meeting the returns but also making sure that we keep a low-risk profile for the long term for these projects.

Manuel Palomo: Thank you very much, very clear.

Miguel Viana: Okay. We'll go now to two last questions by email. We have one question from Jorge Corsini. Could you provide a view about the proceeds expected on the asset rotation in renewables in 2021 and providing this EUR300 million that you referred in terms of capital gains?

Miguel Stilwell d'Andrade: The only thing I will be able to say is to reiterate what was in the presentation. So, we already closed three deals, some of them coming from the past in the US, which have EUR0.2 billion asset rotation gain. We have some advanced, or some deals in advanced stage, in Europe where we would also be expecting to obviously add on to that number, the additional capital gains. So, it would be above the EUR300 million the I talked about.

Miguel Viana: Okay. We have another question from Arthur Sitbon. With Clean Spark Spreads coming down, could you consider anticipating the exit of the gas-fired power generation business? Is there a risk to see transaction multiple for these assets dropping in the next few years considering you would wait 2030 for the sale of the plants?

Miguel Stilwell d'Andrade: Yeah, I mean what we said is that we would be carbon-neutral by 2030 and so we would manage these plants, or the remaining gas plants, over this period and see when it's most appropriate and what is the most appropriate destination for them in this period. Currently, the gas plants are obviously very important for general market stability and equilibrium and security of supply. So, they do have an optionality value independently of sometimes having small or negligible spreads, but then they are important as a backup. So, we will be very much focused on going all green by 2030, but it doesn't mean that we'll wait until 2030 to execute this ambition. So, we will monitor the market and do whatever makes most sense in terms of value for EDP and for the shareholders.

Miguel Viana: Final question from Jorge Corsini. How is the drought in Brazil affecting your generation and supply unit there? Would that prevent you from considering the disposal of the stakes in the hydro plants where you have CTG as a partner?

Miguel Stilwell d'Andrade: So, we've talked about repeatedly that we have a very much prudent approach to risk management in terms of portfolio. So, we have a hedging strategy in place to mitigate the GSF and the PLD, the local energy price risk, so that we can reduce the volatility of earnings. So, in general, in Brazil it's not so much an unbundled system like it is in New York.

Typically, the supply and generation activities are managed in a much more integrated way, and also with the distribution. So, there is some optimization of the portfolio as a whole, that mitigates part of this hydro risk. Having said that, I did say that we would like to reduce our presence in hydro in Brazil, like we've done also in Iberia in 2020. So, that's something that we're working on and we would consider that the disposals of stakes where we have CTG as a partner and that's something that, as I mentioned, I think Harry asked or mentioned that, so we would look to do it probably over the next 12 months.

Miguel Viana: We have no more questions, so I'll pass over to our CEO for final remarks.

Miguel Stilwell d'Andrade: Last remark, I'd make is the following. I mean we are just a couple of months after the business plan, but we've already managed to execute a significant number of milestones that were important for us. Since the business plan, as I mentioned, we've been upgraded by S&P and Fitch. That means we have now a much more solid balance sheet, which gives us the ability to continue to grow without any question about our ability to deploy the investments and the capital and to take advantage of the opportunities that come up. We have a great pipeline. We have a great set of projects under construction, which we're working on with good returns and we continue to see very attractive opportunities in the market and the various different markets that we're in. So, as I mentioned, this is the electric decade and I have no doubt that EDP is very well positioned to continue to take advantage of that, be it in renewables, be it in distribution networks in the various different geographies or even on the client solutions side where as you saw, we had good supply margins, we have good sales of services to our customers, we have a good increase in deployment of distributed generation also in a couple of different geographies. So quite frankly, we see across the value chain, significant amount of good opportunities and we're well placed to take advantage of them. So, thanks very much. And we'll see each other or talk to each other again in the short term, maybe some of you earlier, but otherwise in July. Thanks. Take care.