

Results Presentation

9M2021

11th November 2021

AGENDA

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

1. Overview of the period



KEY MESSAGES



9M2021



EBITDA amounted to €343.4M, a reduction of 2.6% (-€9.1M) **YoY** explained by (1) a lower RAB remuneration (-€6.6M), driven by a decrease in RAB (with an impact of -€4.4M) and in RoR (-€2.2M); (2) a lower OPEX contribution (-€3.4M), partially offset by a higher incentive for economic efficiency of investments (+€1.4M) and amortizations recovery (+€0.9M).

International performance had a negative delta of €0.9M, despite a better EBITDA from Transemel (+€0.3M).



Net Profit stood at €68.4M, due to (1) a solid contribution from **Financial results** (increase of €5.5M to -€31.1M), a consequence of the decrease of the **cost of debt** (from 1.9% to 1.6%); and (2) a lower energy levy (Δ€1.1M).



Capex increased by €38.0M vs 9M20 to €141.7M, while transfers to RAB reached €80.5M, an increase of €58.6M, driven by the electricity transmission business (+€56.4M). Steadily the transfers that had to be delayed due to the pandemic are getting on target.



Renewable energy sources (RES) reached **60.6%** of total supply (approx. +4.7 p.p. than in 9M20). **Consumption** of electricity and the **distribution** of natural gas **increased**.



High levels of service quality were maintained during the first nine months of 2021. The level of energy transmission losses stood at 2.0% for 9M2021, in line with the figure for the previous year while the combined availability rate of gas transmission reached 99.9%.

SECTOR OVERVIEW



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



New regulatory period for the electricity sector

- On the 15th of October, ERSE announced the proposal of Tariffs and Prices for Electricity in 2022. The regulator defined the **Rate of Return** applicable to the next regulatory period 2022-2025 with a base rate of 4%, considering 0.224% for the Portuguese 10Y Treasury bonds. An **indexation mechanism** is kept as before, a variation of 2.5% of the 10YTB leads to a variation of 1% in the RoR. The **floor** is 3.7% and the **ceiling** is 7%. The **efficiency factor** for both TEE and GGS activities are set to 1.5% for the years 2023 to 2025. ERSE has also decided to keep 0.75% **premium** over all the assets built before the 31st of December 2021 that are entitled to this under the **reference cost mechanism**.
- The detailed parameter proposal has been submitted to the tariff council and the final parameters will be known on the 15th of December.**



Tariffs Regulation for the electricity sector

- ERSE approved and published the reformulation of the Tariffs Regulation for the electricity sector where it approved a new set of rules relating to tariffs and allowed revenues between 2022 and 2025.
- Tariff changes include the elimination of the tariff applied to producers for the injection of energy into the public network, the tariff treatment to be given to autonomous storage facilities, and other.
- With regard to the regulatory regime, new provisions are set to reinforce the monitoring of the financial performance of regulated companies and the scrutiny in the assessment of reported costs, and a new regulatory model is defined, a revenue cap methodology applied to the controllable TOTEX of electricity transmission and electricity distribution activities in HV and MV.



Network Development Plans reports

- In August, **ERSE has published PDIRT and PDIRG assessment reports** following the public consultation, recommending **investment restrictions to both electricity and gas**. The assessment reflects ERSE's particular views on the development of the energy sector which **conflict with the government policy and present sector response**
- REN is carefully evaluating the full assessment reports** to understand the real extent of ERSE's recommendations related to particular investment projects, in order to incorporate in the final version of PDIRT and PDIRG the projects to be approved, and send it to the Government for decision

European Commission new legislative package

- European Commission presented the legislative package '**Fit-for-55: delivering the EU's 2030 climate target on the way to climate neutrality**' - the package consists of a set of interlinked legislative proposals that address the common goal of ensuring a fair, competitive and green transition by 2030 and beyond.

2. Business performance



BUSINESS HIGHLIGHTS



Higher share of renewables, in a context of declining gas consumption by the large industrial customers



Electricity

Consumption

36.7TWh ↑ 0.6 TWh (1.8%)

9M20: **36.0TWh**

Renewables in consumption supply

60.6% ↑ 4.7pp

9M20: **55.9%**

Energy transmission losses

2.0% ↑ 0.2pp

9M20: **1.8%**

Average interruption time

0.05min ↑ 0.02min (66.7%)

9M20: **0.03min**

Line length

9,037km ↑ 36km (0.4%)

9M20: **9,002km**



Gas Transmission

Consumption

47.9TWh ↓ 1.7TWh (3.5%)

9M20: **49.6TWh**

Combined availability rate

99.9% ↓ 0.07pp

9M20: **100.0%**

Line length

1,375km = 0km (0.0%)

9M20: **1,375km**



Gas Distribution

Gas distributed

5.7TWh ↑ 0.4TWh (8.5%)

9M20: **5.3TWh**

Emergency situations with response time up to 60min

98.1% ↓ 1.0pp

9M20: **99.1%**

Line length

6,024km ↑ 210km (3.6%)

9M20: **5,814km**

FINANCIAL HIGHLIGHTS



Net profit declined despite the solid improvement in Financial Results and the improvement in Net Debt

EBITDA

€343.4M

↓ 9.1
(2.6%)

9M20: €352.5M

Financial results

-€31.1M

↑ 5.5
(15.1%)

9M20: -€36.7M

Net Profit

€68.4M

↓ 7.7
(10.1%)

9M20: €76.1M

CAPEX

€141.7M

↑ 38.0
(36.7%)

9M20: €103.7M

Average RAB¹

€3,518.5M

↓ 134.4
(3.7%)

9M20: €3,652.9M

Net Debt

€2,378.2M

↓ 364.8
(13.3%)

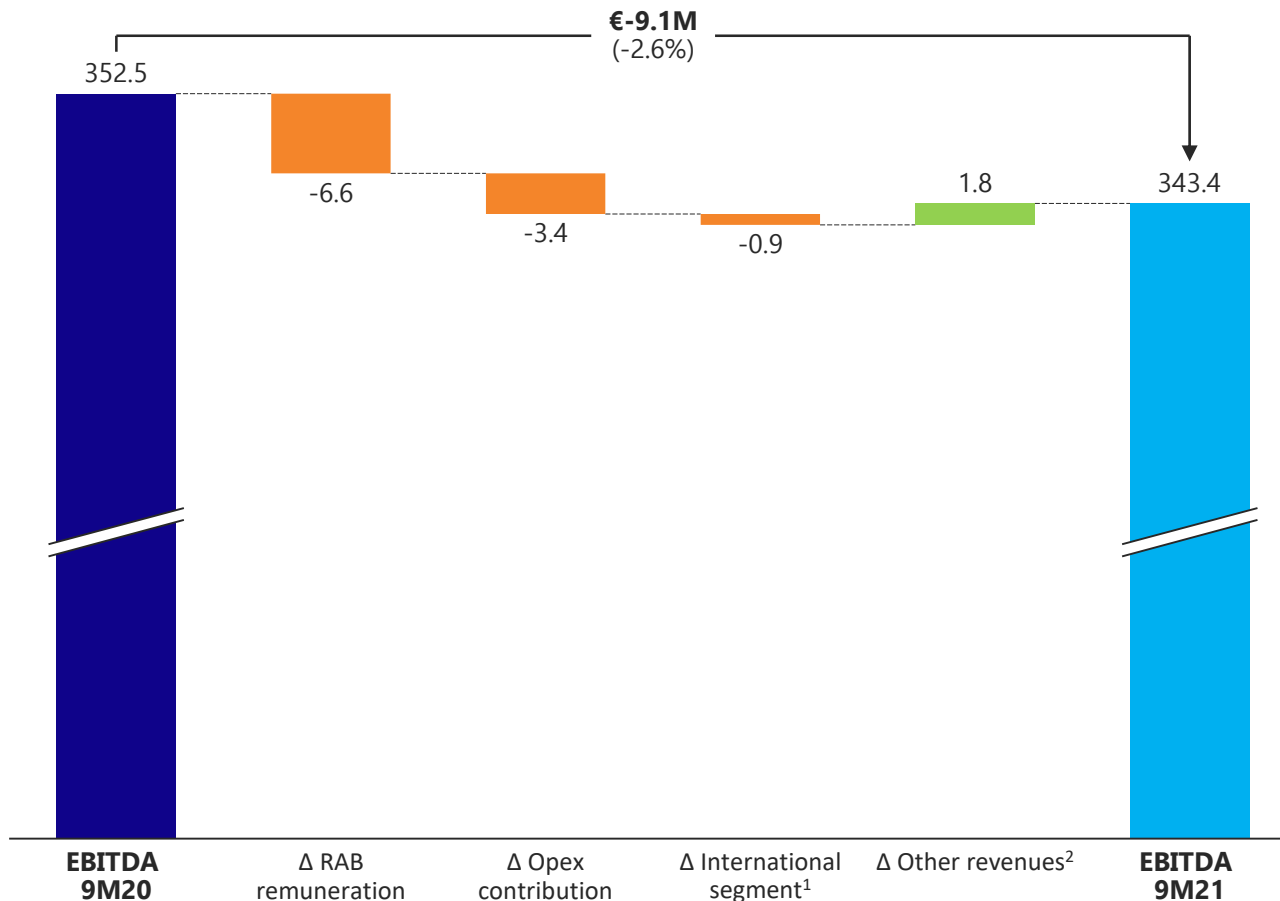
9M20: €2,743.0M

CONSOLIDATED VIEW



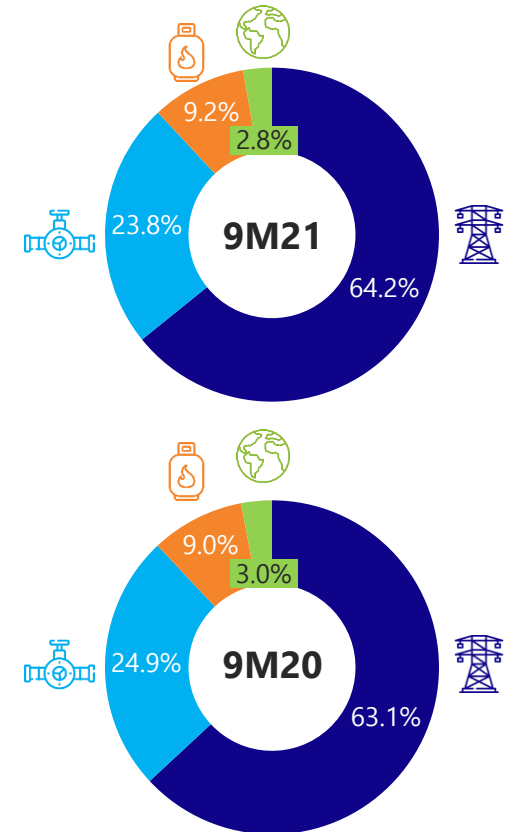
The decrease in EBITDA is due to the decrease in RAB remuneration, opex contribution and the performance of the international segment

EBITDA evolution breakdown €M



EBITDA contribution by business segment³ %

- Electricity
- Gas Distribution⁴
- Gas Transmission
- International



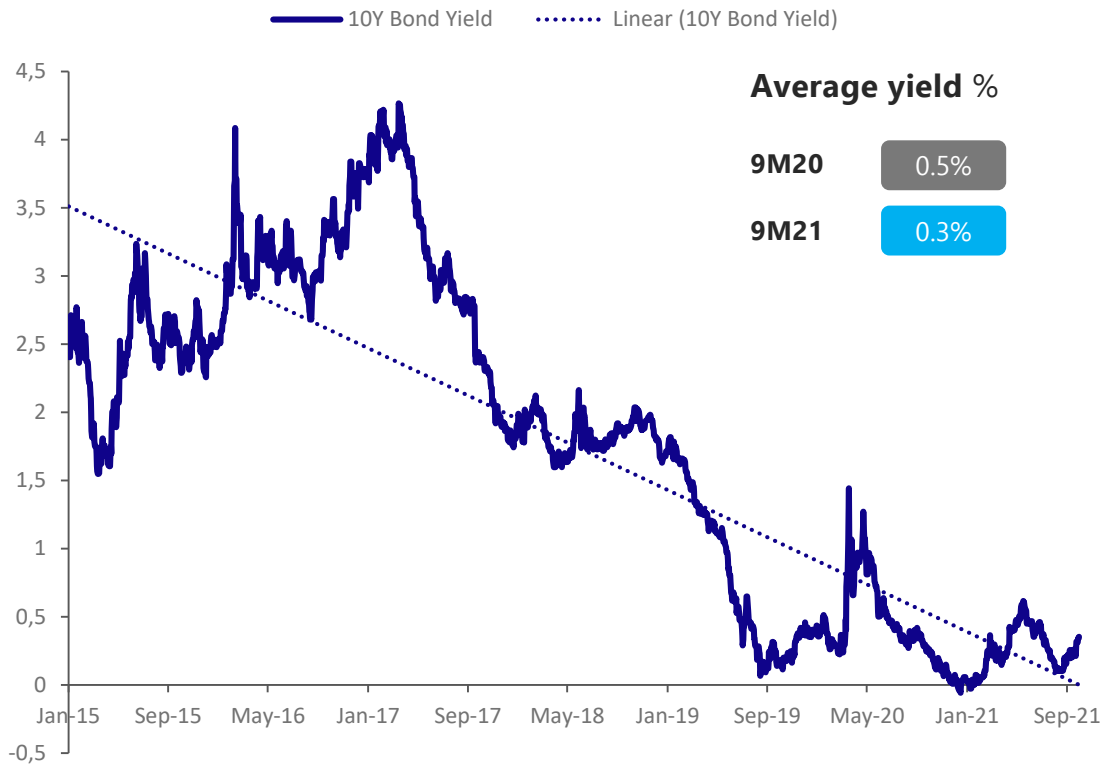
1 Includes Apolo SpA and Aerio Chile SpA costs | 2 Includes amortizations recovery, subsidies amortization, REN Trading incentives, telecommunication sales and services rendered, interest on tariff deviation, consultancy revenues and other services provided, OMIP and Nester results | 3 Excludes the segment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

DOMESTIC BUSINESS

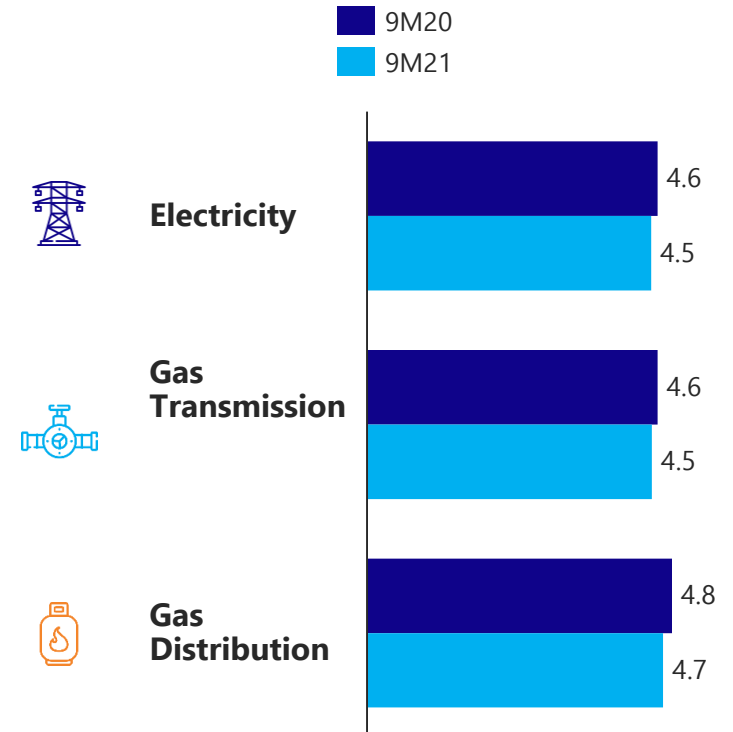
Return on RAB stable relatively to last year, with regulatory WACC at the set floor



Portuguese 10Y Treasury Bond Yields %



Base Return on RAB (RoR)* %



SOURCE: Bloomberg; REN

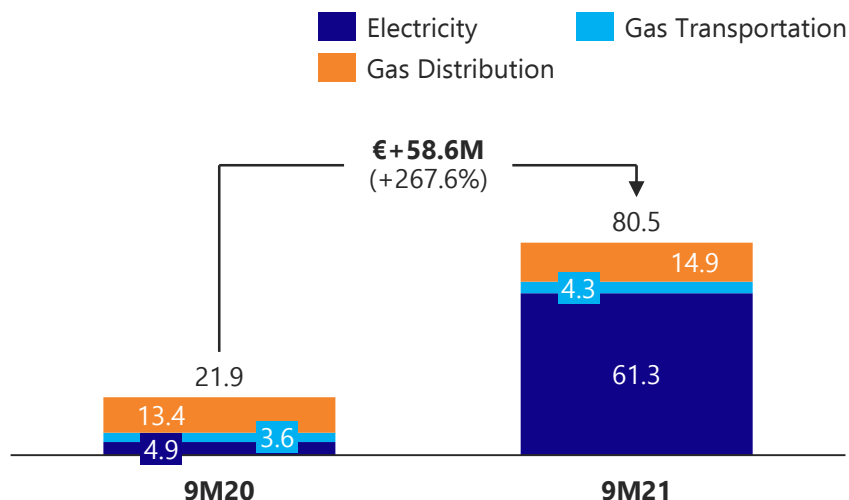
* Electricity data collected from Oct-20 to Sep-21, Gas data collected from Jan-21 to Dec-21

DOMESTIC BUSINESS

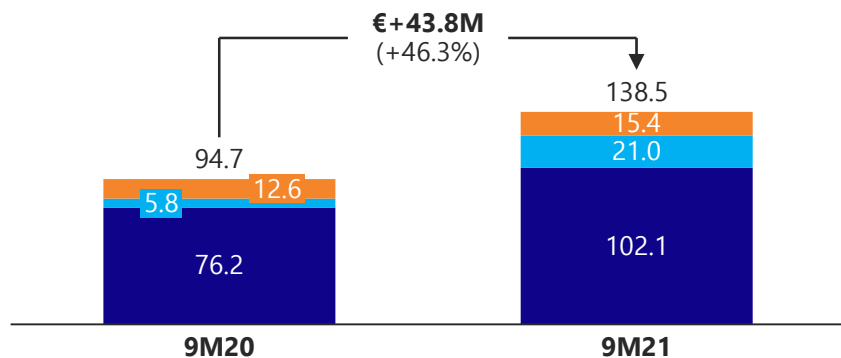
Solid progress in both Transfers to RAB and Capex



Transfers to RAB €M



Capex €M



Key highlights



Electricity

Main investment projects:

- Passage at 400 kV of the Falagueira - Estremoz - Divor - Pegões axis, allowing, among others, the supply of electricity to the railway line between Évora and Elvas / Caia;
- 400 kV axis between Vieira do Minho - Ribeira de Pena-Feira: the new axis will allow the connection and reception of capacity of Alto Tâmega hydroelectric power plant;
- New 400 kV Fundão - Falagueira axis through the extension of the current Falagueira - Castelo Branco line to Fundão and construction of a new 400/200kV Fundão substation;
- Estremoz Substation: upgrade in voltage level from 150 to 400 kV, with the installation of a new 400/60, kV, 170 MVA transformer;
- New 400 kV overhead line Ponte de Lima – V. Nova de Famalicão;



Gas Transmission

Main investment projects:

- Carriço Storage: Water Firefighting System upgrade;
- Pipeline Network and Sines Terminal: replacement and upgrade of equipment and systems at the end-of-life;



Gas Distribution

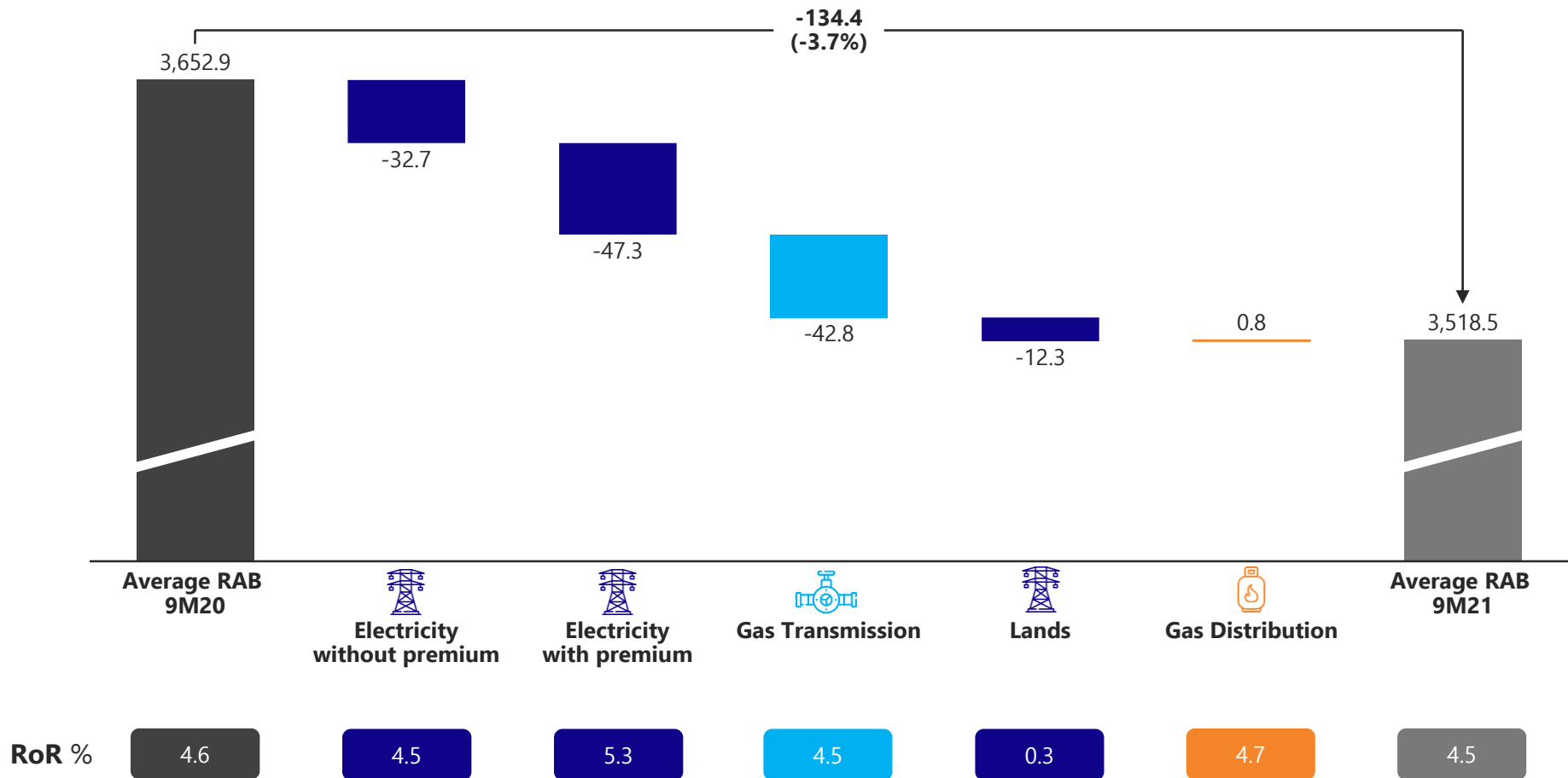
- Investments in **network expansion and densification**, mostly for B2C, with new prospects for B2B investments continuing to be monitored, counting with 53 more clients connected in 9M21;
- Licensing of **3 big projects** with Capex execution expected to occur in 2H 2021;
- **Network decarbonization process** on the move;

DOMESTIC BUSINESS

Downward trend in RAB in most asset categories



Average RAB evolution €M

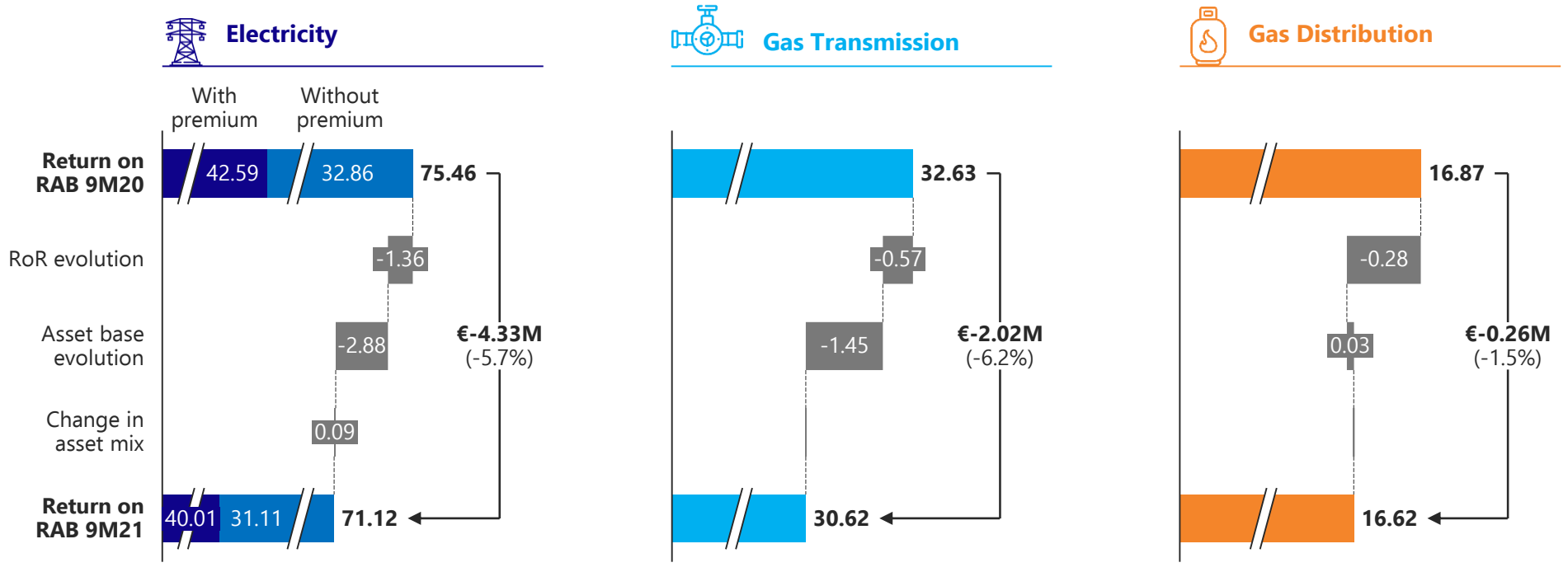


DOMESTIC BUSINESS



RAB remuneration decreased across all businesses, but especially in the electricity business, mostly driven by the decrease in the asset base

Return on RAB evolution breakdown €M



Return on RAB drop caused by a **smaller asset base** (by €80.0M to €1,935.8M) and **lower rate of return on assets** with and without premium¹

Decline in Return on RAB justified by a **smaller asset base** (by €42.8M to a total of €905.2M) and a **lower RoR** of 4.51% (-8bps)

Return on RAB reduction attributed to a **lower rate of return** (from 4.79% to 4.71%) and practically same **asset base** (+€0.8M to a total of €470.5M)

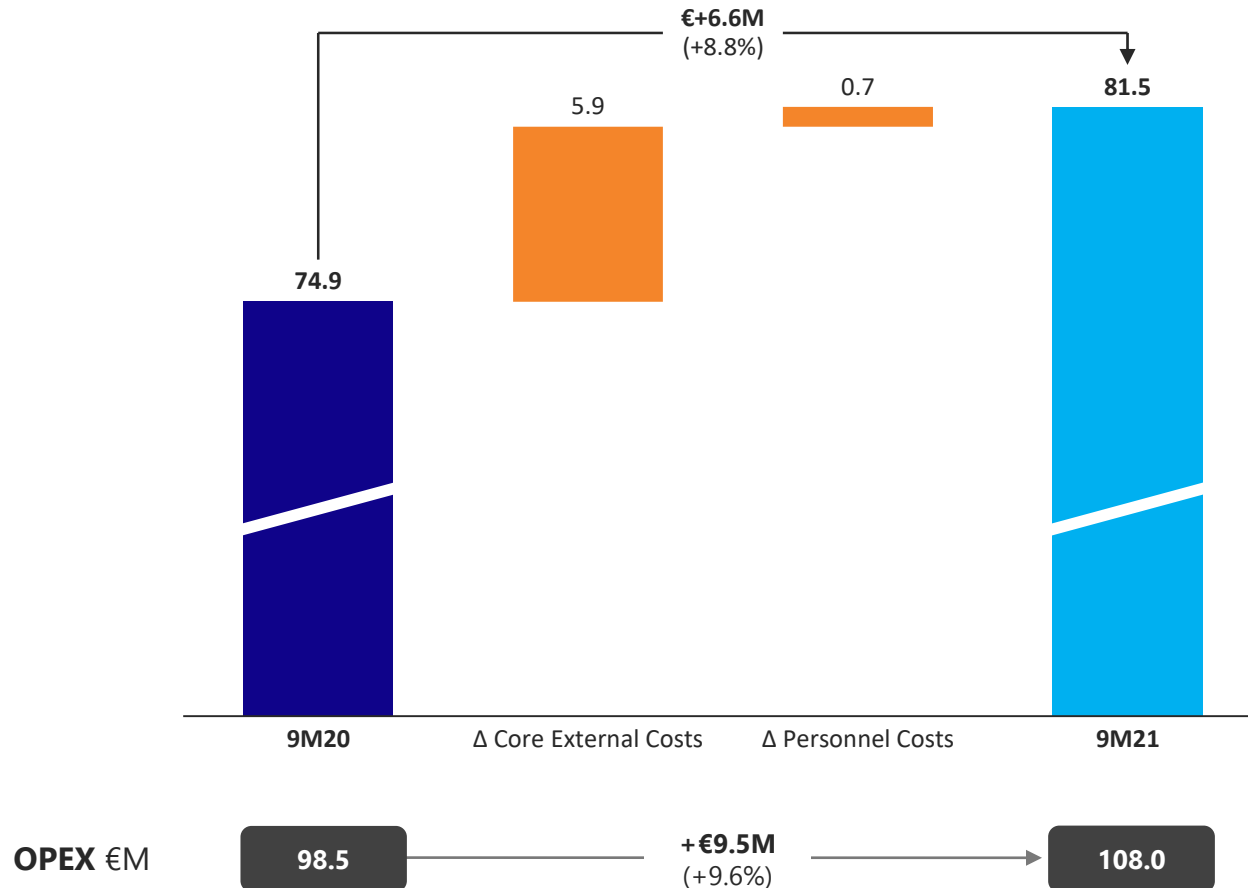
¹ From 5.35% to 5.26% for assets with premium, and from 4.60% to 4.51% for assets without premium

DOMESTIC BUSINESS

OPEX increased by 9.6% YoY, with core OPEX rising 8.8%



Core OPEX¹ evolution €M



Key highlights

Core external costs

- Consultancy services and other 3rd party services (+€1.9M), mostly related to strategic plan and bond issuance;
- Insurance costs (+1.4M€);
- Electricity costs (+1.9M€) in LNG terminal;

Non-core costs

- Pass-through costs (costs accepted in the tariff) **increased by €2.9M**, of which €3.0M correspond to **costs with cross-border and system services costs**;

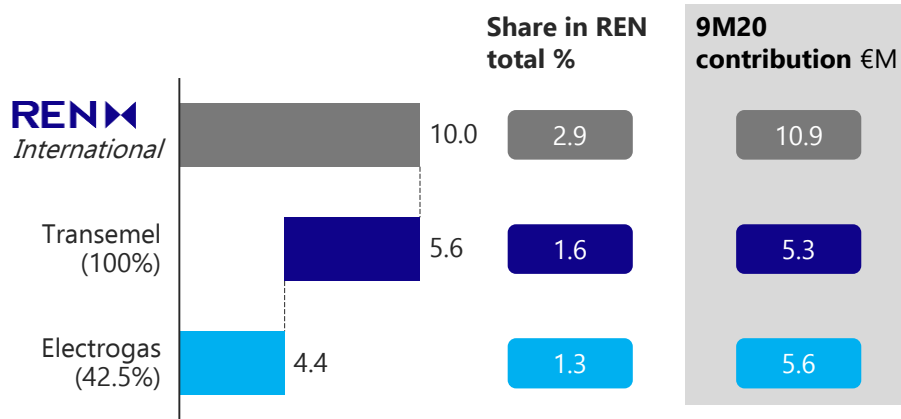
¹ Calculated as OPEX minus pass-through costs (e.g., ITC mechanism, NG transportation costs, ERSE costs and subsoil occupation levies)

INTERNATIONAL BUSINESS

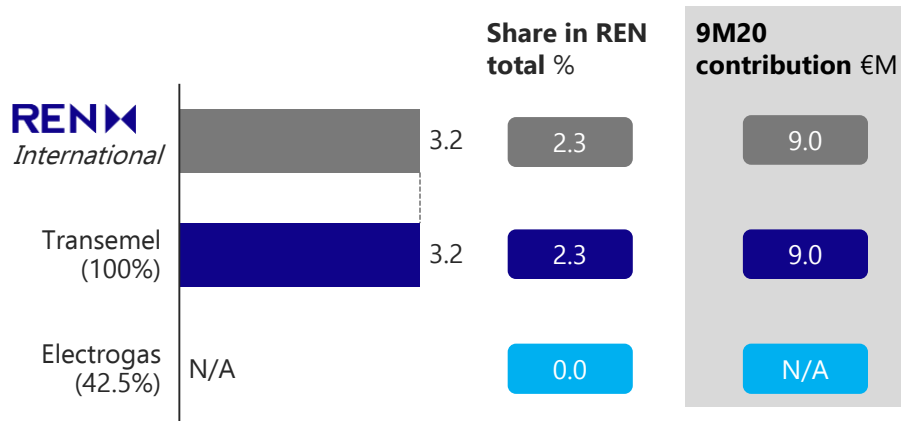
Solid performance from the Chilean businesses



Contribution to EBITDA 9M21 €M



Contribution to Capex 9M21 €M



Key highlights

Transemel, Chile

- Revenues increased €0,7M vs 9M20 reflecting the conclusion of expansion projects in 2020 and 2021

Revenues

€8.3M ↑ €0.7M (9.9%)
9M20: €7.5M

EBITDA

€5.6M ↑ €0.3M (6.3%)
9M20: €5.3M

Electrogas, Chile

- EBITDA decreased YoY, driven by lower revenues (lower tariff and lower transported volume) and higher opex

Revenues

€20.8M ↓ €3.3M (13.6%)
9M20: €24.1M

EBITDA

€18.3M ↓ €3.4M (15.7%)
9M20: €21.7M

CONSOLIDATED VIEW



Robust Financial Results, as the cost of debt continued its descending trend

Depreciation & Amortization

€180.5M  €0.7M
(0.4%)

9M20: **€179.9M**

Increase of €0.7M versus 9M20, along the evolution of gross assets


Financial results

-€31.1M  €5.5M
(15.1%)

9M20: **-€36.7M**

Positive change in financial results (+€5.5M) reflecting **the decrease in the average cost of debt** of 0.27 p.p. to 1.6%, lower net debt and greater dividends from HCB (€1.5M), despite reduced dividends from REE (-€0.3M)

Taxes

€63.4M  €3.5M
(5.8%)

9M20: **€59.9M**

Total taxes include the **extraordinary levy of €27.1M** (€28.2M in 9M20) and **income tax which grew by €4.6M** to €36.3M

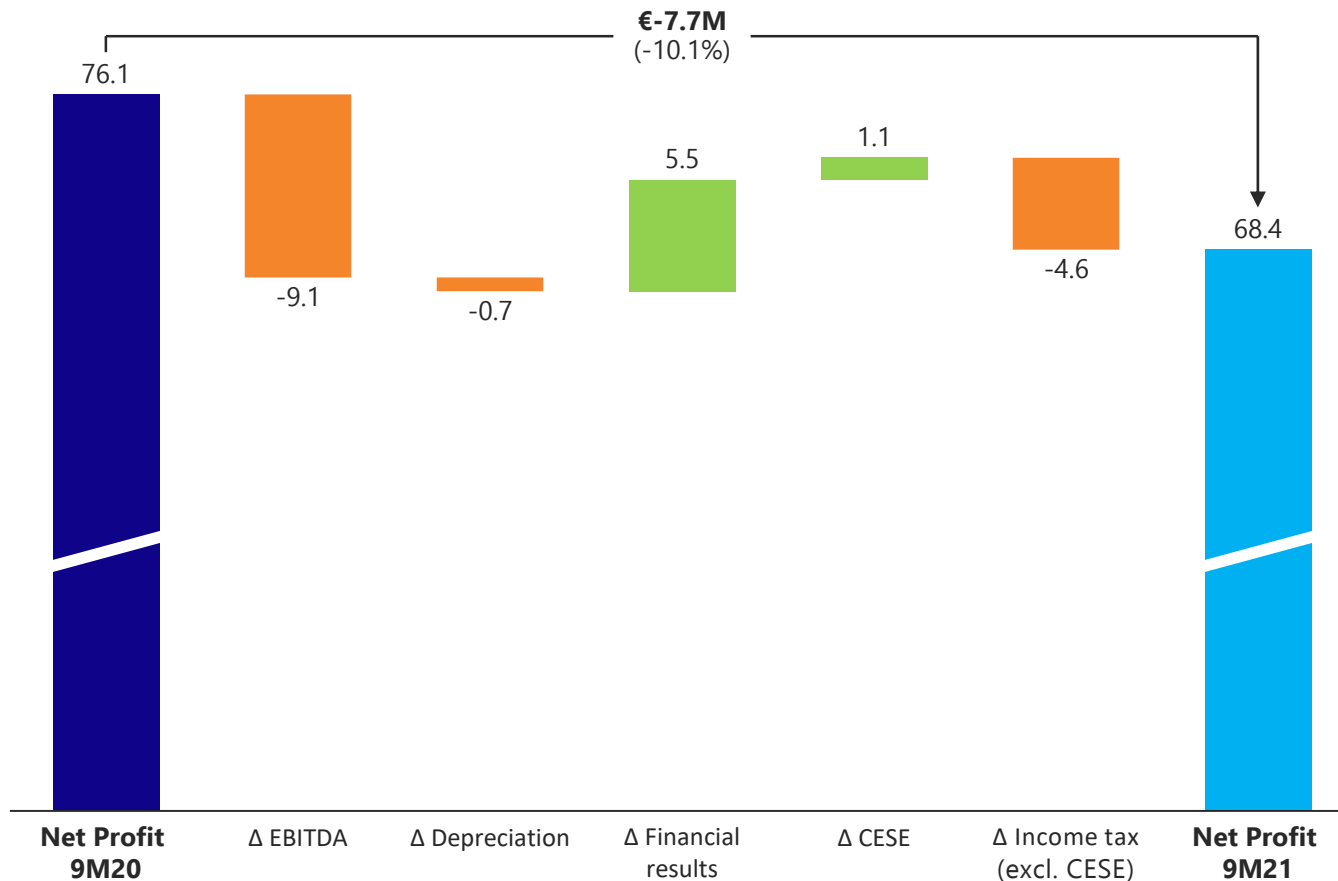
Effective tax rate reached 43.0%, a 4.1 p.p. increment relatively to 9M20 (including the levy)

Increase in the effective tax rate vs 9M20 reflecting the different recovery of previous years taxes in 9M20 (€5.6M) versus 9M21 (€2.4M)

CONSOLIDATED VIEW

Net Profit decreased as a result of lower EBITDA, partially offset by better financial results and lower CESE

Net profit evolution breakdown €M



Key highlights

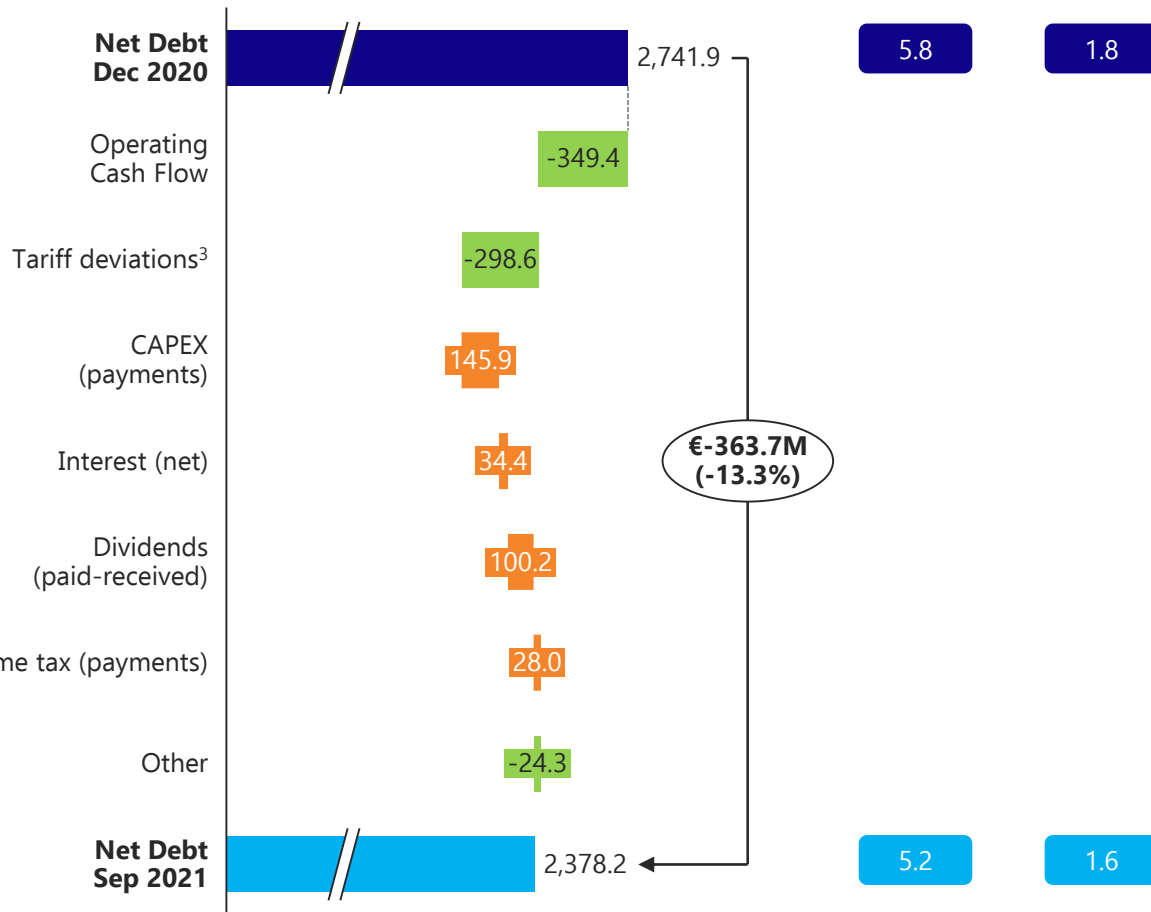
- The **Positive effect** of €5.5M from **Financial Results** as a consequence of better financial conditions and higher dividends from associates (Δ€1.2M)
- **Lower charge by CESE** (Δ€-1.1M), reflecting the evolution of the asset base
- Decrease in **tax recovery** from previous years (Δ€-3.2M)

CONSOLIDATED VIEW

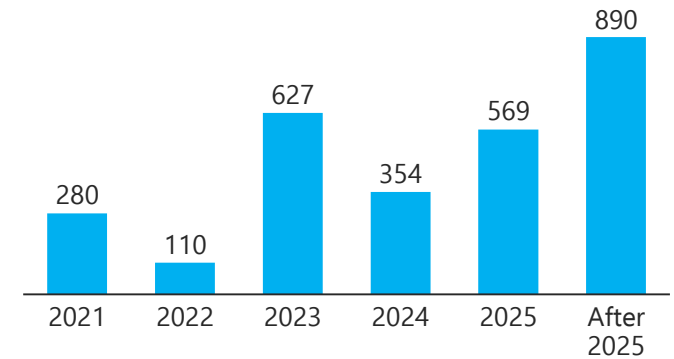


Net Debt improvement due to a higher operating cash flow and tariff deviations

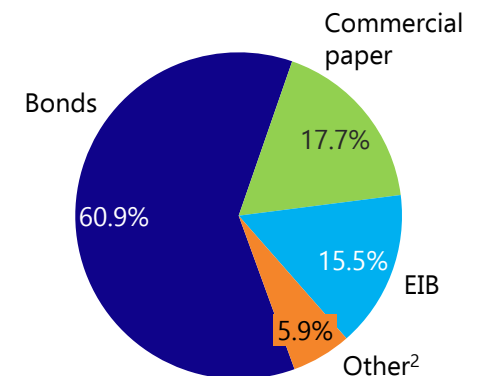
Net debt evolution €M



Adjusted Gross Debt Maturity¹ €M



Debt sources %



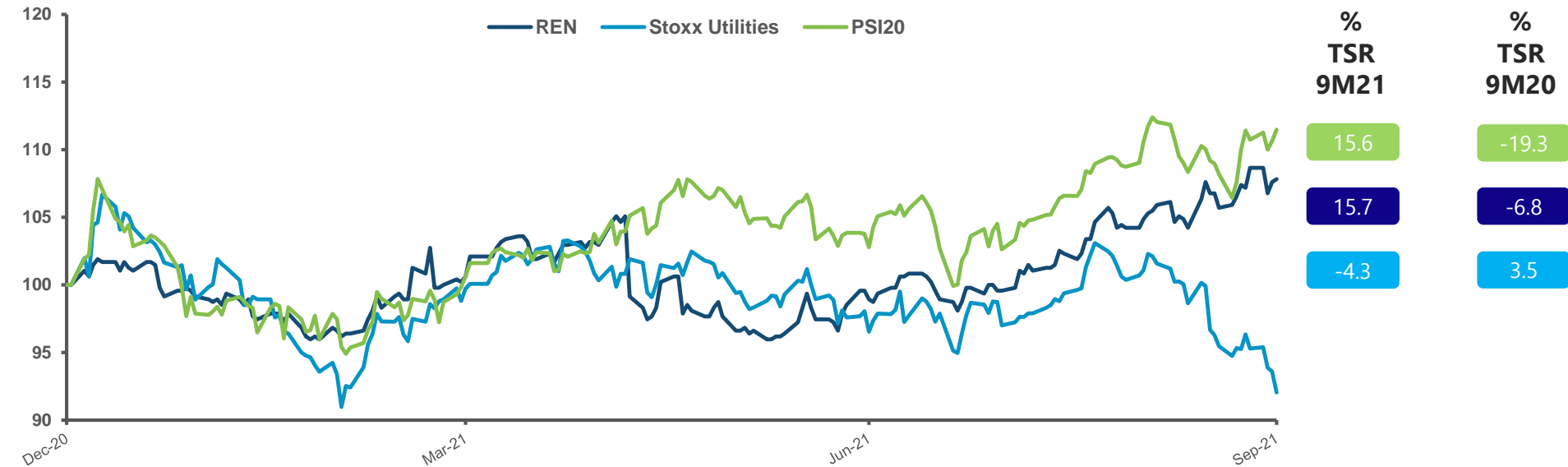
¹ Calculated as Net Debt plus Cash, bank deposits and derivative financial instruments (€467M), excluding effects of hedging on yen denominated debt, accrued interest and bank overdrafts | ² Includes loans (5.8%) and leasing (0.1%) | ³. Includes amounts received from the Fund for Systemic Sustainability of the Energy Sector (FSSSE)

SHARE PRICE & SHAREHOLDER RETURN



The share price moved in line with the Portuguese index

Annualized closing prices %



Analyst recommendations¹

Average Price target

€2.58 ↓ €0.22 (7.9%)

9M20: **€2.80**

Upside/Downside (+/-)

8.3% ↓ 4.1pp

9M20: **12.4%**

Buy recommendations

40.0% ↓ 20.0pp

9M20: **60.0%**

Hold recommendations

50.0% ↑ 10.0pp

9M20: **40.0%**

¹ End of period
SOURCE: Bloomberg, REN

3. Closing remarks



CLOSING REMARKS



Fully committed to deliver solid results and sustainable returns



Unsurprisingly, **EBITDA** decreased as a consequence of the **reduction** in both RAB and remuneration rates as well as the activities in Electrogas.



Net Profit stood at €68.4M reflecting the EBIT reduction and the gains from the financial results, the recovery of previous years' taxes and a lower levy.



Net debt was significantly lower than in the previous quarter benefiting from a **higher operating cash flow** and the cash inflow of tariff deviations, which were both higher than the outflows of CAPEX and financing activities.



CAPEX is improving according to plan and due to the decrease in the pandemic hurdles



On the 15th of October **ERSE disclosed the proposal for Tariffs and Prices for Electricity for 2022** and the parameters for the regulatory period of 2022-2025. After evaluation of the opinion expressed by the Tariff Council (due by 15th of November), ERSE will approve the final tariff values, which are to be published **until 15 December 2021**.

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