

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
- **Madalena Garrido** – Head of Investor Relations

Participants

- **António Seladas** – Analyst; A|S Independent Research
- **Ignacio Domenech** – Analyst; JB Capital Markets
- **Guilherme Neves** – Portfolio Manager; Banco Invest S.A.

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 Q1 results conference call.

As usual, we have here our executive team, Rodrigo Costa, our CEO; João Conceição, the COO; and Gonçalo Soares, our CFO. Rodrigo will start with his opening remarks and then João and Gonçalo will guide you through the main operational and financial quarter 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 Costa.

Rodrigo Costa

Thank you, Madalena. Good afternoon and welcome all to the call. This quarter was very different from any previous quarters we ever had. We had a change in our regulation, as you know. We had parliament elections. We have a second wave of COVID in the beginning of the year. And we thought that would be the last one, but apparently it is not. We also have a war in Europe and tomorrow will be the 90th day of the conflict.

We see, regarding the future, we see the same you all do. We see inflation rising. We see more geopolitical tensions brewing. We see interest rising, transport and trade disruptions, supply short [terms] and all that resulting in market uncertainty. It's simple to talk about all these facts. It's very hard to predict what will happen next.

Our year-to-date results are the facts, what we did already, disclosed are the facts. The energy transition investments and security of supply investments resulting from the war will keep us extremely busy in the coming years. The demand for projects has never been so high. The main concern now is how we will deliver.

The dramatic growth of renewable generation, adapting the grid and all the systems, the search for alternative clean energy, including the green hydrogen, and develop and encourage our people to [get with] all the changes, it's a big challenge. We are and we will be very busy in the coming times.

For us, this is the time to focus on all these urgent needs, while we deliver on the security of supply. We never worked so hard to meet the demand and contribute to solve these threats we are all facing. In Portugal, we believe we are on the right track. Although we have all these challenges, we believe we have a good grasp on the situation. And we know we will be able to do whatever it takes to keep everything under control. We are doing the best we can to develop alternatives and deliver without disruptions.

In Chile, the situation is stable with our both operations and we are moving on the right direction. We remain very positive looking forward. And now with this introduction, I will move to Gonçalo and João. And after we will, of course, take your questions.

Gonçalo Morais Soares

Thank you, Rodrigo. Good afternoon to you all and thank you for joining. So I think that -- I am looking at Slide #4 -- despite this such context that marked the beginning of 2021, REN has managed to have a positive quarter, both domestically and internationally.

Looking at EBITDA, you see that EBITDA grew 3.5%. And domestically, we see the impact of the new way we are accounting for TOTEX revenues. I'll go into -- into that in a little bit more detail. And that positive impact comes even despite the negative impact of higher electricity costs. And internationally, businesses are growing well and grew more than EUR 2 million in terms of EBITDA.

Net profit also increased and improved around EUR 6 million, mostly due to EBIT improvement and some better financial results, which I will also go into more detail after this.

CapEx decreasing, but it's really too soon, the numbers are not meaningful yet to comment and we still expect a strong year in terms of, of investment.

As you can see, and João will cover this in a little bit more detail, renewable sources are around 50% and that is a sign of the severe drought that the country continues to endure.

Looking at the sector overview. There aren't any major news ongoing. We are working hard and setting up teams to promote the hydrogen agenda. We have a task force that has been now set up to promote investments and to adapt the network to this new challenge. We are pushing for projects, the main thing is the H2 Green Valley relating to hydrogen. And so this is something that we are also keeping at the top of our priorities.

Also, ERSE has announced some exceptional setting of the electricity tariffs. This is due to the high prices that have been registered in the first few months with them and they are trying to find ways to stabilize the tariffs along the year and it is nothing that should impact us in any meaningful way.

Going to Slide #6 and before passing to João, I wanted to explain a little bit to you how we are accounting now for the TOTEX revenue, because this is, in electricity, a different way of looking at it. So basically, what we are doing, and this has been already talked with the auditor, we are recognizing the annual rent fixed by the regulator. So they have fixed a certain amount for this year and this is what we are recognizing every month.

How is this going to be adjusted? So in 2022, it's going to be adjusted by 2 factors. One is the rate of return. So as they go up or down, also this revenue will be adjusted and also the volume drivers or the amount of kilometers of network that we run.

As of 2023 and on top of these 2 items, then it will be adjusted by inflation and by the efficiency factor, but those 2 criteria have already been included for 2022 in their calculations that they will not impact this year. So that's the first element and how we account for that.

The second one is the efficiency sharing mechanism. So this is something that the regulator will define at the end of the period. And so as of now, we are including no efficiencies whatsoever because we feel that it's too early in the period to start including them. Our idea is that towards more the end of the period, it doesn't have to be only in the last year, perhaps in the, the year before the last, we can already start to do that. But as we start to become a little bit more certain, if there are any [watched] amount are the efficiencies, we will start to account for them. But this next year, are a year that we will probably be not accounting for anything relating to efficiencies.

Thirdly, the incentives, which as you know, will change from the IREI to the IMTD incentives. We are also recognizing the amount that the regulator estimated at their central case. This is what you have in the accounts now. Relating to this, of course, there will be a calculation that will be done at the end when we ascertain the exact numbers and value for the parameters, but we are expecting here to end up the year with a value above that central price as was always our expectation, okay?

So we can go a little bit more into detail or explain again this to you at the end in the Q&A. But for now, I'll pass to João who will comment on the operational highlights. João?

João Faria Conceição

Thanks, Gonçalo. Good afternoon to you all. And jumping to Slide #8, you have an overview of the operational highlights. I would start by then the electricity consumption. And as you can see, there is a slight increase versus 2021. And our expectation is that throughout the year, we will kind of recover this -- from these 2 consecutive nontypical years with all the COVID effects that have an impact on the national electricity consumption.

As Gonçalo has already mentioned, we see a significant decrease on the share of renewables. And the reason is very simple, it's due to the significant drop from the electricity generated with hydro power plants due to the very dry year that we are going on. Just for you to have an idea, we are at levels of 30% of what we consider to be an average year for electricity generation.

The other types of renewables, they are approximately stable or even increasing slightly like solar, but not with an amount to offset this very big drop on hydro.

In terms of quality of service, we continue to have high levels of quality of service. You have 2 indicators here: the average interruption time and the combined availability rate of our network infrastructure, the electricity network infrastructure. And both indicators are quite above the minimum thresholds that the regulator has set for this IMTD new electricity incentive.

On the natural gas side, we also see an increase in terms of consumption, mainly driven by the sharp increase of electricity generated from combined cycle plants to compensate the drop on the hydro power plants. And that's accounting for the overall increase in consumption, as the other types of consumption in Portugal, mainly industry, has decreased as a consequence of the very high prices of natural gas that we are facing nowadays.

In terms of quality indicators, things could not be better. We have a combined availability rate of 100% within our transmission infrastructure. In what concerns to natural gas, the drop you see in terms of gas distributed is the flipped coin of this decrease on hydro consumption -- on industrial consumption, sorry, which basically reflects a decrease in the overall gas that was distributed by our Portuguese distribution company.

And with that, Gonçalo, I turn back to you.

Gonçalo Morais Soares

Thank you, João. And so if we go to Slide #9 with the financial highlights. So these are, I'd say, I have already commented on them, very much in line with our budget and our plan. And you see the EBITDA growing 3.5%. You see net profit growing almost 33%. This is not an expectation of growth that you should have for the full year. And you see net debt coming down 17% and this -- and our comment again on this is also driven by high electricity prices and mainly the tariff gen -- deviations being generated again at the REN Trading level.

Moving to Slide #10. You can see the evolution of EBITDA. So what you basically see it is around EUR 2 million impact on the domestic front and EUR 2 million on the international front. You see the assets remuneration going up because of higher RoRs, higher asset basis, the new TOTEX accounting that I spoke about. On the OpEx, it's mainly the impact of electricity that pushes it down, the EBITDA domestically.

And then on the international part, as we had already expected and said, both companies are doing well, both Transemel and Electrogas. And that translates on the international components going up from the 2.2% to 3.8% of EBITDA from last year to this year. Electricity is basically stable, gas distribution also and you see gas transmissions coming down a little bit as a percent of EBITDA.

Looking at rates on Slide #11. We can see that there is a pickup in rates since the end of last year. And this rates picking up, you can see that are pushing up a little bit our rate of returns. Electricity is the same as last year. But as you may remember, the starting point in regulation was actually slightly below at 4.4%. So it's already slightly higher than we and the regulator had anticipated.

And in gas, in transmission and distribution, (inaudible), I see clearly the impact of the increase in rates. And you can see a 20 to 30 basis point impact, which if you start to look at the asset base, translates in a [few] million more of EBITDA that we have already seeing if things stay the same for the full year.

Moving to Slide #12. As I said, it's too early to comment. The numbers are really not meaningful because last year, we were recuperating in the first quarter a lot of projects that have been delayed from the end of the previous year to the pandemic. So we are expecting another strong investment year. Yes, transfers to RAB will be lower because of exactly that reason, but we are still expecting very strong CapEx this year, mainly in electricity.

That being said, and as I commented before, we are also trying to push for new investment in hydrogen, but you still don't see it but this is something that between this and next year will start to show somewhere also in the numbers. João may comment a little bit more on that on the Q&A.

So in Slide #13, we see this big increase in the electricity without premium assets. And so there's a big increase that comes on the back of what we had last year as transfers to RAB. The rest, I'd say, is more or less the normal, the normal trend, which is gas transmission and lands coming down and gas distribution being more or less the same.

In terms of the remuneration, and for some time I think that we haven't seen this. You see although 1 is almost 0, but you see a positive impact of RAB remuneration in every single business: in gas mainly because of rates of return; in electricity, you already see a small impact of asset base. But the reality is that it's interesting to see this inversion and this trend that we hope that will continue to, to develop and we see the impact of CapEx and we see the impact of rate of return going up.

Looking at OpEx. So this is a quarter and we had an expectation that actually costs would come down. There is this pressure from -- coming from electricity costs. This is an increase versus last year of EUR 2.7 million, not only it's because the prices of electricity have remained high, but as you may remember, they only started to increase significantly more towards the middle of the year. So the first quarter last year, they were particularly low yet. And so you can see that the increase versus last year is a little bit higher than what we would expect for the full year.

That being said, we have a strong decrease also in O&M costs, on the operating side, that compensated on the core external costs and you see that personnel costs are basically the same. So we hope that if the price of electricity stabilizes or starts to decrease with some normal regression along the year, we should see a good performance or better performance in terms of costs for the rest of the year.

Internationally, we have a good performance that we had already anticipated. And just a comment on Chile. So we see a little bit more stable. There's some changes going on, the constitution is -- the constitution revision is still underway. So let's see, but it seems a little bit more stable in there. On the energy side, they have a very similar situation to ours, with very severe droughts and so infrastructure plays a key role, both electricity and gas, in promoting energy security of supply in Chile. That's one of the reasons why Electrogas is performing so well. There's also new contracts that we already have that would come along. We've had an increase in tariffs that were already expected. So you see this 25%-plus increase in revenues in that company. Transemel, the same. It's also a 25%-plus increase in revenues and mainly driven by the growth in construction that was -- that came online last year. And we are still recuperating a few, a few construction from the pandemic.

So I would not clearly extrapolate these trends forward. That's not the way to do it, but we are expecting a strong performance from Chile in the rest of the year.

Looking at the consolidated view. What can I comment? On the financial results side, there is a stability of the cost of debt, basically the same, around the same 1.6% that we had before. And we also have, and this is the flip side from the last quarter of last year, we had a positive impact of FX rates from Chile. Last year with the uncertainty going on, we had a negative impact. As you know, we hedge partially Chile, but we do not hedge it perfectly. We do not have local loans at this stage because of the cost differences when we, a few years ago, took that decision that we had. We are considering to do it in the future. That would, I'd say, more perfectly hedge the group in terms of the variations of the Chilean peso. But what you can see is that we have EUR 1 million to

EUR 2 million impact negative last year. We are now having a positive impact. So it's a little bit the recuperation of the exchange rate, nothing very, I'd say, abnormal or strange.

On the funding side, just to say that we continue to refinance our revolving credit facilities to maintain our 2-year liquidity looking forward. And that's not in the short term, but I'd say more towards the end of the year or beginning of last year, we are thinking about issuing a new bond. So we will keep an eye on how rates evolve. We will keep an eye if it makes sense to anticipate a little bit given the carry costs also. So we will be taking that decision in the coming quarter.

On the tax side, I'd say everything in line. Effective tax rate is around 27.5%, very similar to last year. And also unfortunately on the levy side, it's still there. It actually increased a little bit more because we have higher assets, but it's still there. And this year, it was already fully accounted per normal in the first quarter, with a EUR 28 million impact.

So looking at Slide #18 and the full impact of everything, you have this increase that is coming from not only the EBITDA growth, but then also a good performance on the financial results that compensates the increase in taxes and depreciation.

On the debt side and looking at Slide #19, there is, again, a decrease in debt. So it is now close to EUR 2.1 billion. There is a normal decrease that happened in the first quarter, but the reality is that you can see the tariff deviation again came down, close to EUR 120 million. 90% to 95% did come from REN Trading in the same dynamic that played out last year. And as you can see now, we already have a balance, end of the quarter, of EUR 386 million. So our debt, if we correct it for this, will be closer to EUR 2.5 billion.

So this is not a problem. We actually would prefer in terms of treasury management not to have this (inaudible) in tariff deviations, but it's also not negative per se, okay? Hopefully, we will start to -- we are now giving this money back to the parent. We will see what the decisions are from the regulator, if they want to ramp up the way that these deviations are given up to the tariffs. For us, doesn't really have a major impact. So the evolution of this will depend also on the electricity prices that come in the coming months, but to be honest, it is not a drag.

Going to Slide #20, just to say that we have a good performance in terms of stock. TSR, as of now, as of this date, is closer to 20%. And so I think that if we have -- if we adjusted for the dividend that we already paid, we would clearly be above the 3-year price per share that we haven't been for quite a long time. So I think that we've had during this first month of the year good performance in the stock market.

So just concluding on Slide #22. So just to wrap up, I'd say that we have a good quarter with trends being there that we feel are there for the rest of the year, with good impact of TOTEX revenues, good impact of international operations. I'd say an impact in cost that should be recuperated a little bit as the year progresses. Strong CapEx is going to be deployed for the rest of the year.

We paid the dividend a few days ago and that was the EUR 0.154 per share that we had already announced in the business trend revision.

And so with this, I conclude the presentation and I will open the floor to any questions that you may have.

Q & A

António Seladas

I have 3 questions. First one is related to the TOTEX revenues. I don't know if you can provide an idea of the breakdown of -- between the items that were (inaudible) before on the TOTEX revenues.

The second question is related with all these news on the price, I don't know if you can comment on it or not, about natural gas, about more links -- more links between Iberia and with France and also about transshipment. I think that last week, there were the news saying that -- press news saying that you'll provide -- will go for an investment of EUR 30 million or EUR 40 million.

And last question is related with the transfer to RAB. I think that there was an increase of transfers without premium. Nevertheless, as far as I understood, the new regulation will just apply for the current year. So if

transfers were done last year, probably we should see an increase on transfers with a premium. So I don't know if you can clarify why the transfers to RAB are so high without premium.

Gonçalo Morais Soares

Okay, [Antonio], so the first question and then I'll pass it. The first question relating to TOTEX revenue. So most of the -- basically the TOTEX revenues are that's (inaudible) that we had before, which was basically the rate of return remuneration plus the OpEx, CapEX. Those are the 2 main items that are within (inaudible). If you want to go into a little bit more of the nitty gritty and the details, you can have it with Madalena, a more bilateral (inaudible). But these are the main 2 blocks that are included in TOTEX revenues.

João Faria Conceição

Well, regarding your second question and what the news that we've been (inaudible) to press. What we can comment is that we have been asked by the Portuguese (inaudible) study the possibility of both using the Sines LNG Terminal for transshipment operations to supply natural gas to Northern European countries, namely Germany, and also the possibility together with our counterparty in Spain to have developments on the pipeline infrastructure, the third interconnection between Portugal and Spain and as well as the interconnection between France and Spain.

The transshipment is basically if it will be implemented, it will be an operation through several upgrades. The first one technically speaking, ship-to-ship transfer. So the natural gas pass from one ship to another. And further on, some other solutions, more robust solutions using the terminal.

Regarding the interconnection, these are talks that have been taking place between us and our Spanish counterpart as well as the French DSOs to see if this pipeline infrastructure can be developed and how fast it can be implemented.

António Seladas

Okay. Okay. So basically, you cannot say anything more concrete at this point in time?

Rodrigo Costa

Well, as this is ongoing studies and negotiations, and it is not just about what (inaudible) ports will do. When we talk about shipments, it's necessary that making sure that the operators who own the gas will seek for available ships to do the transshipment and the ship-to-ship projects that may happen.

From a technical perspective, we can make it happen, these type of projects. The question is, will the operators and when they will start to do? As you probably have been reading in the newspapers, there's a lot of talks with the Polish government, with German government and other countries to understand what will be the best solution.

We are here to make it happen if and when they decide.

António Seladas

Okay

Gonçalo Morais Soares

This issue of premium and without premium is more related also to the new model. So basically, the rent is the constant amount for the full year and now it's calculated without premium. If you want, we can also then go when we explain you the amount of the revenues and the details on that, if you want on a more bilateral model we can go into a lot of detail here, we can try and explain you why it comes out without premium versus with premiums and that's just reflecting the new model for the coming year.

Ignacio Domenech

I have 2 questions. The first one is on the TOTEX remuneration mechanism. I was wondering if you could provide us with the average yield or the 10-year [bond] implied during the 2022-25 period, which has been used to get to the EUR 264.3 million annual remuneration.

My second question is on -- related to the financial results. I believe you reported a EUR 3.97 million financial income during the quarter, out of which EUR 2 million are related to exchange rate difference. So it would be helpful if you could provide more details on what is included under this line and looking forward, where should we be thinking for the full year? And my third question is on the international business. In Transemel and Electrogas, I was wondering what was the part of the year-on-year increase which was driven by FX tailwinds or exchange differences?

Gonçalo Morais Soares

Okay. I hope we got this right. So the first one, what we have assumed as the rate of return for the calculation in the TOTEX model for this year was 4.4% for this year and I think the remaining of the year was 4.4%, okay, which was the starting point that they had in their curve. So we are already now at 4.5%. So I think that if we stay where we are now, we'll probably end up a little bit above that amount, that rate, for the full year. I don't know if it's at 4.6%, but it will be a little bit above.

On the exchange rate, we are not expecting -- we don't have any expectation on that. So I think that there was -- that that's kind of more FX projections for Chile. What we are seeing that things stabilize a little bit more in the last few months. They recuperated to more, I'd say, normalized level. I'm not expecting things to worsen or improve in any significant way, okay? So they can still improve a little bit. They can come back. So it depends a little bit on the stability in the coming months, it depends on how the constitutional revision process ends up. So there's a few items that can either reduce a little bit the risk and improve again the FX or create a little bit more uncertainty and worsen, okay?

And in terms of Electrogas, and you were saying, yes, so basically, the biggest impact on Electrogas are not related to that. So new contracts that are coming from new players that wanted contracts to supply gas there. Secondly, the revision of tariffs. Tariff revisions there are indexed to inflation. And so they were impacted positively by that, okay? And thirdly, there is also other new small revenues that had dried up some time ago and reappeared. For instance, I'll give you an example since you asked.

We are -- Electrogas is now having again some revenues with a (inaudible) a very small (inaudible) that they own which is backup (inaudible) for 2 CCGTs that operate in the area and that given the stress in the system in terms of gas supply are now requiring it again for this, let's say, backup plant to be online, which was something that was discontinued some time ago. But before it was mainly driven by the (inaudible) sector annually, okay?

Ignacio Domenech

And if I may, a follow-up on my first question. I'm not sure if I got it correctly. I think you mentioned 4.4% as a starting point. But is this 4.4% actually the average RoR throughout the 2022-2025 period? Or is this just for this year?

Gonçalo Morais Soares

It was (inaudible) year.

Ignacio Domenech

For the regulatory period, yes, for...

Rodrigo Costa

It's for the entire...

João Faria Conceição

It's for the entire -- yes.

Rodrigo Costa

They assume 4.4% in '22, '23, '24, '25.

Ignacio Domenech

On the net debt evolution, I think you were mentioning the EUR 386 million, which was expected to be (inaudible). Is this final amount that we should be thinking that to be recovered or reimbursed? Or should we see this number increase throughout the year?

Rodrigo Costa

I mean there's 2 dynamics here. So there is the dynamic of the money that we are giving back from last year, which was a lot, and the dynamic of the money being created again in the tariff deviation. So if we were -- one of this, it could cancel out depending on how electricity prices behave. Secondly, and going back to the tariff mechanism, what ERSE is considering is to speed up the mechanism of giving up the deviation is being created this year because they are seeing that they are creating again a lot of deviations and they want to manage tariff.

And so I would say that the most expected part is that you will end up with a stock much lower and with a debt higher and that we will be giving this back in a faster pace, but for us, that's okay. So we don't really -- we understand that there is an, I would say, an exceptionality to this. And to be honest, we don't really need or want to have money in the bank that is not ours earning 0. So it's not really our business. And so we have the money there, but it doesn't really help us in any way.

Ignacio Domenech

Okay. Okay. So the EUR 386.2 million includes any tariff deviation?

Rodrigo Costa

It is the entire stock that we have at the end of the first quarter. So you always have -- it doesn't mean that the entire month we will be given up until the end of the year. So it depends on how things evolve with the electricity prices.

Guilherme Neves

I would like to ask if you expect a material increase in your related asset base due to this transshipment operation in Sines? And also on the hydrogen part during next year also if you should see already some boost also in RAB.

João Faria Conceição

Thanks for your question. I think it's a little bit early to answer if there's going to be a material increase or not. It will depend on the solution that that both countries, both Portugal and the receiving countries, mainly Germany or Poland or some others, will decide.

If it's a simple adjustment on our operations, it's not going to be a material increase. If it's more -- more an ambitious solution, including price transshipments, new jetty, new storage tank, it will be a significant increase on RAB of the terminal.

Regarding the hydrogen, we have, as we have been mentioning, we have some forecast for upgrading in our natural gas existing infrastructure to accommodate the share of 10% of hydrogen blending. Those figures are the ones that we have been saying.

There is not any change in that regard. We are working in parallel to -- for this Sines project, this H2 Green Valley in Sines, which will probably imply some additional CapEx on our infrastructure.

Operator

There are no more questions at this time. I would like to hand back over to Madalena Garrido for final remarks.

Madalena Garrido

Thank you very much all for connecting today. Of course, we remain available to discuss any bilateral questions or doubts that you might have. I'll thank you all in the name of the management team here for all your time. Thank you.