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
Hello, everyone, and thank you for being here. This is the conference call for the results of the first quarter. As you know, we had the Capital Markets Day event this morning. This presentation today, as usual, is going to be done, but we do focus on the results. We will have a number of meetings later today and in the following weeks about the Capital Markets Day. If you want to talk about that, please talk to me later and we can schedule a call, if it's not being done already. But first, I'll pass the floor to please for a few words?

Rodrigo Costa
Ana, thank you. Well, as Ana said, this is a big day for us. We went through the series of presentations already today. You have we also have a press conference that I'm sure there will be some spillover of news, all about the announcements we've made this morning. But as Ana said also, well, the call is -- the key objective is the first quarter results and what is going on. And hopefully, we will stay focused on that discussion, but I'm sure that is going to be also hard to totally comply with. But -- and with that, I think I would move to Gonçalo, and then myself and Gonçalo and João will handle the Q&A with you.

Gonçalo Morais Soares
Thank you all. Welcome. So just to go over, and I'm on Slide #4 now, the key messages. So EBITDA was around EUR 114.4 million. This is a decrease of EUR 3.8 million. This is caused by several things. One is RAB remuneration. The other one is RAB itself. So both of them pressured a little bit EBITDA. Secondly, there was a little bit of pressure in OpEx, mainly from forest cleaning. And I'll go into that. Also international business fell EUR 1 million, and most of it was attributed to Electrogas and I'll explain a little bit of that. So to put this in context, this is clearly dropping much more than what we are anticipating is the evolution for the year. And I'll explain in a little bit further down and what justifies that. In terms of net profit, was basically stable. As you know, this quarter, net profit is very low because we account for the entirety of the special EBIT, that's by EUR 24.5 million. That being said, it also had a positive contribution from financial results that continue to improve and which cost of debt came down to 1.6%. And actually, the LED itself was a little bit lower because the RAB was lower, so we paid a little bit less tax. One important point, as I'll explain in a little bit in more detail, is the evolution of net debt that was on the back of the evolution also, not only but also tariff deviation and now going to that. CapEx is going its way too early to talk about it. We are still also recuperating things from last year. One news, which is not part of this quarter, but it's already old news is the green bond mission. So we'll talk about it. I think it was a very good success, not only cost-wise, and also as a tool of aligning
our funding strategy and our ESG commitment. And then we have a little bit of information about the sector. But I'll ask to João that will go over the sector and the operating news. João?

**João Faria Conceição**

Thanks, Gonçalo. Good afternoon to you all. Going forward to slide number #5. We tried to sum up what were the most relevant issues regarding the sector during this first quarter. The two most important things were that impact REN were the signature of the first bilateral agreements with 14 generators -- 14 new solar projects. Those contracts have already been signed. We are starting to work on the licensing process in order to proceed with what is foreseen in the contract, which is to develop the necessary upgradings in the infrastructure to create the necessary connections for these 14 projects.

Also, the regulator has launched the public consultation of our 10-year network development plan. Our CapEx plan for the next 10 years, '22-'31 CapEx plan, both for electricity and natural gas transmission. On the electricity side, we are foreseeing an overall investment around EUR 831 million. On natural gas, it's a little bit less. It's EUR 137 million. But you have to bear in mind that this accumulates to the projects that have already been approved by the government, and that were foreseen in the previous investment plan.

Going forward to Slide #7, you have a summary of the highlights from the operational perspective. A couple of message in terms of quality of service, it was quite good. We didn't have any interruption time on electricity and more on natural gas with very high levels of great availability. In terms of consumption, there was a slight decrease in the electricity consumption comparing to 2020, the same period in 2020. In consumption of natural gas, that was a higher decrease, justified by the fact that this first quarter has been quite a wet one. And therefore, renewables, namely hydro, took their place in the generation portfolio. And therefore, there was not a need for generating electricity for combined cycle plans. These are a consequence of having a very high level of renewables integration in terms of consumption supply, which in the first quarter, almost reached 80%.

And with that, Gonçalo, I pass to you.

**Gonçalo Morais Soares**

Thank you. So moving to Slide #8, just a summary of the main KPIs that I spoke to you about so you see the drop of 3.8% EBITDA. And the drop, a significant drop in terms of financial results and improvement there, which led to an improvement of EUR 4.4 million in net profit. So I'll pass to the next slide. We will look at EBITDA. So this is the main impact that we've seen, that's our detail in the coming slide. So you have RAB remuneration coming down around EUR 2.5 million. OpEx contribution and debt also coming down around EUR 1 million and international segment EUR 1 million also coming down. You see that in terms of how businesses contribute to EBITDA, it's basically unchanged no major changes whatsoever.

In Slide #10, what you see is this low rate environment that continues, but that has more or less stabilized. There's no major changes for some time. And that reflects on the base rates, which are a little bit lower, but they are not significantly lower. So they're all at the floor, at 4.5 for transmission businesses and 4.7 for distribution, which is almost -- it's 10 basis points below what we have last year.

Moving to Slide 11 and talking about CapEx. So as you know, it's a little bit early to talk about this, but we are recuperating CapEx from what we were doing -- from what was still being done from last year, that's why CapEx also goes up a little bit, but it's a little bit early. Transfers have not yet materialized, although they are increasing, have not materialized. So as I said, it's a little bit soon to talk about this. We are still expecting to have a strong CapEx here. So we'll see how the year moves on. And I think that in the next quarters, we'll have a little bit more visibility of how this is going to evolve.
On Slide 12, I’d say that there aren’t any major comments. Again, typically transfers to RAB will curb later in the year. So it is normal that in the first quarter to have a negative year-on-year pressure in terms of RAB and what you see here is that all the segments are coming down, even gas distribution at the beginning of the year is coming down typically a segment that always increases year-on-year, okay? But again, we have to wait a little bit more on this.

Moving to Slide 13. So you see that the major impact this time is not from RAB evolution. So the impact there is negative, but it’s small, around EUR 0.5 million. So basically, the major impact has to do with this asset-based evolution, which is the one that is creating a little bit more pressure in terms of remuneration. Although you see that in terms of gas distribution, is much more stable. But this is the, let's say, the last impact of the delay that we had in COVID last year also and it’s the fact that we are not -- only now concluding some of those work.

Slide 14, and coming to OpEx. We see that OpEx was, in some ways, penalized in this quarter. And you have the major costs that you have here in external costs, I’d say, abnormally high for the quarter. So the main one relates to forest clearing. Forest clearing is much higher in the quarter than it was last year, growing around 60% versus last year. But this is just an anticipation of work. Last year was, if you remember, a special quarter. So there were a lot of work that were not done in February, in March next. So there was a delay in a lot of these areas. And so although we are foreseeing that full year, this is going to come down, so this is going to come down versus what we had in 2020. Nevertheless, this was an atypical quarter. So you are going to see this with a positive year-on-year evolution from effect from now on. It’s normal that it's the first years of the month before my -- before the heat comes in that we have the highest effort in this type of cost. And insurance costs. They're also going up a little bit. We have a new underwater cable that is being issued now and wasn't before. And the reality is that prices in the market are going a little bit up. And so it caused a small pressure, but it’s nothing not worthy, okay? And so I’d say that apart from that and some costs relating to the strategic plan that kind of explains a little bit why OpEx had this evolution. If you look at personnel costs, they are completely flat and in line with expectations. Looking at international business. It was also an atypical quarter, not representative of what we expect for the full year. So in terms of first Transemel, the electricity. So we are wrapping up the transition. Everything is going normal, and we are expecting in the next one month to be done with this transition before the clearly. And the differences here are very small. These are revenues that we were going to recuperate in April. And there are some small COVID delays also there in construction, but I would say that's nothing kind of out of the revenue. And Electrogas is a little bit more perceptible, and this stems for the fact that the interruptible revenues. So the ones that are not fixed revenues came down. And that relates to the fact that gas supply from Argentina was cut to low. And so that kind of reduced the revenues we have there. We know, and this already -- we already have that new. It's going to pick up for the rest of the year. So although we knew that there was going to be a small drop perhaps of EBITDA this year, because we are switching some contracts for others. And clearly, this is not going to be in this site. And so this should also recuperate. I think that we are comfortable in line with expectations and it should be much more stable in the full year and in the rest of the year.

So moving to Slide 16 and looking below EBITDA. I think that here what stands out this financial results. So this is the continuing effort that we have been making in terms of decreasing the cost of debt, it's true that it's not decreasing as much anymore. So it came down to 1.6%. I say that this year, this is where it should stay. This 1.7%. So you are not going to have a major decrease versus last year, okay, and also lower debt. So we also reduced debt and I'll go into that in a minute. In terms of taxes, nothing out of the ordinary. Still paying, unfortunately, a special levy. It came down around EUR 1 million versus last year. And the rest, I’d say, there's no major news on there.

So looking at consolidated view on Slide 17 is basically just go assets decreasing EBITDA and then financial results compensated slightly lower sales and a bit lower income tax as you have less income to tax. Let me spend now on Slide 18 a little bit of time talking about net debt. So you don't see here still the impact of the conditions, which was, as we said, a clear
success with extremely low yields, 0.5%, negative new issue premium. So we are quite happy with how it turned out. The maturity also, you don't see it here, but will go up, it was around 3.2 years. It should go up after this closer to 4 years, even taking into account all of the commercial paper, which kind of artificially brings down the maturity of the debt. But that kind of is the part relating to the bond issuances, which I think was a good success. Looking at net debt, we see is a big chunk, which we normally don't spend so much time going over, but which is related to tariff deviation. I mean these are not bad news, but there's something that you have to explain because you should not expect that this deviation of this amount based on until the end of the year. So -- and I said it would be normal since we had a little bit lower CapEx to further debt to come down. It's always normal in the first quarter, but tariff deviation in this quarter came down particularly. And this was, as said, across the board, all of our businesses and electricity. There were small deviations in terms of consumption that were in our favor. There was an amount that we received from -- which is not for us, it's for the system, but we received that amount from that state fund, which is now going to be repaired along the year and that amounts to around EUR 30 million in this deviation. So those are EUR 33 million that you'll see as the year goes by -- go back in the different direction. Gas also had some extraordinary revenues relating to an option in the terminal. But that will also kind of -- not this year, but in the next few years, be smoothed out somehow in the tariff deviation. Although this year, you see impact and even the trading unit that we have had a positive evolution given prices of electricity and the cost that we have. So it was some of many different impacts. And that normally don't happen at the same time, but in this case, it was a positive overall impact. But again, expect this, namely in the -- that part of electricity on the trading kind of bounce back in the other direction. So we are expecting the tariff deviations to be lower at the year-end, but not to be lower in the magnitude that you are seeing here, okay? I mean, Slide 19, nothing major to comment. It's just more a little bit for your information, how prices have been evolving. And so in terms of closing remarks, as I said, EBITDA was a little bit atypical quarter because of what I explained. So you should expect a more stable EBITDA going forward. And net debt also that impacts from cash aviations that you should also expect to be a little bit smooth it out. And I'd say that this is what covers the things that were nonrecurring. We think that this is clearly worked that business very well, the quarter was the full year is going to be, so we are pretty comfortable with it, okay? So with that, we conclude, and as an said, we are happy to answer a few questions about the first quarter results. If you have any.

Thank you very much.

Q&A

Jacopo Vismara - Mediobanca

I've got three. And basically, you already touched the first 2 points in your presentation, but any additional granularity would be appreciated. So on the first one, if you can explain the positive effect of -- on the net debt from the TI variation? And how is it impacting your net debt by year-end? The second would be the level of CapEx do you expect for the overall year? And the third one is, if you expect a recovery of the Portuguese bond yields in 2021 and how do you see the walk up for electricity, and that would be all my questions.

Gonçalo Morais Soares

I mean on the first one on net debt. So I think I went into a little bit of detail already. So I think that you should clearly expect some kind of negative or, in this case, positive, but the decrease in tariff deviations until the year-end. I don't know if it's EUR 50 million. I mean, we don't -- but it's going to be -- it's not going to be EUR 5 million, but it's not going to be EUR 140 million, like we think -- it's going to be something in. Apart from this, you had a question on CapEx -- the level of CapEx? I mean, we think that we are going to have a level of CapEx. Even with some delays, it should be above what we had last year. We believe that this is a strong CapEx level. We presented the Capital Markets Day, where we gave an internal of EUR 200
million to EUR 235 million. So let's see how it goes. It's challenging. We have a lot of work to do. There's a lot of licensing to be done, but I think we're going to be able to deliver on that number that we also announced today. On the bond yield, we don't have any expectations on the our expectation is that models are going to stay somewhat low. I think that bond yields can as time goes by the. So let be. That's what the curve now is indicating even in a modest way, but we are not expecting bond yields to go up this year. I think that it's still going to be more or less where they are now.

António Seladas - A|S Independent Research - Analyst
Just one question. If you can share with us the amount to be invested on the solar photovoltaic project that apparently, we already signed to, what will be the amount and the time period for the investments.

Rodrigo Costa
The amount -- or the period is during 6 years. And the total amount on the NPV process is a little bit above EUR 300 million.

António Seladas - A|S Independent Research - Analyst
EUR 300 million for the coming 6 years, yes? So it should start this year?

Gonçalo Morais Soares
The payments are scheduled to be during the 6 years. We have 6 years to conclude the collections of. We will get the full payment by the end of the 6 years.

António Seladas - A|S Independent Research - Analyst
And that will be treated as an investment from your side, and then the payments will be some time that you do the investment or it will be...

Gonçalo Morais Soares
No, It's not so it's completely -- there if it was banned completely. I mean, at the end of the day, you're not going to see this in the regulated assets in.

Rodrigo Costa
These are going to be treated from the regulation perspective as a fully subsidized CapEx. Sorry, in terms of RAB remuneration, it won't get any remuneration. If we'll get the corresponding OpEx allowances that a regulatory model proceeds.

Gonçalo Morais Soares
Because the remuneration is already included.

Rodrigo Costa
This amount that we are telling you already includes the NPV of the expected remuneration, we would get with something similar if there would be a regulated investment, okay?

António Seladas - A|S Independent Research - Analyst
Okay. And that -- this amount were included in the -- well, the pipeline of investments that you mentioned today for the investors, I guess, or not?
Rodrigo Costa
Yes.

Ana Fernandes
So if there are no further questions, we would like to conclude this call.

Gonçalo Morais Soares
Thank you very much to you all, and thank you, and see you soon. Have a great weekend.