

Results Presentation

Nine Months 2020

13th November 2020

- 1.** Overview of the period
- 2.** Business performance
- 3.** Closing remarks



1. Overview of the period



KEY MESSAGES

9M2020



Electricity and natural gas consumption decreased by 3.5% and 1.5% respectively, with **renewable sources reaching 56% of the total supply** (11pp higher than in 9M2019)



Service quality remained high, with **0.03min of electricity interruption time** (93% lower than 9M2019) and **natural gas combined availability rate at 100%**, the same rate as in 9M2019



EBITDA reached €352.5M, a **4.2% decrease** (-€15.5M) mainly explained by **lower remuneration rates** from lower sovereign bond yields coupled with the new parameters in the gas regulatory framework (-€15.6M) and **higher results** from the **international segment** (€5.4M), especially from the **consolidation of Transemel in Chile**



Net Profit decreased to €76.1M (€10.3M lower than in 9M19), despite the **positive effects** of a **lower cost of debt** in Financial results (reduction of €2.8M to -€36.7M) and **lower income tax** (reduction of €10.3M to -€31.7M), but with an **increase** in the **extraordinary energy sector levy of €3.8M** to €28.2M, as for the first time this year it also covered Portugás



COVID-19 had a limited impact on REN's financial performance overall, with **neutral impact in Net Income**, a **slight increase in Net Debt** and **delays in investment execution**, which are expected to be **recovered in 2021**



The credit agency **S&P reaffirmed REN's rating at 'BBB'** and outlook stable (October 29th)

SECTOR OVERVIEW

The Energy Transition is at the center of the Portuguese Government agenda



PNEC 2030 is approved

- In July the Portuguese Government **approved the PNEC 2030 (National Energy and Climate Plan)**, the prime instrument for the implementation of **the Portuguese roadmap for carbon neutrality**
- This sets **mandatory targets for renewable energy incorporation in electricity** (80% up to 2030, from 52% at present) and **carbon reductions until 2030**



Hydrogen Projects Call

- On June 17, following the public consultation on the National Hydrogen Strategy, the Portuguese Government has issued *Despacho* n.º 6403-A/2020 regarding the **opening of a call for parties to communicate their interest to participate in a future Important Project of Common European Interest (IPCEI) about hydrogen**
- **REN was one of the respondents together with a group of relevant national companies.** There were around **74 responses, and 34 passed** to the next selection phase of the **IPCEI** call



Gas Law amendment for Renewable Gases namely Hydrogen

- A new Decree-Law that establishes the organization and functioning of the *Sistema Nacional de Gás* and its legal framework, was published. This is set for the **decarbonisation in domestic and industrial gas consumption introducing a horizon to the gas networks role in a low carbon future**
- Production of renewable and low carbon gases is defined as a liberalized market activity. The producers of renewable or low carbon gases may use the product for any purpose. Related to REN ownership unbundling certification, the same restrictions apply as for the electricity sector
- The Decree-Law provides for the **growing recognition of renewable gases, in particular hydrogen, as a clean and versatile energy carrier**, and definitely a solution for the incorporation of these renewable gases in the gas networks. The mixing targets for hydrogen in the gas network becomes mandatory. REN is already preparing the required upgrades



Solar capacity auctions

- **A new solar capacity auction of 670 MW was held** on the 15th and 24th of August. Most of the capacity (483 MW) was sold in the storage option, and price references comparable but lower than to the previous auction were confirmed

COVID-19

Main financial impacts arising from the COVID-19 pandemic were felt in investment execution and RoR



Main effects of COVID-19

	Description	
1	Delay in transfers to RAB	Due to the coronavirus pandemic that led to a temporary suspension of works in March and April , some projects will not be concluded before year-end
		✓ To be recovered in 2021
2	Increase in 10Y Portuguese Government bonds	The increase in 10Y PT Government Bonds in 2020 have a slightly positive impact in REN's rate of return . In electricity the base rate for 2020 is 4.6%
3	Additional costs	There were additional costs with donations and safety measures , partially offset by savings with remote work
4	Increase in tariff deviations	Higher tariff deviations as a result of the reduction in electricity consumption. By the end of 9M20, the tariff deviations amounted to €168.8M

Impact on REN's financial performance is overall neutral in Net Income with a slight increase in Net Debt and a delay in transfers to RAB



2. Business performance

BUSINESS HIGHLIGHTS

In Portugal, service quality remained high, in a context of declining consumption and an increased share of renewables supply



Electricity

Consumption

36.0TWh ↓ 1.3TWh (3.5%)

9M2019: **37.3TWh**

Renewables in consumption supply

55.9% ↑ 10.8pp

9M2019: **45.1%**

Energy transmission losses

1.84% ↑ 0.24pp

9M2019: **1.60%**

Average interruption time

0.03min ↓ 0.43min (93.5%)

9M2019: **0.46min**

Line length

9,002km ↑ 94km (1.1%)

9M2019: **8,907km**



Gas Transmission

Consumption

49.6TWh ↓ 0.7TWh (1.5%)

9M2019: **50.3TWh**

Combined availability rate

100% = 0.0pp

9M2019: **100%**

Line length

1,375km = 0km (0.0%)

9M2019: **1,375km**



Gas Distribution

Gas distributed

5.3TWh ↓ 0.1TWh (1.9%)

9M2019: **5.4TWh**

Emergency situations with response time up to 60min

99.1% ↑ 0.4pp

9M2019: **98.7%**

Line length

5,814km ↑ 212km (3.8%)

9M2019: **5,602km**

FINANCIAL HIGHLIGHTS

Net Profit with negative evolution, driven by lower EBITDA and despite better financial results

EBITDA

€352.5M  15.5
(4.2%)

9M2019: **€368.0M**

Financial results

-€36.7M  2.8
(7.0%)

9M2019: **-€39.4M**

Net Profit

€76.1M  10.3
(11.9%)

9M2019: **€86.3M**

CAPEX

€103.7M  6.6
(6.0%)

9M2019: **€110.3M**

Average RAB¹

€3,652.9M  64.9
(1.7%)

9M2019: **€3,717.8M**

Net Debt²

€2,743.0M  156.5
(6.1%)

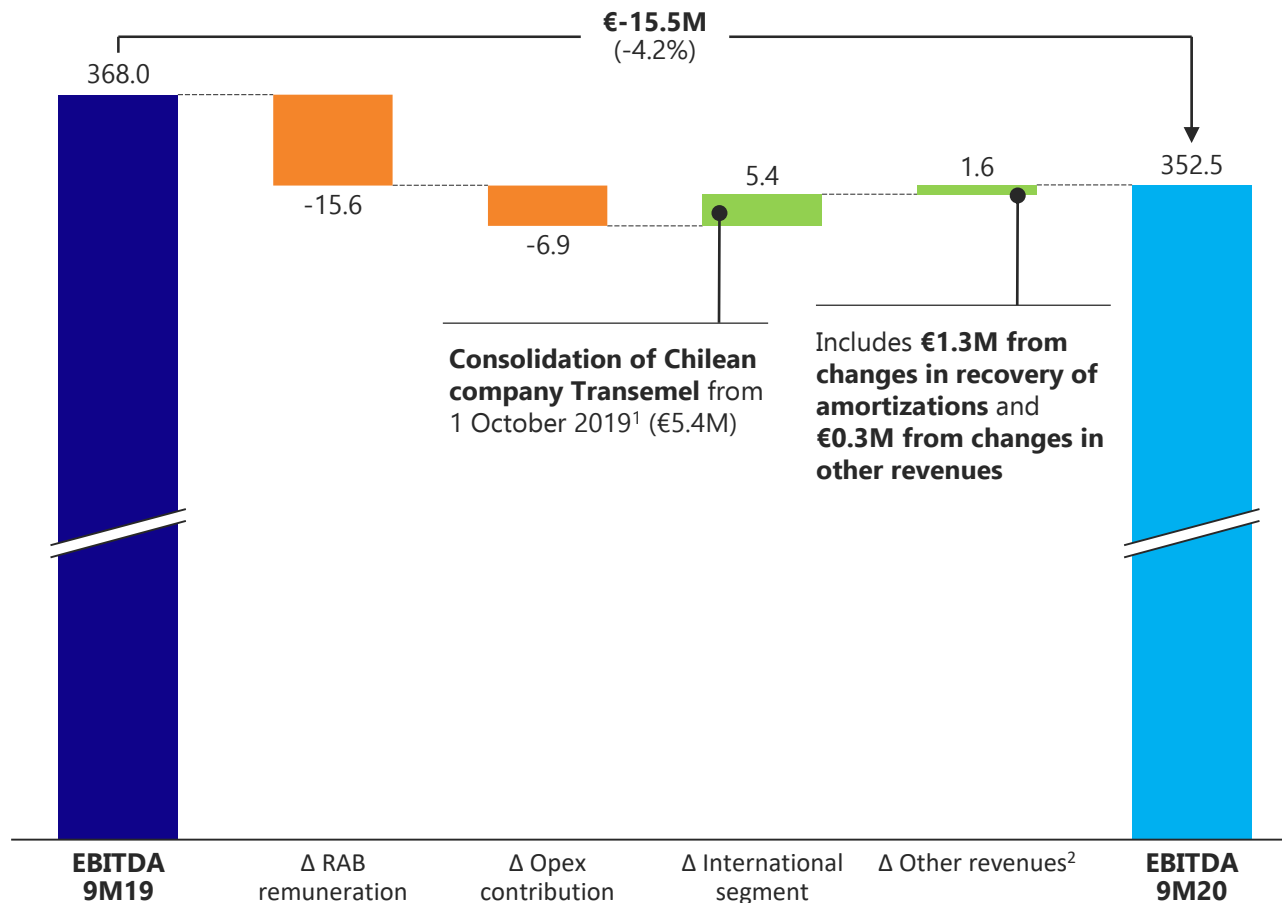
9M2019: **€2,586.5M**

CONSOLIDATED VIEW

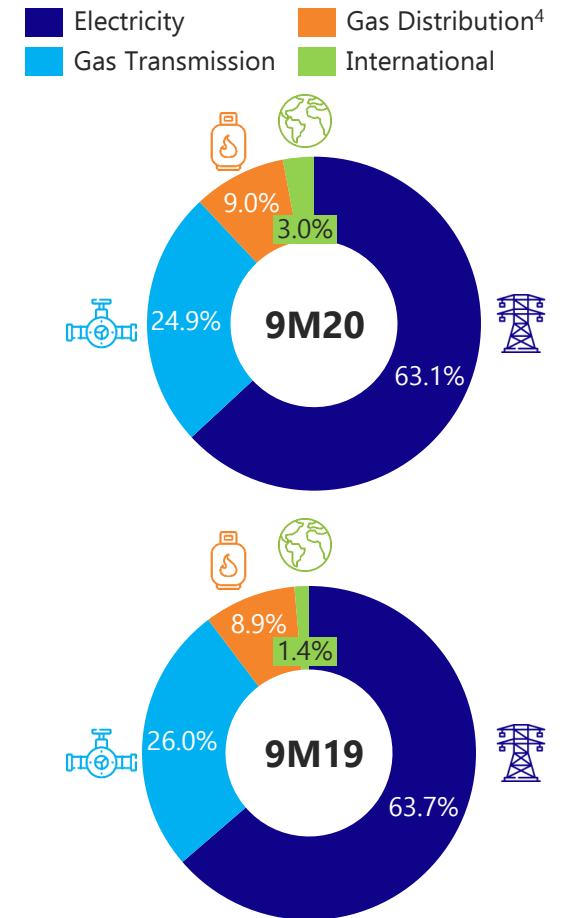


Decrease in EBITDA explained by lower remuneration rates and higher OPEX costs, partially offset by Chile's contribution

EBITDA evolution breakdown €M



EBITDA contribution by business segment³ %



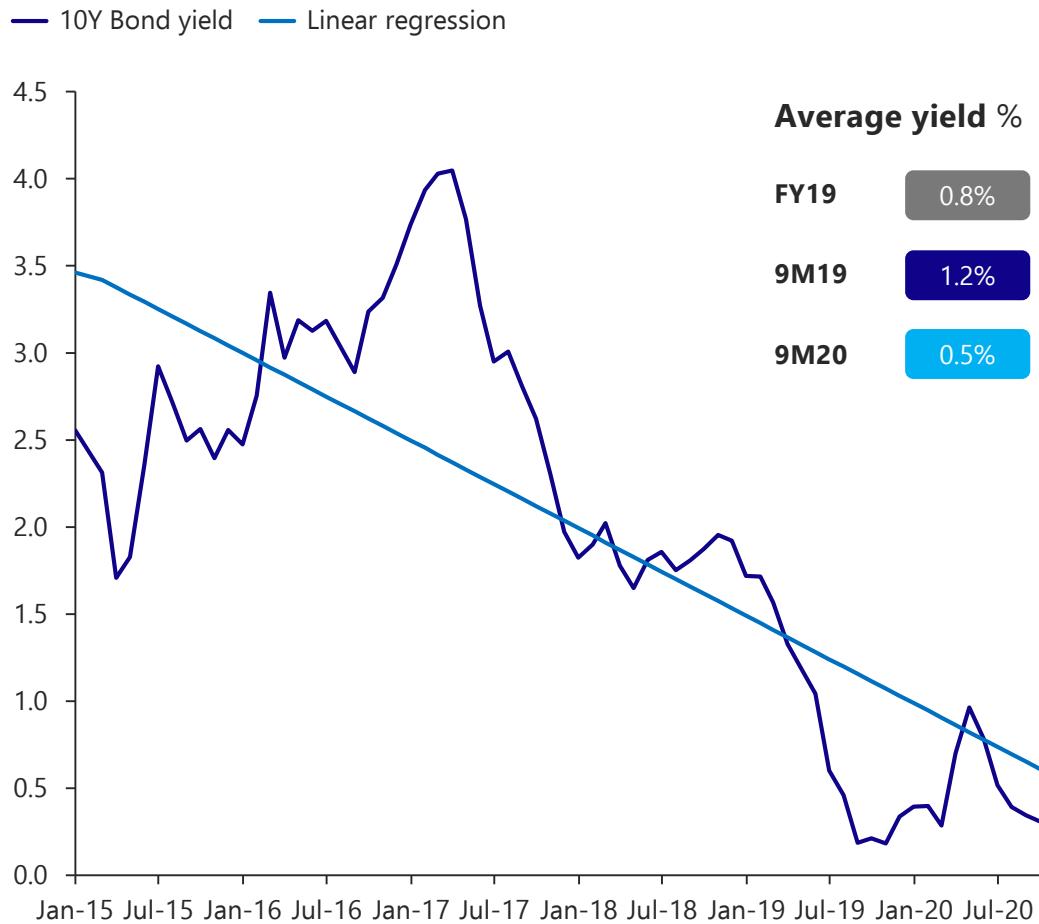
1 Includes Apolo SpA costs | 2 Includes amortizations recovery, subsidies amortization, REN Trading incentives, telecommunication sales and services rendered, interest on tariff deviation, consultancy revenues and other services provided, OMIP and Nester results | 3 Excludes the segment "Other", which includes REN SGPS, REN Serviços, REN Telecom, REN Trading, REN PRO and REN Finance B.V. | 4 Refers to Portugal

DOMESTIC BUSINESS

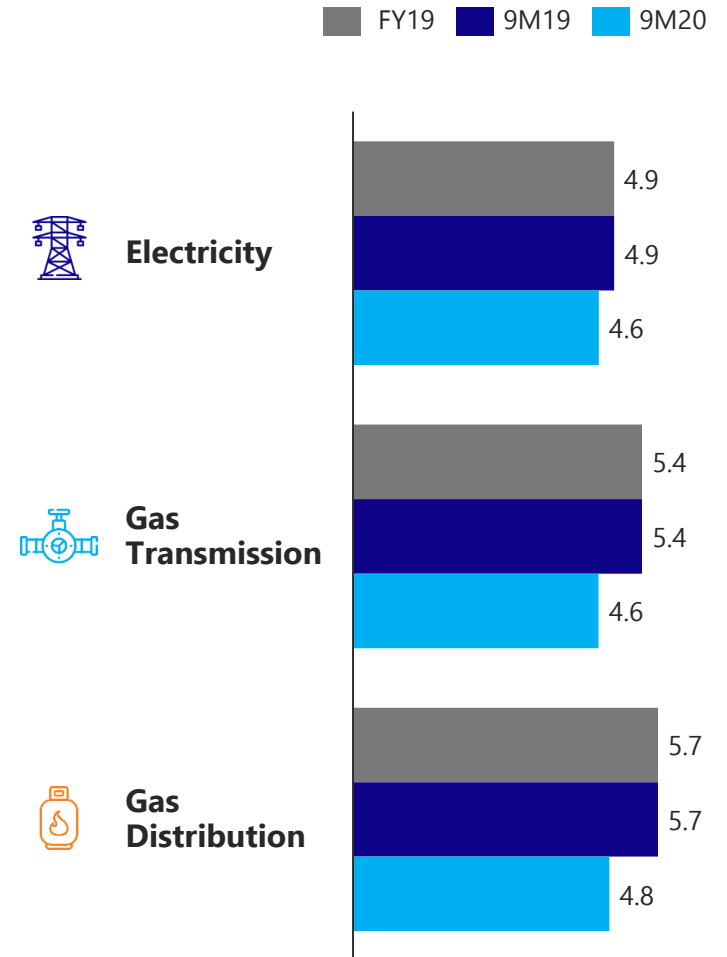
Return on RAB negatively influenced by the downward trend in Portuguese bond yields



Portuguese 10Y Treasury Bond Yields %



Base Return on RAB (RoR) %



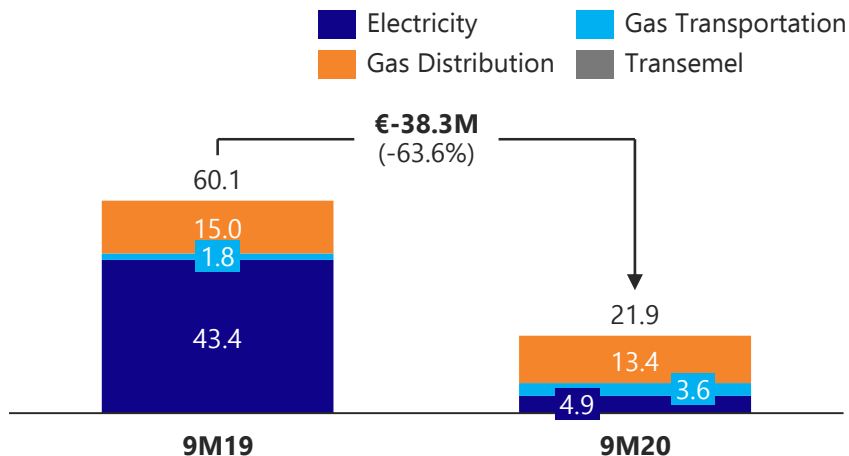
DOMESTIC BUSINESS

Transfers to RAB and CAPEX below 9M19, with delays caused by the COVID-19 pandemic

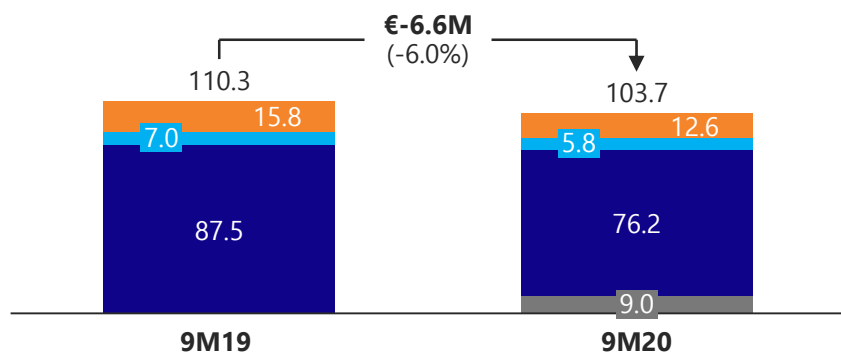
REN



Transfers to RAB €M



Capex €M



Key highlights



Electricity

- **Main investment projects concluded:**
 - Chafariz substation: **new 220 kV bay** to connect Sincelo wind farm
 - Sacavém and Falagueira substations: **refurbishment of the command and protection systems**



Gas Transmission

- **Main investment projects concluded:**
 - **Pipeline network:** replacement of flow computers
 - **Sines terminal:** replacement and upgrade of the electrochlorination station



Gas Distribution

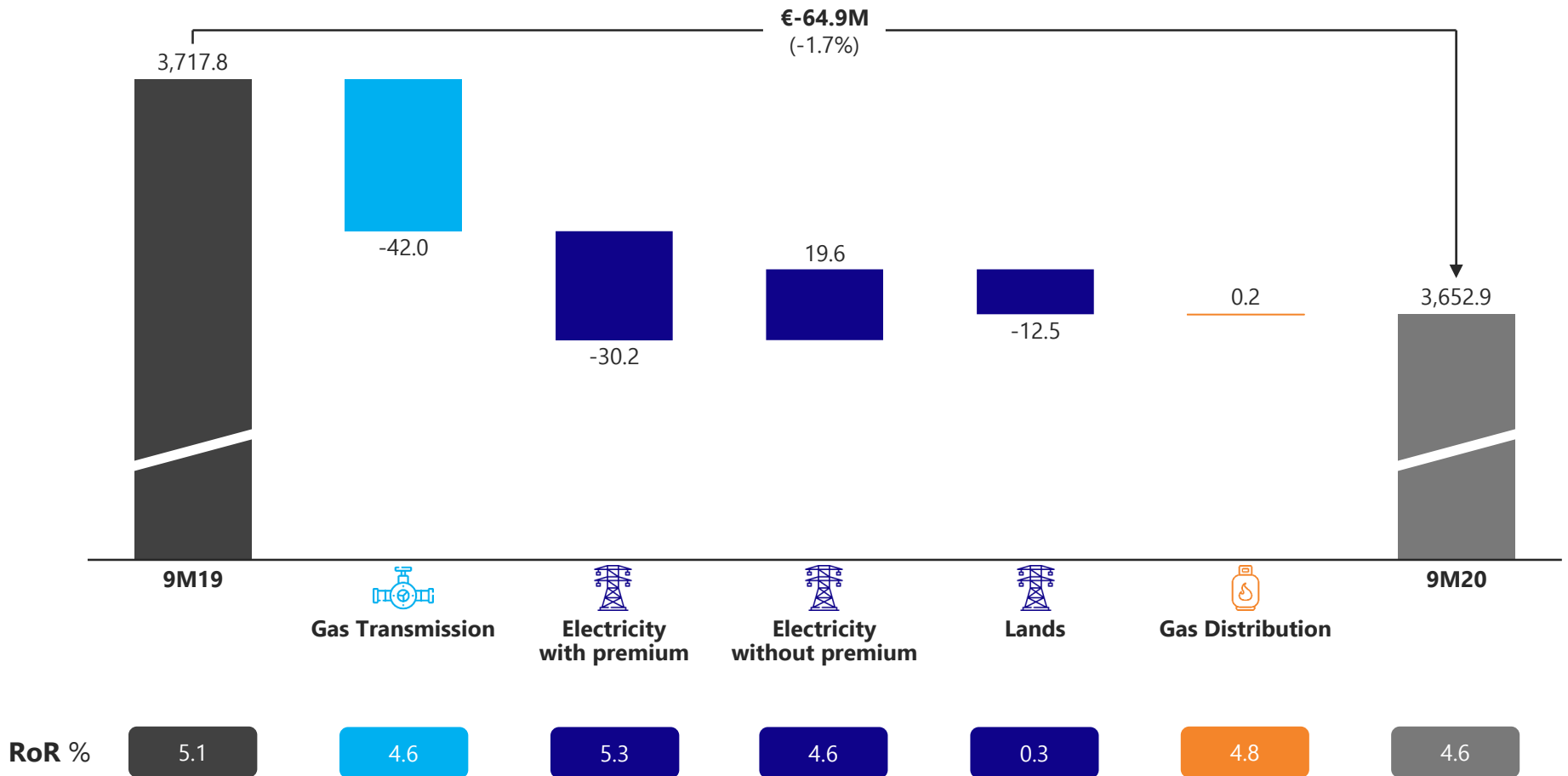
- Investments for **network expansion and densification**, mostly for B2C, with new prospects for B2B investments continuing to be monitored, alongside with firm contracts
- **Network decarbonization process** on the move

DOMESTIC BUSINESS

RAB relatively stable despite small declines in almost all asset classes



Average RAB evolution €M

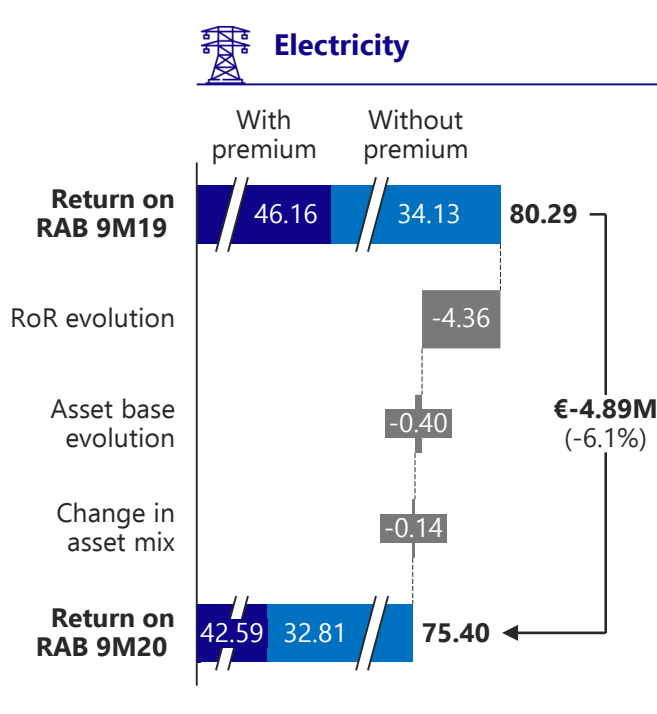


DOMESTIC BUSINESS

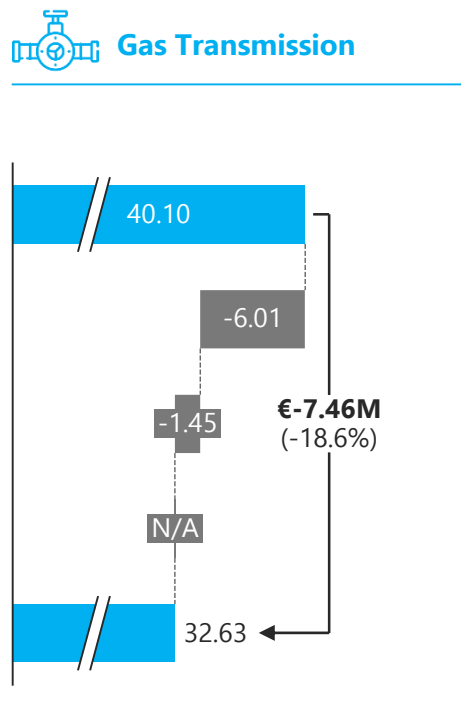


Overall, the decrease in RAB remuneration is largely explained by lower rates

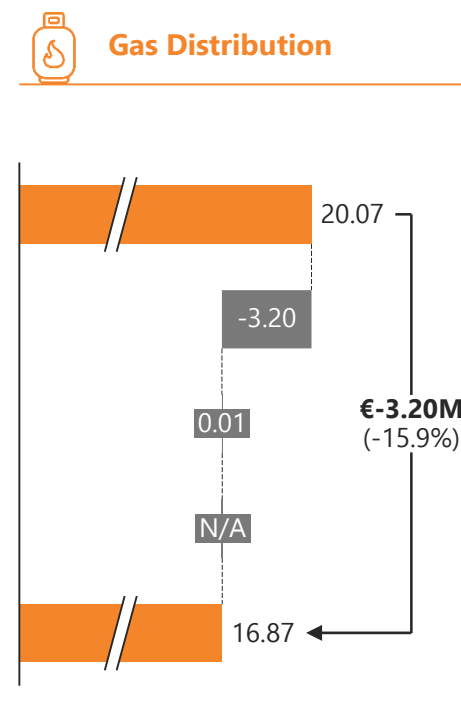
Return on RAB evolution breakdown €M



Decrease in Return on RAB explained by a **lower rate of return on assets** with and without premium¹, a **smaller asset base** (by €10.6M to €2,015.8M) and a decrease in weight of assets with premium²



Return on RAB with negative evolution due to a **lower RoR** (from 5.40% to 4.59%), and a **smaller asset base** (by €42.0M to a total of €948.0M)



Return on RAB decreasing mostly due to a **lower rate of return** (from 5.70% to 4.79%), although the **asset base increased** by €0.2M (to a total of €469.7M)

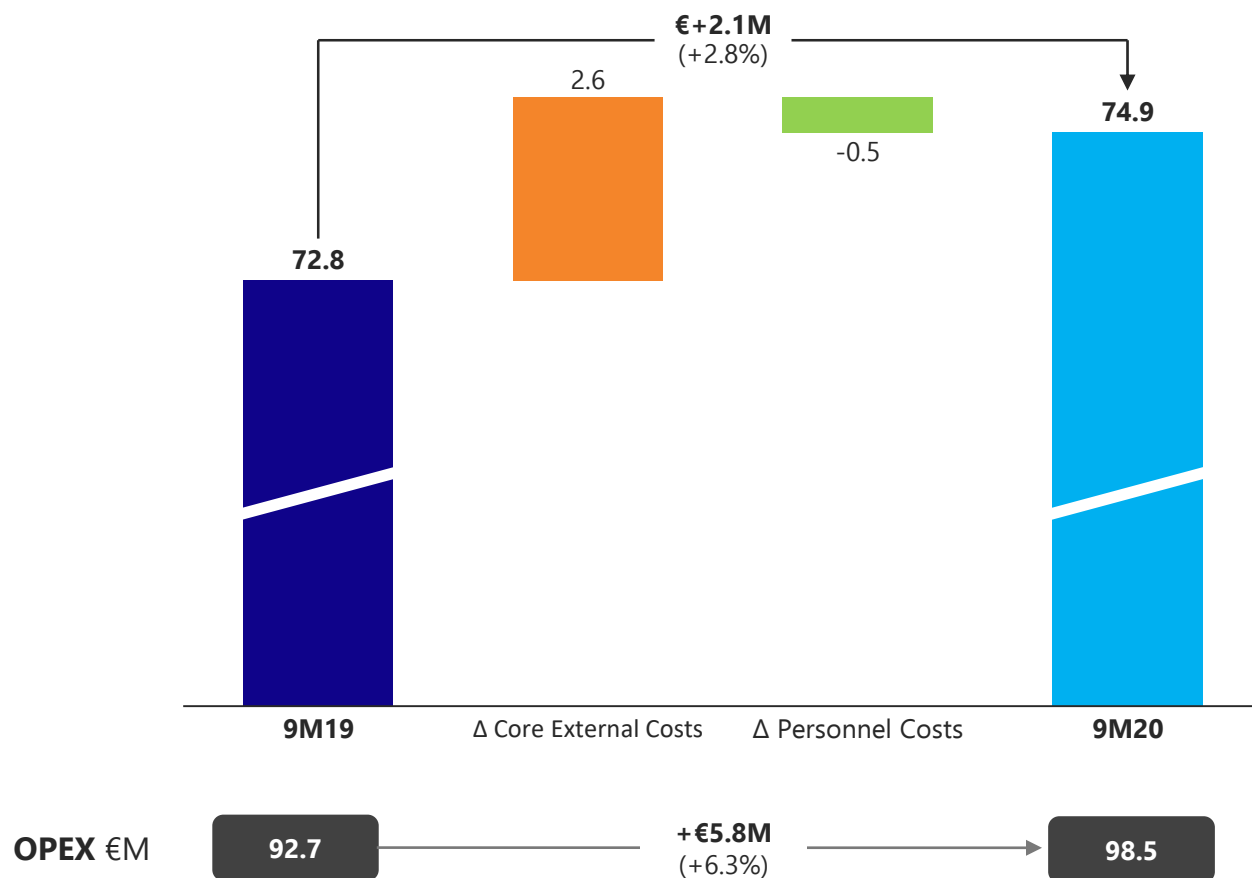
¹ From 5.63% to 5.35% for assets with premium, and from 4.88% to 4.60% for assets without premium | ² From 53.9% to 52.7%

DOMESTIC BUSINESS

Increase in OPEX mostly related to pass-through costs, with core OPEX increasing only ~3%



Core OPEX¹ evolution €M



Key highlights

Core external costs

- Maintenance costs (+€4.0M), mostly related to **forest clearing** (+€4.2M), as a result of more demanding legislation
- **COVID-19** related costs² (+€1.0M)
- Lower **electricity costs in the LNG Terminal** (-€1.1M)
- Other (e.g., travel & transport, IT, 3rd party services) (-€1.4M)

Personnel costs

- Reflects essentially the **decrease in overtime costs and travel allowances** (-€0.3M) and the **net effect of entries and exits** (-€0.4M)

Non-core costs

- Pass-through costs (costs accepted in the tariff) **increased by €3.8M**, of which €2.4M correspond to **costs with cross-border and system services costs** and €0.5M to **costs with NG transportation**

¹ Calculated as OPEX minus pass-through costs (e.g., ITC mechanism, NG transportation costs, ERSE costs and subsoil occupation levies)

² Includes donations of masks to the health authorities and to a ventilators' scientific project, individual protection equipment for employees

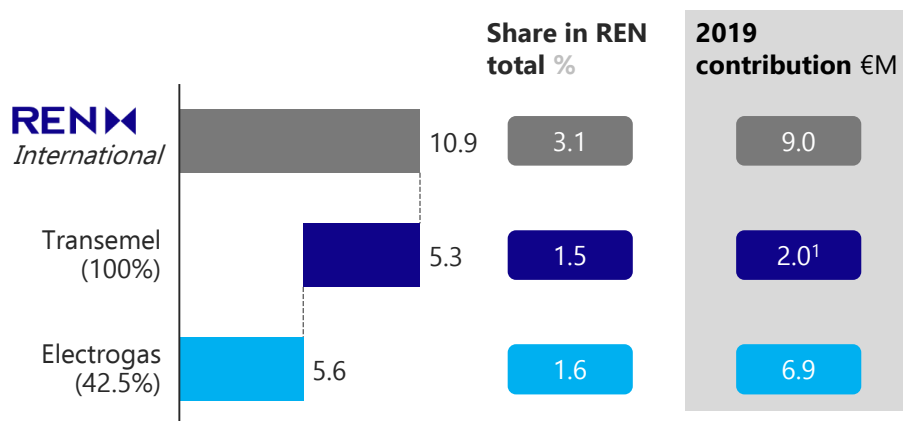
INTERNATIONAL BUSINESS

Businesses in Chile contributed positively

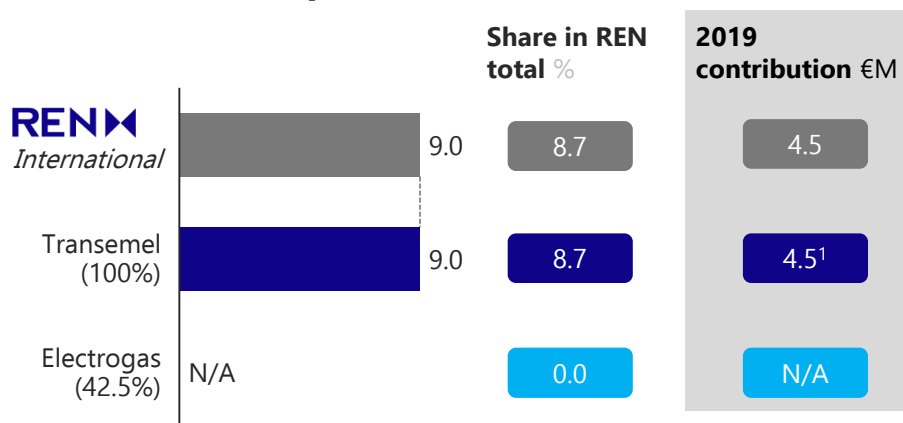
REN



Contribution to EBITDA 9M20 €M



Contribution to Capex 9M20 €M



Key highlights

Transemel, Chile

- Revenues decreased YoY mainly driven by extraordinary items in 9M2019, as asset revenues remained relatively stable

Revenues

€7.5M

↓ €3.0M
(28.7%)

9M19: €10.5M

EBITDA

€5.3M

↓ €3.7M
(41.0%)

9M19: €9.0M

Electrogas, Chile

- EBITDA slightly decreased YoY despite higher gas consumption in Argentina and take-or-pay revenues

Revenues

€24.1M

↓ €0.3M
(1.1%)

9M19: €24.4M

EBITDA

€21.7M

↓ €0.3M
(1.3%)

9M19: €22.0M

CONSOLIDATED VIEW

Below EBITDA, financial results improving due to lower cost of debt, and taxes with overall positive evolution despite the increase in CESE

Depreciation & Amortization

€179.9M  €4.1M
(2.3%)

9M2019: **€175.8M**

Increase of Depreciation and amortization includes **€1.1M from the incorporation of Transemel**

Financial results

-€36.7M  €2.8M
(7.0%)

9M2019: **-€39.4M**

The average cost of debt dropped 0.30p.p. to 1.9%

Higher dividends recognized from REE (+€0.4M) and HCB (+€0.1M)

Taxes

€59.9M  €6.5M
(9.9%)

9M2019: **€66.4M**

Total taxes include the **extraordinary levy CESE of €28.2M** (€24.4M in 9M2019) and **income tax which reduced** €10.3M to €31.7M

From 2020 onwards, the extraordinary levy also **includes the Gas Distribution segment** – Portgás (€4.1M)

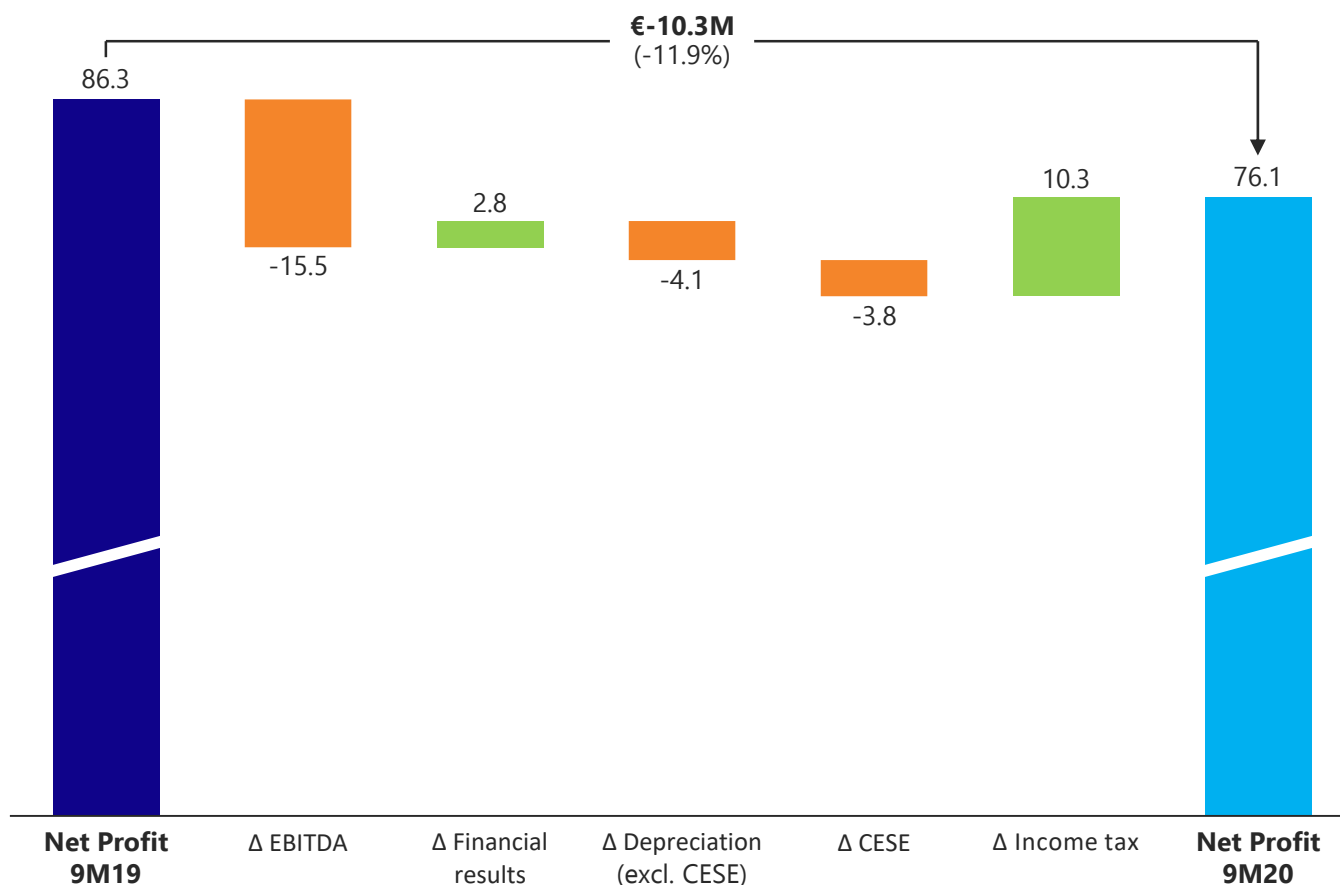
Effective income tax rate reached 23.3%, versus 27.5% in 9M19 (excluding CESE), with **€5.6M improvement related to the recovery of taxes** from previous years

CONSOLIDATED VIEW



Net Profit decreased as a result of lower EBITDA and larger scope of CESE, despite the positive effect from financial results and tax recovery

Net profit evolution breakdown €M



Key highlights

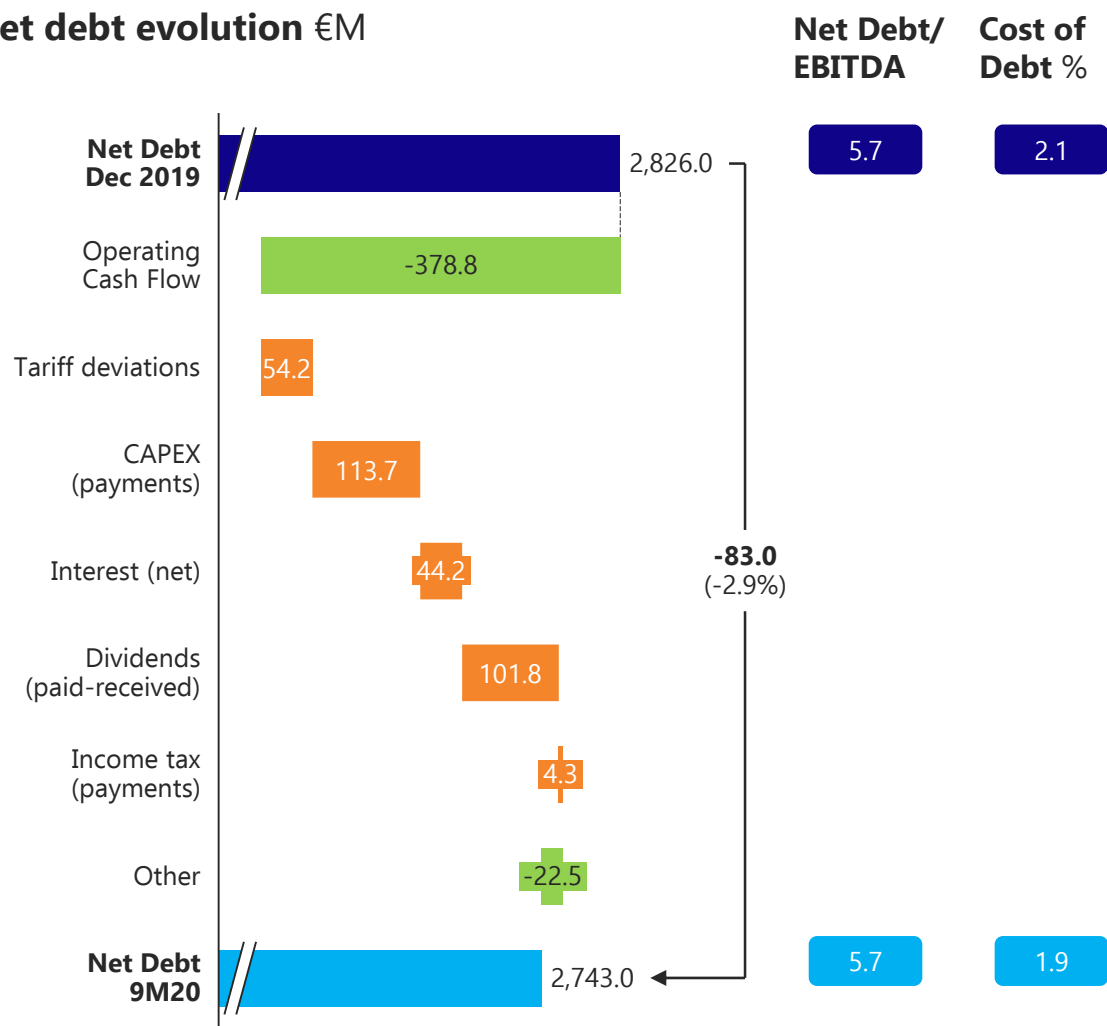
- **A Prudent financial policy** led to the **strengthening of Financial Results** and a **positive effect on Net Profit** (€2.8M), on the back of lower costs
- **The extraordinary levy CESE continued to penalize Net Profit** (€-3.8M), now also **applicable to the gas distribution** business
- **A recovery of tax** from previous years in €5.6M contributed to the decrease of income tax

CONSOLIDATED VIEW

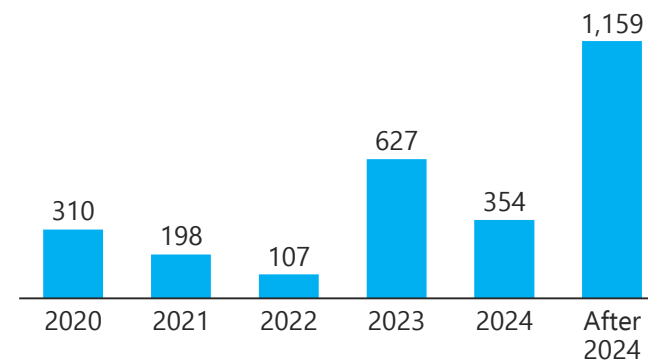


Net Debt nearly flat, with operating cash flow covering payments related to investing and financing activities

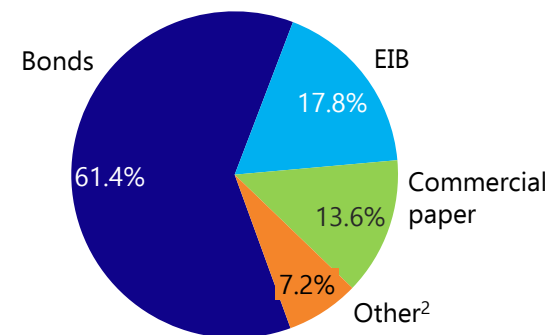
Net debt evolution €M



Adjusted Gross Debt Maturity¹ €M



Debt sources %



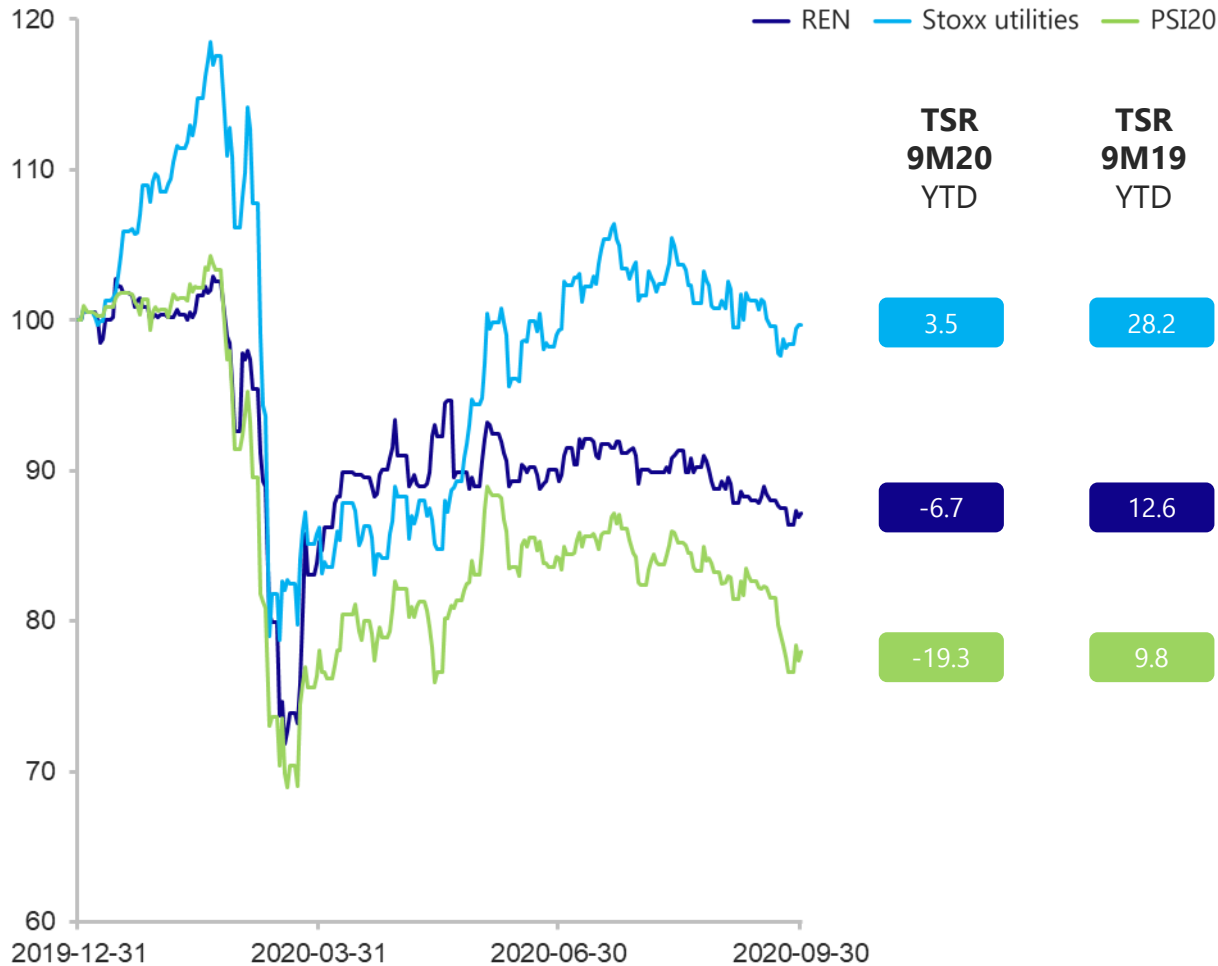
¹ Calculated as Net Debt plus Cash, bank deposits and derivative financial instruments (€47M), excluding effects of hedging on yen denominated debt, accrued interest and bank overdrafts | ² Includes loans (6.9%), Transemel's debt (0.3%) and leasing (0.1%)

SHARE PRICE & SHAREHOLDER RETURN



Shareholder return penalized by share price drop following the PSI-20 trend, with no “sell” recommendations from analysts

Annualized closing prices %



Analyst recommendations¹

Average Price target

€2.80 ↑ €0.07 (2.6%)
9M2019: **€2.73**

Upside/Downside (+/-)

19.7% ↑ 14.7pp
9M2019: **5.0%**

Buy recommendations

60.0% ↑ 43.0pp
9M2019: **17.0%**

Hold recommendations

40.0% ↓ 35.0pp
9M2019: **75.0%**

¹ October 26th 2020 used for 9M20 data and 18th October 2019 for 9M19
SOURCE: Bloomberg, REN

3. Closing remarks

CLOSING REMARKS

REN with limited COVID-19 impact but penalized by the new gas regulatory framework



The COVID-19 impact on REN's financial performance was overall neutral in Net Income, with a slight increase in Net Debt, however some projects were temporarily suspended



EBITDA benefited from the inclusion of Transemel and the good performance of Electrogas. However, it suffered from lower remuneration rates resulting from the new regulatory framework in gas, the decrease in bond yields, and the decrease in RAB



Net Profit continued to be penalized by the extraordinary levy that raised the effective tax rate to 38.9%. However, it benefited from the strengthening of Financial Results, due to lower costs

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