

November 2013

THE VIRTUOUS CIRCLE

A view from the financial markets

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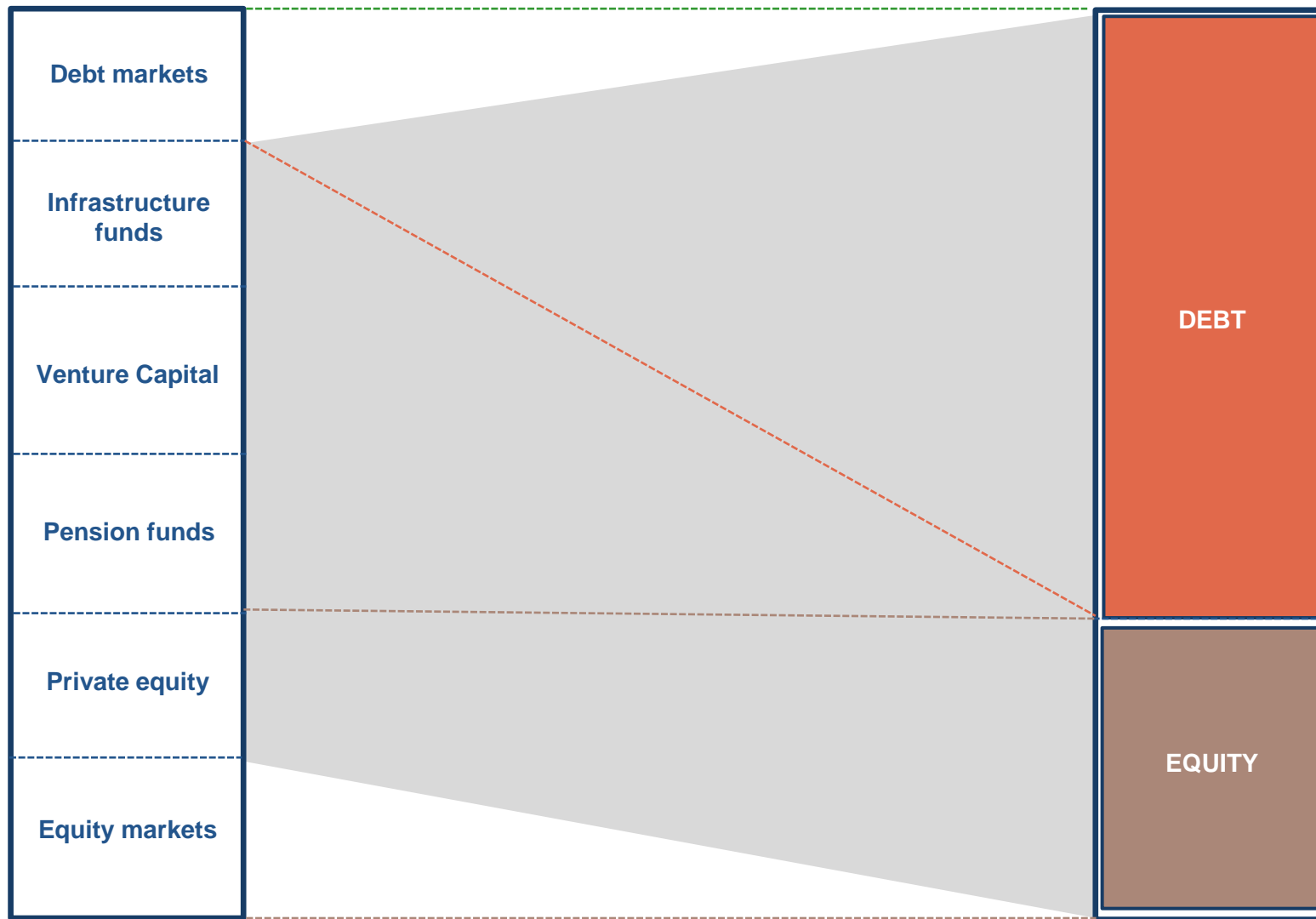
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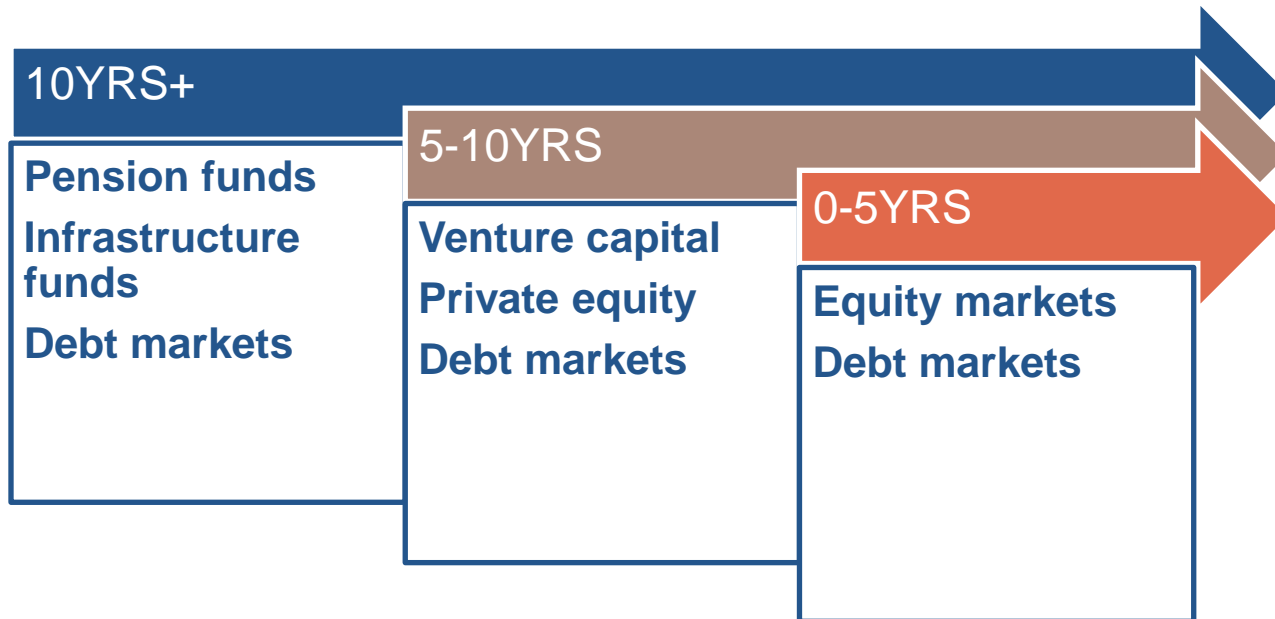
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MARKET STRUCTURE



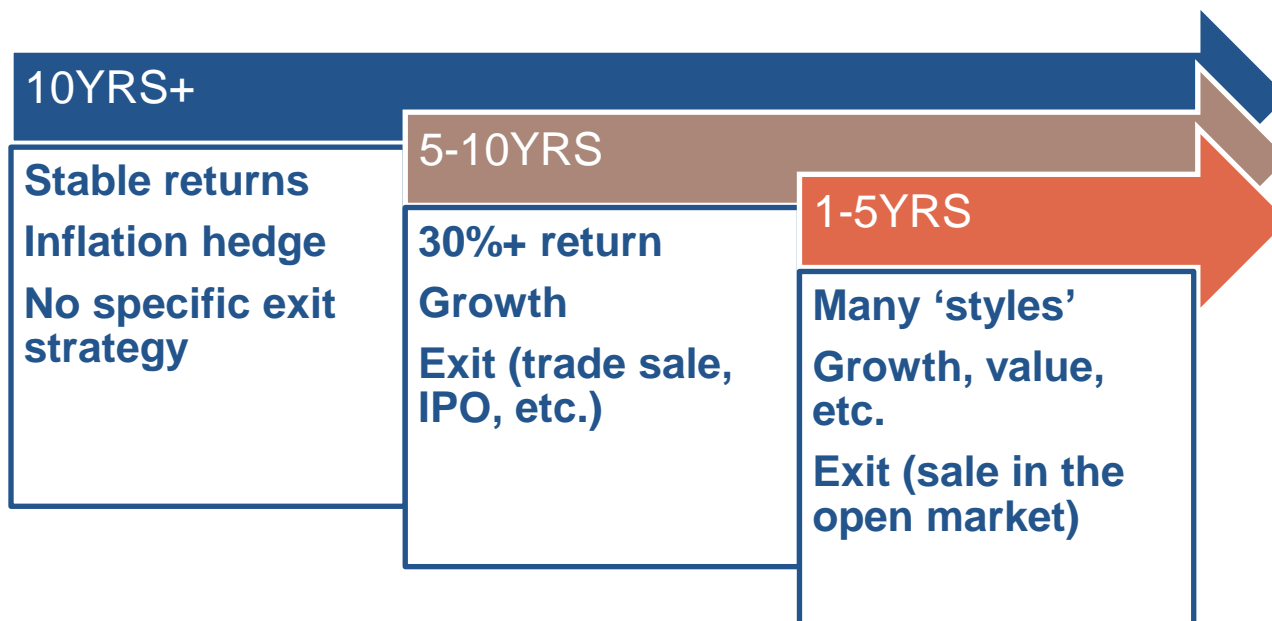
Source: SG Cross Asset Research/Equity

INVESTMENT HORIZON



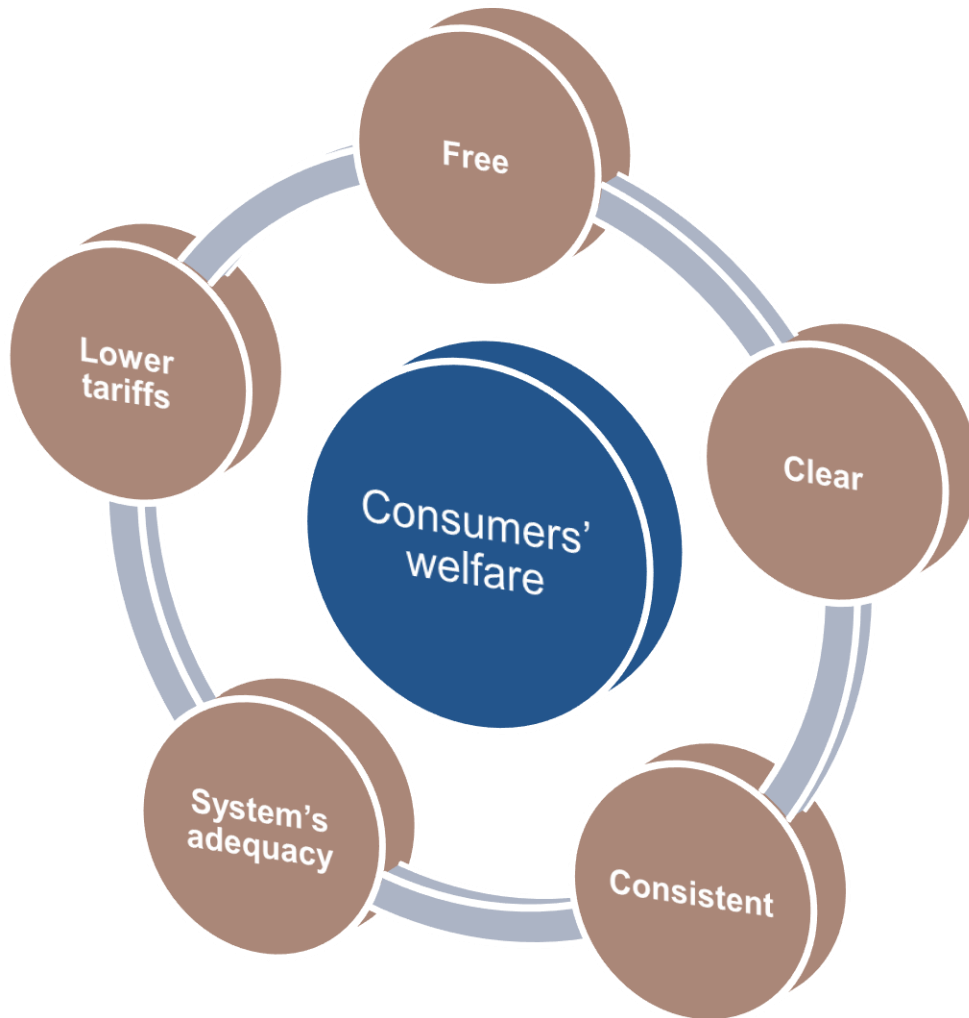
Source: SG Cross Asset Research/Equity

INVESTMENT OBJECTIVES



Source: SG Cross Asset Research/Equity

THE VIRTUOUS CIRCLE



Source: SG Cross Asset Research/Equity

INDEPENDENCE



CLEARLY STATED MISSION

→ eg maximisation of consumers' welfare



CLEARLY STATED ATTRIBUTIONS

→ eg the government sets the energy policy, the REG implements the law



LENGTH OF MANDATE

→ where possible REG's office tenure doesn't overlap with that of the government



POLITICAL MAJORITY REQUIRED

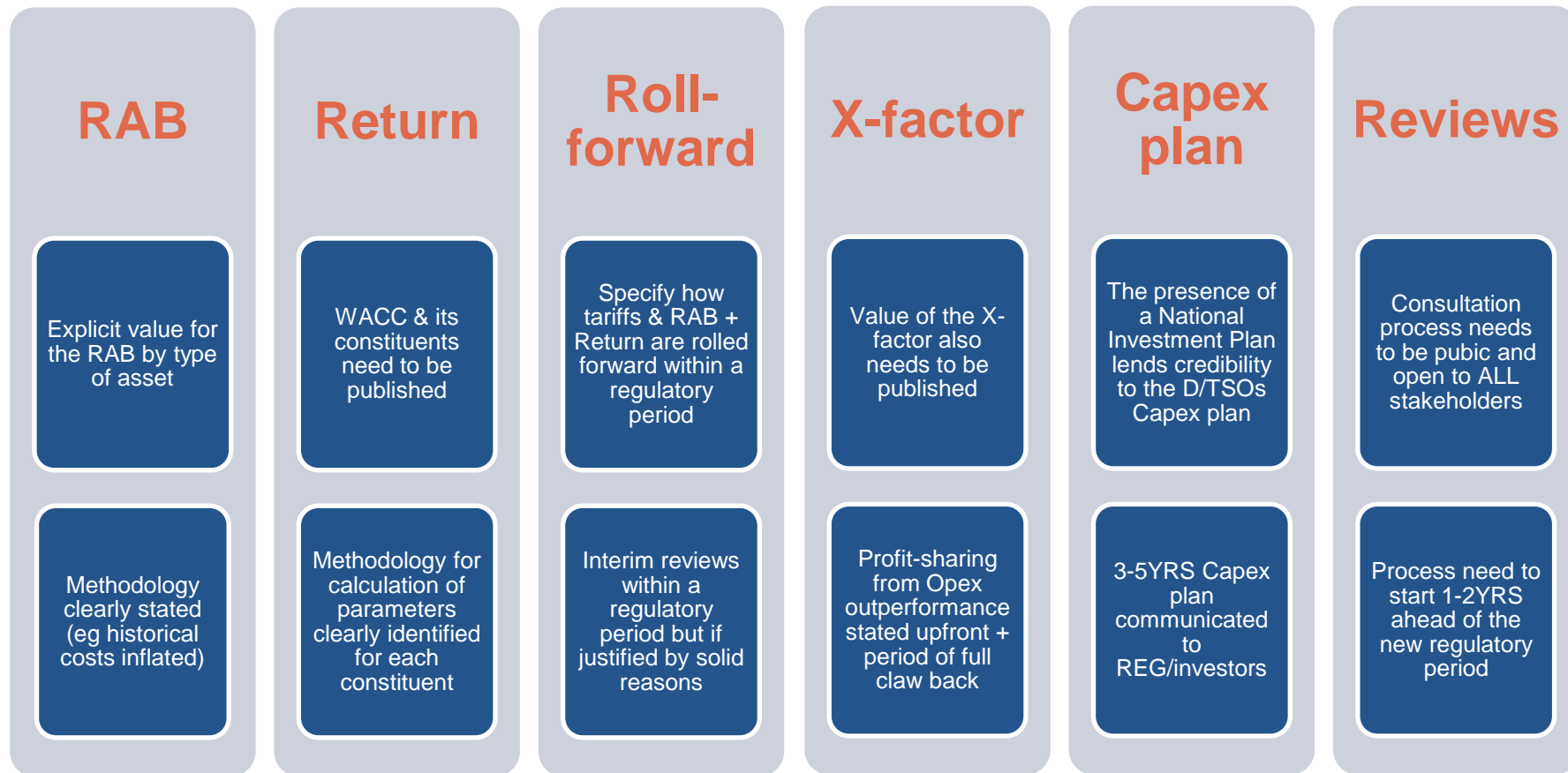
→ the larger the majority required , the better (where applicable)



SKILLS REQUIRED

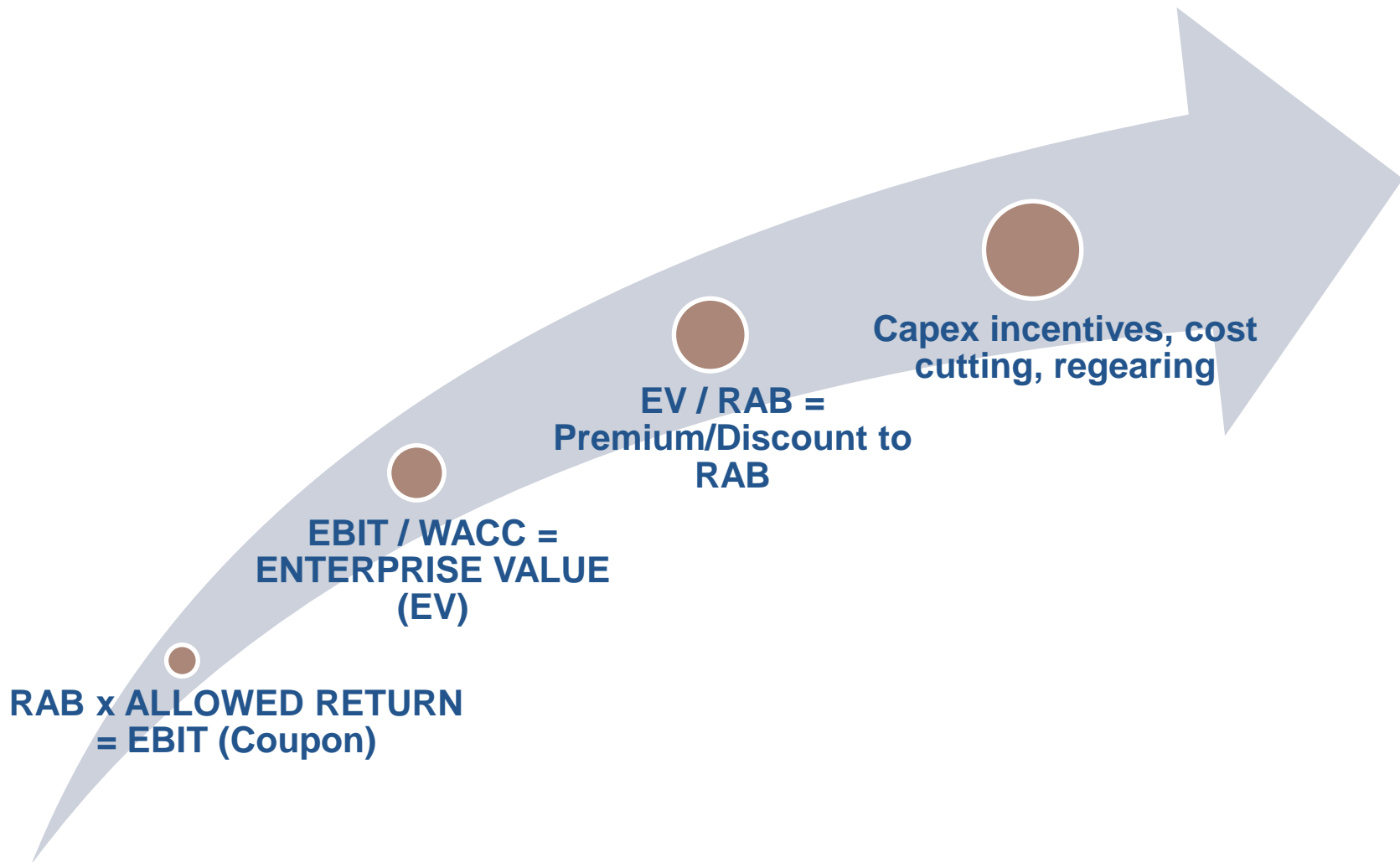
→ Often financial markets are under-represented or not represented at all

TRANSPARENCY – WHAT INVESTORS NEED



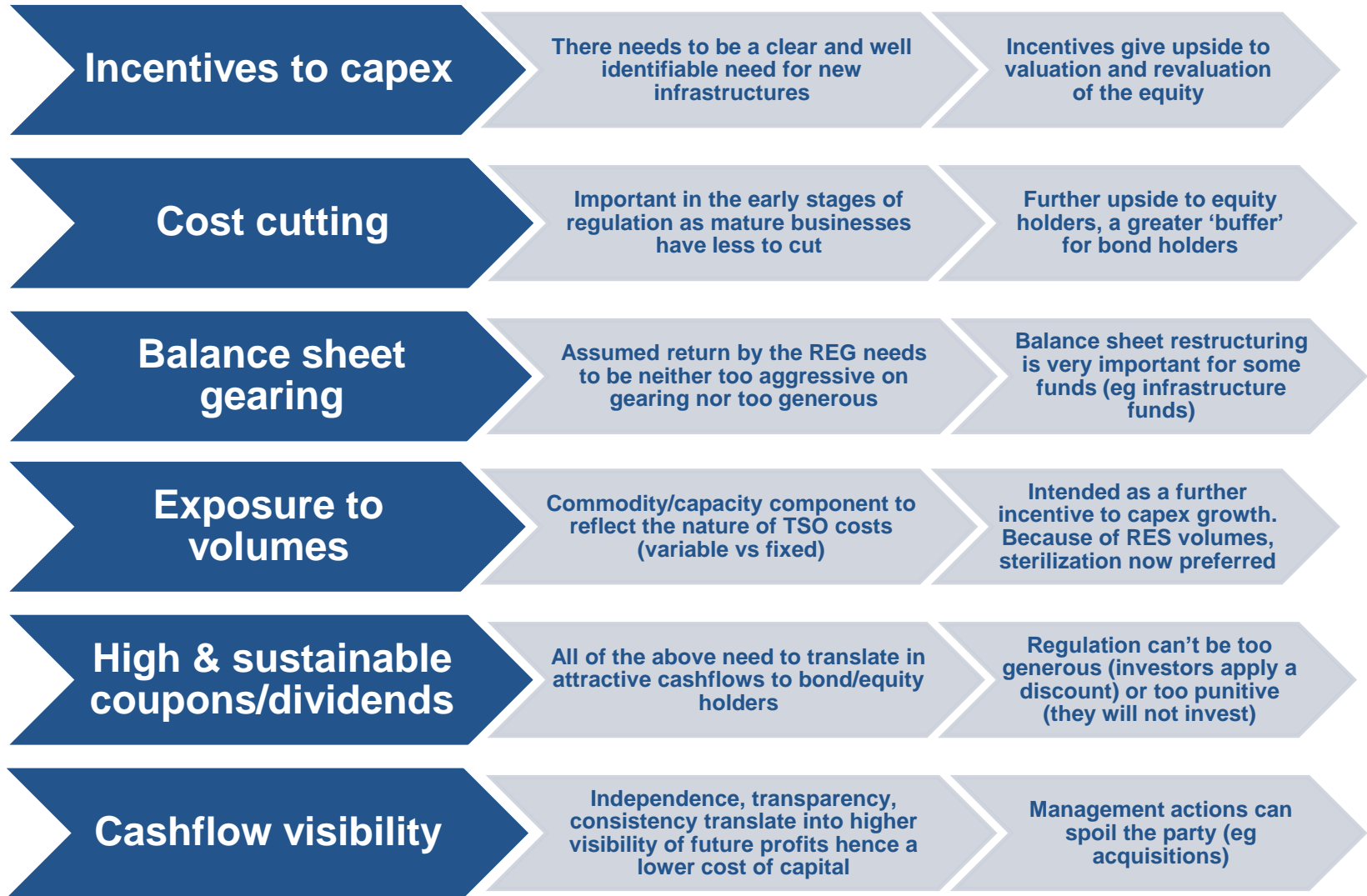
Source: SG Cross Asset Research/Equity

TRANSPARENCY – HOW INVESTORS LOOK AT IT



Source: SG Cross Asset Research/Equity

TRANSPARENCY – WHAT INVESTORS LIKE



Source: SG Cross Asset Research/Equity

CONSISTENCY

Tariff methodology

Consistent application **WITHIN** a regulatory period

Consistent application **BETWEEN** regulatory periods

Communication

Leakages to local newspapers (better to use institutional channels/events/papers)

Announcements 'when market open' or during holiday periods

Political intervention

Use of regulation for political purposes (Eg tariff freeze) increases investors' risk perception, hence their cost of capital

Ultimately consumers suffer

Classic 'mistakes'

Sudden changes never flagged in Discussion Papers

Taxes, worst of all if applied retrospectively

Source: SG Cross Asset Research/Equity

CONCLUSIONS

Financial markets are indeed open to finance gas&power infrastructures

Regulated assets are typically preferred as they offer long-term investment opportunities and usually with better visibility of future cash flow

To this end, a clear and stable regulatory picture is needed which itself is a function of the independence of the regulatory body

A lower perceived risk by investors translates into ample availability of financing for new infrastructures (→ security of supply) and at a lower cost (→ lower tariffs, consumers' welfare)

Source: SG Cross Asset Research/Equity

APPENDIX

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BUY: absolute total shareholder return forecast of 15% or more over a 12 month period.

HOLD: absolute total shareholder return forecast between 0% and +15% over a 12 month period.

SELL: absolute total shareholder return forecast below 0% over a 12 month period.

Total shareholder return means forecast share price appreciation plus all forecast cash dividend income, including income from special dividends, paid during the 12 month period. Ratings are determined by the ranges described above at the time of the initiation of coverage or a change in rating (subject to limited management discretion). At other times, ratings may fall outside of these ranges because of market price movements and/or other short term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by research management.

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Sector Weighting Definition on a 12 months period:

The sector weightings are assigned by the SG Equity Research Strategist and are distinct and separate from SG equity research analyst ratings. They are based on the relevant MSCI.

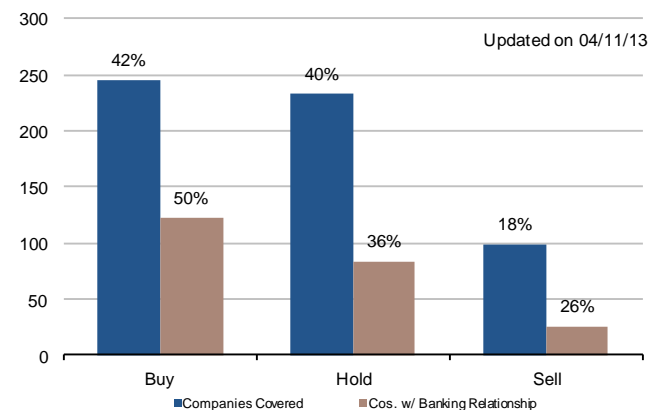
OVERWEIGHT: sector expected to outperform the relevant broad market benchmark over the next 12 months.

NEUTRAL: sector expected to perform in-line with the relevant broad market benchmark over the next 12 months.

UNDERWEIGHT: sector expected to underperform the relevant broad market benchmark over the next 12 months.

The Preferred and Least preferred stocks are selected by the covering analyst based on the individual analyst's coverage universe and not by the SG Equity Research Strategist.

Equity rating and dispersion relationship



Source: SG Cross Asset Research

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