



# **Nortegas Energía Distribución S.A.U. and Subsidiaries Full Year 2019 Results**

**May 2020**

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# Agenda

- 1. Introduction**
- 2. Operational Overview**
- 3. Financial Overview**
- 4. COVID-19 Update**
- 5. Key Takeaways**

Nortegas continues its strong performance in 2019 both operationally and financially. Shareholders continue committed to maintain investment grade rating.

### Operations

- **+9,500 additional connection points** (0,9% YoY growth, up to 1,035K connection points)
- **27.6 TWh of remunerated volume** (1.3% decline) driven by warmer weather
- Continued focus on growth driven by vertical saturation and horizontal expansion

### Financial Performance

- **Ordinary Income of €223M** (3.0% YoY decrease), mainly due to less favourable weather conditions
- **EBITDA increased to €178M** (3.4% YoY growth), as efficiency plan starts yielding positive results
- **Cash flow generation of €155M** (10.7% YoY growth), driven by higher EBITDA and improved working capital
- Solid year end leverage ratio: **5.3x ND / EBITDA**
- S&P reaffirmed Nortegas **BBB-** credit rating and **improved its outlook to stable**

### Regulation

- Regulatory framework for gas distribution approved in March 2020, providing full visibility from 2021 until 2026 (2<sup>nd</sup> regulatory period)
- Continuity of the activity-based methodology, **consistent with the current remuneration framework**: based on the number of supply points and demand and with full discretionary capex
- Adjustment to base remuneration will be introduced gradually during the next regulatory period
- **Incentives to replace traditional fuels by natural gas**: natural gas for vehicle (“NGV”) and incremental industrial customers

### COVID-19

- Maintaining business operations and H&S are Nortegas priorities
- A set of initiatives to support clients, suppliers and local communities have been launched
- Limited financial impact expected in the short term, with long term impact depending on overall economic recovery

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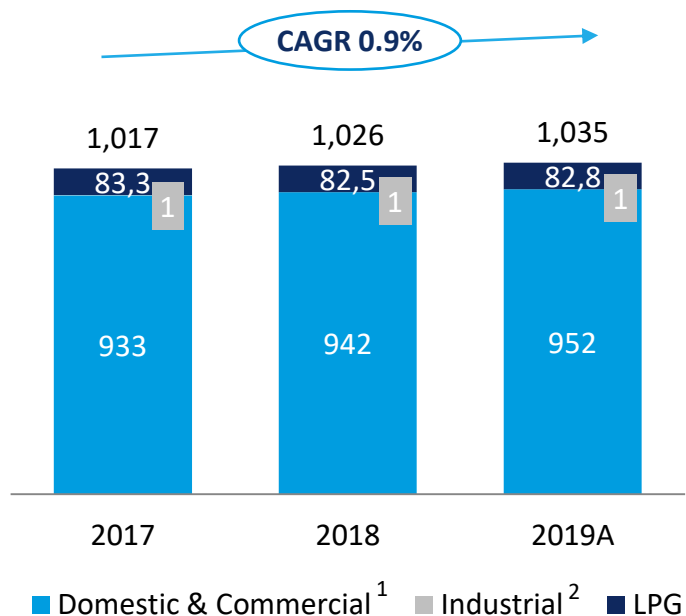
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# Connection Points & Volumes

Connection points increased by 9.5k in 2019 vs. 9.0k in 2018, coming mainly from the domestic and commercial segments. Total remunerated volume amounted to 27.6TWh, lower compared to last year due to less favourable weather conditions

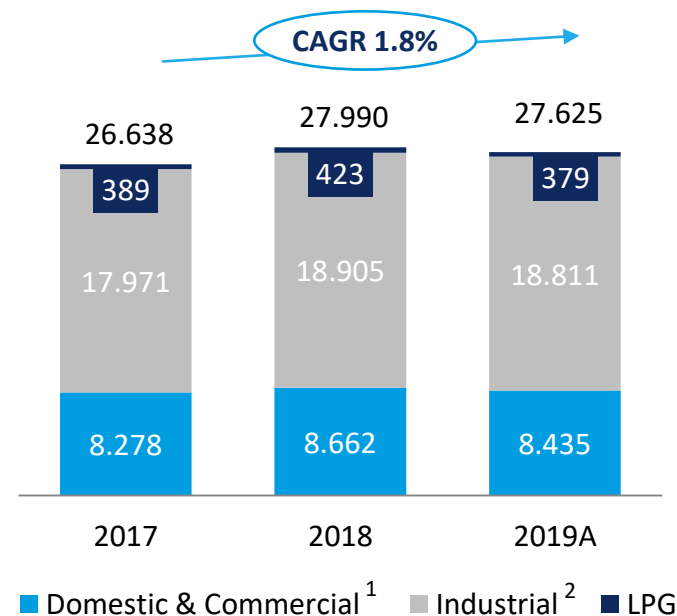
## Evolution of Connection Points by Commercial Segment

Number of CPs in '000s, as of 31<sup>st</sup> of December of each year



## Evolution of Remunerated Volume by Commercial Segment<sup>3</sup>

GWh, as of 31<sup>st</sup> of December of each year



Notes: 1. Includes T.3.; 2. Includes T.2.; 3. 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

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

<b>General</b>	<ul style="list-style-type: none"> <li>▪ <b>Focused on being a reference business</b> in the context of the ongoing <b>energy transition in Spain</b> (renewable gas, substitution of more polluting fuels, etc.)</li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>▪ <b>Certified in new standard ISO 14001:2015</b></li> <li>▪ Improvement of environmental indicators: <b>carbon footprint analysis</b> has been deepened including fugitive emissions of natural gas in own facilities/users, consumption in offices and LPG plants, as well as considering other Green House Gases</li> </ul>
<b>Social</b>	<ul style="list-style-type: none"> <li>▪ <b>HSE fully integrated in business activities:</b> (i) OSHAS 18001:2007 certification (NED, NED España and Tolosa); (ii) zero accident objective</li> <li>▪ <b>Community development initiatives:</b> collaboration agreement with universities and professional training centres</li> <li>▪ <b>Drive technology R&amp;D in collaboration with regional &amp; national development authorities</b></li> <li>▪ Signing of <b>new collective bargaining agreement</b></li> <li>▪ <b>UN Global Compact:</b> committed to comply with the 17 sustainable development goals</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>▪ <b>Risks Management system</b></li> <li>▪ <b>Strong culture of ethics and compliance</b></li> <li>▪ <b>Shareholders committed to maintain investment grade rating</b></li> </ul>

New remuneration methodology approved on March 31<sup>st</sup> 2020, confirming the current regulatory framework based on activity criteria and providing full visibility until 2027

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Framework applicable in the upcoming regulatory period is consistent with the current methodology

- Activity-based model is maintained, remunerating connection points and associated gas demand
- Capex levels continue to be fully discretionary vs RAB based methodology
- **Adjustment to base remuneration** will start in 2021 and increase gradually during the regulatory period, until it materialises in full in 2026
- **Activity based remuneration, once again proven to be the most efficient regulatory framework for the dynamics of the Spanish gas distribution sector**

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- **Gradual implementation of the adjustment** throughout the upcoming regulatory period 2021-2026
- **Limited impact to Nortegas**, where regulatory impact expected to have an **annualized average impact of up to 10% of 2019 EBITDA**, over the next regulatory period 2021-2026, ceteris paribus
- We expect to partially offset the impact through organic growth and our ongoing efficiency plan

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- **Improvement on growth unitary values:** incremental remuneration continues to be calculated through the parametric formula. Unitary values are now updated by 0.95% through an inflation-linked factor fostering efficient organic growth

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- **Incentive to replace more pollutant fuels by natural gas:** additional remuneration for gas demand for transportation (0,5€/MWh) and for incremental industrial customers (0,5€/MWh)



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## Summary Income Statement

€M	2018	2019
<b>Ordinary Income</b>	<b>230</b>	<b>223</b>
Supplies	(22)	(18)
Self-constructed assets	7	7
Operating Expenses	(43)	(34)
<b>EBITDA</b>	<b>172</b>	<b>178</b>
<i>Margin</i>	74.7%	79.7%
Amortisation Expenses	(82)	(83)
<b>Results from operating activities</b>	<b>90</b>	<b>94</b>
<i>Margin</i>	39.1%	42.3%
Net Financial Expenses	(28)	(22)
<b>Profit before income tax</b>	<b>62</b>	<b>72</b>
Income Tax	34	(15)
<b>Profit for the year</b>	<b>95</b>	<b>57</b>

## Main Comparable Figures

	2018	2019	
<b>Ordinary Income</b>	230	223	-3.0%
<b>EBITDA</b>	172	178	+3.4%
<i>Margin</i>	75%	80%	
<b>EBIT</b>	90	94	+5.0%
<i>Margin</i>	39%	42%	

## Comments

- 2019 **Ordinary Income** and **Supplies** are below 2018 figures mainly due to warmer weather conditions
- Lower **Operating Expenses** compared to previous year as a result of cost efficiencies and implementation of new IFRS 16
- **Amortization Expenses:** slightly above 2018 as a result of new IFRS 16 implementation and higher capex
- **Income Tax:** Normalised tax in 2019. In 2018 there was a positive one-off effect of €49M (decrease of the Deferred Tax Liability, no cash impact) due to CIT tax rate reduction in Bizkaia

### Summary Cash Flow Statement

€M	2018	2019
EBITDA	172	178
Corporate Tax payments	(9)	(18)
Change in Current Assets & Liabilities	17	41
Change in Tariff Deficit + Others	9	5
Capex	(22)	(26)
Interest payments	(27)	(24)
<b>Cash-flow from operating and investing activities</b>	<b>140</b>	<b>155</b>

€M	2018	2019
EBITDA	172	178
Capex	(22)	(26)
<b>Cash Generation (EBITDA-Capex)</b>	<b>150</b>	<b>151</b>
<i>Cash Conversion</i>	<i>87.2%</i>	<i>85.2%</i>

### Comments

- **“Corporate Tax Payments”**: 2018 figures represent only 8 months of cash taxes (April – December) due to a change in fiscal year end
- **“Change in Current Assets & Liabilities”** includes:
  - Improvements in VAT, Account Receivable, Account Payable and other
  - One-off extraordinary Collection of Castor payments of €11M, improving the settlements deficit with the Gas System
- **“Change in Tariff Deficit”**: 2019 figures include €1.6M cash-in from 2018 tariff surplus to compensate for the 2017 tariff deficit. In the year 2018, Nortegas securitised €5.5M of 2015 and 2016 tariff deficit
- **“Capex”** includes mainly:
  - Investments to further develop the expansion of Natural Gas and LPG CPs
  - Maintenance investments related to works for network substitution as part of the maintenance programme
  - Investment in IT
- **Interest payments** mainly bond interests €21M
- **Strong Cash generation**: EBITDA-Capex of €151M and high cash conversion (85%) with room for Capex increase

## Balance Sheet as of 31st December

€M	2018	2019
Property, plant and equipment	1,031	1,001
Goodwill	46	46
Other intangible assets	1,502	1,476
Right-of-use assets	–	4
Other non-current financial assets	3	1
Deferred tax assets	20	14
<b>Total non-current assets</b>	<b>2,602</b>	<b>2,542</b>
Other current assets	65	25
Cash and cash equivalents	157	367
<b>Total current assets</b>	<b>222</b>	<b>392</b>
<b>Total assets</b>	<b>2,824</b>	<b>2,933</b>
<b>Total equity</b>	<b>1,141</b>	<b>1,252</b>
Financial liabilities from issuing bonds	1,292	1,294
Leases	–	3
Other non current financial liabilities	2	3
Other non current liabilities	11	9
Deferred tax liabilities	291	285
<b>Total non-current liabilities</b>	<b>1,596</b>	<b>1,592</b>
Current financial liabilities	7	5
Leases	–	1
Debt with group companies and associates	7	5
Other current liabilities	73	78
<b>Total current liabilities</b>	<b>87</b>	<b>89</b>
<b>Total equity and liabilities</b>	<b>2,824</b>	<b>2,933</b>

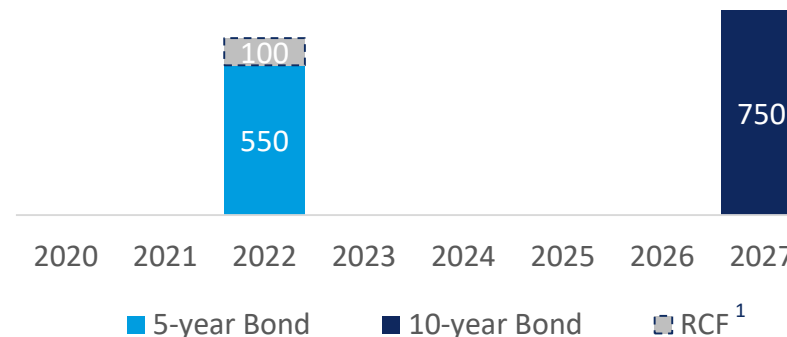
## Comments

- Total **Equity** at year end 2019 amounted **€1,252M**
- Total **Cash on Balance Sheet** at 2019 year-end amounted **€367M vs €157M in Dec 2018** as a result of a €204M equity contribution into Nortegas
- Total **Net Debt** at year end 2019 amounted **€944M**
- Financial policy driven by the shareholder commitment to **maintain an investment grade credit rating**

## Liquidity Position

Instrument	Available (€M)	Drawn (€M)	Coupon
5-year Bond	-	550	0.918%
10-year Bond	-	750	2.065%
Revolving Credit Facility	100	-	0.075% - 0.300% (depending on use)
<b>Cash on Balance Sheet</b>	<b>367</b>	-	-
<b>Total</b>	<b>467</b>	<b>1,300</b>	-

## Liquidity and Financing Structure (€M)



- ✓ Current **structure reduces refinancing risk** by spreading maturities
- ✓ Marked shareholder financial policy to support **investment grade** at Nortegas

## Key Data Points

Net Debt  
**€944M**

Rating S&P<sup>2</sup>  
**BBB-**  
Stable outlook  
(upgrade from negative in Feb 2020)

Available Liquidity  
**€467M**

Average Financial Cost  
**1.58%**

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Nortegas has constituted a **COVID-19 Monitoring Committee** and activated a plan to continue business as usual operations and supply all households while ensuring employees' safety with the implication of the Managers and the HSE department

<b>Contingency Plan</b>	<ul style="list-style-type: none"><li>▪ The Committee prepared a <b>contingency plan package</b> to address the situation and a series of <b>internal communications</b> sent to all employees to ensure awareness of Nortegas' workforce about the situation and <b>preventive measures and protocols to be followed</b>:<ul style="list-style-type: none"><li>– Travel protocol</li><li>– Assistance and advise</li><li>– Organizational measures</li><li>– Hygiene measures</li></ul></li><li>▪ <b>Additional contingency plans</b> have been prepared for each function involving both employees and subcontractors</li></ul>
<b>Social Initiatives</b>	<ul style="list-style-type: none"><li>▪ <b>Advanced the payment terms</b> to its more than 600 suppliers</li><li>▪ Donated <b>52.5 tons of food</b> to the Food Banks of Asturias, Cantabria and the Basque Country</li></ul>
<b>Financial Impact</b>	<ul style="list-style-type: none"><li>▪ The Company expects a <b>limited financial impact of COVID-19</b> due to nature of the business, liquidity position and <b>discretionary capex programme</b></li><li>▪ <b>99% of revenue is regulated</b> - not affected by changes in price and limited exposure to gas demand</li></ul>

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# Key Takeaways

- Sustained **growth**: +0.9% in connection points
- **Increased EBITDA**: +3.4% driven by efficiencies
- **Strong Cash generation**: EBITDA-Capex of €151M and high cash conversion (85%)
- Approval of **2021-26 regulatory framework**, providing increased visibility
- **S&P** reaffirmed Nortegas **BBB-** credit rating and **improved outlook to stable**
- **ESG a key priority** for Nortegas' strategy and management
- Nortegas expects a **limited impact due to COVID-19**



