REN

INVESTOR OUTLOOK

APRIL 2016

EQUITY STORY

REN INVESTOR OUTLOOK

- **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

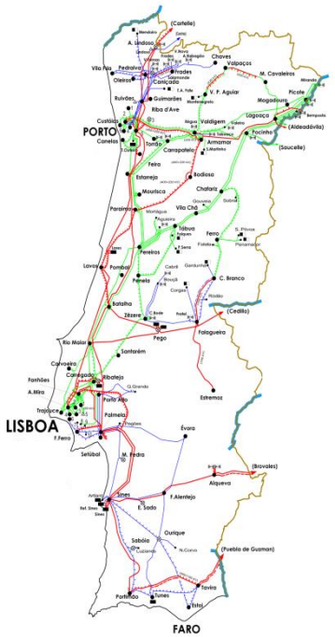
REN INVESTOR OUTLOOK

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

- **Transmission in high voltage electricity**[1] 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**[2] 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

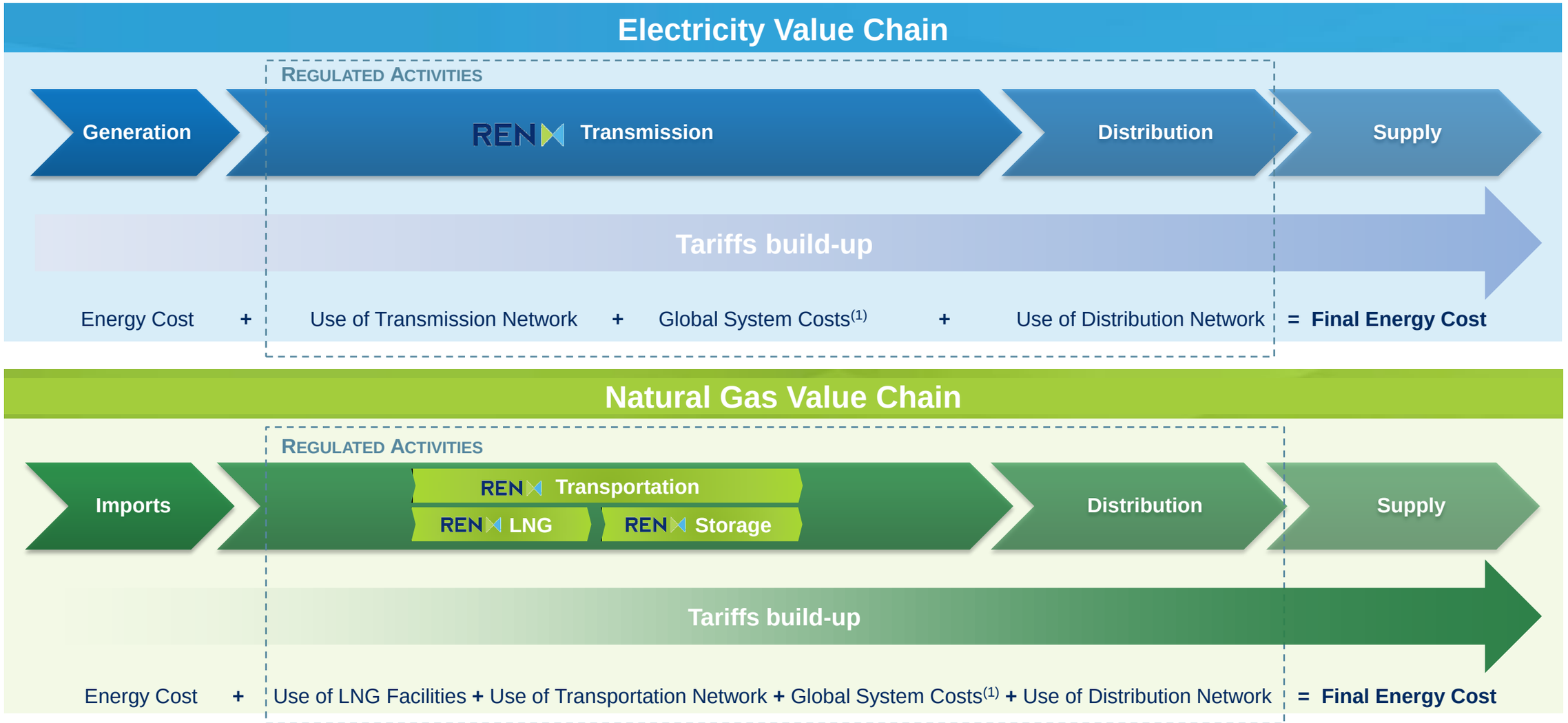
Natural gas consumption 2015
4.4 bcm

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

REN INVESTOR OUTLOOK



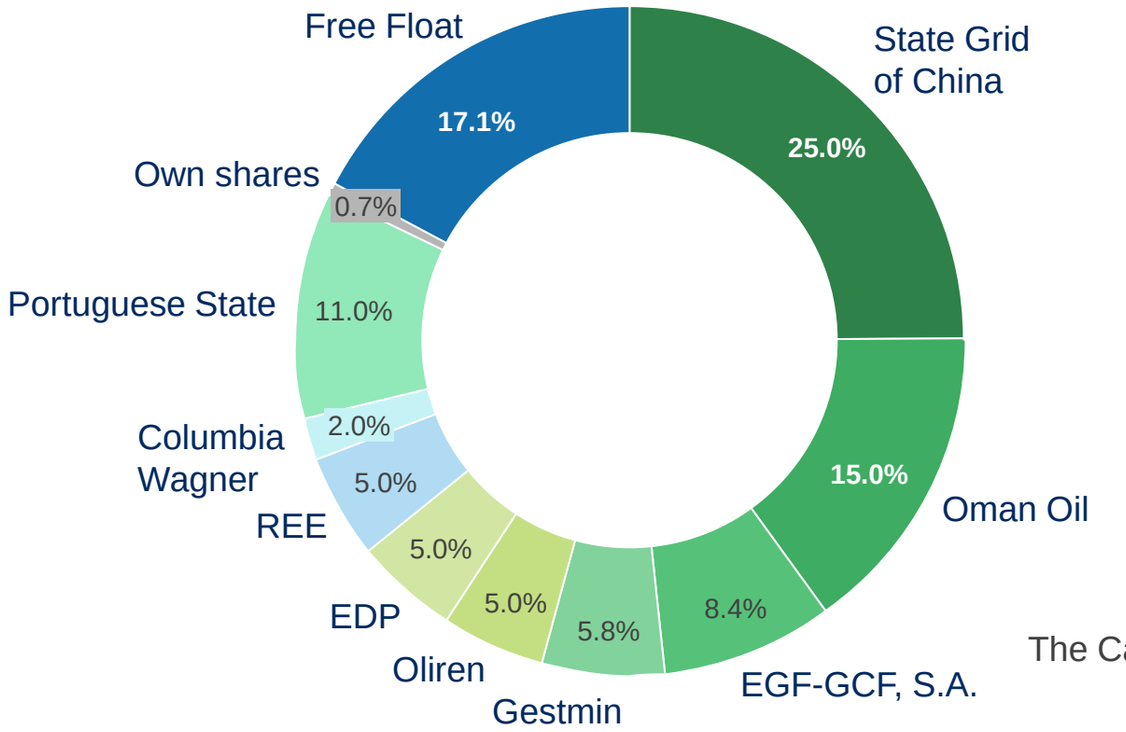
(1) Tariff charged through the transmission/transportation operator, mostly composed by pass-through costs, such as energy acquisition costs related with the management of the two remaining PPAs (Electricity), hydro land (Electricity), positive or negative adjustments related with costs supported by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

Source: REN

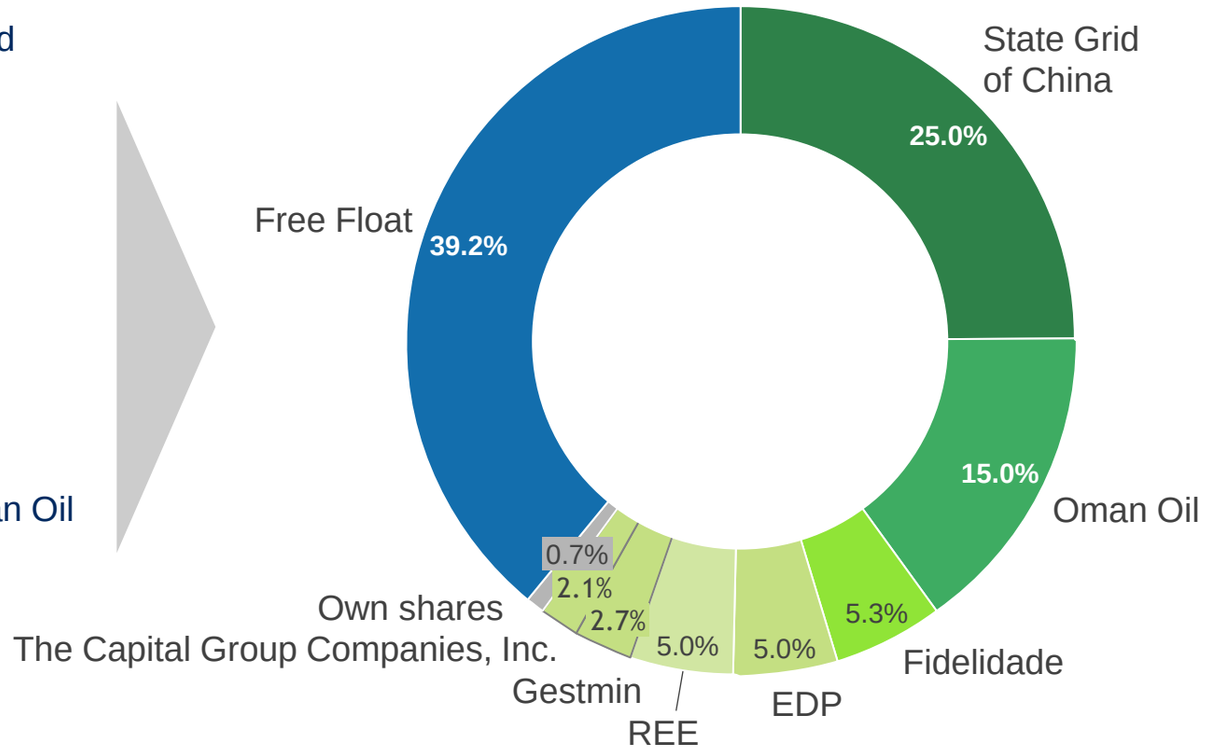
REN HAS SUCESSFULLY CONCLUDED ITS PRIVATIZATION PROCESS

REN INVESTOR OUTLOOK

FROM…
2012



… TO
2016



Increasing free float and liquidity of the stock

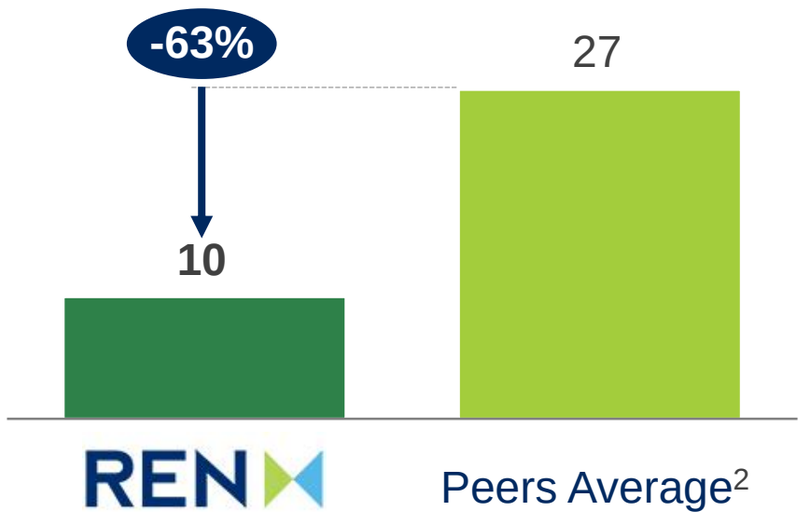
Source: REN

TODAY, REN IS ONE OF THE MOST EFFICIENT TSOs…

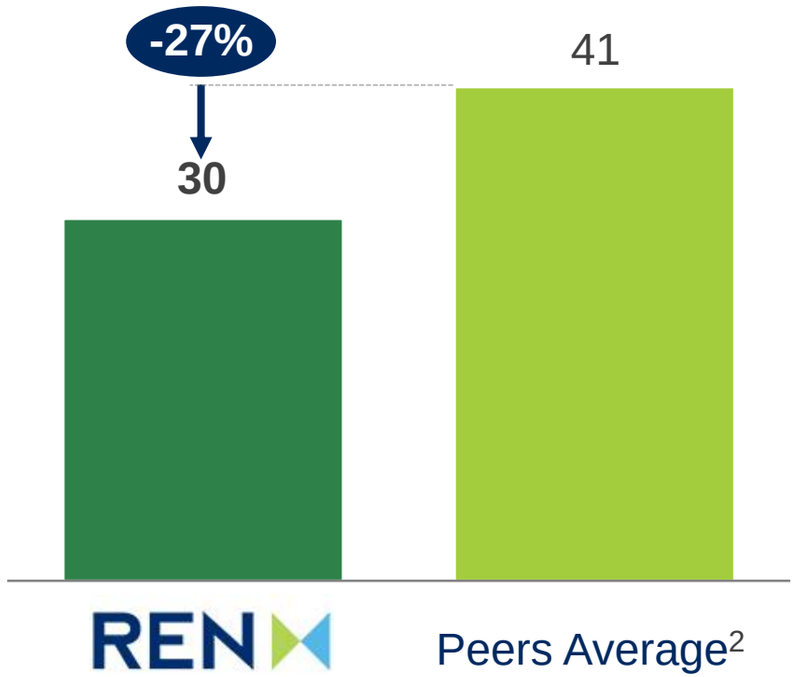
OPEX[1]/KM OF EQUIVALENT LINE

2014; thousand €/km

Electricity



Natural Gas



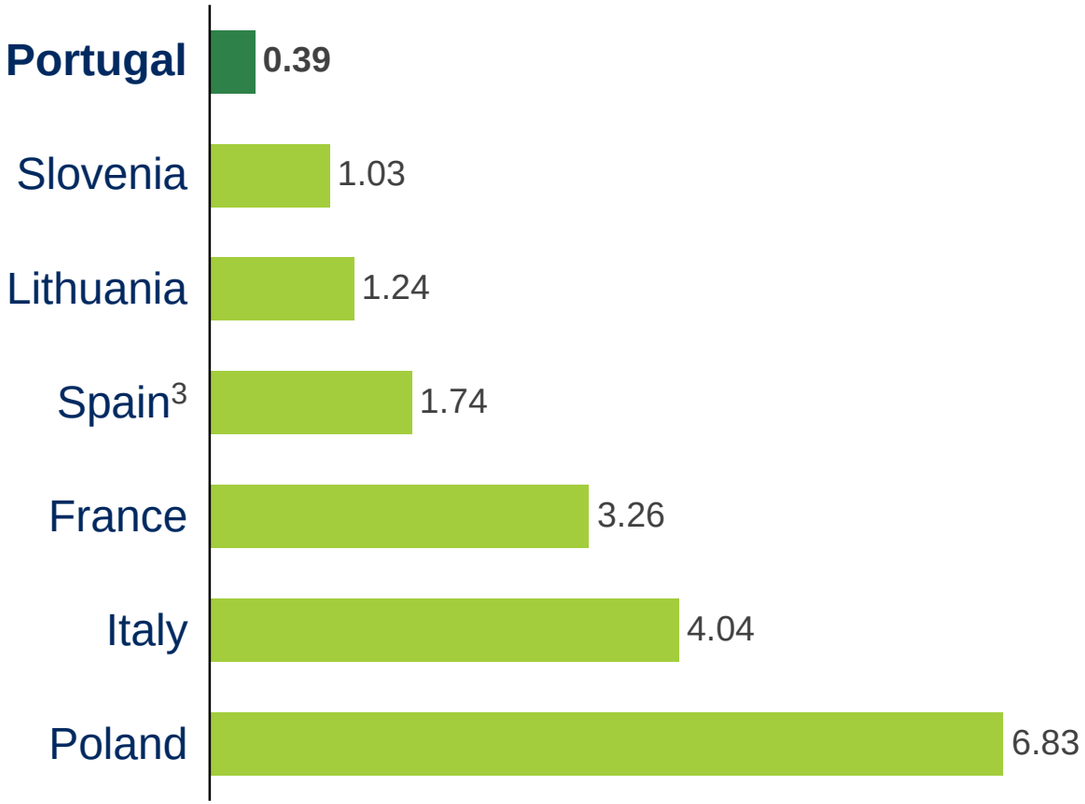
High efficiency allows to reduce REN's weight on tariffs

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

…WHILE MANTAINING BEST PRACTICE QUALITY IN EUROPE

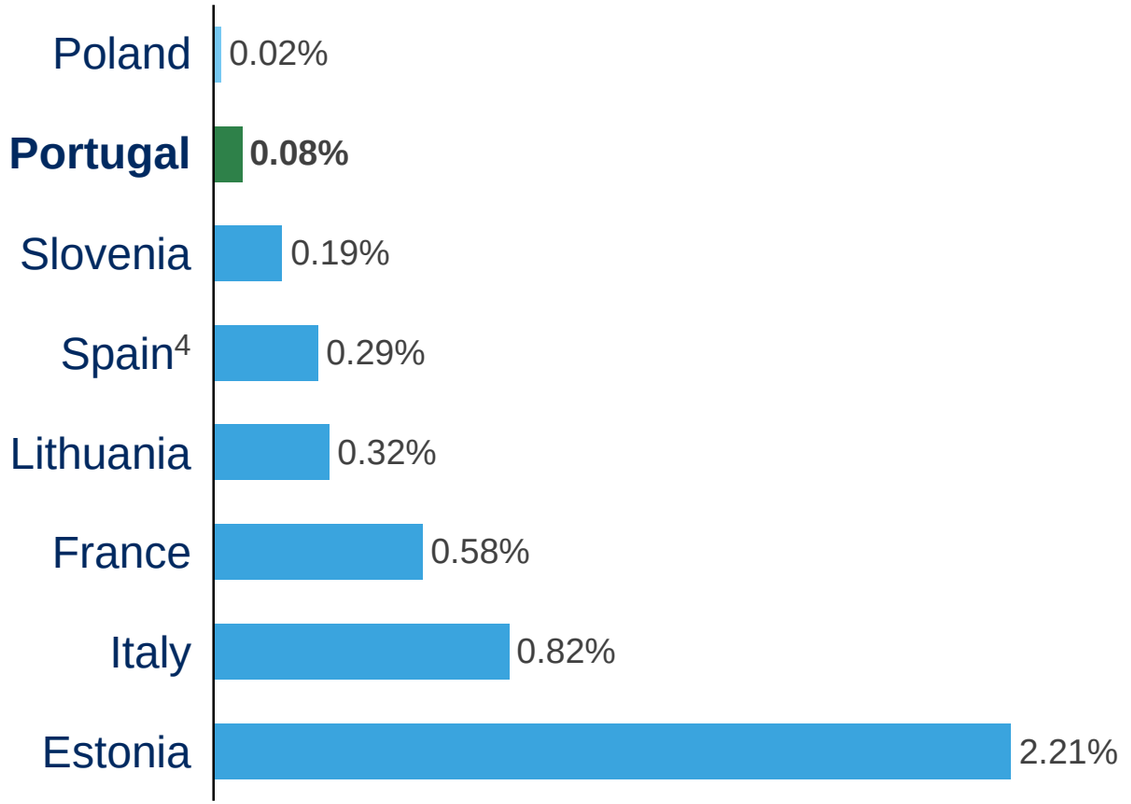
INTERRUPTION TIME[1]

Avg 2009-13; Minutes lost per year



ENERGY NOT SUPPLIED[2]

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

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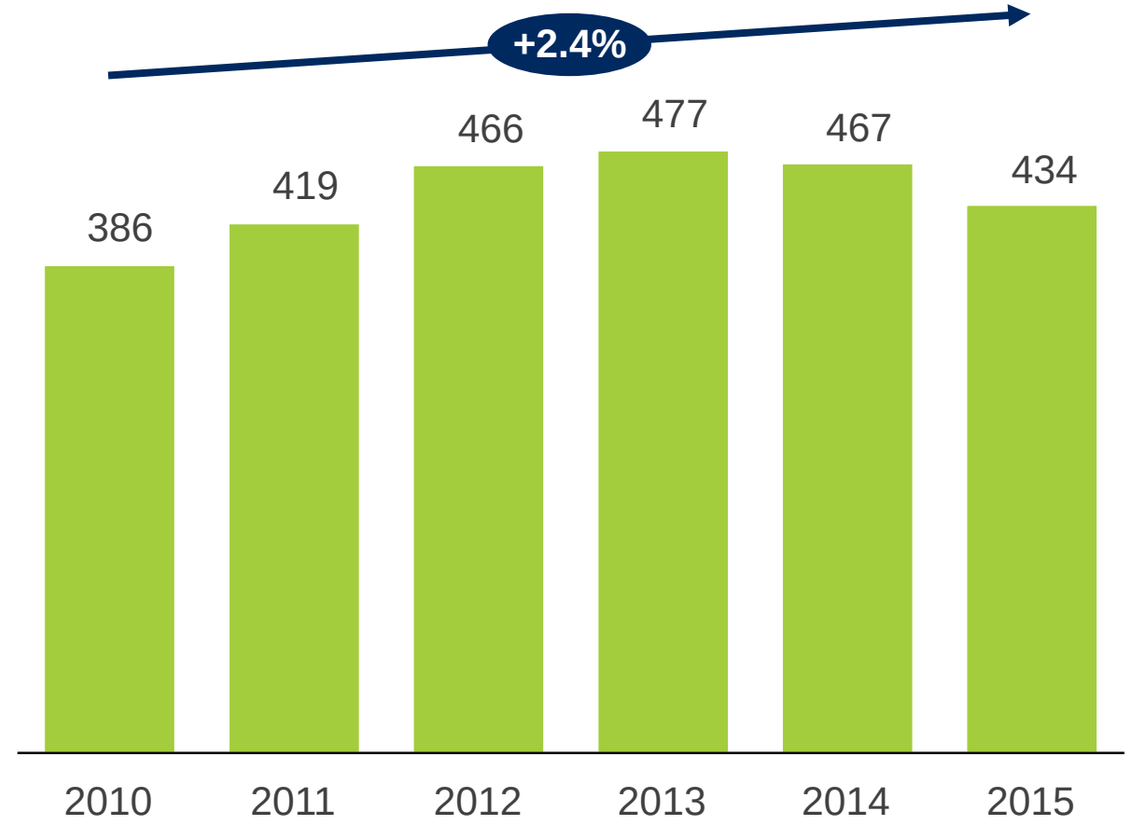
SOLID DOMESTIC BUSINESS

CAGR 2010-15

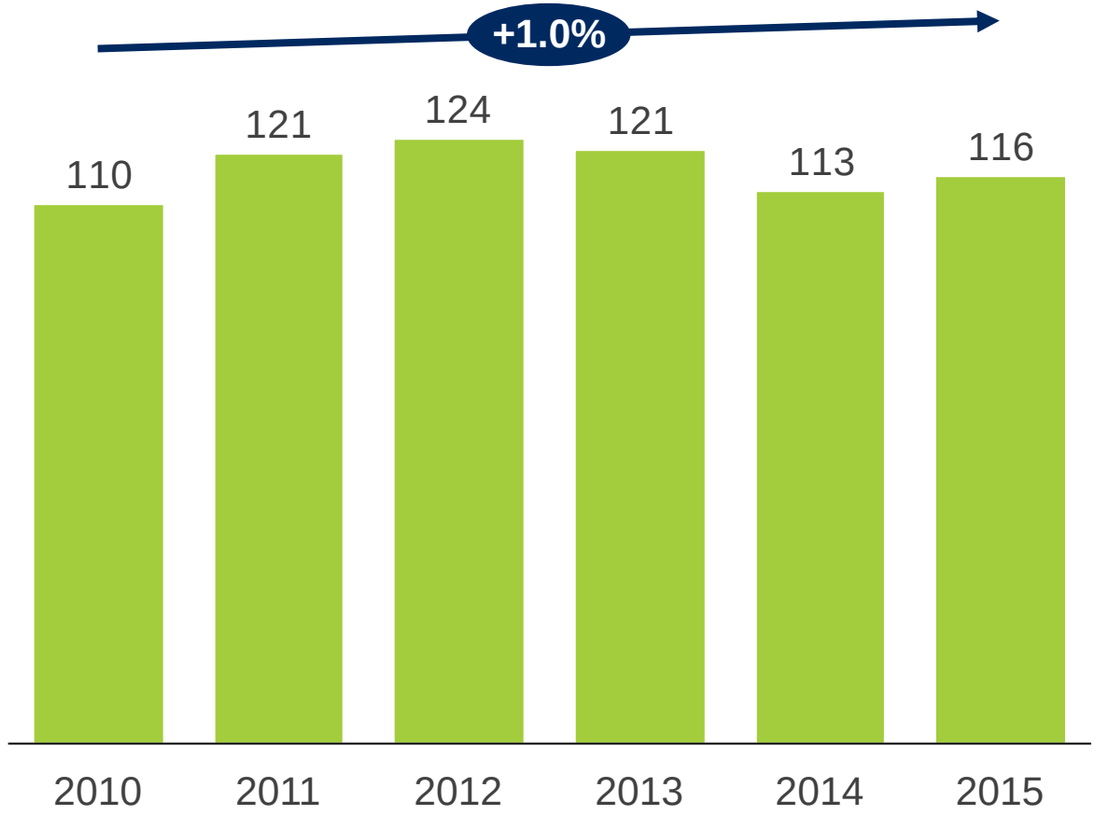
OPERATING CASH FLOW[1]

Million €



NET INCOME

Million €



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

Source: REN

STABLE AND SUPPORTIVE REGULATION IN PORTUGAL

REN INVESTOR OUTLOOK

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

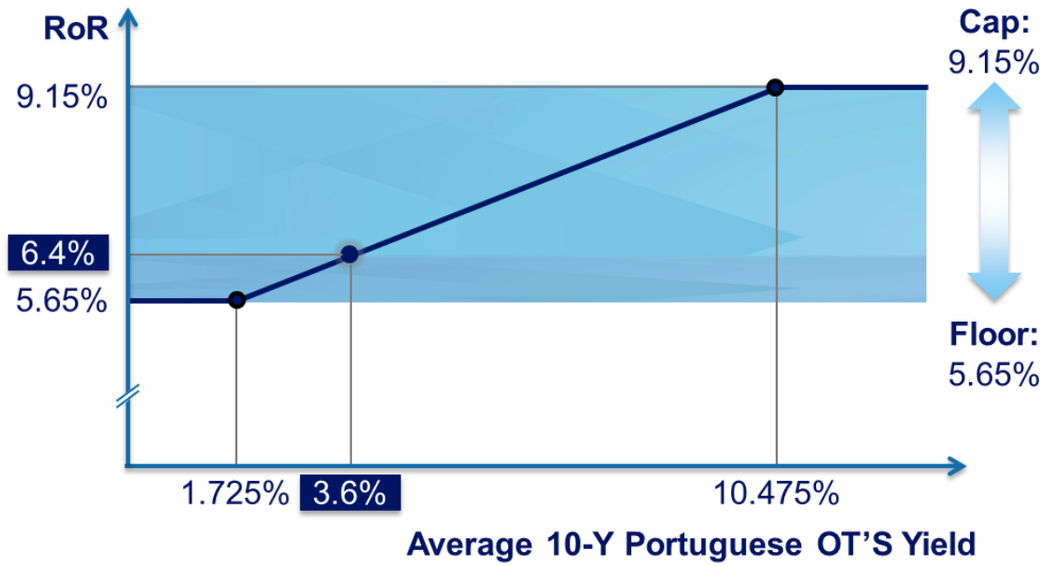
Stable regulatory framework

Source: REN, ERSE

A RETURN MECHANISM LINKED TO THE 10Y PORTUGUESE BOND YIELD…

Electricity Base RoR

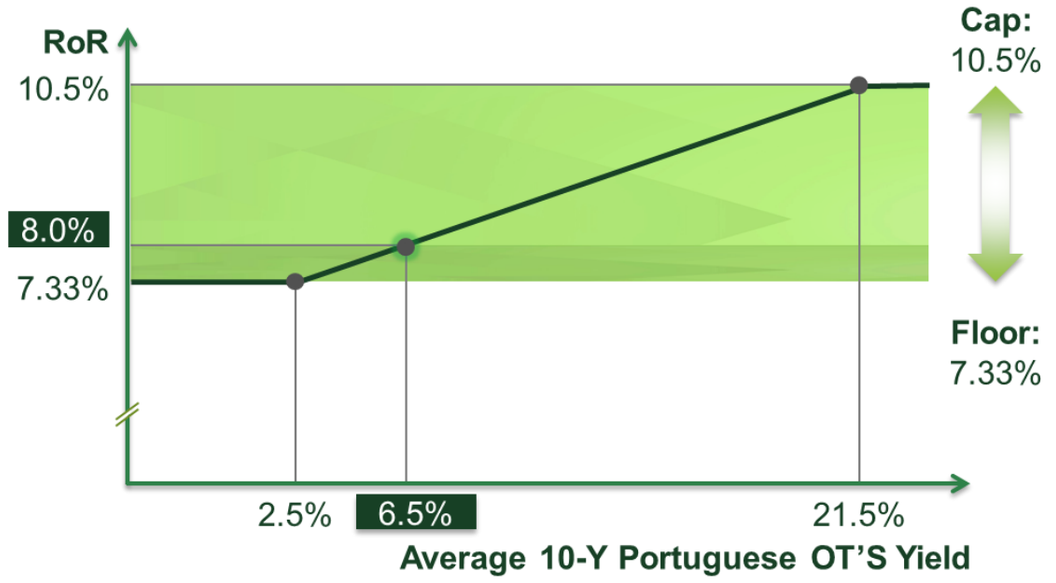
- The Base RoR is indexed to the average Portuguese sovereign 10-year bond yields (OT's)
- The RoR starting point was set at 6.4%, for a 3.6% 10Y bond yield average, and it will be adjusted annually based on the average Portuguese 10Y bond yields (Oct_{N-1} - Sep_N) (1) . The mechanism assures the RoR 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

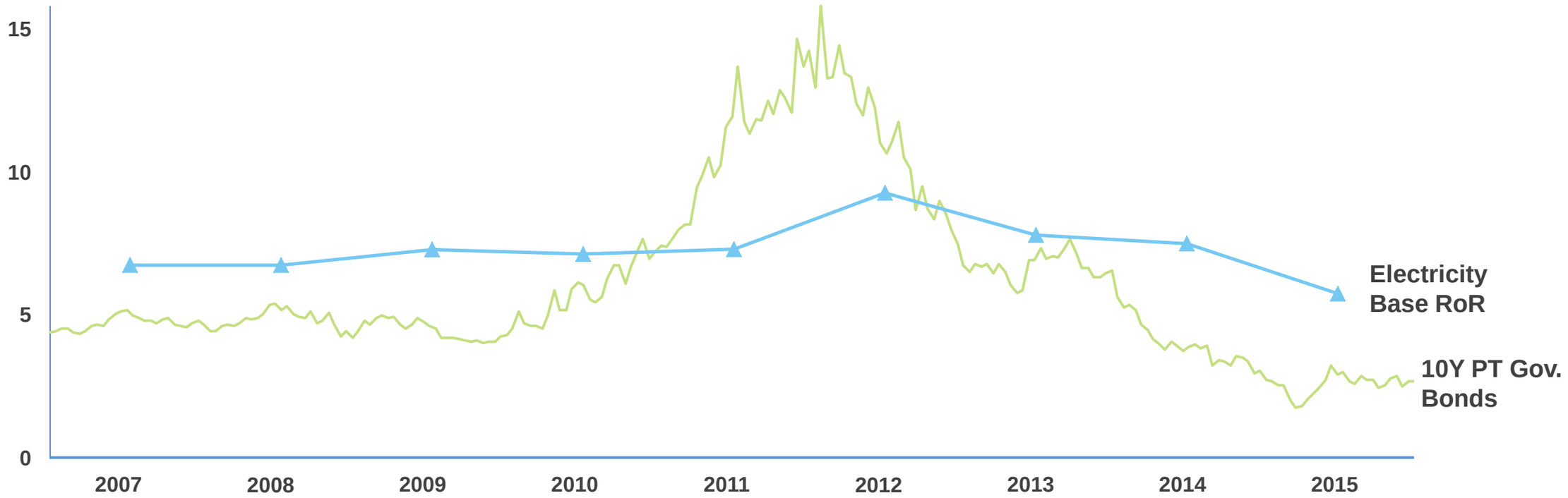
- The RoR is indexed to the average Portuguese sovereign 10y bond yields (OT's) through a linear function
- The RoR starting point was set at 8%, for a 6.5% 10Y bond yield average, and it will be adjusted annually based on the average Portuguese 10Y bond yields (Apr_{N-1} - Mar_N). The mechanism assures 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



	2007	2008	2009	2010	2011	2012	2013	2014	2015
Electricity Base RoR	7,00%	7,00%	7,55%	7,39%	7,56%	9,55%	8,06%	7,76%	5,99%
Avg. 10Y PT Gov Bonds	4,43%	4,53%	4,21%	5,42%	10,26%	10,56%	6,30%	3,75%	2,43%

REMUNERATION IN DETAIL

REN INVESTOR OUTLOOK

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

TOTAL ALLOWED REVENUES

Activity Remuneration =

Regulated EBIT Margin

+

Operational Expenses

	Electricity (current period: 2015-2017)	**Gas** (current period: 2013-2016)
Return on Capital (Return on RAB: "RoR")	**Transmission Assets**: **Base RoR x RAB** + **CAPEX Efficiency Mechanism: Premium (75 bps)** if REN is able to achieve CAPEX costs below a reference level determined by the regulator (assets post-2009) **Hydro Land**: Between -1.5% / 1.5% x RAB[1]	**Transportation Assets**: **RoR x RAB** (No CAPEX efficiency mechanism given lack of comparable projects)
+ **Interest on tariff deviations from year N-2** [2]	Remuneration on the recovery of the tariff deviations resulting from differences between the estimated and actual demand: **Tariff Deviation$_{N-2}$ x [(1 + Euribor12M$_{N-2}$ + Spread$_{N-2}$) x (1 + Euribor12M$_{N-1}$ + Spread$_{N-1}$) – 1]**	
+ **Other items**	**Incentives**: Use of assets at end of life (α=85%); **€20 million in 2016** **Rent on protection zone land**	**Cost of capital smoothing effect**: Only applied to REN Atlântico (LNG Terminal) and valid until 2017
Recovered Depreciation	Depreciation of Regulated Asset Base, net of subsidies	
+ **Recovered Net OPEX**	**OPEX subject to efficiency: OPEX$_{N-1}$ x (1+ GDPI - X) +** OPEX induced by grid expansion **+** Accepted costs **+** Pass-through costs **Electricity Efficiency Factor: 1.5%**	**Gas Efficiency Factors: Transportation 1.5%; LNG 3.0%[3]; Storage 1.5%**

(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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A STRATEGIC AGENDA GROUNDED ON A SUSTAINABLE DOMESTIC INVESTMENT PLAN AND INTERNATIONAL UPSIDE

REN INVESTOR OUTLOOK

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

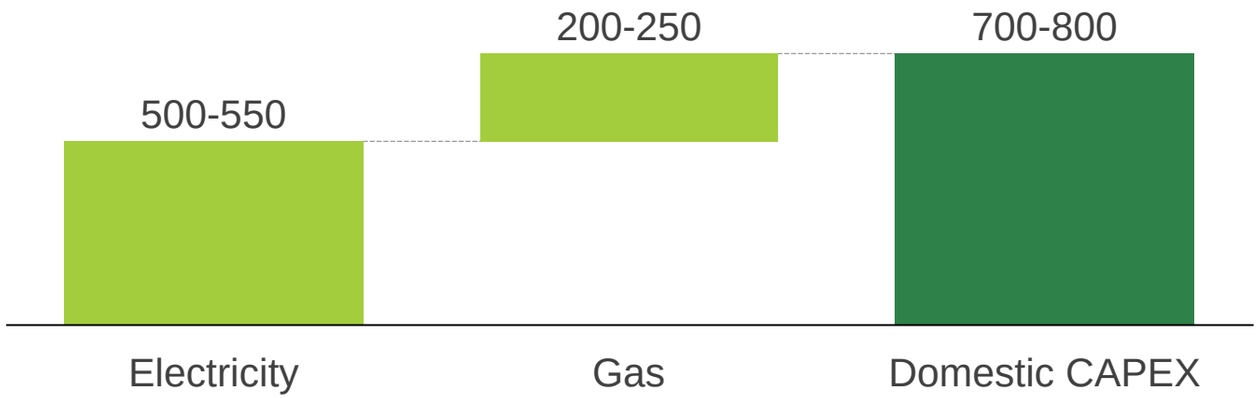
Ensure investment grade rating

REN WILL INVEST ~800 MILLION DOMESTICALLY IN 2015-18

REN INVESTOR OUTLOOK

CAPEX PLAN 2015-18
Million €

	Average yearly CAPEX		
2007-14	~240	~60	~300
2015-18	125-140	50-60	175-200



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

REN IS EXPLORING SELECTIVE INTERNATIONAL GROWTH AVENUES

REN INVESTOR OUTLOOK

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

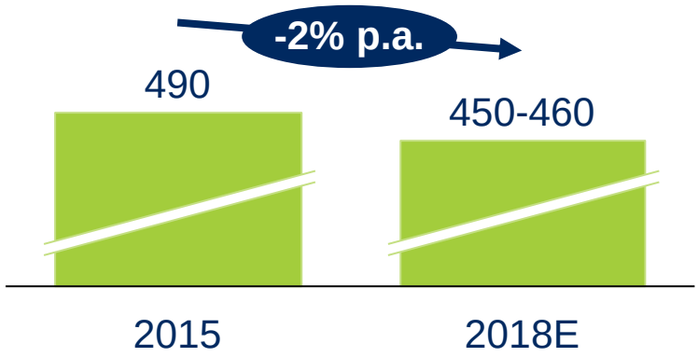
- There are opportunities to integrate the European market
- M&A opportunities of regulated assets in Europe may arise

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

NET INCOME IS EXPECTED TO GROW IN THE NEXT YEARS

EBITDA

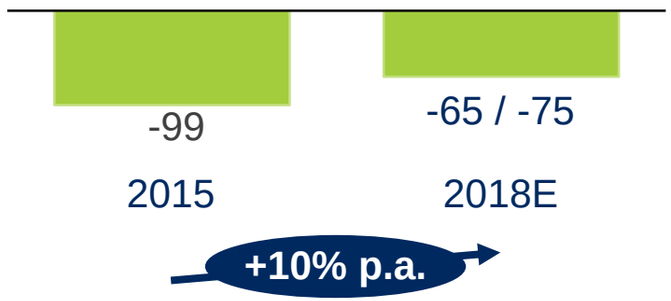
Million €



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

FINANCIAL RESULTS

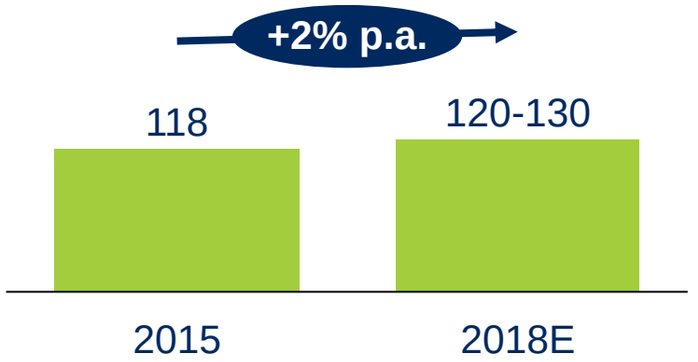
Million €



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

RECURRENT NET INCOME

Million €



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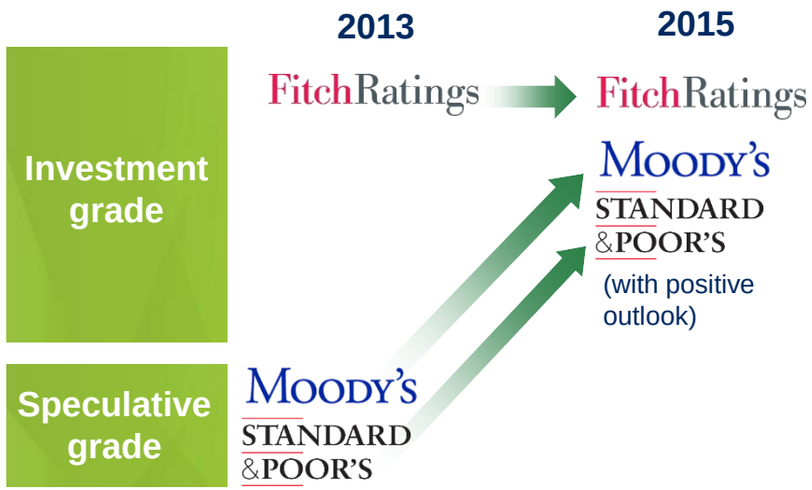
IN RECENT YEARS REN HAS…

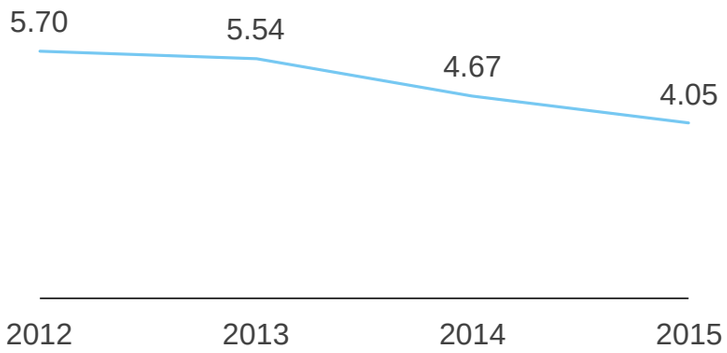
…RECOVERED INVESTMENT GRADE…



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

…REDUCED ITS AVERAGE COST OF DEBT…

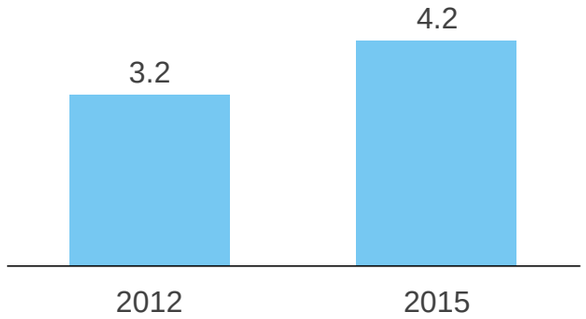
Avg. cost of debt, %



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

Source: REN

CURRENT DEBT MANAGEMENT PRIORITIES ARE FOCUSED ON COST OF DEBT OPTIMIZATION …

Debt management strategy

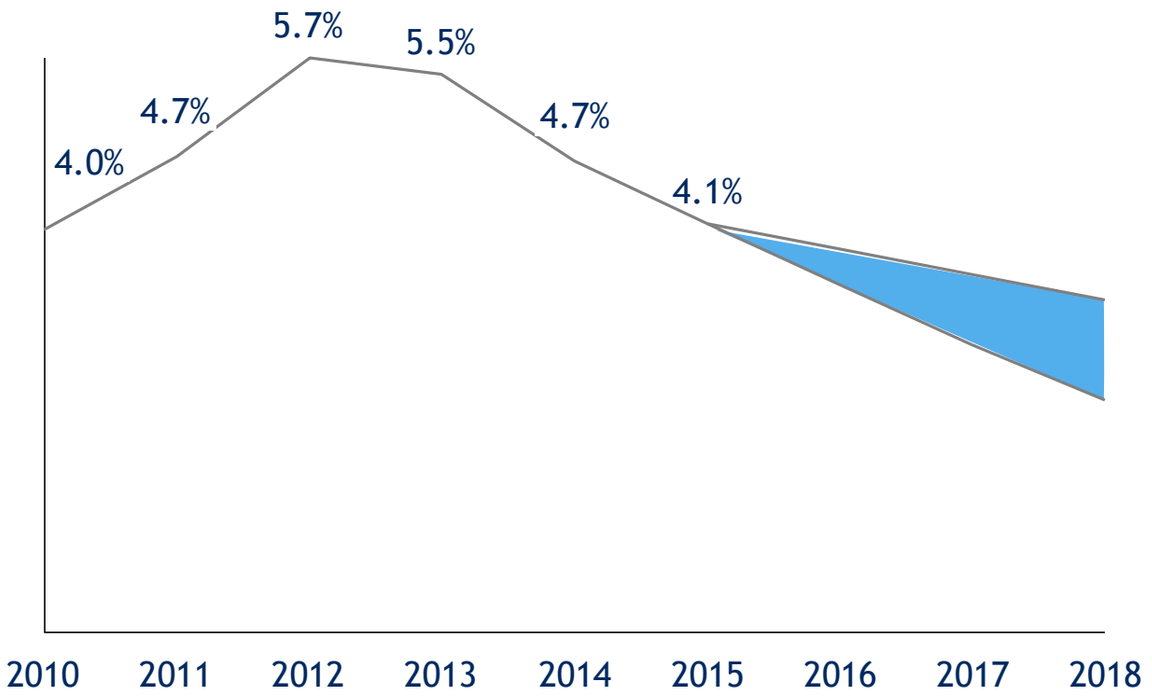
I

Keeping a flexible funding structure allows for:

- **Adjust rapidly the cost of debt** to an improving market environment
- Save costs through **arbitrage between funding sources**
- **Managing liquidity coverage efficiently** by using undrawn facilities

→ **Cost of debt optimization**

Average cost of debt



…AND NET INCOME PROTECTION…

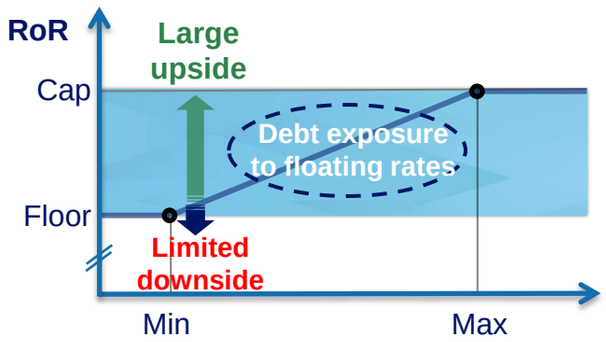
Debt management strategy

II

Convergence of debt and RAB durations

INTEREST RATES: Locking costs at very low rates benefiting from future potential RoR increases

Interest rate mix (floated vs fixed)

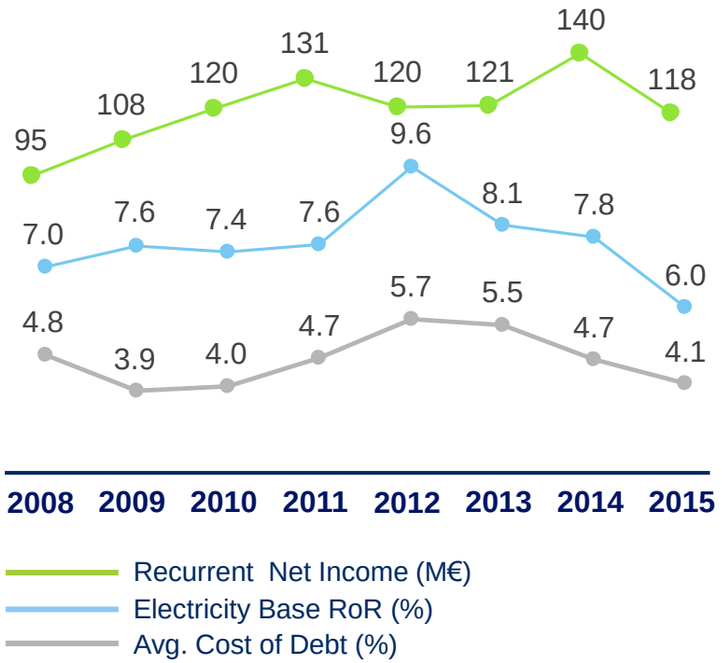


Avg. 10-Y Portuguese OT'S Yield

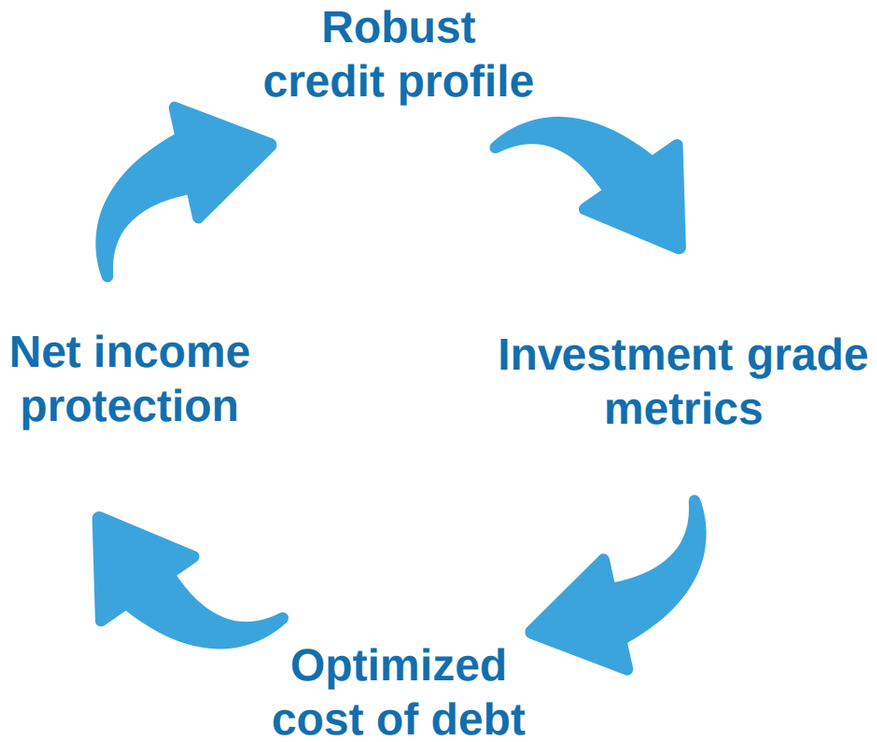
MATURITIES: Alignment between debt maturities and regulatory cycle

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

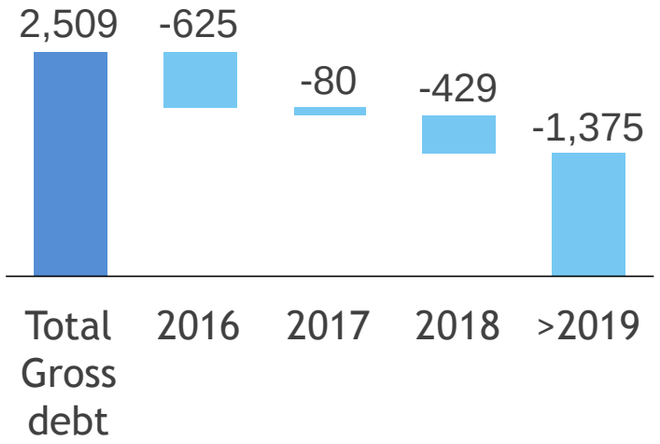


…CONSOLIDATING ITS ROBUST DEBT PROFILE WITH INVESTMENT GRADE CREDIT METRICS

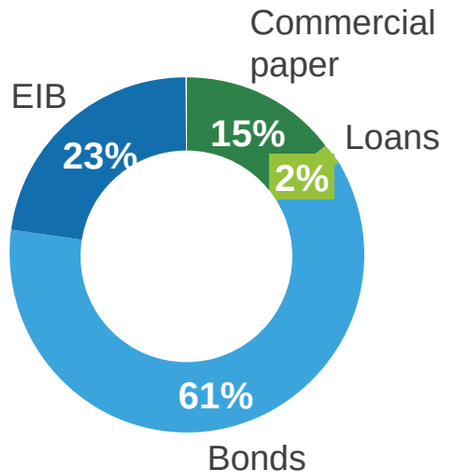


Currently, REN has a robust debt profile with balanced maturity, diversified sources of funding, strong liquidity and growing average maturity

Gross debt maturity profile
2015, Million €



Gross debt funding sources
2015



LIQUIDITY	2 years in 2015 Maintain over 2 years
MATURITY	4.2 years as of 2015 Extend slightly to take advantage of market conditions

- Top of the industry TSO in efficiency and service quality
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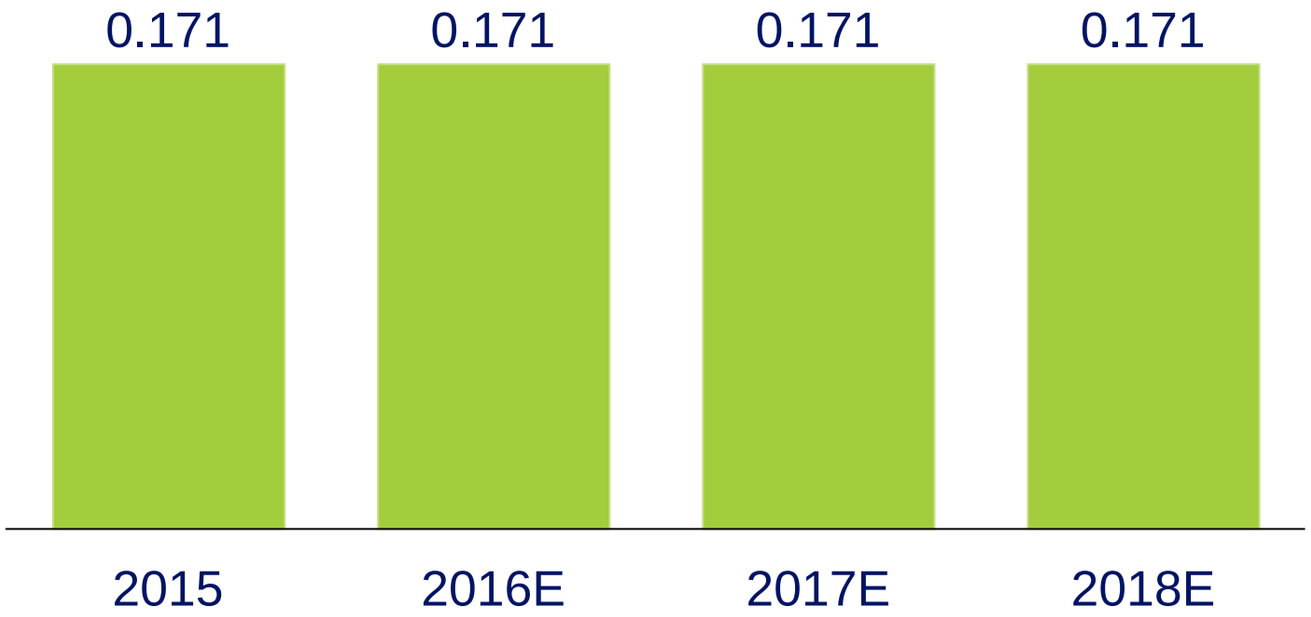
- **Attractive dividend policy**

REN PROVIDES A PREDICTABLE AND STRONG RETURN TO SHAREHOLDERS…

DIVIDEND PER SHARE

€



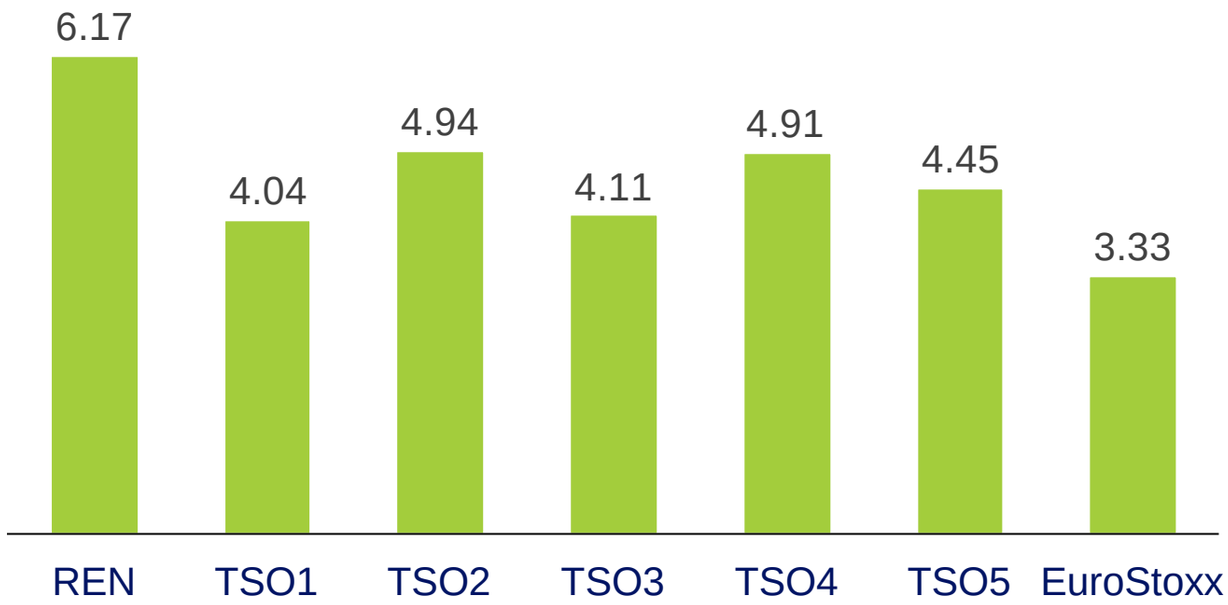
REN plans to **maintain the nominal dividend per share year on year,** providing one of the highest dividend yields in the industry

…ABOVE ITS INDUSTRY AND COUNTRY PEERS

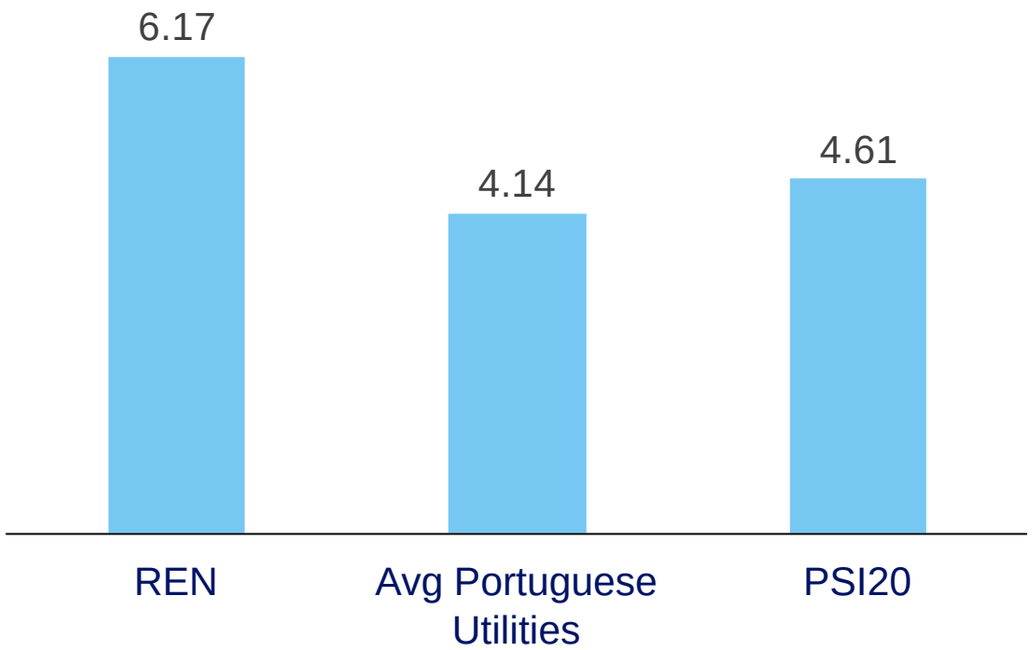
REN INVESTOR OUTLOOK

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

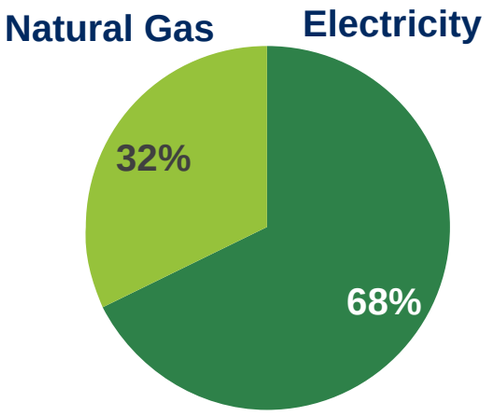
APPENDIX

MAIN FINANCIAL INDICATORS

REN INVESTOR OUTLOOK

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

CORPORATE RESPONSIBILITY PROGRAMS

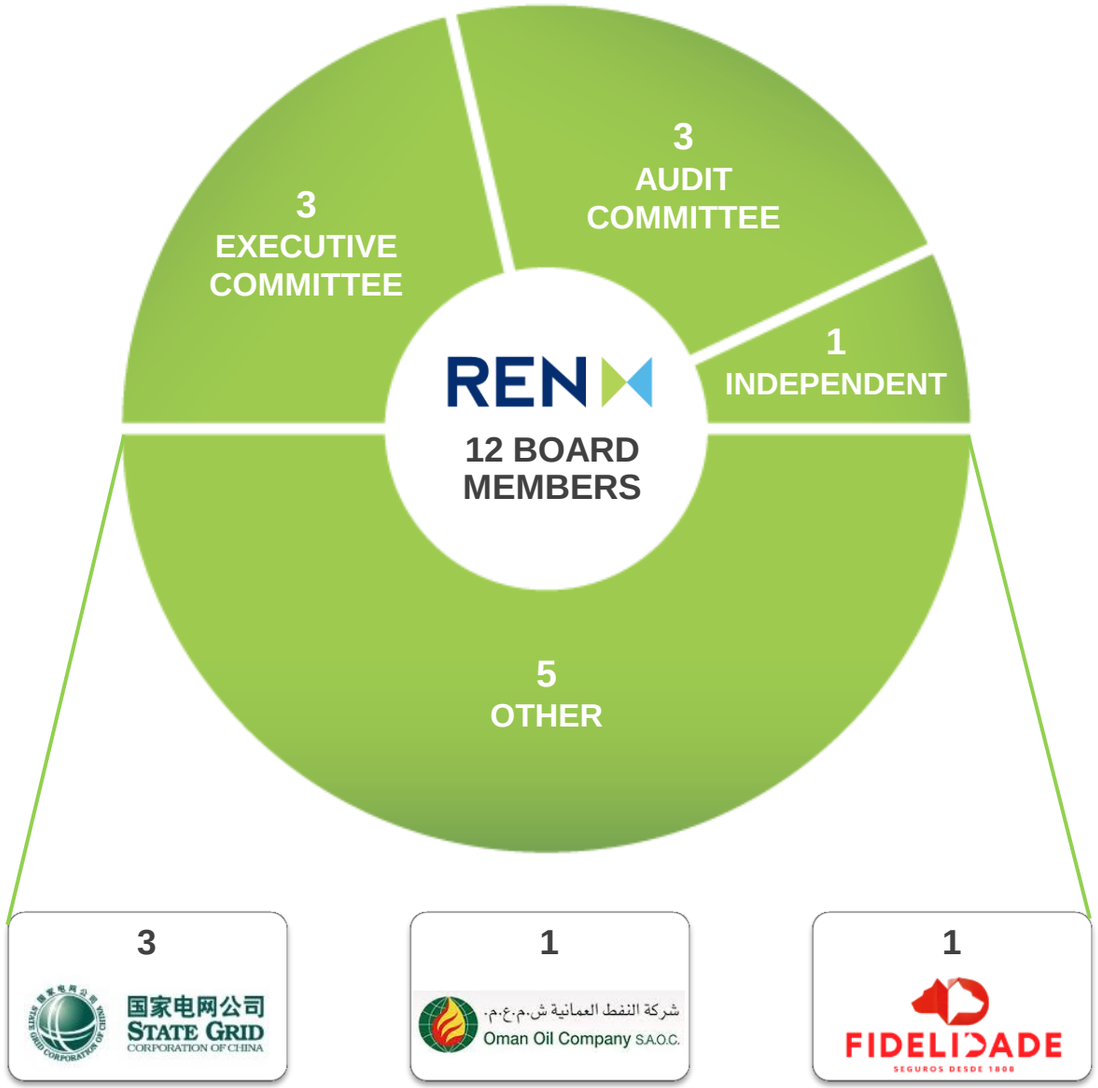
SUSTAINABILITY STRATEGY

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

BOARD COMPOSITION



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

DISCLAIMER

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INVESTOR OUTLOOK

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