

## Q3 2020 Earnings Call

### Company Participants

- Henrique Freire, Chief Financial Officer
- Joao Manuel Brito Martins, Vice President of Networks & Member of the Management Board
- Marilia Nogueira, Head of Investor Relations
- Miguel Nuno Simoes Nunes Ferreira Setas, Chief Executive Officer and Vice Chairman of the Board
- Unidentified Speaker

### Other Participants

- Analyst
- Carolina Carneiro

### Presentation

#### Marilia Nogueira {BIO 22039088 <GO>}

Hello, and good afternoon, everyone. Welcome to the Earnings Release Webinar of EDP Energias do Brasil. Today, we are going to talk about our results for Q3. I am Marilia Nogueira, Executive Manager of the Investor Relations with the company. The presentation is going to be made by Mr. Miguel Setas, CEO; and Henrique Freire, CFO of the company. This webcast is being casted on our IR website, and it's going to be available on the same platform later on. In the end of the presentation, we are going to have a Q&A session. This is also going to be on the webcast. I'm sorry. And we are going to have Miguel, Henrique and other company executives taking your questions.

Before going on, I would like to let you know that any statements made during this event relative to the company's business outlooks and projections are based on EDP's management beliefs and assumptions and rely on information that is already currently available.

I'll now turn the call to Miguel to start the presentation.

#### Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Good afternoon, everyone. Well, first, I would like to thank you for attending this conference call for the third quarter 2020. And I'll tell you that, today, I have with me our CFO, Henrique Freire; our VP of Network, Joao Brito Martins and other company officers. And the objective is to give you an overview about what our Q3 2020 was like and also talk briefly about our expectations for this year of 2020.

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As we know, this is a quarter that is the start of a resumption. First, with regard to the pandemic, COVID-19, and say that I hope that you are all healthy and safe. But effectively, this quarter, we already felt the effects of this recovery. This is a quarter, with regard of earnings, that has -- was quite solid and robust, and again, giving clear signs, as I mentioned, of an economic recovery.

I'm going to start with the presentation on Slide [ph] three. Just to give you a quicker view on the context we are in. And later on, we are going to give you a bit more color on our results. So, let's go. This is the agenda for today. And I would like to tell you, can we go to the next slide, yes. Remember that we have adopted a strategy that was based on what we call three action phases or 3Rs: R1, 2 and 3, respectively, React in the beginning of the pandemic; Recovery after two months the company -- the pandemic started; and now in the phase that we are in that we call Reshape. And React was when we defined actions to protect our people, our company in terms of operations, our cash position, financial status. And it was a critical period. And as you know, we adopted quite assertive strong measures that enabled EDP when the pandemic hit Brazil to be in a protective, safe position. In this first action phase, there are some highlights that you will remember. First, we reinforced company liquidity by BRL3.1 billion, not only reducing costs and CapEx and dividends, but also canceling M&A projects and issuing BRL1.7 billion in additional resources, additional credit. So, all altogether, BRL3.1 billion, that doubled company liquidity in the period.

In phase two in the results recovery plan what we did was we tried [ph] to set out a plan to recover results. We called it PRR in Portuguese, with more than 57 initiatives and that -- and all of them being monitored on a weekly basis by each one of the owners of such initiatives, and it is something that is already yielding significant results. The sell-side reports already show that in -- with regard to manageable costs, that is cost that can be controlled by the company, which evolved very positively this quarter. And with the drop of 7% compared to the previous year. Obviously, a result of this results recovery plan, in which the cost reduction is the main component. You see on the slide that we believe that we captured almost BRL200 million in amount. The number here is BRL177 million. But with the last numbers, we have already got to BRL200 million. And those basically with the objective to breakeven, comparing our expectations of results and what the pandemic brought to us. So, we are going to come at the end of the year very close to our initial expectations in a nutshell. Also, the resumption of our CapEx, and you're going to see that at our construction works.

We have in transmission, for instance, 79% of CapEx already spent. We also have a line out of the six lines of transmissions. We delivered one of them 12 months before in Maranhao. So again, those Q3 was a quarter to resume work and once again go back to the pace that we are having pre-pandemically. And again, for us, to ensure that we are going to meet our commitments in terms of investments. And in terms of Reshape, well this is what we are looking into the future. Growth, that is on top of our list. New work models. Even the headquarters of the company can be affected. We are changing our headquarters. So, it's a whole reshaping of the company based on the lessons learned in the pandemic, with the prospects of a future when the pandemic finishes, even more competitive for the years to come.

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Now let's go to the next slide, just to tell you the quarter's highlights. In -- with regard to generation and trading, we continue with our strategy of integrated risk management between generation and trading. And therefore, we have hydrological risk results that are quite positive compared to the contract margins, the gap is minor. It is minus one digit. And so, we almost have a full coverage of hydrological risks. Pecem, with availability of rates above regulatory caps and also positive margin. And now in recent weeks, Pecem is dispatching again. You know that in previous months, it was not dispatching as well. But today, with the market conditions that we have, the thermoelectric plant of Pecem has resumed dispatching. And in trading, I think it's important to mention that we adopted the mark-to-market accounting for our trading contract in horizon of four years. This is something that we started to adopt very much in line with the practice recommended by external auditors.

Construction -- transmission, construction work, as I mentioned, 79% already executed and the advance of Lot 11 in Maranhao. So, three already completed, Espirito Santo, Maranhao, and we continue with our construction work at a very good pace. In terms of distribution, a positive sign of us resuming volumes. We know that the first load indicators of October show that the resumption is probably going to be consolidated in the fourth quarter. But compared to the second quarter 2020, it was about 4.9% higher with the two group distributors. It's still in our numbers year-on-year, but already above the second quarter 2020. So once again, we see positive evolution in the residential segment and a bit lower recovery outcomes in the industrial segment as well. And that was a quarter, as you know, of tariff readjustments of EDP Espirito Santo that had an increase of Parcel B of 2.55% and tariff adjustment of EDP Sao Paulo with an increase in Parcel B of 21%, very much a leverage because of the high inflation rates that we had in the period.

And another thing I would like to mention is the increased market share of -- with increased share, I'm sorry, with CELESC, now in a total of 29.9% equity stake in the Santa Catarina company. So, by far, the shareholder with the highest share in the distributed company. Henrique later on is going to talk about our PECL results, delinquency and losses. And you're going to see that, again, in this quarter, we have a quite significant positive evolutions that will be worth mentioning and Henrique is going to talk about that. So, this is an innovation. There were some symbolic landmarks in the company with regard to future businesses with the delivery of solar energy of 1 megawatt to Johnson & Johnson, installation of the first ultra-fast electric station. It's going to be part of 30 stations in the state of Sao Paulo and the first started in Caraguatatuba on the Sao Paulo state shore this quarter. And also, the new downstream segments in which the company is more and more involved with. I would say that, for this reason, the company was named for the first time in the last five -- we had set the objective five years ago. And finally, we're able to be named the most innovative company in the electric energy sector. We started at seventh place and then we moved up and finally Valor Economico newspaper consider us the most innovative company.

In terms of financial position of the company, net debt-to-EBITDA ratio of two times, which was the minimum as we mentioned in the previous quarter as the minimum net debt-to-EBITDA leverage ratio. And we are, as you know, working with our buyback program that, again, we announced when we announced our new dividend policy. So, we are carrying on everything that we announced in the past.

Well, all that said, and not wanting to take too much of our time, I'm going to turn to Henrique Freire to give you more color on the results of this quarter. I'll come back in the end of the call.

## Henrique Freire {BIO 19117781 <GO>}

Hello, good afternoon, everyone. I would like us to go to the next slide to talk a bit about the results of the quarter. I will start with EBITDA. First, the book and then adjusted EBITDA just to show you that we have an adjustment for adjusted EBITDA in distribution last year. We had a delta of BRL230 million BRL203 million, I'm sorry, when we had the tariffs reduced [ph] in the two distribution companies. And therefore, when you look at distribution, you see in adjusted EBITDA we are minus BRL7 million compared to last year, which is practically on line to the same number. Then transmission also corrected by VNR. Remember that as construction work advances at those changes, we have 79% of our CapEx already executed, approximately BRL3 billion. And then with hydro generation, we had the nonrecurrent result of last year, which was the result of a sale of the small hydroelectric company. But at this time, we had results above what was expected because of the energy scenario and our seasonality strategy that make us benefit from the scenario. So, the hedge [ph] of hydrogen (inaudible) would benefit us. To say, [ph] better results, good cost controls, good cost adjustments and trading below impacted, but still above the volumes that we had last year.

It is worth not noting that EBITDA owns the strict control of costs that we had compared to last year. And this is quite relevant. And if you consider relevant or total, basically, it's about 7%. But still a very strict cost control in the period, and we could not do any different as we have already announced to you clearly that this is the way we would follow.

Talking a bit about distribution. Well, in distribution, we have an evolution, as I mentioned, of 3%. And let's talk about the market view. It's very important if we take into consideration the third quarter compared to the second quarter. And we see that we had a recovery. We believe that in the fourth quarter we'll even have better recovery. So, in Sao Paulo 6%. And Espirito Santo, despite high-voltage client leaving, we did have improvement of 2.2%. Residential with a slight drop. Remember that in residential we have the highest margin. But more than offset by industrial, commercial and rural segments. There is all other segments that increased significantly.

In terms of margins, well, they are a bit affected because of total losses. In losses, percentage-wise, we did have a bit of a decrease, about BRL17 million in our margin. But although worst market, we did have a positive result altogether because there was an increase in residential, which is the segment with the highest margin, as I mentioned. And then specifically talking about the losses, we did have a deterioration in absolute numbers, which enables us or which leads us -- I'm sorry -- to lose some margins. But when we take an absolute number of losses, altogether, they are basically the same as the losses that we had last year. A slightly decrease in Sao Paulo, a slightly increase in Espirito Santo but more or less breaking even with last year. And we had mid-voltage segment that had some impact. They just -- they are not segments that are not so high in losses. But anyway, in terms of non-technical losses, they were a bit higher. And with the industry going down, non-technical losses are not that much impacted.

CapEx is back to -- we were able to go back to our CapEx with about BRL507 million executed with a positive comparison compared to last year with BRL400 million year-to-date last year. So, we continue to invest in the projects to improve our network. That's how that has been jeopardized in the beginning of the pandemic. We're still talking about losses. I'd like to talk about the dynamic of losses. Of course, that cut-offs, disconnections were a bit affected, but loss audits were also affected. They just came back after this period. And obviously, this is a factor that had an impact on our results. And our target is even to be more effective as we move towards the end of the year.

Let's go to the next slide, please. Well, this is a slide that is relatively new, and it talks about our recovered revenues. And I would like to show some of the actions that we had, particularly in collection and the work that we had during the pandemic. Of course, our capacity to recover revenue was affected in the second and third quarter, the periods that were affected by the pandemic. It still enabled us to recover BRL425 million compared to last year, which was BRL540 million. It is lower. We were not able to be as effective. Much of that due to the limit that we had during the pandemic in terms of the number of disconnections that we could proceed with, and that limited us well. This is one point. And talking about recovery. I think this is very interesting data that has to do with the overdue balances of regular consume. In the end of '19, it was BRL561 million. That increased by about BRL130 million until June 2020. There is a degradation of BRL130 million because of all the limitations that we had. As we resumed our actions, we went to minus BRL50 million, well, it was still worse than what we were in the past with a gap of about BRL8 million. But we are all the way of recovering, and we are going to see in this new reality how we are going to perform in terms of recovery. And the mid chart is very interesting in terms of showing efficiency that we have in revenue recovery. We're able to be more efficient. This is a comparison between amounts recovered for each amount invested. And you can see an improve in both distributors in this period.

So, I had already mentioned that in the last call, we have developed advanced analytics turn to the market, to contacted [ph] with disconnections, to have our disconnection strategy being more assertive, customer back [ph] credit checks, analytics, quantification of clients that react better to some measures or not. So, we believe that we are gaining efficiency in a long-lasting manner. And the chart on your right, also very important. It has to do with that customer base that we have with the so-called social tariff. We have a problem with data there, especially who is the population that can be part of the social tariff and that is not enjoying the model. And we decided to intensify actions towards this population. And in 2020, we increased the number of the taxpayers enrolled in the system by 105 million.

Of course, we still have -- 105,000, I'm sorry. But we continue to see a positive evolution of the social tariff. Of course, that the social tariff in the regions in which we operate is not as relevant as in other regions of Brazil, but still it is an amount to be considered. On the next slide, we think it's very interesting to talk about the tariff adjustments. And first, I would like to say that in EDP Sao Paulo this is valid as of October, so it did not impact the results of this quarter. We saw an evolution of Parcel B, that was very much driven by IGP-M of about 21%, which is a significant number, and that will impact our results from here on (inaudible) and for 2021. EDP Espirito Santo, we took as reference our IGP-M of July of 9.27%, and again, at the point, we had the reference market that was contracted by more

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than 7% because it was the peak of the pandemic. So, I would say that Espirito Santo despite a lower IGP-M, still 9.27%, we saw Parcel B going at just back 2.55%. But these are the effects. There is this impact of Parcel B. So, it's still a marginal effect, but it is already showing. And of course, the effects in EDP Sao Paulo are going to be much higher.

On the next page, we talk a bit about transmission. And I would like to say that, today, we have BRL3 billion already invested in a total of BRL3.8 billion in six projects, which places us at 79%, 80% of CapEx executed. We expect to get to the end of the year by 85% to 90%. And again, we had some variations and some impacts that are still being felt because of COVID-19. But still, we are quite excited and motivated with the rates that we are being able to reach. And remember that we were able to close Lot 11 of Maranhao already in operation with that already two lots in operation, Espirito Santo and Maranhao. As for generation and trading, I would like to go to Slide number 11, and what we see here is basically the effect of an improvement of BRL66 million approximately in our EBITDA when you add hydro generation and trading and when we see the breakdown of our gross margin. Year-to-date, we say vis-a-vis contracted energy readjustment of minus 34%. That is minus 5%. And now with our mitigation strategy, we did have the impact of minus 5%. Mitigation is never perfect, but it's quite significant. When we compared to last year, last year, we had spot price above BRL200 and GSF of 52%. This year, GSF 66% and spot price is BRL91. GSF in the third quarter in a way helped the efficacy of our hedging mechanisms.

So, this is a point that is quite critical. We have a hedge policy that is very assertive, and we reiterate that we have to always have an annual view because, again, we had seasonalization issues. But this year, again, was very typical (inaudible) market conditions that was very fast. And now more towards the end of the year, we are expecting a higher spot price and lower GSF because of hydrological levels. Anyway, on this chart, you see our seasonalization. We had already shared that with you last quarter, but we continue to have more allocated energy this quarter, which will affect the results both of this quarter and of next quarter.

Now we are going to go to the next slide. And let me talk a bit about Pecem, reaching EBITDA of BRL133.7 million. Here, we have the contribution of more than BRL14 million compared to the numbers year-on-year. Remember that Pecem, in the first quarter, were not dispatching energy. And if you asked me two months ago, we wouldn't thinking (inaudible) dispatch back this year because of the energy levels. It was called in, in September and is now operating again. We have availability that is quite comfortable with regard with company operation. And with the reduction that we have in PMTO that it enabled us to add to the BRL14 million EBITDA in this quarter.

Well, talking about cost controls on Slide 13. As I mentioned before, we had a drop in our costs of approximately 7%. If you think of absolute numbers, we would be talking about 6.7% including all new businesses and non-recurring tax. But again, a quite significant drop in terms of our cost base. I think there is always a concern how much we are just postponing cost or that we are really saving costs. Well, of course, there are savings that are one-off, that is as the economy picks up, they will come back. There is some postponement, but there are also not lasting savings. Just as a reference for you to know, this year, in terms of cost evolution, we're able to evolve and absorb and even more than

absorb the extra consumption of more than BRL20 million in the year. In terms of non-recurrent expenses due to COVID-19, and these include the acquisition of masks, sanitizers, industrial cleaning. So, a whole set of extraordinary expenses of almost BRL20 million, and we more than offset these expenses. And I can say that the prospect for 2021 is to continue to evolve our cost base below inflation.

So, I think that we did capture some of those gains on a more perennial basis. As for collection in PECLD, if we compare the receiving to what we had expected, we know that our consumption is back. And what we see is number that is quite similar to last year. Of course, there is a slight drop in revenue that there is a bit higher PECLD based on the gross margin, but we are at about 11 points -- 1.2%, our number -- the ideal number would be a cap of 1%, so which is above what we would consider optimum. But again, we believe it's quite acceptable, again, given the year we are going through. So, it's important here to have a word of caution. We always depend on the macro scenario, the economy, employment rates. We believe, for instance, that the emergency aid of the government to the most (inaudible) population also quite positive. And we are investing more and more analytics and data information to fight the detrimental effects of PECLD.

As for the next slide, I would like to talk a bit about our leverage. Well, you see that we are keeping a net debt-to-EBITDA ratio of two times. I would like to mention, if you're thinking of the adjusted EBITDA according to our dividend policy, we would be at 2.5 times. Again, partially meeting our targets, a very acceptable value. If you think of the breakdown of our debt, we are basically 50-50 with IPCA and CDI, which is again compatible to our profile. And we continue to manage our debt with the group as a whole, but trying to maximize our tax efficiency related to the raising of funds. And we always have alerts to have the prepayment of any debt that is more expensive. Of course, in Q4, we are not going to advance any debt movement, but that we have lots of maturities for next years, and we are going to work to mitigate any liquidity risk that we might have. We take this very seriously, and we are quite comfortable to face at times with higher demands for repayment of debt.

To close, I would like to talk about our net income just before I turn back to Miguel. And now we are going to see Slide number 15. We see an adjusted net income BRL38 million above last year. The note here goes to the results. You already saw that in EBITDA. And in terms of financial income, we have an adjustment of BRL49 million above last year, first, because of more favorable interest rates and also because of other effects, a recalibrated provision of free energy that's getting some [ph] gains, but also losses with the use of the public goods and the GSF injection that effect at IGP-M, and that had a negative impact in the period. So, all that together led us to have a final result in the quarter of BRL207 million.

Well, now, I'm closing the presentation and I get back to Miguel for his closing.

**Miguel Nuno Simoes Nunes Ferreira Setas** {BIO 15901389 <GO>}

Well, first of all, I'd like to close our conference, telling you about our ESG agenda, that is environmental, social and governance. As we know, this is a hot topic today for the strategy of any organization. And ours, there's no difference. And I would like to give you

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some color about what the company is doing to be positioned in a clear area. We have -- in this agenda, we have a clear commitment, not only with EDP Brazil, but globally, EDP has taken over the objective of committing to reduce the CO2 emissions until the end of this decade. This commitment today is part of the international commitment of the company. We are signatories also in Brazil with the United Nations, namely the Business Ambition for 1.5 Celsius and the Future Will be Better [ph]. These are two commitments that we signed with the U.N. That places us in the leadership position together with companies that are committed to reduce CO2 along the coming years. These reductions have to be performed according to the science-based target that is clear, established objectives validated by science and it is in the sense that EDP signs this document. So, its main mission of CO2, which is the same, already has a time line that is compatible to this international commitment of controlling emissions as of the end of the decade. So, I would say these are two important commitments we took over this year and also our commitment with CEBDS [ph] which is the Brazilian commission for biodiversity. So again, the environmental component taken very seriously by the government.

Socially speaking, I would like to mention our plan, our program of inclusion and diversity. We created our Inclusion and Diversity Committee connected to our Board. You know that the Board had four committees. They now have the fifth, which is inclusion and diversity. And this committee -- yesterday, the Board of Directors approved upon recommendation of this committee a set of objectives for our inclusion and diversity program in the coming years. These are just some. I'm not going to go into details, but more women in our leadership. Today, we have less than 20%, and the target is 20% for the period between 2020 and 2022. So, 20% women in leadership and 30% in -- amongst the overall. Today, the percentage of women is below 30%. So, we have a clear target of having at least 30% of our employees being women.

Also, for new hires, we have a commitment of having 50% new hires with dimensions of diversity, as social ethnicities that are underrepresented in our activity. So, a minimum of 50% of these social groups being as new hires for the company. And also a commitment to invest in diversity and capacity building programs, and basically, racial education, that we believe are going to be very beneficial for the whole of the company so that company leaders are actually trained in that to be able to deal and to be very assertive and proactive in adoption of this commitment and these programs of diversity and inclusion so that they are educated on the topic and they have the necessary know-how to act responsibly with this regard.

In governance, I do not want to repeat myself. So, we are always talking about these practices that we adopted in our structure in Brazil and also all over the world. You know that EDP is a company today that is considered to have the highest levels of the governance. But very specifically, with regard to our reality, I would like to highlight two things. First, the change in our dividend policy and our capital structure. We made the decision in Brazil for that. And we have the buyback program as it was proposed and approved by the Board of Directors in Brazil.

And finally, a word about our strategy for risk management, risk management governance that we believe in terms of pandemic was perhaps the most important instruments for the company to position to face COVID-19. Today, we have a risk management area that



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understands all company risks, cyber security, work safety, bio safety, health safety, things that were advanced [ph] by the pandemic and that we prepared to act. And these are one of the defense lines in (inaudible) lines, internal audit is the third line, internal controls are the first line. And therefore, I would like to make a clear mention about the advances that we had. Not only in breaking down those responsibilities. Today, we have a compliance department, internal audit department, risk department, all of them with separated responsibilities, which was not like this in the past. We have them all together. To-date, we have three separate owners for each one of the areas, which we believe is a must for us to separate responsibilities and a very robust strategy in terms of risk management, which we believe in the pandemic was one of the highlights of how we position before COVID-19.

All that said, I would like to close with this ESG component. Just to tell you once more that this is one of the topics that is certainly part of our strategic target in the company and (inaudible) and the management are very much focused on that just to ensure that EDP is positioned in the right way in each one of these dimensions.

With that, I turn it back to Marilia for us to start our Q&A.

## Questions And Answers

### Operator

(Question And Answer)

The first question comes from Carolina from Credit Suisse.

### Q - Carolina Carneiro

Good afternoon, everyone. We already see an improvement in activities and consumption in Q3 2020. As it is just the beginning of Q4, what is it like in terms of volumes and collection? Is it the same rhythm of recovery? You say that the industry segment is getting better? Could you talk a bit more about that?

### A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

So Brito. Well, you are on this call, so I think that you could take this question.

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

Hello. Good afternoon, everyone. Yes, we are feeling some improvement in consumption (inaudible) as we had a higher consumption in the same month last year. And in October, we continue so. During the year, we are still negative. We felt the effects of temperature in the residential segment. That is higher consumption, but also in the industrial segment, we are seeing a recovery of the industry Espirito Santo. So we are talking about an increase of about 5%. And in Sao Paulo, we are probably going to be in line with the last year of showing recovery.

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As for collection, what we can see, it's a trend of improvement, which is a direct consequence of the actions that we had during the pandemic, continuing with meter reading, the disconnections -- that the announcement that we had interrupted disconnections and the -- a higher number of collections, administrative collections. With that, we are able to have a good collections levels. And now as we resumed disconnections, we see that we are very much in line with what we had year-on-year in August and September. Of course, the increased unemployment rate is a point to watch for. What we believe in is that, from now on, we think we have the right strategy in place which will enable us to improve our collection indicators.

## Q - Carolina Carneiro

Thank you, Joao.

## A - Marilia Nogueira {BIO 22039088 <GO>}

Thank you, Joao. The second question is still Carolina Carneiro from Credit Suisse. She talks about trading. Are you feeling the competition of new players that want to go into new market in anticipation to the retail migration? And if so, has it changed your strategy?

## A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Well, thanks, Carol, for your question. We have a long-time tradition in trading, as you know. Trading with EDP dates back at the beginning of 2000. So it's been 20 years already. I would say EDP trading company is an operation that has a long history. And that enabled us to develop very solid relations with the market, with our clients. And by the way, last year, on the top the -- we have the highest transactional volumes in the free market, which is typical because of our market share in generation and distribution is not first in the ranking, but we were the company with the highest transacted volume for the year of '19.

All that said, we have a customer base that is quite extended throughout the country, a customer base that has a history of long-term relationship with us. And our strategy is just to continue to bet on the segment strongly. Today, we are already prepared for a broader market opening with the possibility of the trading company, not only operating in the B2B market, but in the retail market, which is a completely different operation, credit policies, commercial relationship of the operation model for retail is completely different for the operational model for B2B.

But today, as we speak, we have internal teams with consultants working to get study for a broader market opening. And for now, we have not noticed a major change in terms of the competition scenario. But we know, of course, that there are lots of companies, namely transmission companies, that are getting ready to those more expanded free markets. So we have to wait and see how it evolves in the coming months, but we are strategically very much focused on the segment and as really be effective of B2B is to keep at the top or that -- or if not, at the highest level of the ranking for this market.

## Operator

Bloomberg Transcript

Thank you, Miguel. Our next question comes from Joyce, an individual investor.

## Q - Analyst

What are the prospects for the next half year? We see a recovery of the economy in terms of COVID, but we can have a second wave as we saw in Europe. How do you view this possibility?

## A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Well, thanks, Joyce, for your question. Well, unfortunately, none of us has a crystal ball to know exactly how the pandemic is going to advance. In Europe, as you mentioned and very well put in your question, we are going back to the levels that are worrisome. The levels that are being released today are already higher than what we had in the first wave. And we fear the collapse of healthcare systems, obviously. As you saw today, financial institutions here in Europe are making very cautious announcements. And there is a prospect of economic deceleration for the months to come, again, provoked by the second wave. We don't know what it's going to be like in Brazil and how this is going to happen.

As we have seen now in Brazil, the pandemic curve has set a gradual reduction. And perhaps it may be the case that the second wave is just the continuity of the first wave, not as it happens in Europe, which was really a reduction and then a pickup. But we are monitoring that, and what we see in the numbers of EDP and in the numbers of the market is a clear deceleration of the pandemic in Brazil. But we are very much paying attention to what's going on in Europe. There is the possibility of a second wave. I don't know how possible, but there is a possibility. And of course, there is reflects of our expectations to recover economically. And it's so much so in Europe as well.

## Operator

Thank you, Miguel. Our next question comes from Pedro (inaudible).

## Q - Analyst

Good afternoon. Could you talk about the low-voltage shielding project in Espirito Santo? Has COVID changed your schedule? Where do you expect the results of this strategy reflect on your bottom line?

## A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Joao Brito?

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

Well, Pedro, thanks for your question. Well, COVID did affect our time line a bit for two reasons. First, in the beginning of the year, we had a delay of some equipment that was being manufactured in China is because of COVID restrictions delivery was delayed. And then because we made the decision to protect the cash to delay the investment. So we expect to deliver the profit in the first quarter of next year, the six months later what we

have previously expected. As for the impact in our results, this is a pilot project with a bit more than 50,000 clients. And therefore, the impact for next year is going to be felt in OpEx, but marginally, because it is 50,000 out of 1.5 million clients. And our expectation based on the results of this pilot is to assess its implementation in other regions. And then, yes, with more clients and highest impact. But that's it, six months delay because of what I mentioned.

## Operator

Thank you. The next question comes from Flavio from (inaudible) Investment (inaudible).

## Q - Analyst

I would like to know how much interested the company is in privatizing (inaudible). And if you think the action valuation is attractive for a possible bid?

## A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Thanks for your question. If it be elected, three key areas for investment. These areas are distribution, transmission -- and distribution, solar energy. These are the main priorities for the company to allocate capital in the coming years. Therefore, the privatization offset is part of the company's strategic objective. So we have to look into that. I wouldn't say more on that, but we are going to see how interested we are in the company.

Valuation, BRL1.4 billion, that is considered minimal in this auction. We believe it is quite compatible to the multiples of transactions that are performed -- that have been performed in Brazil in recent years. Yes, in terms of the consolidation in distribution area. So we see those amount that is as perfectly in line with market practices for this type of operation.

## A - Unidentified Speaker

Thanks, Miguel. Carrying on with M&As, we have two questions from individual investors, Erico and Jorge. If you intend to take part in coming transmission options, then what is the strategy that you consider for the next auction?

## A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Is that Erico?

## A - Unidentified Speaker

Yes.

## A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Erico and Jorge.

## A - Unidentified Speaker

Yes.

### **A - Miguel Nuno Simoes Nunes Ferreira Setas** {BIO 15901389 <GO>}

Well, thanks for your questions. Well, as I mentioned, we have three priority areas for investments, distribution, transmission and distributed generation. So distribution option is one of the opportunities that the company has a strategic interest in. And we are assessing the several lots, defining priorities. As you have seen, EDP has always chosen projects with controlled risks, controlled risks in terms of the land, environmental issues, regulatory issues. So we have a prioritization and a very strict choice in terms of investment targets. And therefore, once more, we are filtering all data to ensure that the company is going to do as it has always done with this investment in generation and transmission to deliver things on time and with technical efficiency. I think this is one of our signatures. And we are not going to do away with that.

We have to think of projects that have synergies with our projects, which are more interested -- but which are more interesting, but we are not going to restrict ourselves to synergies. We have to take a look at the whole and conduct our risk analysis as we have been doing. And just to add, we have to consider profitability. We have been very demanding and shown in recent years. We lost three actions because we decided not to allocate capital when profitability starts to be too much compressed. We have a commitment with our shareholders (inaudible) and with the market of not doing away with our profitability. We have minimum criteria for capital allocation. And they are clear, and they are even more clear in the dividend policy. And this is the criteria we want to abide by.

### **Operator**

Thanks, Miguel. We have a final question from Luis from (inaudible).

### **Q - Analyst**

Considering that EDP distributors have an industrial -- a part was directed to the industrial segment. What we see in the coming years is a migration to the free market. What is the risk of overcontracting? And how do you want to mitigate the risk in the future?

### **A - Miguel Nuno Simoes Nunes Ferreira Setas** {BIO 15901389 <GO>}

Very good question. I'm going to turn the call to (inaudible), and I would like him to take this question.

### **A - Unidentified Speaker**

Hello, good afternoon. Well, we always monitor clients migration. And whenever our clients said they begin to migrate to the key markets, we have some mechanisms to get back to the energy that we have contracted in previous options. If we cannot give the energy back because the contract has closed and we want to decrease the contracted volume, this is considered in voluntary exposure. And then we monitor that. We report to now -- but we mitigate the risk because we did the most to mitigate the volume of contracted energy.

## Operator

Thank you very much, (inaudible). We are now closing our earnings release webinar for Q3. The video is going to be available both in Portuguese and the interpretation into English. And see you next quarter. Thank you very much.

FINAL

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