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Corporate participants

- **Rodrigo Costa** – Chairman and CEO
- **Gonçalo Morais Soares** – CFO & Executive Director
- **João Faria Conceição** – COO & Executive Director
- **Madalena Garrido –** Head of Investor Relations

Participants

- **Enrico Bartoli** – Analyst; MedioBanca
- **Ignacio Domenech** – Analyst; JB Capital Markets

Madalena Garrido
Thank you, and thank you all. We would like to thank you for making the time to join us today for our third quarter results conference call.
As usual, we have here our executive team, Rodrigo Costa, our CEO; Gonçalo João Soares, our CFO; and João Conceição, our COO.
Rodrigo will start with his opening remarks. And then João Conceição will guide you through the main operations and financial highlights. We will then move on to our Q&A session, on which we will be taking your questions.
I will now pass the word to Rodrigo.

Rodrigo Costa
Thank you, Madalena. Good afternoon, all. Being in mid-November, I feel like we are basically done with the year but the truth is we are not yet done. Even during these challenging times, we have always been able to maintain our operational focus and efficiency as well as our financial discipline. Not easy but that's our core focus.

COVID, the war, the coal generation ends, the drought, the energy transition projects, the rising inflation, the regulation transformation, industrial disruptions and the cyber concerns, I think we should be allowed to say that we have a great team in place and we are doing a great job.

The fact is if we look to the TSOs around the world, we must recognize that we are able to do our jobs even under very challenging conditions.

Back to REN, we reported good numbers across all our activities locally and internationally. We have a strong pipeline of projects. The country energy transition ambitions will keep us very busy in the coming years. Not sure if you remember the key highlights of our last call results. The projects we mentioned are all moving on.

On top of the already planned infrastructures for renewable generation, the government just announced they are requiring us to develop an extra underground storage, in fact, 2 new caverns, and we are already preparing the projects. Together with the government of France and Spain, the Portuguese government also introduced a new challenge, the development of a green gas pipe that guarantees the 3 countries' connection in support of the energy needs of Europe.

We are also improving our [Sines] terminal capacity for transshipment and ship-to-ship LNG operations in a way we can better support LNG transport in smaller tanks for the North Sea. We are supporting a series of studies that's related to green hydrogen production as well high-energy demand projects, in particular, in the Sines area. In the coming months, we should be able to share more information since we are still in the initial phase.

It has been a really busy period and the work pipeline for the coming years is very high, resulting in the need for engineering headcount growth. This is great news as we see a long-term increase of activity and the opportunity for our people development supporting the country energy transition.

On the finance front, we also have been busy. Other than control and planning, a key area is how we manage our debt. And Gonçalo will take us through the details. The stability of our business helps our banking relationships and you will be able to judge.

One key topic we will cover is how the tariffs adjustments will play next year and how that will impact the government decisions regarding sales tax. Today, and this is really fresh news, the Minister of Environment spoke about this issue, stating that the tax should probably be over as the tariff tax goes away. Of course, he said should probably be over. We don't know exactly what that means but we will find out soon.

And without further ado, we have Gonçalo will follow.

Gonçalo Morais Soares
Thank you, Rodrigo. Good afternoon to you all. So this has been, as Rodrigo said, a challenging year in several operational fronts, a very, very busy year. But financially, I think we are presenting a strong set of results and we are consolidating some growth quarter-on-quarter. And I think that both the domestic and the international businesses have been contributing to do so.

So you can see on Slide #4 that EBITDA has improved a little bit over 5% to EUR 360.9 million. This is mainly on the back of asset remuneration and RoRs impacts of new regulation despite the fact that costs have gone up, mainly electricity costs. International businesses have also contributed with around EUR 5 million of additional EBITDA.

Net profit is around EUR 81.4 million, which is a growth of 19% year-on-year. And that is on the back of not only the EBITDA but also lower financial costs during the year.

In terms of CapEx, although for the 9 months, you can see a small decline, the reality is that we know that we are going to have a strong year in terms of investment and that CapEx this year should be broadly in line with the CapEx that we have done in 2021.

Now looking a little bit at the operational side and passing on to João, we can go to Slide #5. João?

João Faria Conceição
Well, thanks, Gonçalo. Good afternoon to you all. Well, on Slide #5, you have the overall picture of what's going on in terms of the sector.
Many of these information, you might have it already. We are now analyzing the new directive that EU has been improving in order to cut the electricity demand and natural gas demand. You know that we have cuts on 50% on gas. Now we have to deal with this cut on 10% on gross electricity and 5% on peak hours. We are actually working on how this could be adjusted into our national system.

Internally, the Portuguese government has reinforced several measures in order to cope with the security of supply issues that we are facing. As you know, we are going through a very dry period, which is affecting the capacity on generating electricity from our hydro dams. And therefore, the government has set some ideas and measures to create a strategical reserve of water in our reservoirs in order to cope with the needs of the peak load during the winter time.

As Rodrigo has already mentioned, we will need to build 2 new cavities in our underground storage of Carriço. These will be used for storing what has been called the strategical reserve of natural gas for the country and an increase in terms of reserve as well as coping with other needs on the national natural gas systems.

The government has also released several decree laws in order to simplify the licensing processes for renewables. Although this is not directly linked to the grid infrastructure, this will additionally pose a challenge because these plants is renewable plants, namely solar, will require new connections to the grid and will require the grid developments as we are foreseeing.

And at the meantime, the regulator has published their recommendation on the distribution assets plan, which affecting is our distribution assets of Portgás. Overall, the regulator advises to some reduction on the CapEx that has been presented by the distribution by the DSOs. Still, we are assessing and analyzing these recommendations because what Portgás is concerned, those CapEx plans are linked to an increase on consumption. And therefore, they bring a positive contribution to the overall costs of the system. We are assessing the impacts on this recommendation to present the ultimate proposal to the government, which is the optimal entity to decide the approval of those plants.

On the hydrogen side, we will have -- we continue to work on this PRR program for our project in Sines, the H2 Green Valley in Sines, which we believe to close these public funds by -- until the end of the year. We are also developing our works in terms of adjusting the natural gas infrastructure to cope with the need of incorporating some blending of hydrogen and natural gas. And as we already mentioned, we are now working with our counterparts in Spain and France to build this green corridor from Portugal to France, which will be ultimately applied for the transmission of hydrogen from the south of Europe to the north of Europe.

Moving to Slide #7, you will have the overall picture on the operational highlights. Just a couple of information. In terms of electricity consumption, we still are having an increase in consumption, basically a little bit below 3% comparing to 2021. And adjusting this to the work days and the temperature, we should -- we have an increase in consumption of 2.7%.

In terms of renewable share, there is a significant decrease versus last year from 61% to 44%. This is mainly justified by the sharp decrease on the hydro generation, which dropped from 23% in 2021 to only 9% in 2022. The increase in solar was not enough to offset this decrease.

In terms of natural gas consumption, we also see a slight decrease. And this results from the combination of 2 factors: a significant increase on the consumption for electricity generator, which rose by 38% versus last year. But on the other hand, the [traffic] on the conventional consumption, which in our case is mainly industrial consumption, that one decreased by 21%. And these 2 -- the 2 figures combined, they give this overall decrease of 1.2%.

In terms of quality of service, everything is going relatively well. We are at the maximum levels on the gas transmission. We improved on gas distribution and we also improved on the electricity indicators, namely the ones that are used by the regulator for our regulatory incentives on quality of service.

And with that, Gonçalo, back to you.

Gonçalo Morais Soares
Thank you, João. So moving to Slide #8, just some financial highlights and comments. So EBITDA, you can see here, as I said, growing around 5%. we should expect EBITDA to grow in the full year but not as much as we are growing here in the first 9 months. I will say the same applies to net income. We see net income growing at 19%. We should see a solid growth of this number in the full year numbers but not as high as we have seen now in the first 9 months.

CapEx, as I said, which is now dropping a little bit above 10%, should be more or less in line, if not slightly above CapEx last year but with no major differences. You can see that average RAB has grown 2.4%. We have extremely high transfers to RAB during last year also, so that is a clear consequence of that.

In terms of net debt, the number that you see here is the one exclusive of tariff deviations because it's a number that with the tariff deviation, sometimes may reduce in some areas. This number you see that is broadly stable, decreasing a little bit over the first 9 months. And that's what we should expect also over the course of the full year.

Looking at Slide #9 and looking at the overall EBITDA evolution. We see assets and the remuneration going up. Again, namely, it's the new regulatory TOTEX model and the RoRs. OpEx is coming down and this is mainly driven by the electricity costs. And International segment is doing quite well. Both businesses are growing. And International, which was last year around 2.8% of EBITDA, is now 4%. Soit's still a small part but it is also contributing in a healthy way to the growth of the company.

On Slide #10, you can see the evolution of the rates. Although they corrected a little bit in midyear, they have again gone up. So the rates for this year, as you know, were set and they have been already defined for the year. But this is already contributing for the increase of the rates for next year. So as you know -- and they start to count on the 1st of October. So this is already contributing for an increase. So we are expecting an increase even if everything stays the same because as you see, the rate of this year was still impacted by the lower rates at the end of '21 and at the beginning of '22. And that kind of that phenomenon, you are not going to see from now on.

Looking at Slide #11, net CapEx. What we see is in terms of transfers to RAB is a certain stability. Of course, I'm stressing again versus last year and the last quarter, you're going to see a main difference because last year, we were recuperating a lot of things and there was still the pressure of having to have everything done by the year-end, which in electricity does not exist anymore. So you are going to see a big difference but it's mainly the carryover from 2020 to 2021.

In terms of CapEx, there is a decrease. But as I said before, we are going to have a strong year in terms of CapEx, still ahead of the guidance that we have put out in terms of the business plan and still driven mostly by decarbonization and by electricity. There is some upside that we should see materializing in the coming months, even years mainly in hydrogen, in transshipment, like Rodrigo mentioned,
and the new cavern that were authorized. And also in this new potential investment in the pipeline that was announced by the government in terms of gas and hydrogen, that, in our case, could translate eventually to the third interconnection with Spain.

Looking at how each business evolves in terms of remuneration, all of them are increasing. Some of them, the increase in terms of rate of return is higher versus the increase in terms of asset base. So you can see that the electricity asset base is evolving quite well also. The only one that is decreasing in terms of asset base is gas transmission, which is exactly the area where in the near future, we have some potential upside coming up.

Looking at OpEx, we still see this increase over the 9 months of around 5% also, clearly in line with the evolution of the EBITDA number.
Personnel costs are increasing much less than core external costs. Core external costs are increasing around 7%. This is mainly driven by the cost of electricity in the terminal. They have basically doubled. And so that is what is going on.

Let me also, nevertheless, tell you that there are also some additional revenues that you see -- that you don't see on the -- isolated but that are also linked to these additional costs that we have here. And so if we took those into account, the evolution of OpEx would not clearly be so high.

But that being said, we have been doing a lot of effort in terms of OpEx saving and cost saving. But the impact of the electricity cost in us as in everybody else has been felt. In terms of international business, we see that the contribution in terms of EBITDA increased 50%. So last year, it was around EUR 10 million, now it is EUR 15 million. And this is a trend that we are going to continue to see in the last quarter. So it's not that you can multiply -- divide by 3 and multiply by 4. But perhaps, it will probably not be very far from what the share
of the business will be at the end of the year in terms of EBITDA, so around EUR 20 million. We hope it's below or around that should be more or less what we should expect. So very healthy growth.

CapEx this year has still lagged a little bit because some of the construction that we have anticipated were still delayed. But we should see, I'd say, next year a stronger year in terms of CapEx for Chile, although as you realized, both in CapEx and EBITDA, this is still a small part of our overall business.

Looking below EBITDA and looking at depreciation, it is basically in line with the evolution of assets. In terms of financial results, there was an improvement and this is basically driven by the lower net debt that we have seen in -- during all of this year and also already last year, although we already start to see an increase in the cost of debt that went up from 1.6% to around 1.7%. It should continue to grow a little bit during the rest of the year. So full year, it should be slightly higher than this. What we anticipate is that the increase in cost of debt should be felt mainly next year, where there you will see, let's say, a higher-than-normal increase in the average cost of debt as a consequence of this massive increase that you have seen during 2022 of the EURIBOR rates.

In terms of taxes, nothing there to tell. Rate -- the effective tax rate is slightly below the marginal as we have recuperated some taxes, but it's still mainly impacted by the special levy. And as Rodrigo said, the government has again stated that this is linked to the tariff [deficit] so we will see how this in the future translates into this tax going away.

So in terms of consolidated results, this is the increase that we see. So EBITDA depreciation, as you know, are linked and so depreciation is also inside revenues and EBITDA. Financial results improving a little bit because of net debt. The sales increased a little bit and the income tax increases because we have more income than last year but a very, very healthy increase in terms of net income result

Looking at net debt and to make it a little bit more clear. You see that there is a decrease of EUR 400 million. But if you look at net debt without the tariff deviations, you see that we are more evolving from the EUR 2.6 billion number. That is, I would say, the more normal number in terms of net debt to around EUR 2.45 billion. So there is still a strong cash flow generation that is being achieved this year.

Of course, the numbers of net debt are higher. And I think it is important for you to know that this is a mechanical, almost bureaucratic mechanism that impacts our debt. It is really not something that we are very interested in existing but it is what it is. And in this case, it is, I'd say, artificially reducing the debt.

I think that you can also understand by the evolution of net debt, the cost of debt this year that we have been managing this in a very cautious and proactive way. We anticipated a renegotiation of almost 40% of our debt in the first months of this year on top of the fact that we have established a 70% fixed versus variable policy on top of the 2 years of liquidity that allow us to go to the market when we want and not when we need have been enabling us to manage this, I'd say, in a very optimal way.

To be clear, we are not anticipating any important issuance this year until the end of the year. We are now concluding some refinancing operations until the end of the year but not [conditions]. But we still -- we do believe that we can, through refinancing until the end of the year, still improve liquidity and increase a little bit our average maturity.

Okay. We have now around EUR 1.6 billion of liquidity. The normal liquidity excluding the tariff deviations is around EUR 1.1 billion. We hope it's EUR 1 billion to EUR 1.1 billion, so I would say that we have the normal level of liquidity that we actually have in the past.

Looking at how capital markets have evolved. We are broadly in line with markets. Markets in the recent months have been feeling a little bit of pain. And we are not immune to that and we are evolving with the market. That being said, we still have clearly a better TSR than the Euro Stock Index relating to utilities.

Moving on to Slide 20 to talk just a little bit about ESG. This continues to be a main focus in our strategy. We are now -- and to give you a little bit more granularity about some initiatives, starting to implement some projects relating to self-production in some of our facilities that we can do in order to reduce the footprint. We are advancing in terms of Scope 3 not only in terms of calculation that were concluded but also in terms of including this in new tenders.

We are expanding mobility in our fleet. And we are actually developing new solutions that we have to charge directly from high voltage. So we have many new initiatives.
And this, as you can see on Slide 21, has been translating into improvements in terms of rating. So this is a long-term process and a long-term improvement but it is important to note that there are improvements.

We do not live for the ratings, for the ESG ratings. We do believe that what we do is what we think is right. But it is good to see that what we are doing is being translated publicly into the ratings, which are also important for the investors.

So just in terms of closing remarks, I'd say that everything is broadly in line with what we expected. There is a little bit more growth than usual and this is also, let's say, what we expected throughout the year.

One last remark in anticipating the questions that also you may have before passing on to Q&A and this is relating to dividends. So as you know, in our publicly stated dividend policy, we are supposed to start with a biannual dividend policy this year, and this is what we are expecting to do. We have worked at that for the end of November, 30th of November exactly, to decide the precise terms of this. But as we have promised and stated in our policy, this is what we are going to do in the end of the year. And by that time, you will know the precise terms of the exact amount of that interim dividend that would be paid still this year.

Okay. Thank you. And with that, we will pass to Q&A. Thank you very much.

Q & A

Enrico Bartoli
First question is related to the potential additional investment that you could have in your businesses. You mentioned the agreement between the government of Portugal and Spain for building this hydrogen connection with France. If you can update on the discussion that you're having with the government and the visibility that you have on the actual implementation on additional investments on the gas provision business.

And the same -- if it's possible to have some flavor on the potential that you could have in the electricity submission, considering also some statements recently that the Portuguese system would need more investments in the electricity for the deployment on renewables.

Second question is related to your international companies. As you highlighted, the result was very strong from both companies in 9 months. If you can provide some details on the drivers of that growth and some more details on the evolution that you expect in fourth quarter in 2023.

And last on cost of debt. You mentioned that you expect an increase. If you can provide some indication of the average cost of debt you expect for the full year 2022. And at the current conditions in the interest rate markets, some flavor of what the cost of debt would be in '23.

Rodrigo Costa
I will take the first question; João, the second; and Gonçalo, the last 2. On these projects between France, Spain and Portugal, we are still in a development phase. I would say, in general terms, most of the investment will happen between France and Spain because we are talking about a much bigger project. I would say that at the moment, it's very hard really to give you a prediction because it's still in the beginning. We are in talks. We -- everybody heard what the governments said. And we, of course, the TSOs of the 3 countries, we are meeting and working but it's really in the very initial phase.

Just to clarify that our part of the project would be the one that is inside our borders. Then it's, I'd say, it's a smaller piece of the whole project. And -- but I would say it's better to work a little bit more on the numbers. And then I think by December, there is a summit that probably, governments will disclose a little bit more the timing and the scope and what they are really trying to get done and when.

And also, something we need to understand is these projects, they will only happen if there is European funding for the project, which should be. And that, that will have an impact in the way we talk about the numbers because if there is a 50% subsidy or a 70% subsidy or 100% subsidy, that will have impact in the way we invest and that it's just too early to talk about that.

João, do you want to talk on...

João Faria Conceição
Thanks, Rodrigo. On the electricity transmission and just perhaps before we are doing that, on gas, bear in mind that we still have to do the 2 cavities, which is a significant investment versus what we are having in the previous years. Our expectation is that for the construction, we should have roughly around EUR 40 million per cavity. And additional to that, we have the cash in gas, which if you do the calculation on the current prices, it's going to be much higher than our historical values.

On the electricity transmission, for you to have an idea, we have a strong push for the next few years. Basically, our forecast for the normal regulated assets plus the ones that we have to build due to these connections to solar projects, they will imply an increase of 1,500 kilometers in our grid. And this is a substantial investment that we have to do to create the necessary conditions to cope with the Portuguese energy policy.

Bear in mind that the government is pushing hard on simplifying the licensing process, which will push an additional stress on the need of grids for these all connections of these solar projects and other renewables projects. Lately, we are starting to assess this later announcement of the government that they want to increase also the wind offshore potential in Portugal. We are still at a very preliminary phase and -- but this will necessarily imply additional CapEx on the backbone.

Gonçalo Morais Soares
Thanks, João. So on the questions on the international, this year, net of [O&Ms] and separating both Electrogas, it's mainly driven by, first, higher tariffs because it's linked to inflation and to the evolution of exchange rates. But it's mainly inflation which impacts that. Volumes are up too. So that's what Electrogas are both up on the firm part of the business, the firm contract and on the interruptible, which is a variable contract.

They are both increasing. So that has led to this healthy increase in terms of the business part. I would say that growth next year in Electrogas is going to be slightly lower but still healthy growth.

In terms of Transemel, it's just new assets coming online. There's also a little bit of tariffs playing there, but it's mostly asset base growing and new investments coming online. So as I said, this year, we have 3 quarters, EUR 15 million, 4 quarters. I don't think that the rough math should be very far from where it would be. So in and around EUR 20 million would be a number that should not be very far from the truth at the end of the year.

And next year, you should still expect clearly a double-digit growth on that business in Chile but slightly lower or lower than you have this year. So this year, what I'd say, a especially high-growth moment for Chile.
That being said, we have 1, as you've seen -- 2 additional options there to grow organically. So those will, in the next 2 to 3 years, allow us to grow and continue to grow in Chile in an organic way, in a conservative way that continue to grow and to add a little bit more in Chile.

In terms of cost of debt. So as I said, we are now around 1.7%. So I think that in the end of the year, we should be slightly above. I don't know if it's 1.75%, 1.8%, 1.85%. So we should be a little bit above where we are.

Okay. Relating to the impact year-on-year, I think that if you see that we have 70% of fixed debt and we have 30% variable, and given the increases on average EURIBOR year-on-year, if you do that simple math, you can see that there is going to be, I'd say, a visible increase in the average cost of debt from this 1.5% to a little bit to the 2.5%, something like that. So it is the normal increase in terms of cost of debt that you are also seeing on the remuneration rates above in terms of the assets. So it's the normal logic and I would say that's what you are seeing now

Ignacio Domenech
The first one is on dividends. I assume we will have to wait until the end of the year to have some more color on the biannual dividend. But maybe if you could advance looking into 2023, what would be the time schedule of this biannual dividend?

And also thinking on the positive evolution of net income, if we could expect an increase in the dividend or if this is subject to a decrease in the special energy tax contribution

Then my second question is on the tariff deviation. It seems like the tariff deviation has increased now during the third quarter. So my question is basically, when should we expect this -- the deviation to revert? And this is tied to or if it will depend on the evolution of electricity prices?

Rodrigo Costa
So relative to your dividend question. So in terms of timing, to be as clear, that I don't want to anticipate particular decisions that the Board will take. But the Board is on the 30th of November, and it is being done on the 30th of November so that we can decide based on the October accounts. And we are expecting then following the Board

on the 30th of November to pay the special -- the interim dividend somewhere in December, okay? So that is kind of the logic in terms of dates.

So we are expecting to pay -- if you wanted clarity if it will be before the end of the year or in January, we are expecting to do it in December, as it is being decided at the end of November.

Relative to your question of net income growing and dividends, we have a set dividend policy. We are not, at this stage, making any or considering any changes to the dividend policy that we have decided last year.

Relating to your question in terms of tariff deviation. So yes, what we are expecting is that this year, it was defined based on the tariffs by the regulatory the same way. Like more now, as you see, the prices of electricity are a little bit different now in the last few months. So the pace at which this deviation has been increasing should slow down. It should still be a large amount relative for the full year. This is the amount of money that we are expecting to give back to the system next year. And then next year, it will depend on how prices evolve also, okay? So that's the normal we can expect.

As I said, as we have said, this is very, let's say, mechanic and almost bureaucratic. It does create this kind of movement up and down, but it's something that exists. And fortunately, as you know, this is relating to -- this was related to 2 PPA contracts. One of them has already ceased to exist, and the other one ends at the beginning of '24, if I'm not mistaken. So hopefully, this more, say, change movements that we see relating to [debts] at that time, okay? Thank you.

Operator
We have no further questions at this time. I hand back the conference to you for closing remarks.

Madalena Garrido
Thank you very much to you all. We remain available, of course, to answer any questions you may have by phone or email. Thank you for your time. We'll see you very soon. Thank you.

Rodrigo Costa, Gonçalo Morais Soares and João Faria Conceição
Thank you.