REN – Redes Energéticas Nacionais
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Corporate participants

- **Rodrigo Costa** – Chief Executive Officer
- **Gonçalo Morais Soares** – Chief Financial Officer
- **João Conceição** – Chief Operational Officer
- **Ana Fernandes –** Head of Investor Relations

Ana Fernandes

Good morning, everybody. Welcome to REN's first quarter 2016 results conference call. As usual, I'm joined by Rodrigo Costa, our CEO; and by Gonçalo Morais Soares and João Conceição, the CFO and the COO respectively. Rodrigo, would you like to say some words?

Rodrigo Costa

Well, I will. Good morning to all of you. Last Friday, we reported this year first-quarter results as you know. They are very much in line with consensos both at EBITDA and net income level. EBITDA reached EUR121.1 million, while net profit stood at EUR6.1 million. We have to bring to your attention a few important facts that have impacted these results.

REN accounted for 100% of the levy on the energy sector companies, just like we have done in the third quarter of 2015, this amounts to EUR25.9 million. These numbers are also lower than last year due to the one-off capital gain from the sale of Enagas, roughly EUR20.1 million. We kept benefiting from the lower cost of debt at the financial level. The cost went from 4.1% to average 3.7% and the downward trend is likely to continue during the remaining of the year.

CapEx as always was low in this first quarter and we do expect the overall number for 2016 to be close on the lower end of the numbers that we shared with you when we presented our strategy basically a year ago. On the economic and regulatory front, the environment remains challenging but according to our overall expectations. And on the operational front, we are really doing well. We remain on the top of the TSO list for safety and efficiency indicators, which is very positive. Last year, in these three numbers, are now public, and we kept being at very positive [rates] of returns for both the electricity and gas industries.

We had already our General Shareholders meeting last month where the dividend payment was approved and now has been already executed.

And now I will turn to Gonçalo. He will do our usual presentation and then myself, Gonçalo and João will be available for any questions you may have. Thank you.

Gonçalo Morais Soares

Hi, good morning to you all. And just to go over the main highlights again. So, basically our recurrent net profit went up 5.6% and this is mainly due to a stabilization on the operating side, on the revenue side and also at the same time with the improvement of the financial performance. As Rodrigo said, we have a lower cost of debt, which came down to 3.7%, a little bit ahead of expectation. And net profit goes down, but it's basically because of those non-recurrent reasons, and so I'd say that EBITDA for the same trend, it has gone down around 12% because of those same reasons, mainly related to Enagas sale last year.

OpEx is coming down and is in-line with expectations. And CapEx goes up slightly, but if you want to let me guide you through a little more of detail for each of these items, but if you want to skip slide 2 and go straight to slide 3. What we have seen is that in the past few months is the stabilization of the 10-year Portuguese bond yields from a large decrease that they have in the previous year. So that has implied a stabilization of the rates of return of the assets in these first months of 2016. And so for electricity, rates have been around 6% and for gas, we are close to the 4% of the regulatory framework, which is coming to an end.

Slide 4, you can look at CapEx and investments. So as you know, this is still the first quarter. Numbers are not very meaningful at this stage. What we can tell you is that we have said in our business plan in the Investor Day that we would be around EUR175 million to EUR200 million of CapEx on average. And we have a CapEx in 2015, because of the acquisition of the two storage gas assets that we bought from Galp, above that, so around [EUR240 million] and this is by design. We are going to be either on the lower end or even slightly below that lower end this year and then perhaps the coming one in order to be at the end on average within those objectives that we stated to you at that time. I'd say that as of now, everything is, let's say, going basically according to plan.

If you go to slide 5, you see the evolution of the regulated asset base. Basically it's the usual story, so a decrease in electricity without premium and increase in electricity with premium. The main difference you see versus last year is the increase in natural gas, that results basically from this acquisition of these assets that I spoke to you about.

Moving on to slide 6, so you see how the remuneration has been evolving in both gas and electricity. So I'd say actually a small growth and because as I've told you the regulated -- the rate of return has stabilized, even actually very marginally increase from last year to this year, and so we have a very slight improvement on that front and on the increase of our assets, which is larger when you look at the gas side, again, because of the acquisition in the middle of the year last year of those two assets from Galp.

Moving on to EBITDA, and relating to costs, trends in costs, I'd say in line with expectations. Personnel costs are decreasing close to 1%. Other costs are increasing a little bit more. This also has to do with the fact that last year by this time, we had already issued some bonds and they have some extraordinary costs, so that in that specific quarter, which we haven't had in the first quarter and may have in the second quarter. So that's the main, I'd say, the main explanation.

Overall what we expect is to be able to comply with the target efficiency numbers that the regulator has set for us. And so we will continue to decrease cost year-on-year, but as also we have said, and we are already a pretty efficient Company, so we do not expect to have the same kind of cost declines going forward as we have in the past.

And that being said, on slide 8 and if you look at the overall cost, you can see that core OpEx because of the reasons that I told you is coming down 3.8%. We do not expect the decrease to be so large on a full-year basis because of those reasons that I have told you related to those specific costs and in connection with bond issuance.

So if you look at slide 9, and summarizing EBITDA, I think that the slide is pretty clear. You see that it comes down basically to the impact of the sale of the Enagas stake last year of EUR20 million. If not it was to be pretty stable, actually increase a little bit. So I think that explains overall everything. Below EBITDA, what you see is the depreciation pretty much in line with assets. We also have a small increase because of those CapEx that we spoke about. So depreciation is actually increasing a little bit more than usual, but it's because of that.

Financial results, I go into a little bit more in detail in the next slide. I think we have a good surprise here and it's going in the right direction as expected. So we already have the impact of the decrease of the rates in the electricity regulatory framework back in 2015. We are now under the revision of the gas one, which we have published the main numbers. Then we also expect the revision of the recovery [turn] there, in line with what we have in electricity. And pretty much was expected and so we also see this trend in the financial cost coming down, but I'd say slightly ahead of schedule. In terms of taxes, nothing major. We are accounting for the special levy, which is EUR0.5 million higher than last year. But apart from that, I'd say things are pretty much in line with what we expected.

In slide 11, I am commenting on net debt. So it's slightly larger than it was at the end of the year, nothing very different from expectations. We have a little bit more repayments in terms of CapEx than anticipated, but I'd say that it's pretty much where we wanted, which is more or less stable to declining. And as I've said, the average cost of debt has come down from the 4.1% last year to 3.7%. And as we move along the year and we continue to refinance our debt, I think that you'll continue to see a trend of this value being able to come slightly down also until the end of the year. In terms of FFO net debt for us, we continue and are strongly committed to maintaining investment grade credit metrics. Fitch very recently told us again that they were maintaining the BBB rating with a stable outlook, which for us were very good news. So this is for us very critical and we'll continue to work towards that objective of being the only company with the three or at least a company with three investment grade credit ratings in Portugal.

Slide 12, we have the summary of what's happened in terms of net profit. So basically following net EBITDA, some impact coming from other items below EBITDA, and nevertheless net profits came down strongly. But if you look at recurrent net profits here, you see that they actually show a healthy growth of around 5.6%.
So summing up, I think as always we've presented a pretty stable operating performance and we have continued to decrease operating costs. I think that also as we've been trying to show you, we've been able to deliver on the evolution of the average cost of debt and be able to come

actually slightly ahead of expectations on this front. So I think all of this contributes to us being able to pay the stable dividend policies that we have been paying for the last few years.

So with that note, I conclude my presentation and we are now open to any questions and answers that you may have. Actually before that, just one final note because I failed to mention this, I can answer you then further questions. We actually launched this morning a refinancing for a tender offer for some of our bonds, which is an operation we are doing within the refinancing of the Company during this year. It was announced publically this morning and so it is liability management exercise, but in the Q&A I'll be happy to answer the questions that I can regarding that point. Thank you very much.

Q & A

Jutta Unmuessig - Barclays - Analyst

I have two if I may. So the first one relates to your cost of debt guidance. You've now cut your average cost of debt by 40 basis points over the last few months. As you just indicated, we have seen your tender offer to buy back your 2018 and 2020 bonds and I do presume that you're also looking to refinance your 2016 bonds or bond. So with all of those moving parts in mind, could you give us an indication where you see average cost of debt going towards the end of the year? I think your previous guidance was minus 30 basis points, which you already exceeded? And then secondly, I also understand that your major shareholders, State Grid of China and Oman Oil, will reach the end of their lockup period by the end of the month.

Do you have any indication whether they are looking to sell part of their stakes? Thank you.

Gonçalo Morais Soares

This is Gonçalo. I will answer the first one and then Rodrigo will cover the second one. So in terms of cost of debt, yes, we're ? as you've seen tendering now the 2018 and 2020 bonds, which we have in the market. They are the shorted-dated one. We are, yes, planning to go ahead with also a new issue. We haven't announced anything yet that we cannot do that, but I can tell you that that is our expectation to do so in order to refinance the bonds that we have maturing in September, the retail bond that you have maturing at that date.

A credit term, without giving a specific number, we will clearly beat -- we have sort of being below 2015 around 30 bps. I think we'll clearly be able to beat that number and be closer to the numbers that we were thinking more for the next year. So we should be somewhere in the middle of the 3% kind of range for the year. So slightly above or below the 3.5% kind of figure. So that's where we should be. But let's wait and see how the year progresses, but you should expect a further decrease versus what we have in the first quarter.

Rodrigo Costa

On the second question about, what can we say about the lockup period that is coming to an end, and these two specific shareholders, State Grid and Oman Oil. The only thing we can comment is that these two shareholders are very engaged within the Company through their Board representatives. They participate in the life of the Company though those epresentatives. As I said, very engaged. We enjoy a very solid relationship with both of them. But other than that, we are a public traded company, and as you can imagine, they are the only ones who can provide more information about this. So far, we have no indications of any departure. As I said, very engaged, very good collaboration going on. And we have a very solid relationship with both of them.

Nelson Bernardino - Haitong - Analyst
So thank you for taking my questions. So first of all, regarding your numbers for the first quarter. Your net debt was essentially flat compared to the previous quarter, whereas usually in the first quarter, net debt goes down. Was there any specific reason for this? I have seen that it's related to working capital, but can you just give some more light on that issue and if you would expect this trend to be reversed in the previous quarters?
And by the way, what is your guidance for net debt for this year? And also can you comment something more on the new gas regulation because we've seen the new return on assets, but also the OpEx parameters are a bit tighter than they use. Can you comment on that? Are you confidente that you can keep within the OpEx guidance? So, thank you very much.

Rodrigo Costa
Regarding net debt, no there is not anything specific. I think it was just more some timing of some CapEx payments that we have. We do have the same kind of guidance of stability to light decrease of net debt over the year but apart from that there wasn't anything specific, or out of the ordinary that we can talk about. I think it was pretty normal, okay. And second question, I'll ask João Conceição to address it.

João Conceição
Well, for the second question, I will just tell you that this is just a proposal until June 15, and it's still confidential so there is not much we can say more than what we have already announced. Regarding CapEx, as we announced, we are getting from the proposal reverse a rate of return that aligns natural gas with the base rates of repairing of electricity, and the indexation curve is also very much calibrated to have this proximity between the two sectors. Regarding the OpEx, there is lots of small details in the OpEx apart from the yearly targets that the regulator is proposing. But to answer to your question, yes, we're confident that we can be aligned or even beat these yearly targets as we have been doing so in the past.

Fraser McLaren - Bank of America - Analyst
Just a quick question please to see if you can tell us anything about the ongoing challenge of the energy tax, please. Any update in terms of timeline for example, please?

Rodrigo Costa
Thank you for the question. On the energy tax, I'm afraid I cannot help much. This is an ongoing topic. We have our ongoing dispute going on, still - This is going to be, as I said, in all the previous calls, this is going to take time. The courts have -- they will take their time. We believe we have a good case, but the court is a court, a judge is a judge; we cannot really anticipate anything. I think we took a very, very conservative approach toward this matter. That's

why we decided to pay the tax and then dispute on the court, but for the moment we have nothing to add on that. This is the process that we will keep going on.

Regarding our expectations and what are we expecting for the future, it's still early to say. The government so far they didn't disclose any specifics about that. We keep doing what we are supposed to do. We complain with the right people, we believe that the tax is not done properly, and it's unfair, but we'll see what the court will bring us and what the government will decide in the future.

Sara Piccinini - Mediobanca - Analyst

Actually, many of them have been already answered. I have one on the fully depreciated assets. I see that there is a small increase in this first quarter.

So I would like to know if we can expect still EUR20 million for 2016 or more? And how much are you expecting for next year? I guess this has to be with higher asset base. And also on the regulatory review for gas, sorry maybe you have already answered but regarding the efficiency factos for the three businesses in gas, are you expecting the same efficiency factors, or that the regulator could be tough on debt? And finally, the press was reporting this morning about the possibility of an interconnection between Portugal and Morocco, and what is the timing that you could expect for the implementation of this project, and if you are interested in it? Thank you.

Rodrigo Costa

Okay. In relation to the first one, I think it's the normal kind of increase that you should see every year. So regarding this year in specific, what you saw in the first quarter is probably what you will get for every single quarter. So it's more or less stable versus what we already have. Of course, next year as new assets always come and become fully depreciated, it depends on a yearly basis. It can increase a little bit more, it can increase only to a little bit less. I would say it's the normal thing. It's also dependent on the rate. But I'd say that it should always increase a little bit and that was the expectation. In relation gas, João Conceição, I don’t know if you want to --?

João Conceição

Well, again this is, as I had mentioned before, there's still lots of details under discussion. The overall efficiency is something between 2% and 3% on the different types of assets. And as I said before, it's something that we think that we can cope with in trying to beat those targets.

Rodrigo Costa

Thanks, João. On the interconnection with Morocco. This is a old project that several of the Mediterranean countries has been involved, doing the studies for quite some time. There was a company created called Medgrid that they were supposed to come up with some solutions, which they did. And this government decided to take on the task of reevaluating the project. In fact, this is something that it’s very feasible. In my perspective, in REN's perspective, it makes a lot of sense because it will be an extra connection between Europe and North Africa for energy, for electricity in this case. Technically, does not possess any special challenge. And I think it's the way the Portuguese government is looking to this is quite interesting.

We have a country that really, really, it's a great place for renewable energy generation. Just have an idea in the past few days in Portugal, we achieved basically 100% of the energy consumption could come up just from renewables. Of course, this is only happening a few days during the year. There is some solar projects for the country in the central and south of the country. And having a connection with North of Africa would be great for exports.

And the same way, it will be positive for the safety of all the systems, the generation systems.

And then we don't have anything on the plans today. This is something that it's extra to our actual plans, but it will take time. This is just a phase of evaluation. We are still on the process of having political discussions between the two governments and they are supposed to make the decisions, not us.

On our side, we are following up the project. We are involved in the technical studies. A lot of work has been done in the past. And as soon as something is decided, I'm sure, we will all know. But for the moment, this is still in the discussion, political discussion phase.

Ana Fernandes

Okay, everybody. If there are no further questions, we'll talk again anytime soon. Thank you. Have a great day.