



# **Nortegas Energía Distribución, S.A.U.**

## **First Half 2019 Results**

**September 2019**

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# Agenda

1. Introduction
2. Operational Overview
3. Financial Overview
4. Regulatory Update

# 1 Introduction

## Nortegas Corporate Overview

Second largest gas distribution network in Spain with a c.12% 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 is the **second largest gas distributor in Spain** with:
  - Perpetual licenses to serve 384 municipalities in the autonomous communities of Asturias, Cantabria and the Basque Country, of which 225 are natural gas (NG) and the rest is liquefied petroleum gas (or "LPG")
- Shareholder base is formed by a consortium of infrastructure **investors** with a vocation for **long-term permanence**

### Geographical Footprint

Asturias
Population: 1.0mn
Gas penetration <sup>(1)</sup> : 35%

Cantabria
Population: 0.6mn
Gas penetration <sup>(1)</sup> : 49%

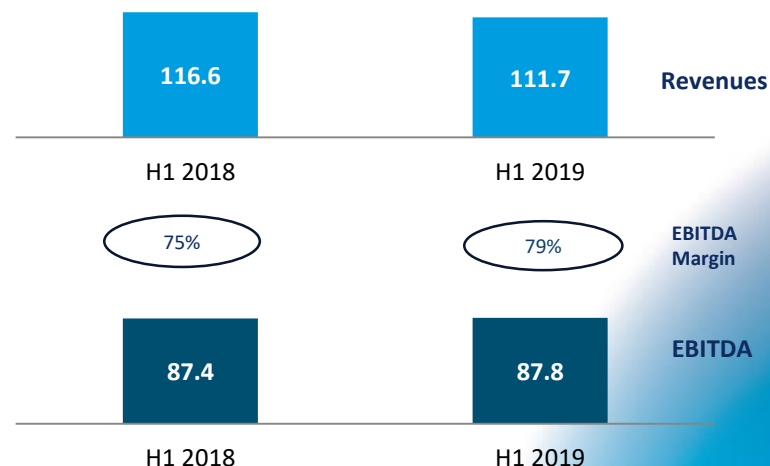
Basque Country
Population: 2.2mn
Gas penetration <sup>(1)</sup> : 51%



### Key Operational Figures

Network length (km) as of June 2019	8,220
Total CPs (#) as of June 2019	1,030,100
Volume <sup>(2)</sup> (GWh) from January to June 2019	17,232

### H1 Key Financial Data (€M)



(1) Natural gas Penetration, CNMC data September 2017

(2) Includes LPG and NG volume according to measurement criteria.

# 1 Introduction

## 2018 Main Milestones

### Operational Overview

- Half-year operating results showed a sustainable **increase in CPs**, which is expected to continue in the future
- Distributed **volumes decreased** vs. H1 2018 as a result of less favourable weather conditions compared to last year
- During H1 2019 **Javier Contreras and Conrado Navarro** were **appointed as CEO and Chairman** of Nortegas respectively
- The Company keeps working on several **operational initiatives to improve vertical saturation and horizontal expansion**

### Financial Overview

- Nortegas' H1 2019 **Ordinary Income was €112M** (YoY growth of -4.2% compared to H1 2018), decrease in revenues vs. H1 2018 mainly came from lower LPG revenues
- The Group **EBITDA increased to €87.8M**, with a YoY growth of 0.5% compared to H1 2018
- During H1 2019 a **"Shareholders contribution"** in cash of €240.9M was received by the company. Nortegas notes the shareholder contribution is not expected to affect the overall rating of the issuer on a consolidated basis, in-line with the Company's prior announcement

### Regulatory Update

- On July 5, 2019, the **CNMC published its draft circulars applicable to companies engaged in regulated activities around natural gas during the upcoming regulatory period running from 2021 through 2026. A public hearing process was thereafter opened to collect allegations from interested parties.** Nortegas filed its allegations on August 8. The process is expected to finalize in November 2019
- Following the draft circulars being published, S&P issued a Rating Actions Report on the Spanish companies engaged in natural gas regulated activities. The credit rating of Nortegas was affirmed at BBB-, and the outlook revised from stable to negative. According to S&P, final rating confirmation will depend on: (i) final outcome of the regulatory process and (ii) assuming an eventually adverse outcome of such process, the remedy measures implemented by Nortegas' management deemed as sufficient to protect its credit metrics

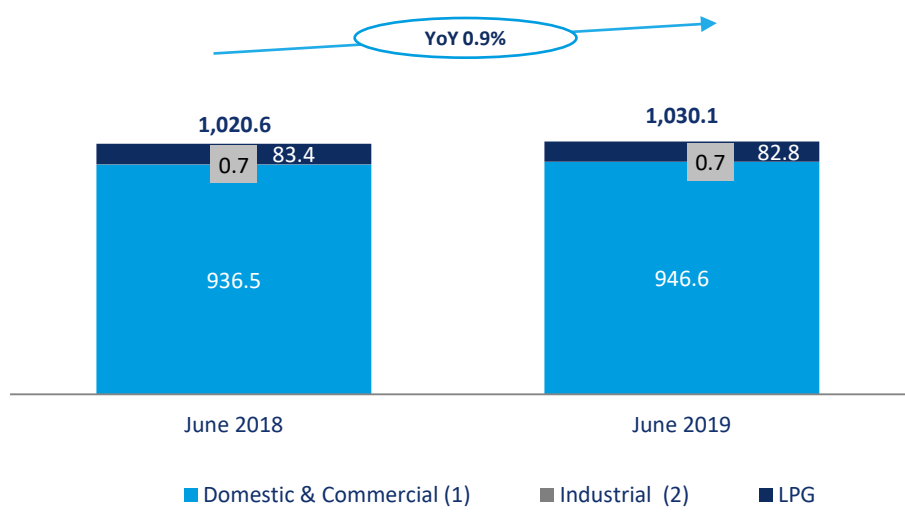
# 2 Operational Overview

## Connection Points and Volumes



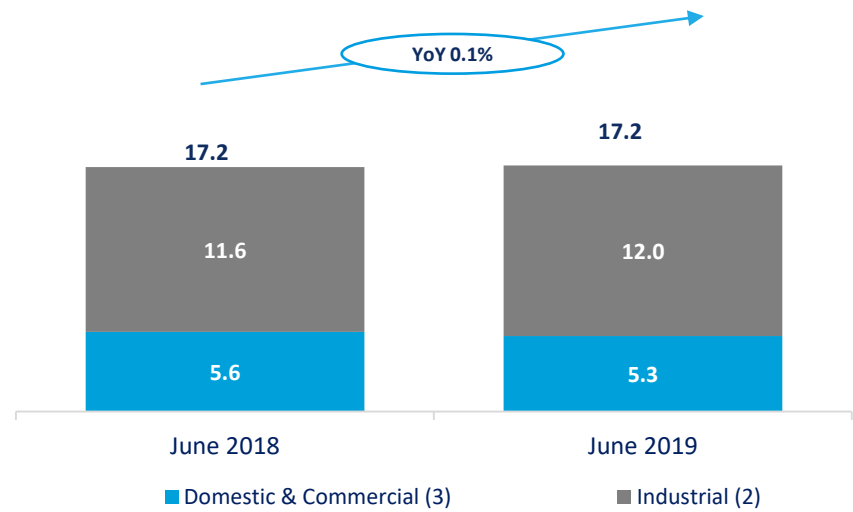
### Evolution of Connection Points by Segment

Number of CPs in '000s



### Evolution of Volume by Segment

TWh, from 01/01 to 30/06



- Increase in CPs coming mainly from the domestic and commercial segments
- Decrease in volumes in residential and commercial segments linked to high temperatures during the first half of the year compared to previous years. Industrial segment volumes are in line with H1 2018. Volumes increased by 0,5% vs H1 2018
- The balanced mix of customers allows for a natural hedge in revenues derived from distributed gas volume

(1) Includes T.3.  
 (2) Includes T.1. and T.2  
 (3) Includes T.3. and LPG

# ESG as a Clear Focus of Nortegas Strategy & Management



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



## Environment

- ✓ Analysis of environmental risks associated with the facilities
- ✓ Boost renewal natural gas: Agreement with Ente Vasco de la Energia



## Social

- ✓ 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)

✓ **Signing of the first collective agreement of Nortegas Group**

- Conciliation of professional and personal lives
- Gender and diversity
- Harassment prevention tools

✓ **Employees engagement**

- Management of knowledge
- Development of a competency model linked with the corporate values

✓ **UN Global Compact**  
(17 sustainable development goals)



## Governance

- ✓ **Risk management system**  
Management & reporting implemented
- ✓ **Audit Committee promotes and supervises**
- ✓ **Commitment with ethic**

- Schemes for identification, analysis, assessment, control and avoidance, of unacceptable risks

- Acquisition of ethical competences by the Ethics Committee: conflicts resolutions

<p>INTERNATIONAL GLOBAL CERTIFICATION IGC Certificación Global, S.L.U.</p> <p>Concede el presente <b>CERTIFICADO</b> para el Sistema de Gestión de Calidad de:</p>	<p>INTERNATIONAL GLOBAL CERTIFICATION IGC Certificación Global, S.L.U.</p> <p>Concede el presente <b>CERTIFICADO</b> para el Sistema de Gestión Ambiental de:</p>	<p><b>OHSAS 18001</b> GESTIÓN DE LA SEGURIDAD Y SALUD LABORAL OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT OHSAS 18001:2007</p> <p>Certificado SPRL - 369/2018</p>	<p><b>2019 Q4 Follow up Audits</b></p>
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# 2 Operational Overview

## Key Operational Initiatives in 2019



### Growth Initiative

### Value creation

✓ Current network saturation	▪ Low capex client saturation
✓ New network expansion	▪ Increase of future potential for growth
✓ New gas uses (i.e. natural gas for fleets of public vehicles)	▪ Increase of distributed volume
✓ MOU signed with EVE (Ente Vasco de la Energía)	▪ Develop new renewable gases with a view to inject in the distribution network and enhance circular economy
✓ Smart meters	▪ Cost reduction: ability to monitor customers behaviors and to remotely control /manage the equipment



***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***



# Nortegas Consolidated Income Statement

## Income Statement for the 6 Months Period Ending 30 June

€M	H1 2018	H1 2019
<b>Ordinary income</b>	<b>116.6</b>	<b>111.7</b>
Supplies	-12.9	-10.4
Self-constructed assets	3.2	3.4
Other income	5.5	6.7
Personnel Expenses	-9.7	-7.1
Other Expenses	-15.3	-16.5
<b>EBITDA</b>	<b>87.4</b>	<b>87.8</b>
Amortisation expenses	-40.8	-41.5
<b>Results from operating activities</b>	<b>46.6</b>	<b>46.3</b>
Net financial expenses	-13.9	-10.9
<b>Profit before income tax</b>	<b>32.7</b>	<b>35.4</b>
Income tax	40.8	-8.6
<b>Profit for the year</b>	<b>73.5</b>	<b>26.8</b>

NOTE: Financial figures are not audited.

## Comments

- H1 2019 ordinary income lower than H1 2018 (-4.2%) mainly due to decrease in LPG revenues, linked mainly to lower prices and warmer temperature than in H1 2018
- Supplies below H1 2018 (-19.4%) as a result of lower LPG prices with no material impact on margins, since selling prices decreased in similar amount
- In H1 2019 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
- Net financial expenses lower amount accrued in H1 2019 than in H1 2018 (-21.6%) due to the capitalisation of the €127M Shareholder Loan with Nature executed in Dec 2018
- H1 2019 Income tax in line with the yearly recurrent amount. H1 2018 includes positive one-off effect of €49M (decrease of Deferred Tax Liabilities, no cash impact) due to CIT tax rate reduction in Bizkaia from 28% to 26% in 2018 and 24% from 2019 onwards

# Nortegas Consolidated Cash Flow Statement

## Cash Flow for the 6 Months Period Ending 30 June

€M	1H 2018	1H 2019
EBITDA	87.4	87.8
Corporate tax payments	0.0	-0.1
Change in Current Assets & Liabilities	17.1	-11.7
Change in Tariff Deficit + Others	1.8	0.9
Additions in Fixed Assets	-9.5	-9.5
Interest payments	-3.4	-2.9
Distribution of Share premium / Dividends	-112.9	-
Shareholders contribution	-	240.9
<b>Change in Available Cash at Period End</b>	<b>-19</b>	<b>305</b>
<b>Available Cash at Period End</b>	<b>111</b>	<b>462</b>

NOTE: Financial figures are not audited.

## Comments

- **“Corporate Tax Payments”**: During H1 2019 and H1 2018 no corporate tax payment have been made. Payments will be as planned executed during H2
- **“Change in Current Assets & Liabilities”, main impacts:**
  - In H1 2019 increase in accounts receivable balance due to higher collection period than at year end 2018 and higher short term 2019 monthly tariff deficit
  - Supplier balance and provisions remains at a similar level
- **“Change in Tariff Deficit”**: This movement refers to the long term previous years tariff deficit that remains at a similar level in H1 2019 and H1 2018
- **“Additions in Fixed Assets”** includes mainly:
  - Expansion investments to sustain the development of natural gas and LPG CPs
  - 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 interests payments accrued for the previous semester (H2 2017 and H2 2018, respectively) of the €127M Shareholder Loan with Nature that was capitalised in Dec 2018. Interest payments of the bonds are due in H2
- **“Share premium distribution”** in January 2018
- During H1 2019 a **“Shareholders contribution”** in cash of €240,9M was received by Nortegas

# 3 Financial Overview

## Nortegas Consolidated Balance Sheet

### Balance Sheet as of 31 December 2018 and 30 June 2019

(€M)	As of 31 December 2018	As of 30 June 2019
Property, plant and equipment	1,031	1,013
Goodwill	46	46
Other intangible assets	1,502	1,488
Rights for use of assets	--	4
Other non-current financial assets	3	3
Deferred tax assets	20	18
<b>Total non-current assets</b>	<b>2,602</b>	<b>2,572</b>
Other current assets	65	25
Cash and cash equivalents	157	462
<b>Total current assets</b>	<b>222</b>	<b>487</b>
<b>Total assets</b>	<b>2,824</b>	<b>3,059</b>
<b>Total equity</b>	<b>1,141</b>	<b>1,372</b>
Financial liabilities from issuing bonds	1,292	1,293
Debt with group companies	--	--
Other non current financial liabilities	2	5
Other non current liabilities	11	10
Deferred tax liabilities	291	288
<b>Total non-current liabilities</b>	<b>1,596</b>	<b>1,596</b>
Current financial liabilities	7	17
Debt with group companies and associates	7	6
Other current liabilities	73	68
<b>Total current liabilities</b>	<b>87</b>	<b>91</b>
<b>Total equity and liabilities</b>	<b>2,824</b>	<b>3,059</b>

NOTE: Financial figures as of 30 June 2019 are not audited.

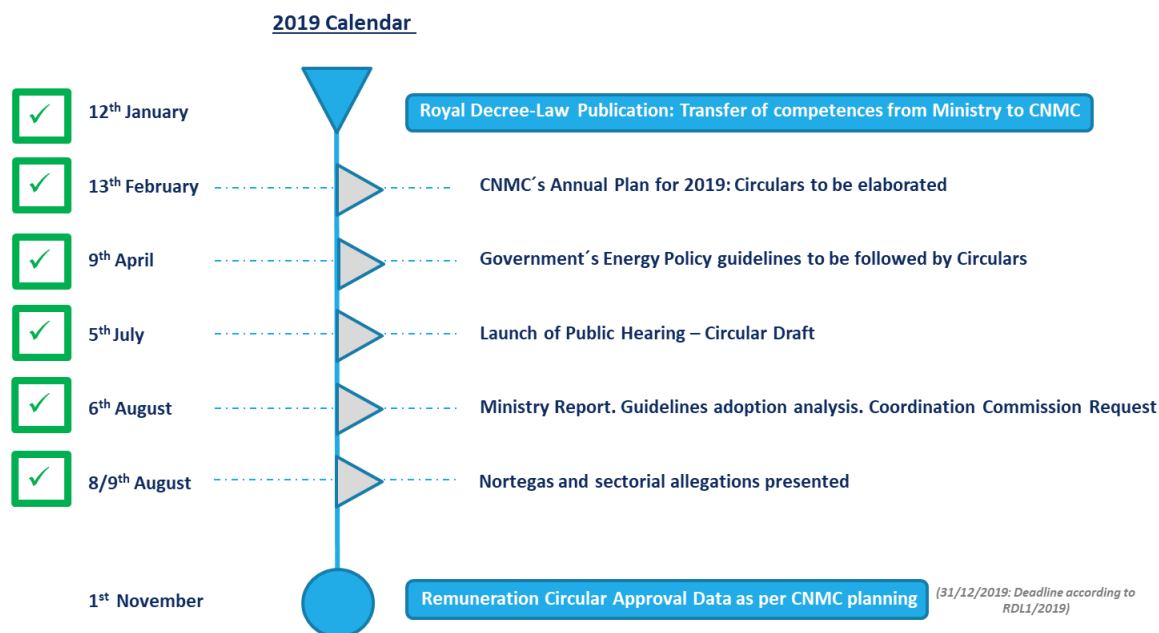
### Financing in Place

Type of debt	Drawn amount (€M)	Tenor	Coupon
5 years Bond issue	550	5 years Sept 2022	0.918%
10 years Bond issue	750	10 years Sept 2027	2.065%
<b>Total drawn debt</b>	<b>1,300</b>		
Revolving Credit Facility: available amount €100M	0	5 years April 2022	

- During H1 2019, the Revolving Credit Facility remained undrawn
- Total Nortegas Net Debt as of 30 June 2019 is €859M with:
  - Higher cash position in June 2019 (€462M) compared to December 2018 (€157M), mainly due to Shareholders cash injection of €241M
  - Shareholder contribution and the strong cash balance / net debt position, is not expected to affect the rating of the bonds

## 4 Regulatory Update Process and Calendar Update

- The Spanish regulator, Comision Nacional de los Mercados y de la Competencia (CNMC) published on July 5 its draft circulars outlining its proposed frameworks and parameters for regulated activities in gas and electricity, including natural gas distribution, applicable during the upcoming regulatory period which in the case of natural gas shall run from 2021 through 2026
- The draft circulars were published in the context of a public hearing process where interested parties have been able to file comments and allegations by August 9, which Nortegas did in due course. According to the calendar outlined by the CNMC, and one the allegations filed have been assessed, the process is expected to conclude in November 2019



- In July S&P issued a Rating Actions Report on the Spanish Gas companies engaged in natural gas regulated activities, following the draft regulatory circulars proposals issued by the CNMC. The credit rating of Nortegas was affirmed at BBB-, and the outlook revised from stable to negative
- According to S&P, the final rating confirmation will depend on: (i) final outcome of the regulatory process and (ii) assuming an eventually adverse outcome of such process, the remedy measures implemented by Nortegas' management deemed as sufficient to protect its credit metrics
- Nortegas maintains its business and financial strategy with the objective of increasing its penetration and revenues, supported by a solid balance sheet

