

REN – Redes Energéticas Nacionais
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Corporate participants

- **Rodrigo Costa** – Chief Executive Officer
- **Gonçalo Soares** – Chief Financial Officer
- **João Conceição** – Chief Operational Officer
- **Ana Fernandes** – Head of Investor Relations

Conference participants

- **Jorge Guimarães** - Haitong Bank S.A., Research Division - Equity
- **Sara Piccinini** – Mediobanca, Analyst

Presentation

Ana Fernandes

Hello. Welcome to our first half results conference call. Thank you again for being here on a Friday afternoon. As usual, I'm joined by Rodrigo Costa, our CEO; and Gonçalo João Soares, who will do his usual results presentation; and João Conceição, the company's COO, who will also be ready to answer any questions you may have in the end. Rodrigo?

Rodrigo Costa

Thank you, Ana. Good afternoon. Thank you all for being with us for this results call. Results are in line with the market expectations. During the last quarter, we didn't have any special event to report. We kept our focus on the operations and our regular management activities. I must refer that we maintained some extra focus on integration of Portgás. So far, we are quite happy now that process is moving, and I can say that all is happening according to our best expectations. Our quarter results are showing that we were right in making this and the Electrogas investments.

Total EBITDA benefited from the integration of Portgás distribution activities, but was penalized by lower interest rates than in the first half of 2017.

Net profit was flat versus last year. Results were hurt again by the special levy on energy companies. And I can anticipate, with some frustration, that contrary to my own expectations, the case is not having much progress, and we are still waiting for the court decisions. The delays that we are suffering are considered to be irregular by our legal advisers, and there is not much we can do about it.

Our financial teams are doing a great job at keeping financial costs down despite a slightly higher level of debt, and that is something I would like to highlight. Regarding operations, this year, we are not having the wildfire challenges that we had last year, and that's very good. And service and security levels have been kept at normal -- very high levels.

Last May, we presented -- as some of you know and attended, we presented our strategic plan for the next 4 years, and the main drivers are precisely linked to keeping the focus on operational excellence, focus in Portugal, stable business, with a solid financial performance.

The government is moving with their plan of licensing more solar generation projects. Just by coincidence, yesterday was inaugurated the first plant that has been connected to our -- one of our substations. This is a 46-megawatt project. It is the first of several that will require investments on our side. According to the information we have, there are over 4,000 megawatts of licenses under evaluation. And of course, not all of them will be granted, but there is a lot of positive expectations from many promoters.

From my side, this is my introduction. And I will now move to Gonçalo. He will do the presentation, and then, like Ana said, the 3 of us will be ready to take any questions you may have.

Gonçalo Morais Soares

Hi. Hello, and good afternoon. So in terms of main highlights and complementing following on Rodrigo, so we have an EBITDA of around EUR 252 million, which is an increase of close to EUR 10 million, or circa 4%. This is mainly explained on the positive side by the Portugás integration and, I'd say, on the minus side by the evolution of the rates of return, which, I'd say, are completely within line. Slightly, I'd say, rates came down a little bit more than expected, and we'll go into that, but I'd say, more or less in line with what we expected. And that means that net profit is basically in line with last year, and this results also because of higher amortization despite the fact that financial results continuing to improve, not as much as in previous years, but continuing to improve a little bit.

Finally, ending the highlights. So as you saw, we sold the LPG business. It was something which was fairly not strategic for us. It was our intention to do selling. It brought a nice windfall of around EUR 4 million, which you see also reflected in our net income.

So moving on and going to Slide #4 directly, as Slide #3 is just the main highlights. You can see in Slide #4 the evolution of the rates. And I think that Portuguese bonds as well as other bonds have had, in the past few months, I'd say, a pretty positive evolution and, I'd say, a little bit more than expected, which means that the base rates are

coming down a little bit more than anticipated, but not a lot more. And so we have now base rates of electricity of around 5.2% and in gas of around 5.5% in transmission and 5.8% in distribution.

Coupled with this and in Slide #5, you can see CapEx numbers. CapEx numbers, as you know, in the middle of the year, are not very relevant yet. As you know, most of the CapEx done in transmission is done in the second half, but they are more or less in line, given the fact that we are already including around EUR 9 million that we are doing in Portgás this year. Transfers to RAB are actually increasing a lot because of some projects that we have already under construction at the end of the year, but were only concluding and had license awarded at the beginning of this year. At the personal best, I would say that it's in line with what we've expected, having the budget.

In terms of the average RAB, what you can see is that it's going to -- up around 11%, and this is mainly -- and this is in Slide #6. This is mainly due to the consolidation of Portgás, and it brings around EUR 460 million, of course, and in line with what we've told you before, and this is exactly why we also did Portgás transaction. If it was not for this, the average RAB would be coming down around EUR 75 million, which is what we've been expecting. Again, I stress that this change in the middle of the year is always slightly higher or much higher than the average of the full year because, as I said, most of the CapEx on the transmission business is done at the end of the year while the amortizations are more or less the same along the year. But as you can see, we are still growing electricity with premium and decreasing the other parts, namely, electricity without premium.

If you join these 2, evolution of rates and evolution of CapEx, you can see in Slide #7 the impact in RAB remuneration. So we see that in both cases, in electricity and in gas, you see a decrease. And this is mostly the impact of the rates of return in both cases. In gas, you also have slight decline of the regulated asset base that is being felt. But apart from that -- and in gas distribution in Portgás, you actually see that the balance is -- despite the fact that we have the impact of all the rates is much smaller because we have the asset base growing along the year.

In terms of OpEx, again, the numbers are a little bit -- not confusing, but they are impacted or distorted by the fact that we acquired Portgás. You see that there is EUR 11 million of OpEx that you have in there. And apart from that, I'd say that if you look at the next slide in Slide #10 (sic) [Slide #9], you see that core OpEx is growing by EUR 5.7 million. Part of this is clearly Portgás. If not, it would come down. But in terms of, I'd say, the normal transmission business, I'd say, flat -- costs are -- core OpEx are more or less flat, going down only a little bit, which, I'd say, is also in line with what we are expecting for the year. Okay, what you actually see is other costs like the ITC mechanisms and NG transportation have an impact, but those, as you know, are extra costs, okay? So I'd say that in terms of OpEx, we are in line with recent trends of still trying to decrease costs, but not at the same speed or not as much as in previous years because we are already at the (inaudible).

So moving to Slide #10. You can see the full impact in terms of EBITDA with all of this effect. So as I said, you have, on one side, the Portgás EBITDA, the gas distribution EBITDA, going up around EUR 20 million, asset remuneration and the recovery of amortizations coming down almost more or less the same amount. And then you have a good impact in terms of OpEx also due to Portgás. But then you can see in the last one in Electrogas, and I can give you a small -- a little bit more detail on this, coming down a little bit on a year-on-year comparison. This is due to the fact that

in the beginning of the year, they have a little bit less, what they call, interruptible contracts, so they're variable contracts because of less exports they have done to Argentina. But I'd say that looking at the forecast that they have, the company is pretty much in line with what we expect, and we don't really expect any negative impact on a year-on-year going forward.

So that explains EBITDA. If we look below EBITDA and depreciations, again, these reflect also the fact that we are having gas distribution into the mix. If you take that out, they are more or less flat. They're actually decreasing a very small amount.

Financial results. As I said, I'll comment a little bit more in the next slide.

On the tax side, you see this unfortunately and, as Rodrigo said, we are still paying the fare and extraordinary tax. It's still burdening it with more than EUR 25 million. There is no new on this yet on a year-on-year comparison. And there is, I'd say, a slight negative nonrecurring impact because last year, we had some extraordinary recuperations from fiscal authorities, which is a normal processes, but they were slightly higher last year that impacted slightly negatively on a nonrecurrent basis the taxes and the net income this year.

Looking at financial results, I'm going to Slide 12. So what you can see is that financial results are improving. Net debt is also improving. So the average cost of debt has been coming down. It's around now 2.3%. And this is, I'd say, what we've been giving you as guidance also for the year that it would not -- and it's been coming down, but it would not this year come down as much as it had in previous year. It has still come down a little bit. But at the same time, we acquired Portgás and so the level of that has come up. But also, as we said, cash flow would improve a good bit and so we've been able to actually decrease net debt ahead of schedule. But that in terms of credit metrics, we are in a comfortable position with what we've been telling the rating agencies. And I'd say that there is no major news here on the horizon, and we'll see how we move forward in terms of refinancing. But as of now, we have no need to do any additional refinancing in any immediate time, but we'll consider doing this as market conditions are good for that.

So in looking at Slide #13, it's just a mix of both impacts, so that's why you get net profit pretty much, I'd say, flat on the first half.

Finally, in concluding with Slide 14, I'd say that there is -- as I said -- I commented on LPG already, I'd say that the dynamics of the numbers speak for themselves and are very much in line as (inaudible) is our own expectations for the performance of the company.

So thank you very much. And with that, I would open up the floor to any questions that you may have.

Q&A

Sara Piccinini

I have some question. The first one is regarding your potential external opportunities. The press was reported -- reporting about possible interest in electricity distribution concessions in Portugal, if you can please comment on that. And if this is confirm, what is the timetable of this tender? The second question is on another article that came out about consumer association that warrants that gas distribution companies are overcharging about the subsoil tax. So they want this to be paid from distribution companies, while the budget law -- as established by the budget law. So how this could affect Portgás? And also, if you can confirm about your contract with EDP, when they sold EDP Gás, if this is included in the contract. And finally, a question on the government. Could any takeover on EDP from Chinese company affect also REN's shareholders -- shareholding structure?

Rodrigo Costa

Okay. Thank you, Sara. I will start with the first question about the potential opportunities. No, we are following our strategic plan. We don't have anything to report at the moment. We're still in the process of learning what's going to happen in terms of future availability of licenses for distribution in Portugal. We don't -- what we know is the public stuff that is under consultation still very, very early in the process, and there is nothing really we can share. We didn't even discuss these at board level. It's just too early because we still need to learn, and this will take time. As soon, of course, as we take a decision, we will be able to talk about it, either being go or no go or interest or no interest in the situation. But it's just too early to talk about that. On the second, the -- you mentioned -- it's a complex issue. I apologize not to be able to comment too much because this is still going this is under phase of the back and forward from -- you have talks from the politicians, you have talks from the regulators, you have opinions given by independent, by consumer associations, and it's still very early to understand what's going to happen. For sure, we are monitoring this very closely. We -- so far, we didn't made any public comment regarding this situation because we need to understand really what's going to happen. I think the remarks done by the regulator and those remarks basically were, well, if there is extra charges on this type of contract, then concessions equilibrium could be at stake. And personally I believe, this is a fair point. Of course, each company has their own contract. Each company has their own accounting and P&L. Then for the moment, we are taking our usual approach. We are discrete. We are waiting to understand better what's going to happen. In terms of our own contracts, what happened in Portgás, we have to apologize that some of the terms of this contract are not supposed to be disclosed, and I cannot do that. On the third one, I feel really bad about not being able to give you better answers or more meaningful answers to your all 3 questions. Again, what we have now in the market is, it's very complex. It's an offer that does not relate to us directly, of course, because it's between a shareholder of CDP and EDP. You have lots of comments that have been officially made by the company and their directors. You have a lot of rumors. There is, obviously, always some expectation how this is going to end up. The offer has not yet been presented on their final form, and I'm going to abstain from making any comments. If any of our shareholders want to make comments, this is something they will have to do. But I don't think probably anybody wants to make too much comments because it's still -- the process -- our expectation is this is going to take a lot of time. And it's -- even from experiences in Portugal in previous years that, just by coincidence, I know well, it took more than a year than I'd say -- I'm sure we will address these topics later in some other conference call that we will have in 3, 6 or maybe 9 months.

Jorge Guimarães

Can you explain to us what is the current stage of the possible investment in -- linked with Morocco? And also related to that, do you comment the takeaways or the statements that were made today in the summit on energy interconnections in Lisbon? What was discussed that is really new? And how could -- how would REN be involved? And finally, just a clarification on -- I assume that you mentioned an amount of megawatt to be installed in solar in Portugal. When do you expect to be able to include in your investment plan the connection of that capacity to the grid?

Rodrigo Costa

Well, on the Moroccan connection project, we have -- we are working together with the TSO of Morocco. And as part of -- it's part of the group that are developing some studies. And I believe those studies will be done towards the end of the year, and that's where we are. This is a complex project that will be, at some point, very important decision that will have to be taken by the government of each country. And -- but it's still early. We are working in the process of studying with something that -- it seems that the project can be done and should be done. But in the end of the day, these type of investment decisions will have to be made by the governments. And the only thing I can say, we are working on the project. We have some of our engineers working with some engineers from Morocco and also with some companies that have been awarded the studies a few months ago. And this is a process. It's too early to really -- to be able to talk about. In terms of the event that is going on, there were some preliminary communications, but the event is now taking place as we speak. The governments are now on a meeting, talking about interconnections in energy in Europe and future investment priorities. Then all the communications that have been done so far are kind of communications to set the stage for the discussions. These communications have been done by the people who are organizing the meetings. The meetings do not include REN at all. We -- I don't think REN or any other company because this will be a political -- it's a very important meeting. It brings together the President of France, the Prime Minister of Spain and the Prime Minister of Portugal. And we'll see. We are waiting to understand what's going to be the endgame. They spoke, and they made some comments regarding the importance of the interconnection of -- in Portugal, Spain in the north of the country. This is something that -- we absolutely agree on the importance of that connection. Otherwise, we would not have proposed to do -- to develop it. And most probably, all these interconnections will be considered a priority. And -- but we need to understand what's going to be the final communication that will come from these meetings later today. And I must say that any project that requires investments in terms of the grid or the equipment supporting the grid, including the substations, it ends up being positive. It's something that -- there is no downside for us in having more project. If in Portugal and in Spain and in France the governments really want to commit to a new level of interconnection capacity, basically, to go to 15% in a few years, I think that overall it's positive for the countries, but it's also positive, of course, for REN and for the TSOs of the other countries. This is something that -- in my view and I think -- and I will ask João to comment on the last topic, but in my view, with increase of renewable energy generation in every country, solar, wind and, of course, hydroelectric also, although it's always subject to lack or more or less or excess of water, the fact is all the TSOs need to have a very solid strategy on how to deal with the renewable systems, the intermittency coming from renewables. And that's something that we will require for sure different investments in every country, but it's something that we know. In the end of the day again, this will again create more value for the people who are handling the grids because it's the core of all these systems. Do you want to comment?

João Faria Conceição

Just complementing on -- specifically on projects that we have to develop to absorb solar generation. In fact, we have 2 projects that we are foreseeing to be executed until 2020, that one of the goals is precisely to improve the conditions of the grids to absorb extra generation capacities. Those projects being the axis on Falagueira-Divor-Pegões and the other one in Fundão axis. Additionally to those, we have quite significant project to develop in (inaudible). This one in our investment plans is foreseen for around '22, '23. But this -- of course, it will depend on the guidelines that our government and the regulator gives us if it's necessary to anticipate this project because the need for additional

generation capacity integration is required. We are conditioned to start the environmental procedure, licensing process as soon as the government and the regulator asks us. Thank you.

Ana Fernandes

So if there are no further questions, I'll pass the floor on to Rodrigo.

Rodrigo Costa

Okay. Thank you, Ana. I think we didn't have too many questions, I'm sure, because the presentations are good and the business is very stable. No surprises, even at the moment where there is some -- a few things going on in the market as we heard through the questions. Anyway, again, it's great to be in the business where we are. We -- when we look forward, we really understand that the grids play a key role on the energy systems of any country. There is now a new rumor in the market that with -- in the next couple of years, this will be an area of even more interest for investors because of the nature of our assets, the work we do, the importance we have and also the fact that we have a business model that is a little bit different than most of the commercial companies.

And with that, I think that's it. We feel good about what we are doing. I think we have a very solid strategy. We don't see any -- we have the challenges that all companies have, but we really are happy with where we are and what we have been doing so far. The acquisitions are exactly according to what we wanted. And we will stick to our plan, and we'll keep as a big priority the quality of service and efficiency of the teams. And with that, we wish you good holidays for the ones who are going in holidays. And we'll -- Ana is always available, we are all available if necessary.

Ana Fernandes

Oh, come on, I am on holiday, please. But yes...

Rodrigo Costa

Also in holidays. Okay, thank you all.

Gonçalo Morais Soares

Thank you.

Ana Fernandes

Thank you. Have a good afternoon.