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PRESENTATION

Abel Arbat

Good morning, everyone, and welcome to our results presentation for the first -- for the 9 months of 2018. This is Abel Arbat speaking from the Capital Markets team.

We have now completed a full quarter since the launch of the Strategic Plan. As we anticipated, we've tried to continue improving how we present our results, and we hope that the new and more comprehensive report published this morning is going in the right direction to increase transparency and make your life easier in following the company.

During the third quarter, the cost reallocation process into the business segments has continued to evolve, and as a result, there have been additional changes in the restated financials, which you will find in the financial report published this morning.

By way of agenda, the results will be presented by our Capital Markets director, Steven Fernández, together with our Controlling Director, Jon Ganuza; and our CFO, Carlos Álvarez. At the end of the presentation, we will open it up for Q&A, changing the format to live Q&A where you will be able to ask your questions directly through the call.

And without further addition, I will hand it over to Steven.

Steven Fernández - *Naturgy Energy Group, S.A. - Director of Capital Markets*

Thank you, Abel. Hello, everyone. We're going to start off with a quick overview of the results and the key highlights for the 9 months of 2018. EBITDA in the period reached almost EUR 3 billion after nonrecurring effects. Stripping these out, recurrent EBITDA reached EUR 3.2 billion in the



first 9 months, equivalent to a 10% growth versus 2017, which is a testament of robust recurring activity, which was up almost EUR 500 million in the period, offset by an adverse FX scenario with a negative impact of EUR 182 million at the EBITDA level.

As we will review the earnings in detail, the Gas & Power business unit experienced strong performance, while the infrastructure businesses remained relatively stable and impacted by the FX depreciation in the period, mainly in Argentina, where accounts have been restated according to hyperinflationary economies criteria.

Net income amounted to a negative EUR 3 billion, mainly as a result of the EUR 4.9 billion asset write-down conducted in the first half of the year. Excluding this impact and other nonrecurring items, the recurrent net income rose 38% to almost EUR 900 million, driven by higher activity, lower depreciation and lower financial expenses, resulting from the group's best optimization.

Naturgy has invested EUR 1.6 billion in the period, of which more than 70% has been deployed in growing the company's asset base in the development of new renewal capacity, the addition of 2 new LNG tankers and other revenue-generating projects.

Finally, Naturgy will be distributing the second interim dividend of the year, a cash payment of EUR 0.45 per share due on the 27th of November. Thus, setting the paid for the minimum committed dividends of EUR 1.3 per share against 2018 earnings.

In this sense, the company reiterates its full commitment to the shareholder remuneration targets established in its Strategic Plan.

Now if we move on, and as anticipated, the results have been affected by a number of nonrecurrent items, negative on the 9 months of 2018 and positive on the same period of 2017.

In particular, the 9 months of 2018 have been affected by EUR 272 million of nonrecurrent items at the EBITDA level, the bulk of which corresponds to the increase in the cost of gas procurement in Argentina, amounting to EUR 116 million linked to the devaluation of the local currency, which has not been passed through to final tariffs. In this sense, the Argentinian government has announced distributors should not bear the consequences of gas price deviations linked to FX, and although it has yet clarify how this will be implemented. Until such a time, Naturgy has adopted a prudent and transparent approach and will maintain such contingent liability in its consolidated accounts.

Other nonrecurrent items include the restructuring costs of EUR 78 million incurred in the period, of which EUR 54 million were provisioned in the third quarter as part of the new efficiency plan as well as other nonrecurrent items as already described in the first half of the year.

Similarly, although inherent to our activities, performance has also been negatively impacted by the depreciation of the various currencies during the period, which has led to an impact of EUR 182 million at the EBITDA level compared to last year. So in summary, the 9 months of 2018 have been impacted by nonrecurrent items and FX.

So if we move on and we make a little point on where are we in terms of the value creation strategy and the broad sellers of that strategy announcing the Strategic Plan.

In this sense, the company has made good progress during the third quarter of the year, which I remind you the first quarter since the presentation of the new Strategic Plan 2018-2020.

In terms of simplicity and accountability, Naturgy is producing the number of subsidiaries. In addition, the company has already replaced most of its subsidiary Board of Directors by joined administrators and scaled down support functions at the corporate level, and we allocated some of these based on strict functional needs into each of the business units.

In terms of optimization, the company has completed the agreement to renew and expand its gas procurement contract with Sonatrach up to 2030 under improved terms.

In addition, the company has also launched its new efficiency plan and incurred on the aforementioned capital costs in the quarter, which will yield recurrent savings going forward.

Furthermore, the newly created OpEx and CapEx committees, which have already analyzed over 350 OpEx and CapEx programs during the quarter, ensure the successful execution of the company's efficiency plan as well as compliance with the capital discipline and golden rules of investment established in said plan.

In addition, Naturgy has started to progress on its capital structure optimization. And during the third quarter, it has amortized all of its bank-funded corporate debt, amounting to approximately EUR 1.6 billion and completed a EUR 314 million bond repurchase at the current level, while refinanced and issued new debt in Chile and Brazil, consistent with its financing strategy of reducing debt at the corporate level and maximizing financing into the business units.

In terms of capital discipline and consistent with the company's targeted growth in renewals, as you know, the company has been awarded a 180-megawatt wind farm project in Australia, which will contribute an EBITDA of around EUR 22 million once fully operational.

Now it's important to highlight that this project's fully compliance with the investment and profitability criteria established by the company in its Strategic Plan, it allows the company to reinforce its presence in stable economies. It increases the predictability of its cash flows moving forward. It raises its exposure to renewal energy sources as well.

In addition, Naturgy has continued to make steady progress in the development of the wind and solar projects awarded last year in the Spanish auctions.

Finally, in terms of shareholder remuneration, we would like to highlight the approval of a new long-term incentive plan, which is based on total shareholders' return, and hence, fully aligns managers with shareholders' interests.

The company has also approved the second interim dividend of EUR 0.45, which again will be payable on the 27th of November, and that sets us on track to accomplish a EUR 1.3 per share dividend against 2018 earnings.

In this sense, it's important to highlight that we are fully committed to the shareholder remuneration targets established in the 2018 to 2022 Strategic Plan.

Now let's move on to the evolution of our operating activities and consolidated EBITDA in the first 9 months.

So as you know, we have published a bridge in terms of EBITDA and net profit, and we're going to be focusing on that bridge at this point. Note that we have excluded the nonrecurrent items explained earlier to reflect the evolution of our operations on a recurrent basis, both for EBITDA and net profit.

If you take the above into account, recurrent EBITDA is up 10% in the period, mainly supported by improvement in the Gas & Power business unit.

And as we will see in the next few comments, our infrastructure businesses have also been affected by a negative evolution of exchange rates with a negative impact as we mentioned of around EUR 182 million.

Finally, it's worth noting that in relation to the increase in the cost of gas procurement in Argentina, which again accounts for EUR 116 million, and it's linked to the devaluation of the local currency, the Argentinian government has announced the distributors again will not bear the consequences of cash price deviations linked to FX, although we're waiting to see how this measure will be finally applied. And until such a time, we will continue adopting a prudent and transparent approach in the results.

If we move over to analyze the net income for the first 9 months of the year, again, excluding the nonrecurrent items, the net income increases by 38% during the period to EUR 877 million, supported by the recurrent activity growth, lower depreciation and also lower financial expenses, resulting from the group's debt optimization.

Finally, if we move on to the cash flow and on to the net debt, we have generated an operating cash flow of around EUR 1.9 billion, which is around 70 -- 17%, that's 1-7, 17% higher than in the last 9 months of 2017.

Cash investments amounted to slightly less than EUR 1.2 billion, mainly as a consequence of the growth CapEx deployed in the development of new renewable projects awarded both in Spain and abroad.

Now as anticipated, let us remind you that the company has put in place a new CapEx committee to approve all the investments above a certain threshold to guarantee that all growth CapEx meets our golden rules and minimum return criteria.

Net debt in the period has decreased to EUR 13.6 billion, that's approximately 3.5x net debt-to-EBITDA over the last 12 months, mainly as a consequence of the various disposals completed in the period, but also taking into consideration the distribution of dividends of approximately EUR 1 billion in the third quarter.

During the quarter, Naturgy has used part of its excess cash to amortize all of its bank-funded corporate debt, including almost EUR 1.3 billion denominated in euros as well as EUR 390 million, denominated in U.S. dollars. The company has also completed a EUR 314 million bond repurchase at the current level.

Now all in all, we are in the process of optimizing the financing, allocating each of the business units in order to increase the accountability and funding autonomy in the same currency where cash flows are regenerated, while at the same time increasing flexibility.

And in this sense, during the first 9 months of the year, Chile has refinanced EUR 193 million and replaced almost EUR 80 million of intra-group debt, while Brazil has issued 2 project bonds of almost EUR 60 million to (inaudible) power and supply renewal projects.

With this said, I'll now handover to Jon Ganuza, who'll go over the details in the business units.

Jon Ganuza - *Naturgy Energy Group, S.A. - Director of strategy*

Thank you, Steven. Good morning, everyone. Let's spend some time reviewing the operational performance of each of the 4 business units.

Starting with Gas & Power, recurrent activity had experienced a sound recovery which is EUR 1.3 billion EBITDA in the 9 months of 2018.

The results in this business are marked by 3 main trends: first, high electricity prices. The pool price in the Spain this third quarter has been 55% higher than the same period last year, mainly due to higher CO2 prices.

Second, high LNG prices. In these past months of August and September, the level of prices in Asia in relative terms to oil price have been at all-time highs, mainly due to a greater demand in the summer months in Asia, whereas from the last gas supply margins in the Spanish market continued to return to average levels after a dismal 2017.

In the Gas & Power service sales, these trends have had a mix effect. The gas side has seen a positive improvement, but has been further enhanced by the gas procurement contract agreement with Sonatrach, completed on September 2018, which is retroactive from the beginning of the year.

On the power side, (inaudible) second quarter, results have been negatively impacted by the significant exposure to fixed price contracts as approved prices have still increased in these past 6 months.

As we already said in the last call, the contracts that are out of the money are being managed either by renegotiating them or by counseling them. This has allowed to substantially reduce the negative impact, although there are still parts of the contracts that are out of their money and we have an impact in our fourth quarter results.

International LNG has continued to perform strongly relative to the previous year, mainly due to 2 different effects: sale volumes and prices.

Sale volumes have been 50% greater than past year as new contracts have come online. And regarding high LNG prices in the third Q, although they have further boosted the results, it is important to say that the results do not fully reflect the high summer spot prices as a substantial part of our sales in the third quarter wasn't really closed months in advance.

In Europe power generation, the high contribution -- higher contribution from hydro generation and higher wholesale prices have led to a significant improvement in the results in the same quarter -- second quarter, and especially, in the third quarter. But since the month of July, there has been a temporary suspension of the capacity payments for (inaudible). International power generation is continuing to benefit from the increasing installed capacity. The start of the Sobral and Sertao solar farms in Brazil from September 2017 and the capacity increases in (inaudible) in Mexico are producing more energy which can be sold in the market, benefiting of the high electricity prices in Mexico.

All in all, strong performance of the Gas & Power business unit, which is expected to continue into the fourth quarter of the year.

Moving on to our infrastructure business unit in the EMEA. Overall, results have been stable and organic growth has allowed to cope with some negative effects and the FX evolution, in particular. Gas networks in Spain have continued to grow supported by higher sales, although this has been partially offset by the lower gas meter remuneration, which has had a negative effect of approximately EUR 40 million vis-à-vis the 9 months of 2017.

Electricity networks in Spain have experienced positive performance, supported by assets brought into the regulatory asset base and important efforts in efficiencies.

As for the EMPL, results have been driven by the 3% increase on (inaudible) tariffs, although this has been countered by the negative evolution of exchange rates amounting to EUR 70 million versus the previous year.

In summary, we're achieving performance despite the negative effects from gas network remuneration in Spain and evolution of exchange rates.

Moving on to our infrastructure business unit in South LatAm. Overall performance has been impacted by the FX and nonrecurrent items, namely extraordinary expenses in Chile.

In Chile electricity, higher sales have been offset by ordinary tariff adjustments related to the economies of sales factors and FX.

In Chile gas, performance has been affected mainly by lower demand in the residential sector, even though the connection points are 4% up. In Brazil gas, growth has been underpinned by higher margins across segments at higher sales in natural gas vehicles, although notably offset by a EUR 40 million FX translation effect.

Argentina benefited from the full application of the tariff review effective in April, which was of 44 -- 42.5% that has been negatively affected by FX and inflation. The net effect has been the aforementioned pass-through of the cash procurement cost.

As Steven has already stated that there are 4 things that must be singled out: First, from the cash perspective, this has been a non-issue, since the gas distribution companies have paid to the gas producer the gas pricing and tariff and not the gas price that has been (inaudible). Second, the gas distribution company has debt with the gas producers, but the gas producers are not calling on this debt as most of them have the government as its significant shareholder, and they are aware that according to the current regulation, gas distribution companies cannot be held liable for this debt. Third, the new tariffs that have been effective since the 1st of October 2018 fully recognized the cost of the gas at the exchange rate expected for the next 6 months, and therefore, the impact of higher gas prices linked to FX shouldn't here, unless there is another substantial devaluation



of the Argentinian peso. Fourth, the tariff that is effective since the 1st of October 2018 does not fully reflect inflation that it should, and this increase has been 11% lower than it should have been. The government has committed to make up for this.

In summary, performance in infrastructure at LatAm has been affected by FX translation effect as well as by nonrecurrent items.

Finally, moving into infrastructure in North LatAm. Results have been impacted by temporary factors and the negative evolution of FX. Mexico gas has been affected by lower sales and the costs associated to its ongoing commercial repositioning as well as other temporary factors and effects. Panama has been affected by lower temperatures vis-à-vis last year on FX.

Let me now hand it over to Steven for conclusions.

Steven Fernández - *Naturgy Energy Group, S.A. - Director of Capital Markets*

Thank you, Jon. So to summarize the 9-month results. One, we've seen a robust recurrent activity that has been countered by adverse FX. And secondly, as the first quarter is completed since the start-up of the new Strategic Plan, again we'll highlight some of the achievements in the quarter from this plan.

Remember, we've scaled down our corporate functions, and we're in the process of reallocating costs into BUs, business units. Number two, we have successfully renewed and extended the gas procurement contract with Sonatrach. We have launched a new efficiency plan and new OpEx and CapEx committees. And we will start seeing the results, specifically, in 2019.

We have also progressed on the capital structure optimization. The company is investing in renewables with investment criteria that meet our golden rules.

And finally, we are on track to delivering the EUR 1.3 minimum shareholder remuneration for 2018.

So in conclusion, the new Strategic Plan is on track. It's been only 3 months. It seems like a little bit longer, but it's only been 3 months since we announced it. And we are fully confident that the pillars of our strategic plan and the various initiatives underway will start being more visible in delivering tangible results going forward.

Now with this, we'd like to open up the lines for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have some questions coming through. The first one is from the line of Javier Suarez from Mediobanca in Milan.

Javier Suarez Hernandez - *Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst*

This is Javier of Mediobanca. The first one is on the cash flow statement on the page number 20, 27 of the results presentation. On Page #27, there is a line that said, dividend to minorities and other for EUR 760 million. If you can give us the breakdown of this number? And what is included there? Also, there is a line called dividends and other for EUR 1,095 million. I guess that this the ordinary dividend and also the share buyback. If you can also please give us the breakdown of this number, that would be helpful to unravel the cash flow that the company has generated on the -- through the year. That is the first question. And the second question is on the Page #29 of the results. There is a column called recurrent in September 2018 number. There is an upward adjustment in the contribution of several business lines, including Argentina and the Gas & Power supply activities. If you can help us to understand why these numbers have been adjusted upwards and the rationale behind to show as a recurrent



number, the number that you're showing there? And the current final question is, if you can give us an update on the situation in Colombia with Electricaribe and also in (inaudible)?

Carlos Javier Álvarez Fernández - *Naturgy Energy Group, S.A. - CFO*

Referring to the first one. Carlos Álvarez speaking. Referring to this question, let me to clarify that this dividend to minorities accounts to around EUR 420 million and the rest relates to the -- all the noncash or adjustments to the noncash and cash operations, mainly in CapEx and financial. This is et cetera that are included in this other, okay. That means EUR 420 million related to the dividends to minorities, mainly Nedgia and GPG and the minority states in Latin America activities. And the rest correspond to a noncash -- the difference between cash payments and accounting on CapEx and financial leases, which is the main difference. Now turning to the other line that you asked, that is, dividends and other, that's in Page 27, which includes something we haven't shown that dividends paid and also the treasury shares that we have acquired during this period. So in this sense, Javier, roughly around EUR 950 million is the dividend and the balance would be the shares repurchased. In terms of Electricaribe. Yes, so I'll go back to that one. In terms of Electricaribe (inaudible) were presuming a dual frac here. Right now, we are still engaged in discussions with the Chilean authorities, (inaudible) is to find a new supply contract for the Damieta plant. The other alternative is to, on the dual frac, is to collect the cash settlements from themselves. We're [announcing] that we have no need to report. When we do, we'll obviously make it public to the market. And in terms of Electricaribe, I mean, we're not going to comment on press speculation on the special interest of parties on that. Suffice it to say that we are continuing to pursue an arbitrage procedure to see our interests and the interest of our shareholders preserved in the country.

Carlos Javier Álvarez Fernández - *Naturgy Energy Group, S.A. - CFO*

The second question that you mentioned according to the Page 29, the adjustments included in the recurrent by activity we're saying that we have shown in Page 5 that our -- this -- that included both in terms of this year or last year. The adjustments included are the same. The consideration of nonrecurrent are -- the detail is explained in Page 5, that mainly are the adjustments as you can see over the Argentina, apparently in -- for pass-through, the Chile extraordinary expenses and the restructuring cost of other splitted by activities.

Javier Suarez Hernandez - *Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst*

And on the Gas & Power supply activity, there is this adjustment that mostly EBITDA from EUR 98 million to EUR 159 million on the so-called recurrent contribution, how is that capital of EUR 63 million is playing?

Steven Fernández - *Naturgy Energy Group, S.A. - Director of Capital Markets*

It's mainly the first line that we are showing on Page 5, the gas transport and procurement adjustment that, that relates to some regulatory impacts that we have included as nonrecurrent. The (inaudible) means no for this period, that refers to precedent periods.

Javier Suarez Hernandez - *Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst*

Okay. The thing that you are saying here is that these adjustments that the cost of procurement should be significantly lower going forward until the next quarter, including the next quarter of the year?

Steven Fernández - *Naturgy Energy Group, S.A. - Director of Capital Markets*

Repeat, this relates to precedent years. That means that the impact that we have this year is considered as recurrent and this is the [scenario] that we need to see ongoing.



Javier Suarez Hernandez - *Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst*

Okay. Then on the restructuring cost on the Slide #5. Again, this EUR 78 million, where these restructuring costs should be allocated? What activities? On what division?

Steven Fernández - *Naturgy Energy Group, S.A. - Director of Capital Markets*

I mean, this should be distributed across the board. And I think that one important thing that we have to keep in mind is that most of these EUR 78 million are -- correspond to the third quarter. So moving forward, in the fourth quarter, we should be seeing this figure going -- being higher. But I think that a good idea would be that you should allocate it more or less uniformly across all of the business units that we have under the corporation. On this point, just to clarify, we are accelerating the execution of our CapEx and OpEx efficiencies plan. We're moving faster than we anticipated. And as a result of that, we are incurring -- we are front-planning or front-loading the capture costs earlier than expected. That means that the benefits will also be coming earlier than expected. So we are very happy with the outcome and difficulties at the time.

Operator

And we have the next question from the line of Harry Wyburd from Bank of America Merrill Lynch in London.

Harry Peter Wyburd - *BofA Merrill Lynch, Research Division - VP and Junior Analyst*

2 questions for me, please. The first features on the gas business. I'm just trying to understand how much of the improvement in the third quarter is sustainable? So you obviously had a good spot prices in Asia, but also you have some structural impacts this year as you've had -- on this quarter as you've had Sonatrach. You've had the LNG tankers. You suggested that the Asian impact might lead into the fourth quarter as well. If we look to next year, and let's assume we don't have high spot Asian LNG prices next year for one reason or another, how much of the good performance in the third quarter is actually sustainable due to structural factors and how much is due to spot factors? So that's first question. And then the second one on the restructuring or the debt restructuring. I didn't see any one-off costs on that. So am I correct to assume there's no one-off costs to the bond restructuring -- or the loan restructuring? And what are the ongoing finance cost improvements from the bond restructuring, specifically that we should expect in future quarters?

Jon Ganuza - *Naturgy Energy Group, S.A. - Director of strategy*

Regarding the sustainability of the gas supply business, I think that we have to differentiate between what would be the international LNG and what would be the Gas & Power service sales? I think that in the international LNG, I would like to stress that although the high prices that we've seen this third quarter are really high, we haven't up to date fully benefited from the higher prices because most of our plug-ins were sold in advance. So I mean, we benefited, but not as much as it should be if one looks at the spot prices that have been in the market. So I think that for us the message is we are firm ourselves in the commitment that we made for 2018 for international LNG business, but we do think that the outlook for the next year is positive and we feel comfortable that we could get results more or less in line with the ones that we've seen this year. But again, I think that for us the important thing is the long-term commitment that we made for 2022. So I think that we should not just extrapolate any farther than 2019. And regarding the Gas & Power service sales, I think that we have to always keep in mind that we come from a 2017 that it was a really dismal year as far as gas sales in Spain is concerned. And what we've seen is a return to its average levels. On top of that, we are seeing -- starting to see some efficiencies. We're starting to see the renegotiation of the Sonatrach contract. And if we are not seeing their results is due to the fact to the fixed-price electricity contracts that we've had this year. So I think that moving forward, we should be seeing an increase in the results in line with the commitment that we made for the Gas & Power services for 2022.



Carlos Javier Álvarez Fernández - *Naturgy Energy Group, S.A. - CFO*

Regarding the second question on the restructuring. Remember that the bond repurchase, the last one that we have done, the EUR 313 million, was done in October. That means that it's out of the period that we have presented another aims at the end of September. And we will see the impacts of that and (inaudible) under the savings and was not at the end of these September closing books, okay.

Harry Peter Wyburd - *BofA Merrill Lynch, Research Division - VP and Junior Analyst*

Okay. Could you give us a sense or are you able to tell us now what the one-off impacts and ongoing impacts could be in fourth quarter and beyond?

Carlos Javier Álvarez Fernández - *Naturgy Energy Group, S.A. - CFO*

With regards to one-offs, these are more related to our fixed bonds. They are public as you know. And more or less, the interest, the coupon of these bonds were between 3.5% and 6%. That means that this is -- you'll see that we are amortizing this without new financing. That means that this is the saving more or less that we have (inaudible).

Steven Fernández - *Naturgy Energy Group, S.A. - Director of Capital Markets*

And just to add, I mean, other than that, I think that the main adjustment that's carried out in the period is the amortization of all the bank debt at the corporate level.

Carlos Javier Álvarez Fernández - *Naturgy Energy Group, S.A. - CFO*

Without cost.

Steven Fernández - *Naturgy Energy Group, S.A. - Director of Capital Markets*

Without cost, of course.

Operator

The next question comes from the line of José Ruiz from Macquarie in London.

José Javier Ruiz Fernandez - *Macquarie Research - Analyst*

Just 2, the first one relates to the depreciation restatement. I can see that the depreciation is flat compared to 9 months last year. So I was wondering when are we going to start seeing depreciation going significantly down after the asset's write-off? And the second question is if you could update us -- I understand we -- you have already started the renegotiation of retail contracts if you're managing to pass-through to final consumer higher cost of electricity?

Carlos Javier Álvarez Fernández - *Naturgy Energy Group, S.A. - CFO*

Yes, of course, after the impairment that was performed at the end of June, we have the impact in depreciation of the less depreciation due to the less value of the assets. This is the first quarter that we have had this positive impact that in generation, it accounts around EUR 30 million.

Steven Fernández - *Naturgy Energy Group, S.A. - Director of Capital Markets*

Regarding renegotiation of contracts, all of the new contracts that we're signing or that we are renegotiating the existing ones, they are all being done with a positive contribution in bank margin. So we have no problem regarding that. Of course, there's always a bit more of pressure when the fuel prices are being higher, but always all of the contracts are being signed with positive margin.

Operator

The next question comes from the line of Rui Dias from UBS in London.

Rui Dias - *UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst*

I have one -- well, I have a few questions. The first one on Electricaribe and apologies for going back to that. But basically, I was trying to -- I was wondering if you could provide us some detail about the whole process. And the question is more on, is there any scenario where the Colombian government grants Electricaribe to another player and that you could be partially compensated from the proceeds that the government gets? Or if the only way to get compensation now is through international courts? So this is the question on Electricaribe. And then second question on Sonatrach. Can you please just clarify if you have booked all the retroactive positives during Q3?

Carlos Javier Álvarez Fernández - *Naturgy Energy Group, S.A. - CFO*

On Electricaribe, I mean, we are in arbitration right now, and we're not going to be commenting on the different potential of permutation or speculating on that. Unfortunately, this is a process that takes a little bit of time, and it's in our best interest not to be speculating. Regarding Sonatrach, the answer to your question is, yes, the positive impact has been booked on a professional basis from the beginning of the year.

Operator

The next question comes from the line of Manuel Palomo from Exane in Madrid.

Manuel Palomo - *Exane BNP Paribas, Research Division - Analyst of Utilities*

Manuel Palomo at Exane. I have a few questions. One is a follow-up on one of Javier's question at the beginning. Could you please share what is the dividend that is paid to Nedgia in these first 9 months? The second one is on the leases. Could you please remind us what will be the impact on the debt figure from the financial leases from the 1st of January 2019? And my third question is something that I could read into, Page 23, in the handout this morning. I see that you here say adjusted net debt is EUR 18.3 billion and adjusted for hybrids and LNG tankers financial and operating leases following rating agency criteria. Could you please help us to reconcile the gap between the EUR 13.57 billion net debt figure that you report and this EUR 18.3 billion figure that credit rating -- sorry, credit agencies are considering?

Carlos Javier Álvarez Fernández - *Naturgy Energy Group, S.A. - CFO*

I'll begin for the last question. I think the main adjustments that (inaudible) includes the net debt first to the hybrid that you mentioned and some preferred shares that we have -- or actually from Fenosa. The second adjustment is related to the leases. The lease accounts more or less are around EUR 1.7 billion. That means this is -- that means not only the ratios of the remaining of the leases that we have, like buildings, et cetera, et cetera. And there is other meaner adjustment that some part of the cars or some other adjustments that (inaudible) in this line, okay. But the main impact, as I mentioned, are these 3 that I mentioned. Another data that maybe it's important and is part of your first question is, in the fee that we are reporting as accounting, the financial debt is not according to IFRS 16, it's accounting debt before applying the IFRS 16. As you know, this will be reapplied 1st January 2019. If, today, we present according to the IFRS 16 net debt, the figure, the performance of debt would account around EUR 15.2 billion.

Manuel Palomo - *Exane BNP Paribas, Research Division - Analyst of Utilities*

Okay. One clarification, Carlos, this, I understand, is not including hybrids at all, right?

Carlos Javier Álvarez Fernández - *Naturgy Energy Group, S.A. - CFO*

No. It's only financial leases and other leases that account around EUR 1.6 billion. The (inaudible) is around EUR 1.3 billion and the remaining things are EUR 300 million. And this is in pro forma basis. It has only included the leases because this is IFRS 16. As you know, hybrid accounting is in discussion, but is not an issue for next year. And referring to the -- your second question is, I think, was related to the financial cost of the leases. I am looking for, I think it's around -- for these 3 months are around EUR 90 million, something like that. But it's not included in the financial debt cost. It's in the other line, okay. You can see on page -- I'm looking for the page. In Page 8, the cost of the net financial debt, this cost is not included in the cost of the ratios, the cost is included in the other line, in the other financial expense and income that is included in this line. Referring to net (inaudible) dividends, I have no data in front of me now. But it's a significant part of this \$400 million, close to half of this is net here, more or less. But by the way, on this particular point, just to highlight that the dividend (inaudible) and it could be considered extraordinary in nature. So the level that you will see (inaudible) when we will give the full details. There's not one that can be extrapolated for 2019.

Operator

Your next question comes from the line of Carolina Dores from Morgan Stanley in London.

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

I have 3. First one on dividend coverage. When I look at your recurring net income or recurring EPS of around \$0.90 a share, you're being EUR 1.3 of dividend, should we expect 100% payout on recurring net income? Or it should be a little bit higher than that this year? Second question is on Argentina, if the government doesn't allow the tax rate in the fourth quarter, should we expect the same level of one-off in the fourth quarter or you already adjusted for that in the third quarter? And the final question is, it's power and gas, you had an improvement year-on-year of over EUR 100 million. Can you give us a breakdown of how much of that is deterioration, if any, of electricity? And how much of that is improvement for gas?

Jon Ganuza - *Naturgy Energy Group, S.A. - Director of strategy*

That was a good try, Carolina. We don't provide guidance on net profit. We haven't done that in the past. We're not going to do that right now. The reality is, and we appreciate your question, the fact is that we're not looking at dividend coverage. We're not looking -- certainly, not looking at our payout ratio. As we've mentioned in the past, we'd like to take this opportunity that you're giving us to make sure that we explain it again. Our shareholder remuneration policy is cast in stone. It's independent of the AR ratio, it's independent of free cash flow. It is the commitment of the company from 2018 to 2022. We are on track to deliver that. As we know, the commitment is EUR 1.3 per share against 2018 results and then a growth of 5% per annum thereafter. And that's as much as we're going to figure out for you in the plan. On Argentina, then maybe we can...

Steven Fernández - *Naturgy Energy Group, S.A. - Director of Capital Markets*

Just to clarify that as I think that Jon explained it earlier that the impact of any gas price increase linked to the FX has already been taken into consideration in the last tariff review at the beginning of October. And as a result, the impact on that regard ends here unless we continue to see additional depreciations that are unexpected. But as Jon explained earlier, the increase in gas prices has already been factored in the last tariff date on October, so the impact ends here.



Jon Ganuza - *Naturgy Energy Group, S.A. - Director of strategy*

Regarding your last question, I mean, we cannot disclose that information because we have (inaudible) agreement with Sonatrach regarding what the impact that we've had and that has a significant impact in the results. So giving that breakdown, we could give some idea of what's the impact that we're having with Sonatrach. And we have to keep in mind that these negotiations, usually they're confidential. But in this case, they're extra-confidential because Sonatrach is still negotiating with some of the most important customers.

Operator

The next question comes from the line of Jorge Guimarães from Haitong Investment.

Jorge Guimarães - *Haitong Bank S.A., Research Division - Equity Research Analyst*

I have 3. Firstly, sorry to go back to the Sonatrach issues. I perfectly understand what you just mentioned about confidentiality, but it would be important to have an idea of what was the retroactive gain in this year to assess the evolution for next year? The second one is also related to the supply business. If it would be possible for you to provide us with the breakdown between electricity and gas for the 9 months EBITDA of the gas, power and services? And finally, a question related to regulation in Spain. We had recently the proposal from CNMC about remuneration of electricity distribution networks. Do you -- what is your view about it regarding any possible cross-read for gas distribution network if regulation also will be revised on 2021?

Carlos Javier Álvarez Fernández - *Naturgy Energy Group, S.A. - CFO*

I mean, regarding Sonatrach, I mean, I'm sorry, but as (inaudible) fact that it's confidential. But I want to stress on the fact that what we see in the results of the third Q, it's only the proportional part for the first 9 months. It's not that we're seeing a lump sum or anything like that. What we're seeing are the current element. The only thing that -- see it's been retroactive from the beginning of the year, what we've seen in this third quarter is the effect that it also should be allocated to the second and the first quarter that wasn't taken into account then. We cannot give you a breakdown between electricity and gas supplies. I mean that's something that we cannot give. We can only say that we expect that the results for next year are going to be significantly better than the ones that we have this year because we shouldn't be easy in the electricity effect from the fixed price contracts. And regarding the regulation in Spain, what the CNMC has said, I mean, the report, at least, my read on that and when I read it is, I did not see that they did any mention in the fact that they felt that it was something that should be taken into account for gas. It was explicitly a report that talked about (inaudible). And it talks exclusively about renewables. But it didn't link anything that hinted towards the fact that it would be applied to the gas distribution regulation.

Operator

And the last question comes from the line of Fernando Lafuente in Alantra in Madrid.

Fernando Lafuente Seseña - *Alantra Equities Sociedad de Valores, S.A., Research Division - Research Analyst*

2 quick questions, please. The first one on the OpEx saving plan. If you could give us an indication of how many or what is the amount of savings that you have been able to get during this first 9 months? And what is the outlook both in terms of savings and implementation costs for the full year? And in this respect, not sure if you could give us an indication of where could you see the EBITDA in recurrent terms as of the end of the year and which levels of net debt you expect to have by year-end as well?

Carlos Javier Álvarez Fernández - *Naturgy Energy Group, S.A. - CFO*

I mean, regarding efficiencies, I think that it's -- looking at our P&L results, there is a decrease in the OpEx. So I think that we're always starting to see an increase in the efficiencies, but we're not going to give any concrete figure. We would do that at the fourth quarter results. There, we will give exact figure of how much the efficiencies have been for this year. I can only say that we feel comfortable with the level of efficiencies that we are achieving for the time being. And I think that the figure that we will be giving is something that it will make the rest of the people also comfortable. But we are not going to give any exact figure until the fourth quarter when we will give a breakdown of how it has been achieved. And capture costs, again, I would like to say that the capture costs that we've seen in this third quarter, basically, they are for the third quarter. Therefore, we should be expecting that in the fourth quarter, the capture costs they're going to be higher than the ones that we've seen for -- until the time being. And I think that, that gives you an idea of what Steven had said before that we are accelerating efficiencies and we are trying to move them ahead as fast as possible.

Steven Fernández - *Naturgy Energy Group, S.A. - Director of Capital Markets*

So if you take into account those nonrecurring effects, the capture costs and others that we have explained in the 9 months, we feel very comfortable with the consensus expectation of EUR 4.3 billion EBITDA for 2018 on a recurrent basis, again, excluding nonrecurrent items.

Operator

We have another question in the queue. It's from the line of Antonella Bianchessi from Citi in London.

Antonella Bianchessi - *Citigroup Inc, Research Division - Director and Head of European Utilities Equity Research*

Just a few follow-up. The first one is, can you clarify which are the dividend going to my knowledge is on a structural basis in the medium term? And the -- a second question is on the Argentina recovery. So is it correct to assume that you will recover the entire loss that you had in the 9 months in Q4 or we should wait until the middle of 2019? And finally, on the full year net debt, if you can give us a guidance of how you think the net debt -- the reported net debt will set by the end of the year?

Steven Fernández - *Naturgy Energy Group, S.A. - Director of Capital Markets*

(inaudible) net debt at the end of the year, more or less, I'm seeing a debt -- a net debt at similar level that we have at the end of September, more or less. Regarding dividends to minorities, I'm sorry, Antonella, but we cannot disclose the dividend flow of different subsidiaries among other things because these are sort of issues that need to be discussed at the board levels of the different companies with different partners and it's not our position to comment on this going forward. Suffice it to say that, again, the numbers that we have seen in these 9 months include extraordinary dividend, so we can call them that way. So they should not be extrapolated moving forward.

Jon Ganuza - *Naturgy Energy Group, S.A. - Director of strategy*

I mean, regarding Argentina, we expect to have a solution as soon as possible, but as Steven has said, for the time being and until we have something that is firm, we are going to handle it on a prudent and transparent way. But I think one thing that must be clear is that the Argentina is a noncash issue. It's a debt that we currently have with the gas producers, and right now, the debate is whether -- how that debt is going to be allocated. And in that sense, once the situation is resolved, and depending on how it's resolved, for us the solution should be instantaneous. So apparently, the solution that is on the table on behalf of the Argentinian government regards to debt, it will be assumed by the Argentinian government and that would mean that, that solution would resolve for us instantaneously that was the primary solution that would take place.



Operator

The last question in the queue comes from the line of Javier Garrido from JPMorgan in Madrid.

Javier Fernandez Garrido - *JP Morgan Chase & Co, Research Division - Head of Utilities and Senior Analyst*

But yes, to clarify what Steven has stated about the EBITDA for 2018, did I understand correctly when you said you are comfortable with EUR 4.3 billion excluding one-offs, excluding all the nonrecurrent items? Is that what you meant?

Steven Fernández - *Naturgy Energy Group, S.A. - Director of Capital Markets*

Yes. That's exactly what we meant for EUR 4.3 billion, excluding nonrecurrent items. We feel very happy and comfortable with that number.

Abel Arbat

Okay, thanks very much everyone for listening to our 9 months results conference call. As always, the Capital Markets team remains available for any further questions you may have. And let me just remind you that we have put together for your convenience a new (inaudible) which is available on the website, where you should have all the financial data of the results on the reported recurrent by quarter and cumulative very well for your reference, all right. Thank you very much, and speak to you soon.

Operator

Thank you for joining today's call. You may now disconnect your lines.

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