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Corporate participants

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

Ana Fernandes

Hello, everyone. Thank you for being here on a Friday afternoon. I bet many of you are already thinking of the holidays you'll have in a short time, so thank you very much for listening to this call.

As usual, I'm joined by Rodrigo Costa, our CEO; João Conceição, COO; and Gonçalo Soares, our CFO. Rodrigo will do an introduction, and then Gonçalo will go through the presentation.

Rodrigo Costa

Thank you, Ana. Good afternoon. Thank you all for participating in our second quarter results call. The results in the first 6 months were quite positive and very much in line with the market and our own expectations. The past months have been quite rich in terms of events, and I will go a little bit through that. We had the Electrogas tank acquisition process that has been fully completed, and we will cover a little bit of that during the presentation. The investment in EDP Gás is moving on. The regulatory clearance has been granted, which was extremely important, and we are waiting for final approval to get the deal done. That should happen soon. The proposal for reversal of the privatization on some of our concession

activities has been agreed to by the government. This was also a very important topic that we had to address in the past few months, and I think we were very successful in making our government nderstand that would be a mistake. And we ended up the way we want it. We have been involved indirectly in a public investigation process. And of course, we are collaborating with local authorities. This is a process that will keep going.

Nothing really is happening on that front regarding this. And we are going through a very dry and warm year that is leading to a short supply of water and one of the worst years in terms of forest fires and also which is something that never happened this way in Portugal, with lost of lives that we deeply regret.

Natural gas consumption is at record levels, with all our infrastructures being used at their top capacity. Last year, we were not using our infrastructures of natural gas at the peak. And this year, it seems that natural gas is really a serious option as a backup. And we are very happy to have all these infrastructures working at their full capacity.

While we have a lot of moving parts affecting our daily work, as you can see, we have been able to perform quite well in all fronts. EBITDA reached EUR 242.7 million, a 1% increase over last year's numbers, with Electrogas already contributing with EUR 3.7 million, which is -- which I must tell you it's also slightly better than our initial expectation when we bought the stake back in February.
Operationally, things are going according to plan. OpEx was higher than normal but for good reasons. It was in due with [acquisition] of Electrogas and EDP Gás and higher volumes of the LNG turning on the [seams]. Apart from these 2 items, there is really nothing additional to report.

On the financial side, and as we had said before, the average cost of debt stayed stable at 2.6%, which led to a significant improvement in net
financials.
Net income at EUR 53 million naturally benefited from what I have just mentioned but kept being negatively impacted by the energy levy fully accounted for in the first quarter.
These are the main topics that I want to cover. And now, I'll pass the call to Gonçalo who will take you through the presentation. And then myself, Gonçalo and João will be here to answer any question you may have. Thank you.

Gonçalo Morais Soares
Thank you. So hello, good afternoon to you all. Thank you for being here.
So looking at Slide #1 and just going briefly since Rodrigo already mentioned. Some of these EBITDA growing slightly, in line with what we expected and also due to the contribution of Electrogas and I think in growing solidly also on the back of financial results improvement, which have been declining versus last year, but still [rising] versus first quarter, as we already had mentioned at the time. Net debt also very small increase, even due to the fact that we acquired Electrogas, and I'll go into that also. At the end, CapEx and transfers throughout. Things are more or less as expected. As you know, at the middle of the year is a little bit soon to give you some news, but I'll give you a little bit of color also regarding end of the year and what we are looking at.

So if you want and just skipping Slide #2, which has just the table with the main elements, you can see in Slide #3 the increase in rates during the year, although in the last few months it has come down. So as of now, electricity base rate of return is around 6.4% versus 6.1% last year. And gas is around 6.3%, which, as you know, is very similar to electricity nowadays and which has come down a lot versus last year because last year you still have a different regulatory period in the first half of the year.

So regarding CapEx and looking at Slide #4. You can see that there is actually a growth in CapEx and the decline in the growth -- and a decline, I'm sorry, in transfers throughout. As I told you, it's a little bit early on. And matter of fact is that also as we've have told you in many meetings since we've acquired Electrogas and since we are on the verge of completing the EDP Gás transaction of gas distribution, we are also kind of managing the CapEx profile for this year and in the coming years so that we can manage the cash flow profile better. So I'll assume a decline in CapEx, in normal CapEx, given that we are having these investments most in Chile in gas distribution.

Looking at Slide #5 in average to RAB. Nothing new. It's declining, but say that even as of now this would be normal. As you know, most of the investments that we make are made at the end of the year. And that being said, they continue to be made where we know they are concentrated, which is in electricity with premium. So I'd say that there is nothing really very new about this. Okay.

Going to Slide #6. You can see the dynamics, both in gas and in electricity. So in electricity, you see the -- clearly -- and because it doesn't have any other impact, the dynamic of the increase in the rates that are underlying. So that's basically the impact that makes the renumeration go up by EUR 3 million. And in the natural gas, it's the reverse. It's the change of the regulatory period that makes it go down, even if the base rate increases (inaudible) slightly for what we have anticipated. So I'd say that this is slightly ahead of what we thought it would be during the year, but it has -- even has a slightly positive impact in the account.

Looking at OpEx. Opex is growing. But in Slide #7, this is mainly driven not only by some noncore OpEx that you'll see in the next slide. In Slide #8, you can see than noncore OpEx also grows a little bit. Core OpEx grows close to EUR 3 million. This is mainly driven by transaction costs that we have, mainly with Electrogas but already some with EDP. It is also related to some costs that we have in electricity in the terminal. And as Rodrigo mentioned, this is the year where the gas infrastructure has been utilized at record levels, and it is -- and that's why we have this infrastructure. It's also because in some years they are more extreme. And sometimes when people ask us if they are completely used, it's important to know that they are not built for the -- only the normal year. They are also built for different years, and this is a very special year. We have more than doubled the number of ships that have come to the terminal to download their gas. And so this has translated not only in more revenues that you don't see isolated but also in more costs. The net impact is positive. But of course, this has, I'd say, an impact in cost that you see here reflected. So I'd say that it's more either things that are in revenues or nonrecurrent cost. There's nothing, say, strange. If it was not for this, we would be maintaining the normal kind of -- and there will be slight decline of core OpEx.

So in this kind of coverage, Slide #8, also saw a kind of -- went through core OpEx. So everything else is more or less stable. We see that ITC mechanism costs are growing because we are also exporting more electricity to Spain. We've been exporting heavily to Spain this year, and this is why this cost, which for us is a non-core cost and a pass-through cost and -- has been growing also.

So summing up on the EBITDA part. You see that we have because of the impact in gas -- and this is in Slide #9, a slight negative impact from asset remuneration and also a negative impact in cost because of what I told you and -- but then, not only amortizations but also other revenues from assets, which is basically the incentive to assets at the end of life that has being growing a little bit as it does every year, but also the contribution of Electrogas and other revenues, namely incentives that we have because of the usage of these gas infrastructures that has been contributing here at the EBITDA line.
Looking at below EBITDA and looking at depreciation, I'd say nothing to point out. Financial results, as Rodrigo mentioned, there's stability in the cost of funding versus last quarter. The main refinancing event happened last

year. So this 2.6% that we are seeing now is basically the impact of debt refinancing made last year. It's basically a price impact, pretty much in line with first quarter. And I would also go ahead and tell you so that you don't have to ask that we are not anticipating that this should change materially in the full year. So we have done most of our refinancing. Yes, of course, if -- and then -- and when the EDP Gás transaction moves forward with the capital increase followed by the bond each month, that will have a slight impact actually, perhaps not positive because we'll be substituting instruments -- short-term instruments that we are using now with lower cost. But I would assume basically stabilization of the net cost of debt during the year before (inaudible).

In terms of taxes. Nonuse, it's slightly below the number. The effective tax rate is around 26%. This relates to the fact that in one of the companies we have a negative tax bill. But I'd say that it should trend to the more normal, even if it doesn't reach the 28%, which is I'd say the normal one. It should trend upwards and at the end of the day should be close to that value.

Looking at net debt. You can see that there's an increase of 4%, EUR 100 million. Again, this is pretty much in line with what we've said in the first quarter. This is below what the impact of Electrogas acquisition was. And I think, as we've said before, this is basically linked to the fact that in the past we've had some tariff deviations that were to be phased. They are in phased now. And additional, as I told you, the fact that we are using the gas infrastructure a lot actually has also positive impact for once in this item. And so we actually are receiving a little bit more than was anticipated relating to that, okay. But this I would say is basically the story of debt. And no news, FFO/net debt is stable. This is what we anticipated at FFO/net debt. In either case, either we conclude or in spite any event, we wouldn't conclude in either case. FFO/net debt would be very close to the 11%, a little bit above but around that figure. So I think we are monitoring this very closely and always kinds of maintaining this objective of the investment-grade level that we have for the rating agencies.

So summing up. Net profit, a growth of 31%, a healthy growth. Again, there are some, I'd say, impacts this first semester that will make this on a full year basis it would not see this kind of growth, although we still expect net income to grow, of course. In the year, you will not see this kind of growth, but it's basically on the back of increased EBITDA and improvement of financial costs that drive this. So I'd say that in conclusion I think this is good set of results. We continue to see and we are already seeing some good impact of the Electrogas acquisition. And this is an acquisition that where we've been through 3 boards already, very stable asset, which completely in line with our expectations and contributing what we expected, and I think it adds value to have this new option of growth outside of Portugal. And apart from that, we are waiting I'd say that's the main other company and just commenting and complementing what's really -- the fact we are waiting for the final approval of the EDPG. Everything is, I'd say, ready for us to go, namely in terms of capital increase. And in -- and so I don't think that we'll have some news on that front also in the near future, okay. So I would say that our -- in principle our objective to do the capital increase in the -- until the end of the third quarter should be okay.

Okay, so with this, I can now conclude my remarks, and so we'll open up the floor to any questions that you may have. Thank you.

Q&A

Sara Piccinini - Mediobanca - Analyst
So I have 3 for now. First one is on these higher costs related to the recent transactions and how much would you be -- the impact on a full year basis in your view and if some of these costs could be offset through the year? The second question is on the capital increase. So you expect the timing to be by the end of the third quarter. Would ask if you have already approached your current shareholders and if they are confirming their participation to this capital increase. The third question is on regulation. If you can give your comment on the consultation documents that the regulator published in May. And which is your view on the extension of the regulatory period, and if possible, your expectation on the review of the parameters of the WACC formula?

Rodrigo Costa
Sara, thank you for the questions. So relating to the first one. So the costs now that we have in the account is around EUR 1.9 million, of course the major cost of transaction. And this relates mostly -- it's not only but mostly to the transaction in Chile, okay. The transaction in EPG already has some costs, but not a lot. But I'd say that then, of course, when the major cost would be then the transaction for the EDPG, namely the banks, and the capital increase, which are not in the accounts now. Of course, we would also have the contribution already of EDPG this year helping to compensate for that. So this is what it is. So it's a completely one-off cost. We'll be very transparent and careful to let you know exactly what are the one-offs. As of now, it's around EUR 1.9 million. So I'd say that would be easily digestible by the contribution also of Electrogas, but this is what it is as of now, okay. So do you want to comment on the timing?

Gonçalo Morais Soares
On the timing of the capital increase (inaudible). We do not -- we are waiting for the final approval. Actually, is an approval that comes through seller, EDP. It is our impression that this is, I'd say, almost there. It's a matter of not a long time. We have been already advancing our work in terms of the perspectives and the capital increase. We've been working very closely not only with our own advisers but with CMVM that has been very helpful and has been advancing the work. And so I think that as soon as we have this final approval, we'll be able to move pretty fast jointly in team with all of these people to be able to make this until the end of the third quarter. Of course, we cannot give you a final date because it's not in our hand. Regarding the shareholders, as you know, we do not comment on the shareholders' positions. This is something that it's up to them to make any comment if they wish to do so. When we did the announcement, we said that we had full support from our board. The board has a strong representation of several shareholders, and we know that we have a lot of shareholders that really welcome the transaction. The market reaction has been always positive. We believe that this is going to create value the same way the Electrogas transaction is creating value, and that's all we can say on that front. João, you want to comment on the regulation?

João Conceição
Sure. Thanks, Rodrigo. On the regulatory side, well, the official information we have so far is the one that has been put forward by the regulator on the public consultation. As we mentioned, I would say the biggest or most important change so far has been really the proposal of the regulator to extend the regulatory period from 3 years to 4 years. It's something that we have been asking for quite a while, and it's in our view a strong signal of the intention of the regulator to have stability in the regulatory model, allowing us to have more time to implement efficiency measures that we believe to be possible to do. They also set some considerations on the incentive mechanisms. So far, the information is a little bit vague. It's not really detailed. But on the way we see it is that the regulator is signaling that he wants to have stability in the regulatory model, and we agree with that approach.

Nelson Rei Bernardino - Haitong Bank S.A., Research Division - Equity Research Analyst
I only have one question, which is now that you are already in Electrogas, I'm curious about what you found out about the asset? Clearly, from financial point, you already said it was going better than expected. But from the operational side and also from the environment in Chile, I mean, do you -- did you have any surprises either positive or negative?

Rodrigo Costa
I would say that we are not having any surprise. We did a lot of research before we did the acquisition. Our partners in the deal are the people we were expecting, very good corporations, both [Inap] and [Cohun]. We understand altogether what we want from the asset. It's a very simple infrastructure. It's just basically a gas and a small (inaudible), which are delivering exactly what they are supposed to deliver, great service to a handful of customers, no long-term contracts, stable revenues according to what we were expecting, a very good team of people. We've been -- we had the opportunity to visit and to work with them. And everything is going according to the plan. And this is something we know well, this type of infrastructure, this type of business. And we are quite happy to see that everything's coming to fruition the right way.

Sara Piccinini
Sorry, I have just a few follow-ups. First one is how much is your expectation on a full year contribution from Electrogas? And second one is concerning the latest vote that there has been on -- at the parliament for, you say that you are away from the danger, let's say, that the public control of REN couldn't be in the hands of the government. But if I'm not wrong, there were other 2 issues discussed. There were the public control of the dispatch center of REN and also the elimination of over cost related to investments in power grids. Can you comment on that?

Rodrigo Costa
Your second question right away, the -- about the parliament. So the parliament, it's a process. And what was discussed at the parliament was there was one proposal for law, and there is a kind of a motion to discuss a topic that will be discussed later on during the parliamentary year. The one that was discussed, the one I was referring

to, which was straightforward, the objective of the proposal was to remove from REN's control the dispatch, the system management and the planning activity, which would be a big blow to our expectations as a full TSO who is doing a great job.

And I think that one, it's been voted. The parliament votes -- voted against -- the majority of the parliament voted against that proposal of law. And then the works will keep going. This is -- there will be more initiatives from the parties. Nobody can know if tomorrow some other party or the same parties will ask for the same things. This is a democracy. Then the parties are free to present new ideas, new proposals. And we will be here to defend our costs. We do believe that REN is doing a great job since -- especially since it became a private company. The money we cost to the consumer is much lower than ever before. We are very efficient. I think we are a leading example in terms of quality of service. And overall, I think we have all the reasons to believe that we will keep being able to make the parliament understand that what we're doing is well done. And we are -- in fact, we are more efficient than ever before.

Gonçalo Morais Soares

Relating to your first question, it's -- I'd say that ongoing should be around EUR 6 million, perhaps a little bit above EUR 6 million per year, a little bit above that. And this already have the financial cost that we are estimating for Wanger, so it's not -- I'd say that the freight contribution would be above that, would be around EUR 7 million. And then I'd say that's the normal -- the net income real contribution should be EUR 6 million, a little bit above, something like that, okay. Thank you. But then I can give you a little but more detail if you need to afterwards, but should be around that, okay. Thank you.

Sara Piccinini

Perfect. Sorry, just to see if I understood correctly. The discussion at the parliament regarding the control of the dispatch center is something still going on or it's something closed for now?

Gonçalo Morais Soares

It's over.

Carolina Dores - Morgan Stanley, Research Division - Equity Analyst

I have 2 questions. First one, when I look at your financial expenses, it's a bit of detail, on the second quarter, they're way below, EUR 4 million lower than the first quarter of the year even though the cost of that in the first quarter of '17 and second quarter of '17 was relatively stable and so is the level of that. So my question is, is this EUR 12 million per quarter what we should expect going forward or even a lower level? That's the first question. And second question, can you give us an update on how is the --
what is the status of the lawsuit against the energy levy that you have?

Rodrigo Costa

Okay. Relating to the first question, as in principle, it's what you should see moving forward. I don't think there should be any major change, as I told you. I think that at the moment that we refinanced with bonds there might be a slight increase, but that should not have on the full year basis in the average cost of debt a material impact, okay. We are continuing with our refinancing effort. And so I think that on that front that's what you should expect. On the levy court process, we have nothing new to report. The thing is moving. It moved up another 6 months. We always – since the very first time we spoke about that, we said that we should be very cautious in terms of timing with the courts. And it is happening exactly what we thought. It is taking the time. There is no update to be done. And this is -- we keep complaining. We keep believing we have the right lawyers. We believe we are right. But I'm sure the other guys they think exactly the same, too. Then we have to wait and do our jobs, okay.

Ana Fernandes

Just one closing remark before we go. In principle, the third quarter results will be released on a different date. So we were planning to do it on the 4th of November, and we're thinking about changing it to 17th of November, but we will post that in our website in due time. But if you want to take note of that, the 4th of November is not going to be the right date.

Apart from that, thank you very much to -- for your questions and for listening to this call. If it's the case, I hope you all have great vacations and come back with full interest in REN.

Rodrigo Costa

Thank you. We -- I've taken Ana's words. If you're going on vacation, enjoy the vacation. If you are going to keep working the next coming weeks, I wish you a great job, too. Have a great time.