

RENXX

# INVESTOR OUTLOOK

APRIL 2016



- **Top of the industry TSO in efficiency and service quality**
- **Solid domestic business with stable regulation**
- **Sustainable domestic investment plan with potential upside in international development**
- **Strong financial position and Net Income protection**
- **Attractive dividend policy**

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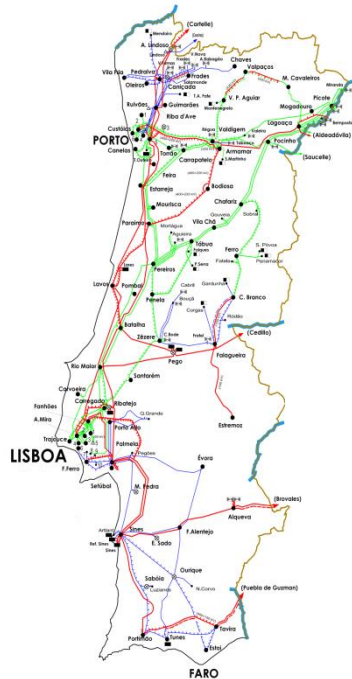
# REN IS THE PORTUGUESE TSO HOLDING THE ELECTRICITY AND NATURAL GAS CONCESSIONS

REN, headquartered in Lisbon, is an **integrated TSO** focused in the **operation of two major business areas**:

- **Transmission in high voltage electricity<sup>1</sup>** and overall **technical management** of the Portuguese national electricity system
- **Transportation of high-pressure natural gas** and overall **technical management** of the Portuguese national natural gas system, **reception, storage and regasification of LNG<sup>2</sup>** and **underground storage** of natural gas

## Electricity

- Sole TSO of the Portuguese electricity system with a 50-year concession ending in 2057



Grid length

8,805 km

Electricity consumption 2015

49.0 TWh

# Headcount 2015

230

## Natural gas

- Sole concessionaire of Portuguese high-pressure natural gas transportation network for 40 years (until 2046)



Pipeline length

1,375 km

Natural gas consumption 2015

4.4 bcm

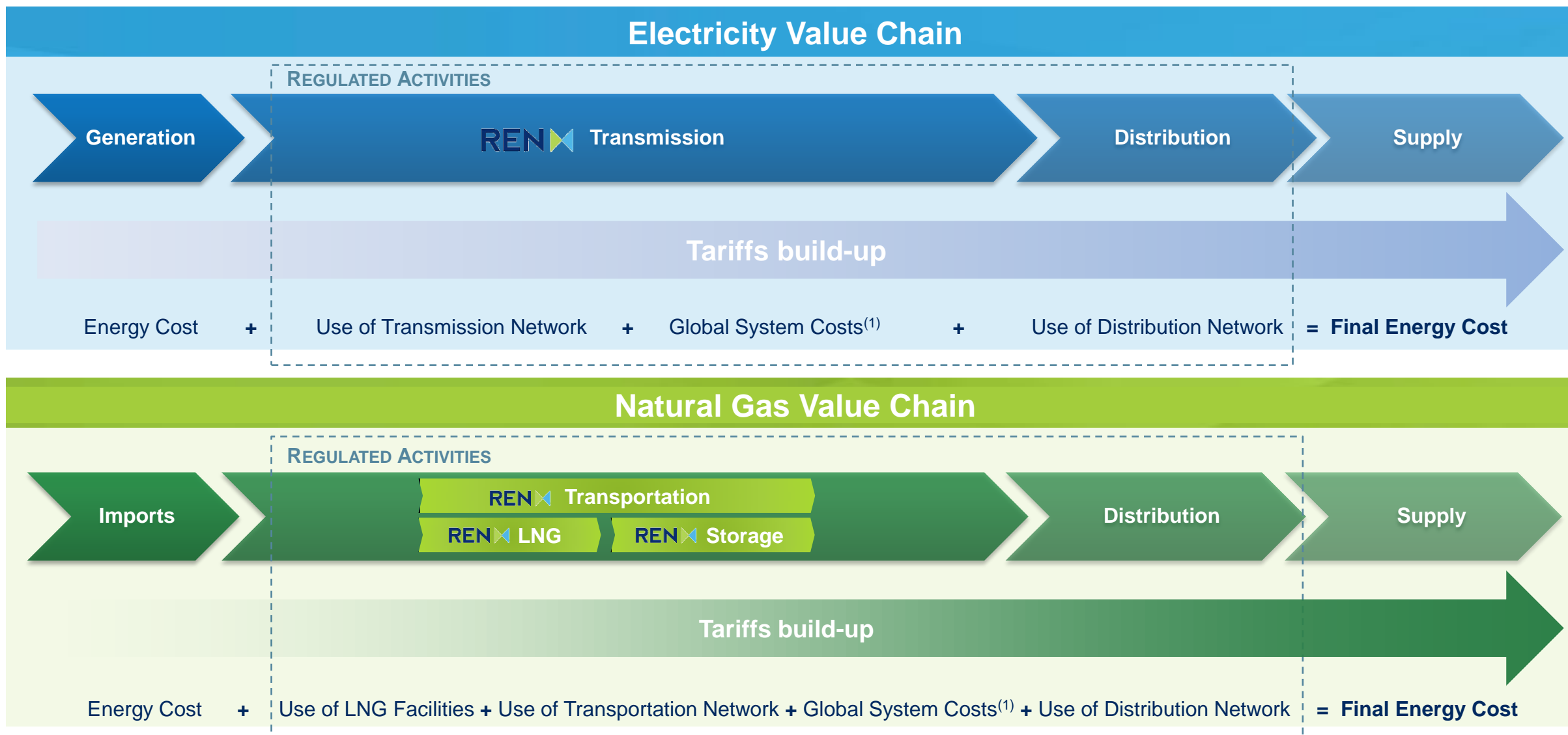
# Headcount 2015

132

1. High voltage electricity grid of 150 to 400kV

2. Liquefied Natural Gas

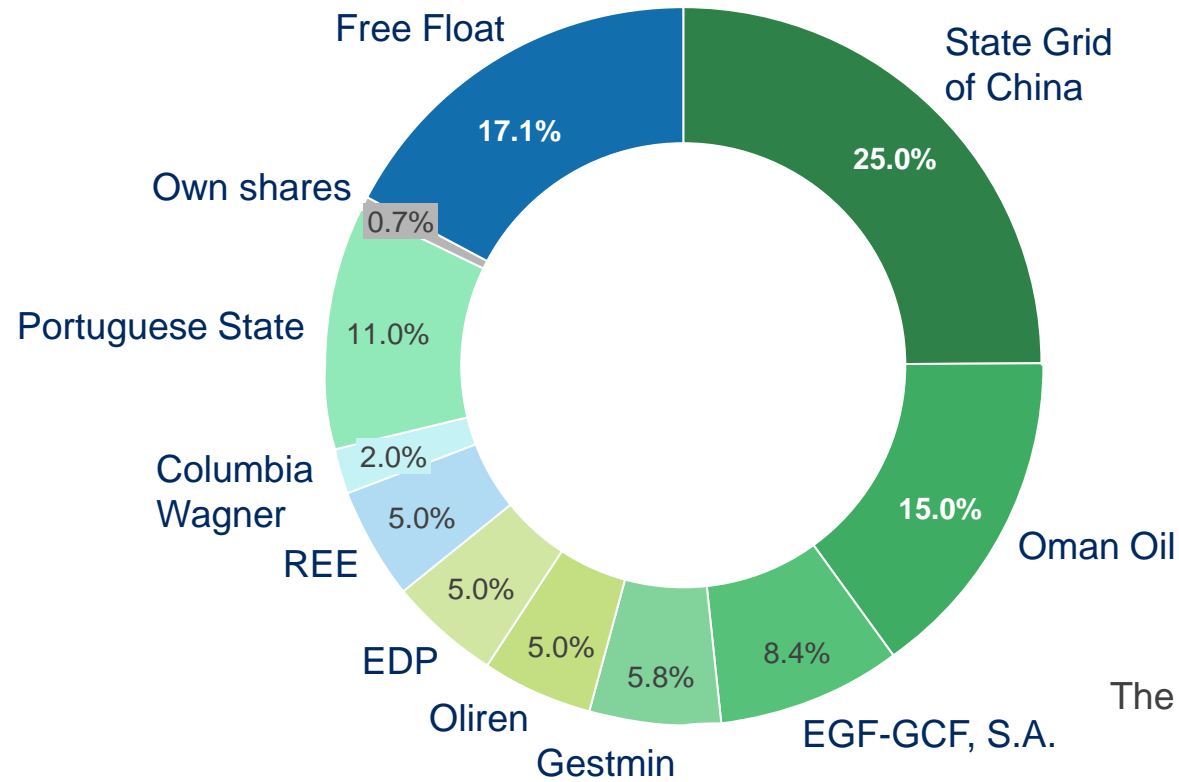
# REN IS PRESENT IN THE ELECTRICITY TRANSMISSION AND NATURAL GAS TRANSPORTATION, STORAGE AND TERMINAL ACTIVITIES



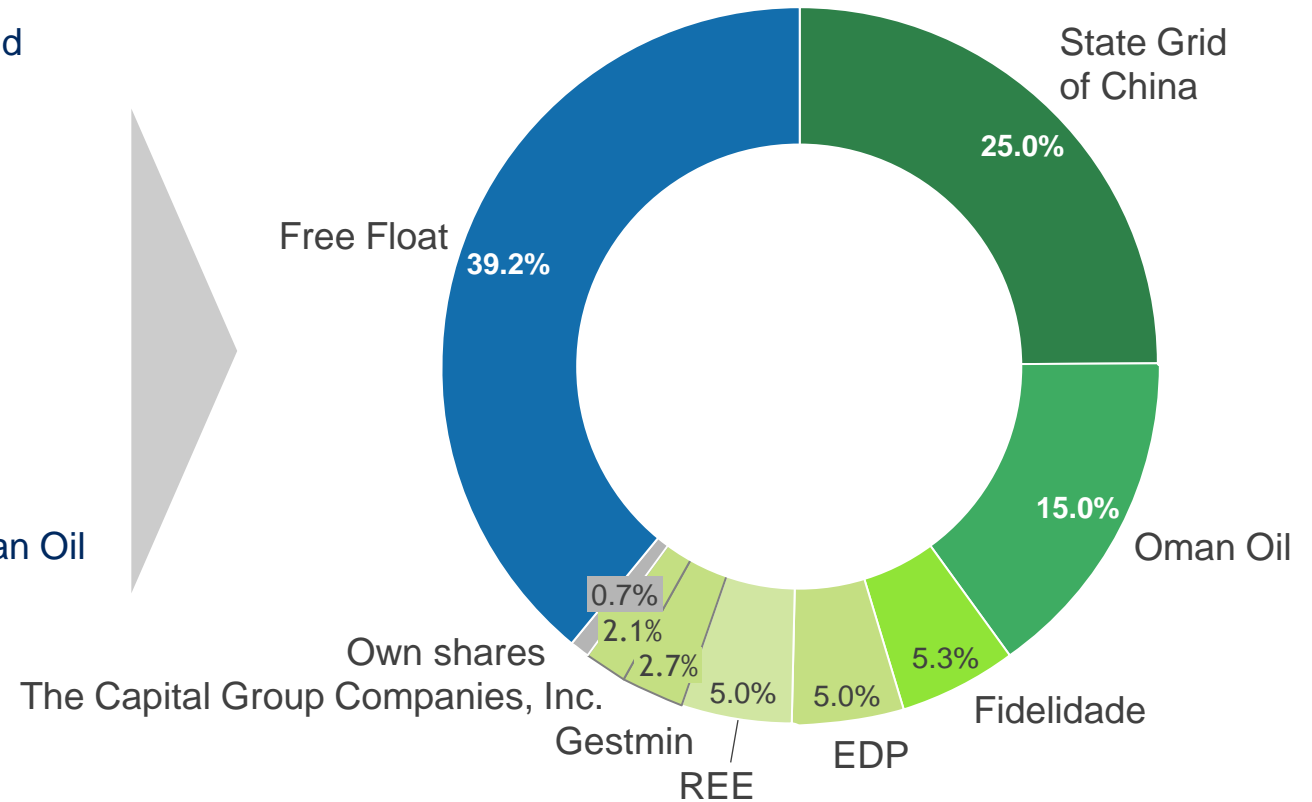
(1) Tariff charged through the transmission/transportation operator, mostly composed by pass-through costs, such as energy acquisition costs related with the management of the two remaining PPAs (Electricity), hydro land (Electricity), positive or negative adjustments related with costs supported by the supplier of last resort (Gas) and ERSE costs.

# REN HAS SUCCESSFULLY CONCLUDED ITS PRIVATIZATION PROCESS

**FROM...**  
2012



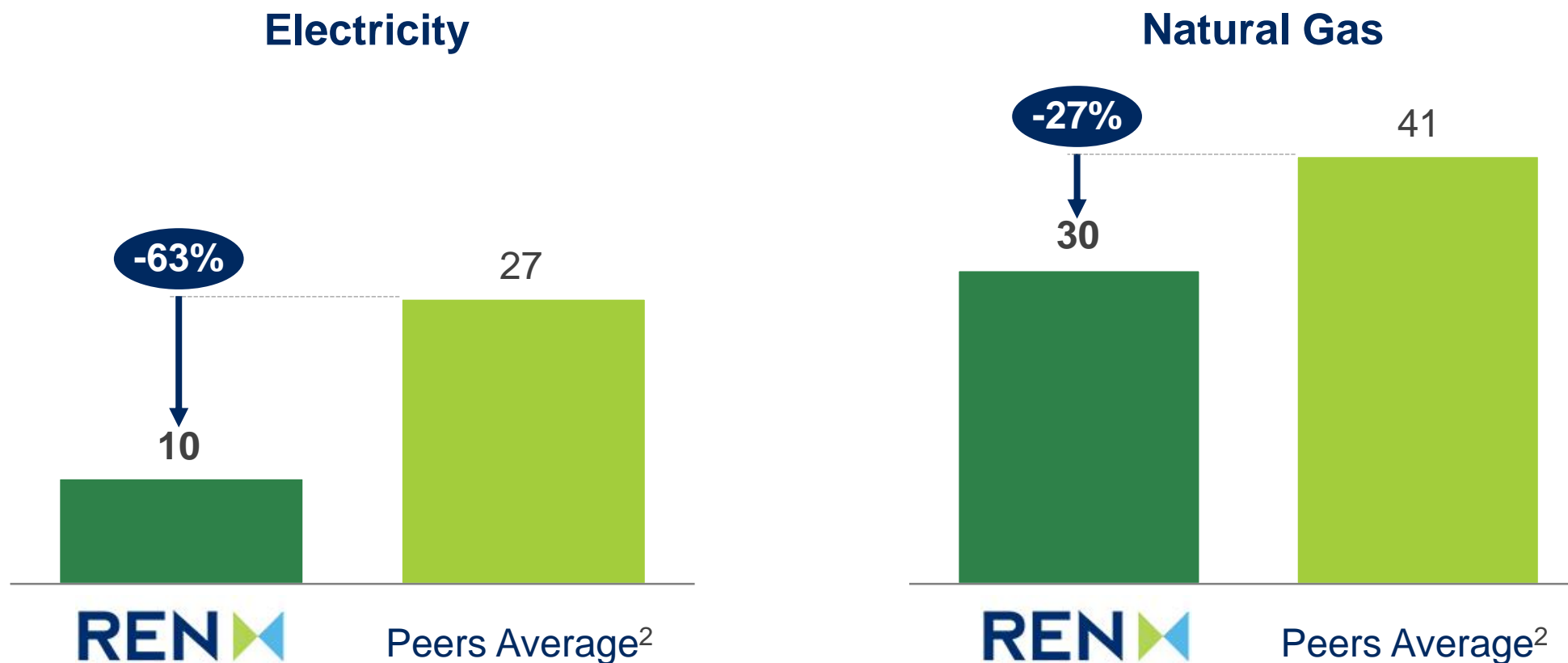
**... TO**  
2016



**Increasing free float and liquidity of the stock**

## OPEX<sup>1</sup>/KM OF EQUIVALENT LINE

2014; thousand €/km



High efficiency allows to reduce REN's weight on tariffs

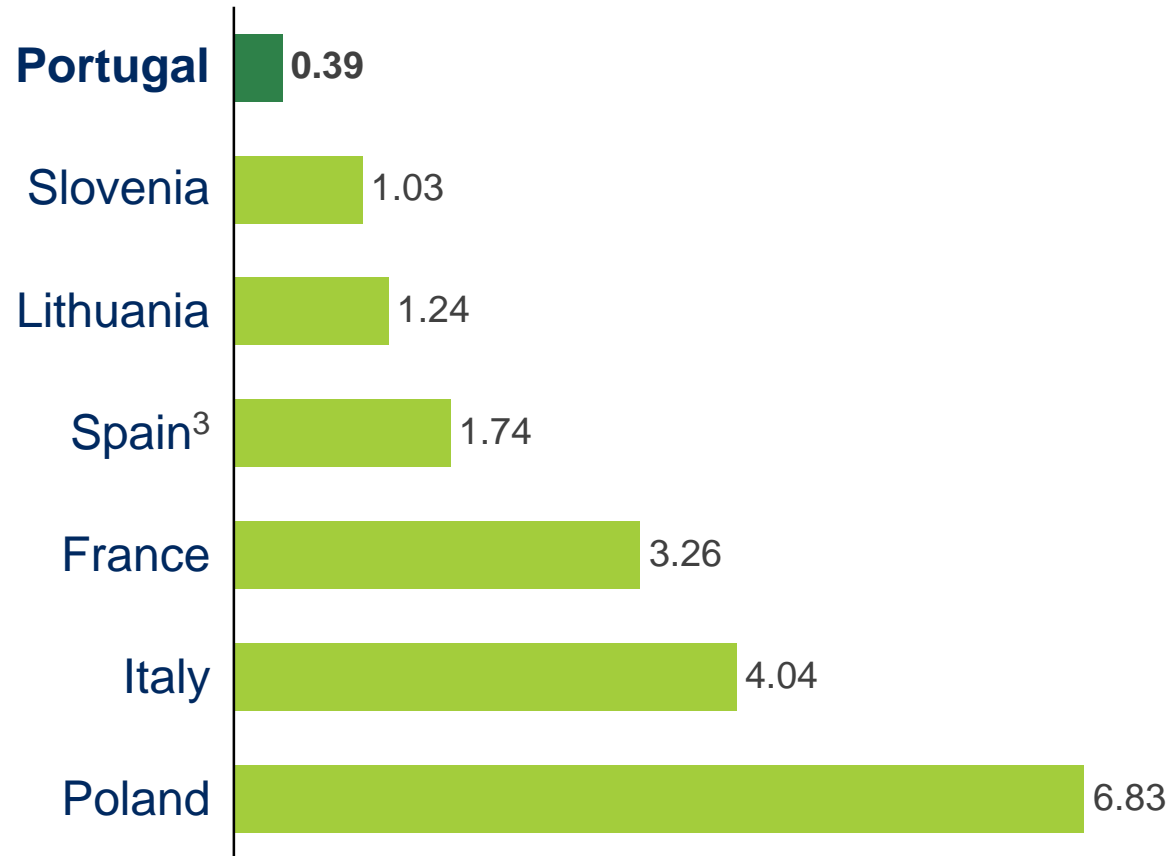
1 Adjusted to PPP (base year: 2011)

2 Excluding REN; Includes Terna, REE, Statnett, Elia and Tennet in electricity, and Enagás, Snam, Gasunie, Viergas and Fluxys in gas

SOURCE: Annual Reports; World Bank

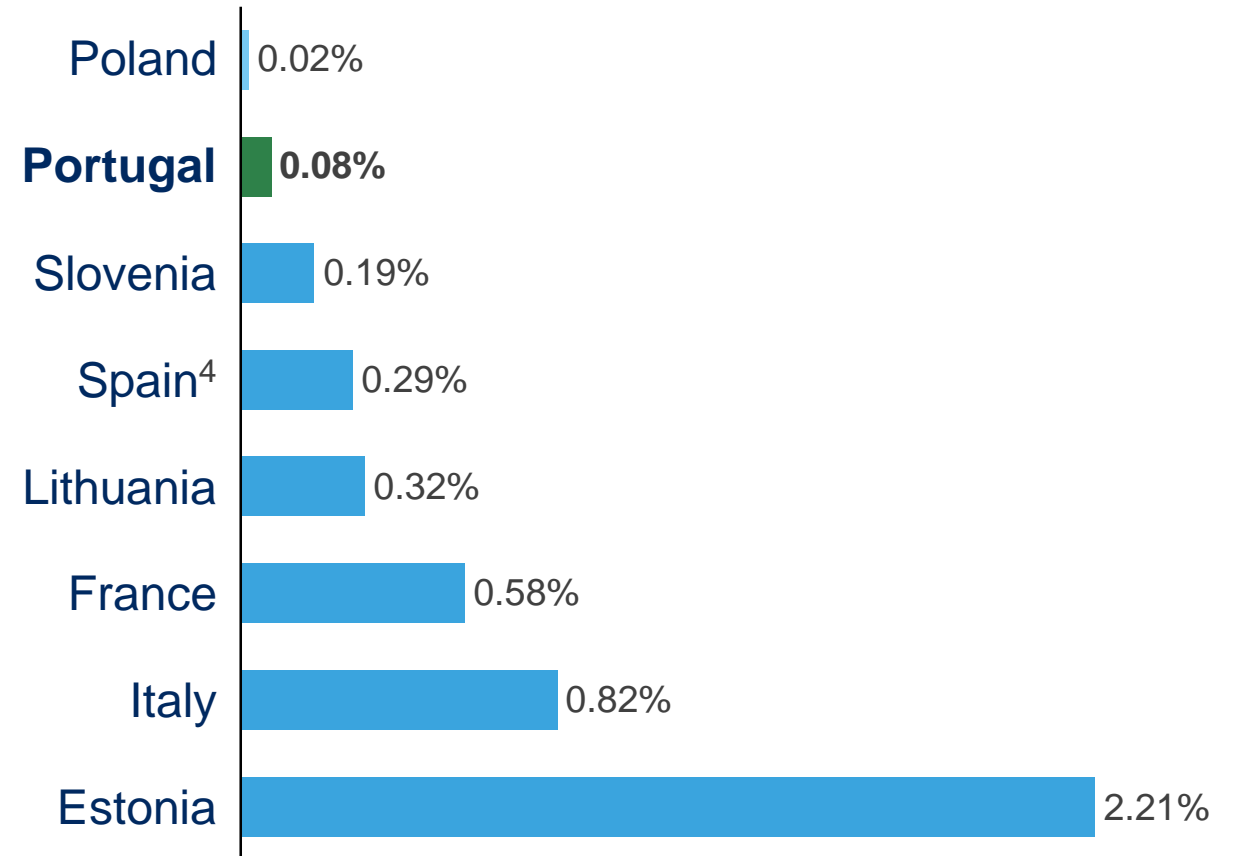
**INTERRUPTION TIME<sup>1</sup>**

Avg 2009-13; Minutes lost per year



**ENERGY NOT SUPPLIED<sup>2</sup>**

Avg 2009-13; MWh / GWh of domestic electricity consumption



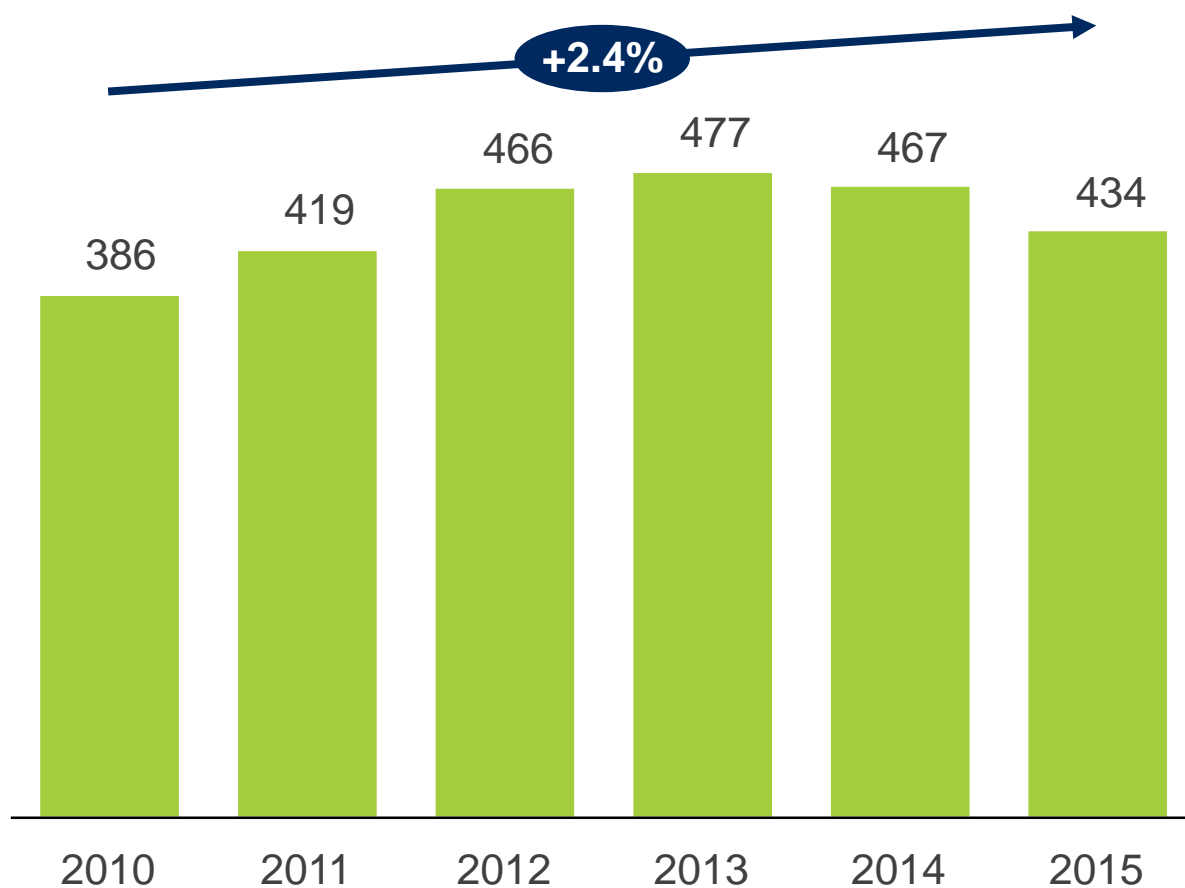
1. Unplanned average interruption time at transmission level – without exceptional events; 2. Unplanned energy not supplied at transmission level – without exceptional events; 3. Average for 2006-10; 4. Average for 2007-11  
Source: CEER; Enerdata



- Top of the industry TSO in efficiency and service quality
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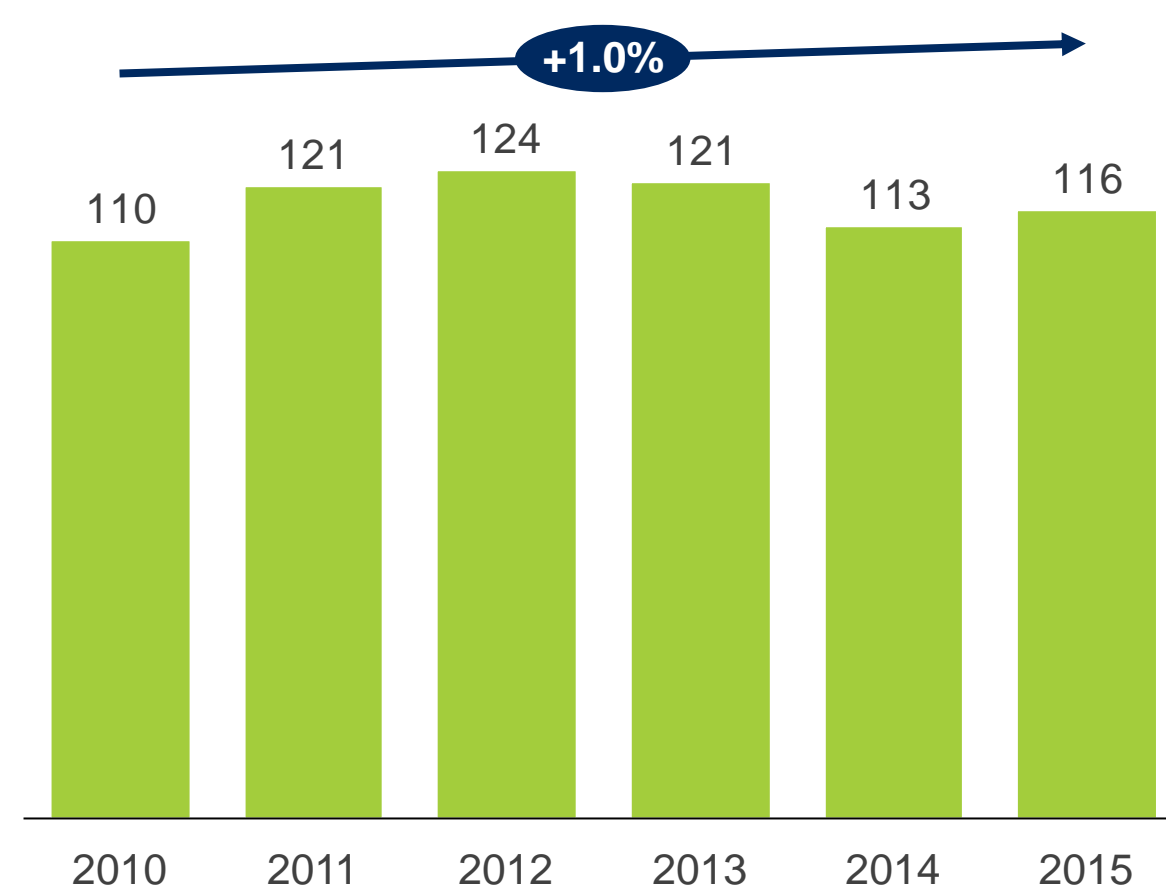
## OPERATING CASH FLOW<sup>1</sup>

Million €



## NET INCOME

Million €



<sup>1</sup> EBITDA excluding materially relevant non-cash items, such as own works and subsidies amortizations

Source: REN

## TARIFFS RATIONALE

Remuneration of the regulated activities is based on the definition of the allowed revenues, which assure the principle of recovering operating costs (with efficiency targets) as well as the cost of capital. The model is defined for 3-year regulatory periods, during which the relevant parameters remain stable

Allowed revenues are earned through the tariffs charged to final consumers through distribution companies

ERSE sets the regulated tariffs ex-ante every year based on estimated consumption

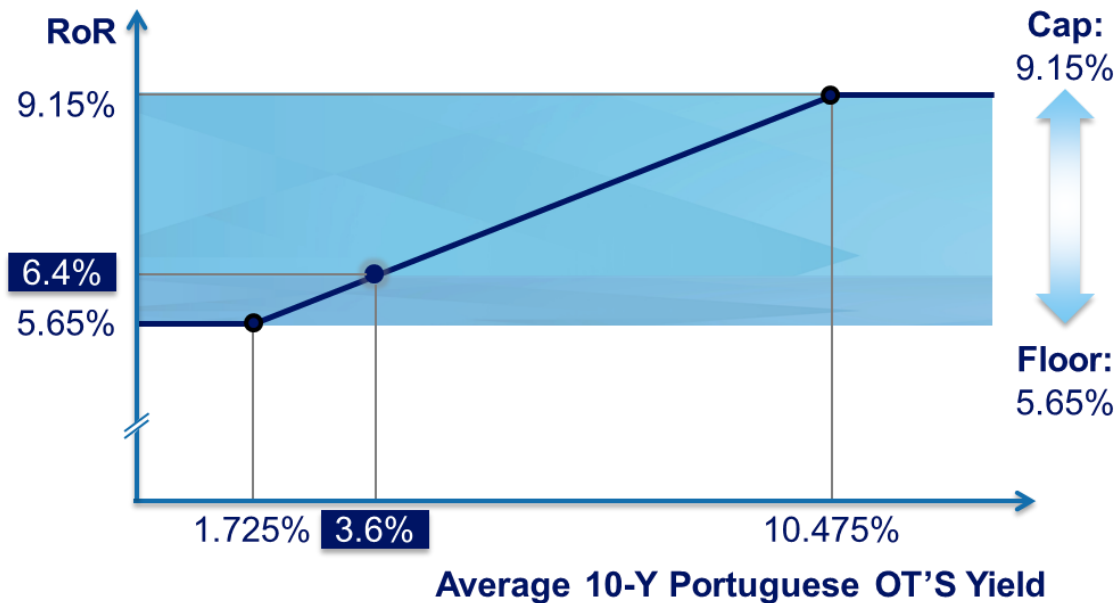
One of the regulatory guiding principles for the definition of energy tariffs is stability

**The sector companies' regulated revenues are not dependent from State payments**  
**Transmission/transportation operators do not have consumer credit risk**  
**Stable regulatory framework**

# A RETURN MECHANISM LINKED TO THE 10Y PORTUGUESE BOND YIELD...

## Electricity Base RoR

- The Base RoR is indexed to the average Portuguese sovereign 10-year bond yields (OT's)
- The RoR starting point was set at 6.4%, for a 3.6% 10Y bond yield average, and it will be adjusted annually based on the average Portuguese 10Y bond yields (Oct<sub>N-1</sub> - Sep<sub>N</sub>)<sup>(1)</sup>. The mechanism assures the RoR varies between 5.65% and 9.15%

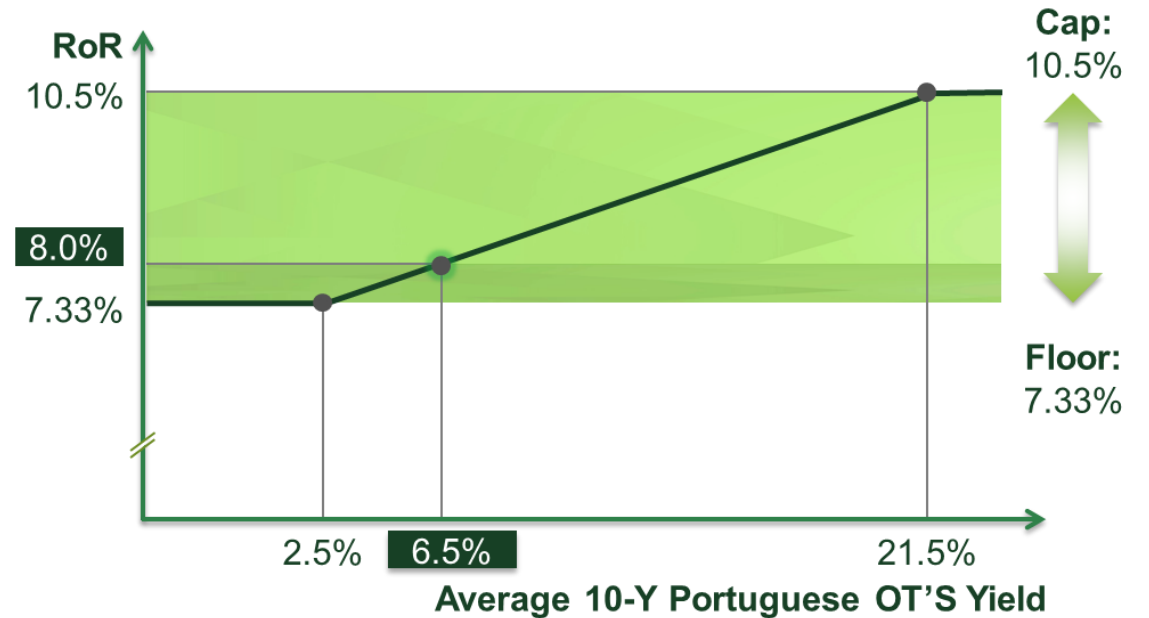


Last Regulatory Periods' Base RoR

2011	2012	2013	2014	2015
7.56%	9.55%	8.06%	7.76%	5.99%

## Gas RoR

- The RoR is indexed to the average Portuguese sovereign 10y bond yields (OT's) through a linear function
- The RoR starting point was set at 8%, for a 6.5% 10Y bond yield average, and it will be adjusted annually based on the average Portuguese 10Y bond yields (Apr<sub>N-1</sub> - Mar<sub>N</sub>). The mechanism assures a floor RoR of 7.33% and a cap of 10.5%

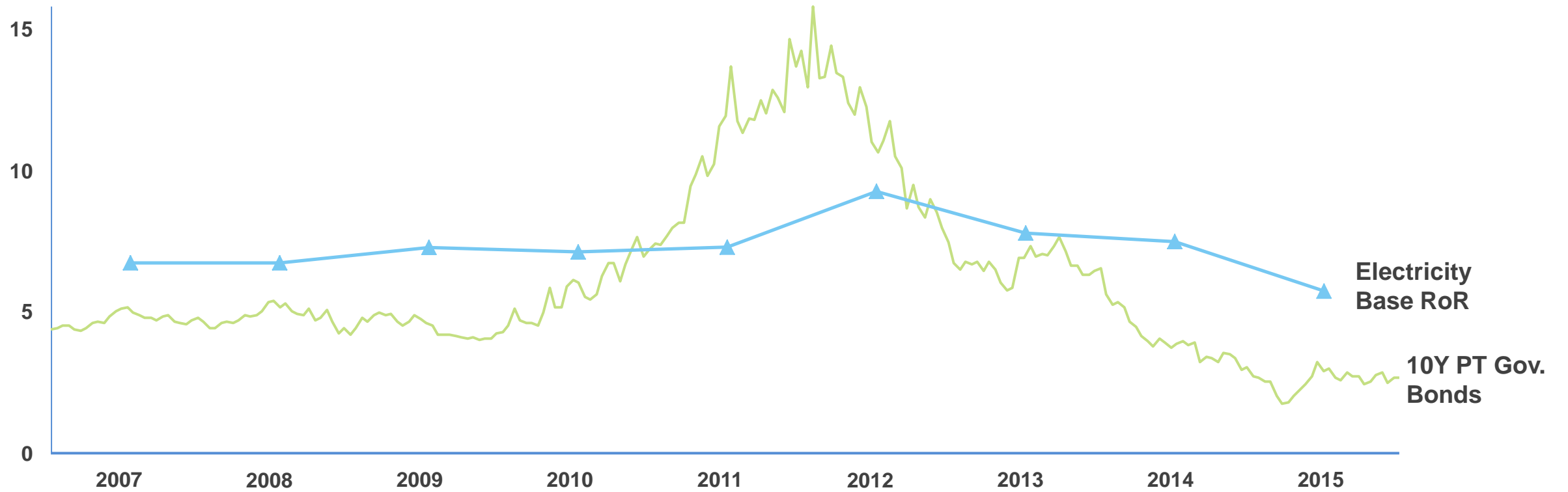


Last Regulatory Periods' Base RoR

2010/11	2011/12	2012/13	2013/14	2014/15
8.00%			7.46%	7.34%

(1) The average shall be filtered by the 1/12 highest and lowest quotations; Notes: All rates of return are pre-tax; Source: REN, ERSE.

# ...LEADING TO A STABLE RoR

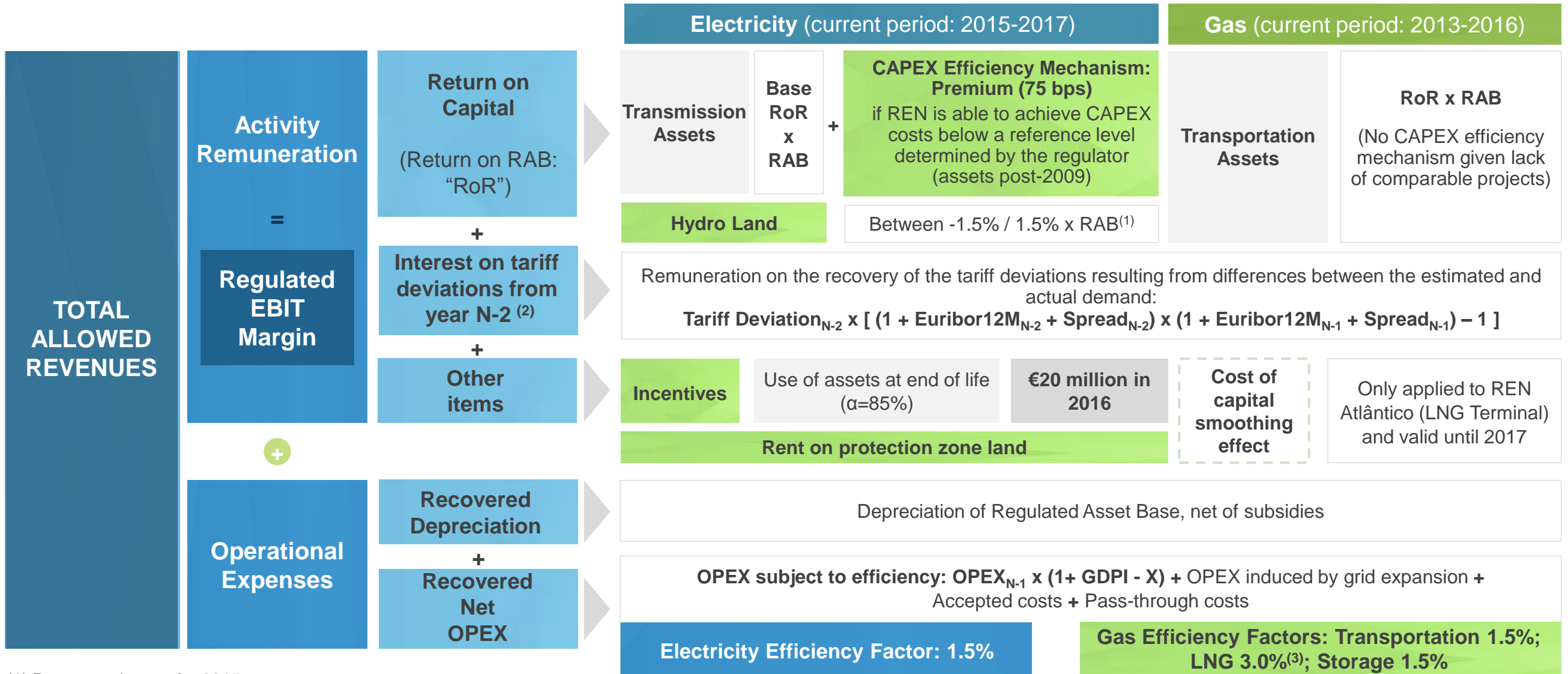


**Electricity Base RoR**

**Avg. 10Y PT Gov Bonds**

2007	2008	2009	2010	2011	2012	2013	2014	2015
7.00%	7.00%	7.55%	7.39%	7.56%	9.55%	8.06%	7.76%	5.99%
4.43%	4.53%	4.21%	5.42%	10.26%	10.56%	6.30%	3.75%	2.43%

**Remuneration regime** based on allowed revenues, set by the regulator ERSE for 3-year regulatory periods



(1) Remuneration set for 2015.

(2) For Gas, the regulator may decide to set a provisional tariff deviation of N-1 depending on tariffs level.

(3) Except for the electricity consumed in the LNG Terminal, for which the efficiency factor is 1.5% and the price change is based on the Futures Market price.

Notes: GDPI = Inflation implicit on GDP deflator; Source: REN, ERSE.

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## STRATEGIC GUIDELINES



**Local business  
remains a top priority**



**Explore international  
projects**



**Consolidate  
financials**

## KEY TARGET (2015-18)

Average annual CAPEX in Portugal between  
**175-200 million €**

**Stable RAB** (2015-18 CAGR of ~0%)

**Execute first international investment**  
(up to 900 million EV)

**Net Income CAGR of ~10%** 2015-18

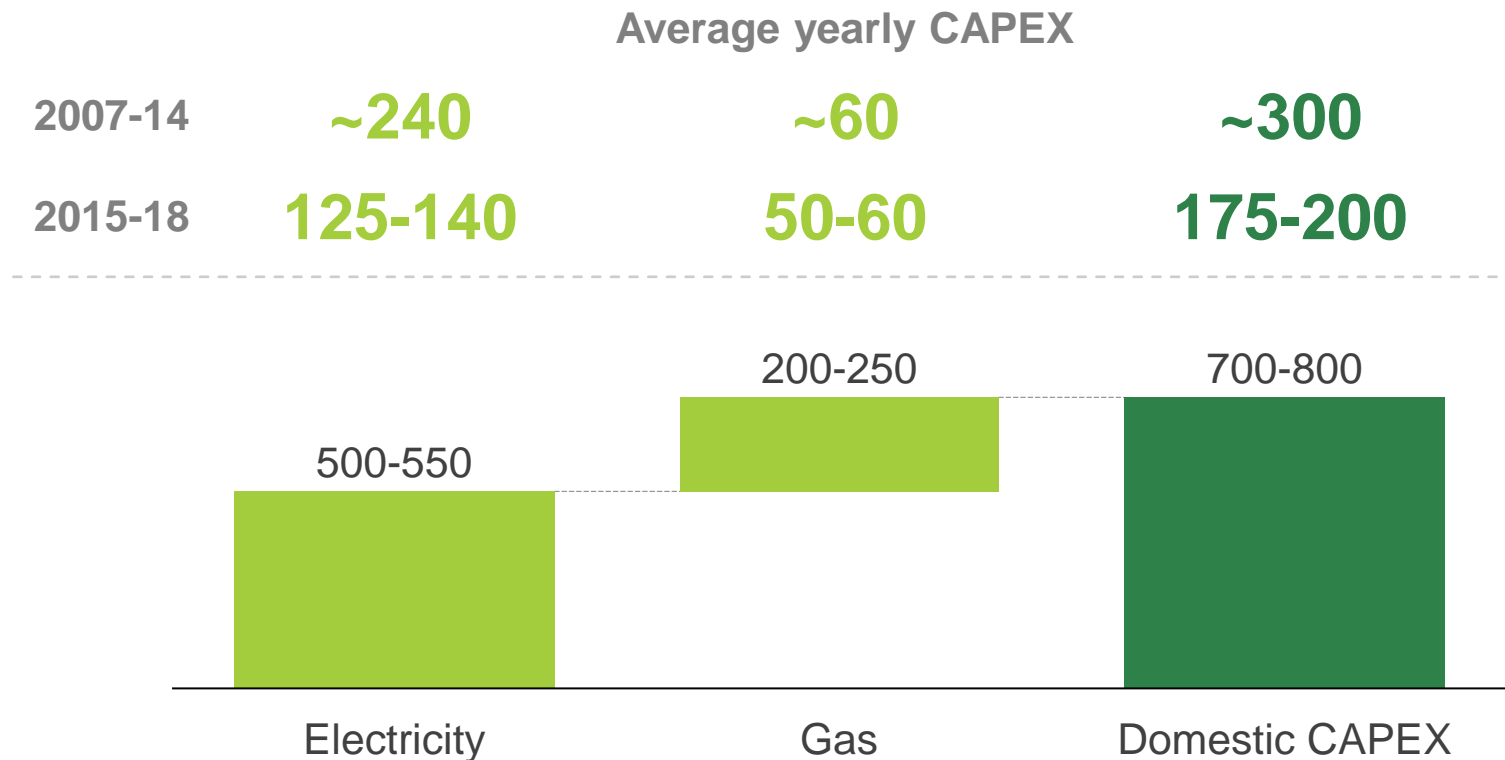
**Maintain yearly dividend**

**Ensure investment grade rating**



CAPEX PLAN 2015-18

Million €



Additionally, REN plans to invest up to 100/150 €M Equity (900 €M EV) internationally

REN's CAPEX will always take into account the company's financial sustainability and compliance with concession obligations

## Guidelines for international investments

### NATURE

- Focus in electricity and gas transmission networks
- Both M&A and greenfield projects

### OWNERSHIP

- Open to majority and minority positions (no financial positions)

### RETURNS

- Ensure competitive and attractive returns adjusted to local / project risk / project type

### ROLE

- Assume active investor position with role in operations

### PARTNERSHIPS

- Prioritize investment with local partners
- Adapt partners to type / phase of investment

## Target markets

### International expansion in Emerging Markets (Latin America, Africa)



- Prioritization of target markets based on market size, growth, country stability, flexibility and opportunity attractiveness
- There are still a considerable number of opportunities in emerging markets (despite competition from PEs/hedge funds)

### Interconnection projects and M&A opportunities in Europe

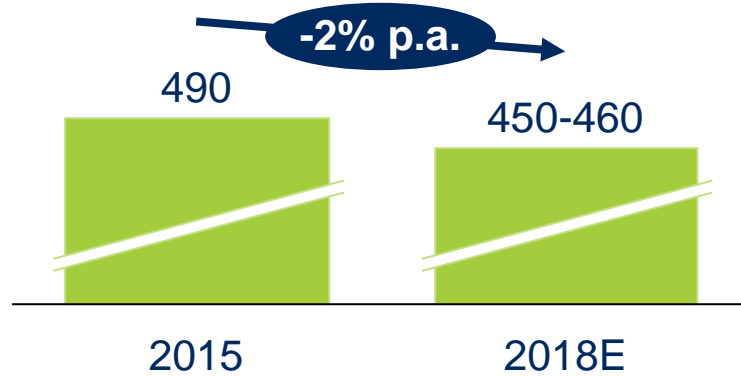


- There are opportunities to integrate the European market
- M&A opportunities of regulated assets in Europe may arise

**Assessment based mostly on returns vs. risk and on limited impact on credit metrics**

## EBITDA

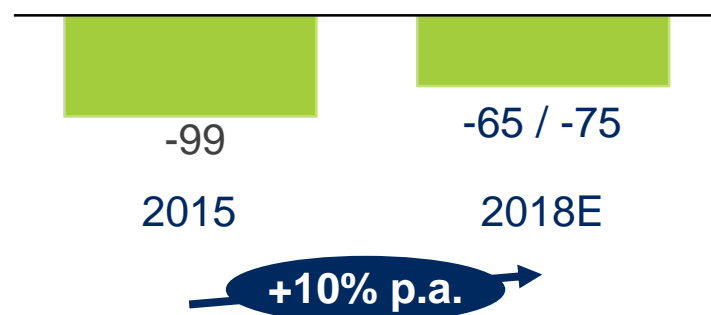
Million €



Despite an increase in OPEX efficiency, EBITDA is expected to decrease due to the reduction in RoR and a stable RAB

## FINANCIAL RESULTS

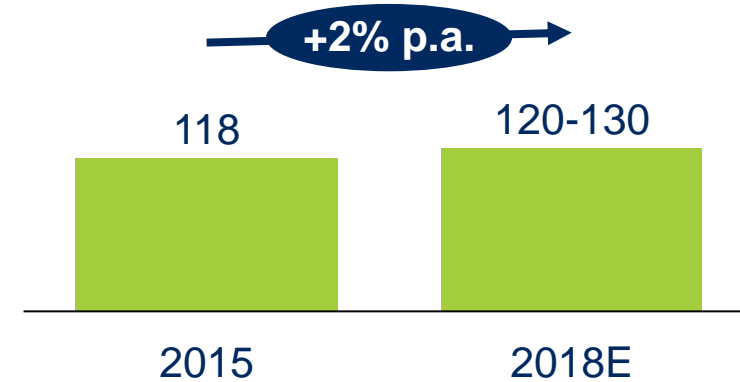
Million €



Financial results are expected to increase reflecting the reduction in the cost of debt

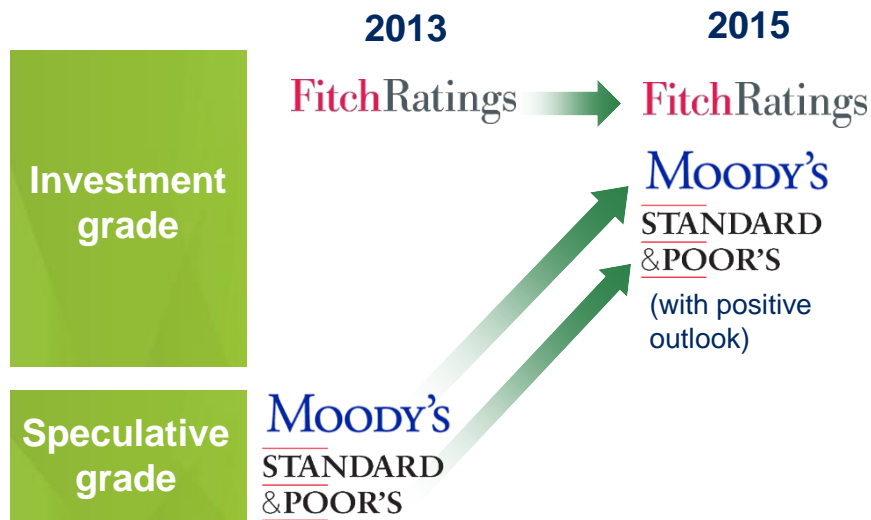
## RECURRENT NET INCOME

Million €



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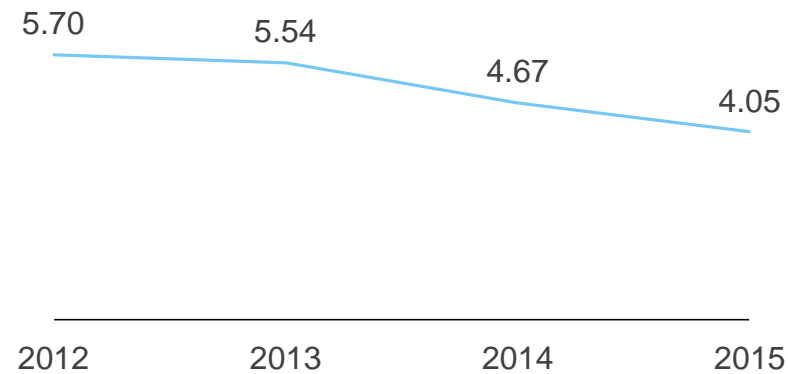
## ...RECOVERED INVESTMENT GRADE...



REN reduced its risk profile and is the only portuguese issuer with investment grade

## ...REDUCED ITS AVERAGE COST OF DEBT...

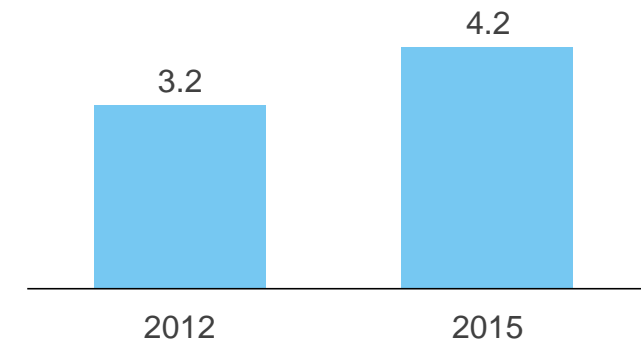
Avg. cost of debt, %



Improvement in market conditions and in REN's risk profile allowed for refunding at more competitive cost

## ...MOVED TO LONGER TERM DEBT INSTRUMENTS

Debt maturity, years

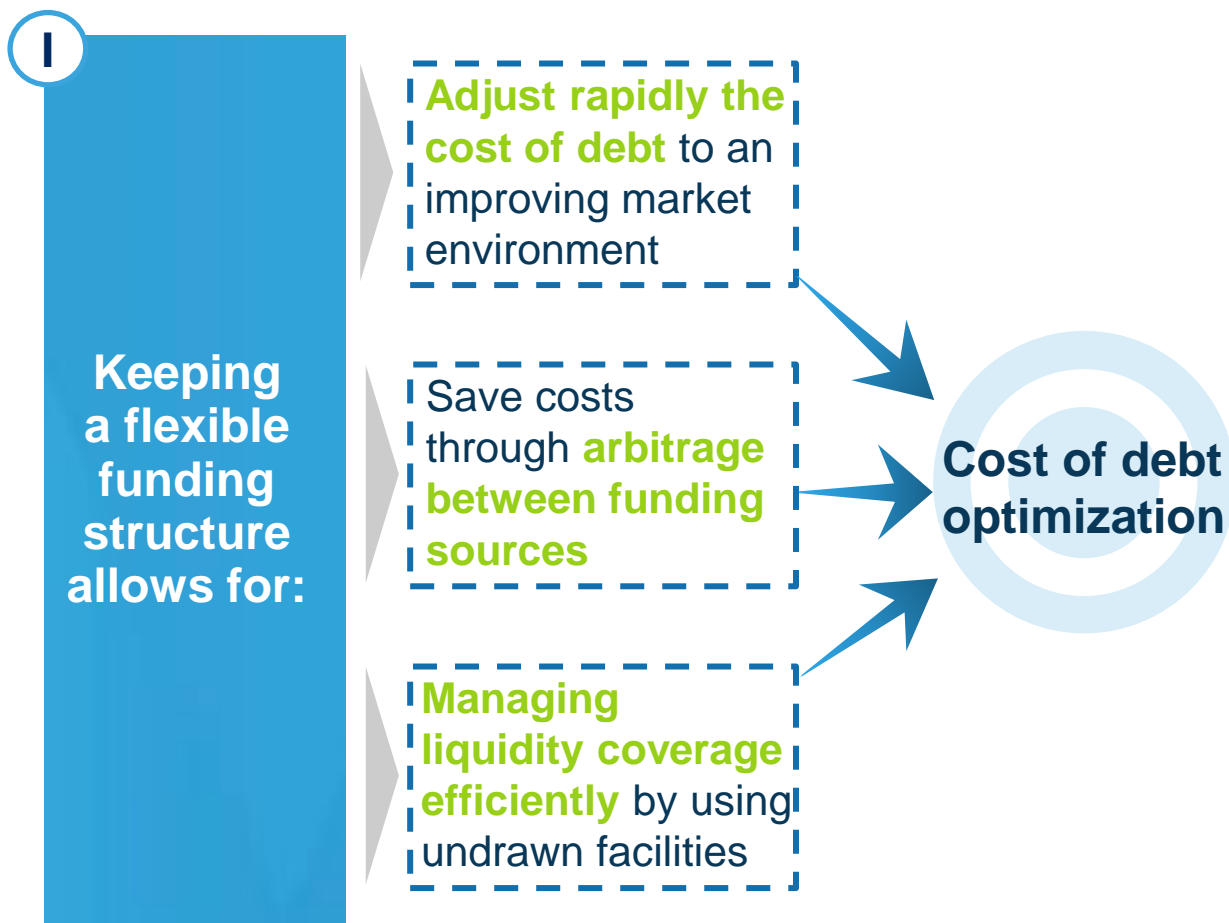


REN is reducing its refinancing risk and taking advantage of recent market changes

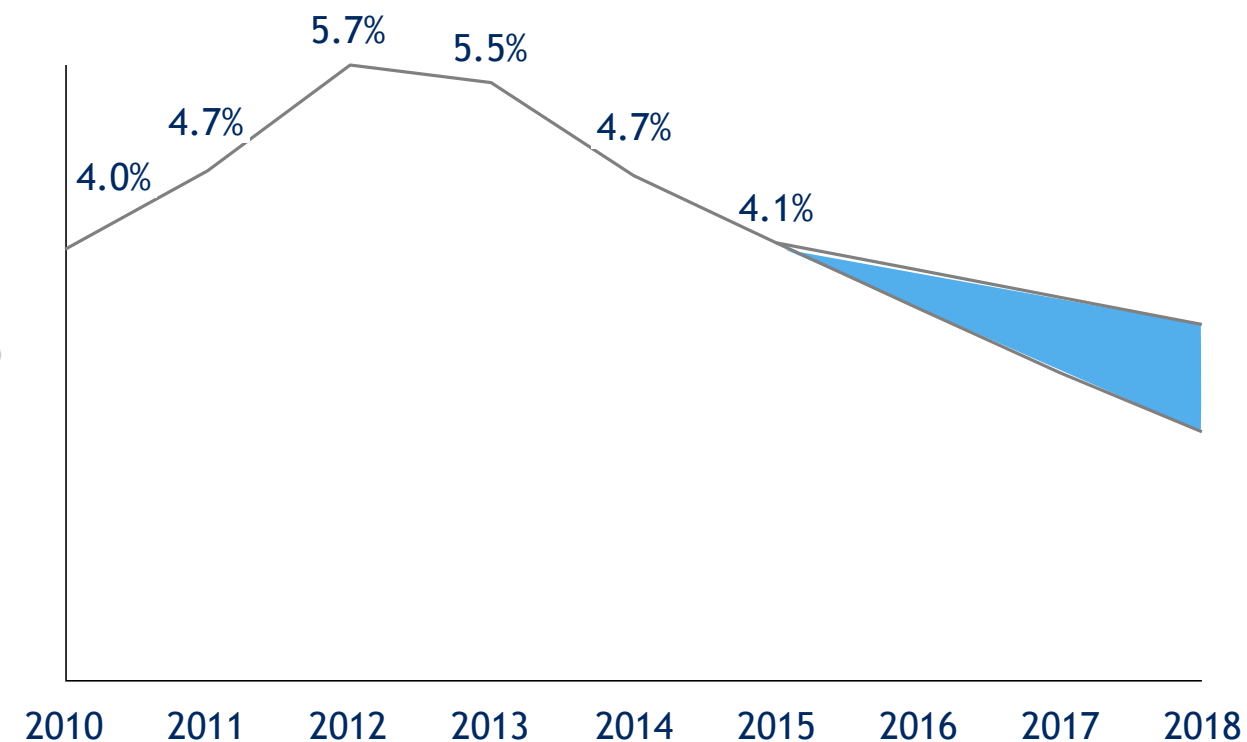
**This allowed a shift in debt management priorities from deleveraging to debt optimization**

# CURRENT DEBT MANAGEMENT PRIORITIES ARE FOCUSED ON COST OF DEBT OPTIMIZATION ...

## Debt management strategy

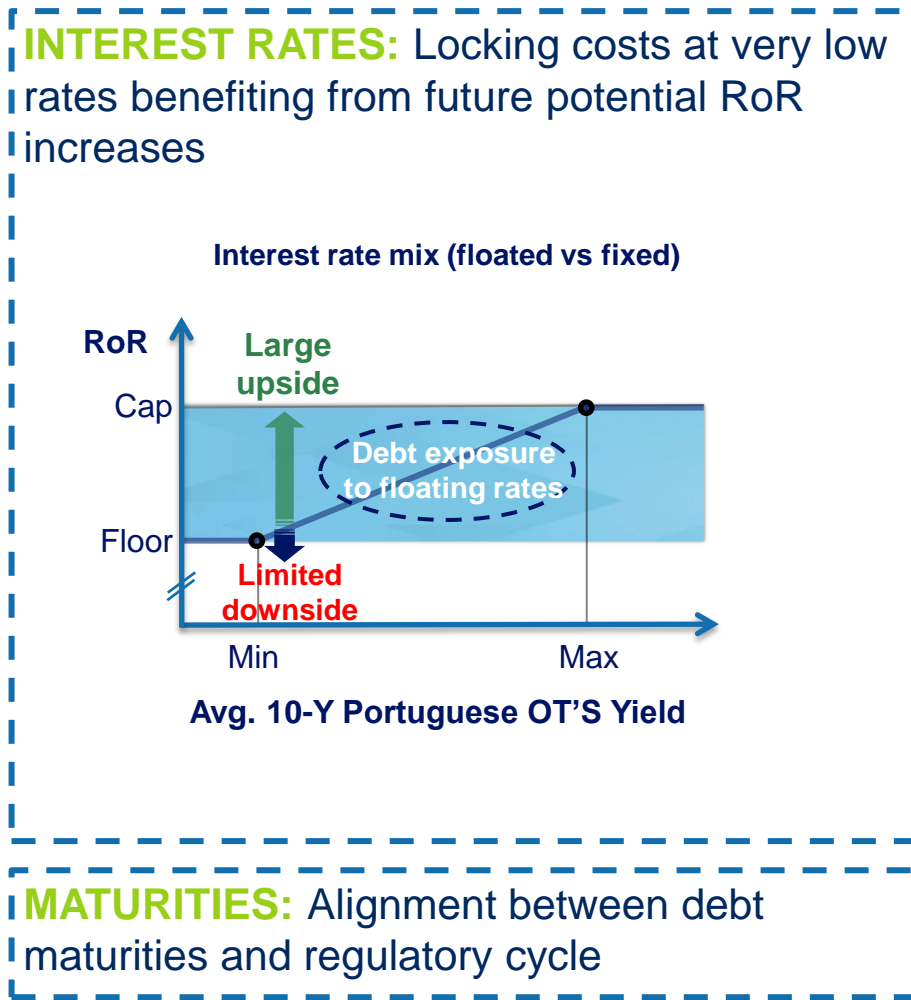


## Average cost of debt



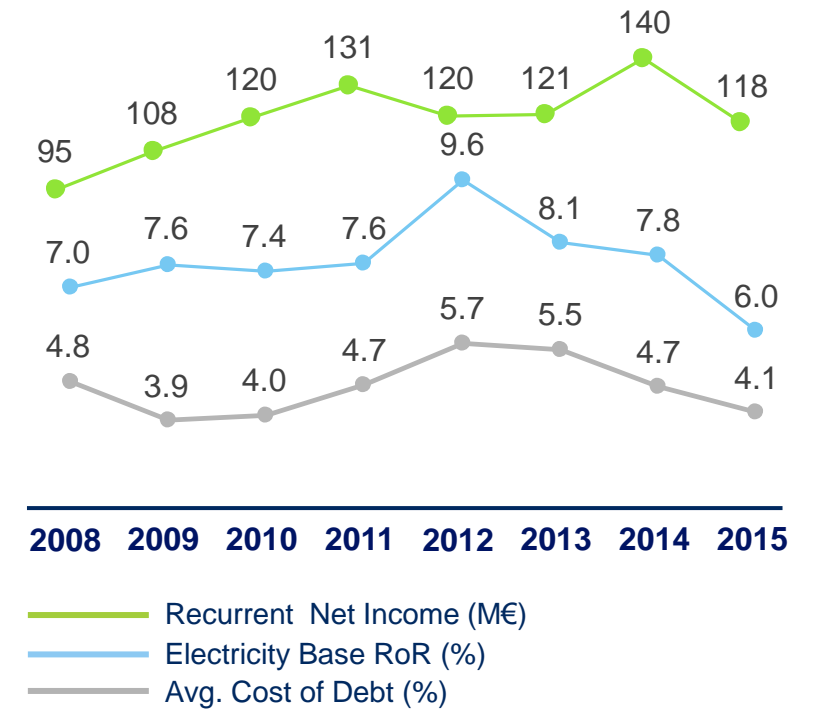
Debt management strategy

II  
Convergence of debt and RAB durations

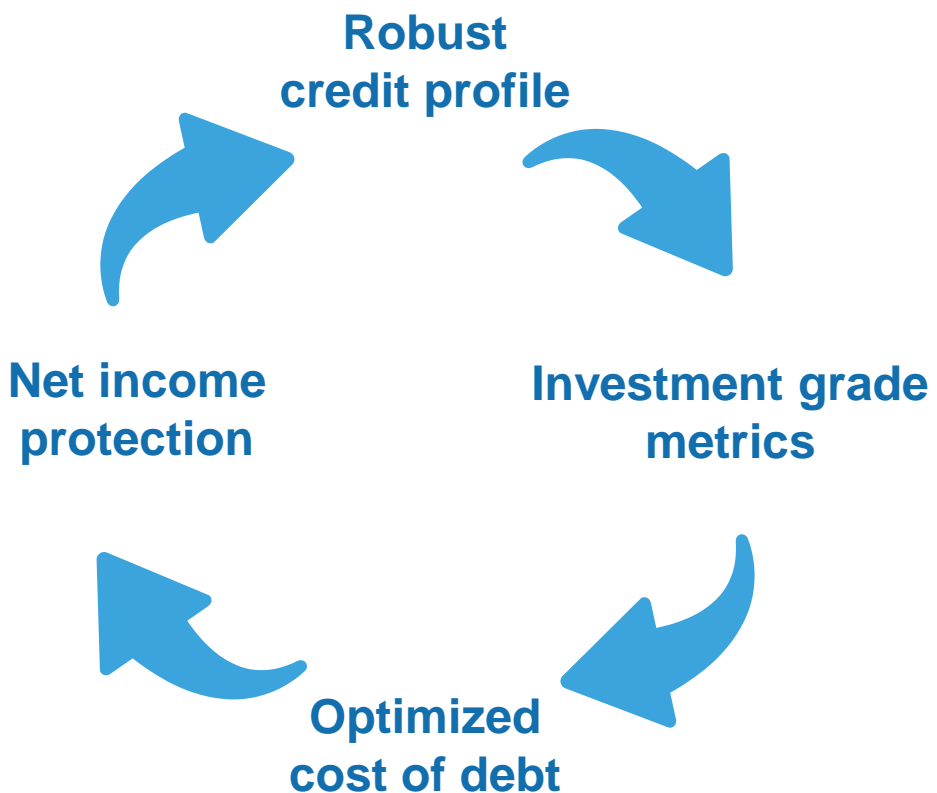


Net Income Protection

The ability to adjust the cost of debt to a changing RoR leads to a stable spread between cost and return, and consequently, to less volatility in results

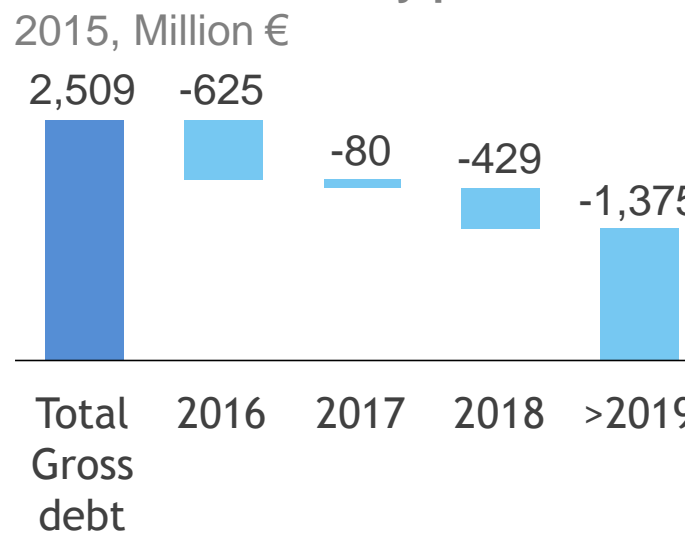


# ...CONSOLIDATING ITS ROBUST DEBT PROFILE WITH INVESTMENT GRADE CREDIT METRICS



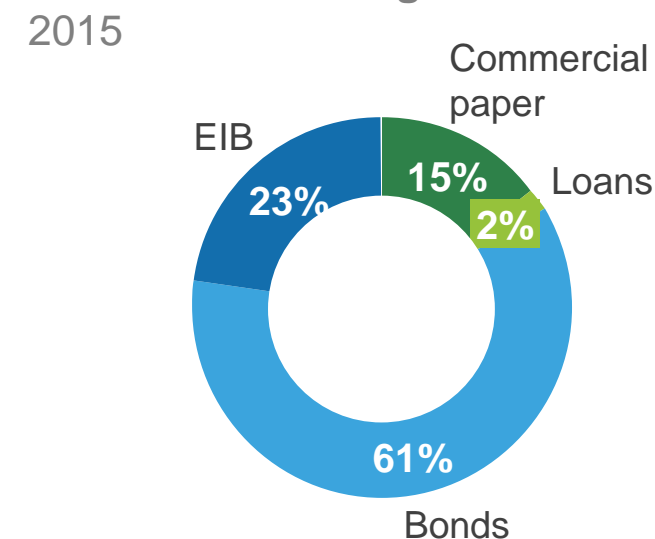
Currently, REN has a robust debt profile with balanced maturity, diversified sources of funding, strong liquidity and growing average maturity

Gross debt maturity profile



**LIQUIDITY**  
2 years in 2015  
Maintain over 2 years

Gross debt funding sources



**MATURITY**  
4.2 years as of 2015  
Extend slightly to take advantage of market conditions



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# REN PROVIDES A PREDICTABLE AND STRONG RETURN TO SHAREHOLDERS...

## DIVIDEND PER SHARE €



REN plans to **maintain the nominal dividend per share year on year,** providing one of the highest dividend yields in the industry

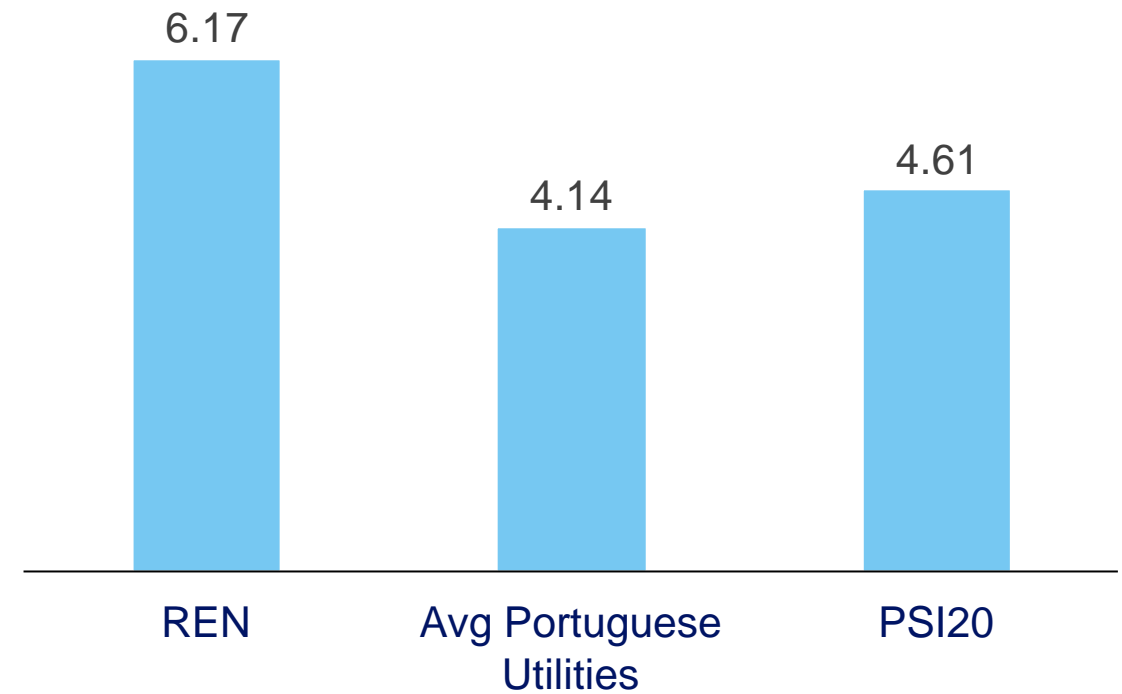
REN'S STOCK PROVIDES A VERY ATTRACTIVE RETURN VIS-À-VIS ITS EUROPEAN PEERS



Dividend yield  
March 2016



REN'S STOCK IS VERY COMPETITIVE IN PORTUGAL



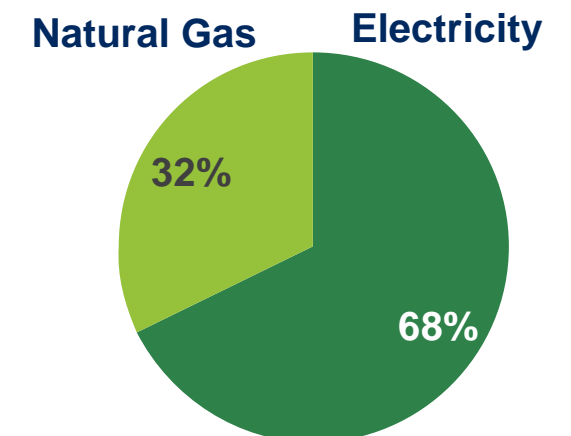


REN  INVESTOR  
OUTLOOK

APPENDIX

	2015 €M	2014 €M	Variation Δ% [Δ Abs.]
<b>EBITDA</b>	489.7	505.2	-3.1% [-15.5]
<b>Financial Results<sup>(1)</sup></b>	-98.8	-113.8	13.1% [14.9]
<b>Recurrent Net Profit</b>	118.1	140.3	-15.9% [-22.3]
<b>Net Profit</b>	116.1	112.8	3.0% [3.3]
<b>Average RAB</b>	3,585.8	3,529.2	1.6% [56.5]
<b>CAPEX</b>	240.4	163.3	47.2% [77.1]
<b>Net Debt</b>	2,465.5	2,436.2	1.2% [29.3]
<b>Electricity base RoR</b>	6.0%	7.8%	-1.8p.p.
<b>Gas RoR</b>	7.3%	7.5%	-0.1p.p.

**Average RAB  
2015**



1) Excludes Financial revenue from the interconnection capacity auctions between Spain and Portugal (€0.3M) – known as FTR (Financial Transaction Rights) – was reclassified from Financial Results to Revenues

## SUSTAINABILITY STRATEGY



## GUIDELINES

- United Nations Global Compact
- Carbon Disclosure Project
- Global Reporting Initiative
- ISAE 3000 (International Standard on Assurance Engagements 3000)
- European Customer Satisfaction Index
- AA1000APS – Assurance Principle Standards - 2008

## ACHIEVEMENTS





Note: Temporary suspension of Gestmin's position in the board  
Source: REN

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REN

# INVESTOR OUTLOOK

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