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Corporate participants

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

Participants

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

Madalena Garrido

Thank you all on the line for your time and availability this morning to join our 9-month results conference call. As per usual, we have our Executive Committee here today. So we have Rodrigo Costa, our CEO; we have Gonçalo Morais Soares, our CFO; and João Conceição, our COO.

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 the Q&A session on which we will be taking your questions. Rodrigo?

Rodrigo Costa

Good morning. Thank you, Madalena. I want to start by providing a brief comment on the events that we are going through in Portugal. We were asked and we immediately confirmed that we have a search in our head office on the day the investigation became public.

As the case develops, the media is making constant updates to the case and we have been referred multiple times. REN is the high-voltage electricity and high-pressure natural gas sole operator in Portugal. In that capacity, we have constant contact with all the energy project promoters that require a connection to our grids.

We also operate a small telecommunication network that is based on electricity and gas transport infrastructure. These contacts are regular and happen constantly and at multiple levels inside our company. The rules of engagement for our relationships are very simple.

We have a public concession that defines our responsibility, being the first one, the quality and security of the energy supply nationwide. We also deliver multiple reports to the government and the energy and the environment agencies with the objective of contributing to the concessionary decisions, in particular, to support the short-term and long-term decisions regarding the country energy planning.

Periodically, we present to the government our multyear investment plans that after being evaluated by the multiple public administration authorities and the parliament goes back to the government for final decision. All
these responsibilities are well detailed in the multiple reports we’ve published throughout the year, and all our significant projects are done following the public procurement tender rules.

And we are regulated by ERSE, the energy regulator, and CMVM, the capital market regulator. But my most important message today is saying that we are providing all the information that has been asked and the authorities will always count with our total collaboration.

We were searched but neither REN or nobody from REN has been appointed as defendant in the case. Again, as the high-voltage electricity and high-pressure natural gas sole Portuguese operator, we have constant interactions with all the energy project promoters that require a connection to our grid.

And the same applies to promoters of projects that request to us telecom services based on our telecommunication network that is based on our electricity and gas infrastructure. Taking that into consideration, we expect that we will keep showing up in the news related to the case.

And now we go back to the topic that brought us here. We had a very busy quarter, and Gonçalo will start by taking us through the details and after, as Madalena said, we will be available for questions. Thank you.

Gonçalo Morais Soares

Thank you, Rodrigo. Good morning to you all. So if you want we can go to directly to Slide #4 with the key messages, financial messages. So we have some good results, pretty much in line with the performance that came from the second quarter. Growth in EBITDA and net income have somehow normalized but are still strong year-on-year.

So EBITDA is growing almost 10%, net income growing 18%. So this is on the back of the rate of return going up, electricity costs coming down and some nonrecurring. So mainly the same things that were affecting and impacting on the second quarter. As you’ve seen also, net debt continued to increase, and this is as expected, basically the result of the evolution of tariff deviation.

And finally, I’d say that CapEx is on the way to grow quite a good bit on a year-on-year, but there are still some delays, but I will go into this in a little bit more detail. But now let me pass to João who will comment on the operating side. João?

João Faria Conceição

Thanks, Gonçalo. Good morning to you all. On the operational side, as you can see on Slide #5 and Slide #7, the most relevant operational issue in this last quarter is the evolution on the portfolio of generation in our electricity system in Portugal as we increased the share of renewables year-on-year from 44% in 2022 to 55% in 2023.

And if we look through the last few months, this figure increases even higher. As you may have heard, we had a couple of days with the Portuguese system fully supplied only with renewables and still having a surplus to export to our Spanish system -- neighboring system. In what concerns to the electricity consumption, it’s almost flat compared to 2022, and that’s effectively our forecast for the full year of 2023.

While on the natural gas side, there is a drop explained mainly by the significant decrease on the gas used for electricity generation. This is the normal flip point of having more renewables, mainly hydro, as a consequence and the fact that the consumption is almost flat, natural gas is offset.

In terms of quality of service, nothing serious to report. I mean we keep the high level of quality of service on the both transmission activities in electricity and natural gas as well as our distribution of natural gas in cash concession.

And with that, Gonçalo, I think can...
Thank you, João. So if we move to Slide #8, just with the main financial highlights. So as you see EBITDA going up around 10%. Financial results, which is, I'd say, the metric of the rate of return also going up as the cost of funding has gone up. Despite that, net profit is solid 18%, a strong increase that you see in CapEx of more than 40% also going up.

So if you look in the next slide and looking at EBITDA, you basically see that most of the increase comes from asset remuneration. And this is, as I said, driven by increases in the rates of return that impact both the OpEx, assets in electricity, but also the gas assets.

The other element that impacted are other revenues, this is also on the back of higher rates and higher CapEx. So higher CapEx means higher own work and also the increase in rates and funding costs also implicate higher own financial work. So that pushes other revenues up.

OpEx is basically driven by a reduction in core external costs, namely electricity and then international sector is the same trend that we saw good results also impacted by that nonrecurrent of the recuperation of revenues of around EUR 3.8 million from previous years in Transemel. That has pushed the contribution of international businesses a little bit above the 5% that we are now.

In the next slide and looking at the RoR evolution, you see that RoRs are higher, but they have stabilized. So these higher rates have this higher for longer environment, what we see that they are at this level, but they are more stable now, and the rates of return are basically stable, and this is what we will have for the year.

In terms of investment, what you can see is that we have higher investment. But clearly, I think that we could and we should be higher. We are still -- and despite the big efforts here from the operating team from João, we are still struggling from some delays in authorizations and approval. It's not on our end, but there is still some delays that have been, I'd say, hampering level of growth.

That being said, we expect strong growth year-on-year in CapEx. And that also being said, what you can see is that transfers are still being a little bit delayed, although they are expected to be higher than last year. We're still expecting to have some delays given some timing delays, given what I said about CapEx.

In terms of RAB evolution, nothing to add. This is mostly driven by these factors. Here also, we expect that at year-end, the electricity evolution of RAB is different than the one that you see here. But gas transportation, of course, will continue to drop a little bit and gas distribution to improve a little bit.

Moving to OpEx on Slide #14. As I said, these are very similar messages from the third quarter. So what you can see is personnel costs going up. This was on the back of inflation, but also and a good bit on more people. So we are now at 729 people. And this is basically the consequence of more activity. So there is a lot more going on, mainly on the operating areas. And so we do need quite a few more people to sustain this level of activity.

On the other side, on core OpEx, you see this decrease. And again, this is mainly driven by lower costs in electricity on a year-on-year basis and the effect of the way that both compensates by the cost of electricity. And despite the fact that we did have some increased costs in IT and other areas.

But this kind -- clearly, the electricity cost clearly driving this down. We still expect this to impact EBITDA on a year-on-year basis. So we are expecting lower growth of EBITDA for the full year, but still a solid single-digit kind of growth.

Looking at Chile. And as I said, Transemel is continuing its growth trajectory. We have that nonrecurring impact from previous years. But apart from that, we are still growing and new projects are still being built. And so it is normal that revenues and EBITDA will continue to grow.
We just won very recently a new auction for one of the reaches and it's a CapEx of around EUR 50 million. So again, I think it's a good sign of delivering on that organic growth strategy that we said that we have for Transemel. And Electrogas is having a strong performance, in line with second quarter.

So a lot of gas bill this year in Chile that has impacted positively Electrogas. I think that next year, we'll probably see the performance of Electrogas clearly stabilizing and normalizing versus what we have in these 2 years that were, I'd say, very, very strong.

So looking at below EBITDA. On the tax part, as you can see, we are unfortunately still close to the 40% effective tax rate. And there is no news on the special levy front relative to this year. So we already paid this year's levy.

And if -- and for those who follow the developments of the Portuguese state budget, which in principle and despite the crisis that Rodrigo mentioned, should be approved till this year. The levy is still there. They have created certain exemptions given certain issues of tax autonomy.

But to be honest with you, it's a little bit unclear how this is going to be applied. And so as we are now, and the expectation is that it should stay basically the same, awaiting, as always, further developments on the court front.

On the financial results part, you see that average cost of debt has increased versus last year. It is more or less stable. So I would say that this is the range where for this year, it should stay around 2.5% -- 2.4%, 2.5%, kind of the same area.

So this is an increase versus last year that we were expecting. And of course, this has been impacting in tandem with the fact that the net debt and I'll comment on that a little bit more in detail. There's also increase which is driven by tariff deviation.

This has resulted in higher financial costs. We are still -- we are expecting that next year average cost of debt will still increase because this is, I'd say, the normal trend that regulated companies have.

In terms of net profit, it's just everything put together. So on one side, you have EBITDA going up driven in a lot of cases by higher rates. We have higher financial results. So it's one thing and the other at the same time, the income tax just basically comes from the fact that we have high results. So let's say this comes to this 18% increase that I mentioned before.

Looking at net debt. So just to tell you that we are still in a solid financial position. We have recently had 2 of our ratings being reiterated at the BBB stable outlook level, okay? So we are, I'd say, pretty confident and do not foresee any changes there.

Net debt has gone up due to these tariff deviations. As you can see, it will probably go up a little further until the end of the year. But what you can also see is that if it was not for this, it would actually decrease.

Operating cash flow is pretty strong. Even in the case that we have a slightly higher CapEx, I'd say operating cash flow will be very strong. I'd say that this impact of tariff deviations that we have this year will normalize. And so we will see net debt kind of also normalizing in '24 and '25 years.

But as you can see, liquidity is very high, close to EUR 1.5 billion. We are not expecting to issue this year, but we are expecting to issue beginning of next year, so first half of next year, which will allow us to maintain this more than 2 year liquidity that we've been maintaining for a very long time and to increase further the average maturity and durations that we have on our balance sheet.

Looking at ESG and commenting very fast. We are very, I'd say, much ahead in terms of compliance mainly with the environmental results. The other ones are also going ahead as planned, but the environmental one is going ahead quite fast. We have been developing a lot of measures. And we've reported strong results and not anticipating anything.

I can say that perhaps next year in the business plan, we'll probably be a little bit more ambitious as we are seeing that we can deliver in a stronger way on this front. This result is what have been contributing to our improvements in terms of ESG ratings and standards. So we have been -- apart from ISS, we have been seeing improvements all across the board in MSCI, Sustainalytics, CDP, S&P Global, so every one of them has been improving quite a bit. Okay?
So closing remarks. Strong results, pretty much in line with the results of the second quarter. There is nothing really worrying. We know that this is a very strong year. Next year is a little bit different because financial costs will increase a little bit more and you won't have this electricity cost impact. But I'd say, operationally, everything is going as planned.

And just to mention that according -- as planned also, we are going to be discussing in the Board meeting at the end of the month, the interim dividend as we made last year so that we will pay again this year as we have planned and defined in our dividend policy.

And with this, I will conclude now the presentation and wait for some questions on your side. Thank you.

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**Q&A**

**Enrico Bartoli**

I have some of them. The first one, sorry to go back on the investigation. Just to clarify, can you confirm that actually no charges has been so far indicated on REN regarding that investigation? The second question is (technical difficulty) on gas transportation, there's been a 20% increase in EBITDA also in the third quarter, mainly, I guess, due to the...

**Rodrigo Costa**

I'm sorry, Enrico. We lost you on the second question for a few seconds, if you can repeat. We heard the first one.

**Enrico Bartoli**

Yes, sorry. Yes. On gas transport, there has been a 20% increase in EBITDA. If you can elaborate on this, I guess, is mainly due to costs. If we can expect this to continue over the next quarter. The third one is on tariff deviations. So if you can indicate the level that we can expect by the end of the year?

And the last one on the impact that you expect from solar PV increase in the Iberia market. We saw many days that with renewables providing all electricity, the outlook for that also in terms of what could be the impact on pricing in the Iberia market from this situation.

**Rodrigo Costa**

Okay. I will take the first. I already answered that in my opening statements. We have no defendant defined by the prosecutors, neither the company or anybody in the company. We have not -- we are not -- we were searched, that's it. They came, they left and nothing else. Gonçalo, do you want to...

**Gonçalo Morais Soares**

So on the gas, I'd say that what you are seeing is basically and probably the impact of electricity costs, that's the main driver behind the increase in EBITDA on those segments. I think that's the thing there. And as I said, abnormal or correction versus last year.

In terms of tariff deviation. So it's through that tariff deviations now have increased and recuperating. So we are still expecting them to grow a little bit on what we call the rent trading front. So I think that net debt could go up by a couple of hundreds of millions of euros until the end of the year.
As I said, this is not worrying. We have already forecasted this. It increased a bit more than we had anticipated, but I’d say nothing very material. I would expect that next year, it should come down net debt to the level that we are more in line with, the EUR 2.5 billion, something like that, and then normalize fully in 2025. Okay? Thank you.

Rodrigo Costa

João will take the last one, can make a comment.

João Faria Conceição

And the last one is regarding -- if I understood, it’s the impact on prices, wholesale prices in the Iberian market from these renewables. Of course, there is a correlation between higher renewables, lower prices. This is the business state. Having said that, there is not a direct formula implying that with this X level of renewables penetration, there will be a Y decrease on prices.

What we can say is that currently in the Portuguese system, we are quite well in terms of the stock of water in our dams, especially compared to where we were last year. Spain is having, as you know, a significant amount of solar being linked or being injected to the electricity system. And therefore, this is reflecting on lower prices on average in the Iberian markets compared, for instance, with France. And that’s what we have been witnessing so far. Thank you.

Ignacio Doménech

Apologies for coming back to the investigation in Portugal. I just wanted to have your opinion, given the investigation is focused on some hydrogen project, do you see a potential risk of hydrogen projects going ahead and therefore, a lower level of investments in the deployment of this hydrogen infrastructure?

And then my second question is related to the lower transfers to RAB. If you could elaborate a little bit on what has driven all these delays? And what can we expect by the end of the year?

Rodrigo Costa

On your question about the impact of the current case, no, we cannot say much at this point. This is a situation that not everything is known. This -- the fact that we have a government that is basically going to become a management government for some time. I would say that, that will have an impact on the decision process. And we have to be aware of that.

To be honest, a lot of the things that have been showing up in the press are projects that are not really underway. And then in that aspect, I would expect that as the time goes by, the project development will recover. But during a few months, I’m sure there will be delays on decision-making.

Gonçalo Morais Soares

Okay. So on the CapEx and transfers to RAB, so as I said, we are expecting a growth on CapEx for the full year. It should be, I'd say, more or less in line with the CapEx that we had 2 years ago. So in 2021, and you'll see some, let's say, good increases versus what you had last year.

And in transfers to RAB, and it will probably still be below EUR 200 million. And so you'll see an increase also in transfers to RAB versus what you had last year in the same kind of magnitude percent wise. But still, we still have, I'd say, a few projects that are large and that were delayed.

Bear in mind again and because this is important, that now in electricity and despite the fact that this is not our responsibility because we have -- we want to build the things and we have some delays even in permitting, we are now in a different model, which is to take the impact to the accounts in a different way, okay? So I just wanted you to remind that because sometimes I think it's important to say. Okay. Thank you.
Madalena Garrido

Thank you very much on the line. I'll pass it on to Rodrigo just for a few additions.

Rodrigo Costa

Thank you, Madalena. I think we are done for the day. I think the presentation speaks for itself. And hopefully, we were also very clear on the explanations. And that's why we never have too many questions. But as always, we are here to provide any feedback you may need and we will be following the situation with all of you. Thank you.

Madalena Garrido

Thank you very much. Have a good day.