REN – Redes Energéticas Nacionais
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Corporate participants

- **Rodrigo Costa** – Chairman and CEO
- **Gonçalo Morais Soares** – CFO & Executive Director
- **João Conceição** – COO & Executive Director
- **Ana Fernandes** – Head of Investor Relations

Ana Fernandes
Hi, everybody. Welcome to the call. I'm Ana Fernandes, Head of IR, and I'm joined by the executive team here at REN: Rodrigo Costa, Gonçalo Soares, and João Conceição.

As usual, Rodrigo will make some initial comments and then Gonçalo will go through the presentation.

After that, we will open the floor to answer any questions you may have. So let's get started. Rodrigo?

Rodrigo Costa
Thank you, Ana. Good afternoon to all, and welcome to our results call. We hope you are all doing well. Since our last update, we kept moving to the planned direction. I just have a couple of topics I want to cover before I handle to Gonçalo.

Overall, we think we had a good quarter, especially under the actual circumstances. Regarding the COVID challenge, we think we are doing a good job at the moment. And as long as we know, we don't have people sick, neither quarantined. We had people sick in the past, but we went through that. Everybody is well and recovered well. We are moving back to regular operations resume for both projects and maintenance activities. Regarding support functions, we have less than 40% people working on site. The majority is still in telework.

And for the moment, we think we will keep it like that in the next months. So far, the results are quite positive. We've been operating very well, and the people are in good mood. This is a strange environment, but we are hanging on well. We are following all the recommendations from the health authorities, remaining very focused and cautious. We know the problem is not over, and we are prepared to keep going like this. Now one of -- some of the things I want to cover.

Hydrogen is the next big thing on the energy world. The Portuguese government launched a request for proposals with the objective of having Portugal participating in European hydrogen efforts. We are working with other companies on this front. And João will share with you our role and objectives on the projects.
On 1 of our favorite topics, the special tax says, no news for the moment. The government just very recently made some public comments live on TV, referring that [sales] is supposed to follow the decrease of the tariff deficit in the coming years. I'm not sure if this is good or bad news, but the fact is we are still waiting for their decisions.

For the moment, we don't know when this is going to happen. We hope this will materialize this year, but we must keep waiting for their decisions.

Recently, we had more developments on the public prosecutor investigation on the energy PPPs of 2007. Regarding REN, the judge's decision does not challenge our current executive governance model. Our Board confidence on the REN defendants remains unchanged.

We trust they will keep performing their duties at their full capacity. Our boards keep tracking and discussing the process on a permanent basis following the best governance models, and we will always act on the defense of the company's values and reputation. As we move to the end of 2020, we will feel we managed to accomplish the majority of our objectives, for sure, facing extra challenges in this first semester that will extend to the coming months, but we remain very committed to our strategy and the principles we share with you.

Both in Portugal and Chile, we remain positive regarding our operations and performance, and we will cover that.

Regarding the future, as we stated in our last General Shareholder Meeting, we have a major role to play on the decarbonization of the economy. The Portuguese government is fully committed to be on the forefront of the European effort. And we are sure REN will be an important catalyst and country partner.

There are multiple projects where we will play a role. The coal generation shut down, new wind and solar projects, new high-voltage transport lines, interconnections, the hydrogen transport and storage, the future will require our expertise and operational capacity, and we are ready to deliver. Being a private corporation that delivers a critical public service, we know we must preserve a solid P&L, and we do that based on very good human capital and culture that allow us to keep our ambition of managing a flawless operation framework.

We believe we achieved a good balance between our corporate and social objectives. The way we have been handling the COVID crisis has been very important to test our internal organization and culture. As you are able to see, we keep doing a good job in all fronts. And now Gonçalo, it’s your turn.

**Gonçalo Morais Soares**

Good afternoon to you all. So let's turn to the presentation. If you want to turn to Slide #2 and to the highlights. So it's nothing out of the ordinary. EBITDA came down around 4.2%, completely as they're within the expectations, basically pressured by asset remuneration, which in itself is basically explained by the fact that the rates of return have come down more than any changes in assets. It's basically the rate of return and also the new gas regulation.

On OpEx. It's also something that contributed to EBITDA coming down. I will go into the detail. And then Chile, because one of the companies did not exist in the first half of the year, provides positive impact in these number. On the financial results, you continue to see the cost of debt stable versus the first quarter coming down versus 2.2% last year, now at 1.9%. And you also have an effect of dividends, which, last year, were some of them, and I'll explain that a bit slightly later. And so we also have a positive impact on that line on a year-on-year basis. And then below EBITDA, you have a positive nonrecurring impact of some tax recuperations that we have. These were court cases that we were having with the tax authorities here in Portugal and also something in Chile and I'll explain that. And that provided also a nonrecurrent positive impact in this quarter.
Slide #3. I'll keep as usual. So it's just the main numbers so that you can look at them. But if you want to go to Slide #4, and this refers to COVID. This is very much in line with the messages that we gave you in the first quarter. So COVID has not had a material impact in our company. So what do we see? We see basically, and first a delay in some investment execution. We are recuperating well. So operating areas are recuperating well. And so the delay in CapEx, we are anticipating this 5% to 10%, I would say, delay versus what we have in budget. I think that [João's teams] are performing very well. We may even recuperate a little bit more, but we'll have to wait. But either way, you will not have a big delay here. You'll probably have a larger delay on transfers to (inaudible). Because as we explained also in the first quarter, there is a couple of projects, two projects. Those 2 projects account for about EUR 65 million of CapEx. And so if one order [to by the way], it implies a big delay in terms of transfers to REN. That being said, if you join that with the fact that the rate of return is higher, it has a very limited impact in terms of EBITDA.

Chile. In terms of CapEx, also has some delays. So I'll explain that. So it's not only in Portugal. It seems wherever (inaudible). I'd say that the other part is that, while in Portugal, we have the rates of return compensating this. In Chile, it's not really true because regulation and how we account for it is different. So these were constructions and projects that were scheduled to be executed in the middle of the year, or there will be a little bit later.

So that will have a slight negative impact in the full year. But as I said, we are not expecting with everything, all of the impacts together, we are not expecting any impact in terms of EBITDA. So we are expecting EBITDA to come up in our expectations, okay? Additional costs at this time are not material. I'll explain that a little bit more, but the net impact of those additional costs is not material. We were talking about EUR 200,000, EUR 300,000 in total at most, okay?

Just talking a little bit about tariff deviations. So those -- that is the item that has, I'd say, a larger impact. It's only in the balance sheet. It may be around EUR 60 million, EUR 70 million. That does not mean that we forecast net debt to go up EUR 60 million or EUR 70 million. We forecast net debt to actually go up much less than that. I'll cover that. But then this might be the impact in terms of tariff deviation within the year. We have to wait a little bit to see how, in electricity, demand recuperates. So it's a little bit hard to tell you, but this gives you a ballpark figure, which is not very different also from what we already told you. And actually part of this number that I'm telling you probably is not all COVID related. So part of it is COVID related because there were impacts that happened mainly in electricity. But in other areas of tariffs deviations, they are not all of them related to the fact that there was COVID, okay?

So moving to Slide #5 and looking at the evolution of the bond yield. So they kind of came down a little bit again, but on average, it implies that base RoRs are slightly higher than what we had anticipated. It's not a lot higher, but we are talking about 10 -- with a bit over 10 basis points higher than we anticipated. So they are now in base RoR electricity around [4.6] last year, and they were at [5], and full year, it was [4.9]. So they are a little bit -- they are lower. We expected them to be lower but they are not as low as we anticipated. This is still the main impact that we have in terms of EBITDA, and we will see that in the coming slide.

Just to tell you that this 10 basis points and looking at those impacts that we saw and we were forecasting in terms of EBITDA, every 10 basis points is around EUR 3.5 million more -- if you have an EBITDA. So all of this is something that then contributes to the fact that EBITDA -- we are foreseeing to remain basically stable versus what we have as expectations. In terms of CapEx and moving to Slide #6.

So CapEx is growing. It is still early stages to give you any idea, but as I told you, we are still expecting to have a strong CapEx numbers.
We were seeing CapEx growing on the back of already the carbonization path and strategy that the Portuguese government has. And so we already anticipated that CapEx was going to grow -- to growing in Portugal. And so this is what we will see, even if you have that [tax] delay, I think we will still have strong numbers. We are not anticipating that at the end of the day, you would have lower numbers that you have in the previous year.

So I think that will probably -- we will probably be within the same kind of range, okay? And as I told you, these delays impact not only Portugal, but also a little bit Chile. In terms of CapEx, you will see that recuperation happened within the year. So within the year, probably the CapEx number for Chile will be the one that we anticipated for the full year. Just as the fact that if they are delayed in terms of conclusion around 6 months, it has a slight impact in terms of EBITDA. Anyway, you can see that here, Transemel is already contributing around EUR 6 million in terms of CapEx for the first half of 2020 since last year, they were not in our account.

Looking at Slide #7. I'll just point out the fact that, as you can see, electricity is almost stable. You see that with premium is growing almost EUR 29 million and without declining EUR 30 million. So you see electricity rate very much stable. We see Portgás rate also gas distribution pretty stable. And then what you see pushing down is basically natural gas transmission.

Moving to Slide #8, and this is the story that I said before, what you see is that there is no big impact in terms of remuneration coming from decrease of asset base. It is basically all in terms of reduction of the rate of return, which comes on the back of, one, the decrease on the rates in the market; and two, on the change of regulation for gas.

Okay, so moving to costs and looking at Slide 9 and 10 afterwards. This is 9. What you see is that looking at overall cost in noncore, and we'll see that in the next slide, there is an increase. We'll go into that, but it's basically related to imports and levies in the footfall, but those are in these EUR 7 million, those account for more than EUR 4 million of increase. So the rest, the other EUR 2.8 million are in core OpEx, okay, which represents 5.7%. Of those EUR 2.8 million, what you see is that Transemel represents 1.7%. So it's the new company that is here that was not before. And I would also point out that so that COVID, as I said, is basically the same as in the first quarter. So we are talking about [EUR 900 to EUR 1 million] in cost. But then if we take out not only the impact in tax -- or the tax yield and the fact that some of these are donations and have special tax treatment.

And the second fact that then you have other savings, gas, travel, et cetera. And the idea that we have is that up until now in terms of cost, this has a net impact of around EUR 250,000. So it is not -- it is some money, but it is not material in our account. Thirdly, and just referring to forest cleaning. So forest cleaning, again, is around the growth of EUR 3.4 million versus 2019. So this is a big number. This is not completely unforeseen by us. So we already had a big increase in our budget for this, okay? So this partly relates to the fact that we are anticipating and we anticipated a lot of worse in the first half and the first quarter of this year versus what we have done last year. So part of this relates to that. So we are not anticipating that the cost that we have now are going to be the double in the year. And they are still going to grow, but they are not going to be the double. So we have around EUR 4.6 million of costs, more or less, give or take, EUR 4.5 million relating to this. This is not going to be a double. They are going to grow, but probably the growth is going to be the same or even smaller year-end than it is now, okay?

And so we know that if you ask us if we are spending a little bit more than we anticipated, a little bit, perhaps, but it's not material. It's not a big part. What we already knew in our budget that we are going to spend much more in forest cleaning. And so this is not something that you will -- you should replicate 2x versus next year. So last year, we spent around EUR 4.4 Million in this account, in these kinds of spending. So I would say that we'll probably end up spending less than that amount
plus the variance that we have now, okay? So we are going to clearly reduce the year-on-year increase because I think that we spent more last year in the second half than we are going to spend now, okay?

So that relates to that main impact, which is the forest cleaning, which is a big number in terms of the cost as of now, okay?

So going to Slide #10. What you see is the noncore. So basically, it's just basically, it's in the ITC mechanism relating to imports. There's a big increase there of EUR 0.7 million. Then there's several and [there's the subsoil occupation life] is basically in Portgás. So -- but this is all, let's say, pass-through costs and nothing to worry about here.

Going to Slide #11. So this is basically just a summary of the EBITDA evolution, just pointing out Transemel. So it's going at 3.3% and are contributing with [3.3] versus last year. So Transemel is, as I told you, a little bit below our budget because of those [lines], okay, that I told you about. On the other side, the Electrogas is actually a little bit above and is growing versus last year. So I think that at the end of the year, versus what we have, you don't have these numbers, but what we have in budget, perhaps this will have a slight negative impact. But I don't think it will be compensated by other things, and that's why we are telling that EBITDA should stay within the expectations that we have before.

Going to Slide #12, and looking at below EBITDA. So depreciation, no news, basically everything as expected. Taxes, as we - - as I told you, apart from the special levy, bad news that is still there, but that you already know. On the taxes, we have an effective tax right now of around 22.6% versus what you should have, which is something between 28% and 29%, around 28.5%. And that relates basically 2 or 3 things: One, is that court case that we won. This was related to something that occurred in 2010, believe it or not.

And so we won it now, and it represents EUR 3.7 million. The second thing in Portugal, which is something which is usual, which is benefit for R&D are a little bit higher this year. So it's called [CFD] in Portugal. So they also contribute a little bit more positively in the tax rate at this stage than they usually do. But it is a normal kind of tax benefit that we get. And then thirdly, we have around EUR 900,000, which relates to Chile because these are taxes that when you distribute taxes within Chile to different companies within Chile, you can ask them for the reimbursement of the tax that you pay on those dividends. And this is the amount that we received relating to 2017.

On the financial results. So what you have is, I'd say, basically two impacts: One, is the one more related to dividends, okay? And that's around EUR 2 million. That's the fact that [Redes] Electric dividend increased a little bit. And secondly, the fact that the dividend that we received from Mozambique last year exceptionally was only received in August. Normally, it's in this quarter, but last year, it wasn't. So since this year, it was again received in the normal quarter. It has a positive impact year-on-year of around EUR 1.6 million. The rest is the positive impact of EUR 3.4 million in terms of financial costs, which is, I'd say, two opposing factors: One is the growth of net debt that would contribute with, let's say, with a EUR 1.4 million, EUR 1.5 million of more cost. The other one is the decrease of the average cost of debt, which would pull it down close to EUR 5 million, and that's what gives that EUR 3.4 million net impact that you see there, okay?

Looking at net debt, I'd say that it is stable versus first quarter. And again, we reiterate that for the rest of the year, it should be stable. So if it's not [1.9], it should be [1.8]. So we are not going to be very different. We remain with strong liquidity close to 3 years of financing up in advance.

So I'd say nothing new here.
Going to Slide #13 and looking at net debt. You see this small increase in terms of net debt overall. There is, as I said, already some impact of, I'd say, of tariff deviations at this stage. It is also around EUR 6 million that you already have in these accounts versus the end of the year, give or take, okay? And so that probably can increase a little bit until the end of the year. But at the same time, if you ask what is more or less our idea in terms of net debt? And it is a small increase versus where we are. So we are not anticipating it to grow much more than EUR 10 million or EUR 20 million versus where we are now, okay? So that said, should be around EUR 20 million or EUR 30 million versus where we were at the end of the year last year, okay?

And Slide #14, just a summary of net income. So nothing more. So basically, what you say -- what you see is below EBITDA impact that compensates for the sale -- and for the above EBITDA impact, okay?

And in terms of final remarks in #14, nothing very much. As I said, we had a lot of stability in the face of the COVID crisis. I think that looking forward to the full year, we are anticipating, as I said, EBITDA, very stable in our projections with no surprises. And so I think that as usual, and as you like it, things are going according to normal. So I would then end the presentation, and I would open the floor for your questions.

Q&A

Sara Piccinini - Mediobanca - Analyst
So the first question is on net debt by year-end. If I'm not wrong, you were guiding for EUR 50 million increase on the full year, now you are expecting EUR 10 million to EUR 20 million. So is this improvement correct? And what has changed versus your previous expectation?

So this is the first question. The second question is on hydrogen. I know you are going to provide more details, so we would be very interested in understand what would be the role of REN into these projects? And if this could represent an opportunity for the company to restart investments in gas transmission and therefore, speed up the [RAB] growth in the future? The third question would be linked to this one. So if we will see more investments and possibly RAB coming back to growth, would you then reconsider your dividend policy if you had to increase the CapEx? And finally, just a question on M&A. If you see the opportunities for increasing investments in LatAm and if you are currently looking into any opportunity in LatAm or in Portugal?

Gonçalo Morais Soares
So to confirm, yes, there wasn't any specific changes. Sometimes we we fine-tune a little bit the forecast, so to be clear. So last year, we ended at (inaudible), okay? What we are saying is that it should be around EUR 30 million more than that. A little bit more, a little bit less, it should be around EUR 30 million more than that, okay? So the increase in the other items, which is the tariff deviation is partly compensated by other things versus what we had expected. But there isn't anything that's changed. It is more just the fine-tuning of the forecast, okay? I'll pass it to João for the [LatAm].

João Conceição
Regarding the hydrogen, basically, we have -- we consider that we have basically two roles: the first role is a generic role, like Sara mentioned, and has to do with the fact that one of the objectives of the hydrogen policy is to blend in hydrogen with natural gas. Therefore, there will be some CapEx that will be needed, both in the transmission infrastructure as well as the storage infrastructure, the existing natural gas transmission and storage infrastructure.
The second role is the specific role of our involvement in the Sines project. And there, we also want to be focused on infrastructure management not only the natural gas or electricity infrastructure that will be needed, additional to the existing one, to support all the value chain of this project as well as some needs on the hydrogen part also for transport, storage and eventually exports in the case that this project as is successful in exporting, mainly to our counterparts in the Netherlands.

So basically, these are the two roles that we've foreseen for hydrogen. We want to be very focused on what we are able to do and what we are good in doing it, which is the management of infrastructure. We don't want to go into other areas besides these ones. And then this is a long-term debt. The figures -- the CapEx figures are still very preliminary, but the signals are good. And to mention, for instance, the regulator in our -- in the recommendation of our investment plans, they specifically set and foster us to present project and investments on the new additions of the investment plans covering these renewable gases and specifically hydrogen. So the mood is there, and we hope that we can make this a reality.

Rodrigo Costa
On the -- on your last question, Sara, we are not planning to have any change in terms of direction in our previous strategies regarding the dividends, neither in terms of investments. We are not now planning to do anything else for the coming months. We don't have any projects open at the moment. And now we want to focus, basically, on recovering the projects that got some delays and keep doing a good job with the Chilean operations, which you can see that we are doing. And that the plan now is to keep moving as planned.

And we don't think that the investments that we need to do will require any change in that policy. At least that's what we see for the moment. You heard João, you heard Gonçalo, and that's the course of action.

Gonçalo Morais Soares
Just to complement on the question you asked about the M&A. No, we are not looking at any M&A on Chile or whatever, on the regions that you have, okay?

Jorge Guimarães – JB Capital Markets – Analyst
I would like to go back to the hydrogen and to the Sines project. I know it is still in very early stages. But if going ahead, what timing would we be talking about for the plan? And what type of CapEx for REN would we be talking about? This will be the first one. And the second one, if in the end, the decision is to blend 10% or 20% of hydrogen into the gas network (inaudible) the gas leaks that goes into pipe. What would be the required investment in storage and gas transportation? And just a final one, a clarification on something that Gonçalo was mentioning. I understood that the sensitivity of remuneration to 10 basis points movement in RoR was EUR 0.3 million or EUR 300,000. Is this correct?

João Conceição
Thanks, for your question. Well, regarding many of those questions, both in terms of timing and CapEx. As I told you, it is a little bit early just for you to have an idea. The time frame we see for this project to be presented to apply for the public funds from EU, it will go on through this current year. Hopefully, if we have some decisions by the end of the year. So in terms of timing, I would say that (inaudible) then 2022, we will have anything on development in terms of CapEx.

In terms of figures, again, it's a little bit early. It will depend on the type of the size of the project that will be done. And the targets are there for set by the national policy. Like you said, the visage to reach 10% to 15% blending by 2030, 5% by 2025. Meaning that no one is expecting to have any specific figure or significant figure of blending before those years. So it's a little bit -- we are assessing the values, but it's a little bit too early to give you an exact figure because we might -- we are still evaluating which type of project and which type of solutions need to be done.
Rodrigo Costa
Just before going to Gonçalo for the last question. On the hydrogen, I would recommend everybody to take a look, especially analysts, to take a look on what's going on with the U.K. trials and the Australia trials. They are probably the two cases where you have the most advanced trials with hydrogen being blend on natural gas infrastructures.

Gonçalo Morais Soares
Relating to the impact, so it is not -- I didn't say it correctly then, it's around EUR 3.5 million. So every 10 basis points that you have more on your rate of return, given that your asset base, if you take out those hydro lands and you can see the number is around that. So every 10 basis points, give you more or less EUR 3.5 million, EUR 3.6 million more in EBITDA, okay?

Sara Piccinini - Mediobanca - Analyst
Yes. I would take the opportunity to ask one more. It's just about the levy. I heard the (inaudible) saying at the beginning that the government made some comments on the levy. As a general comment, what -- when do you expect some clarification on the levy? Do you think the government could provide some indication by the year-end, given that this should be also included in the budget?

Rodrigo Costa
I think you could not hear what I said. I'm going to say it. The comments about [sales] came from an interview that the Secretary State of Energy gave last week live on TV. He made a comment that the commitment of the government was to decrease the tax according to the decrease of the tariff deficit.

That's all we know. It's -- I'm not sure if they are going to decide in the next weeks or -- but they have to decide in the coming months because the next sales will be due after October. And then we would expect them to say something (inaudible)...

It's -- that's the only thing we can comment. It's a government decision, and they are the ones who have to make the -- to make it, not us. We -- as we said before, this is a hard topic for us.
It's a very important. We were encouraged by the comments, but we need to wait. It's their decision, not ours.

Ana Fernandes
Okay. If there are no further questions, thank you very much for attending the call. You know where to find me. Have a great day. Thank you.

Rodrigo Costa
Thank you and keep safe.