

The logo for REN, consisting of the letters 'REN' followed by a stylized double-headed arrow symbol.

REN

INVESTOR  
DAY 2015

LISBON

MAY 15TH

**REN'S STRATEGIC AGENDA 2015-18**

## AGENDA FOR TODAY

<b>10H30 / 11H00</b>	<b>RODRIGO COSTA</b> CHIEF EXECUTIVE OFFICER	<b>OVERVIEW OF REN'S RECENT PERFORMANCE AND STRATEGIC CHALLENGES</b>
11H00 / 11H30	<b>JOÃO FARIA CONCEIÇÃO</b> CHIEF OPERATIONS OFFICER	STRATEGIC GUIDELINES FOR REN (PORTUGAL AND INTERNATIONAL)
11H30 / 11H45	<b>COFFEE-BREAK</b>	
11H45 / 12H15	<b>GONÇALO MORAIS SOARES</b> CHIEF FINANCIAL OFFICER	STRATEGIC GUIDELINES FOR REN (FINANCIAL) AND BUSINESS PLAN FOR 2015-18
12H15 / 12H30	<b>RODRIGO COSTA</b> CHIEF EXECUTIVE OFFICER	SUMMARY OF CONCLUSIONS
12H30 / 13H00	<b>Q&amp;A</b>	
13H00 / 14H00	<b>LUNCH</b>	

# CURRENT CONTEXT OF THE EUROPEAN TSO'S



## ENERGY MARKETS

Domestic market still a priority

Energy efficiency policies

Decentralized generation with the proliferation of renewables



## REGULATION

Lower allowed returns

Stronger scrutiny on investment plans

Sector specific taxation



## INTERNATIONAL CONTEXT

Increased focus from TSOs on international investments

Availability of TSO investments abroad

Increased competition from non-TSO players (e.g., private equities, hedge funds)

### REGULATION

- Decrease of RoR (electricity and gas) due to the decrease of the country's cost of debt
- Impact was partially offset by increase in incentives (e.g., remuneration of fully depreciated assets)

**STABLE REGULATORY FRAMEWORK WITH  
RETURNS ALIGNED WITH COST OF DEBT**

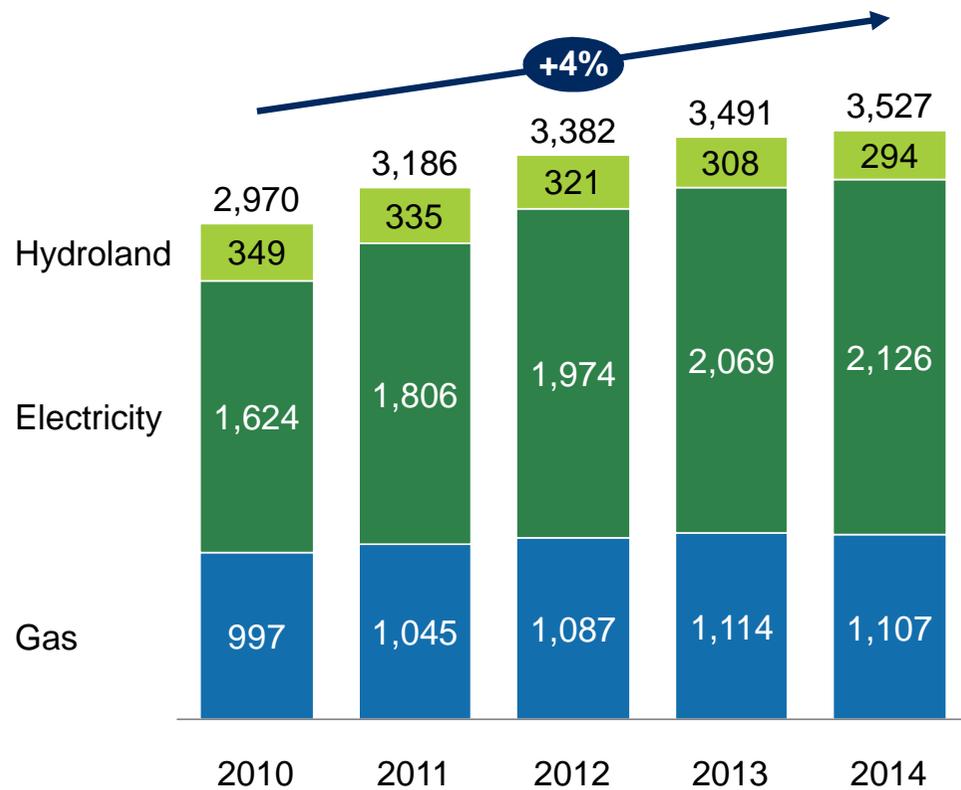
### ENERGY SECTOR EXTERNALITIES

- A new levy was imposed in 2014, directly impacting REN's bottom line (-25M€ impact on net income)
- In 2014 remuneration over hydroland was reduced to a value close to 0 (-6 M€ impact on net income)

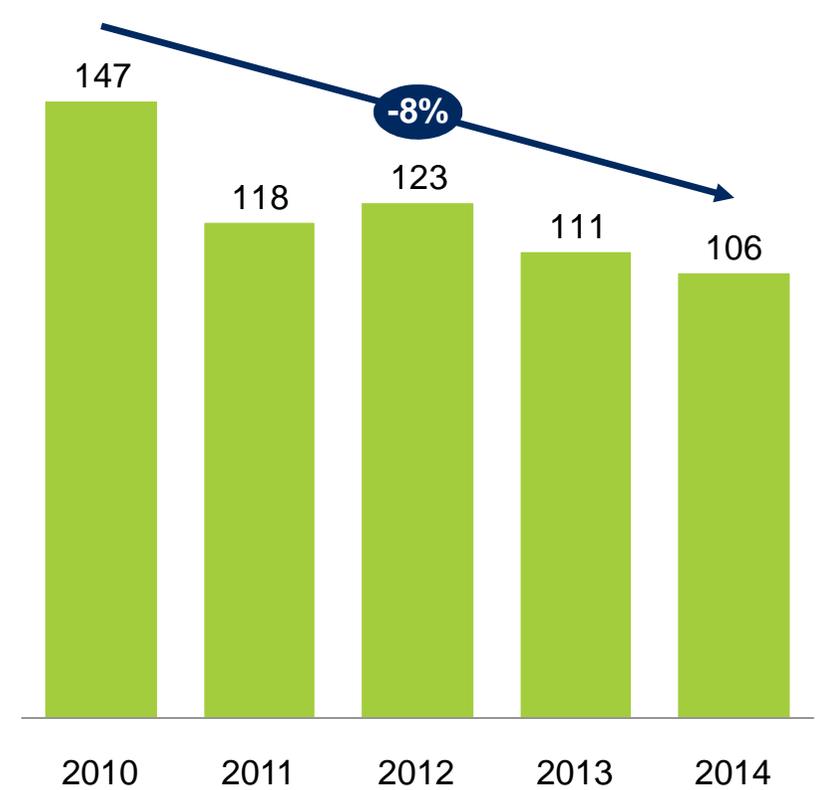
**NEGATIVE EXTERNALITIES RESULTANT  
FROM THE PORTUGUESE  
MACROECONOMIC CONTEXT**

# IN RECENT YEARS, REN MANAGED TO IMPROVE ITS PERFORMANCE

**RAB**  
Million €



**OPEX**  
Million €

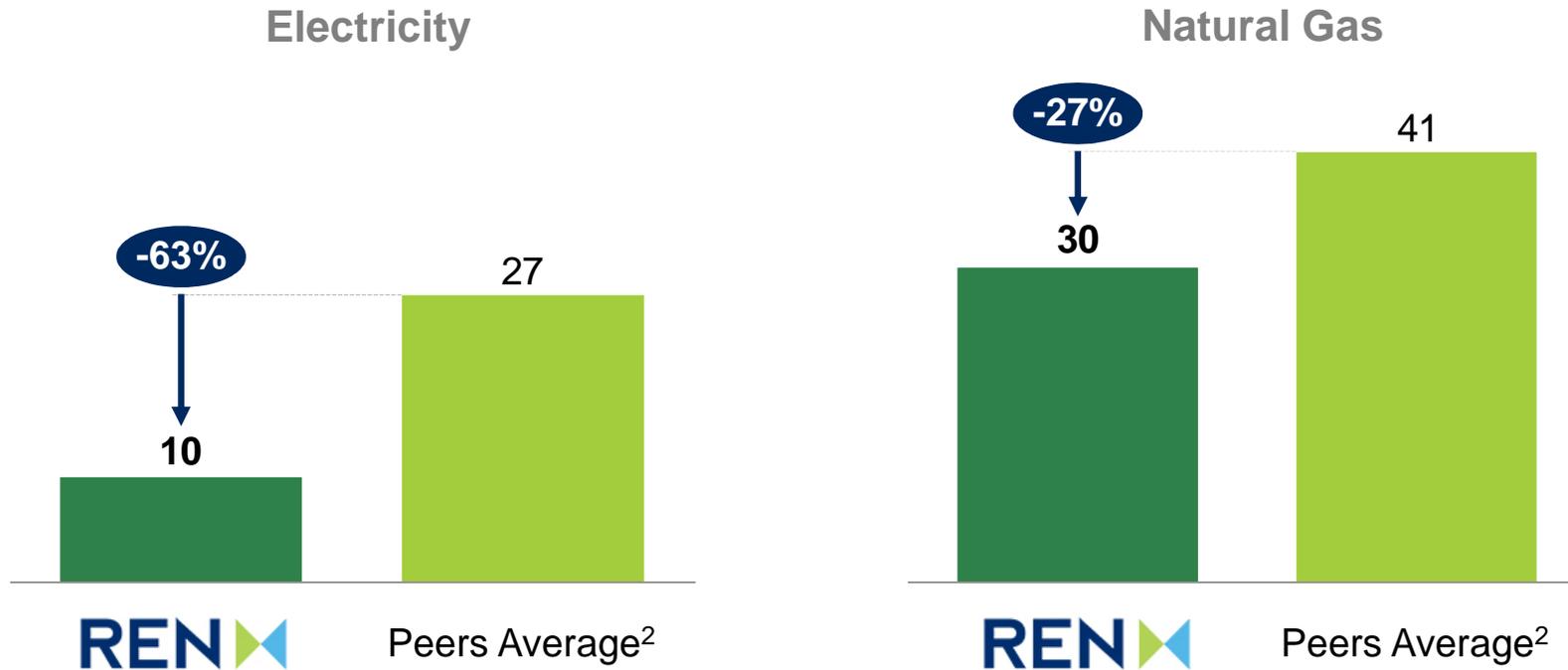


SOURCE: REN

# TODAY, REN IS ONE OF THE MOST EFFICIENT TSOs

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

2014; thousand €/km



High efficiency allows to reduce REN's weight on tariffs while still ensuring an excellent service quality which is best practice in Europe

1 Adjusted to PPP (base year: 2011)

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

SOURCE: Annual Reports; World Bank

# ALSO, REN UPGRADED TO INVESTMENT GRADE RATING AND REDUCED THE COST OF DEBT



## AVERAGE COST OF DEBT



### Average debt maturity (years)

Year	2010	2011	2012	2013	2014
Average debt maturity (years)	4.6	3.9	3.2	4.4	3.9

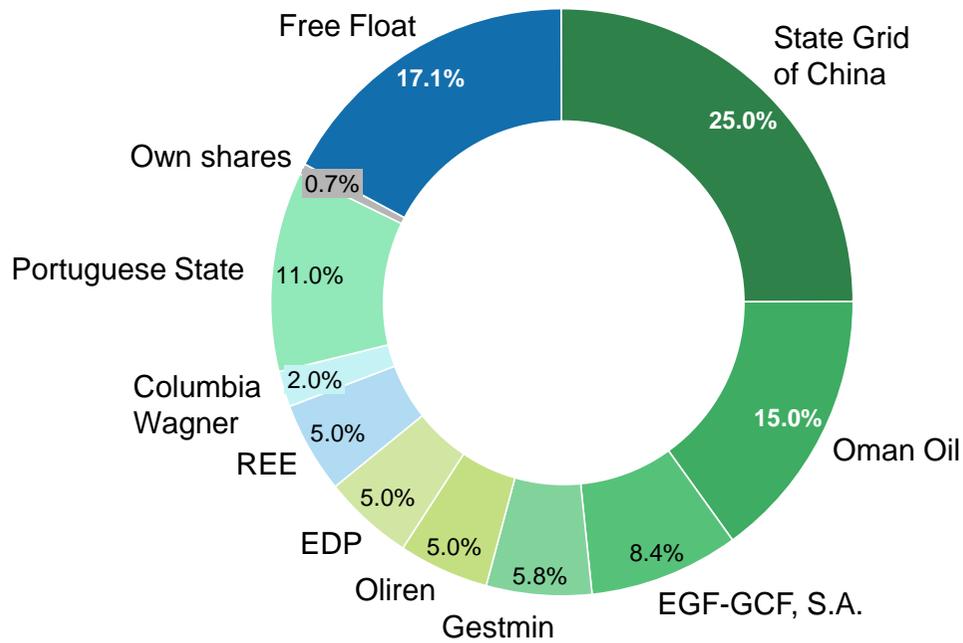
### Net debt / EBITDA

REN	4.9x	4.8x
Peer Average <sup>1</sup>	5.1x	5.1x

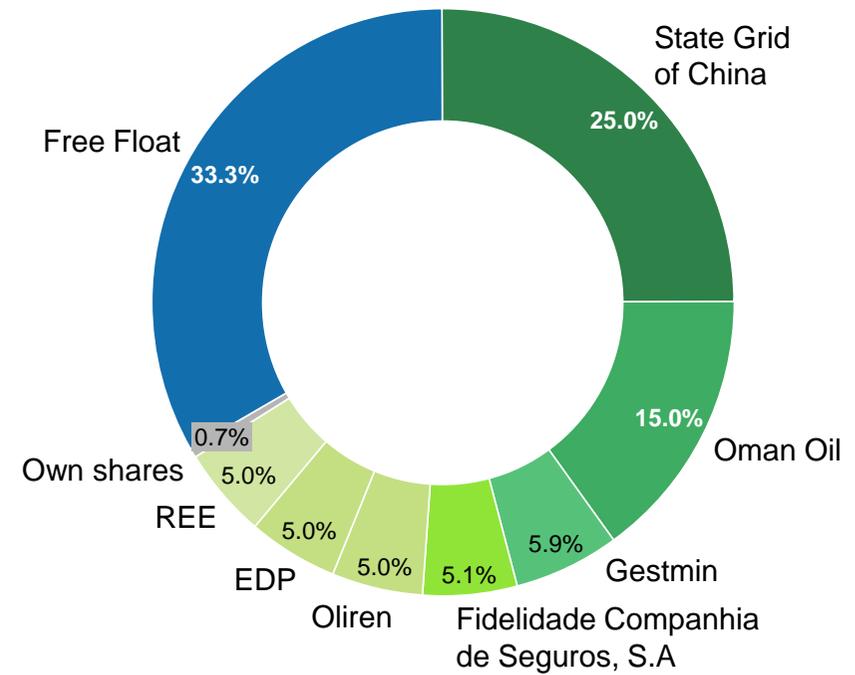
<sup>1</sup> Excluding REN; includes REE, National Grid, Enagás, Terna, SNAM, Elia and Statnett  
SOURCE: Bloomberg; Annual Reports; Capital IQ; REN

# MOREOVER, REN HAS SUCCESSFULLY CONCLUDED ITS PRIVATIZATION PROCESS

**FROM...**  
2012



**... TO**  
2015

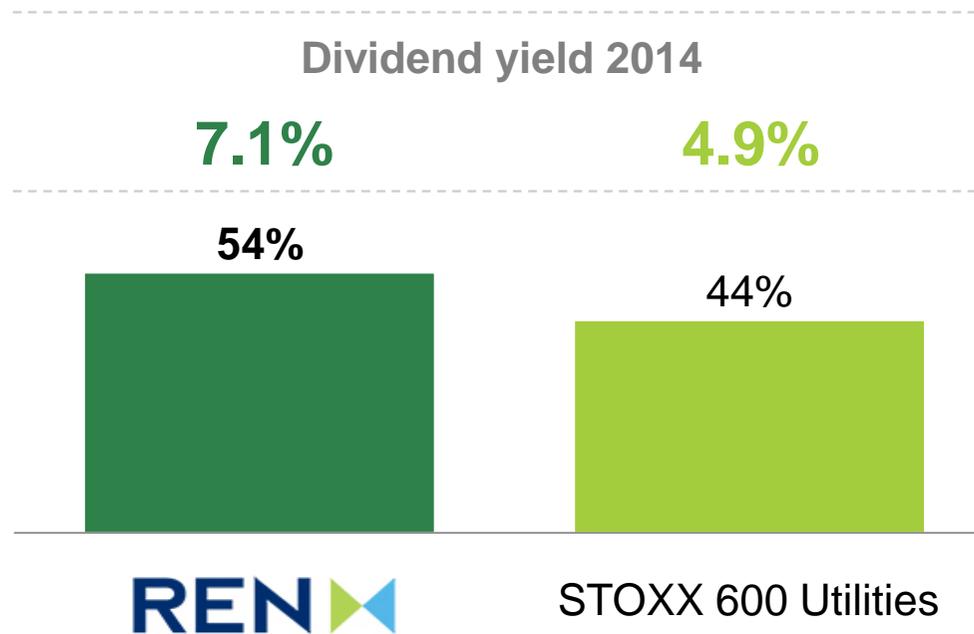


**Increasing free float and liquidity of the stock**

# FINALLY, REN IS A LEADING VALUE CREATING TSO FOR SHAREHOLDERS

## TOTAL SHAREHOLDER RETURN

Jan 2012-Feb 2015



REN presents a dividend yield well above the industry and provides its shareholders a very attractive total return

# OVERALL, REN MET MOST OF ITS OBJECTIVES

	2012 BUSINESS PLAN CAGR 2011-16	ACTUAL RESULTS CAGR 2011-14	
Domestic investment	~200 M€ / year	Average ~190 M€/year	
RAB	2–5%	~4%	
EBITDA	3–5%	~2% ~3% (excluding hydroland)	
Net income	~5%	~-2% ~5% (excluding CESE)	
Internationalization	Up to 0.7 B € investment Up to 10% EBITDA	Created basis / initial steps on internationalization	<i>Driven by conservative posture</i>
Funding	Optimize cost of debt Extend maturities	1 pp decrease in average cost of debt (4.7% in 2014)	
Net debt / EBITDA	<4.5x in 2016	4.8x	<i>Change in debt markets</i>
Dividend	Maintain or slightly increase nominal dividend per share	0.1€ cent yearly increase or maintenance	

## ASPIRATION

Reinforce REN's position as a **leading value creator for shareholders** through

- **Profitability**
- **Stability**
- **Granular growth**

## STRATEGIC GUIDELINES



### **Local business remains a top priority**

*Maximize returns from REN's business in Portugal and improve the perception of the company*



### **Explore international projects**

*Diversify and grow REN's business by investing in a selected number of international projects*



### **Consolidate financials**

*Ensure a sustainable financial situation, continuing to optimize cost of debt and to provide attractive returns to the shareholders*

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## LOCAL BUSINESS REMAINS A TOP PRIORITY



## EXPLORE INTERNATIONAL PROJECTS



## CONSOLIDATE FINANCIALS

## Strategic initiatives

- Optimize CAPEX plans and OPEX efficiency
- Support the development of the regulatory and energy policy agenda
- Enhance and promote REN's image

# OPTIMIZE CAPEX PLANS AND OPEX EFFICIENCY



## OPTIMIZE CAPEX PLANS

### Existence of a significant pipeline of projects in Portugal

- Connections to hydro power plants
- Connection to new wind offshore
- Refurbishment of sub-stations & new links to the distribution grid
- Underground gas storage (assets from Galp)
- 3rd interconnection in gas & new electricity interconnection in Minho
- Compression station in Carregado

### Optimization of CAPEX investments

#### Focus on innovation

- Sub-stations of the future
- Digital power system simulation
- New renewable energy dispatch and energy storage tools



## FOCUS ON OPEX EFFICIENCY

**Important efficiency gains driven by recent years OPEX optimization limits potential for further reduction in cost base**

**Nevertheless, there is still room to meet the regulatory targets**

## SUPPORT THE DEVELOPMENT OF THE REGULATORY AND ENERGY POLICY AGENDA



Ensure **sustainable RoR levels** given REN's cost of capital



Foster additional **performance linked incentives for electricity** and **create incentives for gas**



Continue to align regulation with **public interest** ensuring **competitiveness** and **quality of service**



Support **regulatory evolution** in line with the **European trends**



Facilitate **energy policy evolution** in other topics (e.g., CAPEX plans)



Continue to foster **innovation** with applied outputs to **support operational units**

## ENHANCE AND PROMOTE REN'S IMAGE



Unplanned average interruption time **~90%** below peer average



**90%** of investments below reference costs

OPEX per km of line **~60%** and **~30%** below peer average in electricity and gas respectively



Weight of **5.5%** on final consumer tariff in electricity and **8.7%** on final consumer tariff in gas



LOCAL BUSINESS  
REMAINS A TOP PRIORITY



EXPLORE INTERNATIONAL  
PROJECTS



CONSOLIDATE  
FINANCIALS

## Strategic initiatives

- Redefine international expansion strategy
- Execute selected investment opportunities

## REN WILL FOLLOW TSOs EXPANSION TREND CAREFULLY, LEVERAGING ITS UNIQUE PROFILE

### TSOs ARE GOING INTERNATIONAL



SOURCE: Annual Reports

**REN with a cautious positioning...**

**... emerging international experience...**

**... and a distinctive profile**

- Selective investments in attractive international opportunities
- Evaluated different markets
- Assessed multiple deals/projects
- Connected with key players
- Established teams
- Value proposition based on
  - Electricity and gas networks
  - Technical know-how
  - Renewables integration
  - OPEX efficiency
  - Top-of-class quality of service
  - R&D

# NEW STRATEGIC CRITERIA 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)

## PARTNERSHIPS



Prioritize investment with local partners

Adapt partners to type / phase of investment

## RETURNS



Ensure competitive and attractive returns adjusted to local / project risk

## ROLE



Assume active investor position with role in operations

## REN WILL EXPLORE SELECTIVE INTERNATIONAL GROWTH AVENUES

### INTERNATIONAL EXPANSION IN EMERGING MARKETS (LATAM, 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

**Primary focus on these opportunities, others can be assessed on a case-by-case basis**

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**LOCAL BUSINESS  
REMAINS A TOP PRIORITY**



**EXPLORE INTERNATIONAL  
PROJECTS**



**CONSOLIDATE  
FINANCIALS**

## Strategic initiatives

- Optimize debt management
- Sustain RAB stability and growth in net income
- Ensure sustainable dividend policy

## ACTIONS CARRIED SINCE 2012 RESHAPED REN'S DEBT PROFILE SIGNIFICANTLY

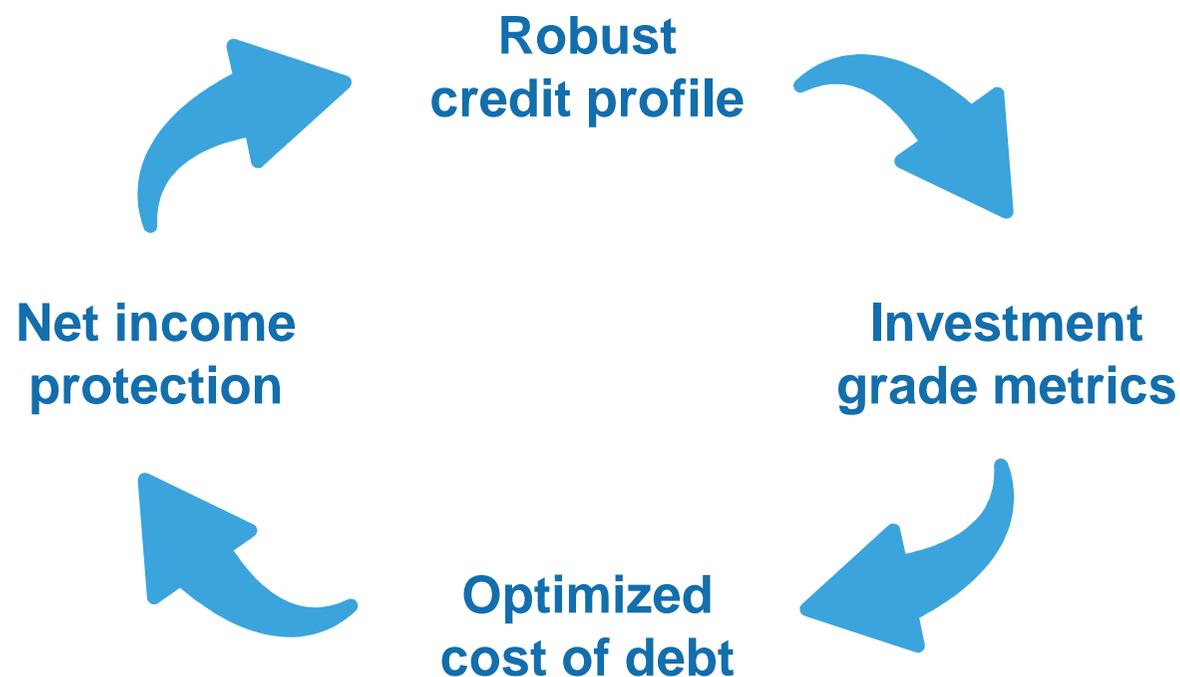
	FROM... 2012	...TO March 2015
Gross debt (Million €)	2,686	2,568
Net debt (Million €)	2,510	2,365
Average maturity	3.2 y	4.8 y
Cost of debt	5.72%	4.07%
Liquidity coverage	Q1 2015	Q1 2017
Fixed rate	71%	42%
Bonds (% of gross debt)	59.8%	61.3%

## CURRENT DEBT MANAGEMENT PRIORITIES

### In recent years REN has

- Moved to longer term debt instruments
- Recovered investment grade
- Reduced average cost of debt

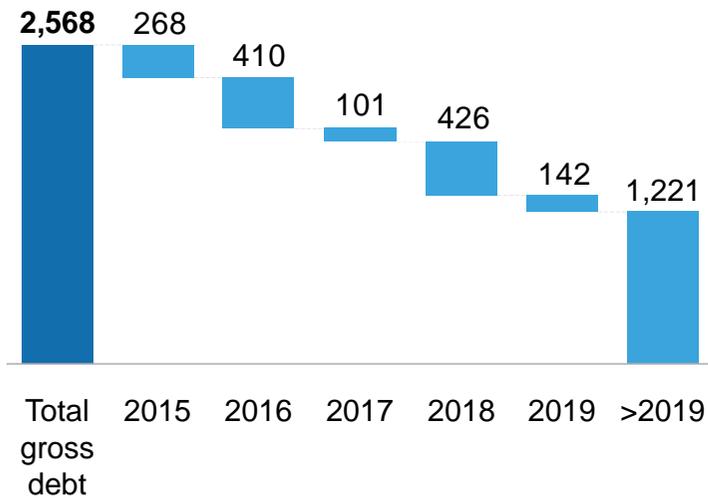
This has allowed for a shift in the debt management priorities from deleveraging to debt optimization



# ROBUST DEBT PROFILE WITH INVESTMENT GRADE CREDIT METRICS

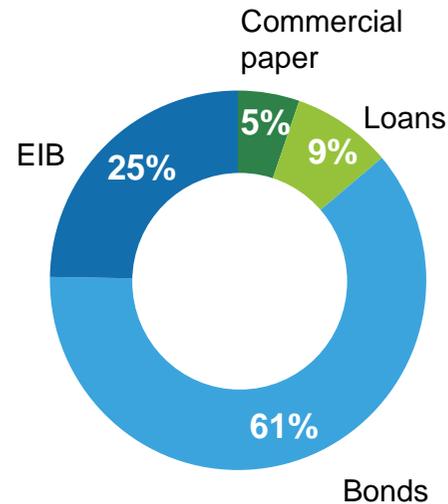
## A BALANCED MATURITY PROFILE...

Gross debt maturity profile  
Q1 2015, Million €



## ...WITH DIVERSIFIED SOURCES OF FUNDING...

Gross debt funding sources  
Q1 2015, Million €



## ...STRONG LIQUIDITY AND GROWING AVERAGE MATURITY



Financing management aimed at maintaining the investment grade status and optimizing the cost of debt while keeping a sound risk profile

# STRONG FOCUS ON CONTINUING TO REDUCE THE AVERAGE COST OF DEBT

## REFINANCING EXPENSIVE OLDER DEBT...

**Bonds**      **4% to 6.25%**

**Loans**      **4.5% to 5%**

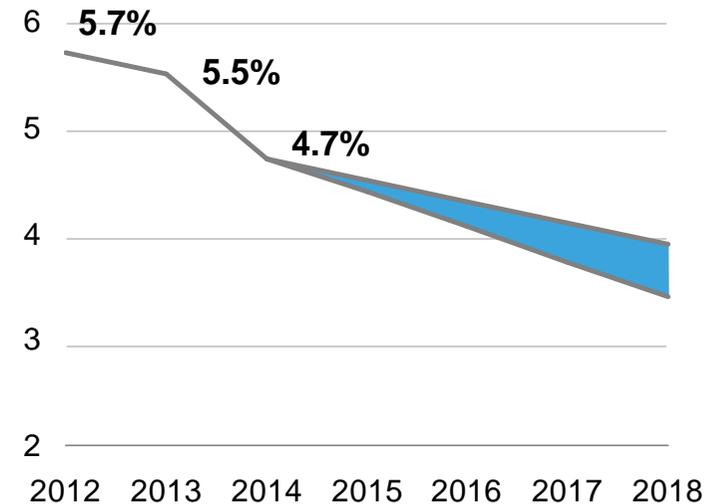
## ...UNDER GOOD MARKET CONDITIONS...

**Yield of last bond issue<sup>1</sup>**      **2.5%**

**Yield in secondary market**      **2.2%**

## ...SHOULD ALLOW TO FURTHER REDUCE THE COST OF DEBT

Average cost of debt



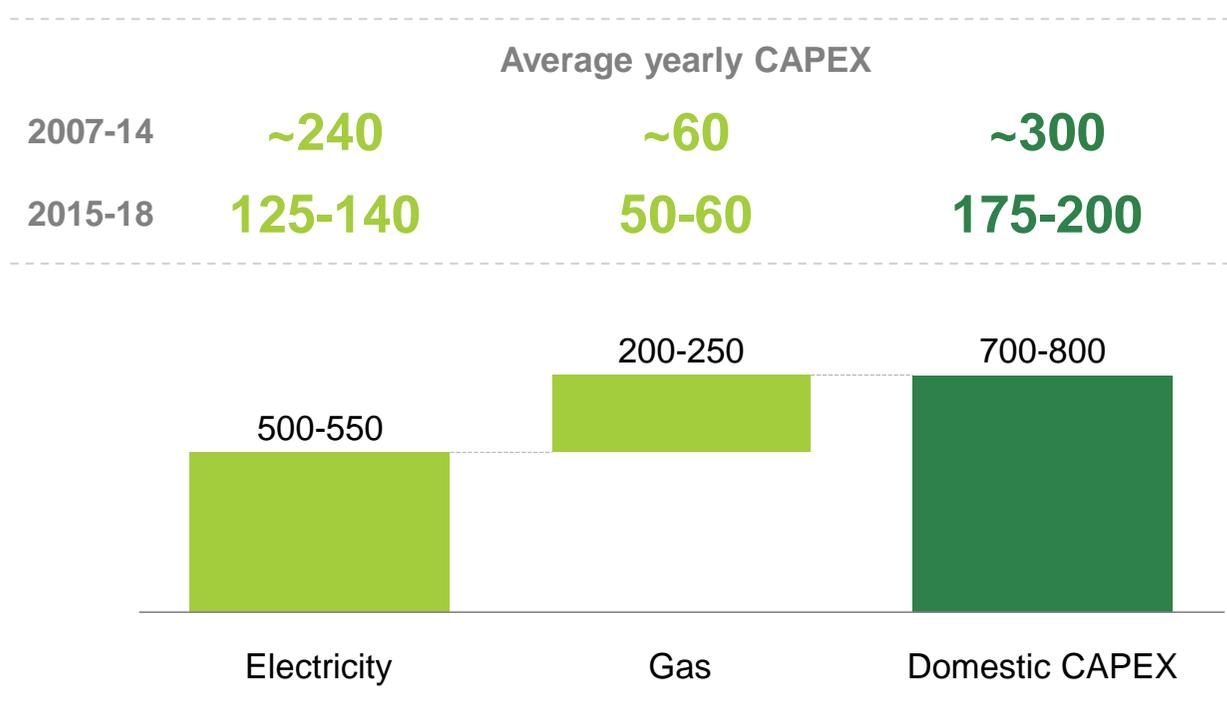
**Under current market conditions, a 1.0 pp decrease of the 2014 average cost of debt should be achievable by 2018**

<sup>1</sup> Yield of the February 12, 2015 bond issue  
SOURCE: REN

# REN WILL INVEST ~800 MILLION DOMESTICALLY IN 2015-18

## CAPEX PLAN 2015-18

Million €



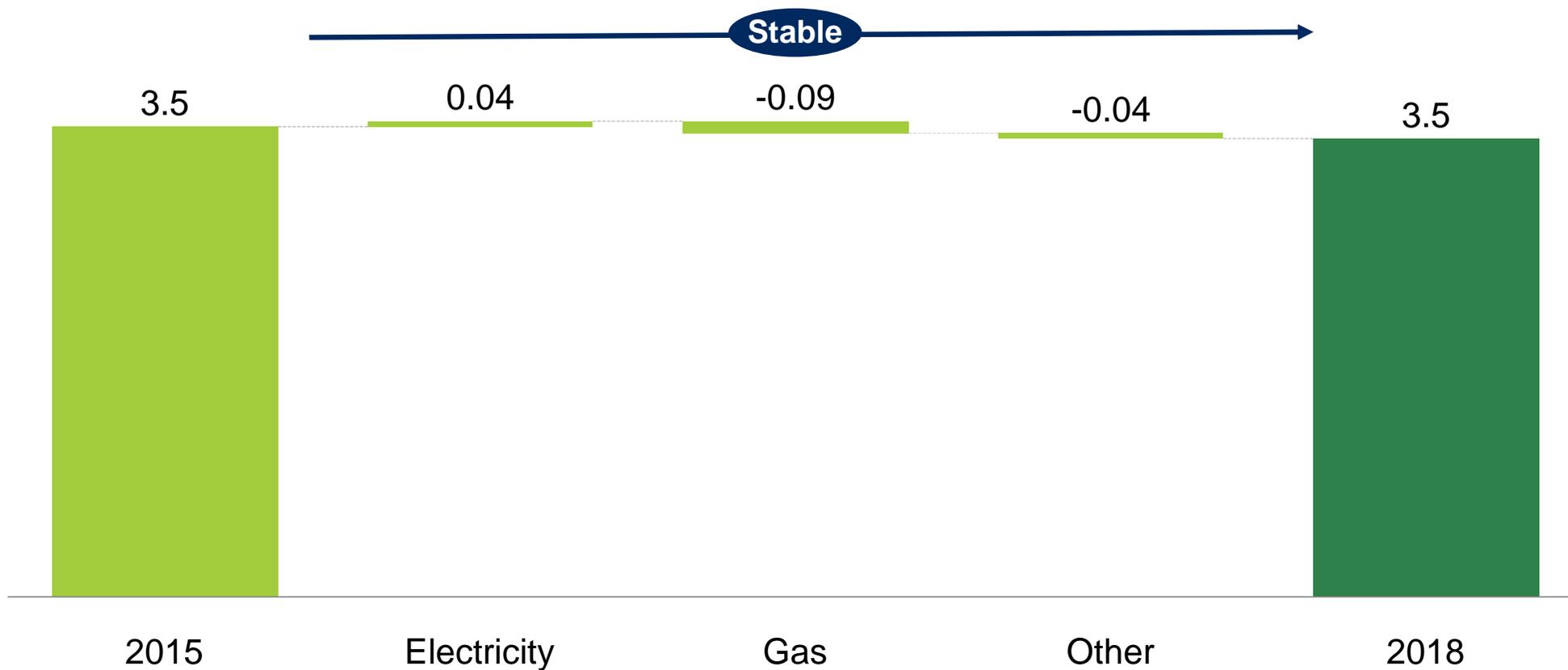
Additionally, REN plans to invest  
**up to 900 M€ EV internationally**

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

# RAB WILL STAY STABLE IN THE 2015-18 PERIOD

## AVERAGE REGULATED ASSET BASE

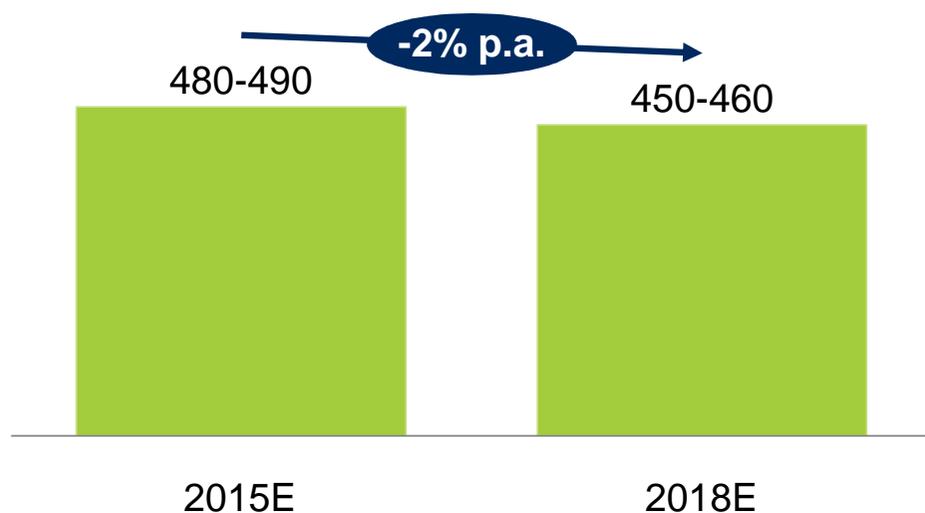
Billion €



## NET INCOME IS EXPECTED TO GROW IN THE NEXT YEARS

### EBITDA

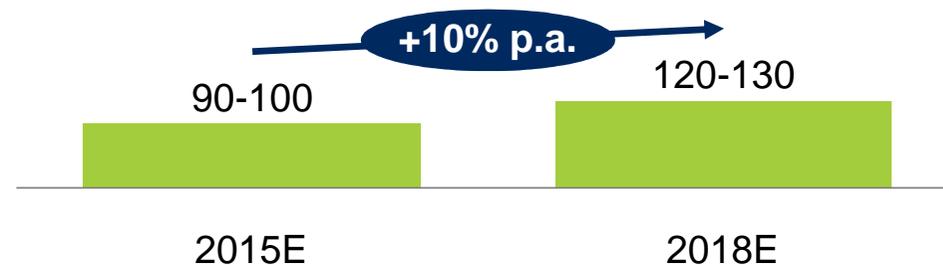
Million €



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

### NET INCOME

Million €



Net income is expected to increase given the decrease in financial costs and the phase-out of CESE

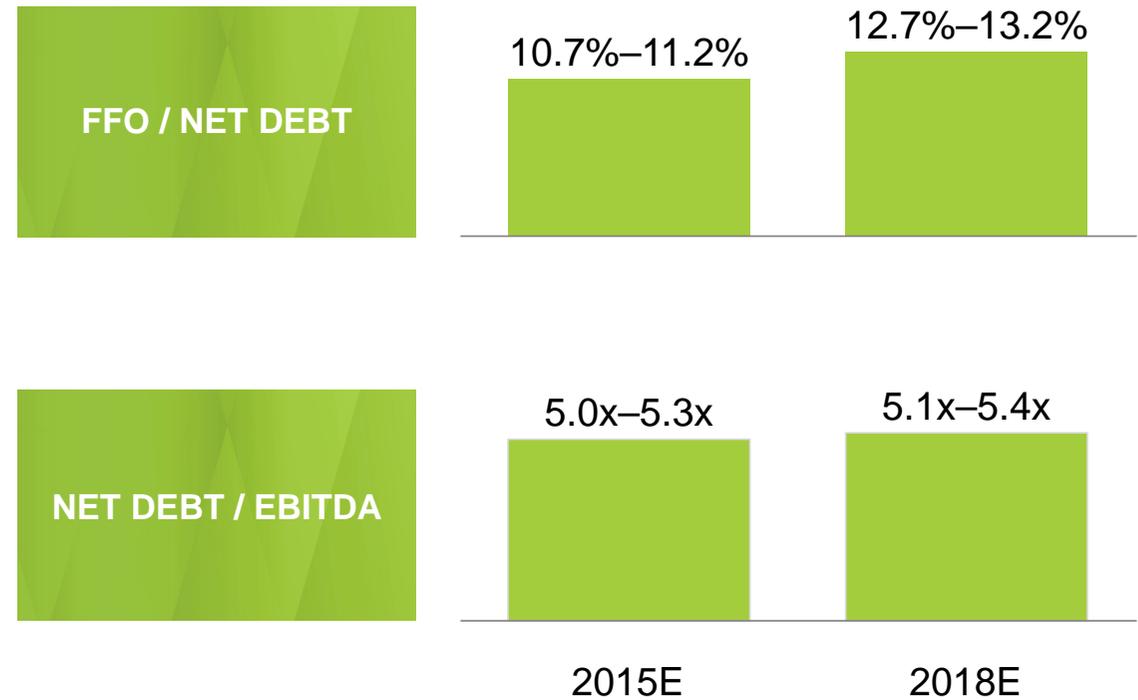
# STABLE NET DEBT LEVELS SHOULD ALLOW REN'S CREDIT METRICS TO IMPROVE IN THE MEDIUM TERM

## NET DEBT

Billion €



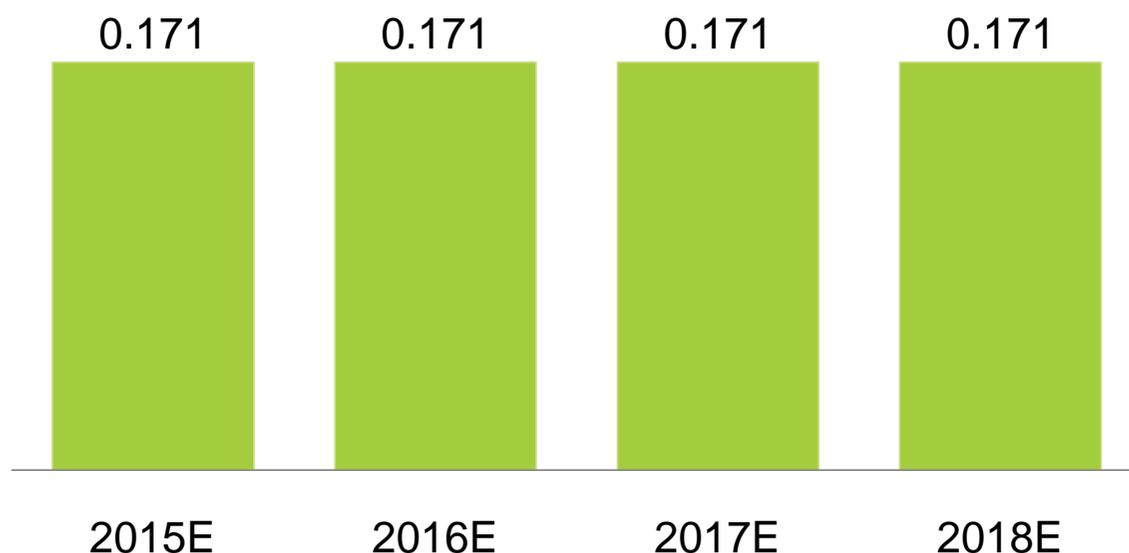
## CREDIT METRICS



## ENSURE SUSTAINABLE DIVIDEND POLICY

### DIVIDEND PER SHARE

€



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

Provide predictable and strong return to shareholders

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# SUMMARY OF REN'S STRATEGIC AGENDA AND KEY TARGETS

## 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**

# REN'S STRATEGIC AND BUSINESS PLANS ALLOW TO SUSTAIN A DISTINCTIVE EQUITY STORY

## Top-of-the industry TSO in efficiency and service quality

*OPEX/km of line below peer average and expected maintenance of low levels of OPEX*



## Growing company

*Growth in net income of ~10% p.a. between 2015 and 2018 given a relatively predictable domestic business and a reduction in financial costs*



## Diversified business portfolio

*International investments by 2018, which will materialize in a substantial part of REN's results in the long-term*



## Sustainable financial position

*Company is investment grade and has strong credit metrics given falling cost of debt*



## Attractive dividend policy

*One of the highest dividend yields in the industry*



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