Madalena Garrido
Thank you very much, and thank you all on the line for joining us today for our Q1 2023 results conference call. As usual, we have here our executive team, Rodrigo Costa, our CEO; Gonçalo 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 a Q&A session on which we will be taking your questions. I will now pass the word to Rodrigo.

Rodrigo Costa
Thank you, Madalena. Hello, and welcome. Thank you for being here with us today. Our apologies for changing to anticipate little bit the hour of the meeting. And we appreciate the fact you were able to adjust. Yesterday, we announced the quarter results, and we also had our annual shareholder meeting. It was a good meeting, the first face-to-face meeting in 3 years. And it was great to have the opportunity to talk in person with our shareholders.

As you probably know, we had 100% of favorable votes in most of the agenda items and all of them well above 98%, which is -- it's a good result. Today, on my introduction, I will just go over one item that is driving several questions. And after Gonçalo addresses, we will be available to address any topic you want to go through. Since we are getting questions about the recent developments regarding sales, I want to share a few notes on the impact of a ruling regarding a court claim from a gas distribution company regarding the 2018 sale.

The decision that was published in March by the constitutional court has been filled by a natural gas distribution company, not from our group. The court came to declare the unconstitutionality of the 2018 sales rule. The court followed the arguments of the natural gas distribution company in the part in which the sales is levied on the assets of natural gas concessionaries for violation of the principle of equality.

Our analysis is also that we can extract strong arguments for our sales cases, in particular regarding the natural gas sector concessionaries, but we believe there are also strong arguments applicable to [REN applicant], which is, of course, good news. Thus, the content of the ruling, which is basically follows our line of argument, sharing our view; b, transposable for all years from 2019 onwards and inclusive in 2018. And for all REN concessionaries as they are not part of the electricity generation sector, but this will need to be confirmed by the court.
Then we do not want to anticipate much more. We are in a phase that we are working very close with our lawyers. There is many, many cases on the courts that we will need to understand what's going to be the decisions. And of course, we will be available to talk a little bit more about the topic if you want. And with that, Gonçalo.

Gonçalo Morais Soares
Thank you, Rodrigo. Good afternoon to you all, and thank you for joining. And just going to Slide #4 to guide you - through the highlights before stepping to João. And so we believe we have, in the first quarter, a strong operational performance. EBITDA grew over 11% to close to EUR 132 million. And this was on the back of: 1, the domestic business, which was and continues to be impacted by the increase of the rates of return on one side; and also by the decrease of certain costs, mainly electricity that last year had a negative impact; and secondly, also continued, although smaller, but the continued positive contribution from the international business.

Net profit has been increased to almost EUR 13 million. Bear in mind that, that percent increase is influenced by the fact that we account for the entirety of the sales levy in the first quarter and so smaller changes then make a very large percentual and year-on-year changes, but it's more impacted by this than something else. Although taxes and levy still impact negatively, I think that represented a strong performance here, which was also impacted by the increase of financial costs as was expected by us and is the normal regulated company.

In terms of CapEx, CapEx rose quite a bit. As we've said, we expect a good year. There are still some delays in the transfers throughout, but I think it's very early to make any comments. On the operating side, I'll pass it on to João for him to kind of summarize what are the main messages. João?

João Faria Conceição
Thanks, Gonçalo, and good afternoon to you all. I would suggest we jump to Slide #6, which you have the summary of the business highlights from the operational perspective. Well, the key message are, as you may heard or may have seen, we have recovered the renewable share within the electricity system in Portugal, basically because we came back to the normal levels of hydro generation.

Last year, we were at 12% hydro in the total share of the electricity generation, and we increased this share to 34%, which makes the overall account of renewables in the total consumption to increase from the 49% to 72%. In terms of consumption, we are recovering slightly the consumption levels. It decreased 2% versus last year, but the flip coin of this is the natural gas consumption, which decreased mainly explained by the fact that we use much less combined cycle plants to generate electricity.

Therefore, the consumption of gas to turn from these plants decreased significantly. Basically, it decreased almost 40%, and this will drive a decrease of almost 20% in the total consumption of natural gas. The good point of this is that with these figures, we are clearly complying with the directive and the objective of natural gas consumption reduction due to Ukrainian crisis.

In terms of quality of service, nothing really important to say apart from the fact that we are at the very maximum levels of quality of service. In what electricity is concerned, the average interruption time was, in this first quarter of 2023, 0 minutes. The combined availability rate, 98.6, both clearly above the thresholds that the IMDT regulatory incentive set for these 2 variables.

So on that regard, we are okay, and we are complying with the targets set by the regulator. On the natural gas side, combined availability rate for the transmission was at the maximum level. And our distribution operation, we keep improving in the emergency response time from what we had the previous year. And with that Gonçalo, I pass back to you.

Gonçalo Morais Soares
Thank you, João. So if we move to Slide #7, it's the main highlights of the financial results. As I said EBITDA grew over 11%. Financial results also were worse because of increasing financial costs, but this improved, presents net profit from increasing close to 115%. Okay, we will go now a little bit deeper into these items. So on Slide #8, you can see the consolidated view. There is a positive impact of almost everything, but you see that the main impact is driven by the increase of asset remuneration, so that is RoR and rate of return.

Secondly, you see that there is a positive contribution from [RoR]. And thirdly, the positive contribution from the International segment that you see continues to increase its way. It was last year at this time, a little below 4%,
and it's inching towards 5% in this quarter. If you go to Slide #9, you can see that the impact of rates of return. You see that there is an 80 bps increase in electricity and a 90 bps increase in gas, both distribution and transportation, and it has had a positive impact.

It is driven by the fact and that the Portuguese bond yields are increasing. And so that also translates into higher rates of return and into higher financial costs. If we look at CapEx and looking at investments and to give you some color on these numbers. So what we see is increase in CapEx a strong one in the first quarter.

We also see a still small number in terms of transfers throughout. So in terms of CapEx, I would say that it is early to say, but we do expect a year with strong CapEx numbers. We said that we expect this clearly to grow versus last year and to be at a level or higher 2021. We are being a little bit careful because we do feel, and this also relates to the transfers throughout, we do feel that in some cases, the licensing and permitting processes still are a challenge.

I think there are a challenge to us as they are too many other (inaudible) in Europe. That being said, and I think that from a financial point of view, I think, namely in electricity since we are now in the TOTEX model, we do want to make things as fast as possible for operational reasons. But from a financial point of view, if it's in January, cut off being in November doesn't really make an impact in our accounts. So it's more being driven to make these investments and pushing the carbonization as fast as possible rather than having a negative impact on the financial side.

On Slide #11, you see the evolution of the regulated asset base. This is the first quarter, you still don't have a lot of transfer. So everything is coming down, which I'd say more or less normal. In Slide #12, what you get is the impact in different ones. So you see that there is a positive impact in all of them of the rate of return. There is a positive impact of the asset base on gas distribution, electricity. And a slight negative impact in gas transmission of the evolution.

As you know, the new CapEx that will come in gas transmission, driven by hydrogen health, João explained in our last call, is going to be coming in a few years' time. So for some time, you will still see some pressure on the asset base of gas transmission. OpEx on Slide #13. What you have is a positive increase. I would say that you should not expect this amount of decrease for the year, but what you can expect and you can see this trend, so there is an increase in personnel costs.

That is normal, and this is being driven by 2 reasons not only are we -- adjusting although partially, but we are adjusting salaries for the -- for inflation, but we are also increasing the number of people that we have, given the amount of activity and mainly in the operational areas that is happening right now. On the flip side and on the positive side, you can clearly see lower electricity costs. So this is the reverse of what happened last year. So we are seeing these costs decrease and having -- and that has a positive impact versus the cost of last year. And there's other cost, operational and maintenance and IT cost. That also came down a little bit on this first quarter. So that kind of represents, again, we think that we are in a good position in terms of cost, but this should not decrease as much for the full year. I think it is more also temporary impact given the quarter where we are in.

On Slide #14, you have some color on Chile. So things keep going as they were last year. And you can still see a quarter that is increasing a lot. Again, you should not expect this amount of increase for the full year in natural gas because it was driven and it grew starting a little bit later last year. But everything is going well. Transemel is growing, driven by the organic investments that we have been doing.

We are looking again at the new auctions that are coming to see if there are good organic growth opportunities in Transemel. And so I think on this side, everything is going okay. Operational and quality of service, everything is going, okay. And Electrogas continues to have very high volumes, being driven by those higher tariffs and higher volumes in gas in Chile, and that is pushing revenues and EBITDA upward.

Below EBITDA. So depreciation in line with the asset evolution. Taxes, I think that Rodrigo already explained the main point, which is related to sales. Let's see how that will go moving forward. But I think we clearly believe that these are good news. On the financial results side, and so this was mainly expected. So the financial cost is now around 2.4%, and this is basically driven by the evolution of [arrivers] year-on-year.

We have on average, almost an impact -- an increase in our [arrivals] of close to 4%. So this is what it is, although we have refinanced everything up from -- although we have fixed a good amount of the debt, it's impossible not to
have some kind of impact in terms of cost of funding, and this is what we are seeing now. We do not expect the full average cost of debt to be much different from this -- from the value that we already have in the first quarter. So this 2.4% is, I'd say a good guideline for what you should expect for the full year, unless something will happen to arrivals again in a dramatic manner. I would expect this not to change.

Slide #15 kind of shows you and wraps everything up. So what you see is that some increase in financial results does not take away the increase in EBITDA driven by the rate of return and good cost performance. So we have this almost 115% increase in terms of net income. On the debt side, what you see is an increase in debt. And this is basically driven increase or the variance in the tariff deviations. As you knew last year, there was a massive nonrecurring positive increase in our favor of this tariff deviation that made net debt abnormally low.

That is now shifting, as we were expecting. So we are giving back that money, and so that we had in our favor or that (inaudible) is decreasing. But if you take that out of the equation, what you still see the strong cash flow generation. It's also normal because it's the first quarter. CapEx is lower. We haven't paid the dividend, it's normal debt in the first quarter, you have this, I'd say slightly higher than usual for a quarter asset variation, but that being said completely within our expectations.

One comment on debt maturity. And just to clarify certain things. The reality when you look at our maturity that is now slightly below 3 years. And it is lower, but because we have a lot of committed liquidity lines, which have much longer maturities that are not being used because of technical reasons, because of we wanting to optimize the cost of debt. So they're completely free to be used.

And if we use them, the reality is that we could increase this 3 to almost 5 years of maturity. So we are not doing it because it doesn't make any sense for us to increase abnormally, the cost of debt. But this is an issue that some analysts asked us in the past. And so I wanted to make that clear that we are not driving maturity down in any way, I'd say, aggressive way. Actual maturity is actually higher, and we always try to maintain duration kind of balanced between both sides of the balance sheet, okay.

So Slide #18 just summarizes price and returns. I said that we are more or less in line with market, nothing to comment there. In Slide #19, just to comment on the ESG standard. So it's not that we are -- we live for the ESG rating, but we do feel very strongly about the work that we are doing on ESG, on all of the front. And we are happy that, that work, which is -- what is important to us is being reflected in the rating. There has been -- in S&P Global, we have come 2 years ago from 42, and now we are at 62. We've been improving 2 years in a row. In the CDP, we came from a D rating to a B rating, improving in 2 years in a row. And sustainably, we were at 19.4%. We are now at 18.3%. We have been improving 3 years in a row. In MSCI, we were at BBB, and we are now at AAA. We were improving 2 years in a row. The only one that we've been (inaudible), it's kind of the outlier. But this shows you, I think, the recognition from several different rating agencies that we have been very serious about this work, which we think is a very important pillar in our strategy.

So just closing remarks very fast, Slide #21, so good financial performance. Strong, I'd say, balance sheet also performance along the year. First signs that we should have a very strong CapEx and investment here. So I think everything is going to plan. In the AGM yesterday, we approved the remainder of the 15.4 dividend to be paid, the EUR 0.09, we will, next week, announce the exact day that it will be paid.

But it should be within the normal delay that we have between general assemblies and the thing of dividend at REN. And with that, that concludes the presentation, and I open up for any questions that you may have.

Thank you.
**Q&A**

**Enrico Bartoli**
The first one is related to your comments on the decision of the constitutional court on the energy levy. I was wondering if you can give us some color on the next steps that you could expect for this decision? And how long you think that it would take in order to have more visibility on the impact on you and on a possible at least partial revision of the special levy?

Second question is related to the RAB evolution in the quarter. Actually, total RAB declined by 2% compared to last year. If you can give us some comments on what you expect in terms of evolution over the next quarters, considering the evolution of CapEx during 2023, and the transfer to RAB of the CapEx?

And the third one is related to the rates of return. We have seen this substantial increase linked to the evolution of the Portuguese bond yield. If you can also give us some comments on what you expect for the coming quarters? If according to the rollout in the rate of returns of the evolution of bond yields, you expect a further increase by the end of the year?

**Rodrigo Costa**
I will take the first question on sales. What can we say at the moment? This is very difficult to give you a time line because when we talk about courts, to be honest, we never know how fast they will come forward to clarifications. And also on the other side, we also need to go through the cases and understand what we should do and how they will react.

We believe that the conditions financial exceptionality that according to the previous case of law of the constitutional court justify this extraordinary validity of sales cease to exist, and namely the duration of the excessive deficit procedure, which ended in mid-2017. And I think this is one of the reasons why the decision of the constitutional court changed. From 2018, the tariff deficit trajectory means that the sales no longer has the same sense of urgency that it had when it was created in 2014.

The lack of fundamental connection of sales to the generic proposals of the energy sector sustainability, also, let's say, the proposal of other than reducing the tariff deficit is proven. In particular, the link between the sales and companies operating outside the electricity generation sector no longer makes sense. And I think because of all these together, for once, it is a very complex case.

We need to do a deep analysis. And we also note that more decisions will be announced soon. There is plenty of cases. We have our own cases also. And we are expecting -- for sure, we are expecting some positive impact, but we cannot anticipate time lines or even decisions. We know it's positive for sure. We believe this is going to create a changing direction of the analysis of the case.

As you can imagine, I had a lot of help from our internal lawyers to tell you what I'm sharing with you. It shows the complexity of what is going on. But in the end of the day, I think it will be immediately public, any decision that they disclose. And then I'm sure, we will talk again, and we will keep addressing the topic very carefully. It's very important for us. For us, it's all upside, for sure.

**Gonçalo Morais Soares**
So on the other question that you have on the RAB evolution. And so on -- the first quarter is the first quarter as I said. If you look at gas distribution and gas transmission, the evolution that you had in 2022 versus '21 is not going to be very different from the one that you have in '23 versus '22. So that's more or less the trend. On the electricity, I think you have to bear in mind a couple of things. On one side, there were some projects that last year were delayed, coming to this year. That's on one side.

The second thing is that, we are a little bit more careful because of what I explained. There's some permitting and licensing issues that sometimes delay in a specific year, the project. And so sometimes it's delayed the evolution when you cut it at the end of the year of the RAB, okay? But the third comment I would make, again to you and that I made in the presentation is, it's not -- in the electricity part it's not so important to focus on the RAB evolution on a yearly basis, right?
We are on the TOTEX model. What we have to look at is at the [window] of the 4 years. So if we are slightly late or it doesn't really have -- doesn't change what our returns are, what the amount of money that we are making, it should not impact it in a material way. What is the impact is -- your third question was, which is the rate of return. I mean, yes -- I mean, of course, it depends on how rates stay and evolve for the rest and until 30th of September, but if things stay as they are, you probably can expect a small increase in the rates of return of the assets, but not as much as we've seen until now. So I think that we have a major increase that pushed this 80 to 90 bps increase. And as of now, I think you may see an additional increase, but not in this year.

Ignacio Domenech
The first one is on the dividend timing. I’m not sure if you could provide some visibility on the timing of the dividend payments this year, if anything, has been decided yet? Then the second question is on the positive contribution of OpEx of EUR 4 million to EBITDA in gas transmission. I think you mentioned on higher pass-throughs. But maybe if you could clarify, okay, where is the increase coming from?

And then the third question is on the cost of debt. You were mentioning we should expect cost of debt to remain stable throughout the year. But then my question is looking into 2024, 2025, given the maturities of your debt before you were mentioning the credit lines, so maybe what's the level of the cost of debt in the upcoming years, if we should see a material increase can give?

Rodrigo Costa
Let me answer question 1 and 3. The second one, I didn't collect. Let me cover this and then you can repeat the second question. So on the dividend payment, and there aren't any definite date. But typically, we pay the dividend 2 or 3 weeks after we do the AGM more or less. I don't know, you can check, it's the normal. And that will be the second part of this year -- of last year's dividend. The anticipated once should be paid more or less at the same date as we paid last year. So we typically what we will do is have a word at the end of November with the accounted to 30th October to set the interim dividend and paid in December. So that's more or less the date. I'm not substituting the work.

So these are things that not relate for this next one, but the one that will still go to the part, but I'd say what you should expect. On the cost of debt. What I can tell you that yes, it can still go up. But of course, there is a major drive, which is the fact that there was this major increase in rates. Rates are now stabilizing. So each rates stabilize in the market, you can still see a small drag of increased of average cost of debt, but you should not see a major increase, but you'll probably see it still increase a little bit, but not materially versus the numbers that you will have in 2023.

But yes, you can have a small increase yes, depending on how rates evolve in the market. You do have -- part of them are available. There is a lot of funding that we have already that's been advanced. So we have already locked in a lot of funding already. So it doesn't have to be that we have a major increase in the cost of debt in 2024, '25. It should be, I'd say, small increases versus 2023. Your second question, we didn't get it quite well. I don't know, if you don't mind repeating it, Ignacio?

Ignacio Domenech
Yes. It's on the contribution on EBITDA of gas transmission. I believe there's some EUR 4 million increase from OpEx, okay, so a EUR 4 million contribution. So I'm not sure if you can clarify what -- where is this contribution coming from, okay? I think there was something related to pass-through costs, but maybe if you could give us some light here, would be useful.

Rodrigo Costa
I'll have to check exactly that number. I mean the core OpEx is evolving, basically driven by the electricity cost. So I have to check exactly -- we can check what the number is. I am not in here, the EUR 4 million, but I can check with you exactly what those numbers are after the call because I'm not seeing them here. So I want to be sure that I know exactly what the number is, okay?

Ignacio Domenech
Okay.

Rodrigo Costa
Just to say something. So relative to, Ignacio, this is basically the cost I think of electricity. That's the main contribution that is being driven those -- that evolution on a gas transmission, okay.
Madalena Garrido
Thank you very much all on the line. Of course, we remain available for any other questions you may want to take offline. Thank you again. Have a good day.