Madalena Garrido
Thank you very much. Thank you all. We would like to thank you for making the time for joining us today for our first half 2022 results conference call. As usual, we have here our executive team, Rodrigo Costa, our CEO; João Faria Conceição, the COO; and Gonçalo Morais Soares, our CFO.

Rodrigo will start with his opening remarks, and then João and Gonçalo will guide you through the main operational and financial highlights. We will then move to our Q&A session in which we will be taking your questions. I will now pass the floor to our CEO, Rodrigo.

Rodrigo Costa
Thank you, Madalena. Good afternoon, and welcome to our call. During this first quarter, we had a series of non-expected events that took us by surprise. Now after the close of the second quarter, we are much more conscious of the challenges ahead. We all know these challenges. They are global and they are endless.

The war, the inflation, the interest rising, industrial disruption, air transport prices, social unrest, I think we all know very well what is going on. The key question is not if we can deal with all these situations -- by the way, I'm sure we will.

We are worried as we should, but we are confident that we can manage our future well. The key question is how all these events will affect us. Today, we remain positive, and we have a tremendous amount of work to develop. I'll just go through a couple of our key priorities that I think it's worth mentioning.

We have the natural gas conundrum with the on and off supply disruptions and the search for alternatives, including the increase of LNG transhipments in Sines and the port operations.

We have the question about the hydrogen future and our role supporting the development of new infrastructures, including the new Sines projects, on the generation side, the data center, the hydrogen transportation and the multiple industrial plants that are supposed to be developed.

The agreed planning and licensing process to accumulate a massive increase of new renewable generation, solar, onshore and offshore wind, also are putting a lot of pressure. And that at the same time, of course, it means that in the years ahead, we will have plenty of projects to develop.
The upgrade and new construction of substations and major lines to connect the new generation projects, both hydro as the one we -- (inaudible) inaugurated last week, and solar, plus the development of new interconnections with Spain are projects that we are dealing at the moment at full speed.

Gonçalo will go through the details of our numbers, including Chile, and we expect that will provide a better visibility on the overall situation. And as Madalena said, at the end, we will address any questions you may have.

Gonçalo Morais Soares
Thank you, Rodrigo. Good afternoon to you all. So I think that we are presenting here a strong set of results in a challenging energy context. I think they are strong both domestically, internationally, and I think they are strong also from a financial point of view.

So as you see, EBIT increased 4.6% year-on-year to EUR238.4 million, which is basically on the back, domestically, of the evolution of the rate of return and some other impacts. Secondly, domestically, it also has been evolving quite well. So it increased from almost EUR4 million year-on-year.

In terms of net profit, the increase is bigger, but it's also -- as you know in the first quarter, we account for all of the special levy but net profit grew to 45.9%, which is around 16% versus last year.

And this is also not only EBITDA but also a little bit better financial results. In terms of CapEx, what you see is the number [EUR12 million to EUR80 million]. It is decreasing, but in reality, it is not a trend that we expect towards the end of the year because we do expect a strong year in terms of CapEx this year.

Finally, renewables, you see that they are coming down, but I'll let João, our COO, comment on the main operational highlights. João?

João Faria Conceição
Well, thanks, Gonçalo. Good afternoon to you all. On the Slide 5, you have the overview of what's going on apart from what Rodrigo and Gonçalo already mentioned by the turmoiled sector. We are trying as much as we can to respond positively.

And so far, I think we have been succeeding. Specifically in terms of an overview -- a quick overview on the hydrogen world, we are on track on what is our commitment to start a new hydrogen infrastructure and as well as accommodating the blending of hydrogen within our natural gas infrastructure.

Regarding that, we are on track with all the adequacy studies that we are supposed to do before starting to do the necessary upgrading in the LNG infrastructure to accumulate back to 5% and then 10% blending with hydrogen.

On the other hand, we've been given go ahead for the next phase. And actually, we're going to start the conversations with the Portuguese authorities at May for this Hydrogen Backbone Finnish where we are foreseeing to make an investment on a specific hydrogen infrastructure to connect new sources of hydrogen generation and new hydrogen consumers in the industrial sites of Finnish.

In terms of our investments, this first half year, we have the Portuguese regulator submitting to public concentration the investment plan for the distribution activities, where it is included the Portgás, our distribution network in the north of the country.

We have to wait now for the final opinion of the regulator for the process to go on and the final decision on the government. If we move to Slide 7, you have the overall highlights on the SLAs for the electricity, natural gas and gas transmission business.

As you can see in terms of consumption, we are increasing slightly the consumption versus last year, about 3%. And that's actually our -- approximately our forecast for the full year of 2022. On the other hand, we're going through a very, very dry year, so our hydro capacity reduced to the historical minimum levels.

We are actually having only 11% of the electricity generated in Portugal coming from the hydro generation, which is on the low hand of the normal share of this type of technology. And this has an impact on the share of renewables, which has decreased significantly versus what we have last year. And the cause is precisely the reduction of the hydro capacity.
In the meantime, solar is coming in. It already represents 5% of the total generation of electricity consumed in Portugal. In terms of the quality of service indicators, we are well. I mean, there is a slight fluctuation in terms of average interruption time or a combined availability rate, but they are above the requirement levels set by the regulators for -- specifically for the MIDT -- IMDT, sorry, incentive mechanism.

So if that we stay at these levels, we are on track for complying with these specific targets. On the natural gas side, what you see is a slight decrease in terms of natural gas consumption. And this slight decrease derives from the combination of 2 opposite effects, a significant increase, almost to 50%, 5-0 percent, versus 2021 in terms of the usage of natural gas for electricity generation, whereas the convention -- what we call the conventional consumption, which is imposed mainly industry consumption, it has decreased 21.8% versus the first half of 2021.

Combining these two factors, we have this about 2% of decrease in terms of consumption. Availability rate on the natural gas infrastructure for transmission are very maximum levels, 100%. We didn't have any occurrences first half of 2022. And in the distribution -- gas distribution, we managed to increase our capacity and our response time for emergency situations. And with that, Gonçalo, give it back to you.

Gonçalo Morais Soares

Thank you, João. So I'm going to Slide number 8, just the main highlights. So you see EBITDA growing with 4.6%. We do expect now a growth for the full year as we do expect the growth for the full year in net profit that grows 15%.

Just to mention on the net debt that is close to EUR2.1 billion. Net -- this is also driven this value by the evolution of the tariff aviation. This is still although slowing down moving in the same direction, we expect this to kind of go back slightly or a bit towards the end of the year, but we now have a positive balance in our favor of EUR433 million almost, which are bringing down the value of the net debt, okay?

So on Slide number 9, we see the consolidated view in terms of EBITDA. So you see assets and OpEx remuneration going up. This is basically the new regulation, they are pushing up remuneration. You see OpEx basically being pushed down by electricity costs in the terminal.

We'll talk about that. It's very similar to the first quarter. And then international segment, good performance by both companies. We can see that the international segment is going up from 3.5%, almost 4%, in terms of weight.

Gas distribution is also increasing a little bit. Electricity is basically flat and we see gas transmission coming down in rate a couple of percentage points.

Slide number 10, looking at the evolution of rates. There has been some correction, but they are still much higher than they were at the start of the year. So this kind of came down a little bit. But there is still a material impact in terms of risk of return.

You see that electricity contribution above and gas, both transmission distribution 50 bps above, so that has a material impact in terms of EBITDA. Looking at CapEx. So what you see, and you always know that at this stage, it's very early to comment and to say anything, but you see this decrease.

But -- it's mainly because also in 2020, we had some construction that was still -- delayed from 2020, so from the pandemic, so we have more than usual CapEx in the beginning of the year.

We are expecting a strong year in terms of CapEx. We expect that full year should be at least as strong as last year, if not a little bit more. We are still seeing the strong impulse for CapEx driven by the decarbonization in electricity mainly.

In gas, as João said, there are several initiatives going on in hydrogen. We actually will probably do a little bit more of CapEx between this and next year than we were expecting with these initiatives. We are also expanding the Sines terminal to increase transhipment capacity and João can also explain a little bit more about that in the Q&A, which is initiative to support a natural gas supply in terms of Europe, not only for us, but -- and João can explain that.
But all of those contributes with a little bit more of CapEx. But as I said, this comes mainly and mostly from electricity, okay? Slide 12 is just the evolution of the several businesses. You clearly see an increase of RAB in electricity, an increase in gas distribution and a decrease in gas transmission, but you do see a healthy growth of average RAB of around 2.5% between the first half of last year and the first half of this year.

Looking at Slide 13, looking at the businesses, they are all positive. So they are all being pushed up by the positive impact in terms of overall evolution. But you also see that, as I said before, both electricity and gas distribution are also seeing the remuneration going up because of the positive impact of RAB evolution to our asset base is also growing, which is, I think, very healthy, specifically at this stage where you have rates going up.

Moving to Slide 14. So when looking at costs, you see this increase of 4%. Personnel costs are increasing very little. They are basically flat and the rest in the core external costs, it's basically an increase of electricity. And it's basically increased in our terminal, in the Sines terminal. This is something that we are looking into right now.

It should not have such a big impact, but it does because price of electricity is going up quite a lot. And so this is basically what explains the evolution of costs now, being a little bit compensated by some decreases and optimizations in terms of (inaudible) in other areas, okay?

I'd say that in terms of forecast, you will still see at the end of the year, some kind of increase in terms of cost, basically driven by this trend in electricity, although we do expect that year-on-year, this should reduce a little bit the growth as the year goes on.

Also last year, we already had some electricity costs going up in the last quarter. So I think that then you see this year-on-year evolution kind of trending down slightly. Going to Slide 15, international business. As I said that everything is going okay.

And Chile as a country is still ongoing its constitutional revision process. So it's I'd say that it's not fully stable in that respect. But in terms of the electricity businesses WE are in good shape. Electrogas, the gas pipeline has an increase in volume with new contracts, has an increase in tariff.

So we are seeing that -- EBITDA is evolving quite well. Transmel, the same -- not so much by the same reasons, but because of the growth, new projects that can and were concluded last year and this year are contributing to the increase in EBITDA. There are also some tax recoveries that pushed the contribution that these businesses have at their net income level.

But we do see this strong contribution remaining for the full year, perhaps not as strong in terms of year-on-year, but we do see that they may increase EUR3 million or something versus last year when we look at the EBITDA contribution for the business.

So on Slide 16, putting everything and looking at net profit and now go down. So you see the positive evolution of EBITDA. Net depreciation is normal, and then you have say, taxes and financial results. You have this positive impact on financial results, both as savings or total higher dividends received.

And I'll go a little bit into that detail in the coming slide. Slide 17, you see the evolution of net debt. You do see that net debt is, as you see below, lower than usual because of tariff deviations. That tariff deviations have impacted the evolution in these first two quarters.

But you also see that even without the tariff deviations, we would have come down almost EUR100 million in terms of net debt. So if you exclude that impact in this first half of the year, there was still a very strong cash flow generation. And I think that's one of the reasons and the way that we manage our balance sheet is one of the reasons why Moody's, as you might have seen, upgraded us yesterday.

So they graded us from Baa3 positive to Baa2 stable. So basically, we are now, with all of the 3 agencies, at the BBB level, which I think is also positive on the credit side, but it's a good sign on how rating agencies are looking at REN.

In terms of funding, we have been refinancing many loans and anticipated increase in rates. So we have locked in some lower cost. We continue that effort. We have very strong liquidity, almost [1.5] through that -- part of that is tariff deviations, but even without that, we are still abiding with more than 2 year liquidity that we have.
And we will see when we have to come to market. It doesn't look likely that we have to do it this year. So we'll probably do it early next year, if need be, and we will continue to try and refinance and get more attractive loans along the way.

In terms of Slide 18, and looking at the other -- the rest -- below EBITDA. So financial results part has to do with this evolution of debt. And that also has an impact. As you can see, the average cost of debt is very slightly higher and from 1.58% to 1.66%, so it's very -- it's almost the same, but it's slightly higher.

And it also benefited not only from this, but because we received higher dividends mainly from Mozambique, gas base that we have an increase of dividend of EUR1.3 million versus last year.

The financial stake that we have there, that it has been providing a very healthy dividends on there. In terms of taxes, no news. I'd say everything more or less in line, which is also bad because we are still reserved there.

We do believe that there are no news. And just before you ask are there news regarding this, there's no -- as of today there's nothing new from the court. And the only thing that we can see is that the tariff deficit of the electricity sector, which was one of the main reasons for creating this levy, is coming down and down and down.

And actually, the government has always put in the budget they could give, the tariff deficit is still down. They could revise this. They haven't done so, but the reality is that the tariffs deficit continues to go down. So let's keep the hope but there are no updates whatsoever regarding the [tariffs].

Turning to Slide 19. Just looking at the evolution of price, a little bit more, I'd say, choppy in the last couple of months, mainly due to rate announcements and other things. But we still have a very strong CSR for the first half of the year compared with the sector and with the market and other peers.

Moving to talking a little bit about ESG and moving to Slide 21. We have various commitments that we have made recently, we are pushing ahead with a very ambitious plan in many areas. I can give you and then João can also have in the Q&A.

An example, we are in several of our technical facilities installing or starting to plan to install self-generation in terms of solar. We have those in gas share masses. We have those in electricity substations. We have those in close to one of our data centers. We are pushing with our own electricity generation.

As you know, we can only produce for our own production, but we are pushing for that so that we can reduce our footprint and improve our emission and it's a strong investment also, but it's something that we take very seriously and we view it strategically.

That has been reflected in terms of how we are -- as the agencies are looking at us, mainly, and I point out the [MSCI] that we improved our rating. So this is something we don't work for ratings, but we are happy when the work that we are doing is being reflected with the time that -- outside of the company people view that we are on the good direction.

So my concluding remarks. So fun set of results and good growth both of EBITDA and net profit, there should be some growth at the end of the year. Good upgrade in terms of Moody's. We anticipate still a strong CapEx at the end of the year.

So I think that this is very in line. But I think we are actually beating a little bit what our own expectations were for this year. So we just like close the presentation, and I will open up to any questions that you may have for the 3 of us.

Q & A

Ignacio Domenech
I have two actually. First one is on interconnections. It would be great if you could quantify the investment needs on interconnections with Spain -- in between Spain and Portugal both for electricity and gas transportation.
And then my second question is related to the tariff deviation from REN's trading since the last quarter. I would like to know or if you could please quantify what is the total amount that -- as of today that needs to be reverted over the next quarters?

João Faria Conceição
I will start by the first question on the interconnections. As you know, we have basically two projects on the table. The first one is the interconnection with Minho and Galicia and -- in electricity. And the second one is the natural gas interconnection, the so called the 3rd interconnection.

With this last one, we need to revise all the projects because we have to assess in terms of the environmental authorities, what will be specifically the right of way that we -- will be used.

Therefore, it's a little bit early to say -- to set a number because it will depend on that. What I can tell you is to mention the figure that was foreseen in the past, which was something between EUR150 million and EUR200 million of investment.

In terms of the electricity interconnection with Minho interconnection, we are speaking about EUR20 million, roughly, figure. Relative to the tariff variations, it's a bit hard to say quarter-by-quarter exactly what we are giving. We can tell you that the trend is rising in the -- since the beginning of the year. We get it back around EUR70 million, just that trend is rising.

And -- the other thing that I would add to you is that the regulator determines there to be an acceleration in the way that we should give this back to them. So they actually said that there should be an additional EUR100 million there from July until the end of the year.

We anticipated from the ones already generated this year. So we are expecting that the stock that we have overall of EUR430 million should come down. And it's a little bit difficult to tell if this will come down to EUR300 million, EUR250 million, EUR200 million, we don't know. It depends on the evolution also on the electricity and how they are generated.

As I've told you this for us is very neutral, and it's almost a nuisance in terms of financial management. That is something that you can -- it does not have a financial cost in the sense that we have -- we are depositing the money, but it's not something that we like. So as we would prefer that this could also reduce a little bit faster, but it's as it is.

There are no further questions. Speakers, please continue.

Madalena Garrido
Thank you very much. If there are no further questions as you take, we, of course, remain available to answer any other questions offline or by e-mail. I'll pass it on to maybe Rodrigo to close up. Thank you very much for standing by.

Rodrigo Costa
Well, thank you, Madalena. Thank you all. I think our presentation, as usual, is quite detailed. We always provide a lot of visibility on what's going on. I think being on a regulated market, also -- most of the people understand well what we have in front of us.

As I said in the beginning, it's a very challenging time, but at the same time we have opportunities to develop new projects. And I think the energy transition, it is something that is going to change the way the world operates.

At the moment, I would say the thing that it's more worry of time is we have opportunities to develop new projects. And I think the energy transition, it is something that is going to change the way the world operates.

At the moment, I would say the thing that it's more worrying is the work and the effects that can have, especially on energy pricing. We are affected as an energy buyer, but we are not an energy trade, then we do not have any kind of upside or downside, we just have to deal with much more complexity that deals with all the consumers being industrial or residential.
And this is, of course -- this is complex to do. But I think we have a great team and we're doing well. For the one's who are going in holidays now, just have a good break, safe travels. Traveling these days is also very complex, and we all need to be lucky. Thank you.

Madalena Garrido  
Thank you, Rodrigo.

Gonçalo Morais Soares  
Thank you.