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Nortegas Energía Distribución, S.A.U.

Full Year 2018 Results

April 2019

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Agenda

Introduction

Nortegas Corporate Overview

Second largest gas distribution network in Spain with a c.12%[1] market share at a national level and 100% market share in natural gas distribution in Asturias, Cantabria and the Basque Country

Nortegas Business Overview

- Founded in 2003 through the merger of local companies and headquartered in Bilbao, Nortegas (the "Company") is the **second largest gas distributor in Spain**
  - The Company has perpetual licenses to serve 383 municipalities in the autonomous communities of Asturias, Cantabria and the Basque Country, of which 227 are natural gas and the rest are liquefied petroleum gas ("LPG")
- On the 27th of July 2017 a Consortium of **long-term infrastructure investors**, purchased Nortegas Energía Distribución, S.A.U. ("Nortegas"), formerly Naturgas, from the EDP group, acquiring 100% of its distribution business of natural gas and LPG in Spain
- Nortegas employs **c. 240 people**

Key Operational and Financial Figures (December 2018)

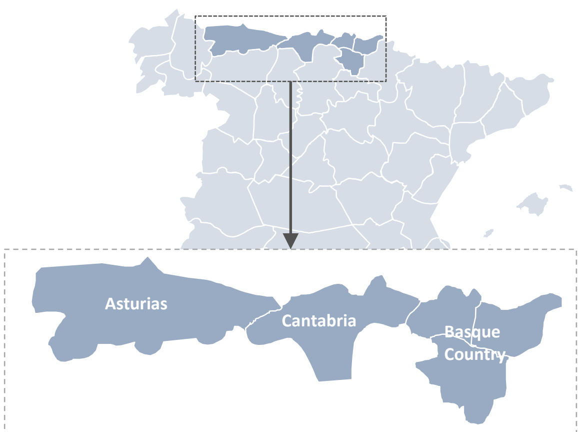
Network Length (km)	8,207
Total Connection Points ("CPs")[3] (#)	1,025,525
Distributed Natural Gas (GWh)	31,710
2018 Ordinary Income (€M)	229.7
2018 EBITDA (€M)	171.6

Geographical Footprint

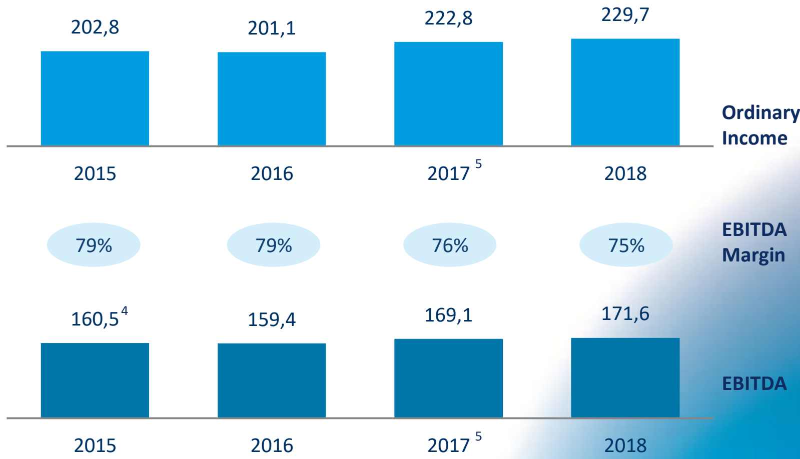
Asturias
- Population: 1.0M
- Gas penetration[2]: 35%

Cantabria
- Population: 0.6M
- Gas penetration[2]: 49%

Basque Country
- Population: 2.2M
- Gas penetration[2]: 51%



Key Financial Data (€M)



Notes: 1. "*Informe de Supervisión del Mercado de Gas Natural en España*" July 2018 – CNMC; 2. CNMC data; 3. 942,977 NG CPs and 82,548 LPG CPs; 4. 2015 EBITDA calculated before special items, excludes the gains on disposal of fixed assets (€125.4M) from the sale of Gas Energía Distribución Murcia, S.A. and the physical gas distribution assets located outside the autonomous regions of Asturias, Cantabria and the Basque Country, which the Group considers outside their normal business; 5.Pro-Forma 12 months 2017

2018 Main Milestones

Operations	▪ Full-year operating results showed a sustainable **increase in CPs**, which is expected to continue in the future ▪ Distributed **volumes have also grown thanks to the more favourable weather conditions** than 2017 and **increase in industrial demand** ▪ **Completion of the Transformation Plan,** which had the goal of ensuring the continuity of Nortegas and capturing value through improving EBITDA and efficiency
Financial Performance	▪ Nortegas' 2018 **Ordinary Income was €230M** (YoY growth of 3.1% compared to 2017[(1)] despite the meter rental price reduction)**,** mainly due to more favourable weather conditions, industrial demand, organic growth and higher LPG consumption ▪ The Group **EBITDA increased to €172M**, with a YoY growth of 1.5% compared to 2017[(1)] ▪ As a result, Nortegas' **cash generation forecast has been exceeded** ▪ Key leverage **ratios show a sound situation with** a 6.7x ND / EBITDA ratio
Regulatory performance/ Taxes	▪ The **Ministry and CNMC** published its income and cost estimate for the gas system for 2018 (and 2019) and they **confirm the sustainability of the system** ▪ The **next regulatory period starts 2021 to 2026**. According to the recent Royal Decree Law (Jan 2019), during the next months (2019 and 2020) the CNMC should issue circulars on the new regulatory period methodology ▪ 2018 Corporate Income Tax Law in Bizkaia was 26%, lower than 2017 tax rate (28%). From 2019 onwards tax rate in Bizkaia will be 24%
2019 Subsequent Events after closing	▪ At the beginning of 2019, Conrado Navarro was appointed as non-executive Chairman. He was already a board members of the Nortegas Group since the acquisition by the Consortium ▪ On 21st of March 2019, the **CNMC published the resolution confirming the compliance** of Nortegas and NED España with the **Explanatory Plan** of 18th May 2017 (*Plan Explicativo*, linked to the reorganization of Nortegas Group in 2016/H12017*)*

Nortegas continues with its flexible financial policy, with shareholders committed to maintaining investment grade rating

(1) Pro-forma figures, 12 months ended 31 December 2017

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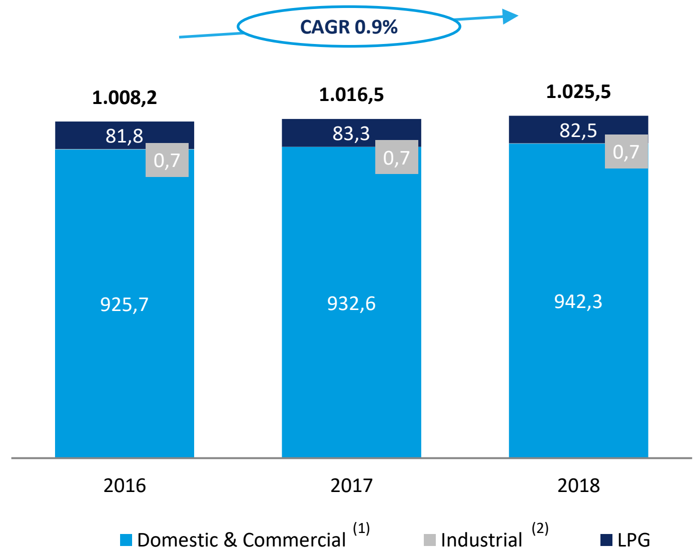
Connection Points & Volumes

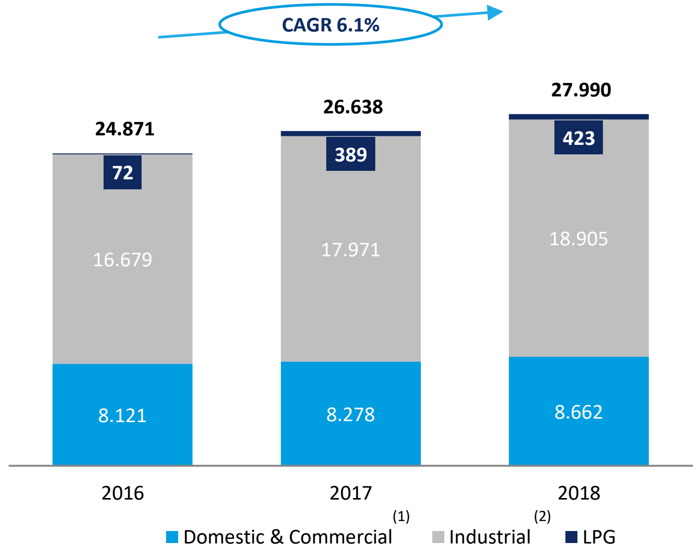
Evolution of Connection Points by Commercial Segment

Number of CPs in ’000s, as of 31st of December of each year



Evolution of Remunerated Volume by Commercial Segment[3]

GWh, as of 31st of December of each year



- **Connection points increased by 9.0k in 2018** vs. 8.3k in 2017, this increase is largely related to new **household customers**
- **Remunerated volume increased by 5.1% vs. 2017**, mainly driven by higher consumption due to **more favourable weather conditions** than in 2017 and **increase in industrial demand**
- The **balanced mix of customers** allows for a natural **hedge in ordinary income** derived from distributed gas volume

Notes: 1. Includes T.3.; 2. Includes T.2.; 3.Distributed remunerated volume is according to measurement criteria, not invoiced criteria. Note that invoiced volumes could be slightly different (in timing and amount) from measured volumes.

ESG as a Clear Focus of Nortegas Strategy & Management

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Environmental, social and governance factors have been promoted, targeting responsible investments and a better management of risk for more sustainable long-term returns

Environment

Renewal of the certification of the Environment Management System based on ISO 14001:20015 (follow-up and adaptation)	INTERNATIONAL GLOBAL CERTIFICATION IGC Certificación Global, S.L.U. Concede el presente CERTIFICADO para el Sistema de Gestión Ambiental de: ISO 14001 IGC EMPRESA CERTIFICADA

Social

Renewal of the certification of the Quality Management System based on ISO 9001:20015 (follow-up and adaptation). 2021 Renovation	INTERNATIONAL GLOBAL CERTIFICATION IGC Certificación Global, S.L.U. Concede el presente CERTIFICADO para el Sistema de Gestión de Calidad de: ISO 9001 IGC EMPRESA CERTIFICADA
Renewal of the certification Health and Safety OSHAS 18001:2007). 2021 Renovation	OHSAS 18001 GESTIÓN DE LA SEGURIDAD Y SALUD LABORAL OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT OHSAS 18001:2007 Certificado SPRL – 369/2018
Stakeholders Engagement Plan	Nortegas stakeholders definition, its needs and expectations
Corporate Volunteer Program	Support for social causes through participation of Nortegas employees
Nortegas joints UN Global Compact (17 sustainable development goals) 	UN GLOBAL COMPACT Pacto Mundial Red Española

Governance

Audit Committee and HSE Committee to oversee Compliance	Compliance Management System developed and implemented
Risk management system: management & reporting implemented Audit Committee promotes and supervises	Schemes for identification, analysis, assessment, control and avoidance, of unacceptable risks
Mission, Vision, Values and Ethic Code in place	Development, training and implementation executed

Health and Safety is a Priority

- Promotion of a **culture of safety** and risk management
- Some specific **initiatives** include annual Awareness Campaigns with suppliers and employees, and the Security Prevention Observations (O.P.S), where management is involved
- **Continuous assessment** of network conditions and excellence in addressing incidents
- Last external **audit on OHSAS** 18001 with a compliance ratio in line with utilities sector average ratio (April 2018)
- In compliance with Occupational Risks Prevention Law 31/1995, and according to the Company's commitment, there is an **internal Health and Safety Committee** and a **Board Committee for Health and Safety topics**

Key Operational Initiatives in 2018

Nortegas' long term strategy focuses on increasing natural gas penetration and growing its customer base. The Company has launched several initiatives to improve vertical saturation and horizontal expansion

Growth Initiative	Value creation
✓ **Current network saturation**	▪ **Low capex client saturation**
✓ **New network expansion**	▪ **Increase in future potential for growth**
✓ **New gas uses** (i.e. natural gas for fleets of public vehicles)	▪ **Increase in distributed volume**
✓ **Liberalised services**	▪ **New revenue avenues** with almost no meaningful associated capex
✓ **Digitalisation**	▪ **Cost reduction,** ability to monitor customers behaviors and to remotely control /manage the equipment, etc.
✓ **Renewable gas**	▪ R+D efforts to fight against the **climate change** (Company award in 2018 by IGU for innovation on the potential injection of renewable gas into the gas distribution network

Limited capex is expected to be required to undertake the outlined new growth initiatives. Whilst part of them are not in current plans, these would be funded, always protecting investment grade credit metrics

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Nortegas Consolidated Income Statement

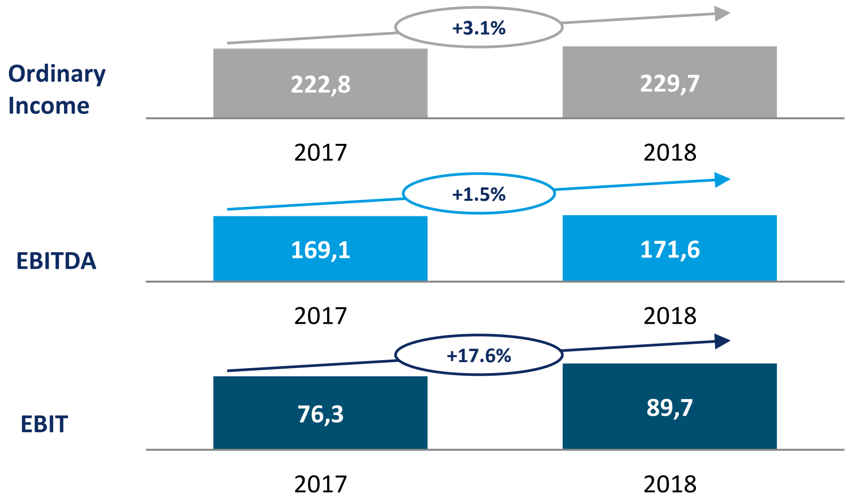
For the periods starting the 1st of January to the 31st December

Summary Income Statement

€M	Consolidated FY 2017 pro-forma (IFRS)	2018
Ordinary Income	**222.8**	**229.7**
Supplies	(18.8)	(21.7)
Self-constructed assets	5.9	6.5
Other Income	12.4	9.5
Personnel Expenses	(22.9)	(16.8)
Other Expenses	(30.3)	(35.5)
EBITDA	**169.1**	**171.6**
Amortisation Expenses	(92.9) [(1)]	(81.9)
Results from operating activities	**76.3**	**89.7**
Net Financial Expenses	(24.1)	(28.1)
Profit before income tax	**52.1**	**61.7**
Income Tax	(14.3) [(2)]	33.5
Profit for the year	**37.9**	**95.2**

(1) Calculated as if the purchase price allocation performed for the acquisition of Nortegas and the reverse merger, would have taken place on January 1, 2017
(2) Calculated by applying to the result before taxes to the corresponding tax rate according to the territory

Main Comparable Figures



Comments

- 2018 **Ordinary Income** is above 2017 figure due to more favourable weather conditions, industrial demand, organic growth and higher LPG consumption
- **Supplies:** Mostly related to LPG gas supply. 2018 supplies above 2017 as a result of the **higher LPG consumption**
- In 2018 shift from personal expenses to other expenses due to movement of employees from Nortegas to NEG (as service provider company) and services charged to Nortegas. Jointly both items remain approx. at the same level
- **Amortization Expenses:** Reduction in 2018 vs. 2017 due to the increase of assets' useful life by approx. 3 to 5 years
- **Income Tax:** In 2018 positive one-off effect of €49M (decrease of the Deferred Tax Liability, no cash impact) due to CIT tax rate reduction in Bizkaia from 28% to 26% in 2018 and 24% from 2019 onwards (new law in place since March 2018)

Nortegas Consolidated Cash Flow Statement

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Summary Cash Flow Statement

€M	Consolidated FY 2017 pro-forma (IFRS)	2018
EBITDA	169	172
Corporate Tax Payments	-38	-9
Change in Current Assets & Liabilities	14	17
Change in Tariff Deficit + Others	63	9
Additions in Fixed Assets	-25	-22
Interest payments	n.a. [(1)]	-27
Distribution of Share premium / Dividends	n.a. [(1)]	-113
Change in Available Cash at Year End	**n.a.** [(1)]	**26**
Available Cash at Year End	**131**	**157**

Comments

- **"Corporate Tax Payments":** 2017 and 2018 do not represent recurrent figures. 2017 is distorted by the restructuring process and change of fiscal year-end. 2018 is affected by reverting the change in fiscal year end from April back to December (therefore only 8 months of cash taxes are included in following year)
- **"Change in Current Assets & Liabilities"** includes in 2018 one-off items that are not expected to be repeated in following periods
  - Lower accounts receivable balance due to lower collection period, lower tariff deficit YTD December and cash-in from measurement differences from previous years
  - Improvement in supplier balance partially shifted to 2019
  - Provisions to be finalised in 2019
  - Upstream loan granted to sole SH
- **"Change in Tariff Deficit"** in 2017 mainly securitization of 2014 tariff deficit (TD) and in 2018 securitization of 2015/16 TD
- **"Additions in Fixed Assets"** includes mainly:
  - Expansion investments to sustain the development of natural gas and LPG CPs
  - Maintenance investments related to works for network substitution as part of the maintenance programme and to the implementation of the priority items identified
  - Investment in IT
- **Interest payments** mainly bond interests €21M
- **Share premium distribution** in January 2018

(1) In 2017, due to restructuring process executed by former owner prior to acquisition, dividends, interest payments, change in debt and change in available cash are not meaningful figures.

Nortegas Consolidated Balance Sheet

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Balance Sheet as of 31st December

€M	2017	2018
Property, plant and equipment	1,066	1,031
Goodwill	46	46
Other intangible assets	1,527	1,502
Other non-current financial assets	7	3
Deferred tax assets	25	20
Total non-current assets	**2,671**	**2,602**
Other current assets	103	65
Cash and cash equivalents	131	157
Total current assets	**234**	**222**
Total assets	**2,904**	**2,824**
Total equity	**1,031**	**1,141**
Financial liabilities from issuing bonds	1,292	1,292
Debt with group companies	127	–
Other non current financial liabilities	2	2
Other non current liabilities	10	11
Deferred tax liabilities	349	291
Total non-current liabilities	**1,780**	**1,596**
Current financial liabilities	6	7
Debt with group companies and associates	3	7
Other current liabilities	84	73
Total current liabilities	**93**	**87**
Total equity and liabilities	**2,904**	**2,824**

Comments

- Total **Equity** at year end 2018 amounted **€1,141M**
- In 2018 the **€127M shareholder loan from Nature was capitalised**
- Total **Cash on Balance Sheet** at 2018 year-end amounted **€157M vs €131M in Dec 2017**
- Total **Net Debt at year end 2018 amounted €1,151M**
- Financial policy driven by the shareholder commitment of maintenance of strong financial credit ratios to sustain the investment grade credit rating

Subsequent events after closing:

- On 21st of March 2019, the **CNMC published a resolution confirming the compliance** of Nortegas and NED España **with the 18th May 2017 Explanatory Plan**
- In the context of the discussions, a significant shareholder contribution has been received by Nortegas
- **Nortegas notes that such contribution is not expected to affect the ratings of the Notes**

Financing Structure & Liquidity Policy

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Financing facilities in Place

Instrument	Drawn amount (€M)	Tenor	Coupon
5 years bond	550	5 years Sept 2022	0.918%
10 years bond	750	10 years Sept 2027	2.065%
Total drawn debt	**1,300**	**8 years**	**1.580%**
Revolving Credit Facility: available amount €100M bullet	0	5 years April 2022	Ratchet: • 0m – 33.3m: 0.075% • 33.3m – 66.6m: 0.150% • Above 66.6m: 0.300%

Key Highlights

- Nortegas continues to be financed through **bond financing worth €1,300M** (5yrs tranche of €550M and 10yrs tranche of €750M)
- Current **structure reduces refinancing risk** by spreading maturities
- Step-up for NIG in bonds, and a clearly communicated shareholder financial policy to support investment grade at Nortegas
- Additionally, Nortegas **capitalised the €127M shareholder loan from Nature** (Luxembourg group mother company)

Liquidity policy

- Total **Cash on balance** sheet at year end amounted to **€157M**
- No cash is trapped in any of the subsidiaries nor in Nortegas
- The Company could also draw from a **€100M RCF** (undrawn to date)

Agenda

Key Takeaways

- **2018 was the first year of Nortegas as a new stand alone company** – the second largest gas distributor in Spain
- New ambitions with **improved targets for growth, gas penetration and renewable gas**
- **ESG as a clear focus of Nortegas strategy** and management
- **Efficiency plan implemented** leading to significant savings. Transformation Plan completed
- **Higher ordinary income and EBITDA in 2018** compared to previous year
- **Strong and stable Free Cash Flow** generation with a **sound Balance Sheet and** strong equity position
- Financial policy driven by the **shareholder commitment to maintain strong financial ratios to sustain the investment grade** rating supported by a flexible Dividend Policy

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