REN – Redes Energéticas Nacionais
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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 people. Welcome to our conference call. As usual, we are here with Rodrigo Costa, our CEO, and he is joined by Gonçalo Soares, our CFO, and Joao Conceicao, the COO. They'll all be very willing to answer your questions later on. But Rodrigo will open the floor. Rodrigo?

Rodrigo Costa

Thank you, Ana. Hello and good afternoon for all. On Friday, after the closing of the market we released our financial results for the first nine months of the year. The quarter numbers are aligned with the analyst projections and our operational performance was maintained. Nevertheless, it's worth mentioning that we had a very warm summer with a lot of forest fires well above the last few years' average. But we were able to guarantee a good level of response.

On the financial front, EBITDA was slightly lower than in the same period of 2015. But that was mainly due to the absence of any extraordinary event namely the sale of our Enagas shares that took place last year. In the past nine months we kept our focus on delivering our overall efficiency priorities with our OpEx in line with the budget and finance costs better than expected helped by cost of that is lower than ever.

Those costs were at 4.1% by the end of last year and it's now at 3.4%. We continue to improve as we expected. Net income naturally benefited from better financial results. And on the negative side we have the impact of the maintenance of the energy levy. It is important also to remember that last year the Company enjoyed a lower effective tax rate due to a one-off fiscal credit.

CapEx was lower than in 2015 but within our expectations. CapEx is quite seasonal and the last quarter of the year is always the strongest. This year it won't be different even though REN will probably finish the year slightly lower than the forecast provided at last year's Investor Day.

I now turn to Gonçalo who as usual will go through the results presentation. And after that, as Ana said, Gonçalo, Joao and myself will be here to answer any questions you may have. Gonçalo?

Gonçalo Morais Soares

Hello, good afternoon. So just going to slide number 1 and recapping little bit some of these numbers that Rodrigo guided you through. So EBITDA is coming down around 4% to EUR357 million. The evolution is basically due to that one-off last year in the sale of Enagas. That also impacts the net profit which is coming down 23% to around EUR70.5 million.

But if you take out those non-recurrent and you look at the recurrent net income, what you see is a 3.3% healthy growth. Not very high but nice growth which shows that we have been able to manage well the regulation and the financial cost and maintain the Company very stable.

CapEx is pretty much in line with our expectations as our transfers to RAB, and I'll come to this in a minute or so with more detail. So if you want we can go straight to slide number 3 just to look at. Since the beginning of the year there has been, I'd say, a big stabilization more or less of the main cost of the sovereigns here in Portugal. They dipped in the beginning of the year but then they rose a little bit and they've been more or less at the same level, which has implied a slightly higher remuneration rate for the first months of the year versus last year but it's very very stable.

So last year you can see that it was around 6% and now it's around 6.1% for electricity, very similar in the gas in the second half. So you can see that there is a, I'd say, mostly stable rates of returns on the asset side.

If you go to slide number 4, what you can see also is a drop in CapEx and transfers to RAB. But this is pretty normal given that last year we acquired some assets from Galp, the caverns that were acquired little bit before and the half of last year. And that explains mostly this evolution. If you take that out you see that CapEx is actually growing a little bit or in line and transfers to RAB are also growing a little bit. So I'd say that we are in line to that more normalized CapEx that we've been referring to. There should be no surprises, not that it is easy.

The operating teams are working hard as they always do because a lot of these construction is concentrated at the end of the year but we are, I'd say, used to rise to the challenge and everybody is doing a good work. So I'd say that there is no, I'd say, unforeseen or unexpected events that we can see here. Let's wait and see if the weather helps, and so if that is in line I'd say that all the numbers here in CapEx and transfers to RAB should be also in line with our expectation.

So slide number 5 is just evolution of the average RAB. No surprises there. What you see is the normal kind of rebelling thing within electricity. The other thing is that, as you know, apart from the increase last year in gas, this year we haven't had many investments. Some of them are more in the end of the year but it is normal that the average asset base for gas this year will reduce a little bit in line with what we have expected in our business plan.

Moving to slide number 6, remuneration of electricity and gas, as I said, pretty stable. In terms of electricity what you see is that small increase in assets and that small increase on the rate of return, that explains this positive evolution here on this revenue side. On the gas side, completely in line with expectations of the new regulation, so it's basically the impact of the new regulation this year, that is basically the impact as well as the evolution of the asset base. That's why I'd say, completely in line with no surprise. Okay?

Looking at slide number 7, in terms of OpEx, you see now OpEx going a little bit higher but this is in line again with what we expected. Personnel costs are coming down a little bit. We have some external supplies given some extra costs for bond issuances that we also have. I'd say that there isn't anything which is out of consensus here. We've continued to push on the OpEx side. As you know we are already pretty efficient Company.

And so there is less ability to reduce cost now. But we are determined to meet regulatory objectives which we will by the end of the year. And so that's our main focus here. I'd say that costs are pretty much in line with our expectations.

And you can see, if you go to slide number 8, that core OpEx is actually decreasing EUR2.2 million, if you exclude those other costs that are basically a pass through in our account. Okay?

So if you go to slide number 9, and you put all of this into one slide, you see that basically CapEx would be going up, if not for the sale of Enagas, and that most of that growth could be basically the increase on the depreciation recovery size which as is also in the minus in terms of the cost line. So it would be pretty stable overall. Okay?

Looking at below EBITDA, you have here depreciation going up as I would say. In terms of financial results, I'll cover this also a little bit more in detail in the following slide but we are, I'd say, ahead of schedule and ahead of expectations. I think we've been doing a good job here. And so, financial cost in line with what happened on the rates of return on the asset side. In the previous year they have been coming down. And so we were catching up with the rates of return. And I think we are now slightly ahead of them in terms of trend. They are now normalizing and we are still decreasing which is the normal kind of dynamic of our business.
In terms of taxes, everything the same, no surprises. The effective tax rate excluding the special levy is flat at close to the 28% that we normally have. And the levy is at the same level. There are no news as of now in terms of any proceedings or anything relating to the levy. If we know anything new about that we will tell you. The only thing that we know is that it's still in the budget for 2017. As you know, we have this in court and there are no news as of now relating to that.

In slide number 11 you have the evolution of net debt. So you can see that net debt has normalized more versus what you had in the second quarter in the first half, which is normal after the payment of the dividend, and so we are almost flat versus what we had at the end of the year. I think this is what you should expect to see, some kind of flat or slight decrease in terms of overall net debt until the end of the year. We have no major surprises here.
What I can also tell is that the nice evolution of the average cost of debt, as Rodrigo mentioned, we are now at 3.4%. We were able to take advantage of the good timing of the good conditions in the market. We refinanced almost one-third of the debt of the Company. We expanded maturity. You don't see that in the third quarter accounts because we issued in October as you know, but if you would see that -- in October you would see that now we are refinanced more than three years in advance. The average maturity is above five years, and so I think that we have done a good round of refinancing in this year taking advantage of the market condition.
In terms of ratings, also to point out that the less rating that came out was S&P, complete stability maintained at investment grade with a positive outlook, so I'd say that in terms of credit metrics in the ratings things are looking pretty stable.

So going to slide number 12, just putting everything together. You have this decrease in net income, which is the result mainly of the decrease on the EBITDA side. But on the recurrent end of level we see more of a slight growth normalization of net income which is, I'd say, positive and shows that we are able to manage well the Company. So I'd say that we have pretty stable operating performance.
And moving to the final slide, as I mentioned, we issued some notes in October, I already spoke about that. So I think that overall these are results that come as they should and as I think all investors like pretty much within expectation, very stable with no surprises whatsoever in any line. So given this I would conclude the presentation and open the floor to any questions that you may have. Thank you very much.

Q&A

Jutta Unmuessig - Barclays Capital - Analyst
I have two questions, if I may. First is you elaborated already that you issued another EUR200 million of notes last month, could you specify how much of this was taken up by the ECB if any of it, please? And then secondly, what's your view in general on cost of debt going forward by the end of the year? I would assume that even if ECB doesn't directly invest in your debt, you would still benefit simply because the market knows there is this extra player being the ECB, so if you have any view on that, please.

Rodrigo Costa

Okay, thanks for the questions. I mean we don't comment exactly on how much the ECB or if they participate. I think the ECB makes public announcements of that information that they wishes. What I can tell is that the ECB has been participating in these kinds of issuances. I can tell you that they've already made public that they bought some of our shares on the secondary market. So it would be normal that they would have participated in this also. But they will, I think that they disclosed the information that they want in the way that they want by themselves and I cannot give you much more information than what I am giving you.

In terms of the cost of debt, what you say is true. So, we have refinanced some costlier debts in September. So it's normal that debt refinancing has some kind of impact on the average cost of debt until the end of the year. So it's now at 3.4%. I would say that it could be slightly lower than that, not a lot, because it was only refinanced very recently. So you will see a little bit of an impact but most of the impact will be felt in 2017. I would say that cost of debt without giving any specific guidance should be slightly below the numbers that you have now on the third quarter. Okay.

Sara Piccinini - Mediobanca - Analyst

Just to come back on the cost of debt, so you say the biggest effect should be in 2017. But where do you see the cost of debt to stabilize through the end of the business plan, so it should be around 3% by 2018 for example?

The second question is on the CapEx. So you said that it's difficult to achieve the EUR117 million on average per year. Where do you see therefore the CapEx by yearend for this year?

And the third one is on international investment, if you can provide an update on international investments, what kind of assets are you looking at the moment and in which geographies? And if you can provide also an indication on the cost of capital that you use as a reference for these investments?

Gonçalo Morais Soares

This is Gonçalo, just to answer your first question about the cost of debt. I'm not going to give you a specific number or guidance. I already kind of pointed you in the right direction. So it is expecting and it's easy for you guys to make those calculation that each part of the impact is only next year, you continue to see to go down. So, if it's slightly below where we are now at the end of this year and it will continue to go down, I think you can kind of calculate by yourself that it should be closer to the 3% range, but we are not giving out any specific numbers. And I think that it's more or less easy for you guys to be able to calculate.

But Ana is also here, if then you want to go over a little bit more your model in detail with her and see the numbers, she is here to help you and guide you through in a little bit more detail than what I will hear in this conference call.

Rodrigo Costa

On the second question about international expansion plans, we don't have much to say. We keep working in the direction we shared last year on our strategy announcement when we explained our strategy. And if there is some doubts, we keep the same strategy. We will only invest in markets that are stable. And we will be -- we are not looking for, to take any risk basically. And because of our requirements, it's finding targets are really hard. There is a lot of competition for the type of assets we are looking and we only want to do something on the areas where we are experts, we don't want to go outside our field of expertise. And this is it.

We keep working, we are patient. What we don't want is to make mistakes or to introduce any destabilization in our outlook, and that's where we are. And that answers basically what type of asset, what type of returns we are looking for, what type of risks we are willing to accept.

Nelson Rei Bernardino - Haitong - Analyst
Good afternoon everyone. Just a quick question from my side and still on the debt. You don't have a lot of debt maturing in the next couple of years at least. Do you see any more scope for keeping on managing debt or you think that the profile as it is is automatized and you should be quieter going forward?

Gonçalo Morais Soares
I mean I think that what you say is correct in the sense that we have a lot of refinancing to do in the last few years and we have more moving forward. That being said, I think next year you still have the major impact of the refinancing we did later on in this year that will provide, I'd say, some impact on the cost of debt. And secondly, we have still some other financings that we have to refinance and those will continue to impact.
So, although I believe or I agree with you that perhaps the level of decrease of the cost of debt cannot be maintained, we have been decreasing the cost of debt, I would say, at a pretty accelerated rate.
I think nevertheless that will be continue to decrease the cost of debt this year, next year and perhaps even in the following if conditions in the market stay stable where they are. And then I would say that it becomes a little bit more challenging to reduce the cost of debt. Okay. But I think there is still scope to continue to reduce this in the next few years. Okay.

Gonzalo Sanchez-Bordona - BPI - Analyst
I have just one on the OpEx side. I have noticed that in the third quarter, even though you have a reduction in core OpEx for the overall nine months OpEx went up a little bit on the third quarter on a turnaround basis, I just wanted to understand if there was some sort of one-off or this is due to seasonality or you expect this trend of OpEx reductions to reverse and start growing a little bit in the next few quarters?

Gonçalo Morais Soares
(inaudible) surprising as we see in the graph, if the core OpEx goes down, it's some of the costs that are not core that actually increases on a year-on-year basis. If I look at core external cost, they are coming down in this quarter around 1.4%, so the two that you see there. So I'd say that there isn't anything very unexpected, I think it's more the impact of this pass-through cost that impact a little bit overall cost, but nothing really that should impact your models in the coming or until the end of the year. Okay.

Sara Piccinini - Mediobanca - Analyst
I just have two quick follow-ups. The first one is I mean on the constitutional court that will provide its opinion on the special energy levy, so I know that you don't know the perfect timing but just to have a sense, within one year, within six months? That would be very helpful.
And the second question is on the stake in Red Electrica, if you are still considering possible sale of the stake and if you have an indication on the timing, for example, through the business plan? Thank you.

Rodrigo Costa
I will take the two questions. Well, on the first one, I couldn't give a better answer than you just gave. We are not going to make any provision on that front. The legal system in Portugal works as it works, things can take a little bit more time than usual. We need to be patient. We decided to have strategy here that we are following. We believe we had a good legal team working on the process, but we are not going to make any forecast in terms of timings.
This can take, as said, six months, a year more. And again we need to be patient. We believe we have a good case, but a court is a court and a judge is a judge and we will need to understand what will be their final decisions.

And on the second question about our stake in Red Electrica, we have absolutely no comment to make. This is something we have in our balance sheet and there is no reasons to take any action there. We feel comfortable with that investment, it's no news on that front.

Catarina Afonso - Intermoney - Analyst
Just a quick question regarding CapEx. You said that this year CapEx might stay below the guidance. Can you give a little bit more color about this?
And the next one is for the next two years, 2017 and 2018. If we should consider CapEx amount near the lowest value of the range you gave us in the guidance, so near EUR117 million or below this level? Thank you.

Gonzalo Sanchez-Bordona - BPI - Analyst
Just to clarify, it's not below the guidance because as you know what we give is an average of CapEx and we were above that interval. But I understand what you are saying, it was above the interval in 2015 at EUR240 million. And we have been giving you kind of a guidance for this year that it should be below the lower part of that interval which was I think EUR175 million and it should be below that. And it will be because we are normalizing it to resell. So I would say that it will be somewhere between EUR160 million to EUR170 million, something like that.
I would say that the number that you see this year should be around that and the number that you will see next year should not be materially different from this. I think that they should be pretty much in line. It could be one a little bit above the other, but they should be pretty much in line with this interval that I am telling you. Of course, this is not an exact science because sometimes there is a small delay in one project in one year versus the other, but I would say that on average, and we cannot make any promises exactly, but on average it should be more or less within this range. Okay.
So what we are very much focused is to be able that at the end of the business plan of the four years the average CapEx of the period will be within the interval that we gave you and we are confident with that. And that being said, the impact versus whatever you have also in the regulated asset base should be almost non-increasing versus what we have given you in the business plan also. So, I would say that we are pretty much well on route to be able to fulfill what we said in terms of investment on the business plan. Okay. I hope that answers your question.

Rodrigo Costa
Well, thank you all to be with us for the call. I hope we were able to answer all the questions, and as usual we are always ready to answer any other question that you may have and you want to ask us directly. Thank you.

Ana Fernandes - REN Redes Energeticas Nacionais, SGPS, SA - Head of IR
Thank you. Have a nice day. Bye.