

**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**

Hello, everybody. Good afternoon or good morning wherever you are. Welcome to REN's results conference call. I'm joined by Rodrigo Costa, our CEO; Gonçalo Morais Soares, CFO; and João Conceição, COO. They will be ready to answer your questions after a brief introduction by Rodrigo and then, comments from Gonçalo. Rodrigo?

**Rodrigo Costa**

Thank you, Ana. Hello to all and welcome.

Yesterday, we published our 2015 results. We believe our numbers are aligned with the best expectations. Although we faced multiple challenges, we feel good we did achieve the results, both on the financial front as on the operations angle, we believe we performed quite well. Being a key infrastructure to the country and almost fully regulated business, we benefit from the predictability of our contracts and the challenges living with the sector, administration and stakeholders. 2015 was another good year from a service perspective. We kept our services level at the very high standard, while efficiency remains also topping the best industry practice. We are all very proud of keeping these metrics.

Net income was up 3%, given the good performance of financial cost and one-offs resulting from the Enagas' sale capital gain and the tax credit obtained in June. Nevertheless, these results suffered from the negative impact of the new electricity regulatory framework and the maintenance of the energy levy for another year.

CapEx rose to EUR240 million during this period with a relevant impact of the purchase of the underground natural gas storage assets in Carrizo, north of Lisbon. Electricity CapEx was almost 8% higher than the year before. As usual, REN took its investments plan very seriously and works within the obligations of the concession contract signed with the Portuguese authorities. The average cost of debt ended the year at 4.1% resulting from our efforts to take advantage from the lowering interest rates and investment grade rating enjoyed by REN.

And now, I will turn to Gonçalo for -- he will take us through the presentation. As Ana said, in the end, we will be available for the Q&A. Thank you.

**Gonçalo Morais Soares**

Hello, good afternoon to you all.

So, just a recap on slide number 1, some of the highlights which Rodrigo already mentioned.

So, our net profit was up 3%, as you know, because the mixture of recurring and non-recurring impact normally on the negative side. We have the new regulatory period, which has an impact in cost -- in revenues that was completely expected, and as was said, also the maintenance of the levy.

On the other side, you have the sale of Enagas and the financial results and we had also a non-recurring tax credit, which helps manage net profit this year.

EBITDA was down slightly 3% and mainly given the evolution of the rates and of the revenues we get from the assets. CapEx and transfers to RAB were actually slightly above or above the average we are expecting in the business plan, as we have this 2%, let's say, specific assets that were bought last year.

If you want to switch to slide number 3, immediately, so just to move, so I'd say the slide as you know illustrates basically the main impact we have in our revenue. So we came from year 2014 with still somehow slightly higher rates, which came down a lot during the year 2015 and so the base RoR in electricity came from 7.8% to around 6%, also because of the change in the regulatory period, and on the gas side, it only came down to 7.3% which as you know is our basis for -- where we are now.

On slide number 4, you can see how the investment plan and as I said, CapEx went up, but if you exclude the new caverns which were already regulated assets in the space, we would be, let's say, within the scope of the business plan and we'd be on average similar to the year before. So, I'd say, nothing very different, but we were able to buy these two assets which was very important for us.

In terms of transfers to RAB, let's say that there was a decline excluding the caverns, but which is also, let's say, normal and it depends on any given year on how construction is done. But then with the caverns, we were able also to grow transfers to RAB around 19% which was on the operating side a very important result.

If we could move to slide number 5, we see how the average RAB evolved; let's say, no major story here. The main difference is the increase in gas, which is much higher than in previous years. But apart from that, what you see is a normal decline on the lands and then the normal re-composition of the mix between electricity with premium and without, as without is being amortized and the new investments are then 99% or more with the premium.

Looking at slide number 6 and looking at RAB remuneration, what can we see? We see the dynamics that I spoke about before. So on the electricity side, we basically see the impact of the rate of return and it has an impact of more than -- around EUR45 million and results, as I said, not only on the fact that it is in the first year of the new regulatory framework for electricity, but also the fact that at the beginning of 2015, there was a large decrease in the rates in the market, given the intervention of the ECB, which occurred again this year, but occurred last year also at the beginning of the year. In the gas, let's say that there is a lot of stability and so assets go up, rates come down a little bit, but actually there is a slight increase in terms of remuneration.

Looking at slide number 7 and OpEx, we see that there is, let's say, a maintenance of cost in terms of total OpEx and this is mainly driven by a continued decrease on the personnel side and a small increase on the external supplies, and some of these results on some non-recurring consulting costs that we have in 2015, but also by some costs on the operation and maintenance, as you know, some programs are not done every year, and this year, we did some maintenance in some specific areas of the network, which are not repeated every year and made that specific cost increase in this year in specific, but it's something that will not be repeated every year.

In terms of slide number 8 and the evolution of core OpEx, so it's more or less stable as we said before. So there are no major news. Let's say that the main message here is, is also that although we are extremely committed to continue to drive efficiency

in the Company and meet regulatory targets which we have set by the regulator, at the same time, we are already pretty efficient company and in that sense, the reduction of costs in the future, as we've been telling you for the past year, is going to become more challenging even though it continues to be a priority for management.

So in slide number 9, you see the overall picture of EBITDA. So basically, decreasing asset remuneration and compensated by depreciation and the Enagas stake sale.

Looking at slide number 10 and looking at below EBITDA, you see depreciation [was also] evolving in line with the evolution of the assets. Financial results, I'll comment a little bit more on the next slide. But it is the reverse side of how the rate of return evolves on the revenue side, so this is always, as you know, the hedge that we have here. So, when you see EBITDA come down because of the rates, you see this also come down in vice versa. So let's say that it is within expectations, but better; it is the same logic, but better than we have expected and I think it went in a very positive direction.

Taxes, as you see, we still have a very large weight of the special levy and we [consider to factor in] the EUR25 million. The rest of the taxes, we were able to actually decrease, it is a non-recurring tax credit of almost EUR10 million, but it was an important tax credit nonetheless that we fought to get.

In slide 11, I'm talking about average cost of debt. Looking at the original debt, so I think that we have an expectation to be slightly higher, but we were able to end the year at 4.1%. It was a good evolution in terms of our average cost of debt. Regardless of what is [embedded in] the market and what happened to the Portuguese sovereign, the reality is that not all companies were able to decrease average cost of debt this way, and we were. So I think this was a good refinancing effort that we keep on doing.

Net debt is, let's say, more or less stable. It increased close to EUR30 million. As you'll notice, we paid special levy price this year, because the one referring to 2014 was also paid in 2015, so that explains more or less the main fact that it is not stay completely stable, but as we say, we are continuing to be committed to maintaining investment grade credit metrics. And as you know, we are the only Portuguese issuer, which is still investment grade in all (technical difficulty).

Looking at slide number 12, we're just wrapping up in terms of the net profit. So basically, you have a negative impact that comes from EBITDA which is compensated with below EBITDA items, and so net profit is -- we were able to grow net profit 3% last year, although on a recurring trajectory, this actually came down around [16%].

So in terms of main conclusions, I think it was a pretty positive year with the evolution, both on the operating and on the financial side. And this year is going to be also an interesting year and a challenging year, but we will wait for your questions to give you some feedback relating to any news we have regarding 2016 and then Rodrigo also mentioned the dividend policy that as you know we announced yesterday.

Okay. Thank you very much. If you have any questions, please go ahead. Thank you.

## Q&A

### **Gonzalo Sanchez-Bordona - BPI - Analyst**

Thank you for taking my questions; I have two, if I may. First one would be on, if you could provide us with an update on what is the status of the legal process against energy tax in Portugal. I guess it was only 2014; if you could also update us on what happened with 2015 if you're going to challenge that or it was already challenged. And the second question would be on the CapEx expectations for 2016. I just wanted to know if you still expect EUR200 million for this year or you expect any delays in light of all the issues you had with the regulator, both on the electricity and gas plants.

### **Rodrigo Costa**

(technical difficulty) it's complex. Okay. I just repeat. Yesterday, we had the opportunity to go through the legal process that we are in regarding the sales, it's complex. It's composed of several smaller processes. We usually do not make any comments while the situations are moving forward, there is nothing new. It's everything that is happening is public, there was the arbitration court decision on one small case. We will appeal to the constitutional court. That's the strategy we are following. And I don't think we will have news in the short term. As I said, this is always the – these processes always take some time. Regarding the question about [paying], we also made it public. We have been paying -- we paid the first two years. And of course, we will keep challenging the decision, but this is the court of law. We cannot make that on who is going to win, who is going to lose. We believe we are right, but in the end of the day, it's not our decision, and of course, we will comply with whatever is the decision taken. We believe we are doing the right thing to defend basically our stakeholders, our Company, but nobody can be sure what's going to happen. And we know this is -- this processes take time.

In fact, this is one of the reasons why we decided on the strategy and I'm repeating myself a little bit, we leave it to the legal teams to manage the dispute and that's why we are able to have the management focus on the operations, on the finance side of the business, on people and which for us makes a lot of sense.

Gonçalo?

### **Gonçalo Morais Soares**

So relative to CapEx, so to give you a little bit, so what is presented on the business plan was not EUR200 million, it was the EUR175 million to EUR200 million on average. What you'll see that on the first year 2015, we actually were above that average because of those two caverns, so what you see is probably going to be the CapEx number on the lower end of that interval that was given to you on the business plan.

And we're also going to ask João, the COO, to comment a little bit on what you said about the regulator and the CapEx (technical difficulty).

### **João Conceição**

Thanks, Gonçalo.

Just to complement on what Gonçalo just said is that on these recent assessment that the regulator did on our CapEx plan, honestly, the thing as we see it, it has to be analyzed on a medium term because on the very short term this has in our opinion very small impact because these projects are almost ongoing. So, just complementing what Gonçalo said is that we feel comfortable that we can maintain what we said in the business plan that we will have an average of EUR175 million to EUR200 million average CapEx on an yearly basis.

**Fraser McLaren** - BofA Merrill Lynch - Analyst

I have three short questions, please if I may.

First is just a follow-up on the energy tax and I'm just wondering if you expect the government to respect the planned reduction for this year and next year in the energy tax. And number two is a follow on from that really in relation to when you expect to next assess with the actual dividend policy. And then lastly, are there any other tax items outstanding that you're speaking to the authorities about, or is the one reported in the year just ended the most -- at the most significant and the only item?

**Rodrigo Costa**

On the expectation, as you know and we all know, we have a new government in place. And they approved each year on budget. We've just got the approval for the 2016 budget. There was a lot of rumors, discussions, expectations, in the end what happened was what basically at this point we were expecting. And it's just too early to talk about what's going to happen next. There is no -- we know this is a -- Portugal is a small country, we have some economic challenges. I think this new government is making their progress. We believe that in terms of our activities, things should be more or less according what are our plans.

Sometimes, we do a little bit more projects, sometimes we do less projects, some go faster, some go slower, but in the end of the day, since we are a very conservative company and we are very careful in the way we plan and we do understand the situation of the country, I would say that we are not expecting any major setback, and we -- in the end of the day, we believe this becomes [a watch]. A few things go well, a few things go very well, a few things go less well, and in the end of the day, we are able to follow the course of action, and things should be pretty much according our strategy in everything.

Regarding the dividend policy, as you know, we are proposing the dividend for this year. We made our statement last year when we presented the strategic plan. We also are following the course of action and that's all we can say. We are a people that are professional, we can commit what we can commit. One thing is on intention. In this case now, it's more than an intention. We are proposing the same dividend and once again, we will follow the strategy that we presented to all of you. We are not expecting changes to that one.

And then last question, apologize for giving you a little bit of the same answer, but also in terms of tax disputes, legal disputes that we may have with authorities whether they are tax authorities or other, our portfolio is a portfolio of small things. We have nothing major to report at this point, we believe, which will have any significant impact in the Company.

**Sara Piccinini** - Mediobanca - Analyst

Thank you for taking my question. I have a few, if I may.

First of all, regarding the new government in place, they have just approved the budget law for 2016. There are also some measures like the revaluation of the assets. I am just wondering which is the guidance for your taxation in the next year's -- until the new -- the business plan.

The second question is on investment. So considering the average investment of EUR175 million, EUR200 million that you guided for, I saw that you are increasing the investment in the assets with premium. So, will you continue with the strategy and therefore we can assume that the asset base for electricity will be 70% of assets with premium and 30% of assets without premium over the length of the business plan.

The third one is on the gas regulatory review. If you can provide some indication on the timing that you expect for the final ruling if I'm not wrong, the regulators should give you some indication in April and then final ruling will be published in June. So, what is your feeling on that?

And finally, also curiosity, I know that your assumption is to maintain your current level of debt, but I was wondering if that you are considering eventually the sale of the Red Electrica stake in the future?

**Rodrigo Costa**

Okay. You asked a big set of questions. The sound was not perfect, I'm not sure if we were able to capture all the questions.

**Sara Piccinini - Mediobanca - Analyst**

I can repeat, if you're --.

**Rodrigo Costa**

No, no, it's okay.

**Sara Piccinini - Mediobanca - Analyst**

Okay thank you.

**Rodrigo Costa**

We'll do our best and if something is missing you let us know, if you don't mind.

**Sara Piccinini - Mediobanca - Analyst**

Okay.

**Rodrigo Costa**

I am just going to make overall introduction to some of the points you cover, because some of the point has to do a lot about government. And as I said, this is -- the new government is in place, the ink of the new budget, it's not dry yet, because it has just a few days. And we are still going through everything. We don't see any major surprise, but a lot of things will happen. And as I said, we are not -- we are always expecting that in the end of the day, a few things will be positive, some will be less positive, but we're not really too worried about anything special. We know with what we can count. And with that said, we'll see how much we can -- how much information we will be able to provide regarding your questions on the regulation, the average taxation for this year, the question about the CapEx with premium, without premium, the regulatory timing and current debt and the sale of Red Electrica, which to that one, we have no plans to at this point to sell that stake.

I'll leave it to Gonçalo.

**Gonçalo Moraes Soares**

[Chewing] over some question, I'll probably then ask João to comment on the regulatory review on gas.

On the taxation, what we can tell is that the budget has no changes. So, better you could expect if anything is okay, the same kind of effective tax rate that we have this year, taking out the non-recurrent impact, so around 28% something like that, we're not expecting to be very different from that.

On the CapEx side, yes, you can expect that 99% to 100% of the CapEx that we do in electricity will continue to be with premium. So that is the normal kind of evolution. So on your model, that's what you should assume, that's what has been happening in the last six or seven years, and so that's what you can safely assume.

On the (inaudible) asset, although it is good to have that flexibility, we have no plans regarding to the sale of that asset.

Regarding to the regulatory effect on the gas side, I will ask João to give you a small update (technical difficulty) to you what the timing on the news of that is.

**João Conceição**

Thanks, Gonçalo.

Just starting from the end, in terms of timing, as you said, we will have news from the regulator by April 15, and final proposal by June 15. Between these two days, the interactions -- final interactions with the regulator through the tariff council and obviously some informal interactions from -- between us and the regulator.

In terms of expectations, what I can tell you is that we are watching and what's going on in terms of regulatory trends in Europe and specifically in what concerns to the rate of return, we are expecting some adjustments mainly to incorporate what's going on in terms of the evolution of the cost of debt. Apart from that, we think that the regulatory model we'll follow very much closely what we have today and we are not expecting any big change in this regulatory model.

**Rodrigo Costa**

Sara, can you now let me know if we were able to address (multiple speakers)?

**Sara Piccinini - Mediobanca - Analyst**

Yes. Thanks a lot. Yes, yes, very clear. Thank you so much.

**Nelson Bernardino - Haitong Securities - Analyst**

So just a couple of questions regarding investments outside of electricity and gas. I wonder if you have any update on attempts to invest outside of Portugal. As this is a space that it's becoming more and more crowded, do you have a particular strategy or are you maybe thinking of leaving this space? And also, could you comment on some recent news that the telecom network of the train lines in Portugal might be up for sale the concession, and in the news, it was explicitly quoted a Spanish model, which ended up bought by Red Electrica, is this kind of asset that you maybe would be interested to look at and expand your telecom business?

**Rodrigo Costa**

On your question about the investments outside our Portuguese activities, we didn't made any change to the strategy plan we presented more or less a year ago, we are also following the course of action. And some of you probably remember when we presented the plan, we said exactly some of the things you just asked, the space is crowded, we need to be careful. We only have a small amount of funds available to invest. And of course, with all these restrictions, our ambition is -- it is, still is, very, very limited, and that's how it's going to stay. We keep looking, but so far, we didn't came up with any solution for this area. It is true that the space is very crowded. This is a very attractive space, especially the space we like, which is the regulated international infrastructures that are critical for the countries, because we have plenty of challenges all the time with regulators, with governments, but the fact is nobody can live without us, and if we are committed and if we deliver a good job, I think this is a great business to be in. Of course, we always have -- we have to have some modest ambitions, because the country is under pressure, but still we are very happy with what we're doing today. And that's why not finding any investment outside of the country doesn't create us any eyebrows. We feel fine. The day we find something, which will come probably one day, if it doesn't, we will keep being happy and doing -- and delivering our numbers.

On the second question, it's a little bit of the same story. We are always looking into opportunities. If something happen, we don't know exactly what's going to happen, how is going to happen, we don't have no idea, nothing is public yet as far we know. There is no process, just a lot of talking, which is normal in these cases. There has been a lot of talking since a few years now. And if some comes up, if you ask me are we going to take a look, obviously, we will take a look, because as you know, we already have a small telecom area inside REN, it's something that makes a lot of sense for us, because in fact, we cannot subcontract what we do, we have to manage. This is a critical part of our assets. Then, this business is not strange for us, especially this type of business, which is basically -- they are also capacity businesses, but we'll see. For sure, we have nothing to report. There is no process in place at the moment as far as we know. And but that's a very, very straight forward answer.

**Rodrigo Costa**

I want to thank you everybody, our people, you guys and everybody who attend the call. As always, we are available to keep in touch and try to clarify whatever doubts you have, and thank you for being with us and happy Easter.

**Ana Fernandes** - Ren Redes Energeticas Nacionais SGPS S.A. - Head of IR

Have a nice weekend. Bye.