Corporate participants

- Rodrigo Costa – Chairman and CEO
- Gonçalo Morais Soares – CFO & Executive Director
- João Conceição – COO & Executive Director
- Ana Fernandes – Head of Investor Relations

Ana Fernandes
Good afternoon. Welcome to the 9 Months Results Conference Call. I will pass the floor to Gonçalo and João, who will go through the results presentation. And after that, the 2 of them, together with Rodrigo, will be happy to take any questions you may have. So let’s get started. Gonçalo?

Gonçalo Morais Soares
Thank you, Ana. So welcome to you all, and thank you for joining. So if we go to Slide #4 with the key messages, I’d say that third quarter consolidated on one side expected results that we have. And also, we got a little bit more on the trend and on the targets that we feel we are going to have at end of the year. There are a couple of impacts in the middle of the year that were penalizing EBITDA, and now we are starting to see a little bit that shifting.

So EBITDA is still reducing. So it was around EUR 343 million with a reduction of 2.6% versus last year, still dominated by a lower remuneration driven by a decrease in assets and an increase in the rate, also a little bit more of added cost. That’s, I’d say, on the same trend, and I’ll go into that. And then on the other quarters, it was slightly compensated by the incentive of economic efficiency and amortization.

Internationally, we were waving a little bit. And I think this quarter, we also recuperated mainly in Transemel, where we wanted it.

And that kind of trickled through to net profit. It stood at EUR 68.4 million also in terms of trend and improvement. On the back also of financial results, maintaining a good performance as the cost of debt has been decreasing and as debt has been decreasing also. And I will also go into that.

CapEx is consolidating its acceleration. The teams are on the ground and building, I would say, with very high energy. We are expecting a lot of construction to be finalized in the last quarter. And so we already see a strong increase in terms of transfer driving that is going to, I’d say, accelerate significantly in the final quarter of the year.

In terms of the sector, I will leave it to João, who will go through some of the main events in the next slide. Thank you. João?

João Faria Conceição
Thanks, Gonçalo. Good afternoon to you all. On Slide #5, you have the major overview of what happened recently. Obviously, the most relevant issue is the new regulation for electricity by the 15th of October [as the
management team], the regulator presented the confidential proposal to the Tariff Council that announced some of -- some public information, which is the one that most of you have already access to.

And this includes the fact that we will get a base rate of return starting on 4% with an indexation mechanism similar to the one that we were used to with a cap of 3.7% -- and a floor with 3.7% and a cap of 7%.

The regulator this time accepts an efficiency target for our operations on 1.5% and also confirmed that the assets that have been put into operation before the end of the current year, so before the end of 2021, they will be kept the same logic of the reference cost mechanism, including the 75 basis points premium.

Apart from that, in August, they will release the regulatory framework, not the parameters but that the framework, which basically was consolidated with this first draft proposal of the parameters. And last but not least, we also get during the summer the appraisal of the regulator on the investment plans for both electricity and natural gas transmission businesses of REN.

This was -- the overall opinion is, of course, in line with the challenges of the energy transition. Although in some areas, the regulator rises the questions if some of the investments could be delayed. At the current stage, we are preparing the final version of these both investment plans that need to be presented officially to the government by the end of this current month, by the end of November.

And the government will have the final word on approving or not approving these plans and specifically what is required to be necessary for these energy transition objectives.

Jumping to Slide #7, you have an overview of the technical figures -- technical and operational figures. Here, what we see in terms of consumption, on the electricity side, some recovery from 2020. Bear in mind that in 2020 there was a decrease in consumption due to this COVID-19 pandemic.

On the natural gas side, you see a decrease versus 2020, but this decrease is fully justified by the decrease of the gas that was consumed by the combined cycle plants to generate electricity. And what concerns to the what we call the conventional consumption in industrial and households, there was an increase, and this increase is reflected, for instance, on the gas distributed by our Portg‡s concession.

In terms of renewables, we are continuing to increase the renewables' share in the electricity consumption. In Portugal, until now, we reached the target of 60% of the only electricity that was consumed in Portugal. It was generated from renewable sources. And this is in line with the goals of the national plans for the energy transition.

What concerns the quality of service? What you see is slight fluctuations, one up and some down, in terms of the availability and the quality of service of our network. But overall, we can still say that we have maintained the very high standard of quality of service both in electricity and natural gas side. And with this, Gonçalo, I turn it back to you.

Gonçalo Morais Soares
João, thank you very much. So if you want, flip (inaudible) on Slide now #8. This is just the main highlights with the key numbers. I'll pass and I'll just point out again EBITDA, which is now falling quite a bit less than it was falling in the middle of the year. We were falling around 3.9, and this is 2.6. I think this is something that you see improving as the year goes by.

I'll also point out the amount of net debt. It is extremely low, and I'll come back to this. It comes on the back clearly of the tariff deviations that we've been having due to the high prices of energy, and I'll come in and get into a little bit more detail afterwards.

Slide #9. So in EBITDA, as I said, it's trending better, as expected, towards kind of a more stable like EBITDA at the end of the year. The main impacts are the same as we saw before: so RAB remuneration, OpEx contribution.

International segment is still a little bit negative, driven by Electrogas, as I said, and I'll explain that, being compensated by some other revenue. On the business segment, I see same kind of trend: gas transmission decreasing a little bit, electricity transmission going up a little bit. The rest is more or less, I say, the same.
So looking at the evolution of rates. They are still low. They haven't -- they changed a lot, but in the graph, it seems a little bit more stable. There is no major change versus the second quarter. So we are at the floors of all of the rates of return, okay? So this is where we are expecting to be -- we are very close -- actually, no, we are not very close. We already ended. So we stayed there. So this is where we were for this year and which is what we expected already for a long time.

Looking at Slide #11 and CapEx. You can see clearly ramping up of CapEx and transfer throughout. And we do think that the amount that you see here still do not portray completely what we expect for the full year. As we said last year, we were recuperating in terms of transfers. A lot of projects that were delayed, and so were not concluded at year-end. So we can expect very strong transfers until the end of the year. And we also expect strong CapEx delivery until the end of the year.

In the business plan, we have this interval of 200 to 235. And we are expecting to be at the top of that interval, if not to exceed it. So we are now -- as you know, it all then depends on how the weather and other things progress. But we do feel that the operating teams are making very good effort, and there’s -- most of the projects that we have planned, not all but most of the projects are being able to be delivered this year, which I think is good news.

In terms of Slide #12, I’d say it’s early because -- since we are starting to do those transfers. You still see a decrease across the board. We hope that on the electricity side until the end of the year is a reversal of the story. So we see the stabilization of gas distribution.

You will continue to see a decrease in electricity without premium and gas transmission. But in electricity with premium, we will believe that with this new transfers to RAB, we will probably see some kind of a reversal that will reflect itself in the average RAB next year.

So that's what you can see also in terms of remuneration in Slide #13, very similar story to the second quarter. So remuneration impact is mostly, not only but mostly, by the asset-based evolution that is very similar in electricity and gas transmission as of now, I’d say, the full amount of remuneration decrease. A little bit more of impact on the electricity side of the road, but would say, more or less similar stories [and] gas distribution more stable from this point of view.

Looking at the cost part in Slide #14. You are already seeing this a little bit different from the other quarter. We expect this to improve towards the end of the year. We expect the cost -- the core OpEx to go up but for this increase to be lower than it is now. And now it is being driven -- although personnel costs are increasing a little bit, it is being driven mainly by core external cost.

And in this, I would point out at (inaudible) 3. One, electricity costs. So we are also, on the cost side, feeling a little bit of the pain in the terminal. So it's almost EUR 2 million. And this from the first half to the third quarter, the double. So it was 0.9 and now it's 1.9. So the cost of energy has been hurting everyone.

The second thing is the insurance cost. We already saw it in the second quarter. There’s no acceleration. That's a similar trend. The consultancy service is the same thing. So this was mostly the cost that we have coming from before.

So I say that some of these costs are not going to be recuperated. Given the price of electricity, I think we will still feel the electricity cost pushing this upwards, but we do believe that in terms of core OpEx evolution that year-on-year percentage is going to be lower and more controlled than we have here.

Internationally, so what we saw is some recuperation as expected on a year-on-year. So Transemel was decreasing, and now you see that it is kind of progressing positively. This was due to the recuperation of some tariff revisions that we have in 2020, and that went into the accounts now. And so this is kind of what we can expect it, and we'll continue to consolidate next year.

On Electrogas side, we already knew that this year, we have one contract reducing and some dynamic for the revenues to come down. Next year, you will see a reversal of this. You'll see new contracts coming in. But meanwhile, this year, you’ll see this drop and some recuperation next year.

I'd say, again, very close to what we were expecting, better trends than we have from before. And so from, I'd say, a financial indicator point of view, no issues. We are now operating fully out of the agreement that we have
with the sellers of our assets. The operational teams that we have here are also getting more involved because now we are operating Transemel fully.

And I say that, that transition went very well. We are now expecting to see what happens in the elections in November and December. Almost certain they'll have 2 rounds. So we will see, but apparently, some kind of center left or center right, hopefully, scenario is going to play out. So we will see and we will accompany that in the coming months.

Below EBITDA, on the financial results, cost of debt stable. So we've been in this 1.6%-1.7% kind of range. We have told you this is what where we would be this year, next year. So it can be slightly higher, slightly lower. It's not going to change a lot until we have to refinance that in '23. Net debt, I'll come to it in a few seconds. Apart from it, no major news.

The effective tax rate increased a little bit, but it's something that you have always to look on a full year kind of perspective. We cannot analyze this on a quarterly basis. Some corrections are based then in a quarter that reflects past thing for. So it's kind of the trend. It's -- I can tell you, it's almost exactly what we have in budget, not that we share the numbers, but for you to understand that this is really what we had expected, okay?

So in terms of Slide #17 and full trends, so this is the story: strong pressure in terms of EBITDA from RAB remuneration and other impacts and a slight recovery from the financial results.

But as income tax also increases as of now because last year, we have more one-offs and we have some recoveries that were kind of extraordinary. So it's not that the effective -- the tax rate has increased, but it's more of this one-off that are not so large this year makes this increase in terms of income tax. Okay?

Slide #18, in terms of debt. So this is something that we don't usually see in the third quarter, a decrease of more than EUR 360 (sic) 350 million of debt year-on-year. It's not even year-on-year. It's from the end of the year to today. But you can see one line, the line tariff deviations with almost EUR 300 million.

So this is massive. So it's not a good -- it's not the best thing in itself that debt is going down. Our trending area, of course, has a difficulty managing the cash because we were not expecting so much cash. But apart from that challenge, it's not a bad thing.

And by -- in the first quarter before the summer, we also thought that this was going to stabilize and not increase so much. But I think that is the price of energy increasing so much and this trend caught, I think, everybody a little bit by surprise. So what we could think that would be some kind of reversal actually accelerated and deepened.

So -- and this comes mainly from the company that we have, REN Trading, that manages the 2 contracts from [Pego] and Turbogas from the 2 generators that are not -- that didn't go into the market. And because of this being fully -- at full power, both the coal and the gas plants, they are generating much more revenues than we're expecting, and they are generating huge deviation.

Just to give you a heads-up: so we do not expect this to be reversed until the end of the year. So we are expecting at the end of the year of 2021 to have a big decrease in terms of debt. Yes, we have a little bit more CapEx now, but we do expect to have a big decrease in terms of debt.

We do expect next year for it to reverse itself as we have to give back part of this. That being said, again, it will then depend on how the prices of energy and things behave next year. So I think this is all of now a little bit uncertain for us to make any projections, but that's kind of what we see. Low debt this year, some increase next year to recuperate this territory.

Slide #19 is just the performance of the stock. I think you follow this. It's just more for your information, and we have been trailing, I'd say, more or less the -- see the market up until the end of September.

And so in closing remarks, I'd say very kind of expected results, trends improving in several places, CapEx consolidating as we expected.

Just one final comment before we go into the Q&A, and that's related to regulation and João is here already. But just to let you know, a lot of the information about regulation is not public now.
So part of it was public, part of it was not public. So we are happy to clarify and try to answer anything that we can, but there is a lot of things that we cannot comment, and I hope you understand. Because we are not and we are bound by confidentiality with the regulator, and we cannot advance.

So if we seem a little bit evasive or not too capable of answering, please understand that in this case, and João will be leading this, it's not that we don't want to, that we cannot, okay? So with this, I conclude the presentation, and we can go into Q&A. Thank you.

Q & A

Flora Trindade - Caixa Bank
The first one is on regulation and then, obviously, respecting the comments you made regarding the extent at which you may make some comments. But just a general question on considering the information you have currently, do you see the need to adjust the guidance you have provided in the beginning of the year? Or is it still too soon to assess it?

And then a second question on Slide #9 and on the evolution of EBITDA in the 9 months. This positive performance of other revenues, I know that is a part that comes from subsidies. But is there any other segment that is relevant for this contribution, just for us to understand the underlying evolution and the recurrent or nonrecurrent base of this positive contribution?

And then finally, just a question on shareholding structure. So following the entry of Pontegadea, has there been any advances or inputs from their side in terms of management of the company or just a pure financial investor?

Rodrigo Costa
Well, I will start with the first, and then I'll move it to Gonçalo for the second, and I will take on the third question again. As Gonçalo said in the beginning, this is a special phase.

We are at the moment dealing with a lot of information. And there is a lot of parameters that have not been closed yet. And this is why -- your question is right on the spot of this, but the things we cannot really share.

And with that, it’s very early. And we -- as you all know, we are very open discussing all kinds of topics or plans or what is going on with the company. And at this phase, it would be impossible for us to start predicting what's going to happen in the future.

We have been always used to some level of stability on the regulation. And we will have to go through this process, and then we will come back to you all and share whatever will be the findings and the decisions from the regulators, and of course, our reaction.

Gonçalo Morais Soares
Okay. So the second one, when you were talking about that other revenue evolution, this is mainly related to that economic efficiency incentive that this year is going to be higher than usual.

So that's an impact that we knew that is coming. It's not something that we expect to be repeated. It's within the calculations and the mechanism that [earth] normally makes. And in this year, it's going to be a little bit higher. That being said, in the full year, we should see this slightly lower on a year-on-year number. Okay?

Regarding the comments on the new investor, they came on board just a few months ago. It was public. They have -- they are not in our Board. They prefer to stay where they are as an investor. In the future, we just don't know. They -- we treat them like we treat all our investors, we -- with a lot of respect. We were very happy to see that we were chosen to be one of their portfolios companies.

It's -- they said they are here for the long term. We expect that. And this is it. They are a big investor now in different kinds of companies on the same -- on energy. And I think which lead to understand what they are trying
to build, which is picking on companies that they are very important for this energy transition phase that we are all living. I think we have a great future, and I think that great future will be reflected on their options.

Rodrigo Costa
Flora, just to clarify one thing of my answer. Ana was telling me that perhaps I was not completely clear. So on the economic efficiency incentive last year, you remember that at the end of the year, it went up to EUR 32 million. But at the third quarter, we were still unsure, and we thought that it would be around EUR 25 million full year. This year, it's going to be above the EUR 25 million.

And we know that now. So in this quarter, it seems a little bit above. In the next quarter, so here, you'll see that kind of reverse a little bit. So that's the 2 impacts. But it's not going to be EUR 32 million, so it's going to be lower than that. It's going to be a little bit more than EUR 25 million but less than EUR 32 million. Okay? That's why you see this in the third quarter, but you'll see the opposite in the fourth. Okay?

Sara Piccinini - Mediobanca
I know it's very difficult to ask you a question on regulation because, obviously, the information are confidential. Just maybe, if you can, in general, give your opinion if you think that this regulation would be supportive for the new CapEx required for the energy transition.

So it is more about your talks with the regulator if you are explaining that you need a supportive regulation for implementing the energy transition? Or do you see the regulator more oriented to be efficient in terms of cost for the system in general? How -- what do you feel about this information for -- the extent that you can share?

Then the second question is related to CapEx. We are seeing a very significant acceleration. So this is good for your local investments. What do you think about the upside opportunity from offshore wind? Could this be another source of higher investments for the future?

And then just a general question on the special energy levy, if there is any update regarding the legal process. And also, if you see the possibility of this tax to be canceled in case the budget for 2022 is not approved? Is there any deadline to which the government should definitely set this tax also for 2022?

João Faria Conceição
I will take the -- this is João. I will take the first question. I will try to answer it with all the constraints that we have already told you. And I will try to answer in blocks. About the first one, we are committed to the energy transition. Of course, we are.

The second question, I think you were writing if the regulator is worried about efficiency, then is trying to reflect efficiencies in the new regulation? Yes, he is.

And the final and most important question if we'll be this consistent. That's where we are working. And as you can see for the investment plans that the regulator presented is their assessment.

They post some opinions about the possibility of delaying. Now this is something that we need to work with the government as well as the regulator to see what are the impacts on the governmental policies and what is the best way to comply with these governmental policies, and at the same time, respect the inputs from the regulator.

Rodrigo Costa
On the sales, and I will start with that, and then I will comment also in the -- a little bit on the energy transition and what that means to us.

On the sales, there is no news. When the -- when it was announced that the government would be basically dismissed and the new elections will be called on January 30, there were some rumors that maybe some of these, let's say, loss would be extinguished or will not be relaunched for the next year.

But apparently, that's not will be the case. There is already some news regarding this topic, meaning that legally, there will be -- they will find a solution to keep going with these taxes. And that's what we are anticipating.
Maybe something will change. As you can understand, now this is a special moment here. It's not every year that we have a government or a deputy assembly just stop their period of work of -- it's something new for us. It's happened before. But in this case, we are now waiting for new elections, and we will see what will be the result of those elections.

But in terms of sales, we still have the process in the courts. We have been talking about this for the past 7 years. And something we said in the beginning, it's going to be slow. That's the only thing we really know.

Now on investments, and we already -- you asked what's going to happen, how -- and João addressed the question, how is the government looking to these projects and the regulator is looking to this project. I think at this point, we -- and we hope that a common vision will be developed because we have an extremely dynamic push on the energy transition.

And I would say, for sure, solar is a big thing. And we are seeing a lot of pressure to develop new projects. We saw that new solutions for project development were developed. And to be honest, they are effective. We like the solutions that were found. And we need to basically multiply by 10, what we have in terms of solar from last year to 2030.

Then now we have a new trend, which is the offshore wind. And suddenly, offshore wind became something that is in the news almost every day. The Secretary of State of Energy announced an important ambition in that direction.

Of course, that means we will be -- we never had so much work because we have all our people making sure we develop new plans. And we try to adapt all these new ideas into, let's say, solutions. And it's been hard, but we are doing so. But again, we see that this is an important trend, and something important will happen.

Now suddenly, we were talking about offshore wind in the north of the country. Now we are talking about offshore wind in the middle of the country and in the south of the West Coast of Portugal.

Then also on top of that, we have the hydrogen. In hydrogen, it came very strong in the beginning of the year. We -- even in our conversations, we spoke about hydrogen. Then things cooled down a little bit in terms of the, let's say, national discussion on hydrogen because of price, because of efficiency, because of the need for very significant investments.

And after the summer, the hydrogen is coming back with a lot -- we also -- what's going on, which is not yet done on the COP26. And for sure, hydrogen is -- it's on the road map again, and I think it's on the road map in a very, very serious way. And we want to be there, and we will be there, not as -- on the generation side.

We will not be on the trade side. But I'm sure we will be fulfilling our role of transmission company and also with our role in terms of the storage, similar to what we do on the natural gas today.

And all these projects, I think they are -- while they are keeping us busy today, I think though it's going to be a very interesting source of business for the future for us and for all the ecosystem of energy.

**António Seladas – A|S Research**

Just 2 questions to clarify. You mentioned that transfers to RAB for the current year will be between EUR 200 million and EUR 225 million, EUR 230 million, if you can quantify this figure -- these numbers? And the second question is related with your debt that came down.

For my understanding, is mainly working capital -- is mainly lower working capital requirements, as far as I understood. So it means that you assume that energy price will come down in the coming year, for instance. It will -- everything will revert, if you can confirm this.

**Gonçalo Morais Soares**

Okay, I can clarify that. On the first, we didn't say any number on the transfers to RAB. But I can tell you that we are probably expecting a number which is higher than that, okay? Because the full year of 2021, as we said, has a high CapEx. The CapEx itself is already on the upper range of the business plan, which was EUR 235 million.
And you have a lot of transfers coming from behind. Okay? So the EUR 200 million to EUR 235 million is the range of the CapEx in the business plan that we gave. Okay?

The transfers to RAB is going to be higher than that this year because we are recuperating from previous years. So this is going to be clearly above the 250 number, okay? Because this is, unless something strange will happen, that's where we are seeing it.

On your question of the debt, I would say yes and no. So most of it, yes, it's a working capital issue. But -- so it comes from 2 places, as I said, and it's different ways that you track. So the trading is the biggest impact. That will most of it reverse itself last year if the price doesn't change in any kind of unforeseen way.

Others, for instance, in the gas sector is relating to certain deviations that will not probably go away in a single year. And bear in mind that the electricity and gas are 2 years after, and some of the deviations are actually going to be in a different way because they were not specifically about consumption estimation deviations.

But -- so the simple answer is yes, you are right. The more complicated answer, yes, but you are not going to go back to the former debt. Because also bear in mind that in REN Trading, we have 2 contracts, and one of them is going to cease to exist in 11 days -- no, 18 days, so at the end of this month.

That was generating a negative recurrent deviation that will, in principle, disappear. So you would expect overall deviations on a more stable base to be lower. So that's what we expect. Okay? But you are correct in the way that you look at it. Okay?

**Gonçalo Morais Soares**

So if there is no question, I wanted just to make a final comment. As you -- as some of you may know and some of you may not know, our Investor Relations is leaving us after more than 50 of these calls. So she was here for the first one, when we -- she saw the company coming from fully state-owned to a partially state-owned to a completely nonstate-owned company.

She has been of great service to the company and to investors, helping us talk to each other. And we just wanted to thank her in the name of the company for her devotion and wish her all the best. Okay? Ana, thank you.

**Ana Fernandes**

Okay. So well, many of you already knew that this would be my last results conference call at REN, at the end of the month, I will lend a journey of more than 14 years as Head of Investor Relations at this company in order to pursue new projects.

And I would like to take this opportunity to thank you for over the years listening to what I had to say, making me take your questions, use them to create a more solid narrative and help our investors to better understand what REN is about.

Well, to some of you it's just farewell, to others it's more I see you when I see you. But to all of you, my last words are thank you for giving me the honor to do this job the best that I could. So thank you.

**Gonçalo Morais Soares**

Thank you.

**Rodrigo Costa**

Thank you.

**Gonçalo Morais Soares**

So with that, we end, and thank you for listening. Thank you very much.