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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. Welcome to REN's Annual Results Conference Call on this sunny Friday here in Lisbon. As usual, we're joined by the Executive team; and CEO, Rodrigo Costa; the COO, João Conceição; and the CFO, João Soares. As usual, Rodrigo will start this call with his remarks, and then we'll pass on to Gonçalo for the presentation. Rodrigo, would you like to start?

Rodrigo Costa

Yes. Thank you, Ana. Good afternoon to all. The last 12 months were very different from anything we went through before, being the COVID pandemic, the most dramatic event. We also have to have the fact that the energy transition phenomena was the dominant world trend. I think it affects all our activities last year.

In spite of these challenges, we were able to deliver both operationally as well on the numbers front. Like millions of organizations, we introduced multiple organizational changes, reaching a point where we were only able to perform the critical tasks on-site with all other activities being managed remotely or suspended. But as the slides will show you, we were able to perform well. We met all the service requirements. And from a project delivery perspective, we also recovered the majority of investment delays caused by the health risks.

We had a small decline in EBITDA and net profits and, at a large extent, consequence of the decrease of the main concessions on remuneration. Sales keeps being the negative delta that impacts our ability to show our real value. This year, sales went up since it now includes sportscast. Without this tax, our payout ratio would be close to 80%, and the perception of the value we create would be even more positive.

The energy transition remains the key trend and, at the same time, the main opportunity. 2020 was a gas-ready year. We were moving fast to a world more and more depending on electricity. Housing, industry, mobility or the economy needs to change. We had the coal generation hard stopping since. We assist the launch of multiple public tenders for new renewable generation. And on this one, we have a major role supporting the energy agency and the government.

We went through the planning process to adapt the grids to the upcoming generation transformation. We participated on the analysis of hydrogen as a complement or as an alternative to natural gas. The ongoing efforts of the network digitalization to deal with the complexity of the new systems and the cybersecurity challenges were also a big part of what we did last year.

Although it is hard to predict the impact we know the energy world will have, I think in 2020, we'll really start paving the way while dealing with the COVID and not losing track of our main mission. This is why we believe 2020 was hard but a good year for us.

And now we are going to the results and with Gonçalo. And after, we will participate on the presentation and that we will be available for -- to address all your questions. Gonçalo?

Gonçalo Morais Soares
Thank you, Rodrigo. Hi, everybody, and welcome to this call. So if you want to move to Slide #4, I'm just repeating some of the key messages. What we saw this year were results coming in line or slightly above expectations. EBITDA reaching EUR 470.2 million, a decrease of 3.3%. As you know, this is mainly due to, one, the lower RAB remuneration in need of lower rates, lower RAB against the change in the gas regulatory framework. Secondly, there were also some cost pressure that I'll go through. And third, on the opposite side, there was a kind of one-off improvement in one of the expenses that's also allowed to improve, around EUR 7 million at the end of the year, our accounts.

In terms of net profit, they ended up at EUR 109.2 million, also with a positive contribution from financial results. Cost of debt has continued to go down from 2.1% to 1.8%. And we also have a slightly lower effective tax rate, which I will explain, but that is also coming from since second already and other quarters.

In terms of funding, it's important to let you know that we have approved our green finance framework. We are now able to issue green bonds, and we will probably sell in the short term. Service quality has remained high with very low interruption time and with perfect availability rate at the gas business. Renewable sources reached a higher value versus last year, 59%.

And to take you a bit will be through some of the news in the sector in terms of the indicators more from the operating side, on to João Conceição, the COO, who will guide us through the next few slides. João?

João Faria Conceição
Thanks, Gonçalo, and good afternoon to you all. Going into Slide 5, we have a brief overview of the sector here in Portugal. The most -- the 2 most important plans that have been approved by the policymakers, the government and the regulator, were the National Energy and Climate Plan, which basically reinforced the bets of Portugal on developing renewable integration. We are setting a target to 2030 to have more than 80% of the electricity consumption in the country, all generated from renewable sources. And at the same time, the government has also approved the National Strategy for Hydrogen where it sets some targets, some mandatory targets, namely the incorporation of 10% to 15% of hydrogen into the natural gas network by 2030.

As a response, we tried to adjust our activity to this new reality of the energy transition. One important issue is that we are following all the EU funds opportunities, submitting our projects in order to get grants to develop those projects. One most important submission that we have done is regarding hydrogen and in order to adjust and retrofit our natural gas infrastructure, the pipelines and the underground storage to cope with this 10% to 15% target by 2030.

On the electricity side, we support the launch of the second auction for new solar, which happened in August last year. We have been granted the authorization to develop additional CapEx projects on the network to create the necessary connection conditions for this capacity. In addition to that, we continue developing the agreements with the solar promoters following the new concept that the government has approved of bilateral agreements with these generators, making them responsible for paying all the necessary improvements on the grid, which, of course, are done by REN.

In terms of the regulation perspective, as you know, 2020 was the first year of the new natural gas period with the adjustments of the parameters. Gonçalo will go into detail on those issues.

Regarding electricity, we were supposed to be starting a new regulatory period last January. But due to this COVID impact, the regulator decided to postpone this new regulatory period, extending the existing one more year. So we will go into a new regulation by the end of 2021.

On the following slide, we have a brief overview of the financial impact of the COVID-19 in our business. Basically, we would highlight 3 different impacts. The first one was as a consequence of the lockdown we had last year, some 2 major projects -- CapEx project needs to be suspended during that period. And therefore, we were not able to conclude them by the end of the year as we were forecasting for 2020. However, we are recovering all these delays. And by the end of 2021, we will have these 2 projects into operation.

In terms of OpEx, we had some additional costs, some of them directly related to creating extra health and safety precautions for our people as well as our suppliers, but also in some contributions for community efforts regarding the effort to fight against this COVID-19 pandemic.

Last but not least, as a consequence of the decrease of the consumption both in electricity and natural gas, there was a higher deviation than forecasted in the beginning, which in total in net values, it made an increase of EUR 33.5 million in terms of deviation versus the end of 2019. As following the rules of the regulatory rules, these deviations will be recovered in the next year.

Going forward to Slide 8, you have an overview of what happened in terms of operations and the quality of service. In a nutshell, regarding consumption, as you know, there was a decrease in consumption on the electricity side, about 3%. In the natural gas, we had a decrease in consumption of 1.6. But here, it's important to highlight that the large majority of this decrease in natural gas was due to the industrial consumption as the consumption of gas for electricity generation in the CCTT's power plants actually increased despite all the pandemic constraints.

In terms of quality of service, we keep improving the quality of service. In terms of electricity, we managed to decrease significantly the average interruption time, which was already a very good value, but we made it even better during 2020.

On the natural gas side, in transmission, we managed to have almost 100% availability of our infrastructure. And on the -- our distribution concession port cash, we managed to improve the response -- emergency response with less than 60 minutes. We managed to improve a little bit this indicator that the regulator uses to assess our quality of service.

Last but not least, in terms of the overall consumption of electricity. Due to the fact that 2020 was a little wetter than 2019, there was an increase in electricity generators from hydro plants, and these had a reflection on the overall renewables penetration, which got to the value of almost 59% of the electricity consumed in Portugal last year coming from renewable sources.

And with this, I give back to Gonçalo.

Gonçalo Morais Soares

Thanks, João. So looking at Slide #9, it's just the main financial highlights with EBITDA coming out is 3.3%. Financial results also improved, 11%. Net profit because of all of these factors came down 8%. But more than going through this slide, which is just the main highlights, let's move forward so I can give you some detail on how the company did last year.

So looking at Slide 10 and the consolidated view, what you see here is what we explained. So the major impact comes from RAB remuneration, which I'll go through. Then the second one is more OpEx contribution. This is a mix not only of increased costs, but also of decreased effective cost because, as you know, last year, there was mainly the revision of the cost for the gas in the gas framework. So that makes the accessible cost come down also.

On the positive side, we had a contribution, which derived mainly from Transemel. It was not last year. Integrated the full year, only 3 months. And then you have other revenue smaller things, but also -- and the main impact is that REI incentives, that REI incentives that I'll give you through in a little bit more detail in the next slide. So what you can see is that in kind of weight, you see gas coming down a little bit in weight, electricity going up and international also going up a little bit.

So if you go to Slide 11. What you see here on the graph is basically the trend that you've seen in the past. You see that due to the COVID prices that there was this kind of bump in the first half of last year that allowed us to have a slightly higher-than-anticipated RoR. But the average yield, you can see, came down quite significantly. So that's reflected in electricity. But in gas, it's also reflected not only because of the trend, but also because of the revision of the framework as we explained before. And so we are almost at the floor in every single one of this rate.

It's also interesting to see that in the electricity one, and if you do the blending, which is how you should look at this. So if you put the incentive in there, the story is a little bit different. You'll see a rate which is actually slightly above 6%. And because of this, namely this incentive of REI, that increased. Let me spend a minute just so going over this because it represents an increase of EUR 7 million for you to understand.

So this is something that relates to the fully depreciated assets. So it's something that is a function of the net asset and gross asset ratio. But then it's defined also based on what kind of quality, if you want, we have on the network. And that derives -- and that then makes it a function of 3 different curves that you can attain given what level -- at which level you are. And it depends on 3 main function, which is one is the availability rate, how much the network is available or not; secondly, how much time it is indirect, so the quality of service that operations have; and thirdly, the capacity of interconnection of the network.

So typically, if you fail 2 of these, you get 0. If you get the 2 first ones, which is the availability and the time interruption, which is basically the quality, you are on the middle curve, which is the 25 million, which we usually have. If you achieve all 3 and exceed the capacity of interconnection above a certain value, which is 27%, you can go to the left curve. This year in concrete, and that was not the case in the past year, but this year in reality, that happens. So we attained the interconnection number came to 27.8%, so we were able to go to the next level of the curve.

Also to manage a little bit expectations, this is not something that you should expect to be repeating last year. Our, I'd say, normal expectation is that we would be around the 25 million. But -- so this was, I'd say, an exceptional and a one-off kind of number in terms of this incentive, okay?

So moving to Slide #12. You have the dynamic in terms of CapEx and transfers to RAB. So I think that our investment areas give an amazing job being able to recuperate almost all of the delay that they have due to those stoppages in the pandemic. Bear in mind that at the end of the year, although we did not stop to work, there were still already other constraints present to the team. And we were able to recuperate and have a CapEx, which is below last year, but almost in line with last year.

Nevertheless, in terms of transfers to RAB, that was not possible. And because there's basically 2 main projects, one which is the Castelo Branco-Fundão, the line in the substation, it represents more than EUR 40 million. The other one is (inaudible), which also represents around EUR 30 million. And only those 2 projects were EUR 70 million. As you can see, it's on top of the EUR 8 million, you have of EUR 70 million, it will be a completely different picture in terms of RAB. But that was not possible to completely compress the delay at the end of the year of those 2 months that we have to stop, okay?

You see that impact on Slide 13. So that's why you see all of these drops in terms of all of the components of the asset. Normally, you have electricity with premium going up into last year. That was not the case because of this, okay? So this was clearly an impact of those delays. It is also interesting to see that in electricity with premium and without premium, the decrease is around EUR 61 million. And if we only look at those EUR 71 million of those 2 projects that could have been concluded, if we do not have this, I think we could be looking at a completely different picture for electricity, which has been what we've been saying is happening due to this decarbonization process ongoing in Portugal, which is driving CapEx, mainly in electricity.

Going to Slide #14. So this is looking at the return on RAB. So all of them is basically, the tendency is negative impact in the rate of return due to lower rates, mainly in gas because of the revision of the framework and also negative impact in terms of asset base, mainly in electricity because of those delays that I spoke to you about, okay? Overall, in terms of how they contribute to EBITDA, what you see is a slight increase of electricity from 53% to 64% and a slight decrease of gas from 34% to 32%.

Slide #15 and looking at our cost. So here, you can see that costs went up by EUR 3.7 million. Most of that increase in core costs comes from core external costs, and almost all of them come from base to relating to forest cleaning. This is something that we not only reinforced, but we anticipated this year. So -- and it is both a mix of volume and of price because there were changes in legislation, and not only this. Everybody in Portugal and REN also have to increase the volume, but all of the companies that are within this space are -- did not multiply. And so the price for these services went up quite a bit, and that's why the growth relative to '18 is so large. We should -- and just to give you an idea, we should not expect this value to remain. We should expect that in '21, this should come down a little bit.

Then you have some COVID-related costs that impact negatively, around EUR 1 million, and you have a positive impact from electricity costs in the terminal. This is not due to lower activity. For instance, the number of ships were 62 versus 64. So the activity is basically the sign, the quantity, frankly, basically, because at the terminal, the price of electricity is driven by the wholesale price of electricity that on average last year was 39% lower than in 2019, okay?

In terms of personnel, nothing unusual, very stable costs. We increased 9 people last year here in Portugal, 4 people in Chile, but personnel costs were pretty stable along the way. So I would say that is the major explanation.

If you look at noncore, and just to give you also a brief comment, these increases come basically from this interconnection or cross-border costs. It relates to both import and export activity that you have, and that explains most of it. But it also comes from, for instance, the crossover increased -- slightly increased around 4%, which represents EUR 400,000. And there's other costs relating to other pan-European project where we are -- where we have to participate by legal obligation like [Correo do

Tejados] that also contribute here, but these are completely pass-through and most of the legal obligations that we have.

Slide 16, just looking at the international business. What you can see is that it now comes for around 3% of our EBITDA. It was 2% previously. So it grew a little bit. Electrogas on the bottom, the gas business, very, very stable. So the dynamic with imports from Argentina stabilized. We were able to increase a little bit the take-or-pay revenue. And actually, the gas outlook in Chile is not in the next year. So that -- I'd say that stability for Electrogas is the name of the game.

In terms of Transemel. There was, I'd say, versus '19 already, we knew that there would be a negative impact because it had around EUR 3 million that were nonrecurrent in the 2019 accounts, was an indemnity and some accounts that we had to regularize with CGE, with Acela. But at the same time, we're going to be compensating, buying new projects. But the reality is that there in Chile, we also had the impact of the COVID crisis, and that also had an impact of around EUR 2.53 million of revenue relating to that. Here, we have this compensation that then came from higher record return in Chile that does not happen.

Also to give you a feeling that there in that area, although this was delayed, we are recuperating this year. As in Portugal, we are recuperating this delay. And in Chile, there is a little bit of a CapEx upside. There are also other organic projects that will come online along the way and that were not fully captured in our expectations.

Moving to Slide 17. In depreciation, no major comments apart of the fact that there is an increase relating to the inclusion of Transemel. In terms of financial results, this was due to our -- this improvement was due to our permanent refinancing. So that allowed us to decrease 27 basis points, the average cost of funding, to 1.10%. We also have slightly higher dividends, but it was mostly driven by funding. I will come back to the funding part in a minute.

Looking at that is what you can see is the dynamic that we said before. So on one side, we are saying higher level because of this inclusion of Portgás. It accounts for plus EUR 4 million, EUR 4.1 million. On the other side, we have some issues that we were dealing with the tax authorities in courts that we won and provided us with EUR 5.6 million of profit that may be effective tax rates come down to 24.6% versus 27.7% if we exclude the partial levy from the equation.

So in Slide 19, everything is kind of in one picture. You have this negative impact of EBIT, so the financial results improved a little bit. Depreciation comes back. It's always the mirror of what happened in EBITDA. Sales, especially there, we also have an adversive impact and the income tax, although a one-off. On one side then because we had lower results, there's a positive impact in terms of how you look at net income, and so we come to this EUR 109.2 million figure.

Slide 19 and talking a little bit about funding. What you saw was this decrease in net debt, so it decreased 3%, EUR 84 million. Is -- and this is despite the fact that, as João already explained, we have a small increase in the tariff deviation, mostly due to that issue around electricity consumption and other issues, but mostly around that. You can also see that there is a positive impact at the end of around EUR 30 million. It's mostly related to subsidy. Most of it is related to the fact that, if you remember, we have a major project (inaudible) than in '19. And part of it is subsidized, and we received a EUR 26 million amount that is reflected here in our cash flow and effective qualities.

And so in terms of the debt maturity, you see that there is an amount that we have to refinance this year, okay? And this is why we are going to make a bond issue in the short term. We have the green finance framework approved. We did a roadshow that went very well and on the roadshow some time ago. So as you know, I cannot give you specifics in terms of amount or exact date, but it should be in the short term. We normally always issue between 7 and 10 years. So there should be no surprises around that, okay? So -- and this is basically to refinance the bonds that matures in 2023. And because of liquidity reasons, we have to have those more than 2 years in advanced refinancing. So we are doing that refinancing this year. We do not expect any major impact in cost that comes from debt refinancing. And we are only going to repay that 1.75 coupon. Our debt one that we issued in 2016, we only operate in 2023. So that's when you'll see the major impact comes from the refinancing of this one. But it will have an impact in maturity, that will probably come back closer to the EUR 4 million that we normally have.

Slide 20 just gives you an idea of how stock evolves. So although we continue to give out a good dividend yield and a good TSR in both last year, and historically, it was a year slightly tougher also because of COVID, but slightly tougher, mainly at the end of the year. But now we have, I'd say, mostly by recommendations, and we will see how this evolves in the coming time.

Just moving to Part #3, which -- and since we are now finalizing the 3 years of the strategic plan, just to give you some ideas of how we did. And so we have 3 major, I'd say, access of strategy, one of the operational excellence and core business consolidation. We -- I think we fulfilled that. Very high service quality levels. We executed on energy transition, and you saw the CapEx domestically grow.

In terms of disciplined growth, we also delivered. So we were careful, but we did the Transemel acquisition, and we are now integrating it with -- very carefully. And in times, we're in solid financials. We've kept this investment credit metrics, and we try to maintain always a robust financial structure.

In Slide 23, looking at each of the public numbers that we have put out, we were able to deliver on all of them. EBITDA we deliver on average, not only every year, but on average, we delivered with our interval. Same thing for net profit, we delivered on average with every -- with this indicator. We only sell less this year, but it's almost at the level. And on average, we clearly were able to achieve. Net debt, we believe that every single year, and we delivered on average. Also in domestic CapEx, we're much above what we have anticipated at the business plan execution.

So Slide 24, just to give you a feel of 2021. So I'd say that we are in domestically recuperating these delays that we sell and that we were going to recuperate at the beginning of the year. Those small deviation that we referred to last year should be recuperated in 2022. Also, as you know, this is a year of regulatory review for electricity. João and his team have not started yet discussions with the regulator, but this is going to follow the normal kind of timing, and we will only have news for you after the summer. International footprint, we'll be focusing on integrating Transemel, which should be done in the next few months if that's powerful.

In terms of interest, so we will continue to maintain very -- and being committed to very strong investment-grade credit metrics. As you know, we don't have a specific debt target we have. We are very strongly committed to have these credit metrics. We just concluded that framework for green bond, and we will be issuing that trend to be ARPU. Just to give you one thing and one update. So we are going to update the strategy plan this year, and we will announce that on the second quarter. And for Rodrigo, if you take that data, we'll do it all, okay?

So with this and going to sustainability, I'll pass it to Rodrigo.

Rodrigo Costa

Okay. Just a quick comment on the topic that it's now in the agenda that basically every organization, which is ESG. We have been working in a lot of different activities since a few years. Now we will become more and more visible in terms of what we have been doing and what we want to do. I think we already covered some of the things that are important that we are doing, including the green bond issue. And basically, you have here some of the marks we already got. I think we are making a lot of progress in terms of gender equality. REN is perceived as a same opportunity company in terms of gender. We keep investing a lot in the training of our people. Of course, this year was especially challenging in terms of keeping up with all the work we were doing before. But I think we managed to deliver very well.

We are doing a very, very big effort in terms of, let's say, forest preservation because -- not only because of the huge fires we had in the past years we increased our activity, but it's something we know how to do it. And we have very ambitious goals, all aligned with United Nation's development goals -- sustainable development goals.

And then we have a series of programs that we've been developing in Portugal in many years. Our REN award, it's a scientific award that is the oldest scientific award in Portugal and probably the largest. We have a few others also that are directed to reward community initiatives, which we really enjoy doing. We have several programs, where we have our own employees helping the communities where we are integrated.

And in terms of governance and ethics, we keep doing a big effort in terms of not just the transparency of the operation of our Board, but a little bit about everything we do end-to-end. And again, this is something now -- every company is becoming more visible with the initiatives on ESG, and we will not be an exception. And when we present the next period initiatives, I think we will share a little bit more about what we are planning to do in the next few years.

And now we move just a quick note on the hydrogen and João?

João Faria Conceição

Thanks, Rodrigo. Just to brief you on the hydrogen side, additional information what we presented so far. So as you know, there is this IPCEI call of interest launched by the Portuguese government. This covers the whole value chain for hydrogen from renewables, generation of electricity, hydrogen production, transport of hydrogen storage and supply, et cetera. We -- due to our focus in our activities. We are looking all the activities related to our core business and to our duties of transmission and distribution operator, and we will focus on those in what concerns to hydrogen as well.

We are also participating, in fact, we were a founding member of a new collaborative lab that is focused on all the issues related to hydrogen. It's called the Hylab, and we are participating on this lab with 20 other companies.

And as I mentioned in the beginning, we launched our application for the EU innovation funds in order to have grants for the retrofitting of our infrastructure in terms of transmission and storage in the natural gas system. We are actually now assessing in terms of prospects for the near future. And in the Strategy Day, we are planning to present you a more detailed view on this hydrogen issue.

Rodrigo Costa

Just to finish, I'm sure you are well aware, some of you already heard about the announcements we did yesterday. We are going to propose to the general shareholder meeting a dividend of 17.1%, exactly the same as the past few years, in line with what was the expectations we basically had given to the market. And as Gonçalo said in the beginning, we are going to announce our new strategy on May 14. We are planning to -- it is going to be, of course, a virtual event. We'll probably do it from here.

And we look forward now to your questions. We will be all available to address them. Thank you.

Q&A

Ignacio Domenech – JB Capital Markets - Analyst -

I have 3 actually. So my first question is related to the international business in Chile with the Transemel and Electrogas. I was wondering if you could provide a rough figure for the expected EBITDA contribution in 2021, 2022. Any contribution to CapEx would be released for Q2?

Then my second question is related to the delay arising from COVID-19 on the impact in the investment execution in 2020. Should we expect that we'll recover in 2021? Or could we achieve towards 2022?

And lastly, I was wondering if you could pro add an update on the expected evolution of the special LNG pact in Portugal.

Gonçalo Morais Soares

Ignacio, relative to your first question, I mean we don't give out specific numbers in terms of outlook. So I gave you an outlook. We don't expect any surprise. There are -- what you should see is that the Transemel EBITDA should go up, given that we are concluding CapEx. So as they come online, it will increase the revenues of Transemel in 2021. And in Electrogas, you should see much stability. So -- but that gives you kind of a little bit of a flavor, but I cannot give you very specific answer, okay?

Rodrigo Costa

On the other 2 questions, the COVID-19 impact. As Gonçalo said in the beginning, we had the impact we mentioned, and we expect the full recovery will happen during this year. We are not anticipating any issue, and we believe that the worst situation is behind us. And the country is now getting into much better shape, and we just need to make sure that we don't go back to where we were a couple of months ago.

In terms of the test process, we are still with the Hess process, we are still with the process. We are not seeing any major change for the time being. Since the first day we spoke about Hess, we knew it was going to be slow, the court case. It is slow. And the only thing that by now, we would expect that sales would start to go away, it should have started to go away. We will remain hopeful that, that will happen. But we know how the system operates, it takes time. And it's something that really affects our accounts, and we keep the pressure. We have -- we are committed to the case. And yes, we have to be patient because we are not on the driving seat in this topic.

António Seladas - A|S Independent Research - Analyst

One question for me, it relates with the dividend policy. So your dividend is -- your payout ratio before the tax is below 100%. And after the tax, the extraordinary tax is above 100%. So my question is, how sustainable the current situation is? So how comfortable do you feel about -- you keep paying this dividend, even that it will be above the net income, assuming that the extraordinary tax will be here for the coming years. So I don't know if you can share with us your thoughts about it.

Rodrigo Costa

To your very last comment, we cannot share. We have been always extremely careful in the way we disclose information. We will have a Capital Markets Day coming in May. And any news, we will share. It will happen on that precise date.

Concerning what we have been doing, what we decided to propose this year, we believe what we are proposing is absolutely in line with what the company can afford to do it, and we feel comfortable. And if we would think otherwise, we would not be proposing this number. It's -- of the payout ratio, of course, it is a little bit, not too much. And it is, and we are dealing with this super high tax system. And as we have been commenting, we have a very strong free cash flow. We have the necessary reserves, and I think it's just fine to do it.

Fernando Garcia - RBC Capital Markets, Research Division - Analyst
Actually, Fernando Garcia. So coming back to the extraordinary tax. So I think that here the, let's say, more resonant scenario is probably looking to a gradual evolution of the extraordinary tax in line with the evolution of the tariff deficit. So I wanted to know how is this process going in the negotiations with the government if we have to wait until to see what is the evolution of the tariff deficit in the electricity sector in the -- at the end of 2021 to know what is happening, and together with the negotiation of the '22 budget to know what could be the evolution of that. So that is my first question.

And then the second question is on hydrogen. There, obviously, hydrogen, at the moment, implies a higher cost. I wanted to know how are the negotiations in Portugal. Who is going to be paying this over cost? If it's going to be through European funds or Portuguese consumers has to pay a part? So you want -- you can tell me how is the process regarding this other cost payment.

Rodrigo Costa
Well, thank you for the question, Fernando. Well, in fact, in both questions, you mentioned the word negotiations with government. When we deal with the government, we don't disclose what we talk. And to be honest, neither we have negotiations going on with the -- on the tax front, neither on the hydrogen. We basically are (inaudible).

And on the extraordinary tax, we know the public information. We know what it is in the budget for this year, and they didn't remove the tax or they introduce any decline yet. We are -- as I said before, today, we are hopeful that they will do something, but we were also -- all 4, 6 years ago, and it didn't happen until now. We believe that the government is going to deliver on their commitment. And as you said, the commitment of decreasing the tax in function also of the decrease of the tariff deficit. And if you ask me if they are going to deliver on that, that's my assumption. And the more time goes by, the more conviction I have that they have to do something. It's kind of the frustration is higher for sure, but at the same time, the hopes that we are reaching a point where things will change, it's also coming to that point.

On H2O, as I said, this is -- the hydrogen discussion is -- it's at different stages depending on the country. You do the analysis. If you look to Spain to Portugal to Italy to France to Germany to U.K. to Australia, you have very, very different approaches. Some governments are more enthusiastic, some are less enthusiastic. We have a problem to solve. The energy transition as I mentioned in the beginning, it's a big challenge for all of us. And now I think we are trying -- all the industry is trying to see if hydrogen can be a key solution, a partial solution. For sure, it's going to be there. For sure, it's going to help on the energy transition. Now the question is how.

You touch a point that is very critical on this equation, which is the price of hydrogen will be a consequence of the price of electricity supplied to produce hydrogen, and I think we have a few questions. The governments are working hard on trying to figure out how much they are going to invest, how they will be financing this effort. But we are at the moment where we do not have too many assets. We are involved in the discussions. It's not really negotiations. At this point, I would call them really studies, and we are very committed to this study. We know, as João Conceição mentioned, we know what kind of role we can play on the long term. And on the short term, we know that to incorporate 5%, 10% in the investment will be minor. But if we start talking about 2025, they will get bigger and bigger. And we will need storage, and we will need -- we need to make sure that we can do the transportation at the high-pressure hydrogen.

And one thing we know, our role will be the role that is designed in our concessions today. Our concessions will allow us to take a big part on the projects. The question is now to understand how big the project will be, and nobody has the answer yet. And I think this is something that, again, the government will have to play a major role and also the European Commission.

Sara Piccinini - Mediobanca - Research Analyst
Apologize if you have answered already to some because I had some connection problems, so sorry. So the question -- the first question is, I see in your presentation in Page 5, you are talking about a negotiation stage of bilateral agreement for grid connections with the PV producers. Can you provide -- explain what this is related to and if there is any eventual upside for REN coming from this negotiation?

The second question is on the level of OpEx that we have seen for this year. Obviously, some of them are related to CapEx. But are there also any underlying costs that are higher and that we should see also for the next years?

And finally, on 2021, if you can give you -- give us the expectation regarding the corporate tax rate and the financial costs that you see, even assuming that you will issue the new green bond and also a level of investments that you expect just for 2021. I know that you will provide more details at the business plan, but for 2021 would be helpful.

João Faria Conceição
Thanks, Sara, for your question. I will try to answer the first one, and I will pass to Gonçalo for the other two. These are a new thing, this bilateral agreements is a new thing that the government foreseen regarding the solar development. And basically, what it tries to cope is to put on the generators the responsibility of paying the development of the grid instead of making the consumers do that payment.

So when you -- when we are doing these connections, we have basically developed new elements on the grid. And the only difference is that instead of being paid by the consumer, so being transferred to RAB at the value of the investment, we will be paid directly by the generators, and we will replicate with the generators exactly the same conditions that we have on the regulatory framework. And in terms of regulatory treatment, this is considered to be an investment that is fully subsidized, so it will be transferred to our asset base at value 0.

Gonçalo Morais Soares
Okay. So on your -- the other 2 questions that you have. So on costs, although there is not a specific trend, you should not expect to see costs come down. You have, as I said, this year, a few costs that were abnormally high for forest cleaning. And there are other costs, for instance, relating to insurance, insurance structure are rising due to COVID. It's not only us but other companies. So that's going to compensate that. And there's a few other costs that may go up. But for instance, if you issue a bond, that's going to be a cost that you didn't have last year. You are doing a business planning exercise, that's going to be a cost that we didn't have last year. So you'll probably see costs go up a little bit.

Relative to other issues in 2021 that you wanted to talk about. So tax rate, I'd say, is the normal tax rate. We always have kind of a normal tax rate that we anticipate, okay, in terms of effective tax rate, and that should not change versus what is normalized but not anticipate if we have abnormal recuperations of some sort. Typically, that effective tax rate is around 28.5%, okay?

The financial costs, as I told you, do not expect any major impacts from the bond issue. As I said, the bond issue is going to be to refinance the bond. That actually will only pay out in a couple of years. So the immediate substitution of funding from that funding -- from that bond is not going to be much higher cost than it is now. So what I would say you can expect is the same slightly lower average cost of debt, but we do not anticipate such a decrease as we did last year because of this. I wouldn't anticipate any. It's very clear. You can go to our bonds and the schedule, some are in '23, '24, '25, and those are the years where exactly you will see the impact in terms of funding costs.

In terms of investment, so we are, as I said, recuperating things from the past. We are seeing that there is many projects in electricity are coming from the decarbonization push. So I would much anticipate that we'll have a little bit higher CapEx than we had this year. So I cannot give you a number, but -- and that's our anticipation, and we will have much higher transfers to RAB than we had this year. So we are going to recuperate not only the ones last year, but we are going to generate new transfers to RAB this year. So we will probably be CapEx level above what we had in '19, but not materially above that, okay, a little bit above, okay? Thank you.

Rodrigo Costa
Well, I think we reached the end of the presentation. As we explained, we are quite happy with the results, I think especially if we take in consideration all the challenges we have and how the world is moving. I think we deliver, and we look forward to keep contact with you.

I'm sure Ana will give you the final words, making herself available to help in any way we can. But on my side, João and Gonçalo, we look forward to see you even if it is virtually in our Capital Markets Day in a few weeks.

Ana Fernandes
Yes. Rodrigo, thank you for your words. That's right. I'm available. If you have any questions, let me know. Thank you.

Gonçalo Morais Soares
Thank you.

Ana Fernandes
And have a great Friday.