EDPR

Thursday, 19th December 2024
18:30 Hours UK time
Chaired by Miguel Stilwell d' Andrade

Company Participants

• **Miguel Stilwell d'Andrade**, Chief Executive Officer

• **Rui Teixeira**, Chief Financial Officer

• **Miguel Viana**, Head of Investor Relations & ESG

Miguel Viana: Good afternoon, everyone. Thank you for joining this webcast focused on today's announcement on the decision not to proceed with investment in wind projects Alpha and Beta in La Guajira, Colombia. We have with us our CEO, Miguel Stilwell Andrade; and our CFO, Rui Teixeira, which will cover a brief three-slide presentation on the topic followed by a Q&A section, on which we will be taking only written questions via the chat of this webcast. So, if you want, you can already place your questions there. We know that it's already quite late afternoon, so we expect this to cover all the key topics, and the call should take no more than 30 minutes.

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

Miguel Stilwell d'Andrade: Thank you, Miguel. Good afternoon, everyone, and thank you for attending our conference call. I know it's short notice, and I know it's also a period when many of you may already be either off or beginning to think about going off, but we did think it was important before this period to put out this release and also to do this call to explain the decision why we're not moving forward with the Alpha and Beta projects in the La Guajira region of Colombia. I mean, in conclusion, this is a tough decision, but this is an isolated case and where the bulk of the liabilities were assumed in 2019, 2020. And following 2022, we've been trying to protect the value as much as possible.

So, the objective of the presentation is really just to provide detail on the situation, the factors influencing our decision-making process, like why we got here, and clarify any questions you might have. So, I'll just go through -- it's very short couple of slides, and we will also touch on the financials. If we go to the slide talking about the project, so EDPR entered Colombia in 2019, so the project is off in Beta. I think many of you know this. So, it was known for its good wind resources at a net capacity factor above 50%, 500 MWs, a transmission line of around 81 kilometers that was absolutely critical to connect these projects to the electricity system. EDPR secured environmental permits for the two wind farms in August of 2019.

Later in October 2019, EDPR secured PPA contracts in a government auction for 1.7 terawatt hours per year to renewable energy over a 15-year period. Subsequently, EDPR contracted a substantial part of the capex, namely the turbines and the BOP, to fulfill its obligations under the PPA. The contracts of these PPAs were expected to start delivering energy in 2022. This capex, the turbines and the BOP, corresponds to the major part of investment and the responsibilities that EDPR still has today. During the following year, so in 2020 and '21, obviously there was COVID-19, the pandemic, there were significant delays in the environmental permitting process for the transmission line, namely because of the indigenous communities consultation.

So, to mitigate delays on the commissioning of the projects, namely the PPA energy obligations, EDPR initiated the transportation of the turbines to Colombia. In late 2022, after a change in government, there were substantial adjustments requests for the interconnection line environmental permit. So, this created a material delay in the development process, included increasing the number of local indigenous communities from 56 to 113 in a very long and complex process. Simultaneously, EDPR started working with the newly elected governments and all the relevant institutions to mitigate the delay effect on the projects and to address the economic imbalances affecting it.

And this resulted in an emergency decree published by the government, which suspended the PPAs. Unfortunately, it was then annulled later in October of 2023. And I still believe the project was viable. Since then, EDPR has taken every effort to address the situation, including bilateral renegotiation of the PPAs, with more than 80% of the total energy delivery obligations suspended by more than two years, so until mid-2027. On the transmission line permit, we reached protocol agreements with 100% of the 113 local indigenous communities. And the expectation, although this is already very delayed, is to have the permit granted in next February. As I say, this has been delayed again and again, and that's one of the issues.

Moving on to the next slide. So, the projects are in advanced development stage. They have the permits to build the actual project. The transmission line environmental license is expected to be awarded in February '25, although as I said, this has been successively delayed. We have the protocols established with the local communities. We've successfully renegotiated a significant part of the PPA contracts and suspended around 80% of the committed energy for over two years so that we are not bleeding cash. The 90 turbines are securely stored in the port in La Guajira, and they've been subject to constant maintenance works and ready for deployment.

However, despite all of our efforts and all of this work, there remains a lack of clarity on improvements to the regulated revenues, particularly concerning the reliability charge of the cargo por confiabilidad mechanism, which could make all the difference in the financial viability of these projects for EDPR. So, given all this, EDPR believes that these projects no longer fit the company's investment criteria and risk profile. Just given the delays in obtaining the transmission line permit, it's led to substantial costs. There have been supply chain renegotiations, PPA energy delivery costs, financial costs, and other expenses.

Since 2019, there's been also a very strong inflationary trend in construction costs, increasing the additional capex that would be required for these projects. So, looking ahead to see if we could build these projects that's also -- that's increased over time. Recent government approvals of certain legislative changes have also negatively impacted the economics of the project, so altering our initial investment assumptions. And some macro negative impacts like the Colombian peso devaluation against the dollar, coupled with an increase in local interest rates has also further penalized our risk-return view on these projects. So, a series of issues which have led us to our decision today.

Now I'll just pass it over to Rui to talk about the financial implications of this.

Rui Teixeira: Thank you, Miguel, and good afternoon to you all.

So, just moving to the last slide. So, given the decision, EDPR estimates that potential losses associated to these projects could reach about or up to EUR0.7 billion, and that is including the full impairment of the two projects and about EUR0.2 billion that are related to guarantees and estimated liabilities that potentially could be paid in the future. So, at EDP level, after netting minorities, the net profit impact is estimated to be approximately EUR0.5 billion. But maybe just to be precise on the EUR0.7 billion potential impact at EDPR level, this basically includes two blocks. So, it's EUR0.5 billion, which is related, or are related to the historical investment value primarily associated with the purchase value of the turbines and the development and permitting costs of these projects.

And then a second block, up to EUR0.2 billion related to the current estimated liabilities potentially to be paid in the future. This would impact only after debt. In terms of the cash in net debt, this would not be impacting year-end 2024. So, these estimated EUR0.2 billion liabilities would be paid and may only occur in 2025 onwards. So, that would be that additional impact in net debt, but not in 2024. The EUR0.7 billion estimated losses will be treated as a non-recurring event. It will not have any impact in the recurrent net income. It will not have any impact in both EDP and EDPR's dividend distribution policy.

So, with this, Miguel, I'll hand it over to you for closing remarks.

Miguel Stilwell d'Andrade: Okay. Thanks, Rui.

So, again, reiterating, it's a tough decision, obviously not one we'd like to take, but we think it is in the best interest of the company at this point to take it. It is an isolated case. The bulk of the liabilities were assumed in 2019 and 2020. And following 2022, we've been trying to protect that, as I mentioned, but we need to stick with a capital disciplined approach. And we -- to move on, these projects would imply an additional $400 million of investments at least. And these projects are penalizing the company, both in terms of earnings and cash flow, and the projects don't fit the risk profile of EDPR as we see it moving forward. So clearly, Colombia is out of our core low-risk markets, with Europe and the U.S. representing more than 80% of our investments. And so, that's where we will continue to focus most of our growth efforts and strategy.

I think apart from that, EDPR, as you know, does have a good track record as one of the leading companies in renewable energy development. We have consistently delivered successful projects across the globe. I mean, just today, we were reviewing some of our U.S. projects coming in on time and below budget. And so, I would like to treat this as an isolated case, which has the impact that it has, but it was just not at all a reflection across the wider geographies and portfolio that we have. And overall, our commitment to being really excellent in this renewable energy sector remains unwavering. So, I think that's really the focus of the business and of the teams going forward.

So, I'll stop there, and I think we can move on to Q&A.

Miguel Viana: Yes. Thank you, Miguel. So, we have here already some questions from analysts. So, the first question comes from Pedro Alves from Caixabank BPI and also Javier Garrido from J.P. Morgan, and it's an update on the sale of the project and if this is a worst-case scenario, EUR0.7 billion?

Miguel Stilwell d'Andrade: So, the answer is we have an ongoing sale process since May of this year, and the EUR0.7 billion is a worst-case scenario. Obviously, if we are able to sell, then this value would be lower, but we are not treating that as the base case. So, over the next couple of weeks or a few months, we should be able to get more visibility on that, but I would not treat it as the base case.

Miguel Viana: Then we have a group of questions related with the accounting of the impairment and losses and also regarding tax treatment. These questions come from Gonzalo Bordona from UBS, Jorge Guimaraes from JB Capital, Daniel Rodriguez from Bestinver and Jorge Ruiz from Barclays.

Rui Teixeira: So, in terms of accounting, what is related to the impairment of assets, this will go through depreciation and amortization line as a non-recurring impairment. The provision, this up to EUR2 billion, would be provisioned or booked above EBITDA line also as non-recurrent. We currently are not considering any tax impact. So, the EUR0.7 billion, you may consider that gross and net of tax is the same amount. Again, just to be clear, EUR0.7 billion is at EDPR level, then net of minorities, it would be approximately EUR0.5 billion on recurring at EDP level.

Miguel Viana: Okay. Then we have a group of questions from Jorge Guimaraes from JB Capital and Daniel Rodriguez from Bestinver regarding what is the EBITDA impact of Colombia expected in 2024 and if we have some impact expected in 2025?

Rui Teixeira: So, '24 the net profit impact that we estimated at EDPR level is about EUR70 billion -- sorry, EUR70 million. So, that's what we, I think, guided back in the nine-month presentation. So, that's approximately the same value that we are expecting.

So, EUR70 million net profit impact at EDPR level. The provisions that we are right now estimating that we will book will include some of these potential future costs that we would have to incur in 2025. So, in 2025, we do not expect to have any impact on our P&L.

Miguel Viana: So, then we have here a question from Pedro Alves regarding in the future, will you consider entering new non-core countries through equity stakes to reduce equity exposure?

Miguel Stilwell d'Andrade: I think we are really focused on our core markets, markets that are sort of in the low- risk geographies that we've talked about, whether it's in North America, U.S. basically, Europe, some specific countries in APAC. But we will be very focused on really the low-risk markets. So, we are not thinking of entering any other sort of higher risk markets. In fact, as you know, we've been talking about and focused on reducing the number of countries down to a much lower number. So, we're currently above 20, so below 20 countries, and where we think we can have sufficient critical mass and sort of more long-term growth. And so, getting out of less interesting markets.

Miguel Viana: We have here also a question from Jorge Guimaraes. Does this end the potential liabilities in Colombia? And if there are some probability of further losses or litigation?

Rui Teixeira: So, just to be clear, the EUR0.7 billion is what we consider to be the worst-case scenario. Again, part of those EUR0.2 billion, those include some guarantees, some estimated costs that we may have. So, that's the maximum amount. I would actually highlight the other way around. Obviously, the company will be looking to all -- taking all the necessary legal actions to protect our position for the future. But this is the worst-case scenario that we currently estimate.

Miguel Viana: I think we have here one last question. It's from Jose Ruiz from Barclays. Can you disclose the components of the EUR700 million negative impact?

Rui Teixeira: Okay. I may, just again, maybe I'll repeat to just be clear. So, the EUR0.7 billion is split in two blocks. EUR0.5 billion, this is -- it will be an impairment on the assets that we have. So, basically, what we pay to the turbines that are lying in a port in Colombia. That will be booked as a non-recurring provision at the depreciation and amortization line, so below EBITDA level, this is EDPR. Then there's a second block, EUR0.2 billion estimated or up to EUR0.2 billion estimated. Those are either guarantees or potential costs that we may incur throughout 2025 or in the future.

And that will be booked as a provision, a non-recurring provision above EBITDA, so

in other losses.

So, in total, we will have this EUR0.7 billion, same value net of taxes. Again, this is at EDPR level. At EDP level, it's EUR0.5 billion net of minorities.

Miguel Stilwell d'Andrade: Well, just to finalize, so just to reiterate, obviously it's a tough decision, difficult decision, but I think it is in the best interest of the company at this point to not continue to invest more in these projects and limit the impact it has on future years in EDPR. It is very much an isolated case, as I mentioned. And so, hopefully, we can put an end to this situation in Colombia and not have to talk any more about it in the years going forward. So, if you hear anything more from us from Colombia, hopefully it will be only positive news. But basically, we'll put an end to this discussion. Thank you.