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Corporate participants

- **Rodrigo Costa –** Chairman and CEO
- **Gonçalo Morais Soares –** CFO & Executive Director
- **João Faria Conceição –** COO & Executive Director
- **João Pedro Pires –** Head of Planning & Business Development

Participants

- **Enrico Bartoli** – Analyst; MedioBanca
- **Fernando Garcia** – Analyst; RBC Capital Markets
- **Ignacio Doménech** – Analyst; JB Capital Markets

Gonçalo Morais Soares

Hi, hello to you all, and welcome to the first-half conference call. I'm standing here in Madalena's place. Madalena, our IR is on maternity leave, and she's now being temporarily substituted by João Pedro, whom I think a lot of the analysts have already known. But as always, I'm here, and I'm joined by the rest of the executive team. I'm here with Rodrigo, the CEO; and João, the COO, João Conceicao.

And so, I'll pass it to Rodrigo to make the initial remarks. Thank you.

Rodrigo Costa

Thank you. Okay, good morning. Thank you, Gonçalo. As you can expect, we had another busy quarter. On top of the energy transition challenges and all the regular tasks, we are handling a government transition. New leaders always bring change, and we are going through the process of meeting the new team, share the challenges, listen to their vision, and move on. In Chile, all is moving according to our plans without surprises. And basically, while we are waiting for several formal approvals, we are moving as fast as possible with a large range of products. And we feel confident we are also moving in the right direction.

Licensing and subsequent approvals remain the main challenge, and we have the expectation that the new government will move forward since the new infrastructure is absolutely vital for multi-billion investments that are on the pipeline across high energy demand industries. This is a big responsibility for the government, and things need to happen. The SES process is unfolding slowly and as expected but in what we believe is the right direction. For the moment, we don't have any visibility on precise dates for final decisions, but step by step, we see some positive developments happening. I'm sure we will talk about that later.

The next couple of months will be important. The new energy plan and target should be disclosed including the revised wind offshore generation strategy, and all these new decisions will have a key impact in what we do. And I think there is no doubt that the energy transition in Portugal will keep happening and that's of course a positive for us.

And with that, we move now to the presentation. Gonçalo will take us through the detailed numbers and then also to talk about operations, João here, as Gonçalo said, with us. And we'll do the usual thing. Thank you.

Gonçalo Morais Soares

Thank you, Rodrigo. So, if you want to on slide # 4, you just have the main financial highlight. So, EBITDA was slightly down around 2.7% to EUR257.8 million, completely in line with what we were expecting. I'd say that full year should be slightly better on a percentage-wise, but clearly this is in line, mainly driven by lower remuneration on assets and not ex-remuneration. I'll go into that. There's also a decrease on international size mostly explained by non-recurrence last year that we already knew that we have.

Okay, in terms of net profit, as I said, a lot is riding on those non-recurrence at this stage, but of course financial costs have increased a little bit and so are also putting a little bit of pressure as we were expecting this year. Okay.

Net debt actually is even slightly better than we anticipated. It is decreasing on year-end kind of perspective, so it increased last year because of those tarrif deviations, but from year-end towards now, it has been decreasing as we expected. And CapEx is ramping up a little bit, although we still feel, I'd say, some delays, and I think this is always, as Rodrigo said, as far as our concerns.

Let me pass to João. He will go through some operational highlights, and then I'll come back to the line.

João Faria Conceição

Thanks, Gonçalo. Good morning to you all. On the operational side on slide #5, well, the most relevant information is the fact that in this first half of 2024, we reached the maximum renewables penetration of the last about 40 years with 82.1% of renewable share in the whole generation of electricity in Portugal. This was mainly driven by the increase of the share of the hydro capacity and hydro generation. Winds was approximately at the same level as the same period of 2023, and solar is step by step ramping up with the connection of the new solar projects to the grid.

On the consumption side, we saw an increase of 1.6% of electricity consumption. And if we make the normal corrections to the weekdays and temperature, this increase is slightly higher, 2.6%. On the natural gas side, it's the opposite. As a consequence of a high renewable share, there is a strong decrease of the use of natural gas for electricity generation, and that's why you see this almost 20% decrease of natural gas consumption versus last year.

In terms of quality of service, it was a good semester, and no interruption time on the electricity side, combined availability rate on the gas side at the maximum. So it was in fact, in terms of quality indicators, a good semester. One important information is also on the renewable gas development, an important issue, which is the launch by the Portuguese government of the first auction for renewable gas. This is still a small volume, but it's an important step to engage stakeholders to connect to the grid and to start producing hydrogen and biomethane and use that within the grid.

Jumping to slide #7 and before passing back to Gonçalo, you have the main figures of the three areas: electricity, again gas transport, and gas distribution. Apart from what I've just said, just one minor comment on the losses, electricity energy losses. They increased slightly, but that's perfectly normal because, as you increase renewables, renewables are widely distributed around the country, so it's normal that these losses increased. Of course, we are doing whatever we can in order to minimize this impact and to make it as sustainable as possible.

And with this, Gonçalo, I give back to you.

Gonçalo Morais Soares

Thank you, João. So, I mean, slide #8 is basically just the main financial numbers, the ones I covered, so decrease of 2.7% on EBITDA, decrease of close to 23% on net profit, CapEx increasing around 21%. That's just the main numbers.

So, if you move on to slide #9, you'll start to see in a little bit more detail. So, EBITDA has several components here explaining the trend. On the assets and OpEx remuneration, each side has a mixed effect that contributes to this. On the negative side, you have the remuneration and the rates of return on gas that come down. You have the allowed OpEx namely because of the electricity last year that we had a lot of cost that also come down on a year-on-year perspective.

But on the positive side, you have OpEx remuneration going up a little bit, but namely, you already have solar agreement. And this already accounts for a little bit more than EUR3 million, to be exact EUR3.2 million of revenues that we have here. We also have a small increase on the incentive on the IMDT. We are not expecting it to increase on a full-year basis. We are actually expecting it to maybe decrease a little bit, as we were on the maximum level versus last year, but it's more the way that we accounted for it last year versus this year.

In terms of other revenues, it's mostly driven by an increase of onward as the CapEx have increased. There is a little bit more services also rendered to other producers as we help them expand with consulting services, but it's mostly on work.

Our OpEx score is mainly driven by a reduction on OpEx and increasing personnel. I'll go through that. International segments, what you see is a slight decrease in electrogas, and we'll go through it because of decreases of volumes and tariffs, but we came from two years of record yield in electrogas. And then you have EUR4 million non-recurrent recognition of revenues last year, and that kind of explains most of it, okay. That also kind of explains because in terms of international contribution, international losses of weight, it's basically driven by this non-recurrent income.

Moving to slide #10, just the story of what you already know. There was this increase and decrease in terms of rate of return. Electricity has been basically stable on an year-on-year basis, but even the revision of the gas remuneration cycle, there is a decrease that pushes remunerations in both transportation and distribution slightly down.

Investment in slide #11, so as you know, it's always a little bit early to tell what we are seeing is positive trends. I would say that transfers to RAB, we are pretty comfortable and seeing an increase and a good trend on numbers. In CapEx, we are, I think, although we see positive trends, we are a little bit concerned because we do see some delays. Some of them came already from the past.

I think that the fact that we had elections did not help with these processes. So, we already knew that versus our expectations, perhaps in 2024 was the year that we had a little bit more. We also know that next year is the year where the solar agreements are clearly going to pick up. So, we are not concerned with these delays. It's something that we don't like, but we think that we can catch them up in the next few years.

Slide #12 in RAB returns, it's basically what you see here is the negative impact in both gas transportation and distribution of the RoR evolution, so it's almost EUR2 million of negative impact there. Plus, on gas transportation, you still see a negative impact on an asset-based evolution that you don't see on both the other sectors.

Moving to OpEx on slide #13. So, there is this mixed bag of increase in personal cost and decrease on core of external cost. Personal cost mainly driven by two things. On one side is still the inflationary pressure from last year that is still translating into salaries this year. This is of course trending down and reducing, so we do not expect the same kind of impact next year versus this year.

Furthermore, there is still a 5% increase in personnel. We are reinforcing mainly the operational areas, both because of more activity and also because of trying to increase resilience across the board in our operations. And so, we have been increasing people. This is something that happened last year. It's something that is happening this year as in places going to start then to trend down as we move forward next year. So, I think that these were the years where this is going to be. This is mostly in line what we should expect in full year.

Correctional costs. At this time, it's being driven by maintenance costs coming down. This is not completely the yearly trend, so part of this may be catched up until the end of the year. And also, costs of electricity coming down. These, I think, are more sustainable for the full year, as we have seen that prices of electricity did come down. They are kind of going up and down. Now they recuperated but versus last year, I think that this is something that you should continue to see on a year-on-year basis.

Slide #14, and going to Chile. I already went through the main explanations, but basically in Transemel is that one-off. We are continuing to increase CapEx. We are expecting in July and August a couple of our main projects there to be concluded. So I'd say that the trend in Transemel is the same.

In Electrogas, as I said, there's a slight decrease in volume. There's a slight decrease in tariffs also. João told you the story of Portugal, the story of Chile is very similar here because in Chile, also very wet here, very strong renewable year there. And so there was also some decrease in terms of gas consumption, and part of it is driven by electricity production as we have this very wet here there also.

Looking at below EBITDA, slide #15. In terms of financial results, there is this normal trend that we were already expecting. There is an increase of the average cost of debt from this 2.4% to 2.8%. We know that the average cost of debt this year should be between these 2.8% and 3%. That's where we should end, and then stabilize from that moment onward.

In terms of average debt, we are going to see this a little bit further down the road, so there's smaller impacts that kind of counterbalanced each other. On one side, we still have -- and this was coming already from the first quarter, some negative impact in terms of exchange rates from Chile on a year-on-year basis. On the other side, we have a little bit more dividends from our Mozambican stake. So that's kind of compensated one enough.

In terms of taxes, nothing new here. As Rodrigo said on the special levy slide, we are continuing to see a pile-up of positive development, but we are still kind of waiting to see if this becomes a more concluding trend, but I'd say that clearly every news that comes out is a little bit more positive.

So net profit in #16 is just all of these put together, so nothing here to add. Going to slide #17, in terms of net debt, what you see is, versus full year, a decrease of net debt. This decrease of net debt is basically pushed by tariff deviations. If you see that without tariff deviations, net debt will be basically flat versus the end of the year. And tariff deviations is the trend that we were expecting. So we have that negative amount that included last year mostly an increase driven by REN trading.

As REN trading had come to a conclusion this March, we are now seeing this trending down. It should trend down quite substantially this year, and it should continue, as we have already explained, continue to trend down to something like 100 million of stock that we know that we should keep them moving further to stable trading, tariff deviation, and of stock. So, I'd say that on net debt, things are actually moving in the good direction and a little bit ahead of what we have expected. But I'd say that trend-wise, we are mostly in line with what we expected in terms of the business plan.

In terms of liquidity and maturity, it's at 4.3 years, but I can actually say that we also anticipated what we had announced in the business plan. So, we have announced that we are going to renegotiate a lot of loans to be able to increase maturity. That has been basically approved in yesterday's Board of directors.

We are now concluding the contract. That's why it's not here, and it has not been sealed or it's not concluded at first half, but we should be able this year and by third quarter to have everything closed.

And for you to have an idea, these 4.3 years should go up to around 5.4 years. And the liquidity from the two years should be increased actually to around 3.5 years.

So we are clearly improving the sustainability of the financial position. We are clearly improving the maturity. This movement was able to be done without almost no relevant increase in terms of average cost of that. We are talking about a couple of [baby splines] so very small increase. So I think this is a very, not only earlier than expected result, but better than expected result.

Moving to sustainability and to slide #19, just to give you notes, and this comes on the back also of what João was explaining. You see that green, gas emissions are coming down quite substantially this year. And this is, despite the fact that as we put more renewables, and João told you this, losses go up a little bit. Then what you see is that the intensity of greenhouse gas emissions came down because you have much more renewables in the mix of electricity that we are transporting, and so our own emissions came down quite substantially. Of course this is, I'd say, exceptionally good year in terms of renewables, but this is clearly proving quite an important step in terms of decreasing the emissions as we have in the given slide.

Slide #20, you can see several of these explanations. So again, explaining this 82% renewable consumption and the impact that it has, the decrease in gas. We've been increasing also at a good step the home production and self-consumption. So we have almost 4 megawatts of production. We are going to keep increasing this in the next few years.

We have increased substantially the electrification of our fleet also. It's close to 60% now. So we are step by step increasing the environmental and governance. We are increasing, I'd say, and stepping up to the commitments that we made to you on the business plan.

And we can see that reflection on slide #21 in the ratings that have been also increasing year in and year out on most of the different rating agents. So as a wrap up in slide #23, results in line with expectations even I'd say slightly better. We are also, as I said, slightly concerned with the delays in CapEx, but we are, I'd say, trying to ramp up to recuperate that. And I'd say a final note also some positive notes that keep coming on the lab, so we are getting more comfortable with that situation.

So, with that, I close our remarks, and I open up to any questions that you may have. Thank you.

Q&A

Enrico Bartoli

Hi, good morning to all. A few questions on my side. First of all, at the beginning of the call, you mentioned discussion with the government regarding energy transition investments in your networks or whatever. If you can provide some more color on whether actually the government is showing some open in improving the regulatory framework particularly related to the electricity transmission.

Second question is regarding the -- if you can update us on the legal evolution regarding the special levy, and particularly, if you have taken any additional actions in order to try to recover that amount in the past few months. And the third one is related to the CapEx if actually achieving more than EUR300 million for this year is still realistic in your opinion considering that you commented that you're seeing some delays in the execution.

Rodrigo Costa

I will take the first couple of questions. On the government side, the government has -- we are not supposed to comment on and we never comment on whatever are the government positions especially at the point where they are starting. They have been communicating quite a bit regarding energy policy. They are talking about the review of the plan. As I said, they are talking about the offshore.

They are talking about a little bit of the effort the country is doing overall on renewables, and nothing is really changing. What we see is a government that is committed to keep going the energy transition as it should. I don't think -- I think this is basically unstoppable. And the government usually, they don't make comments on regulation. It's something -- it's one area that they leave, as it should, to the regulator to comment on regulation. That's usually what happens, and we don't think there will be any change.

The only thing I can comment is we have had a lot of interactions. We are working to explain what we are doing, our plans, the challenges we have. They are listening. And I think, overall, they understand that without the projects that we need to develop, a lot of industries will not be able to do their projects which is something that is key for the economy of the country and for the future of the country. And I think everybody understands that, and we expect, of course, the right decisions.

On the levy, that has been around for basically 10 years. It's the speed of our courts. It's something that we were expecting, and it's happening. And it's slow.

And now, we won a few decisions. We just won another one. And this will probably have impact, positive impact, regarding what is our expectations. But the decisions are not yet absolutely final, and we need to wait for that.

I think we are, of course, closer to the final decision than we ever been. This is kind of obvious, but it can take a month. It can take a few more months. The only thing at this point that we feel is, leaching has to change, has to stop.

And on the process of recovering what we already paid, those processes will be taken care of at the right time. And we don't expect any special complexity around, if we win, we get the money back, we get the interest back. On that front, we are not expecting any issues. The only thing we cannot say is when, how much, because it's still early. But definitely, our lawyers are very optimistic regarding a change. Also, in that regard, we never heard any comments, any official comments on the topic from the government.

On the CapEx, João can complement a little bit with more details, and the question was if we are comfortable on the EUR300 million. But I can tell you that, at this point, I think that we can be above or we can be below because there are some projects that were a little bit delayed. So at this stage, it's not a guaranteed thing. I think it's still a possibility that it's not a guaranteed thing.

As I said, I think that some of the things that maybe late this year can be done next year. But, João, I don't know if you want to complement a little bit.

João Faria Conceição

It's exactly what you are saying. We got very recently some important licensing decisions for some of the biggest projects that we have in the pipeline. Traditionally, the first semester is always with a lower level of execution versus the second semester. But ultimately, the idea is that what we have to do, we have to optimize on a three-year basis, 2024, 2025, and 2026. So we cannot say if we're going to be around that figure or not, but we can say that if we are not, it's something that we are confident of recuperating in 2025.

Fernando Garcia

Actually, they are a follow-up of the previous question in terms of rate of returns and the levy. So in terms of the rate of return, the thing is that your average rate of return is below 5.5%. That compares very low versus other European countries. They are -- I mean, you commented that REN projects are needed in there for the energy transition, no? Can you adapt your investment taking into account this or doing less investments that needed in case that this rate of return is not increased?

And then my second question is on the levy. I understand what you say, but let me ask you in terms of timing if you think that something can be known in 2024. And then on the feedback that you are receiving from your lawyers if the implications of the rulings could imply not only the payments going forward but as well what you have paid in the past.

Rodrigo Costa

I'll take the second first, and then we'll move to Gonçalo to comment on the first.

Well, on the on the levy side, I understand the question, but you can also understand, we don't comment on our discussions with our lawyers. We don't have anything else at the moment that we can say beyond what I have already said. This is -- justice decisions, court decisions, people should not anticipate what they will be deciding or the timing. And then that's why we are midway to halfway to the year of 2024. We do not have any precise date that we can share.

The process is moving for sure slowly. That's a reality. It has been 10 years. We said that when we did the first call 10 years ago, and we spoke about sales. The only thing we were sure was it's going to take time. And it is very complex.

Now, we are waiting for the decisions. We do not have final decisions. And this is happening as we speak. Every quarter, some new decision is showing up. It has been positive, but now we have to wait until decisions become final.

The process for reimbursement if we win, we expect to be super easy, but we are not there yet. And regarding decisions on the future, how we handle this situation, we will take care of that at the right time, and then we will disclose when we have a decision. Gonçalo?

Gonçalo Morais Soares

Okay. So, relating to your question on the RoR, and this was, I'd say, something that we already explained on the business plan and on the Capital Markets Day. We are aware of that situation of the rate of return, and so there's two things that I can tell you, or three things if you want.

One, the solar agreements, and that's why we focused, and there's a lot of CapEx in there, are a little bit outside of that scope and have a different rate of return. And so I think is a partial answer to that. So that's already an allocation of a capital that is not fully dependent on the regulatory remuneration.

The second thing is that we were, I'd say, more vocal than before that we want a fair remuneration moving forward in electricity. We are expecting to see what happens in Spain, and we do believe that both in Spain and in Portugal, regulators should give the companies fair returns based on the increase of the cost of capital of the last few years. So we are expecting this, and we are having talks with both the government and the regulators.

Third, of course, there is a final ability of in case that would not happen to allocate a little bit of capital in a different way. We also said that. But we are focused on the first two, which is executing the solar agreement. with slightly better rates of return and talking with the regulators to get a fair return.

So that's the battle now, and that's what we are going to have discussions and fight for and push for. We should not -- this is mainly a battle for next year, so mainly a discussion for next year. And the only thing that we should anticipate for this year is when we know what happens in Spain because apparently, as you know, before the year ends, we can have a preview, then that gives you a little bit of a sign of what will happen. Okay, but that's what we've explained also on the Capital Markets Day.

Ignacio Doménech

Just one follow up question on the solar direct agreement. Just wondering if you could quantify on the expected contribution of this for 2024. As it seems, you are starting to receive another margin from different batches. And related with Fernando's question, if you end up not receiving higher returns if we could see higher direct agreements.

And the second question is related to the potential lower corporate tax, a measure which might be imposed by the Portuguese government. Just if you could clarify if it would be neutral for REN or if it could have any minor impact.

Rodrigo Costa

Good question. So in terms of the solar agreement, that is around EUR3 million now, year-end I don't know, EUR7 million, EUR8 million should be the impact this year, okay. So that's more or less what you should anticipate for this year. In relation to the corporate tax, it's a good question. Of course, it could have potential positive impact, so if the rate decreases 2%.

As of now, it's a little bit uncertain, so we do not want to create that expectation. We know that this is something that is a key measure of the government. On the other side, we know that to negotiate the budget, this is one of the measures that the other parties, some of them, do not like. So we don't know in the discussions how this is going to end up.

We should be, at this stage, careful. But of course, if it would happen, it would be positive, and so let's wait and see. We have a discussion -- they will have discussions as they come from summer in September. The first version of the budget comes out in mid-October, so at that time, you should know what they are putting on the table, okay?

Gonçalo Morais Soares

So, thank you all for participating and listening to the call. Thank you for the questions.
I hope that for those of you that go on a summer and holiday break, you have a good rest and a good break.
On our side, some of us are also going to do that. And so, if you have any other questions, please reach out to João Pedro and the rest of the IR team. They will be ready to answer any of your questions.

And as always, it was a pleasure to be here with you, and see you next time.
Thank you.