

**REN – Redes Energéticas Nacionais**  
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**Corporate participants**

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

**Ana Fernandes**

Good afternoon, everybody. Welcome to REN's Annual Results Conference Call. I'm joined by: Rodrigo Costa, our CEO; Gonçalo Soares, our CFO; and João Conceição, our COO. As usual, Rodrigo will do the opening remarks, and then pass the floor to Gonçalo. Rodrigo?

**Rodrigo Costa**

Thank you, Ana, good morning all. As you -- I'm sure you already saw, our numbers are aligned with the overall market consensus. That was the expectations in the market, and we meet the expectations.

EBITDA stood at EUR 476 million, which was slightly better than expected, given the increasing sovereign yields and something that is important. And Gonçalo will go through that.

When we compare with the previous year, the overall numbers, of course, we need to take in analysis, we need to take in account extraordinary facts that happened in 2015. The '16 comparisons are affected by that. We keep a major focus on our operational performance and our financial discipline as well in following the priorities of our strategic plan that are public. Being today, we're talking about the full year results, I think it's always important to mention that we keep following those guidelines that are public.

We had another great year achieving the metrics we wanted. They are world-class metrics on security and efficiency in both the electrical side and also the LNG side. OpEx stayed in line with the budget and financial costs were better than expected given the lower cost of debt. It was at 4.1% at the end of the previous year, and it's now at 2.2%, which is very good progress. Net income naturally benefited from better financial results but suffered with the energy levy and the absence of any positive one-offs, like the ones we enjoyed last year.

CapEx was lower than in 2015 but totally within our expectations. As usual, the last quarter of the year was higher. And we were able to put into operation a number of important projects, which was something positive and something usually happens that way. We have securities and international investments that meets the guidelines we provided a long time ago. It took us a lot of time because we wanted to just to follow our guidelines and expectations we created. It's a great asset where we have a positive long-term perspective. We believe it's -- the quality and importance, it's very good.

And looking forward, we are very positive of the future of that investment. We have very good local partners with whom we already are working together. This investment brings us granular growth to our asset base with positive impact from the very

beginning, which is also important for us. And now I would turn to Gonçalo that will go through the results presentation. And after, we will be available, the 3 of us, to answer any questions.

### **Gonçalo Moraes Soares**

Thank you, Rodrigo. Good afternoon. Thank you all for joining the call. So I'd say that this is another year where we have everything else as planned, a year with very good operational execution of investments and in terms of quality, a year where we performed well in terms of financing cost, a year where I think we achieved another goal in terms of moving forward in our business plan.

As you see in terms of financials in Slide #1, we basically met our consensus and the internal goals that we have. EBITDA is slightly below. But the reality is that, as was said before, this was adjusted for that one-off effect of the Enagas stake sale in 2015. It will actually go a little bit higher and would be slightly higher as well as net profit that was not only affected by that but also by that one-off tax provision that we have in 2015, close to EUR 10 million. So if you take those 2 out, the final outcome is that recurring net profit would go up by 7%, which is in line with what we expected and is a good result in our opinion.

In terms of CapEx, I think that we achieved, thanks to a lot of efforts from our operating investment teams, a very good result. And as always, most of the CapEx is done at year-end. It's not different in this case. But we were able to maintain a CapEx that is within business plan guidelines. And so we are again, another year, fulfilling with what we said here also.

I'll talk a little bit more about Electrogas a little bit after this. But just wanted to stress that after that acquisition, which in this year apart from the impact in net debt, which is close to EUR 170 million, slightly below, the impact in terms of net income is going to be very small and that 2 of our 3 rating agencies already issued opinions and reinstated the levels that we have, namely Fitch and Moody's, already in the context of this transaction, which -- or what was expected as we always committed to how we're doing transactions that would fulfill the investment-grade criteria.

Moving onwards, and I'd probably skip Slide #2. And if we can go to Slide #3, what you would see is perhaps the most important metric for our company or one of them, which is the evolution of the Portuguese 10-year bond. What we've seen is that there was a normalization in '15. But then since beginning of '16, there was a gradual increase in the yield. And that translates in the base rates of return that we saw. So in terms of electricity, see that in 2015, you have around 6%. And in 2016, that base rate of return went up slightly above 6.1%. In gas, it's not really comparable because, as you know, there was a change in terms of regulatory framework in the middle of last year, so you kind of have a mixed rate. But I would say that the trending rate, which as you know is in the framework, is almost similar to the one in electricity in terms of the impact of the rate is very close to what we have in electricity now.

Moving to Slide #4 and to CapEx. And as I told you, what you can see here is the result of a lot of work at the end of the year. We were slightly above EUR 170 million, so EUR 171.5 million. We have some slight delays because of licensing issues, but that were solved. And so we were able to meet our target. Actually, this is a little bit above what we have expected for the year. And what you can see is that actually taking the investment that we have in '15 relating to the Galp caverns, we are actually growing CapEx a little bit versus 2015. So this is what we've been doing, which is to calibrate the level of CapEx so that within the period of the business plan since in '15, which is the first year, we did much more than what the expected value. We are now calibrating a little bit downwards, as we've always said, so that on average we would fulfill what we have in the business plan and we are doing so. In terms of transfers to RAB, the story is similar. And so you basically have a decrease, which is basically in line with also that same story from the assets from Galp in the previous year, okay?

Looking to Slide #5 and to average RAB. This is a story that you know well. So basically, the trend is that you have electricity without premium coming down and electricity premium going up. Of course, in this year, since we have a lot of investment in gas because of the caverns again, in the previous year you see a negative impact in gas this year in the regulated asset base because the normalized level on a yearly basis for gas is lower. Again, this is within expectations and within the logic of the business plan. We have set it up that the regulated asset base would be basically flat within that period. Since we increased it in the first year, now it's normal in the following years, we'll have some corrective effect so that, on average, we would be within that expectation that we set out on the business plan.

Moving to Slide #6 and looking at the return of all of these investments. And what you can see here is what you saw before in terms of evolution of the rates of return basically. So what you see is an increase in electricity basically driven by the small increase on the rate of return, also small increase in asset base but basically the increase of rate of return. And in terms of gas, you see both effects mostly because of the rates of return and a little bit because of that decrease also in terms of the asset base. As I said before, this is completely within our expectations.

Moving to Slide #7, which is the operating cost. What you can see here is that operating costs are increasing 1%. In reality, this increase is driven by pass-through costs, not by the real core OpEx, which is the one that is managed by us and which is also under the revenue cap. The core OpEx number actually is coming down 2%. And for that accounts not only this decrease that you see here in personnel costs but a lot of other cost-efficiency measures. The operating areas continue to improve on O&M. Legal costs came down. Consulting costs came down. And actually, the drop in core OpEx was not that high as you see or could have been a bit higher because, as you know, last year, we issued 2x bond instead of 1. And these costs are also impacted of those costs. And so actually, on the pure kind of operating costs, you would actually see a larger decrease.

If you go to the next slide, which is Slide #8, you actually see that impact on the non-core costs that is the pass-through costs. You see that there is a first one. Actually, I'll ask João if you want to talk in a minute there. There's a first one, which is an ITC mechanism. And this relates to a dynamic of how the energy sector last year works, which is a little bit peculiar. So I'll ask João to talk a little bit what happened last year here in terms of electricity (inaudible).

#### **João Conceição**

Thanks, Gonçalo. Good afternoon to you all. So basically, this is something quite new in our system because for the first time, we were a net exporter on average on the year 2016, meaning that according to the mechanism that is in place between compensations, inter-TSOs within Europe, it means that we are, as we were exporters, we have to pay to the importer TSO, in this case, the Spanish TSO. And that's why you see a negative value, a cost that was -- a cost of the system, which is fully passed through. We are just in the (inaudible) phase, but we get this money fully -- the amount fully through the tariffs and the regulated tariffs defined by us.

#### **Gonçalo Morais Soares**

Okay, thank you, João. The other cost that you see there on the slide that basically increases on those non-core costs, on those pass-through costs, actually the main one is the cost with the regulator. That for us is also pass-through cost. That goes up EUR 0.5 million. It doesn't really impact us or have anything to do with us.

So moving to Slide #9 that summarizes the impacts on EBITDA. Basically, what you see is this is improvements in terms of costs, some improvements in terms of remuneration if it was not for the change in the framework in the gas part. But basically, the story is that the EUR 20 million from the Enagas stake, all of those. And so you'd actually have a negative impact, where you would have, if not for that, a positive impact of over EUR 6 million on the EBITDA line.

Moving to Slide #10 and to below EBITDA. So what you see here is that in terms of depreciation, basically in line, no story, I think very much in line with what happens on the asset part. In financial results, I'll go a little bit more through that in the following slide. But I think we have another good year. I think we took advantage of the good conditions in the market. We refinanced almost 1/3 of our funding. We extended maturities. We have now more than 3 years of refinancing up in the plans in terms of liquidity. So I think that all of this shows that the flexibility that we've built not only for the rating agencies but also for these cases, in terms of the liquidity, has been paying off and has been allowing us to basically go down the curve of the average cost of debt in a pretty efficient way, and I would say slightly ahead of most of the expectations of investors and analysts.

In terms of taxes, I'd say everything is more or less as usual. If you take out the special levy, there is not really a one-off effect, but there is a small impact here in this year. Ana can then take the analysts through that. That relates to one of our smaller companies that is because of those tariff deviations, sometimes you delay the payment of taxes and so we have slightly higher taxes this year and we have slightly lower taxes in the previous years but completely, I'd say, within what we expect and nothing very out of the ordinary, okay?

So moving to Slide #11 in terms of net debt. What you see is basically a stability of net debt. Actually, if it wasn't for the special levy, net debt goes down a little bit. But it's what it is. And so we see basically a stability of net debt overall in this year, so no major change. As I said, average cost of funding decreased substantially. It decreased 90 basis points over the year. You should not take this clearly as a target for the following years in terms of yearly decrease of our average cost of debt. And the FFO/net debt is keenly within what rating agencies want us to be in terms of investment grade. This is a metric that we follow very closely on a quarterly and yearly basis so that we do not really jeopardize in any way the investment-grade ratings, which, as I said, have been mostly reaffirmed.

So in terms of Slide #12 and net income. This is the outcome. You see that it goes down. But again, it is mostly impacted by the negative effect of the Enagas stake and by that one-off impact on the taxes that were more or less EUR 10 million, okay?

So in terms of conclusions and before leaving room for some Q&A, so basically we did conclude end of last year and in, I'd say, a formal way beginning of already '17, but we concluded our first investment, this was an investment outside in Portugal in a pretty safe country. Chile actually has a better rating than Portugal has. In a discreet and, I'd say, careful way, that does not really impact neither our rating nor our dividend policy or our financials in a very disruptive way.

Other than that, I think that we've been continuing to do and implementing our business plan in terms of investment, the cost of RAB. And I think that also because of that, the board decided to propose in the AGM that the same dividend would be paid, which is exactly what we have. Basically, this is our dividend policy, which is to pay EUR 0.171 per share. And so that also fulfills what we announced in our Investor Day some years ago and in our business plan.

So that being said, I conclude my presentation. And we are happy to take any questions that you may have.

## Q&A

**Sara Piccinini - Mediobanca - Analyst**

So I have a few. So the first one is on the -- if there is room on further cost of debt reduction and if you can consider to renegotiate any outstanding debt still already in 2017. And if you have also -- if you can also provide some guidance on 2017, where do you expect the net financial expenses to be at also because of the increasing debt from the Electrogas acquisition? And maybe a guidance of the net income could be very useful. And then the second is on Electrogas. How much is the equity

contribution that we could expect? There is EUR 3 million reasonable assumption, so 3% EPS accretion from 2017. And on international expansion, are you still considering the international opportunities abroad or in Portugal as the press was mentioning possible interest in Portgas? Just want to know in general if you would consider to raise equity to finance these eventual acquisitions. And then finally, if you can you remind us the parameters that the rating agencies are using to maintain the investment-grade in terms of FFO to net debt and maybe net debt to RAB.

**Gonçalo Morais Soares**

Okay, thank you. So in terms of cost of guidance, and I think we don't give any specific guidance as you know. What I can tell you is that since part of the refinancing was not done in a full-year mode, even if you only compute the debt that we refinanced last year, and that was not 12 months with that cost in that year, you would expect that we'll have some kind of positive impact on the average cost of debt this year. Since we anticipated a lot, we do have not a lot to refinance this year, even with the Electrogas acquisition. So we don't really need to refinance anything, and we could do that at the end of the year, which would not have an impact this year. So I think you can expect some kind of decrease of the cost of debt but clearly less than what we have in this year. In terms of the guidance that you asked about net income, yes, those EUR 3 million are what I think actually Ana already told you. This is more or less what we expect in terms of impact in terms of net income. In terms of net debt, it's around EUR

167 million, if you want the precise number, so around EUR 170 million. So that's the small impact that you see in our accounts since this is a minority holding. Rodrigo will take the question asked about. Just to clarify the one about the rating agencies, the metric basically that they've set in terms of the FFO/net debt is around 10%, okay? So actually, we have some slack, which is what we want. So we try to be always a little bit above, so around 11% to 12%. That's what we strive for, to have a little bit leeway. Rodrigo?

**Rodrigo Costa**

On your question about investments, future, if we have any overall comment or specific comment. I would say what we always say, we do not make specific comments besides the fact that we follow a strategy. We are very committed to that strategy. Everything you can see that we have done so far fits there and follows the strategic plan, which is a lot of focus on the operations, finance discipline and for business development, very stable countries, low-risk assets, predictable revenues. And that's all we will say about this today, like every other call we did.

**Fernando Garcia - Lazarus - Analyst**

It's Fernando Garcia from Lazarus. I have 4 questions. You were commenting that funds from operations/net debt will be around 10%. But your guidance for 2018 is, I mean, better than that. I don't know if you'll stick still to your guidance that you presented in 2015. Second question as well in terms of debt, you are reducing the level of variable debt in the last year, in 2016. I wanted to know if this trend is going to continue. And what mix of variable versus fixed rates do you target in the future? Third question, there was a question before as well on that. But in the Portuguese press, it was rumored that you were a likely bidder for Portgas. If you could confirm this or not about that you are going to bid for this asset. And fourth question, I think that this is not a specific thing for REN and doesn't have any impact. But do you still think that REN takes part in the technical calculation of the final review of the CMECs in Portugal this year? Please, could you help us know on this, how this process is done and a little bit of time frame when this will be finished?

**Gonçalo Morais Soares**

Thank you, Fernando. So let me just clarify one thing, relating to the FFO/net debt, the 10% is not a guidance. And the 10% that I was saying is that the limit that is set, okay? What you see, that we've always been above that. So we don't give guidance for FFO/net debt. But of course, you should expect that this should be at least 11%, but we don't give guidance to

this. What we said is that this is the limit, and so we like to have some buffer, okay? In terms of what you also asked about the variable, fixed. So this is a change that we've made. And so it's not that we are changing anything but just because of the dynamic of the refinancing. During this year, it still should increase. It was something that we already decided. But the year-end is at around 64% fixed. Perhaps it's going to be 69% or set so. It can increase a little bit but not a lot. So you may see that increase a little bit but not a lot. So between 65% to 70% is probably what you should expect.

**Rodrigo Costa**

It seems that for me today it's the role of the no comment commentator because I'm going to take all the non-comment answers. On the first one, I said -- I just can repeat what I just said, we never make any comments about future besides what is public and the framework we operate in and we will not leave that. On the second question you made, we also -- I also have to apologize that we cannot comment on the role we have in our obligations with the regulators. This is something that -- we are not allowed to make any comments, references to term of the missions we have.

It doesn't mean they are small or big, important or less important, but that's it.

**Fraser Andrew McLaren** - BofA Merrill Lynch, Research Division - Director

I have 2 questions. First is regarding Electrogas. And at the time you announced the acquisition, you spoke about the possibility of there being some growth potential further down the line. Just wondering if you have any more visibility on those expansion options at the moment and the like of timing. And then it would be remiss to ask if there was any update, please, on the ongoing future of the levy, please.

**Gonçalo Morais Soares**

Okay. So on the first question on Electrogas, the growth comes from several avenues. One of them is that, for instance, there is now an expansion of the terminal of the GNL terminal called Quintero that will also expand the revenues of the company itself. Secondly, Santiago, in particular, still has low penetration rates of natural gas. Those are also expected to grow in the coming year. So that's the little bit of growth that you'd see. So when I said to -- I think it was Sara that asked first what was the impact. And I said that this year, it will be EUR 3 million. Of course, this is not going to explode overnight. But you should expect that even maintaining the stake exactly as we have now, that it should increase with time as the business goes and as the debt is paid down. So I think those 2 impacts would lead us to have a slightly higher and progressive impact on the net income line coming from Electrogas. João can give a little bit more color on this and I'm sure that Ana can also give you. But I'd say that these are the main reasons behind it, okay?

**Rodrigo Costa**

On the levy, the process is moving. As we said before, it's quite a complex and slow nature process. We do not have an update to do at this moment since this is going through the normal situation. As we said before a few times, this is a situation where we keep our position, we maintain our position. We decided to pay because, otherwise, we would be always talking about provisions and risks. And we decided it was better -- even financially for us, it was better to just pay and keep paying it. That's what we're still planning to do. At the same time, we keep challenging the measure, but we know it will take time. And as soon as we will have more news and they will be public and we'll be able to discuss them. But for the moment, we don't have anything else we can share. And it's not clear what are the plans of the government. Yesterday, we had the opportunity to speak about this. And we just hope that the value is going to decrease. But in any scenario, I believe this will be good news for us on the long term.

**Nelson Rei Bernardino** - Haitong Bank S.A., Research Division - Equity Research Analyst

Just a very quick question from my side. There's been a lot of reports on the Portuguese press about interest about new solar PV installations in the south of Portugal. Will this require new investments by REN to accommodate these installations?

**Rodrigo Costa**

The solar PV -- the solar projects for the Portuguese government at this point are very, very important. Every time we hear any communication, we read any communication from the government on energy, they talk about that. They say the license -- they already licensed roughly 300 megawatts.

They have request for another 2,000 megawatts. I heard that number today directly from a government official. And we know that will imply a couple of new projects for us. Maybe, João, you want to comment what kind of projects that can happen, what do you see if they go ahead with those projects?

**João Conceição**

Sure. Thanks, Rodrigo. Well, depending, of course, on the capacity that the government licensed. From picking up what Rodrigo has just said, for these volumes of new capacity, we will most likely need to reinforce the overhead lines in the south of Portugal. We're speaking about roughly between EUR 30 million to EUR 40 million of investment specifically for these reinforcements in terms of overhead lines and some upgrades in our substations in the south of the country.

**Rodrigo Costa**

And just taking this opportunity to also to talk about the fact that the reason why we always said it was important to find some growth outsider Portugal would be exactly to make sure we can create some compensation for the lack of growth of investments in Portugal. Nevertheless, we believe this is a big priority again from the government. The government understands. They fully understand what João just said, meaning new capacity, we need to adapt to that capacity. And nobody probably will argue that it's mandatory.

**Nelson Rei Bernardino** - Haitong Bank S.A., Research Division - Equity Research Analyst

Sure. Just one more follow-up question, do you have any comments about this proposal by the Left Bloc about them taking back the control of the system operation from REN?

**Rodrigo Costa**

Well, my comments yesterday are very public. What we took yesterday the opportunity when we had our press conference on the annual results, we had a lot of journalists. They asked a lot of questions specifically about our position versus what they are announcing. We believe that this proposal makes no sense. It's a proposal that -- it's about ideology, not about any concern that anybody has with us. REN is an outstanding company. We're delivering an outstanding service at a very correct cost. They also mentioned a question of national sovereign in terms of who makes the decisions, who makes the calls, who decides the investments. I think we're also able to make it very clear that this is a very, very, very supervised activity. It's the regulator who decides how much money we make. It's the regulator, together with the Ministry of Energy, who decides what kind of projects we can do and we cannot do. At this moment also, they included another step on the process for approval, which is we go to the parliament now to talk about our investments, our maintenance costs, et cetera. That is an incredible opportunity for us also to tell people what we do, why we do it, in fact, why we do it so well. We compare very well with any other TSO in Europe. If you look to our metrics, if you look to the items, statistics quickly, you can understand that REN is a very efficient company, especially if you consider the size of the country because we have to do everything the big guys have to do, but of course, for a smaller country. And this could go against our efficiency. And I think we have a great line of defense in this topic. For sure,

when those situations happen, you always have to make sure you make your point. And we want to see what the parliament wants to decide. If they want to really go ahead with a discussion, what they really want to propose if they understand our arguments.

We made our point, it's very public. I am very animated about this because this is a big mistake in terms of -- even as a proposal because it sets the wrong state, and it would, of course, not be positive at all for the country. But I'm confident we made our point and it was a very clear point. And there is nobody that can argue that we have a very efficient solution.

**Sara Piccinini - Mediobanca - Analyst**

Another question is on the regulatory review, if you have any update from the regulator if we could expect some consultation document before summer or we stick to the 18 October. And the second question is on the CapEx. So you just mentioned that the proposal for your investment plan should go to the parliament soon. And when is it coming in, in the coming weeks? Or is there a specific date for that? And if we can assume for 2017 and '18 CapEx around EUR 170 million, which is in the lower range of your guidance from the business plan? And finally, very, very last is if you have another -- if you are expecting a strategy update for next year?

**João Conceição**

Okay. These were several questions, I'll try to answer a couple of them. First, regarding the new regulatory periods for electricity, we are dealing with the regulator, as we always do on informal contacts. Officially, what we know is what the President of ERSE announced recently that they are intending to launch the public consultation before the summer. This is obviously an intention because the only binding date that ERSE says to comply is the 15th of October to present their proposals for the next regulatory period. And that's what we know. Regarding your second question on the investment plan, we were in the parliament this week, made a very short presentation. And now we have to wait to see if the parliament wants to us to come back again and to discuss our investment plans. Today, in fact, is the official date that we are giving our proposal to the [Foreign Language], which is the representative of the government. And now we have to wait until what are the instructions from our concession counterpart, the government.

**Rodrigo Costa**

On your question about strategy update, usually I think the right calendar to do this is always the beginning of a new term or if you have a major change on your strategy. And I think that probably the right time to do a strategy briefing will be next year, in the beginning of next year, around the AGM or something. Nevertheless, we have attitude of transparency in terms of strategy with the analysts and with our shareholders. We try to make sure in a public way people understand what we are doing, why we're doing. We keep always talking, even today during this call, how many times I mentioned the strategic plan and what we want to do. We have this plan. It's very clear in our minds. And they are exactly the ones everybody knows. And I think one of the missions that we have, even with our IR team and for Ana is to make sure that we are very clear and very upfront with what we are doing and sharing with -- this is, of course, a very, I would say, boring business in the sense that we come here every quarter. And thanks to the good job we are doing, we do not have anything very, very exciting to share on a good way but also on a better way, which is great for the type of company we are.

**Ana Fernandes**

Okay, everybody, thank you very much for being here. We'll talk if you want. If not, have a great weekend. Thank you, bye.