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Corporate participants

- **Rodrigo Costa** – Chief Executive Officer
- **Gonçalo Soares** – Chief Financial Officer
- **João Conceição** – Chief Operational Officer
- **Ana Fernandes –** Head of Investor Relations

Conference participants

- **Jorge Guimarães –** JB Capital Markets, Research Division - Analyst
- **Sara Piccinini –** Mediobanca, Research Division – Research Analyst

Presentation

Ana Fernandes

Hi, everybody. Welcome to our conference call here from [sunny] Lisbon. As usual, I'm joined by Rodrigo Costa, Gonçalo Soares and João Conceição, the usual suspects of this call. Rodrigo, I hand over to you please.

Rodrigo Costa

Thank you, Ana. Good afternoon. The Ana introduction today matched me. Good afternoon, all, and thank you for joining us for the first quarter results conference call. The quarter as usual was a regular one. No surprises. EBITDA was 2.4% lower than 2018, consequence of the amortization levels and investment return. We benefited from positive contributions from both Portgás and Electrogas as well as better financials and a low energy levy amount due to the slight reduction of the asset base value. We managed to keep net income flat versus last year, and on top of that, the company had a decrease in the level of tax, which is always positive.

I want to make a few remarks that I think are worth sharing. In February, Portugal produced 102.4 gigawatt hours of wind energy, which corresponded to 63% of the national consumption of electricity on that day. This was another national record for Portugal's wind generation production. For the first time, Natural gas was exported through Campo Maior interconnection to Spain. The amount 1 million cubic meters of natural gas, also our energy terminal was quite

busy this quarter with 16 tankers having their gas unloaded. One of the best quarters ever almost twice the regular average.

The energy agency and government approved our electricity and natural gas long-term investment plans and this is important because it's the first time that it happened, and it's a very positive development.
During this quarter, the government announced a 10-year plan for energy sector. The targets are ambitious showing a big commitment to renewables. João will be available during the call to provide with more detail if that comes to question.
And now I will hand over to Gonçalo, that he will go through the presentation and then we will be -- as Ana said, we'll be available for the Q&A.

Gonçalo Morais Soares
Hi, hello, good afternoon to you all. So as Rodrigo said, this is a no surprise first quarter as usual. And so EBITDA came down a little bit.
We reached EUR 125.3 million, so this is a drop of 2.4% mainly in the back of assets remuneration. And for the first time, it -- more than only the lower rate, it also because of slightly lower regulated asset base. In terms of financial costs, they were pretty stable and there was no major change, as was also expected as we've been reducing cost for a long time. But you can see that in terms of net profit, we're able to increase it slightly, so it is increasing around 1%. And it is the fact that yield as a result reduced a little bit and taxes are also a little bit lower, which have allowed for the slight increase.
Financial cost benefited not so much from lower rates, but namely also because the stock of debt has come down, we continue to delever at the cash flow pace. So we're able to also have positive impacts from that. And in terms of CapEx, although we certainly desist to make any conclusions, I think that already in the first quarter, we're already showing good signs that we should have a full year above last year, which was also our expectation.

So if we move and we pass the results at a glance, which is Slide #3 and we go straight to Slide #4, we can see that PGB has continued to perform quite well. So if you follow it today, they were already below 1%, the 10-year Portuguese fund, which is an amazing level. And that being said, base RoRs as you can see in the first quarter were more or less flat, they didn't change that much versus last year. So you can see that they are coming down, but the base rates, base rate RoRs did not come down as much, okay? So I think there was a lot of stability there.
There are no other public news on gas regulation other than the ones that we gave you a few weeks ago, saying that basically, the adjusted rates of return in the framework is more or less stable. But I will not go into a lot of detail and I'll leave this for the Q&A part, and João will give you a little bit more color and detail on what is published and when we can expect the final version coming out.

In terms of CapEx and moving to Slide #5, as you can see, CapEx is increasing a little bit, so -- but it's still very low value. And that's good sign. So we are expecting the CapEx growth versus -- in ['18] versus '18. We already had said that in terms of business plan, '18 would be the lower year and that it will recover. At the time, the range interval was around EUR 120 million to EUR 145 million, so it's much more likely that as we said at the time, we'll be above this range this year and compensating a bit for the fact that 2019 was lower, but still within the range that we have said at

that time. So it's fairly, but I think the signs are good and the operational teams are executing within budget and within our expectations.

In terms of Slide #6, what you can see is a normal trend of regulated asset base. We knew. Again, we don't -- we don't tire of saying that we already knew that this was the trend that we have, that we knew that normal domestic RAB would decline and that's why we did the investments that we did before. And I think that as time goes by, CapEx will also go a little bit up and you'll see that the decreasing RAB will be lower. But in this quarter, it's still negative in almost everything, except for Portgás that is as expected also growing. And that's exactly the place that we have idea that there would be growth. So I'd say no surprises anymore. On the investment process, we're more on the positive versus last year.

Slide #7, when we start to look to RAB Remuneration, what you can see is that normally in the last few years, rates and the evolution of rates have a stronger impact in remuneration. Actually that is not so much the fact now, you see that they are also because they are getting to low level, stabilizing a little bit more. And what you see is the impact of the regulated asset base, as I said, previously coming down. So I think there is no -- nothing very much, so that is also having a little bit on revenues, you don't see it in this slide. But in other revenues, which is something that you can see in the other file that Ana published -- that we published on the site and that has more details. You will see that other revenues also go a little bit down, and this is actually more of a timing issue in a way that we recognize certain expenses that we have expensed already, which is actually having in this quarter a negative impact, which should be dilutive along the way and along the year. It's not huge, but it has some impact in terms of year-on-year variation.

So looking at OpEx in Slide #8, what you can see here is a small decrease of overall OpEx. We can start to focus if you want, but we can then go into a little bit more because it's more telling on next slide which is Slide #9, where you see that core OpEx goes down by around EUR 600,000, but this is divided in several parts. So -- and in Slide 8, what you can see is that personnel costs are here increasing 0.4%.
This is partially benefited and Portgás has a partial benefit because this was a year where we are concentrating and we tried to isolate completely Portgás here, but we made a lot of changes in terms of personnel, namely in terms of shared services. So there is a couple hundred thousand euros that you would see not increasing in personnel costs because they are improving on Portgás.
So actually, the increase in personnel costs is a little bit less and the decrease in Portgás is also a little bit less, but they are, I'd say, in line with what we expect.

In terms of overall figures, what you can see is that in terms of -- and you can see that in Slide #9, you see that core OpEx goes down by around EUR 600,000. And this is impacted by several things. And the fact that we don't have the LPG costs impact Portgás. And so positively in this year, we also didn't do the business plan, so we have less consulting. So there we didn't do this year also any bond issuance, which we had last year. So there's a couple of specific costs that make costs improve.
Actually they don't seem to improve so much because there are some increase in costs that have corresponding increases in revenue and transmission business, namely, has the terminal electricity costs and you would see these increase in certain items of costs, but you would not see directly here the impact in terms of revenue.

That being said, what we still expect is that costs should be, I'd say, flat to slightly declining along these. So I think that in this quarter, they're declining at least a bit more than you should see in full year [numbers].

So in terms of -- and going to Slide #10 in terms of EBITDA, what you can see here is all of the comments that I said. So Portgás is improving a little bit. Electrogas also in this quarter has improved a little bit because of internal global contract, they are a little bit better so they also improved a little bit. The OpEx contribution is what I told you about before. There are certain variable costs at sales revenue that are not here. If we did adjust these there, it would actually be better, the OpEx contribution and it's basically the impact of excess remuneration and other smaller items. Okay?
So I'd say that overall that is the main component of what we see in terms of EBITDA.

So moving to Slide #11 and to below EBITDA. Depreciation is most probably there and there are more or less stable financial results. As I said, there is a small improvement around EUR 1 million. Most of this had to do with volumes. So if you wanted a split, I'd say 80% of this is volume related and 20% of this is more interest rates related, which was almost the same and I had to go to the second decimal point so that we could see that it's still improved a little bit. So we can expect that it should stay, I'd say, more or less stable, okay? Within the year, it can improve a little bit, it can worsen a little bit, but it should stay more or less stable. Unfortunately, it is not linked to the Portuguese PGBs.
And in terms of taxes, what you can see is the impact, one is effective tax rate a little bit better, it's around 27%, these fluctuate a little bit. Normally, we see this rate around 28%, so this is still our expectation. Last year, it was a little bit worse because of what we explained to you at year-end, closer to 29%, but I would say that it should still -- our value of 28% should still be the central value. In this quarter, it's a little bit better.
The only good thing that comes out of the fact that we have the regulated asset base coming down is that the special levy, which still here also comes down around almost EUR 1 million, but it's what it is. So we still are paying a very high effective tax rate, close to 38% if we add everything else.

So in terms of -- and looking at Slide #12, in terms of net debt, it is decreasing. This is, I'd say, in line with what we expected. Last year was the year that it decreased more, I'd say, than usual. We are expecting it to decrease this year. It decreased 40. Bear in mind that you should not multiply this really by 4, and we have dividends to be paid. So I'd say we still expect overall net debt to decrease several tens of millions of euros. But in this quarter, in particular, it's been basically driven by the evolution of free cash flow in small variations in working capital, but nothing very significant or material for you to worry about. Okay? I'd say that this is still going in the direction that we felt it would go unless we did other investments, okay?

So in Slide #13, adding all up, we are still able to improve a little bit net profit. But I'd say that it's more or less stable, so this is what we can see between a negative impact in EBITDA and some improvement below EBITDA, but I'd say that it's the main story.

So as final remarks, basically, a first quarter uneventful with no major surprises. EBITDA coming down a little bit, which is also what we expect for the full year. Financial results coming down a little bit, which is also what we have expected. Portgás and Electrogas both adding positively to the company. And so I'd say that overall everything was as

expected. I will not go into regulations, João will explain that. Just to say that we already approved last Friday in our AGM our dividend of EUR 0.171 per share. So this is what we have promised you that we will be paying. So this is, again, another objective that we had in the business plan and that we are complying with.
So thank you very much. And we are now going to open for any questions that you may have.

Q&A

Sara Piccinini

Maybe some of them we have already discussed in the past and maybe you gave explanation during the call. So starting from the first one, on the CapEx, do you see any CapEx opportunity in Portugal related to renewables or international interconnections that could underpin your CapEx plan? And if yes, regarding your EUR 400 million related to external opportunities, would you give more priority to Portugal whether to countries in Latam? Then the second question is related to the gas review. I see there is -- the issue had some more comments more than your press release. And also in the press release, you mentioned an incentive for the efficiency factor of Portgás at 2.5%, how this compare with previous regulation and could you quantify the impact on a full year basis? And last question. If you can please explain, again, the dynamic behind the cost? So is it fair to say that this quarter they are a bit lower and this should normalize through the year? And then if you can comment on consensus EBITDA that is now at EUR 481 million if you feel comfortable with that?

Gonçalo Morais Soares

Sara, regarding the first question, we -- there's not much we can say at this point. We are working, we are studying alternatives for investments, but we do not have at the moment anything we can report. This is like it was in the past periods. This is a work that we do. We keep doing our research. Sometimes we take a step further trying to understand if we have the right opportunity or not. The key thing is it's -- the most important thing is not to know on our side if it's going to be Portugal, if it's going to be outside. It's about our basic rules. We do not want to take on risks. We do not want to do anything that is out of the reach for our accounts. And as soon as something comes up, we will disclose it as we should. But for the moment, there is nothing really we can anticipate. Other than saying that we keep doing our work and we're not going to do any investment because we are late or not in the program that we have.

João Faria Conceição

For the regulation part, let's start by the end with your question regarding Portgás efficiency factor, tax efficiency factor. There was a slight increase, now it's 2.5% a year. Previously the variable was around 2% a year. So there's not a big change in this efficiency factor, which is not really material in terms of impacts on the accounts of Portgás and accounts of RENE. Regarding the overall view on the regulation, it came basically much in line with what we were expecting. I would say that the major change were more at the level of the regulatory period, which has changed from 3 to 4 years, starting in January and no longer in the middle of the year. So this current regulatory period will last until

the end of this year. The rate of return, it basically -- what they did is they used the typical CAPM approach and they used the same methodology and they came out more or less by doing and upgrading the current variables on this CAPM approach. And the indexation mechanism was adjusted to reflect the new rate of return, so no big change versus what we were expecting. I would stress, again, that this rate of return is basically in line with the base rate of return for electricity.

Rodrigo Costa

So relative to your question of growth dynamic, as I told you, the decrease in cost that we're having this quarter should not be view that's what we would expect in terms of variation to the full year. So they are decreasing close to 3% and you should expect a decrease much lower than that, why? Because you have the impact of having costs of bond issuance last year that you don't have this year. You have business plan costs last year that you don't have this year. Then specifically looking inside Portgás, you have LPG costs that you had last year that you don't have this year, then you have some delays which is more of detail in terms of some IT costs. So all of these put together makes us see that, yes, overall in the year, this should decrease, but they should decrease more into the 0% to minus 1% than into the minus 3%. Okay? Relative to the consensus that you have in the market, we are comfortable with it, okay? Thank you.

Jorge Guimarães

I have three. First, regarding the solar options in Portugal, can you elaborate a bit on what is -- what run rate of installations is embedded in your current CapEx objective? I mean, the domestic organic CapEx you forecasted between the EUR 120 million to EUR 145 million per year, how much -- if possible, how much -- how many megawatts does this correspond to? And in such sense, if the installations are higher, then what was originally anticipated if you could revise up your CapEx expectations? Then what is your view about the possible investments outside Portugal? And third, do you see with the end of the offer for EDP, any change in the relation with your main shareholder, State Grid, namely, any possibility of selling them some assets outside Portugal like the some financial stakes you have? Many things.

Rodrigo Costa

Now let me start by your first question. If I well understood, you're basically referring to the impacts on the solar options. (inaudible) basically the amount that the government has already done in terms of solar new power. This basically corresponds to the confirmation of CapEx that we have foreseen in our business plan for the first quarter of the next decade. So there is a slight upside in terms of our internal CapEx. The difference will come afterwards depending on if this objective is increased or not. But this is something that we have to see depending on the development of solar. There is basically -- in a nut shell, there is upside versus what we have foreseen so far.

João Faria Conceição

Regarding the -- our investments, let's say, problem or business development, as I said in my answer to Sara, we don't have any change or anything that we can anticipate at the moment. It's always important to remind that we have a very, very big commitment to Portugal.

We -- in our strategic plan, we always made it very carefully, 4 years ago last year and that's not changing at all. With that said, of course, we are looking -- we don't have projects coming to the market or opportunities coming to the market every day. In Portugal, for sure, the investment opportunities are very scarce and -- but we're not going to make any

speculation at the moment. Regarding the – what happened with the process of EDP, it's not -- it never affected us before and it's not going to affect us in the future. We have a very strong relationship with our shareholder from State Grid and that's not going to change and there is no connection between the options that they follow at EDP and the other companies and our investors.

Ana Fernandes

Thank you. Have a good afternoon.