

Spanish Infrastructure Utilities

Potential coalition government could put at risk up to c15% of infrastructure utilities' EPS

Equities

Europe including UK
Utilities

Rui Dias

Analyst

rui.dias@ubs.com

+44-20-7567 0716

Alberto Gandolfi

Analyst

alberto.gandolfi@ubs.com

+44-20-7568 3975

Hugo Liebaert, CFA

Analyst

hugo.liebaert@ubs.com

+44-20-7568 8895

Change in Energy policy could put at risk up to 15% of EPS

The ongoing political deadlock in Spain has been a drag on the performance of both Red Elctrica (REE) and Enagas (ENG) relative to their peers – fairly so, in our view. According to energiadario.com, the Socialist party PSOE recently presented a program to form a coalition government, where, among other measures, it includes the potential reform of regulated costs of gas/power T&D ([Spanish Utilities note](#)). Under a downside scenario, we believe that this could put at risk up to 15% of EPS for both REE and ENG. We reiterate our Neutral ratings on these stocks.

REE and ENG with S/M-term returns above some of its European peers

Pre-tax real returns for both REE and ENG stand currently at over 6%, above 5.3-5.4% for the Italian peers Terna and Snam. While in Spain returns were set two years ago based on higher interest rates and inflation, and fixed through to 2019-20, in Italy returns are broadly marked-to-market to current interest rates, with bi-annual updates. If the same methodology were to be used in Spain, returns of REE and ENG over the S/M-term could drop by almost 100bps, which would have cut EPS by almost 15%. In our numbers this could save to end-consumers around €150m pa.

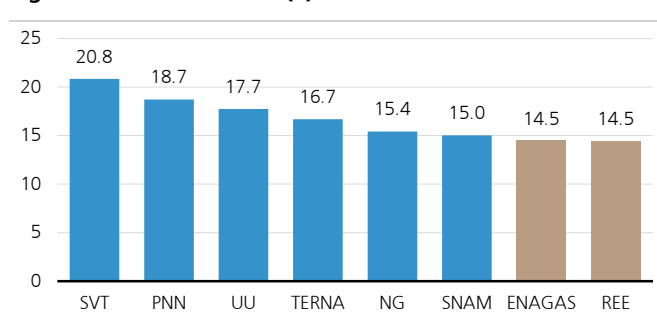
Potential new energy policy could put pressure on current returns

One of the energy policies now supported by both PSOE and Podemos is the potential revamp of renewables, which, combined with reluctance to raise end-consumers' tariffs, would put downward pressure on costs. Given the relatively high returns of the Spanish infrastructure utilities vs. peers, we believe that this could be an area of intervention. However, given the current returns have been legally fixed until the end of 2019-20, the legal basis for any change would need to be established.

Valuation: Neutral ratings reiterated

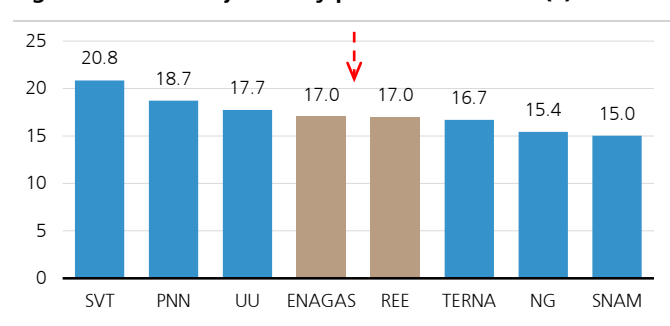
We reiterate our Neutral ratings on REE and ENG, based on: i) continuing political uncertainty; ii) full valuation; and iii) lack of key catalysts. As we explained with more detail in our note ([European Infrastructures utilities note](#)), our €79 PT for REE and €26 PT for ENG are the average of target PEs (15.5x for REE and 15x for ENG) and DYs (5.0% for REE and 5.5% for ENG), cross-checked by DDM models. The multiples used are roughly in line with the recent multiples levels of these companies.

Figure 1: Current PE 17E (x)



Source: UBSe, Bloomberg

Figure 2: PE 17E adjusted by potential EPS cuts (x)



Source: UBSe, Bloomberg

www.ubs.com/investmentresearch

This report has been prepared by UBS Limited. **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 15.** UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Contents

Allowed returns: Spain vs. Italy	3
EPS risk from a cut in allowed returns in Spain.....	4
Ratings and Pivotal questions.....	5
European regulatory FAQ.....	7

Rui Dias

Analyst

rui.dias@ubs.com

+44-20-7567 0716

Alberto Gandolfi

Analyst

alberto.gandolfi@ubs.com

+44-20-7568 3975

Hugo Liebaert, CFA

Analyst

hugo.liebaert@ubs.com

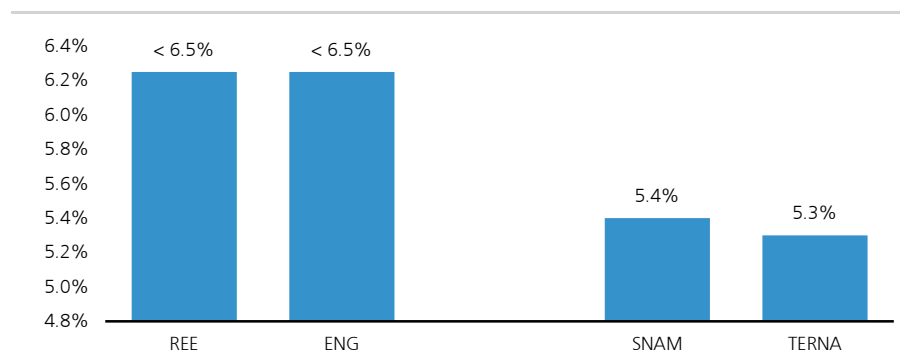
+44-20-7568 8895

Allowed returns: Spain vs. Italy

Real pre-tax returns difference currently at almost 100bps.

Adjusting for inflation in Spain, which is currently close to zero, we calculate an average real (pre-tax) allowed return for both REE and ENG of less than 6.5%. This compares with the allowed returns (real, pre-tax) recently set by the Italian regulator AEEG of 5.4% for Snam and 5.3% for Terna, respectively.

Figure 3: Regulatory allowed returns (real, pre-tax): Spain vs. Italy



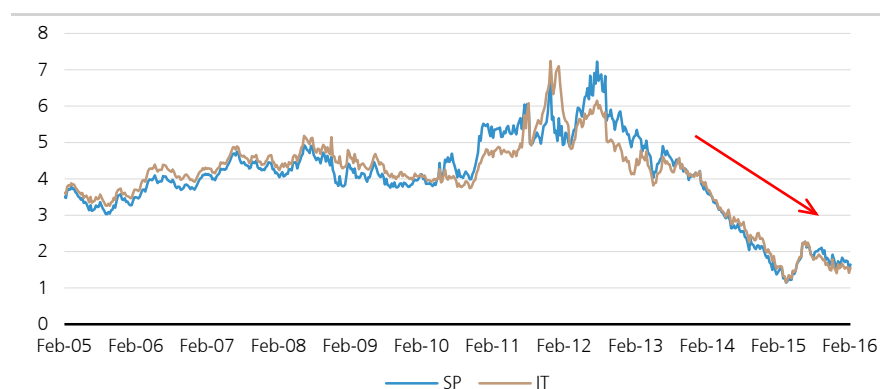
Note: For both REE and ENG we assumed an inflation rate of +0.3%

Source: UBSe, companies

Gap mostly driven by falling interest rates

While in Italy returns have been broadly marked-to-market to current interest rates with bi-annual updates, in Spain returns were set two years ago based on higher interest rates levels, and fixed through to 2019-20. Under an environment of falling interest rates (since 2012-13), this turned out to be positive for the Spanish operators. It allowed these players to generate returns significantly above their cost of capital.

Figure 4: Sovereign BY (10Y) – Spain and Italy



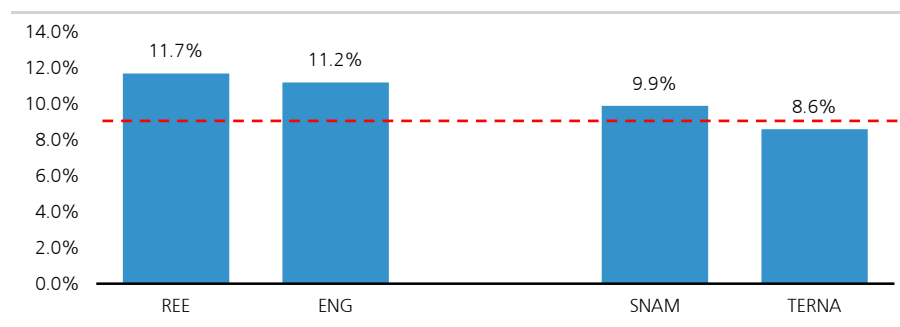
Source: UBS, Bloomberg

Spanish operators with ROIC >200bps over European peers

As a result, both REE and ENG are expected to deliver a ROIC (pre-tax) in 2016 of around 11.2-11.7%, over 200bps above the average of its European pure peers. We think that these differences could potentially attract the attention of a new

government. However, the legal basis for any change would need to be established.

Figure 5: 2016e ROIC (pre-tax) for both Spanish and Italian operators



Source: UBSe

EPS risk from a cut in allowed returns in Spain

If we were to explore a scenario where Spanish returns would be lowered by 100bps, we believe that this could put at risk up to c15% EPS on both REE and ENG. In our numbers, this could save roughly €150m pa in costs to the end-consumer over the next few years. Although not sizeable relative to the cost of the overall energy system in Spain, it could help to contain potential tariff increases.

Figure 6: EPS risk from 100bps cut in power/gas transmission allowed returns

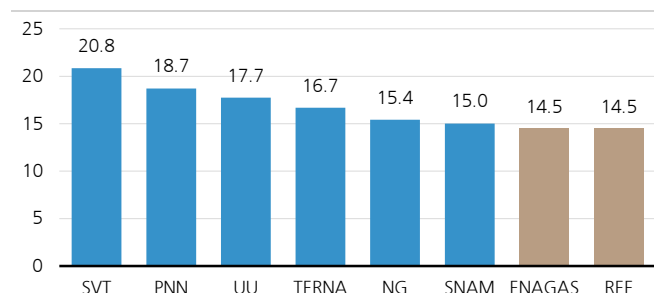
€ m, 2017E	REE	ENG	Total
Theoretical RAB (UBSe)	12,500	8,000	20,500
Cut in S/M-term allowed return (bps)	100	100	100
Net income impact (pre-tax)	-125	-80	-205
Net income impact (post-tax)	-94	-60	-154
Base case net income	670	422	1,092
impact %	-14%	-14%	-14%

Source: UBSe

Spanish operators relative valuation post potential EPS cut

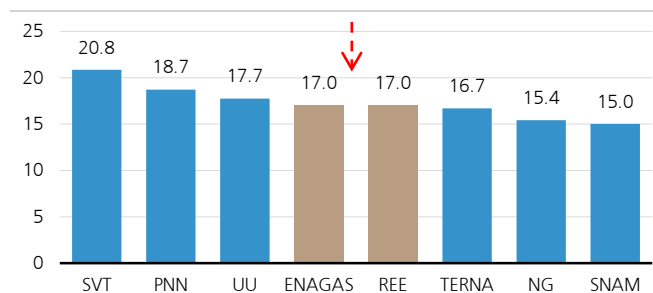
Since the Spanish elections on 20 December, both REE and ENG have de-rated from PE levels of 15-16x down to 14.5x, already reflecting some of the current political risks. However, under our downside scenario, the implied PE 17E of both companies would rise up to 17x, a 10-15% premium to pre-election levels. In other words, we believe that the current valuations of REE and ENG reflect some risks but not our downside scenario.

Figure 7: Current PE 2017E



Source: UBSe, Bloomberg

Figure 8: PE 2017E adjusted by potential EPS cuts



Source: UBSe, Bloomberg

Ratings and Pivotal questions

Red Electrica (Neutral, PT €79)

We have a Neutral rating for three reasons: 1) the stock is trading close to the top of its valuation range, though it is likely to continue being supported by lower-for-longer interest rates during 2016; 2) the combination of both regulatory and political risks, in our view, clouds another year of expected high-single-digit returns; and 3) we see no game-changing catalysts on the horizon, particularly after the acquisition of the Chilean operator TEN, where REE basically spent all the budget left for international acquisitions until 2019.

Q: Should we expect further acquisitions in LatAm?

Unlikely. Unless REE expands its 2014-19E ND/EBITDA target of 3.5x, we believe the company has no spare capacity for further acquisitions in LatAm. Re-leveraging to 4.5x, at the right price, could increase EPS CAGR by 200bps...

Q: Should we be worried about the high premium paid for TEN in Chile?

We believe that scepticism around the price to be paid to diversify away from ex-growth domestic markets has increased. Although we understand the strategic rationale behind TEN's acquisition, we believe that it came at a very high price...

Q: Should we expect a sizeable impact from the upcoming regulatory changes?

No. In July 2015 the local press reported that the new regulatory framework in Spain would have a negative impact of 1.1% on transmission tariffs from 2016. However, uncertainty will likely continue to affect the stock...

Enagas (Neutral, PT €26)

We have a Neutral rating for three reasons: (1) although the company is expected to deliver decent EPS and sustainable DPS growth over the next few years, this should be driven mostly by international equity-accounted activities where visibility is lower and operation/execution risks are higher. Moreover, we believe this is already fully reflected in the current share price; (2) we think the long-term story of ENG is not compelling enough to support a more positive stance, given that (i) further international investments are unlikely due to high competitive pressure and (ii) domestic activities are ex-growth; and finally (3) we see no relevant key catalysts on the horizon.

Q: Will the company achieve its €120m equity-accounted income target (2020)?

Likely. The expected increase should be fully driven by already committed investments through to 2020. Moreover, this target has been based on conservative assumptions, according to the company, which, in our view, balances execution/operation risks...

Q: Given that regulated domestic revenues are ex-growth, is the current DPS sustainable?

Yes, at least until the end of the current regulatory period in 2020, in our view. According to Enagas' dividend policy, DPS should increase by 5% pa until 2017. We think such a level should then be sustainable thereafter supported by lower growth in capex and increasing FCF...



European regulatory FAQ

Q: What is the current regulatory timeline?

A: Both the start of a new regulatory period and the change in allowed return rates are key regulatory events. On the following table we highlight these events for all the companies in the sector. Apart from UK power and gas and Italy's gas activities, no major changes are expected before 2019.

Figure 9: Regulatory review timeline

Country	Company	Sector	Update timeframe	Allowed return			Rate type	2016	2017	2018	2019	2020	2021	2022	2023
				2016E	2017E	2018E									
Spain	REE	ET	Fixed until 2020	6.5%	6.5%	6.5%	Nominal, pre tax								
	Enagas	EG	Fixed until 2021	5.1%	5.1%	5.1%	Nominal, pre tax								
Italy	Terna	ET	2018 (bi-annual)	5.3%	5.3%	5.5%	Real, pre tax								
	Snam	GT	2018 (bi-annual)	5.4%	5.4%	5.7%	Real, pre tax								
		GD	2018 (bi-annual)	6.1%	6.1%	6.4%	Real, pre tax								
		Storage	2018	6.5%	6.5%	6.8%	Real, pre tax								
UK	National Grid	ET	Annual	4.3%	4.5%	4.6%	Vanilla, pre tax								
		GT	Annual	4.1%	4.3%	4.4%	Vanilla, pre tax								
		GD	Annual	4.0%	4.2%	4.3%	Vanilla, pre tax								
	United Utilities	Water	Fixed until 2019	3.6%	3.6%	3.6%	Vanilla, pre tax								
	Severn Trent	Water	Fixed until 2019	3.6%	3.6%	3.6%	Vanilla, pre tax								
	Pennon Group	Water	Fixed until 2019	3.7%	3.7%	3.7%	Vanilla, pre tax								

 Current regulatory period
 Next rate review

Source: UBSe, information from companies and regulators

Q: Should we expect a single regulatory framework in the long term?

A: Very likely. We believe that the convergence to a single framework in Europe makes total sense. The most recent changes in Italy towards a framework similar to the one adopted in the UK, with the potential introduction of a Totex framework, is clear evidence.

Q: What would be the most likely framework to be adopted?

A: We believe that the current framework adopted in the UK by Ofgem and Ofwat is the likely preferred future framework. In our qualitative analysis, presented in the table below, we show that the UK framework screens as the most balanced one. It has been the one with: 1) the longest regulatory period, thus higher earnings visibility; and 2) presents the highest incentives to efficiency gains that ultimately will benefit end-costumers. For a detailed description of each regulatory framework, please see Figure 11. In the following table we present the key takeaways from each framework.

Figure 10: Regulatory framework qualitative matrix (UBSe) (1-best; 3-worse)

	Duration	Risk to changes	Incentives	Average
REE	1	3	3	2.3
Enagas	1	3	3	2.3
Snam	2	2	2	2.0
Terna	1	2	2	1.7
NG	1	2	1	1.3
UK water	1	1	2	1.3

Source: UBSe

Figure 11: Regulatory framework

	Regulatory base	Regulatory period	Regulated Asset Base (RAB)	Allowed return on RAB	Allowed Opex	Incentives on Capex	Overall volume risk	
Electricity Transmission	Terna	Price-Cap and incentive based	8 years (PR1+PR2) Current: 2016-19	Revalued annually based on (1) Inflation; and (2) Net investment. Tariff RAB (T) = RAB (T-1) (NEW)	(Real, pre tax) 6.3% for 2016-17 (adjusted every 2 years)	Revalued annually based on: (1) Inflation; (2) Efficiency factor (X-factor = 1%); (3) Grid expansion.	+1% for 12-years on I/O-NPR1 capex (NEW)	Limited exposure
	REE	Price-Cap	6 years Current: 2014-2019	Revalued annually based on (1) Replacement cost; and (2) Net investment. Tariff RAB (T) = RAB (T)	(nominal, real) Avg. Sp. 10-year BY + spread; 6.5% (4.5% + 200bp) for 2014-19. Annual rate change capped by +/-50bp thereafter.	Revalued annually based on: (1) Inflation; (2) Efficiency factor (X-factor = 1%); (3) Grid expansion.	No incentives on Capex	Limited exposure
	National Grid	Price-Cap and incentive based	8 years Current: 2014-2021	Revalued annually based on (1) Inflation; and (2) Net investment. Tariff RAB (T) = RAB (T-1)	Vannilla WACC (*) indexed to Avg. IBOXX Debt Index; 4.33% for 2015/16; adjusted annually	Baseline regulatory controllable Opex allowance adjusted by Inflation (RPI)	46.9% shareholder retention for Capex spent below allowed level	Limited exposure
Gas Transmission	Snam	Price-Cap and incentive based	4 years Current: 2014-2017	Revalued annually based on: (1) Inflation; and (2) Net investment. Tariff RAB (T) = RAB (T-2)	(Real, pre tax) 5.4% for 2016-17 (adjusted every 2 years)	Revalued annually based on: (1) Inflation; (2) Efficiency factor (X-factor = 2.4%); (3) Grid expansion	+1% on capex from 2012 (compensate 2-year time lag); Additional +1.0%-2% up to 10-years selected capex	Limited exposure
	Enagas	Cost-plus	6 years Current: 2015-2020	Revalued annually based on Net investment. Tariff RAB (T) = RAB (T)	(nominal, pre tax) Avg. Sp. 10-year BY + spread; 5.1% for 2015-20	Revalued annually based on: (1) Efficiency factor (X-factor = 3%); (2) demand.	No incentives on Capex	Limited exposure
	National Grid	Cost-plus and incentive based	8 years Current: 2014-2021	Revalued annually based on (1) Inflation; and (2) Net investment. Tariff RAB (T) = RAB (T-1)	Vanilla WACC (*) indexed to Avg. IBOXX Debt Index; 4.3% for 2015/16; adjusted annually	Baseline regulatory controllable Opex allowance adjusted by Inflation (RPI)	44.4% shareholder retention for Capex spend below allowed level	Limited exposure
UK Water / Wastewater	United Utilities	Price-Cap and incentive based	5 years Current: 2015-2020	Revalued annually based on (1) Inflation; and (2) Net investment. Tariff RAB (T) = RAB (T-1)	Vanilla WACC (*); fixed at 3.6% until end-period	Baseline regulatory controllable Opex allowance adjusted by Inflation (RPI)	Outcome delivery incentives (RoE range: 1.5-8% vs. Base case 5.6%)	Limited exposure
	Severn Trent	Price-Cap and incentive based	5 years Current: 2015-2020	Revalued annually based on (1) Inflation; and (2) Net investment. Tariff RAB (T) = RAB (T-1)	Vanilla WACC (*); fixed at 3.6% until end-period	Baseline regulatory controllable Opex allowance adjusted by Inflation (RPI)	Outcome delivery incentives (RoE range: 0.8-9% vs. Base case 5.7%)	Limited exposure
	Pennon Group	Price-Cap and incentive based	5 years Current: 2015-2020	Revalued annually based on (1) Inflation; and (2) Net investment. Tariff RAB (T) = RAB (T-1)	Vanilla WACC (*); fixed at 3.7% until end-period	Baseline regulatory controllable Opex allowance adjusted by Inflation (RPI)	Outcome delivery incentives (RoE range: 2.1-9.9% vs. Base case 5.9%)	Limited exposure

(*) note: The 'Vanilla' WACC consists of pre-tax cost of debt and post-tax cost of equity, weighted by a notional gearing assumption.

Source: UBE, regulators, companies

Red Electrica de España (REE.MC)

	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Income statement (€m)										
Revenues	1,774	1,778	1,871	1,993	6.5	1,995	0.1	2,012	2,031	2,049
Gross profit	1,335	1,375	1,435	1,513	5.4	1,513	0.0	1,524	1,537	1,549
EBITDA (UBS)	1,265	1,315	1,390	1,493	7.4	1,500	0.5	1,522	1,543	1,564
Depreciation & amortisation	(405)	(417)	(441)	(480)	9.0	(482)	0.3	(488)	(494)	(500)
EBIT (UBS)	860	899	949	1,013	6.7	1,018	0.5	1,034	1,049	1,065
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(181)	(166)	(96)	(145)	-51.2	(142)	1.6	(139)	(108)	(109)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	679	733	853	868	1.7	876	0.9	895	941	955
Tax	(188)	(203)	(134)	(243)	-80.9	(219)	9.9	(224)	(235)	(239)
Profit after tax	491	529	719	625	-13.1	657	5.1	671	706	717
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	0	(1)	-	(1)	-5.1	(1)	(1)	(1)
Extraordinary items	1	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	492	530	719	624	-13.3	656	5.1	670	704	715
Net earnings (UBS)	492	529	571	624	9.4	656	5.1	670	704	715
Tax rate (%)	27.7	27.7	15.8	28.0	77.8	25.0	-10.7	25.0	25.0	25.0
Per share (€)										
EPS (UBS, diluted)	3.64	3.91	4.22	4.61	9.4	4.85	5.1	4.95	5.21	5.29
EPS (local GAAP, diluted)	3.64	3.92	5.32	4.61	-13.3	4.85	5.1	4.95	5.21	5.29
EPS (UBS, basic)	3.64	3.91	4.22	4.61	9.4	4.85	5.1	4.95	5.21	5.29
Net DPS (€)	2.37	2.54	3.00	3.21	7.0	3.43	7.0	3.68	3.93	4.21
Cash EPS (UBS, diluted) ¹	6.64	6.99	7.48	8.16	9.2	8.41	3.0	8.56	8.86	8.98
Book value per share	14.76	16.58	18.87	20.10	6.5	21.52	7.0	22.79	24.07	25.15
Average shares (diluted)	135.27	135.27	135.27	135.27	0.0	135.27	0.0	135.27	135.27	135.27
Balance sheet (€m)										
Tangible fixed assets	8,266	8,427	8,923	8,973	0.6	9,189	2.4	9,398	9,602	9,632
Intangible fixed assets	0	0	0	0	-	0	-	0	0	0
Investments	59	64	72	72	0.0	447	NM	622	631	639
Other assets	163	124	143	143	-0.2	143	0.0	143	143	143
Total fixed assets	8,488	8,614	9,138	9,188	0.5	9,779	6.4	10,163	10,375	10,415
Net working capital	413	225	843	737	-12.5	538	-27.0	420	424	427
Cash	40	215	299	299	0.0	299	0.0	299	299	299
Short term debt	(1,764)	(992)	(1,549)	(1,549)	0.0	(1,549)	0.0	(1,549)	(1,549)	(1,549)
Long term debt	(3,991)	(4,663)	(5,037)	(4,791)	4.9	(4,990)	-4.2	(5,082)	(5,124)	(5,020)
Preferred shares	0	0	0	0	-	0	-	0	0	0
Net (debt) / cash	(5,714)	(5,440)	(6,287)	(6,041)	3.9	(6,240)	-3.3	(6,332)	(6,374)	(6,270)
Other debt-deemed liabilities	0	0	0	0	-	0	-	0	0	0
Provisions & non-debt deemed liabs	(1,191)	(1,156)	(1,141)	(1,141)	0.0	(1,141)	0.0	(1,141)	(1,141)	(1,141)
Total equity	1,996	2,243	2,553	2,743	7.5	2,936	7.0	3,110	3,283	3,431
Minority interests	0	0	0	(24)	-	(25)	-4.7	(26)	(28)	(29)
Common s/h equity	1,996	2,243	2,553	2,719	6.5	2,910	7.0	3,083	3,256	3,402
Operating invested capital	7,651	7,619	8,768	8,712	-0.6	8,729	0.2	8,820	9,027	9,062
Total capital employed	7,710	7,683	8,840	8,784	-0.6	9,176	4.5	9,442	9,658	9,701
Cash flow (€m)										
EBIT (UBS)	860	899	949	1,013	6.7	1,018	0.5	1,034	1,049	1,065
Depreciation & amortisation	406	417	441	480	9.0	482	0.3	488	494	500
Net change in working capital	(273)	188	(498)	106	-	199	88.1	118	(4)	(4)
Net interest	(181)	(166)	(96)	(145)	-51.2	(142)	1.6	(139)	(108)	(109)
Tax paid	(188)	(203)	(134)	(243)	-80.9	(219)	9.9	(224)	(235)	(239)
Other operating	1	57	(150)	5	-	5	0.0	5	5	5
Operating cash flow	625	1,192	512	1,216	116.2	1,342	6.2	1,282	1,200	1,217
Tangible capital expenditure	(706)	(596)	(958)	(535)	44.1	(702)	-31.2	(702)	(702)	(535)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Equity free cash flow	(81)	596	(445)	681	-	640	-5.9	580	498	682
Net (acquisitions) & disposals	0	0	0	0	-	(375)	-	(175)	(9)	(9)
Equity dividends paid	(320)	(344)	(406)	(434)	-7.0	(465)	-7.0	(497)	(532)	(569)
Share issues / (buybacks)	0	0	0	0	-	0	-	0	0	0
Net other cash flows	0	0	0	0	-	0	-	0	0	0
Cash flow (inc)/dec in net debt	(401)	252	(851)	246	-	(199)	-	(92)	(42)	104
FX / non cash items	193	22	4	0	-	0	-	0	0	0
Balance sheet (inc)/dec in net debt	(208)	274	(847)	246	-	(199)	-	(92)	(42)	104

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.¹Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Red Electrica de España (REE.MC)

Valuation (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
P/E (local GAAP, diluted)	9.5	10.8	11.8	15.6	14.8	14.5	13.8	13.6
P/E (UBS, diluted)	9.5	10.8	14.8	15.6	14.8	14.5	13.8	13.6
P/CEPS	5.2	6.0	8.4	8.8	8.5	8.4	8.1	8.0
Equity FCF (UBS) yield %	(1.7)	10.4	(5.3)	7.0	6.6	6.0	5.1	7.0
Net dividend yield (%)	6.8	6.0	4.8	4.5	4.8	5.1	5.5	5.9
P/BV x	2.3	2.5	3.3	3.6	3.3	3.1	3.0	2.9
EV/revenues (core)	5.9	6.3	7.9	7.9	8.0	8.0	7.9	7.8
EV/EBITDA (core)	8.2	8.5	10.6	10.6	10.7	10.6	10.4	10.2
EV/EBIT (core)	12.1	12.4	15.5	15.6	15.7	15.5	15.4	15.0
EV/OpFCF (core)	12.1	12.4	15.5	15.6	15.8	15.6	15.4	15.1
EV/op. invested capital	1.4	1.5	1.8	1.8	1.8	1.8	1.8	1.8
Enterprise value (€m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap.	4,682	5,702	8,455	9,710	9,710	9,710	9,710	9,710
Net debt (cash)	5,714	5,440	6,287	6,041	6,240	6,332	6,374	6,270
Buy out of minorities	0	0	0	24	25	26	28	29
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	10,396	11,142	14,742	15,775	15,975	16,068	16,112	16,009
Non core assets	0	0	0	0	0	0	0	0
Core enterprise value	10,396	11,142	14,742	15,775	15,975	16,068	16,112	16,009
Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	6.5	0.2	5.3	6.5	0.1	0.9	0.9	0.9
EBITDA (UBS)	3.2	4.0	5.7	7.4	0.5	1.4	1.4	1.4
EBIT (UBS)	1.9	4.5	5.6	6.7	0.5	1.5	1.5	1.5
EPS (UBS, diluted)	7.0	7.5	7.8	9.4	5.1	2.2	5.1	1.6
Net DPS	6.9	7.5	18.0	7.0	7.0	7.0	7.0	7.0
Margins & Profitability (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Gross profit margin	NM	NM	NM	NM	NM	NM	NM	NM
EBITDA margin	71.3	74.0	74.3	74.9	NM	NM	NM	NM
EBIT margin	48.5	50.5	50.7	50.8	51.0	51.4	51.7	52.0
Net earnings (UBS) margin	27.7	29.8	30.5	31.3	32.9	33.3	34.7	34.9
ROIC (EBIT)	11.6	11.8	11.6	11.6	11.7	11.8	11.8	11.8
ROIC post tax	8.4	8.5	7.7	8.3	8.8	8.8	8.8	8.8
ROE (UBS)	25.8	25.0	23.8	23.7	23.3	22.4	22.2	21.5
Capital structure & Coverage (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Net debt / EBITDA	4.5	4.1	4.5	4.0	4.2	4.2	4.1	4.0
Net debt / total equity %	286.3	242.6	246.3	220.2	212.6	203.6	194.1	182.8
Net debt / (net debt + total equity) %	74.1	70.8	71.1	68.8	68.0	67.1	66.0	64.6
Net debt/EV %	55.0	48.8	42.6	38.3	39.1	39.4	39.6	39.2
Capex / depreciation %	174.1	143.1	NM	111.4	145.7	143.8	142.1	107.1
Capex / revenue %	NM	NM	NM	26.8	NM	NM	NM	26.1
EBIT / net interest	4.8	5.4	9.9	7.0	7.2	7.5	9.7	9.7
Dividend cover (UBS)	1.5	1.5	1.4	1.4	1.4	1.3	1.3	1.3
Div. payout ratio (UBS) %	65.0	65.0	71.1	69.6	70.8	74.2	75.5	79.6
Revenues by division (€m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Others	1,774	1,778	1,871	1,993	1,995	2,012	2,031	2,049
Total	1,774	1,778	1,871	1,993	1,995	2,012	2,031	2,049
EBIT (UBS) by division (€m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Others	860	899	949	1,013	1,018	1,034	1,049	1,065
Total	860	899	949	1,013	1,018	1,034	1,049	1,065

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Enagas (ENAG.MC)

	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Income statement (€m)										
Revenues	1,199	1,308	1,224	1,239	1.2	1,221	-1.4	1,197	1,177	1,171
Gross profit	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	934	1,028	940	922	-1.9	892	-3.2	868	848	842
Depreciation & amortisation	(316)	(359)	(350)	(291)	-16.9	(281)	-3.5	(273)	(266)	(257)
EBIT (UBS)	618	669	590	631	6.9	612	-3.0	594	582	585
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(77)	(109)	(106)	(101)	4.0	(99)	2.6	(95)	(93)	(91)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	542	559	484	529	9.3	513	-3.1	499	489	494
Tax	(163)	(161)	(88)	(148)	-69.1	(128)	13.5	(125)	(122)	(123)
Profit after tax	379	399	397	381	-3.9	385	1.0	374	367	370
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(1)	5	10	33	229.2	30	-8.9	48	52	54
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	378	403	407	414	1.8	415	0.2	422	419	424
Net earnings (UBS)	378	403	407	414	1.8	415	0.2	422	419	424
Tax rate (%)	30.1	28.7	18.1	28.0	54.7	25.0	-10.7	25.0	25.0	25.0
Per share (€)										
EPS (UBS, diluted)	1.58	1.69	1.70	1.73	1.8	1.74	0.2	1.77	1.76	1.78
EPS (local GAAP, diluted)	1.58	1.69	1.70	1.73	1.8	1.74	0.2	1.77	1.76	1.78
EPS (UBS, basic)	1.58	1.69	1.70	1.73	1.8	1.74	0.2	1.77	1.76	1.78
Net DPS (€)	1.11	1.27	1.30	1.32	1.5	1.39	5.3	1.46	1.49	1.51
Cash EPS (UBS, diluted) ¹	2.90	3.19	3.17	2.95	-6.8	2.91	-1.3	2.91	2.87	2.86
Book value per share	8.40	8.96	9.29	9.73	4.7	10.15	4.3	10.53	10.82	11.11
Average shares (diluted)	238.73	238.73	238.73	238.73	0.0	238.73	0.0	238.73	238.73	238.73
Balance sheet (€m)										
Tangible fixed assets	5,680	5,802	5,337	5,195	-2.7	5,134	-1.2	5,081	4,965	4,857
Intangible fixed assets	284	332	575	575	0.0	575	0.0	575	575	575
Investments	14	3	741	1,179	59.2	1,283	8.9	1,398	1,369	1,342
Other assets	0	0	0	0	-	0	-	0	0	0
Total fixed assets	5,978	6,136	6,653	6,949	4.5	6,993	0.6	7,054	6,909	6,775
Net working capital	333	464	272	341	25.5	398	16.5	390	384	382
Cash	1,480	353	551	551	0.0	551	0.0	551	551	551
Short term debt	(575)	(494)	(943)	(943)	0.0	(943)	0.0	(943)	(943)	(943)
Long term debt	(4,538)	(3,649)	(3,735)	(3,887)	-4.1	(3,887)	0.0	(3,851)	(3,628)	(3,424)
Preferred shares	0	0	0	0	-	0	-	0	0	0
Net (debt) / cash	(3,633)	(3,790)	(4,127)	(4,279)	-3.7	(4,279)	0.0	(4,242)	(4,020)	(3,816)
Other debt-deemed liabilities	0	0	(28)	(28)	0.0	(28)	0.0	(28)	(28)	(28)
Provisions & non-debt deemed liabs	(672)	(671)	(537)	(647)	-20.5	(647)	0.0	(647)	(647)	(647)
Total equity	2,005	2,139	2,233	2,337	4.6	2,436	4.3	2,527	2,598	2,666
Minority interests	0	0	(14)	(14)	0.0	(14)	0.0	(14)	(14)	(14)
Common s/h equity	2,005	2,139	2,219	2,322	4.7	2,422	4.3	2,513	2,583	2,652
Operating invested capital	5,624	5,926	5,647	5,464	-3.2	5,459	-0.1	5,398	5,276	5,167
Total capital employed	5,638	5,929	6,387	6,643	4.0	6,743	1.5	6,797	6,645	6,509
Cash flow (€m)										
EBIT (UBS)	618	669	590	631	6.9	612	-3.0	594	582	585
Depreciation & amortisation	316	359	350	291	-16.9	281	-3.5	273	266	257
Net change in working capital	(136)	(125)	(81)	(69)	14.5	(56)	18.5	8	6	2
Net interest	(77)	(109)	(106)	(101)	4.0	(99)	2.6	(95)	(93)	(91)
Tax paid	(163)	(161)	(88)	(148)	-69.1	(128)	13.5	(125)	(122)	(123)
Other operating	23	(64)	10	33	226.7	75	128.1	82	82	81
Operating cash flow	581	569	676	636	-0.8	684	3.4	738	721	711
Tangible capital expenditure	(761)	(531)	(625)	(587)	6.0	(369)	37.1	(369)	(150)	(150)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Equity free cash flow	(180)	38	51	48	-4.5	315	NM	369	571	561
Net (acquisitions) & disposals	5	12	37	0	-	0	-	0	0	0
Equity dividends paid	(237)	(266)	(302)	(310)	-2.6	(315)	-1.5	(332)	(349)	(356)
Share issues / (buybacks)	0	0	0	0	-	0	-	0	0	0
Net other cash flows	462	(910)	413	110	-73.4	0	-	0	0	0
Cash flow (inc)/dec in net debt	50	(1,126)	198	(152)	-	0	99.8	37	222	205
FX / non cash items	(181)	970	(535)	0	-	0	-	0	0	0
Balance sheet (inc)/dec in net debt	(131)	(157)	(337)	(152)	54.9	0	99.8	37	222	205

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.¹Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Enagas (ENAG.MC)

Valuation (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
P/E (local GAAP, diluted)	9.2	11.0	13.7	14.8	14.8	14.5	14.6	14.4
P/E (UBS, diluted)	9.2	11.0	13.7	14.8	14.8	14.5	14.6	14.4
P/CEPS	5.0	5.8	7.4	8.7	8.8	8.8	8.9	9.0
Equity FCF (UBS) yield %	(5.2)	0.8	0.9	0.8	5.1	6.0	9.3	9.2
Net dividend yield (%)	7.6	6.8	5.6	5.1	5.4	5.7	5.8	5.9
P/BV x	1.7	2.1	2.5	2.6	2.5	2.4	2.4	2.3
EV/revenues (core)	6.1	6.4	7.5	7.6	7.6	7.7	7.6	7.5
EV/EBITDA (core)	7.8	8.2	9.8	10.2	10.4	10.6	10.6	10.4
EV/EBIT (core)	11.8	12.6	15.6	15.0	15.2	15.4	15.4	15.0
EV/OpFCF (core)	11.8	12.6	15.6	15.0	15.2	15.4	15.4	15.0
EV/op. invested capital	1.3	1.5	1.6	1.7	1.7	1.7	1.7	1.7
Enterprise value (€m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap.	3,477	4,435	5,586	6,124	6,124	6,124	6,124	6,124
Net debt (cash)	3,634	3,790	4,127	4,279	4,279	4,242	4,020	3,816
Buy out of minorities	0	0	42	42	42	42	42	42
Pension provisions/other	175	177	163	163	163	163	163	163
Total enterprise value	7,286	8,403	9,918	10,607	10,608	10,571	10,349	10,144
Non core assets	(14)	(2)	(741)	(1,179)	(1,283)	(1,398)	(1,369)	(1,342)
Core enterprise value	7,272	8,400	9,178	9,428	9,324	9,172	8,980	8,802
Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	3.8	9.1	-6.4	1.2	-1.4	-2.0	-1.6	-0.5
EBITDA (UBS)	5.5	10.0	-8.6	-1.9	-3.2	-2.8	-2.2	-0.7
EBIT (UBS)	5.5	8.2	-11.8	6.9	-3.0	-2.8	-2.0	0.5
EPS (UBS, diluted)	3.5	6.8	0.9	1.8	0.2	1.8	-0.8	1.3
Net DPS	12.1	13.8	2.6	1.5	5.3	5.0	2.2	1.3
Margins & Profitability (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Gross profit margin	-	-	-	-	-	-	-	-
EBITDA margin	NM	NM	NM	74.4	73.1	72.5	72.1	71.9
EBIT margin	51.6	51.1	48.2	50.9	50.1	49.7	49.5	50.0
Net earnings (UBS) margin	31.5	30.8	33.2	33.4	34.0	35.3	35.6	36.2
ROIC (EBIT)	11.3	11.6	10.2	11.4	11.2	11.0	10.9	11.2
ROIC post tax	7.9	8.3	8.3	8.2	8.4	8.2	8.2	8.4
ROE (UBS)	19.5	19.5	18.7	18.2	17.5	17.1	16.5	16.2
Capital structure & Coverage (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Net debt / EBITDA	3.9	3.7	4.4	4.6	4.8	4.9	4.7	4.5
Net debt / total equity %	181.2	177.2	184.8	183.1	175.6	167.9	154.8	143.1
Net debt / (net debt + total equity) %	64.4	63.9	64.9	64.7	63.7	62.7	60.7	58.9
Net debt/EV %	50.0	45.1	45.0	45.4	45.9	46.3	44.8	43.3
Capex / depreciation %	NM	147.9	178.6	NM	131.5	135.1	56.4	58.3
Capex / revenue %	NM	NM	NM	NM	NM	NM	12.7	12.8
EBIT / net interest	8.1	6.1	5.6	6.2	6.2	6.2	6.2	6.4
Dividend cover (UBS)	1.4	1.3	1.3	1.3	1.3	1.2	1.2	1.2
Div. payout ratio (UBS) %	70.4	75.0	76.3	76.1	80.0	82.5	85.0	85.0
Revenues by division (€m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Others	1,199	1,308	1,224	1,239	1,221	1,197	1,177	1,171
Total	1,199	1,308	1,224	1,239	1,221	1,197	1,177	1,171
EBIT (UBS) by division (€m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Others	618	669	590	631	612	594	582	585
Total	618	669	590	631	612	594	582	585

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Valuation Method and Risk Statement

Given that share-price movements are a function of valuation multiples (PE) and EPS changes, we have based our price-target calculations on these two components, combined with target DYs, overall back-checked with our DDM models. Since that visibility on EPS changes is reasonably high for fully regulated companies, the key variables in setting our price targets are both our target PE multiples and DYs. Differences across these variables are a function of: 1) expected moves in sovereign interest rates; 2) regulatory risk; and 3) political risk.

For companies with no significant de-rating risks, we adopt target multiples roughly in line with the current ones. For companies where we perceive de-/re-rating risks, we adjust down-/upwards the current valuations of the stocks.

Risk statement: Utilities are driven by commodities, power prices, M&A, regulatory environment and interest rates.

Required Disclosures

This report has been prepared by UBS Limited, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit www.ubs.com/disclosures. The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results. Additional information will be made available upon request. UBS Securities Co. Limited is licensed to conduct securities investment consultancy businesses by the China Securities Regulatory Commission. UBS acts or may act as principal in the debt securities (or in related derivatives) that may be the subject of this report.

Analyst Certification: Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	48%	36%
Neutral	FSR is between -6% and 6% of the MRA.	39%	28%
Sell	FSR is > 6% below the MRA.	12%	22%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2015.

1: Percentage of companies under coverage globally within the 12-month rating category.

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3: Percentage of companies under coverage globally within the Short-Term rating category.

4: Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS: **Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES: **UK and European Investment Fund ratings and definitions are:** **Buy:** Positive on factors such as structure, management, performance record, discount; **Neutral:** Neutral on factors such as structure, management, performance record, discount; **Sell:** Negative on factors such as structure, management, performance record, discount. **Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Research analysts contributing to this report who are employed by any non-US affiliate of UBS Securities LLC are not registered/qualified as research analysts with FINRA. Such analysts may not be associated persons of UBS Securities LLC and therefore are not subject to the FINRA restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account. The name of each affiliate and analyst employed by that affiliate contributing to this report, if any, follows.

UBS Limited: Rui Dias; Alberto Gandolfi; Hugo Liebaert, CFA.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Enagas ⁵	ENAG.MC	Neutral	N/A	€25.02	11 Feb 2016
Red Electrica de España ¹³	REE.MC	Neutral	N/A	€70.04	11 Feb 2016

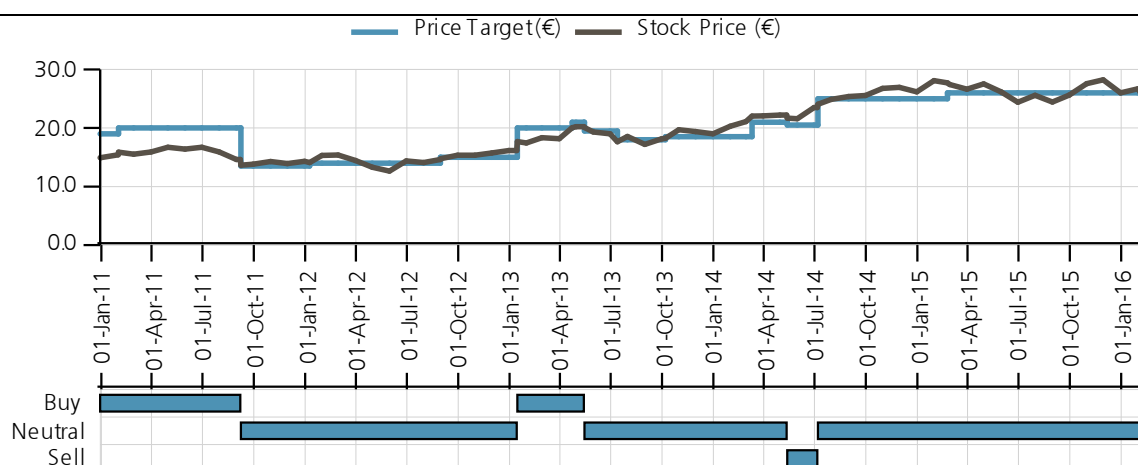
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.
13. UBS AG, its affiliates or subsidiaries beneficially owned 1% or more of a class of this company's common equity securities as of last month's end (or the prior month's end if this report is dated less than 10 days after the most recent month's end).

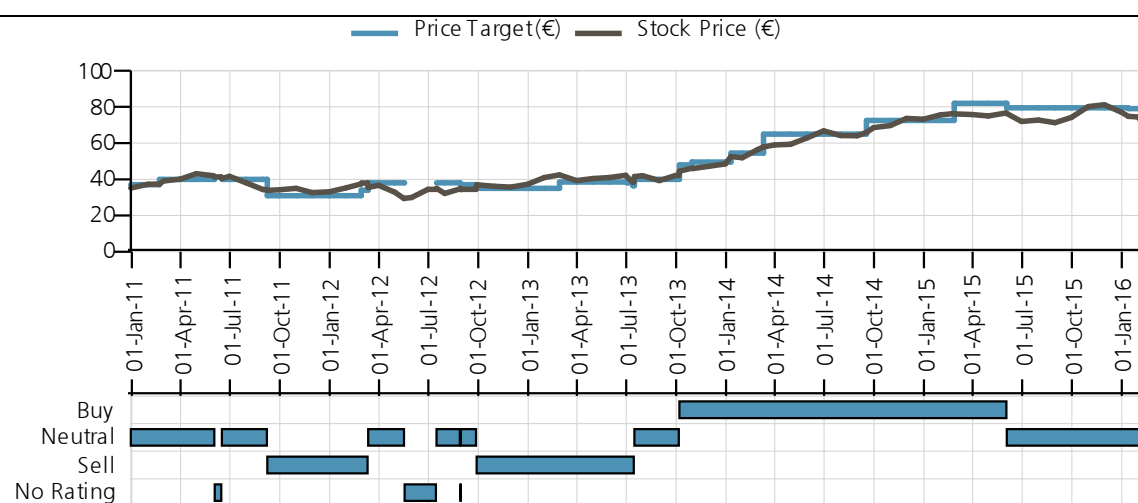
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report. For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Securities LLC, 1285 Avenue of Americas, New York, NY 10019, USA, Attention: Investment Research.

Enagas (€)



Source: UBS; as of 11 Feb 2016

Red Electrica de España (€)



Source: UBS; as of 11 Feb 2016

Global Disclaimer

This document has been prepared by UBS Limited, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

Global Research is provided to our clients through UBS Neo, the UBS Client Portal and UBS.com (each a "System"). It may also be made available through third party vendors and distributed by UBS and/or third parties via e-mail or alternative electronic means. The level and types of services provided by Global Research to a client may vary depending upon various factors such as a client's individual preferences as to the frequency and manner of receiving communications, a client's risk profile and investment focus and perspective (e.g. market wide, sector specific, long-term, short-term, etc.), the size and scope of the overall client relationship with UBS and legal and regulatory constraints.

When you receive Global Research through a System, your access and/or use of such Global Research is subject to this Global Research Disclaimer and to the terms of use governing the applicable System.

When you receive Global Research via a third party vendor, e-mail or other electronic means, your use shall be subject to this Global Research Disclaimer and to UBS's Terms of Use/Disclaimer (<http://www.ubs.com/global/en/legalinfo2/disclaimer.html>). By accessing and/or using Global Research in this manner, you are indicating that you have read and agree to be bound by our Terms of Use/Disclaimer. In addition, you consent to UBS processing your personal data and using cookies in accordance with our Privacy Statement (<http://www.ubs.com/global/en/legalinfo2/privacy.html>) and cookie notice (<http://www.ubs.com/global/en/homepage/cookies/cookie-management.html>).

If you receive Global Research, whether through a System or by any other means, you agree that you shall not copy, revise, amend, create a derivative work, transfer to any third party, or in any way commercially exploit any UBS research provided via Global Research or otherwise, and that you shall not extract data from any research or estimates provided to you via Global Research or otherwise, without the prior written consent of UBS.

For access to all available Global Research on UBS Neo and the Client Portal, please contact your UBS sales representative.

This document is for distribution only as may be permitted by law. It is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject UBS to any registration or licensing requirement within such jurisdiction. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document ('the Information'), except with respect to Information concerning UBS. The Information is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. UBS does not undertake to update or keep current the Information. Any opinions expressed in this document may change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS. Any statements contained in this report attributed to a third party represent UBS's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party.

Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgement in making their investment decisions. The financial instruments described in the document may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates or other market conditions. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument referred to in the document. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

The value of any investment or income may go down as well as up, and investors may not get back the full (or any) amount invested. Past performance is not necessarily a guide to future performance. Neither UBS nor any of its directors, employees or agents accepts any liability for any loss (including investment loss) or damage arising out of the use of all or any of the Information.

Any prices stated in this document are for information purposes only and do not represent valuations for individual securities or other financial instruments. There is no representation that any transaction can or could have been effected at those prices, and any prices do not necessarily reflect UBS's internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions by UBS or any other source may yield substantially different results.

This document and the Information are produced by UBS as part of its research function and are provided to you solely for general background information. UBS has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. In no circumstances may this document or any of the Information be used for any of the following purposes:

- (i) valuation or accounting purposes;
- (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or
- (iii) to measure the performance of any financial instrument.

By receiving this document and the Information you will be deemed to represent and warrant to UBS that you will not use this document or any of the Information for any of the above purposes or otherwise rely upon this document or any of the Information.

Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management. The analysis contained in this document is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting market information. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this document is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues; however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this document. For financial instruments admitted to trading on a non-EU regulated market: UBS may act as a market maker save that where this activity is carried out in the US in accordance with the definition given to it by the relevant laws and regulations, such activity will be specifically disclosed in this document. UBS may have issued a warrant the value of which is based on one or more of the financial instruments referred to in the document. UBS and its affiliates and employees may have long or short positions, trade as principal and buy and sell in instruments or derivatives identified herein; such transactions or positions may be inconsistent with the opinions expressed in this document.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this material is distributed by UBS Limited to persons who are eligible counterparties or professional clients. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France S.A. UBS Securities France S.A. is regulated by the ACPR (Autorité de Contrôle Prudentiel et de Résolution) and the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this document, the document is also deemed to have been prepared by UBS Securities France S.A. **Germany:** Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). **Spain:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). **Turkey:** Distributed by UBS Limited. No information in this document is provided for the purpose of offering, marketing and sale by any means of any capital market instruments and services in the Republic of Turkey. Therefore, this document may not be considered as an offer made or to be made to residents of the Republic of Turkey. UBS AG is not licensed by the Turkish Capital Market Board under the provisions of the Capital Market Law (Law No. 6362). Accordingly, neither this document nor any other offering material related to the instruments/services may be utilized in connection with providing any capital market services to persons within the Republic of Turkey without the prior approval of the Capital Market Board. However, according to article 15 (d) (ii) of the Decree No. 32, there is no restriction on the purchase or sale of the securities abroad by residents of the Republic of Turkey. **Poland:** Distributed by UBS Limited (spółka z ograniczoną odpowiedzialnością) Oddział w Polsce regulated by the Polish Financial Supervision Authority. Where an analyst of UBS Limited (spółka z ograniczoną odpowiedzialnością) Oddział w Polsce has contributed to this

document, the document is also deemed to have been prepared by UBS Limited (spółka z ograniczoną odpowiedzialnością) Oddział w Polsce. **Russia:** Prepared and distributed by UBS Bank (OOO). **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. UBS AG is regulated by the Swiss Financial Market Supervisory Authority (FINMA). **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Italia Sim S.p.A. UBS Italia Sim S.p.A. is regulated by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (CONSOB). Where an analyst of UBS Italia Sim S.p.A. has contributed to this document, the document is also deemed to have been prepared by UBS Italia Sim S.p.A. **South Africa:** Distributed by UBS South Africa (Pty) Limited (Registration No. 1995/011140/07), an authorised user of the JSE and an authorised Financial Services Provider (FSP 7328). **Israel:** This material is distributed by UBS Limited. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. UBS Securities Israel Ltd is a licensed Investment Marketer that is supervised by the Israel Securities Authority (ISA). UBS Limited and its affiliates incorporated outside Israel are not licensed under the Israeli Advisory Law. UBS Limited is not covered by insurance as required from a licensee under the Israeli Advisory Law. UBS may engage among others in issuance of Financial Assets or in distribution of Financial Assets of other issuers for fees or other benefits. UBS Limited and its affiliates may prefer various Financial Assets to which they have or may have Affiliation (as such term is defined under the Israeli Advisory Law). Nothing in this Material should be considered as investment advice under the Israeli Advisory Law. This Material is being issued only to and/or is directed only at persons who are Eligible Clients within the meaning of the Israeli Advisory Law, and this material must not be relied on or acted upon by any other persons. **Saudi Arabia:** This document has been issued by UBS AG (and/or any of its subsidiaries, branches or affiliates), a public company limited by shares, incorporated in Switzerland with its registered offices at Aeschenvorstadt 1, CH-4051 Basel and Bahnhofstrasse 45, CH-8001 Zurich. This publication has been approved by UBS Saudi Arabia (a subsidiary of UBS AG), a Saudi closed joint stock company incorporated in the Kingdom of Saudi Arabia under commercial register number 1010257812 having its registered office at Tatweer Towers, P.O. Box 75724, Riyadh 11588, Kingdom of Saudi Arabia. UBS Saudi Arabia is authorized and regulated by the Capital Market Authority to conduct securities business under license number 08113-37. **Dubai:** The information distributed by UBS AG Dubai Branch is intended for Professional Clients only and is not for further distribution within the United Arab Emirates. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a 'non-US affiliate') to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a document prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this document must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. UBS Securities LLC is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule"), and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule. **Canada:** Distributed by UBS Securities Canada Inc., a registered investment dealer in Canada and a Member-Canadian Investor Protection Fund, or by another affiliate of UBS AG that is registered to conduct business in Canada or is otherwise exempt from registration. **Brazil:** Except as otherwise specified herein, this material is prepared by UBS Brasil CCTVM S.A. to persons who are eligible investors residing in Brazil, which are considered to be: (i) financial institutions, (ii) insurance firms and investment capital companies, (iii) supplementary pension entities, (iv) entities that hold financial investments higher than R\$300,000.00 and that confirm the status of qualified investors in written, (v) investment funds, (vi) securities portfolio managers and securities consultants duly authorized by Comissão de Valores Mobiliários (CVM), regarding their own investments, and (vii) social security systems created by the Federal Government, States, and Municipalities. **Hong Kong:** Distributed by UBS Securities Asia Limited and/or UBS AG, Hong Kong Branch. **Singapore:** Distributed by UBS Securities Pte. Ltd. [MCI (P) 018/09/2015 and Co. Reg. No.: 198500648C] or UBS AG, Singapore Branch. Please contact UBS Securities Pte. Ltd., an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110); or UBS AG, Singapore Branch, an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110) and a wholesale bank licensed under the Singapore Banking Act (Cap. 19) regulated by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with, the analysis or document. The recipients of this document represent and warrant that they are accredited and institutional investors as defined in the Securities and Futures Act (Cap. 289). **Japan:** Distributed by UBS Securities Japan Co., Ltd. to professional investors (except as otherwise permitted). Where this document has been prepared by UBS Securities Japan Co., Ltd., UBS Securities Japan Co., Ltd. is the author, publisher and distributor of the document. Distributed by UBS AG, Tokyo Branch to Professional Investors (except as otherwise permitted) in relation to foreign exchange and other banking businesses when relevant. **Australia:** Clients of UBS AG: Distributed by UBS AG (Holder of Australian Financial Services License No. 231087). Clients of UBS Securities Australia Ltd: Distributed by UBS Securities Australia Ltd (Holder of Australian Financial Services License No. 231098). Clients of UBS Wealth Management Australia Ltd: Distributed by UBS Wealth Management Australia Ltd (Holder of Australian Financial Services License No. 231127). This Document contains general information and/or general advice only and does not constitute personal financial product advice. As such, the Information in this document has been prepared without taking into account any investor's objectives, financial situation or needs, and investors should, before acting on the Information, consider the appropriateness of the Information, having regard to their objectives, financial situation and needs. If the Information contained in this document relates to the acquisition, or potential acquisition of a particular financial product by a 'Retail' client as defined by section 761G of the Corporations Act 2001 where a Product Disclosure Statement would be required, the retail client should obtain and consider the Product Disclosure Statement relating to the product before making any decision about whether to acquire the product. The UBS Securities Australia Limited Financial Services Guide is available at: www.ubs.com/ecs-research-fsg. **New Zealand:** Distributed by UBS New Zealand Ltd. The information and recommendations in this publication are provided for general information purposes only. To the extent that any such information or recommendations constitute financial advice, they do not take into account any person's particular financial situation or goals. We recommend that recipients seek advice specific to their circumstances from their financial advisor. **Korea:** Distributed in Korea by UBS Securities Pte. Ltd., Seoul Branch. This document may have been edited or contributed to from time to time by affiliates of UBS Securities Pte. Ltd., Seoul Branch. **Malaysia:** This material is authorized to be distributed in Malaysia by UBS Securities Malaysia Sdn. Bhd (Capital Markets Services License No.: CMSL/A0063/2007). This material is intended for professional/institutional clients only and not for distribution to any retail clients. **India:** Prepared by UBS Securities India Private Ltd. (Corporate Identity Number U67120MH1996PTC097299) 2/F, 2 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra (East), Mumbai (India) 400051. Phone: +912261556000. It provides brokerage services bearing SEBI Registration Numbers: NSE (Capital Market Segment): INB230951431, NSE (F&O Segment) INF230951431, NSE (Currency Derivatives Segment) INE230951431, BSE (Capital Market Segment) INB010951437; merchant banking services bearing SEBI Registration Number: INM000010809 and Research Analyst services bearing SEBI Registration Number: INH000001204. UBS AG, its affiliates or subsidiaries may have debt holdings or positions in the subject Indian company/companies. Within the past 12 months, UBS AG, its affiliates or subsidiaries may have received compensation for non-investment banking securities-related services and/or non-securities services from the subject Indian company/companies. The subject company/companies may have been a client/clients of UBS AG, its affiliates or subsidiaries during the 12 months preceding the date of distribution of the research report with respect to investment banking and/or non-investment banking securities-related services and/or non-securities services. With regard to information on associates, please refer to the Annual Report at: http://www.ubs.com/global/en/about_ubs/investor_relations/annualreporting.html

The disclosures contained in research documents produced by UBS Limited shall be governed by and construed in accordance with English law.

UBS specifically prohibits the redistribution of this document in whole or in part without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. Images may depict objects or elements that are protected by third party copyright, trademarks and other intellectual property rights. © UBS 2016. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

