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NTGY - Nine Months 2019 Naturgy Energy Group SA Earnings Call

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CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Alberto Gandolfi *Goldman Sachs Group Inc., Research Division - Head of European Utilities Research*

Anna Maria Scaglia *Morgan Stanley, Research Division - Research Analyst*

Fernando Garcia *RBC Capital Markets, Research Division - Analyst*

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

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

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

Meike Alina Becker *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

PRESENTATION

Operator

Good morning, everyone, and welcome to our results presentation for the 9 months of 2019. The results will be presented by our Capital Market Director, Steven Fernández; together with our Controlling Director, Jon Ganuza; and our CFO, Carlos Javier. At the end of the presentation, as always, we will open it up for live Q&A. And with further addition, I will hand it over to Steven for key highlights.

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

Thank you (inaudible) Hi. Good morning, everyone. We're going to start off the presentation that you've received and you should have seen as well in our website and the (inaudible) starting with the key highlights on Page 4. Now you've seen that the first 9 months of the year have been marked by quite relevant headwinds and a challenging energy scenario. But despite this, the business has demonstrated remarkable resilience and has achieved ordinary growth of 5% versus last year.

Now, the results have been supported by regulatory stability during the period, in recognizing prior FX and inflation movements in Lat Am as well as our continued efforts in de-risking of our merchant activities and the efficiencies across the businesses. In terms of investments, the period marks a milestone for the company, which has invested close to EUR 400 million in the development of renewable projects. And it's worth noting that this is the highest level in the company's history.

Indeed, Naturgy has become one of the leading investors in clean technologies in Spain in the year 2019. And this is, we believe, a testament of our commitment to support the energy transition.

Overall, the company has invested more than EUR 1.1 billion in the period, thus reinforcing its industrial position and the future growth prospects, particularly in renewables. We have also continued to progress on the optimization of our business portfolio based on strict capital discipline. And as such, on October 1, the group completed the disposal of Transemel, an electricity transmission subsidiary in Chile for a multiple of around 23.5x 2018 EBITDA. As part of this transaction, CGE will receive proceeds of around EUR 116 million. That's 1 1 6. Likewise, on 15th October of this year, the company has reached an agreement for the acquisition of 34% stake in Medgaz for EUR 445 million. Now, this transaction will allow the company to transform its current 15% stake in Medgaz from a financial investment with very limited governance rights into a strategic state -- stake, which will allow the joint control of Medgaz together with Sonatrach. The acquisition has been agreed at a multiple equivalent to around 6.9x EV/EBITDA expected in 2021, which, as you all know, includes the approved 2bcm expansion program of the current pipeline.



The latest transactions, we think, demonstrate the company's ability to create value through asset rotation and capital discipline in simplifying our businesses and geographical footprint. On shareholder remuneration, the Board of Directors has approved a dividend of EUR 0.4730 per share payable on the 12th of November of this year, corresponding to the second interim dividend of 2019. And that comes out of the total EUR 1.37 per share dividend committed against the year results.

Despite the significant investments made in renewables and electricity networks during the period and the shareholder remuneration commitments, which (inaudible) have included the share buyback, the company has managed to reduce its net debt to EUR 15.1 billion. Moreover, and -- as envisioned on its strategic plan on 13th August, we also completed a cancellation of tertiary shares corresponding to the first tranche of our share buyback program, which was equivalent to approximately 1.7% of the share capital of the company, with a corresponding increase, obviously, in earnings per share. Finally, on regulatory developments in Spain, as you are all aware, we submitted a comprehensive set of allegations on 8th August most of which we have already discussed with you. But in essence, our allegations were grounded on very simple idea.

First, [work] process and methodology, whereby there has been no interaction between the companies and the CNMC. Second, an unjustified over remuneration thesis based on (inaudible) methodologies in our view. And finally, an unjustified and abrupt model change with retroactive effects a symmetrical impact and inadequate incentives, which does not provide for sufficient visibility to invest.

Now with that said, we don't have more visibility in the potential outcome of the CNMC proposals, but I can only reemphasize our commitment to adapt our business to whatever is required. And that is in order to protect profitability and the interest of all our stakeholders. If we move over to Page 5, EBITDA in the period reached almost EUR 3.3 billion after nonordinary effects. Stripping these out, ordinary EBITDA was 5% to almost EUR 3.4 billion, mainly supported by regulated activities in the efficiencies across all businesses. Nonordinary impacts in the first 9 months amounted to EUR 107 million, the bulk of which corresponds to capture cost derived from the implementation of the efficiency plan. On the infrastructure side, regulatory stability in Lat Am, recognizing FX and inflation movements from the prior year, together with stability in European operations, have contributed to an overall strong performance in the first 9 months of the year.

In Gas & Power, the first 9 months have been driven by an improvement in Gas & Power services and sales, particularly in power supply, which has, nevertheless, not been enough to compensate for a challenging scenario in international LNG and Europe power generation. The company's new commercial policies and de-risking efforts, together with efficiencies have also helped offset the low gas prices in recent months.

All in all, the group has shown remarkable resilience, we think, and possible growth despite the significant energy scenario headwinds. If you could turn on to Page 6, we analyze the evolution of net income over the period. And you'll see that it's reached EUR 901 million, while ordinary income rose 13% to \$991 million, supported mainly by improvement in activity growth. Here again, nonordinary items mainly relate to the capture costs incurred as part of the efficiency plan.

In summary, the ordinary earnings growth supported by activity and despite the difficult energy scenario bodes well for the company's future.

Moving on to cash flow and net debt on Page 7, we have generating operating -- generated operating cash flow of almost EUR 3.2 billion, which is substantially higher than the figure in the previous months. In addition to the strong operator -- operating results, the company has also experienced a positive evolution of its working capital, which, as you know, is explained by a number of factors. Some of these effects are related to better working capital management and the shortening of receivable days and the extension of payables as well as 2 other cash-generating initiatives, including an increased factoring, while other effects are mainly related to seasonality or merely coincidental. CapEx in the period amounted to roughly EUR 1.1 billion, mainly reflected ongoing investments in renewal projects as well as investments in networks. As discussed, we are committed to supporting the energy transition, and we have invested close to EUR 400 million in the development of renewal projects in the first 9 months. Again, this is the highest level of investments in this area in the company's history.

Also during the period, we have delivered on our shareholder remuneration commitments. And we've paid out approximately EUR 850 million in dividends, and we filed approximately EUR 320 million in owned shares as part of the ongoing share buyback program. In summary, despite the relevant investments and shareholder remuneration in the period, it's also worth noting that net debt under IFRS 16 was down to EUR 15.1 billion as of the end of the month of September.



So with that, I will now hand over to Jon, who will be reviewing the results by business unit.

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

Thanks, Steven, and good afternoon, everyone. Let's now review the operating performance of each of the business units. Starting with Gas & Power on Page 9, ordinary EBITDA was down 4% during the period, reflecting resilience given the challenging scenario vis-à-vis last year. Looking into each of the business units, gas, power and services sales experienced a strong improvement on the back of margin recovery in power supply and efficiencies and have been partially offset by increased margin pressures in gas supply. These result improvement is done in the midst of the deployment of a new commercial approach, which has reduced the portfolio of fixed-price contracts in power supply and reduced exposure to coal prices, leading to a substantial reduction in volatility. Though it has also led to a reduction of our customer acquisition rate for the short term as we have rebalance -- we are rebalancing our sales channels. With regards to international LNG, the business is still negatively affected by excess cash globally and the consequent low prices. Despite having reduced our open position vis-à-vis previous years, the remaining open position was mainly in oil-related contracts and therefore, especially sensitive to relative values of cash spot prices to brand.

During the second quarter and third quarter, (inaudible) and NBP price levels have been in historical lows, especially when compared with the Brent price, which in all-time lows of 7.5% and 5.8%, respectively.

Putting to context, historical levels in these same quarters have been at almost 13% and 9.5%, respectively. This has led to a substantial margin erosion in our open position, especially when compared with an exceptionally strong 2018. Nevertheless, and given that 95% and 74% of the volumes are secured for 2019 and 2020, respectively, due to physical sales for hedging, we are confident that the contribution will remain positive, while providing for a significant improvement in visibility and volatility reduction compared vis-à-vis previous years. Although we would like to emphasize that we are working towards locking in 100% of the margins in the short and the medium term. Power generation in Spain is affected by several factors. First, the loss of competitiveness of coal production has translated into higher CCGTs production, which is now effectively the marginal technology in the daily market. Second, depressed gas prices and increased competition in CCGTs. These 2 factors have led to a significant reduction in the clean [spark] spread and the size of the ancillary services market. Furthermore, the comparison vis-à-vis last year is also negatively impacted by the suspension of CCGTs availability capacity payments and the lower hydro production. Finally, international power generation has performed well on the back of [the] means to capacity, better margins of (inaudible) energy sales in Mexico and favorable evolution of FX.

In summary, a challenging scenario in international LNG and Europe power generations have been partially offset by the margin recovery in power supply and efficiency as well as the strong performance in international power generation. And already in the fourth quarter, we expect to see a contribution of the new installed capacity of renewables in Spain. Moving now to our infrastructure business unit in EMEA on Page 10. Ordinary EBITDA reached EUR 1.5 billion, thanks to stability and efficiencies across businesses. More specifically, the improvement in gas -- Spain gas networks has been mainly driven by lower OpEx for efficiency and a mild increase in volumes despite the high temperatures during the last winter. In electricity Spain, the positive evolution is supported by efficiencies and additional investments. Finally, the NPL has benefited from the annual tariff increase and favorable FX evolution.

As it was already said in the past, we saw the presentation, a part of the OpEx improvement in the networks in EMEA, and to a lesser extent of Gas & Power, is a result of the change in the role of the corporation. In the first 3 quarters of last year, the corporation still acted as a shared service center. As far as P&L is concerned, the main impact has been that the lane -- the line, which shows the rest of EBITDA last year, had a positive ordinary EBITDA of EUR 43 million, while this year that same line has had a negative EBITDA of EUR 44 million. As you can imagine, this change is not due to an increase in the cost of the corporation, which actually have been substantially reduced. The bulk of the change is the result due to a reduction of the invoicing that the corporation does to the businesses, mainly to the ones in Spain.

In summary, a stability and efficiencies across the businesses. Turning now to Infrastructure South Lat Am on Page 11. Ordinary EBITDA amounted to EUR 716 million in the period, 10% higher than the previous year, driven by tariff updates and efficiencies and that despite negative FX of minus EUR 35 million in the period. Overall performance has followed the same trends as in the first half of the year, reflecting tariff update, which recognized the FX and the inflation movement in 2018 as well as efficiencies across businesses. In Chile electricity, tariff indexation and efficiencies have been partially offset by demand growth lower than expected. Regulatory negative adjustment, mainly due to a change in the small -- smart meter rollout plan and FX. The President in Chile has announced a number of possible measures that could potentially affect tariff evolution in the

country. For the time being, visibility is reduced. The information we have from a week ago is that the announced tariff freeze only affected to 16 generators as they amount to over 70% of the final customer invoice and not to the distribution and transmission activities. Having said that, we have to stress that currently, visibility is limited. In Chile gas, higher sales and margins and efficiencies. In Brazil, results have also been driven by tariff updates since January and efficiency. Finally, in Argentina, the tariff updates in April from the consolidation of the results in gas north has been offset by the still significant FX depreciation in the period. All in all, Infra South Lat Am has continued to perform well and in line with the previous quarters of the year.

Finally, moving into infrastructures north Lat Am on Page 12. Results have been equally impacted by regulatory updates and efficiencies. Ordinary EBITDA in the period amounted to EUR 281 million, up 46% on the back of positive regulatory impacts, higher demand and efficiency improvements. In Mexico, the positive evolution was driven by regulatory tariff updates and indexations, together with demand growth and efficiency improvements. In Panama, the positive evolution is explained by the tariff update under the new regulatory period and higher demand as a consequence of higher temperature compared to last year.

Looking beyond the first 9 months and considering the group as a whole, we confirm our 2019 year-end guidance of around EUR 4.6 billion EBITDA and around EUR 1.4 billion net profit, bearing, of course, any enforcing development. Comparing with the performance in the first 3 quarters, we expect to see a positive contribution in the fourth quarters in the 5 following areas: first, as mentioned before, we should see a positive contribution of the renewable capacity that has come online these past few months; second, Gas & Power sales in the fourth quarter will have a positive contribution in demand of winter without the balance that it had in the first quarter due to the legacy fixed price electricity contracts with negative margins; third, LNG's fourth quarter with a greater gross position to have a much better performance than the one seen in the second quarter and third quarter, even in the dismal commodity scenario that current forwards point towards; fourth, Chile electricity should see a positive result due to Medgaz mutual assets coming online; and last, the accrual of efficiencies in the fourth quarter, but we do not expect to have any additional capture cost. And with that, I will hand it over to Steven for conclusions.

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

All right. So thank you very much, Jon. To summarize, the first 9 months of the year, the period has been marked by quite relevant headwinds and a very challenging energy scenario. Despite this, we have continued to improve and demonstrate remarkable resilience in the face of very negative circumstances. In addition, we have accelerated the delivery of the efficiency plan and we expect to deliver at least EUR 150 million in efficiencies by year end, which is up 50% from our initial commitment of EUR 100 million for the year. In terms of investments, we have dedicated close to EUR 400 million in the development of renewals in the period, which is the highest in our history. And in fact, it has positioned us as one of the leading investors in clean technologies in Spain in the year 2019, which we think demonstrates our commitment and ambition to be a leading player in the energy transition. On top of that, the company has again proven its ability to create value through asset rotation and portfolio management, showing steady progress in simplifying its business positioning and its geographical footprint, while increasing control in strategic assets, such as the reason the agreement to acquire the 34% stake in Medgaz, which, again, the fact that gives us good control of a key infrastructure with low risk and stable cash flows. And all in all, as Jon has just mentioned, we are also, today, in a position to once again confirm our 2019 guidance in terms of EBITDA, in terms of net profit, in terms of net debt.

And with that, we thank you all for your attention. And at this point, we'd be happy to answer any questions you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question today comes from Harry Wyburd of Bank of America Merrill Lynch.



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

So 3 questions from me. And so firstly, on LNG. So I noticed that you said Maritime Transport accounted for that EUR 140 million of the EBITDA. So if I've understood that correctly, 70% of your LNG EBITDA has come from Maritime Transport. Could you just give us a bit more detail on that business? So what's the capital employed in Maritime Transport? I presume this is the LNG tankers. And then can non-Maritime EBITDA be negative? Because if it can, then that kind of sets the floor for your annual LNG EBITDA. And -- so that's the first one. And the second one, on power and gas sales, assuming if we can have a sort of status check. I think you were aiming for about close to EUR 400 million EBITDA improvement in that business in your original plans between 2017 and 2022. And at your current run rate in this year alone, that should improve by about just shy of EUR 250 million on my math. So how far through the improvement are we? How much more of an improvement could we see in EBITDA from power and gas sales? And then final one, there was some mention in the press around the early summer about a strategy update summit that was due to take place, which was then delayed because of the gas regulation. So what's on the agenda strategically? Could we expect a kind of strategy update midway through the plans, which will be around next year?

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

So starting with the first question, the EBITDA that you relate to Maritime Transport is basically due to the long-term leases that we have with LNG shipping that we have. And the non-Maritime transport EBITDA that we have is positive. And as far as we can see in the future, we also foresee to see positive. So I think that, that is something that will be on top of the EBITDA that we have in the Maritime Transport. And moving on to the power and gas cash sales. It's right that we foresee in the capital market data [in London] that it was going to be a significant improvement in the EBITDA, but the target that we gave is the target for the commitment for 2022. We are on track with that commitment, and we think that we are meeting the milestones that we foresaw at that time, when we set that commitment.

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

So regarding the third question. First and foremost, we don't comment on press speculation. And the reality is that there was no communication from the company on this. What we can tell you is that, obviously, our company thinks about the future on a constant basis, always thinking about ideas, always thinking about paths that we want to take. We have a strategic plan that goes up until 2022, but I think it will be reasonable for everyone to assume that the world doesn't end in 2022 and that we think beyond 2022. And the thought process guiding the company moving forward, if we think about '23 and beyond, doesn't necessarily start on the 31st of December of 2022. So it is an ongoing process in this company between the different members of the management team, the Board, et cetera, where we constantly review where we are and where we want to go. And you can rest assured that when the time is right, we will come to market and explain any changes or any additions to the strategy. For the time being, for all intents and purposes, the guiding strategy is based on the 2019-2022 strategic plan.

Operator

Our next question today comes from Javier Suarez of Mediobanca.

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

Three questions from my side as well. The first one is on the cash flow statement. On the -- on one of the slides, the one that is detailing the cash flows statement, there is a positive effect on the working capital of EUR 551 million. And on the -- as you explained that by the positive evolution of working capital and other seasonal fiscal expenses during the period. If you can clarify to what you are referring to and where that number should be by the year end, from where that positive net working capital effect is coming from? Then the second question is on the ongoing regulatory review. I think that during the presentation, you have been very clear saying that you do not have any further information. And the question for you is that if you could consider reasonable or a part of your proportional is to delay the decision on the gas -- on the gas networks from end 2019 to end 2020, there has been some news flow on that and taking into consideration that the new regulatory framework is not due to start until 2021, if you consider that proposal as a reasonable proposal? And then the third question is on the possible agreement with the



Egyptian government on Damietta. Again, here, there has been news flow on the press. If you can elaborate, please, on the current status of these negotiations with the Egyptian government on Damietta?

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

All right, Javier, so 3 quick questions on the working capital, we can tell you is that we don't expect any significant changes from now until the end of the year and we -- i.e. in Q4. And again, just to reemphasize some of the effects related to the working -- better working capital linked to shorting of receivable base, as we mentioned before. It's also linked partly to some factoring and other elements are explained in the actual report. On the regulatory review, do we think that it would be reasonable to extend the period of the review? Although the reality is that in terms of gas distribution, the changes do not come into effect until 2021. So it's clear that there will be time. This time could be used to reach a common position between the regulator, the government, the different -- all the different stakeholders, okay? But we're not going to assign any statement to -- as to whether or not this is something that we desire or not, okay? The reality is we have to deal with what's on the table right now. What's on the table right now is a regulator who is looking to approve some of these changes apparently before year end. So that's the reality. We can speculate about different alternatives, but it would be just that, speculation. On Egypt, on Damietta. What we can tell you is we continue to work heavily to try to find a solution outside of the court circuit. And beyond that, we're not going to speculate on whatever the press is mentioning. Having said that, it's also worth pointing out that there is a dual track. Our preferred option, again, will be out of court settlement, but we are keeping alive the other track, which is the one that takes us through the court system. And where, as you know, we have a favorable income from [Egypt], that eventually could lead to recovering the amount that was awarded to the concession in many different ways.

Operator

Our next question today comes from Manuel Palomo of Exane.

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

My first question is on guidance. On guidance, you mentioned that -- you updated the guidance, and you mentioned several factors such as renewals and power, LNG efficiencies, where you expect some improvement in the Q4. The first thing here is LNG, you said much better than second quarter or third quarter, but could it be or do you think that it will be in line with the first quarter? Because usually, the second and third, the weakest. And second question here on guidance is just a confirmation whether you are expecting any additional, let's say, one-off? Or do you think that anything else will happen that would help you to reach that full year guidance? Second question is on Chile. On Chile, while you have given some color, but I wonder whether you could give us some additional color on that (inaudible) that it's -- apparently that the regulator is working and that could lead to a revision of the returns for the distribution? And also wanted to know whether in the third quarter, are you -- well, including any impact from this tariff reversal that the government has approved in the last couple of weeks? And finally, this is just a clarification on, there is below the EBITDA and others that amount to EUR 20 million, is a positive. I wonder whether you could explain what it refers to? And if I may, last one, you have reiterated all the guidance, but are you still expecting to invest EUR 2 billion in CapEx that you had announced in the full year results presentation?

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

I think that with the guidance, we try to say which are the effects that are going to explain improvement in the fourth quarter. In LNG, we are not going to give any specific guidance for LNG. We have said which are the qualitative effects that are going to happen, and that explains why the fourth quarter should be better than what you get if you just make a linear extrapolation of the accumulated results of the third quarter. So we are not going to detail exactly which is the guidance (inaudible) for LNG. Moving on to Chile, I think that you have 2 different questions. The first one was with the tariff review. The tariff review, as I said, the information that we've had, and that's for 1 week ago, is that the announcement that the President made is only affective to electricity generators, electricity producers. It did not affect to distribution and transmission activities. Having said that, I want to insist that there's a high level of uncertainty in what's happening in Chile. And therefore, it's hard to say what is finally going to happen. So that applies also to your question regarding to the third loan, we have heard several things, some that are negative, some that are not



so negative. And I think that in the current context, it's hard to say what the final outcome is going to be. And regarding to the question that you had on the others, that's basic.

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

So that's basically EUR 20 million that leads to the disposal of Torre Marenostrum to Inmobiliaria Colonial. And so that's how the capital gains. And again, that's detailed on Page 6 of the report. On the CapEx for the year, we don't expect to reach the one -- the EUR 2 billion guidance and we would expect to close the year at a level of around EUR 1.7 billion.

Operator

Our next question today is from Alberto Gandolfi of Goldman Sachs.

Alberto Gandolfi - *Goldman Sachs Group Inc., Research Division - Head of European Utilities Research*

The first one is going back again on LNG. I'm trying to figure out one thing. I think this quarter, if I'm not mistaken, you made a bit less than EUR 40 million EBITDA, and last year, you were well above EUR 100 million. And so if we assume, and it's a big if, right? But if we assume that we have not seen the worst yet, and BP is right, yesterday the company was talking about the gas glut oversupply until 2022. And in theory, without -- everything else being equal, what I'm trying to figure out, are you EBITDA negative on your marginal gas contract? Because if I take your blended supply oil-linked or Henry Hub-linked, transport, plastic (inaudible) production, fees, all of that. I mean will -- would it be more convenient for you to leave gas at the source and just buy the fee as opposed to bringing it to Europe and trading it? Or am I missing something? So could we see maybe for a year or 2 -- this is very cyclical business -- but could we see for a year or 2 in '21, '22, maybe negative EBITDA from this activity? The second one is, can you maybe -- I know you're not going to comment on regulation, but maybe more about your philosophy, your logic, your way of thinking, a 5.8% nominal return, which has been proposed, would still put it, except Italy, kind of at the top of Europe, right? Now, again, not Italy, but everything else, you're pretty much at the top. So why would you say that you would stop investing? What do you think will be the return that will allow you to continue to invest in this activity? And why, if you really can issue bonds, maybe sub-0.5%? And the last question is, again -- sorry, on Slide 7 of the cash flow, could you maybe comment probably totally silly questions -- forgive me for that in advance, but there's a EUR 280 million negative other item, and I was trying to -- I don't quite recall what it is. So if you can maybe tell me about it.

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

I will start with the second question, the nominal return. We are not going to engage a public debate about whether 5.8% is good or not. I think that there are 2 issues. One of them is the most important and the most relevant one is that's the one that is (inaudible) from a methodological perspective. If you look into detail what the CMC is proposing, you are never going to get that 5.8%. So I think that, that's something that must be kept in mind. So I think that it's not a matter of whether the regulated work is at one level or another. It's what the actual level of profitability that you're going to get. Moving on to your first question, the LNG question. I mean 2022 is too far away in time. And we are not going to debate about what other companies say about what the outlook of LNG in the short or in the medium term. But I can tell you that, for us, first of all, the level for -- as we said in the presentation, for this year, we have 90% of the volumes covered. And for next year, we already have 74% of the volumes already covered. So that give us a level of comfort in that next year, we're going to have a positive EBITDA.

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

The negative EUR 280 million and -- that shows up in the cash flow, and we can give you specific details after if you want, but mainly relates to the difference between the accounting, the accrual and the actual cash payment. So that's the reconciliation.

Operator

Our next question is from Fernando Garcia of RBC.

Fernando Garcia - *RBC Capital Markets, Research Division - Analyst*

My first question is on Argentina. They are the new Brazilian program in energy includes energy caps. I would like to understand the implication of this, taking into account the agreement that Naturgy and other gas distribution company signed with the former administration? And what could be the impact of Naturgy if the new government doesn't make the payments that the last one was committed to do? My second question is, I would like to know -- there were a lot of questions regarding LNG (inaudible), I would like to know your philosophy in terms of -- on your position in the current situation with very cheap cost of cash short term and probably, if you are getting longer-term contracts, probably higher cost of gas? Now what is the position in there of Naturgy? And if there is any change of the company in terms of a strategy about that?

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

Starting with Argentina. I mean the government that is coming out, they didn't honor the commitment. So assuming the past tariff hikes that we should have had starting in October 2019 and in April 2019. We didn't see the full level of the tariff increase that we should have seen. I mean Canada will be worse, of course, it can be, but lets not forget that, that's where we're coming from. And regarding the new government, there's little that we can say, let's see how it plays out. And -- but let's not forget that we come from the situation where we come from. Regarding LNG. So we have stressed this past few year -- this past 1.5 years. We have had a substantial change in the philosophy that we had. We came from a position where we felt in the past, comfortable having an open position because we thought that, on average, it made sense. And we were willing to assume the increase in the volatility. This past 1.5 years, we changed substantially and what we want is to de-risk the business as much as possible. We want to give the -- decrease the volatility and increase the visibility. And therefore, what we're doing is, the time to close our position in LNG as much as possible. And that's why periodically, we always report about the closed volumes that we have for this year and also for next year. And as I stressed during the presentation, our goal is to have not been 100% of the margins in the short and the mid-term. And that's right now the philosophy or the strategy that we have regarding the LNG contracts. And I think that in that sense, we've made significant strides and currently we can say that for next year, we already have 74% of the volumes -- that we are secured. And when we say that we are secured, they are secured with a positive margin. So I think that, that gives us a nice cushion in which we can grow into a scenario that is challenging. And as we've said and we stressed this all times this past few results presentations, we think that no one really has the crystal ball about how it's going to evolve. And we don't want to outsmart the market. We just want to have a line of business that is de-risked as much as possible.

Operator

Our next question today is from Anna Maria Scaglia of Morgan Stanley.

Anna Maria Scaglia - *Morgan Stanley, Research Division - Research Analyst*

Two questions, if I may. The first one, coming back to the LNG. I understand the -- you talk about the volumes that you've been hedging. I was wondering, if you look at the unitary margin on those hedge volumes, is there a significant difference between this year and next year? And the second question is about the CCGT production and your electricity business in Europe. And maybe if you can tell us a little bit what you're seeing in terms of the spreads? And as well, what's your expectations, particularly for this gas production going forward?

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

I'm sorry, Anna Maria, but we don't give any guidance regarding any one of the 2 businesses that you mentioned. I mean all of the -- we can say is, we've given some qualitative guidance of how we think that the fourth quarter is going to move. We've given a quantitative guidance regarding

of the volumes of LNG that are locked in for next year. But as far as margins is concerned and as far as total EBITDA is concerned, we don't give any guidance, I'm sorry about that.

Operator

Our next question is from Meike Becker of Bernstein

Meike Alina Becker - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Meike Becker, Bernstein. It is one question left at this point and I'm shifting the attention a little bit from the segment. Renewables. I was wondering if your thinking has changed over the past year, considering that we're having the strong solar pool in Spain, but also on merchant, where I was thinking with your customer portfolio, it might be interesting to go down the flute on signing PPAs. So is it just be great if you could elaborate, if your thinking has changed or if you have sites in the pipeline, and if you are looking at renewables in Spain at the moment?

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

I think that for us, the most important thing is (inaudible). All investments that we do, we have to make the investment also. So that for us is the key criteria. I mean having said that, when we said that we have hedged our fixed-price contracts with our intermarginal generation, that means that we are already selling to our 10 customers via fixed-price contracts, the equivalent of the energy that we are producing with our intermarginal generation.

Operator

Our final question today is a follow-up question from Alberto Gandolfi of Goldman Sachs.

Alberto Gandolfi - *Goldman Sachs Group Inc., Research Division - Head of European Utilities Research*

Thank you, first of all, for the patience, and I'll promise to be very quick. One question, considering the big trading in procurement division you have and I'm trying to here reconcile some of the quarterly moves in the debt. Could you please disclose if you have a big positive variation margin cash account? So I'm trying to understand if some of your net debt is inflated or deflated maybe by this variation margin cash account? And over what time frame do you think it would basically go back to 0?

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

Alberto, always nice to hear from you again. Having said that, you start with post trading. We don't have a big trading. So since we don't have a big trading, it has no impact in day -- in the debt evolution that (inaudible) for this third quarter 2019.

Operator

We have no further questions registered. I'll hand back to you.

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

Okay. Well, thank you very much, everyone, for your patience today. I hope the Capital Markets Team is available to answer any additional questions you may have. Thank you. Good day.

Operator

Ladies and gentlemen, that does conclude today's call. Thank you for joining. You may now disconnect your lines.

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