REN – Redes Energéticas Nacionais
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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

- **Carolina Dores -** Morgan Stanley, Research Division - Equity Analyst
- **Nelson Rei Bernardino -** Haitong Bank S.A., Research Division - Equity Research Analyst
- **Sara Piccinini –** Mediobanca, Analyst

Presentation

Ana Fernandes

Hello, everyone. Thank you for joining in today. As usual, we have Rodrigo, Gonçalo and João with us. Rodrigo will make a short comment and then we'll pass on to Gonçalo. Rodrigo?

Rodrigo Costa

Okay. Thank you Ana.

Hello, good afternoon all. Thank you for being with us on our results call. The numbers we released last Friday were again positive and slightly above the expectations. The past 9 months have been quite busy for us as you all know. On top of the regular activities we closed the Electrogas project in Chile, we decided to invest in the gas distribution in the north of Portugal. A capital raise is coming soon and also the electricity regulation for the next 3 years is about to be published.

As you probably understand, we are quite happy with results. While we have several major projects going on, we have been able to maintain our operational and financial focus, delivering a good set of results, we left no room for mistakes. As expected, we are starting seeing the contribution of our Chilean investment. Electrogas is also delivering according to our best expectations, no surprise there.

EBITDA reached EUR 364.4 million, a 2% increase when compared to the same period in 2016. Electrogas contributed with EUR 5.8 million. On the financial side and as we have observed in the past 2 quarters, the average cost of debt stayed stable at 2.6%, which led to an improvement in net financials. Net income benefited from the improvement in financials, but was again negatively impacted by the energy levy fully accounted for in the first quarter. On (inaudible) front we are doing well as you are aware too.

From an operations perspective, it's worth mentioning a couple of situations, the summer was a tough period for infrastructure service providers in Portugal overall. We had several very large and dramatic forest fires, over 500,000 acres were burned, and worst is that we had over 100 liveslost. At (inaudible) we ended up the fire season with very limited damages, and in fact, we were a key contributor to the firemen come back. Since we kept our forest admission towers corridors very clean. There were an important access road for the firefighters. While at the times, we were very worried with some of the ongoing fires, we are proud to say that REN's people did an outstanding job. Thanks to the technical training, people were very well prepared. Thanks to the people courage, and the infrastructure, we were able to maintain the supply with almost no interruptions and zero accidents.
Although, we closed the acquisition of EDP Gás out of the quarter, we are covering today. We must say that the process is moving along very well without surprises. We have a good plan in place. The new team is great and we are aligned to make the transition very successful.

These are the main topics, I wanted to introduce to you. And now I pass the floor to Gonçalo. He as he usually does, he's going to go through the results and presentation in more detail. And in the end, myself, Gonçalo and João will be available to answer any questions you may have. Gonçalo?

Gonçalo Morais Soares
Hello. Good afternoon to you all.

So on Slide #1 the highlights, I think Rodrigo covered almost all of them, so just to say that (inaudible) set of financial results in our opinion. EBITDA being pushed ahead by the consolidation of Electrogas and net profits they were improving also because of the performance of the financial cost.
CapEx in line with our expectations, as you know, we were aiming and we're aiming for a slightly lower CapEx than last year given the fine investments they had -- that we've been made both in Electrogas and now recently in EDP Gás. But S&P sees that I would say completely within our expectations.
Just to again point out a final note on the fact that S&P reaffirmed our rating very recently, which is, I think, very positive given the EDP Gás transaction.

Basically on Slide 2, it's just the main topics, I'll go and move from that one directed to Slide #3.

In Slide #3, you can see that although rates went up a little bit at the beginning of the year, they have been fairly coming down since around April. And so on the full year this year and these are the numbers basically that we are going to have as a (inaudible) for 2017. We have around 6.1% in gas and - 6.3% electricity is the final number and 6.1% in gas.

In electricity, this is a slight increase versus last year. Given that on average rates went up slightly. In electricity, it's a decrease but because of the fact that it's in the middle of a regulation period versus what happened last year. So how does that translate in final number for us into CapEx. So CapEx, we can see that it is actually growing versus last year at this stage of the year. I'd say that this is -- we now again, I think, as the most of the years, a challenging year for our operating teams, they not only have to deal with, as Rodrigo said, some unforeseen fires across the country but also with some difficulties in terms of lighting and implementations. But the fact is that we are here delivering on the CapEx front. And it should be lower than last year. But as you know it by design since we also intended to do that even the 2 transactions that we did. In terms of transfer throughout they are actually increasing, and we think that, again, they should be a little bit lower than last year, but they are completely inline with what we expect in our budget, actually a little bit above our expectations in the end of the year.

In Slide #5, you can see how that translates into the evolution of the RAB, so the RAB declined a little bit. This doesn't have the transaction of EDP G or as we now call it [REN Portgás]. So what you can see basically is the positive impact on the electricity side, mainly we've been increasing electricity with premium. And on the other side, you see decrease in natural gas because natural gas this year has basically has no material investment and so we just see the depreciation of that. In the full year, you'll see already the impact of the acquisition that was done in the distribution assets.

If you move to Slide #6. Then you can see all of these impacts from that in terms of RAB remuneration. So what you can see on the electricity side is an increase. You basically see that the remuneration is going up and this is basically the impact of the rate of return. So on the fact that rates went up a little bit on average as given, explains more than 3 quarters of what is impacted. On the natural gas side, it's the reverse up on you have a slight decrease on the asset base but you also have a decrease on the average rate. So yes, it actually have a larger decrease on one than the other. And this decrease is negative, which then compensates the positive impact that we have from Electrogas at (inaudible). Let's move now to the cost part. In terms of cost.

You can see on Slide #7, that we're posting an increasing cost around EUR 6 million. But you have to be in mindful of several things because these are mainly either nonrecurring, noncore or costs that are related to revenues, which are also included on the EBITDA line.

So mainly, and you can see that on Slide #8, what you can see on Slide #8 is that core OpEx goes up by EUR 3 million. The rest of the variation you can see that are in several noncore costs mainly in the IPC mechanism, because of the import and export dynamics. In an increase that we did in terms of forest cleaning, which was actually very timely and was done during the first half of this year. And some other costs also relating to initiatives in terms of communication that their -- the regulator had to do.
But if you now focus on the core OpEx, and the core OpEx is growing up around EUR 3 million. Of this EUR 3 million around EUR 2 million relates to transaction and cost. Although they are basically one-off cost. And around EUR 1.7 million relate to these, I'd say revenue related costs, which are induced by more revenue at the terminal because of the extraordinary amount of gas consumption that have -- has had taken place this year in Portugal and that also was reflected into record numbers of both unloading gas at our terminal. So what you basically would see is, if you didn't

take into this account, you'd see core OpEx coming down, which is what you should see, I'd say at the end of the year also. So I'd say at the end of the year, what you should expect is without these non-recurring costs, you can kind of see, I'd say core OpEx come down slightly, which was always our plan.

So that would translate into Slide #9 into the full impact on EBITDA, and basically you can see here what I told you, which is small decrease in assets remuneration being compensated by other revenues, which is these ones that I was talking about and also by Electrogas and give this 2% increase on a year-to-date basis.

Moving to Slide #10. And if you look below EBITDA for depreciation, I'd say no, no news there, very mechanical. In terms of tax is also unfortunately, no news there, so you can still see the full impact of the special levy that makes our effective tax rate be extremely high. But below that, you'd see a normal tax rate of around 27%, which is normally what we pay, 27% to 28%, effective tax rate. And then on the financial results, you see there is a decrease of 30%, so an improvement of almost EUR 19 million, which is basically driven by an improvement on the average cost of debt.

You can see that on Slide #11, the slight effect that net debt goes up and be mindful that net debt is not going up in proportion to the fact that this already includes the acquisition of Electrogas. So as you know this year, we are benefiting from the fact that in previous years, we had to pay more or receive less from the system than we should and now we are recuperating this type of deviations through the normal mechanism. It has a I'd say especially positive impact this year. And so make net debt be growing only EUR 63 million. At the same time, since cost of debt is coming down to EUR 2.6 million, which has been, as we have told you, very favorable since the beginning of the year that is what translates into this phasing in terms of financial costs.

So in Slide #12 you see all of these impacts. So you see this very positive evolution of net income that comes not only from EBITDA, but also from debt below EBITDA even if you exclude the contribution of Electrogas, which is, I'd say not the one off but something that is not included in the previous year. You'd see that there will be some kind of improvement in terms of net income. So - and to close on some financial remarks. So just to say that as, Rodrigo also says both net profit and recurrent net profit are, I'd say, at very healthy levels and growing at very healthy levels. And we continue to manage and not only the regulated asset parts but all the financial costs very well. We have in this quarter achieved another or continue to tick the box on the strategic plan so that we can come to the end of this 3 years with all of the objectives that we had set out, accomplished. And I think we are doing so by not only this acquisitions but by maintaining the financial focus and the growth in Portugal.
And finally, I just wanted to make a very brief comment relative to the capital increase. As you know, this is planned to occur until the end of the year, this is EUR 250 million rights issue. So we cannot really give you any more exact information as of now. But what we can give you is that it will be included before the year end and we are proceeding with the [explanatory] relating to this given that the final approval of the transaction was already made in the beginning of October.

So with this, I conclude the presentation and as Rodrigo said, we'll open the floor for any questions that you may have. Thank you very much.

Q&A

Carolina Dores

I have two. First one is, we've the draft proposal for the regulatory review of 2018, which was published by the regulators. We saw there was quite tough for the electricity distribution, I wanted to see if you can give us a little bit of guidance or some sense of what do you think it was for transmission. And my second question is related to this increased cost from the ITC mechanism that is said on the electricity, because we are increasing the LNG terminal, that is a pass through. Is that immediately reflected on revenues or should we see around EUR 3 million higher revenues from 2018 when you recover this cost?

Gonçalo Morais Soares - REN - Redes Energéticas Nacionais, SGPS, S.A. - CFO and Executive Director

The call just went out so I'm sorry for that. But please go ahead with the question?

Carolina das Dores

Do you want me to repeat the question?

Gonçalo Morais Soares

Yes, please.

Carolina das Dores - Morgan Stanley, Research Division - Equity Analyst

Okay. Now its Carolina from Morgan Stanley. I have two questions. One, the regulator published the draft proposal for electricity distribution and transmission revenues for next year. We have seen that it's been quite tough for distribution because of the transition from accounting on – from (inaudible) to IFRIS. I wanted to see if we're seeing something similar for transmission as well. Basically if you can give us some guidance of what do you expect transmission revenues should be next year. And my second question is related to the rising cost that you mentioned, Gonçalo, that it will pass through is around on the LNG terminal electricity cost in the ITC. Does the rising cost came immediately -- had the counterpart from revenues this year or should we see the EUR 3 million higher revenues from 2018 -- the reimbursement in 2018?

João Conceição

This is Joaõ Conceição speaking. Starting from your first question on the regulatory pay. You have to take into account what the regulator did basically on the parameters was an adjustment taking into account the reality mainly, the levels of the treasury bills and so on. On what concerns to electricity, we can say that we -- the outcome we consider it to be quite stable. Because despite this -- these updates which reflect basically all the financial numbers. Apart from that, what concerns to incentives the regulator was quite stable in maintaining the majority of the regulatory framework that we have until now. We kept the premium on the new CapEx. The OpEx revenue kept was almost inline with what we have. The efficiency targets are inline with what we have today. So in all we can say that the outcome was consider by us as a stable outcome. In terms of your second question.

It’s indeed true, so this rising cost is more than offset by an increase in revenues this year, because it has just to do with the higher activity in the terminal therefore, you are entitled to have higher revenues.

Sara Piccinini

I would like to ask you a general comment on the regulation. If you are happy with the outcome of the regulator. The second question is on Electrogas. It is continuing to post positive results for -- quarter-on-quarter. If you can explain us what is driving this positive performance. And what is the contribution of Electrogas that you expect by year end. The third question is on CapEx. I know that you already explained that it should be lower than last year, but the question is, if you see EUR 170 million for the year end as a realistic number and this means an acceleration of the CapEx in this last quarter as you basically did also last year. That's it for now.

João Conceição

This is João again starting for the regulation. Well, this like I told in the last question, I would say that the stability was something that we considered to be the outcome of the regulatory framework. And the regulator reset the rate of return, as you know, the starting point will be [5.5]%. These inputs and the market conditions could have been in place. But besides that and what concerns to all the majority of the incentives and the regulatory framework, the regulator decided to keep up almost everything constant. The indexation mechanism as the curve has exactly the same slope as before. In what concerns to new CapEx, the premium was kept at 75 basis points. In terms of OpEx, the targets are also, in line with what we have today.

Gonçalo Morais Soares

In relation to your second question, there isn't anything special in Electrogas. So there is around EUR 6 million of impact. So there isn't anything special. They are basically delivering on targets with what they promise. It's just the normal kind of every quarter and delivering on what they said that they would. There are some (inaudible) they are already in the accounts which are related as I told you to the transaction itself, but one thing is that transactional cost, which I'd say I put aside, the impact itself is as valid as I told you. It is completely inline with what was expected and almost a mathematical kind of increase quarter-on-quarter. I'm sorry, what was your last question exactly on the CapEx, just to clarify?

Sara Piccinini

Yes, if you see EUR 170 million for both electricity and gas, let's say a realistic number, for this year, yes.

Gonçalo Morais Soares

What we have told you is that EUR 170 million was what was last year. So although I'm not going to give you very precise guidance because that's not what we used to do. What we have told you is that for some reason we need to go below that value a little bit by design because since we have a lot of investment being made not only in Electrogas, but also in the EDP and the distribution assets. So we kind of reduced and pushed a little bit less on the accelerator on those projects. And that being said, we are going to be kind of within that range or in this case more or less that's the low value of the average range that we have on average for the period and in our business plan that we gave you a few years ago. So that's the logic. So the number itself is going to be below the lower level but on average, which is what we are looking at. We are trying to maintain the promise that we made relative to the average yearly CapEx for the business plan. Okay?

Rodrigo Costa

Just to say that over all, annexing the point that Gonçalo mentioned and João. 3 years ago when we designed our business plan, we knew the type of pressures that we will go through. We have a country that is under economic pressure then it was -- we were expecting that the regulation would not become softer over the years. And at the same time, we knew that we would have to find the right opportunities to keep even if it is a granural level of growth that we wanted to have some growth. And I think, that's what we've been achieving both with Electrogas deal also with EDP deal. And I think overall, we are quite happy with the fact that we have been able to compensate the potential lack of growth in Portugal.

Nelson Rei Bernardino

Just a couple of short questions to clarify. The capital increase timing is now is that your full discretion. Or is there some intermediate steps you're going to go through? And could you let us know when you will be able to give us some more detail on the contributions from [REN Portgás]?

Rodrigo Costa

Hello, so as you know, in a normal capital increase process, you have to have documents and things approved by the capital markets regulator.

We're in that phase now, so we have to wait for also and these results to come out, this is important and relevant information for that process. We are now as we've told you, I'd in the final stages of the approval process in the sense that as I said, we want to have this concluded by year end. So that is as specific as I can be relative to the(inaudible) I cannot (inaudible) any more specific. Okay? But I'd say that everything is going according to plan and we have extremely constructive relationship with CMVM. And I think, it's moving along within our expectations. Relative to the contributions of [REN Portgás]. Again, I think you have to wait a little bit more. I think, on the prospectus that will come out to the capital increase you will have enormous information relative to that. We are going to make a lot of information available to you. And then of course, in the final year accounts you will have that more. But as the capital increase process will formally start, I think also that Ana will be freer to share some additional information that she has with you relative to this company within the information that is shared in the perspective. Okay. So just bear with us a little bit more and we'll start sharing a little bit more information relative to REN Portgás.

Ana Fernandes

Okay. Rodrigo, would you like to say something or?

Rodrigo Costa

Just to close. Well, first thank you for being with us on the call. As usual our information is sometimes a little bit boring but we like it to be that way.

We try to be as much predictable we can and transparent for sure we are. And with that, I think, in the coming weeks we will have to share more (inaudible) Ana, who is going to be on point. And probably some of us also will be on the road and we will see some of you in the next few weeks. With that, thank you, everybody for being with us today.

Gonçalo Morais Soares

Thank you.

Ana Fernandes

Thank you.