

Q2 2021 Earnings Call

Company Participants

- Carlos Emanuel Baptista Andrade, VP of Strategy and Business Development
- Fernanda Nascimento Pires, VP of Environmental, Social and Governance (ESG)
- Henrique Manuel Marques Faria Lima Freire, VP of Finance and Investor Relations
- Joao Manoel Brito Martins, VP of Grids
- Joao Manuel Verissimo Marques da Cruz, Chief Executive Officer
- Luiz Otavio Assis Henriques, VP of Generation and Commercialization
- Marilia Nogueira, Director of Investor Relations

Other Participants

- Maria Carolina Carneiro, Analyst
- Unidentified Participant

Presentation

Marilia Nogueira {BIO 22039088 <GO>}

Hello. Good morning, everyone. We are going to start the webcast of the Second Quarter 2021. First, our CEO, Joao Marques da Cruz, is going to start the presentation, and then our CFO, Henrique Freire, following by a Q&A with the whole Executive Management. The webcast is being exclusively on the Internet and then it's going to be made available on our IR website.

Before starting, I would like to let you know that any statements made during the event are based on the assumptions of EDP Management and rely on information that is available to the Company. Forward-looking statements are not a guarantee of performance. They involve risks and uncertainties.

Now, I'm going to turn the call to Mr. Marques da Cruz to start the presentation.

Joao Manuel Verissimo Marques da Cruz {BIO 17072999 <GO>}

Thank you, Marilia. Good morning, everyone, that are here with us today. We are going to present, as was mentioned, the results for our quarter, and I'm going to start by saying that we had good results. The Company has always had to have a high level of efficiency, and we do. But we believe in terms of our performance in the second quarter was clearly positive, and positive way, well, first, because of our financial results that are going to be on screen right now.

Here we have the main highlights of the second quarter. And basically, we had almost BRL800 million of our EBITDA comparing to BRL586 million in the same period last year. That is an increase of plus 36.3%. And a net income, as you can see on the screen, BRL344 million, up by 45% the results of last year. So starting from the bottom, that these results are positive in an environment that is clearly challenging with difficulties. But the Company as a whole was able to manage difficulties and come with very robust results.

FINAL

Now talking a bit about our different businesses, in Distribution, we believe this is the segment that most contributed to our increases in EBITDA, and that because there was a setup of several different factors. First, an increase of demand in the second quarter last year, we had the first quarter of the pandemic. So, we were very much affected by lockdowns and others. And now, we had a very substantial increase. We -- our areas of operation are clearly industrial area. The concession area of Espirito Santo is an area of export. And therefore, as the economy picks up strongly, it contributes to our distribution business.

Also tariff readjustments that we had between the second quarter 2020 and the second quarter 2021 also contributed to our results. On our end, we also were able to reduce losses that this year. In the second quarter compared to the first quarter, we did achieve substantial reduction. And remember that, that is connected also to the reinforcement of our CapEx. We had a substantial increase in CapEx of 51% in distribution and basically focusing on improvements, expansion and consequently the fight against our losses. Gross margin, an increase of 30%; as I mentioned before, distribution is the market segment that most contributed to the good results that we present to you today.

Next comes Transmission, and here I would like to highlight three main points. The first is that Transmission together with Distribution is one of the segments that together basically account for our good results. You -- I would say that Distribution and Transmission are the main causes for us to have such increased EBITDA.

Also in Transmission, we are planning for our future as we go to Transmission auctions, and we did go to one in June. We had a very strong dispute in Lot Q, and we are preparing our future. And also, we are delivering what we promised. So, we started our commercial operations in Lot Q and Lot 21, and we completed the acquisition of a lot in Maranhao.

As for Generation, Trading and Clients, well, this is an area in which we always have to consider the whole of the business. We have marginally positive variations compared to last year, particularly in some areas that really justify our performance. And I think the key which -- in this business is to anticipate to the competition two different moves, putting into practice measures to mitigate our risk, one of the risks, the hydrological risk, that we know that are very important for this business.

Very well then, these are the highlights that I would like to mention. Now, we are going to go to the next slide. This is a slide that shows our capital expenditure. Last year -- in the first six months of last year, and here I'm talking about the first half year of last year, our CapEx was around BRL750 million. This year, as you can see, we are getting to BRL1.2

FINAL

billion. That was again a substantial increase. It is very true that last year in the first half of the year-year, especially the second quarter, there was the delay of some investments, but we are going to invest BRL2.1 billion this year.

Our average organic CapEx, and here I'm talking about organic CapEx, is basically that -- the only think that was not organic is here the acquisition of AES Inova that you use can see in the footnote, that we are investing in 5 years, an average of BRL2 billion a year. So the year of 2021 is slightly above our average. Well, that's to say that this is the year that we are going to meet our level of investments above last year. It's specifically the first half of last year that was particularly affected.

Well, now I'm going to turn to Henrique Freire to talk about more financial results. But I think that we have basically good measures to mitigate risk, and CapEx to ensure our future developments. Henrique, that's up to you now.

Henrique Manuel Marques Faria Lima Freire {BIO 19117781 <GO>}

Good morning, everyone. Well, first I would like to go to slide number four, and here we have a breakdown of our EBITDA quarter-on-quarter, that is the second quarter 2020 and the second quarter 2021, both in our corporate view but also our adjusted numbers. You can see our adjustments in margin, not considering IFRS, Transmission and VNR, that is the regulatory rules.

So talking about Distribution, we had an increase that is considerable to BRL121 million. Then again, we have the adjustment of the assets that will not depreciate until the end of the concession. And so, we have an adjustment of about BRL70 million, which shows market growth and also the tariff adjustments that we had last year, especially in Sao Paulo, that already benefited October, especially with the adjustments of Parcel B.

In Transmission, we have an evolution of BRL62 million and here again the IFRS with the partial conclusion of some lots, especially 21 and Q, and so here we are ready having total operation five lots. I'm going to talk about that further.

Hydro Generation, last year we had an even more challenging scenario, here slightly better. The hydro prices I think is very important point, basically but for what is to come, what is waiting for us in the second half-year. It is a very challenging scenario, but that is more to come.

Pecem, during this period we had no dispatch and this year we did have a dispatch. We had also a readjustment in November, and here we are slightly lower because with the dispatch, the cost base increases slightly. And also last year, we did have some adjustments that benefited the Pecem margin. And therefore, these were corrections that had to be done, and we have this difference.

Well, in Trading, we had very good results, not as cheap that we had in last year, but this year very good results, and quite consistent. So in terms of adjusted EBITDA, we went to - BRL523 million to BRL616 [ph] million, so a very positive evolution of 18%.

Bloomberg Transcript

FINAL

If we go to the next slide, well, here you see the evolution of our net income in the quarter. What we have to highlight here, apart from the EBITDA adjustment, is the less positive results in terms of financial results. And that has to do with IGPM that we talked about, and the use of the Hydro and also the -- Hydro plants, I'm sorry, and also the increase of IPC that the -- that we are going to talk about later on. The equity equivalence, we had a positive result basically because of Celesc, which is our subsidiary, and it is improving results. It's still not at the level that we should -- no, that we would like, but it is improving its results consistently.

If we can go please to the next slide, well, here we talk a bit about Distribution. And just to explain a bit of our margin and some of the main initiatives that we are having, here we have a market growth in our two Distribution companies of about 16%. Of course, this growth is more steep in the Residential and Industrial segments, which shows a recovery of our economy. In -- I'm sorry, Industrial and Commercial. In residential, not as much. If the residential sector would have grown as much as the other segments we would have a higher margin, but when we compare this quarter to last year, which was the second quarter of 2020, a period of very deep lockdown, we still have growth in the Residential sector, which is good news and shows consistency. So their deal [ph] year is to continue evolving in the market.

Losses you can see, we had a drop in our losses. So, we continue with our plan to fight losses and improve our network. Last year again we had to suspend some of our services and now they are back in full speed in this quarter, of course respecting the pandemic but already going back to full speed. And we see that we are 1.3% above the regulatory targets, both -- in both Distribution companies, but still very good results.

And the recovery of our revenues by real invested, I think that shows our investments in technologies, and you can see -- whenever we look at this number we see that this number is increasing steadily and showing a very positive evolution. Let's go to the next slide now.

Well, this is a comparison that is always very important. That is how we compare to the regulatory EBITDA. And this is year-to-date data for the whole of the first half-year, not only the quarter. So in the first half of 2021, we have the regulatory EBITDA of BRL571 million and our corporate EBITDA is BRL760 million. Of course, BRL121 million is because of VNR, but still we see growth of BTL571 million to BRL639 million, that is we show that we are more efficient than the regulatory EBITDA, and market value is very positive, less losses and OpEx is still positive. We have a -- slightly a gap on losses and the provision for bad debt.

We have very challenging rules, even you know for a different economic reality. You know that -- the average -- the target always incorporate historical values, we know that are things that have a say in those areas, but we believe that we have room for development. We have developed in recent years and we still have room to develop.

On the next slide we talk about Transmission. Well, here we have altogether eight lots in our portfolio, five of which are ready in total or partial operation, March Lot 24, Lot 11, Lot 7

FINAL

in Maranhao, Lot Q already in partial operation, and 21 as well in partial operation. The highlights here is that we are going to have in 2022 a net RAP of BRL664 million. And if you think of costs 2021, the cycle 2021, we would get to this amount considering the lots that we have, considering Lot 1 that we were awarded in the last auction that adds to this number.

And here, we see all the numbers including inflation rates, but until 2023 for our portfolio we are going to have a net RAP of BRL700 million, so again a positive evolution that shows our developments so far. In the end of -- in the whole of our portfolio, we had 80% of our CapEx already executed, again with Evolution in lots 21, 18 already reflecting in our results, not only because we are accounting for these lots, but also because we are advancing in their construction and in relation to the regulatory EBITDA.

On the next slide, we bring you an overview of our management of hydrological [ph] risks, which I believe is a critical point today and will certainly be so in the next quarter. Here we are showing seasonalization, but we have very consistent results. And again, that's the expectation and our mitigators worked. We have put in place very good contract. So, I believe that we delivered in the whole of the first half-year a margin of 6 -- almost BRL600 million, which is a very consistent, solid result.

Now for the next quarter, how are we protecting ourselves. Today, most of our hedge is focused on the third quarter and we have a total of hedge of 22% for the whole of the year. When we compare to the second quarter, this number goes up 30%. So, the allocation that we have for the third quarter is 30% above that of the second quarter, again very much concentrated on the third quarter because we believe that's going to be the quarter that is going to be most challenging in terms of results.

Most of this energy was acquired last year. We had prices below BRL200 per megawatt-hour. So, we believe that we are quite comfortable to face the remainder of the year although we have more adverse conditions than we expected. If we were to be asked last year or 2 years ago what this year would be like, that's not what we expected.

Here, we talk a bit about leverage and indebtedness. And just for you to have an overview, we are in the end of the construction period for our Transmission companies. So, we still have CapEx to be executed and we still -- we don't have the benefit of EBITDA, at least adjusted EBITDA. So if you take a look at the second quarter, we had a net-debt-EBITDA ratio of 2.8, our quadrant [ph] covenants are 2 times but that has to do with the effect that I talked about.

In terms of cost as in average terms, we had a positive evolution this year. We're able to extend terms with longer maturities. We also completed the process of some of our Transmission companies. And therefore, our average costs have an evolution that has to do with the index rates that -- we have special interest rates that went up.

In terms of debt amortization flow schedule, we see our timeline. Remember that in August, we are going to have new issuances that are expected for the year, namely in

Distribution. And therefore, we see no risks in terms of refunding. And I think that we are in a situation that is fully controlled.

Just a note on the lower bottom index, our gross debt, remember that we have ahead more issuances based on IPCA, particularly in Transmission, as you can see, because we're talking about long-term infrastructure and therefore we are adjusting our flows in the Transmission companies. Many of these flows are capitalized as construction advances, as set by the rules. But you see that in our financial statements and this direct index where you compare against, did that -- you see an increase, but that's why we have a higher weight on IPCA than in CDI, as we have in Distribution and the Hydro plants.

Let's go to the next slide, please. This is a note about our integrated data on costs and provision on bad debt. Comparing the first half of this year to the first half of last year, well first, last year we had lower activity because of the lockdown or the pandemic, especially the second quarter of 2020. So when we compare costs quarter-on-quarter, you naturally will see an increase because of the lockdown. And of course, there is an inflation recovery. We have an IPCA this year above 8%, IGPM clearly above 30%, and that obviously has an impact, more IPCA but IGPM also dragged some of our costs up.

And here when we make the comparisons, we should even recover costs that we had in years before the pandemic. If you take a look at Distribution costs for instance, in previous years, you see a much smoother evolution. And also our portfolio now is different from what we had in the past in terms of breakdown of sectors. But anyway, if you see numbers, if you take a look at the numbers of 2019 and 2021, we are much more online. So, there is no concern. We are evolving. Our cost is still below inflation in a very consistent manner. So, we expect to continue as so.

In terms of provision for bad debt, this is something that really draws our attention. Again, we have quarter-on-quarter since the second quarter last year, and these numbers again sometimes show one event that happens in one quarter and not in the other. So if you just consider quarter-on-quarter, you say, oh, so the second quarter, we increased to BRL34 million, in the first quarter we had BRL30 million.

But if you see the whole of the year, you can see that our costs are very much controlled. Our provision for bad debt is really under our expectations. This is one of the most critical variables together with the control of losses. So, I would say that this is not a concern, quite the opposite, it is a show that we have control over these variables. And then the OpEx gross margin ratio, again we sometimes have the differences in the portfolio. But we have been advancing in a very positive way in recent years.

Now I'm going to turn the call back to Marques da Cruz to complete the presentation. Thank you.

Joao Manuel Verissimo Marques da Cruz {BIO 17072999 <GO>}

Well thank you, Henrique. After Henrique's presentation, it's very clear, our focus and our results for this quarter. Now with regard to ESG, well, ESG is not just a report that we have

FINAL

to fill out. This is something that we truly value. This year we, in our report, are including the environmental issue, but also social and governance. And the idea is in environment to expand our environmental and safety certification in our substations or our EDP's (inaudible).

The advances in solar energy, we have an objective of getting to 1 giga in 2025, and this is our contribution for the environmental area. In the social realm, you know lots of initiatives. We invested in social processes that were related to the pandemic. Also a few years ago, we just opened the Museum of Portuguese language with the presence of several Heads of State. And we are the main sponsor of this museum and the reopening that took place just recently.

We also are working together with the BNDES and other private companies in a program that is called redeeming history and basically focusing on the conservation and revitalization of the Brazilian historical equity. And undoubtedly, we are supporting the inclusion diversity program with several commitments established in the social area.

In terms of governance, we are very proud to say that we have one-third of women in our Board of Directors. This is something very important. It shows a better balance to have more women and more diversity in our corporate staff. And I always think it is very important to make a point and showing in our financial release our ESG commitments.

And this is the final page that talks about our risks. Generally, a company, when we talk to the market we talk about our accomplishments. And it's important to talk about our accomplishments because they are good, but we have to talk about risks. Brazil and the whole of the world -- Brazil, because it has some specific factors, is going through a very important hydrological risk which in Brazil is particularly important.

We have a pressure in terms of cash for distribution companies and other risks. And what I wanted to say is that it's not that we do not know the risks or that we hide the risks. We manage risks it. I think that good management, just not hiding risks, is managing risks, is to be aware of risks. Of course, there are counterparty risks in the financial area. But we implemented concrete measures to manage this risk. When you go for instance to Transmission, of course, we can have differences in terms of time and budget. But with our contractors, we have very specific agreements, therefore mitigating risks.

The same goes for adjustments that we had last year in terms of prices and that will happen this year. This will pressure losses and delinquency in addition to pressure in cash. But again, we have concrete measure to each one of the situation and our numbers will show the control. That's to say back to risks exist, but we are controlling them.

And here, we have the very last page which talks about how 2021 matches our four pillars that are part of our strategy. First in growth, we have our growth very much focused on our core segments, which basically are Networks, Distribution and Transmission. Distribution we are talking about organic growth, Transmission a bit more inorganic because we do have a need to by construction rights.

FINAL

Financial discipline, I think that the market has proved that we deliver financial discipline. We deal with amounts that the market understands. I never make comments about data of the competition, but we do talk about our data. We want to grow but not at any cost. Financial discipline is very important for us to control our results and continue to grow. Efficiency by means of the recycling of our capital and the maintenance of our costs controlled. And finally, we always have to put together innovation and sustainability. I think that the energy transition is something that is very important and really fits. To end this page, we want to be leaders in the energy transition in the country.

Well, now, I'm going to turn back to Marilia so that we can start our Q&A.

Questions And Answers

Operator

Thanks, Marques da Cruz and Henrique. Now, we are going to start our Q&A. The first question comes from Carolina Carneiro from Credit Suisse.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Two questions. First about manageable costs in Distribution, you had some increase in other expenses and provisions. Could you give us some color? Are they are non-recurring expenses? Are they going to go up? And the second is the participation of EDP in the action of CTE3. Do you have other assets that interest you in the segment even with the high competition?

A - Joao Manuel Verissimo Marques da Cruz {BIO 17072999 <GO>}

Okay. Let's start with the first. First thing is first, when we compare the second quarter 2021 and second quarter 2020, we -- there is a factor that cannot be forgotten, COVID-19. The second quarter 2020 was basically the beginning of COVID in Brazil and we know that many things were postponed, action, construction, CapEx. I mentioned the CapEx amount, and also costs.

So when you make a comparison quarter-on-quarter, you are comparing a more normal quarter, which is the second quarter this year, to the less normal quarter, which was the second quarter last year. And therefore, the impression that you have is that there is an increase in costs. But I'm going to turn to Joao Brito Martins, which is the VP of Distribution, but you're going to see that costs are in place. I think that is my overall answer. The costs are in place vis-a-vis the moment that we are going now. Joao Brito?

A - Joao Manoel Brito Martins {BIO 17231643 <GO>}

Well, thank you Joao. That's the answer. Costs are controlled. The thing is that when you compare quarter-on-quarter it's complicated. When you compare quarter-on-quarter with the first-half 2019 and the first-half 2021, in 2019 we had BRL404 million in OpEx, in 2021 we had BRL400 million, so BRL4 million below. So, that shows that our costs that are more than controlled and the inflation rates which just has to do with the work that we

developed in terms of efficiency, dispatches, increase of productivity, optimization of teams, investments, anticipation [ph] digitalization. So, our costs control.

The thing is, as Joao mentioned, last year the second quarter was just the beginning of the pandemic, and we were postponing the investment of CapEx, OpEx just to understand what the pandemic was going to bring to the business. Therefore, if you compare quarter-on-quarter, you see an increase but that is just fruit of the circumstances of the beginning of the pandemic. When you compare 2019 to 2021, the first half of each year, you do see a nominal reduction of costs, which shows that the efficiency agenda is very strong and costs are controlled.

A - Joao Manuel Verissimo Marques da Cruz {BIO 17072999 <GO>}

Very good, Joao. Thank you very much.

Option in transmission, you're talking about CT, E3 [ph], well the amount we bid was public and we were far from the winner of the bids. We were BRL700 million, more than 30% below the winning bid. We would have liked to add the company to our portfolio. We thought that the company had potential. This is a company that needs a huge turnaround, but we are capable and have the know-how to do so. And it also counted on some form of greenfield CT, E3. It is like winning an average auction for the coming years. So, it was a company that interested us and we placed a bid. But of course, the company has problems, so we were cautious and followed our financial discipline. Unfortunately, we were not awarded, others won. That is -- that's it.

I'm going to turn to Luiz Otavio, that is our Transmission VP, not only to talk about CT E3 but also to talk about Transmission and the opportunities and how we face the transmission business. Luiz?

A - Luiz Otavio Assis Henriques {BIO 18353103 <GO>}

Hello, everyone. The opportunity of CT E3 was very well described by Joao. But the Company had to do a deep analysis on the topic. We thought there was an opportunity for growth and we continue to look into other opportunities in the so-called secondary market. Remember, in the last auction we did win a bit and we believe that the market still has opportunity for further consolidation. For example, you have the case of Goias that will probably happen still this year. And so, it's a matter of compensation risks related to that. In transmission, we are prepared with substation technologies to have the 300 [ph] and 500 KV. So to conclude, we are still paying attention to the auction market and the secondary market.

A - Joao Manuel Verissimo Marques da Cruz {BIO 17072999 <GO>}

Thanks, Luiz. Marilia, anymore questions?

A - Marilia Nogueira {BIO 22039088 <GO>}

Our next question comes from Caio from Spartan [ph] and also a follow-on of Carolina Carneiro on this same topic. I would like to know the levels of prices that you have hedges

for the second half of 2021 and the hydrological scenario for 2022.

A - Joao Manuel Verissimo Marques da Cruz {BIO 17072999 <GO>}

Okay, let's start with what is simpler. We hope it rains in 2022, but we don't know if anyone our Planet Earth really knows that for sure. There are several news on El Nino, La Nina, but we really don't know. I think no one in the GP [ph] can tell whether we are going to have rains in the short period. If we go and look in the last 10 years, in the last 10 years Brazil considers this year as more dry than wet. And this is a year that is dry. But more important that dry years are becoming more common and that has a huge impact on the electric sector, especially in Brazil where the hydrological energy is very important.

Well, now I'm going to turn again to our generation to talk about this answer. Luiz Otavio, with you again.

A - Luiz Otavio Assis Henriques {BIO 18353103 <GO>}

Well, to talk about public data, we can get -- get to 10% in November. Obviously, we will have to recover reservoir and therefore our need for hedge is also going to be true for next year. What does it mean? You know that we always have hedges beforehand. We have a position for 2022 in 20%. Remember that Henrique mentioned in the presentation.

For the second half, we have more than 30% hedge with very reasonable prices at about BRL200. So, we believe in 2022 we are going to have more thermal plants to dispatch. Therefore, we are going to have an influence on GSF and we are going to have higher prices. But the idea is, continue the plans that we did this year with a hedge of already 20%. Thank you.

A - Marilia Nogueira {BIO 22039088 <GO>}

Our next question comes from Vitor about the Company indebtedness and the prospects to increase or stabilize it. Also there is another question on the topic talking about the Company prospects considering the increase in interest rate.

A - Joao Manuel Verissimo Marques da Cruz {BIO 17072999 <GO>}

Well, Henrique is going to answer the question. Now, we are at 2.8 net-debt-to-EBITDA ratio, which is completely under our assumptions and plan. There is role in the Company -- well, in Luiz's answer, he talked about provisions and likewise the companies do not have their own provisions. We understand and we analyze the provisions of each one of our companies. But now, I'm going to turn to Henrique, CFO, to answer this question with more color.

A - Henrique Manuel Marques Faria Lima Freire {BIO 19117781 <GO>}

Yes, just about the increase of that, we reached 2.8, but that corresponds to a peak. And now we are going to have the incoming flows of Transmission, they are still not full but they will be. And therefore, when you see the Transmission EBITDA, you have the CapEx, you have the EBITDA, but you don't have the income on flow. But as Joao mentioned, I think that we are very well balanced. This is part of also what we have in our dividend

policies. And I think that we are very much controlled in terms of the debt and the payout of dividends.

In terms of interest rates, they will go up. That is the expectation of the market. Today, we see a unique situation in Brazilian market. The CDI rate is in practice below inflation. So many debts with negative rates, which is a bit absurd in the Brazilian reality. And so, it's natural that the situation is going to be corrected by the end of the year. We believe that the interest rates will go up.

And IPCA, and IPCA Plus, that has an influence on debts that are issued. But I would say that we also have a business with a natural hedge and very effective to an increase with Distribution rates. We have -- we move power par with inflation. And in Transmission companies, we have the RAP revenues also following inflation, in this case IPCA. So in a way, this is a natural hedge for air [ph] increases. You can see a mismatch in all of the year. The fee goes up in one month and not in the other. But if you see the year in -- as a whole, in full, we are fully hedged to balance our revenues and costs. I think -- I hope I have answered your question.

A - Joao Manuel Verissimo Marques da Cruz {BIO 17072999 <GO>}

Thank you, Henrique. Marilia, any more questions?

A - Marilia Nogueira {BIO 22039088 <GO>}

Our next question comes from Mario [ph] about the tax reform. The Company has developed excellent work and good management in recent years. When you talk about taxation on dividends that is being discussed in Congress, I would like to know if you are looking into what can happen even before the reform is passed.

A - Joao Manuel Verissimo Marques da Cruz {BIO 17072999 <GO>}

Well, thank you very much for your remarks. We work very hard every day, the 3,200 people that work in EDP Brasil. And our objective is to create value to our shareholders and to society. Well, in terms of taxation, of course, we are following from close because that is part of our obligation the tax reform. We know that is still not stable. We are looking into the several opinions. Of course, as it becomes more concrete we are going to take measures to protect ourselves.

But I would like to highlight that this reform is evolving to the OECG [ph] levels, which is normal. Remember that OECG countries in Latin America, North America and Europe, there are other realities that in Brazil we still do not have. So if you think of consolidation of taxation -- consolidation of taxable profits, so you have to see the reform within a global balance. And in our opinion, we are still far from this global balance. And I can ensure you this is a topic that we are following from close because it is a point of concern. But in the end of the day, we believe that things are moving towards balance. It is a concern of course, but we don't think it is something that is going to jeopardize our Company.

Henrique, would you like to add to that?

FINAL

A - Henrique Manuel Marques Faria Lima Freire {BIO 19117781 <GO>}

Sure. Well, basically, it is what you said. It's too early for us to make comments because we don't know exactly what it's going to be like. There are some points that concern as a bit, especially a waterfall taxation and taxing less profit and more of the payout of dividends, that's an OECG standard. So, I think this is walking into a conversion.

The problem is when you go into holdings and you have consolidation of companies, I believe that this is still going to be stabilized. Of course, we can have even impacts on our corporate structure, on our companies in Brazil. They could be penalized in the way they are organized. So, the way to mitigate that would be to merge some companies and decrease levels between holdings and subsidiaries. So, that would be a possible move. But we are monitoring that. It is still too early to make any statements. We believe that in the end of the day, they are reaching consensus and we hope holdings are not so penalized.

I would say that this is a major concern. I think taxation of dividends is also a bit excessive. Of course, the government is establishing a rational to set behaviors. But we know that there is still lots of negotiations to go on. So in the end of the day, we have to be cautious and wait for the final results. But of course, we are following and we can have impacts even in the way that we are organized or how we manage our business, not only us but all the companies in Brazil.

A - Joao Manuel Verissimo Marques da Cruz {BIO 17072999 <GO>}

Thank you very much, Henrique. Marilia?

A - Marilia Nogueira {BIO 22039088 <GO>}

Our next question comes from Fernando Abdalla [ph].

Q - Unidentified Participant

Good morning. Congratulations on your results. I'd like to ask if the Company has a target for the composition of its energy sources for the future, that is wind, solar and hydro? And what are your plans in solar?

A - Joao Manuel Verissimo Marques da Cruz {BIO 17072999 <GO>}

Well, the Company now is investing in solar energy. We have, as you know, hydro plants. We do not invest in wind energy at the moment. We have a very clear and ambitious goal of 1 giga in solar by 2025. This target is a combination of several sources to address the market in solar energy as a whole. We are looking into the area and it is an area that interests us.

Carlos, our VP, is going to complete the answer.

A - Carlos Emanuel Baptista Andrade {BIO 17691736 <GO>}

FINAL

Well, as Marques said, in the next 5 years we are going to focus our investments in solar energy. As Joao Marques mentioned, we want to get to 1 giga installed capacity by 2025. And this 1 giga is going to be distributed generation and utility scale. We are developing projects for utility scale. We have two projects on the way that will start generating energy as of 2024. This is a joint effort with our sister company, EDP Renewables, and the other half of 1 giga is in the distributed energy.

The idea is to advance the -- we already have more than 50 megawatt, and the idea is to get to 100 megawatt which is about 1% of the total installed capacity of solar in Brazil in -- called B2B, B2C, and et cetera. By 2025, our project projection with 1 giga is to have a 5% share. So, it's almost a ten-fold increase in terms of installed capacity for solar energy and a five-fold increase in our market share. So it is very ambitious and we are going to focus on B2B large scale or also seeking a niche for the small and medium businesses in distributed generation. That is our ambition.

A - Joao Manuel Verissimo Marques da Cruz {BIO 17072999 <GO>}

Thank you very much, Carlos, very clear. Marilia?

A - Marilia Nogueira {BIO 22039088 <GO>}

Our next question, what are the actions that EDP has taken in social investment due to the pandemic?

A - Joao Manuel Verissimo Marques da Cruz {BIO 17072999 <GO>}

Well, this is a very important topic, social responsibility, not only in the pandemic but always, so I'm going to turn to the -- our VP of ESG to answer the question.

A - Fernanda Nascimento Pires {BIO 22196628 <GO>}

Thank you, Joao. Well, we know that the pandemic is not over. And as Joao mentioned, we have a very consistent agenda. Looking into the social area, we continue with responsibility investment and investing in our agenda. It's always been part of EDP. But last year we had this specific initiative to fight hunger and also to help the National Health System. And we continue with the agenda for 2021. More than BRL5 million paid out in the states of Sao Paulo, Espirito Santo, CRR and Tocantins.

We are working with the authorities. And in addition to actions to fight hunger and health, we also put together a committee for social innovation to talk about projects to generate income and other initiatives that fit more our mid and long-term agenda.

A - Joao Manuel Verissimo Marques da Cruz {BIO 17072999 <GO>}

Thanks, Fernanda. Well, I'm going to now turn the call to Marilia. And it was a pleasure to be with you today. Once again, Marilia and the whole IR team are here for you for any questions or specific clarifications that you need about the EDP Group in Brazil. Marilia?

A - Marilia Nogueira {BIO 22039088 <GO>}

Well, thank you very much. We are now closing our Q&A session. All the other questions that were not answered on the webinar are going to be answered by the IR team. We thank you very much for joining and see you next quarter.

FINAL

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

Bloomberg Transcript