



# **Nortegas Energía Distribución S.A.U. and Subsidiaries Full Year 2021 Results**

June 2022

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## Agenda

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# 1 Introduction

## 2021 – Main Milestones

### Operational Review

- **Nortegas continues growing at record paces in both residential and industrial markets**
- **Significant growth in residential segment** in 2021 despite COVID affecting sales in Q1:
  - ✓ Gross additions as of December 2021 in Natural Gas and LPG were +17.7k CPs (12.8% above 2020 excluding CEPSA's LPG portfolio)
  - ✓ Acquisition of CEPSA's canalized LPG portfolio in the regions where Nortegas operates (c. 4,9k CPs)
- **Industrial & Commercial contracted capacity grew by 339 GWh** underpinned by strong fundamentals
- 8.8 TWh of domestic and commercial volumes, 12.4% above 2020 due to colder temperatures and the reopening on most commercial activities; and 18.9 TWh of industrial segment, 9.4% above 2020

### Financial Review

- **Ordinary income** of €225.1M (YoY 4.0% increase)
- **EBITDA** of €177.5M (YoY 2% increase) with a margin of 78.9%
- **Significant increase in Capex** €32.2M (2021) vs €24.7M (2020), to expand existing operations
- **Strong Cash generation<sup>1</sup>** of €143M, showing a high cash conversion (80.3%)
- In January 2021 Nortegas carried out the **refinancing of the €550M September 2022 maturing bonds**, issuing a new instrument at a **0.905% coupon rate with a 10-year tenor**. In parallel, Nortegas launched a **tender offer to buy back the outstanding September 2022 maturing bonds in advance**, reaching a 74% acceptance rate (€407M)
- **S&P** confirmed Nortegas' **investment rating in December 2021 at BBB-**

(1) Cash Generation = EBITDA – Capex

# 1 Introduction

## 2021 – Main Milestones (Cont'd)

### ESG

- Focused on being **a reference business in the context of the ongoing energy transition in Spain**
- Nortegas is actively investigating and testing **Hydrogen in our gas distribution networks**, having inaugurated an innovative pilot testing plant “H2SAREA” which is already yielding positive results
- Nortegas obtained a **5-star rating and 92 points out of 100 in 2021 GRESB Assessment**
- Nortegas successfully obtained the **sustainable qualification for the RCF at Nortegas Energía Grupo<sup>1</sup>**
- **Climate Risk assessment according to TCFD<sup>2</sup>**

### Additional Updates

- **No disruptions due to Covid-19 and limited financial impact**
- **Injury Frequency Rate (IFR) of zero for 2021**, meaning that no accidents with downtime have taken place
- The company continues **developing our Digital Transformation Strategy, with a particular focus on digitalization of network and backoffice operations**

(1) See legal chart in Appendix (2) Task force on climate-related financial disclosure

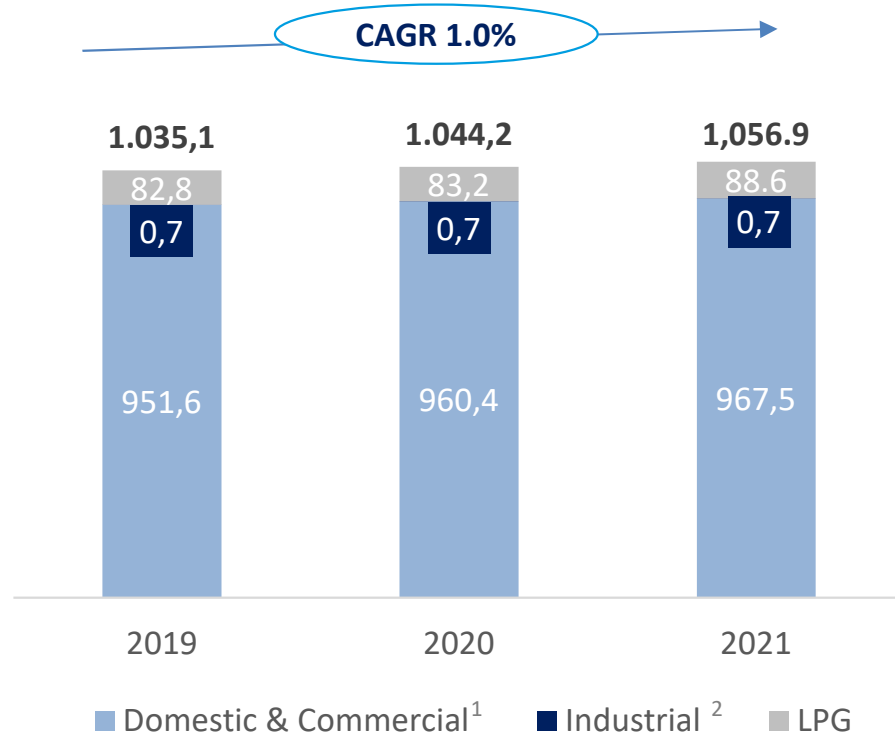
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## 2 Operational Overview

# Connection Points and Volumes

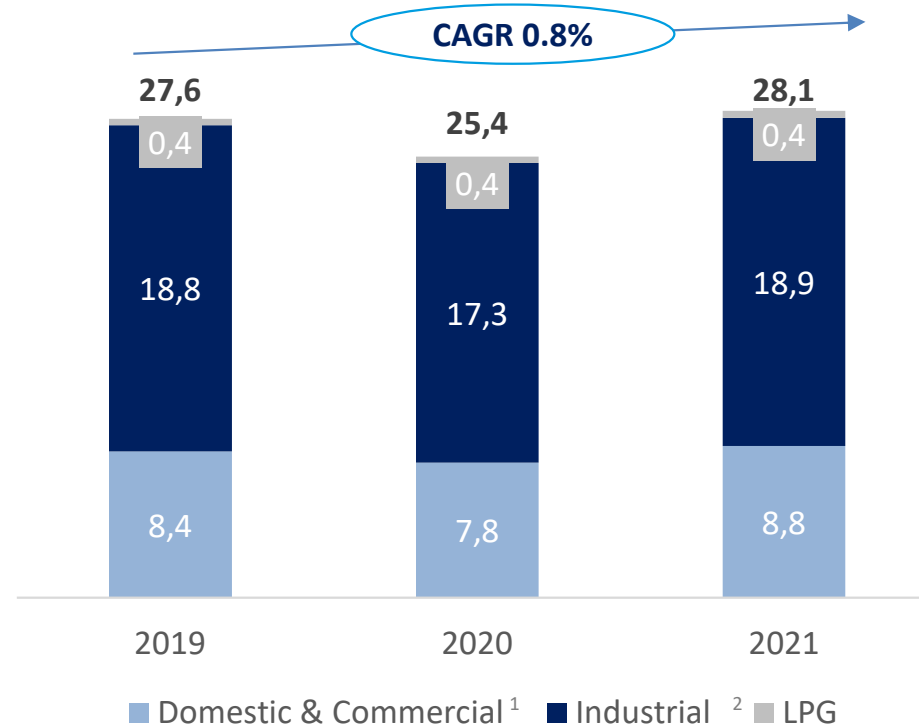
### Evolution of Connection Points by Commercial Segment

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



### Evolution of Remunerated Volume by Commercial Segment

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



- **Nortegas experienced a significant organic growth during 2021 despite COVID-19 restrictions**
- Additionally, Nortegas has achieved an increase in LPG CPs mainly resulting from the **acquisition of CEPSA's canalized LPG portfolio** in the regions where Nortegas operates (c. 4.9k CPs)
- The Domestic & Commercial segment experienced a **+12.4% YoY increase in volumes** in 2021
- **Industrial sector continues recovering** and remains a key **driver of consumption increase**, showing a YoY growth of +9.4%

(1) Domestic & Commercial includes <= 4 bar connections; (2) Industrial volume includes > 4 bar connections



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### 3 Financial Overview

## Nortegas Consolidated Income Statement

### Income Statement as of 31<sup>st</sup> December 2021

€M	2020	2021
<b>A</b> Revenues	216	225
<b>B</b> Supplies	(17)	(21)
Self-constructed assets	7	7
Other Income	11	11
<b>C</b> Operating Expenses <sup>1</sup>	(44)	(44)
<b>EBITDA</b>	<b>174</b>	<b>178</b>
Margin	80.5%	78.9%
Amortisation Expenses	(84)	(84)
<b>EBIT</b>	<b>90</b>	<b>93</b>
Margin	41.5%	41.3%
<b>D</b> Net Financial Expenses	(37)	(28)
<b>Profit before income tax</b>	<b>53</b>	<b>65</b>
Income Tax	(11)	(14)
<b>Profit for the year</b>	<b>41</b>	<b>51</b>

### Comments

- A** Revenue growth driven by growth in residential and industrial markets, together with higher revenues from LPG activity
  - Revenue growth is more than offsetting the negative remuneration adjustment of c. €5M driven by the implementation of Circular 04/2020 on our regulated distribution activities
- B** **Supplies** increase in line with higher LPG revenues
- C** **Operating Expenses:** Lower Opex as efficiency plan starts to yield positive results
- D** **Net financial expenses:**
  - 2021 includes €8.5M of one-off costs related to the 2022 bond repurchase of €407M and the 2031 bond issuance of €550M
  - 2020 includes €16.6M of one-off costs related to the 2027 bond repurchase of €175M

(1) Includes Early Retirement Plan one-off costs (€1.5M in 2020 & €3.2M in 2021)

### 3 Financial Overview

## Nortegas Consolidated Cash Flow Statement

### Cash Flow Statement as of 31<sup>st</sup> December 2021

€M	2020	2021
EBITDA	174	178
Corporate Tax payments	(18)	(14)
<b>A</b> Change in Current Assets & Liabilities & Others	4	(49)
<b>B</b> Capex	(28)	(35)
<b>C</b> Interest payments	(20)	(15)
<b>Cash-flow from operating and investing activities</b>	<b>112</b>	<b>66</b>
Debt repayment / issuance <sup>1</sup>	(192)	131
<b>Cash-flow after third party financing activities</b>	<b>(80)</b>	<b>197</b>
<b>Cash position at Year End</b>	<b>127</b>	<b>164</b>

€M	2020	2021
EBITDA	174	178
Capex	(28)	(35)
<b>D</b> <b>Cash Generation (EBITDA-Capex)</b>	<b>146</b>	<b>143</b>
<i>Cash Conversion</i>	<i>83.8%</i>	<i>80.3%</i>

### Comments

- A** **Change in current Assets & Liabilities & Others:** efficient cash & working capital management policy, driven by excess year-end cash position of €164M
- B** **CAPEX:**
- **Nortegas continues investing in growth:**
    - Expansion Investments to sustain the development of Natural Gas and LPG CPs
    - Acquisition of CEPSA's canalized LPG portfolio (c. 5k CPs) in the regions where Nortegas operates
    - Maintenance investments related to works for network substitution as part of the maintenance programme
  - CAPEX also includes:
    - Investments related to works for network substitution as part of the maintenance programme
    - Investment in IT as part of the digital transformation strategy of the Company
- C** **Interest payments** include mainly bond interests
- D** **Strong cash generation:** EBITDA-Capex of €143M and high cash conversion (80%)

### 3 Financial Overview

# Nortegas Consolidated Balance Sheet

## Balance Sheet as of 31<sup>st</sup> December 2021

€M	2020	2021
Property, plant and equipment	972	949
Goodwill	46	46
Other intangible assets	1,449	1,423
Right-of-use assets	2	2
Other non-current financial assets	1	1
Deferred tax assets	9	4
<b>Total non-current assets</b>	<b>2,479</b>	<b>2,425</b>
Other current assets	23	29
Cash and cash equivalents	127	164
<b>Total current assets</b>	<b>149</b>	<b>193</b>
<b>Total assets</b>	<b>2,629</b>	<b>2,618</b>
<b>Total equity</b>	<b>1,132</b>	<b>1,021</b>
Financial liabilities from issuing bonds	1,121	1,120
Leases	2	1
Other non current financial liabilities	2	2
Other non current liabilities	13	15
Deferred tax liabilities	277	270
<b>Total non-current liabilities</b>	<b>1,414</b>	<b>1,409</b>
Current financial liabilities	5	151
Leases	1	0
Debt with group companies and associates	1	5
Other current liabilities	76	31
<b>Total current liabilities</b>	<b>82</b>	<b>188</b>
<b>Total equity and liabilities</b>	<b>2,629</b>	<b>2,618</b>

## Comments

- The Group made a “2022 bond” repurchase of €407M and the 2031 bond issuance of €550M
- Total **Cash on Balance Sheet** at 2021 year-end amounted **€164M vs €127M in Dec 2020**
- Total **Equity at year end 2021 amounted to €1,021M**
- Total **Net Debt at year end 2021 amounted to €1,116M**
- Financial policy driven **to maintain an investment grade credit rating**

### 3 Financial Overview

# Financing Structure, Liquidity & Rating

## Refinancing of September 2022 maturing bonds

January 2021 Bond Issuance

- Nortegas issued €550M of Senior Unsecured Bonds, in order to proactively manage its maturities:
  - Coupon 0.905%
  - 10 years tenor (Jan. 2031)

January 2021 Tender Offer

- On 13<sup>th</sup> January 2021, Nortegas announced a Cash Tender Offer for up to €550M nominal for the September 2022 maturing bonds
- Tender resulted in buying back €407M of the September 2022 maturing bonds, implying a 74% acceptance
- Plan is to pay the remaining €143M in July 2022 with available cash in hand.

## Revolving Credit Facility – Refinancing

- Refinancing of the Revolving Credit Facility:
  - Facility size increased from €100M to €120M
  - Maturity has subsequently been extended to January 2025 with two 1yr optional extensions
  - Transferred from NED to NEG<sup>1</sup>
  - Qualified as sustainable debt

Financial policy to support investment grade rating

### 3 Financial Overview

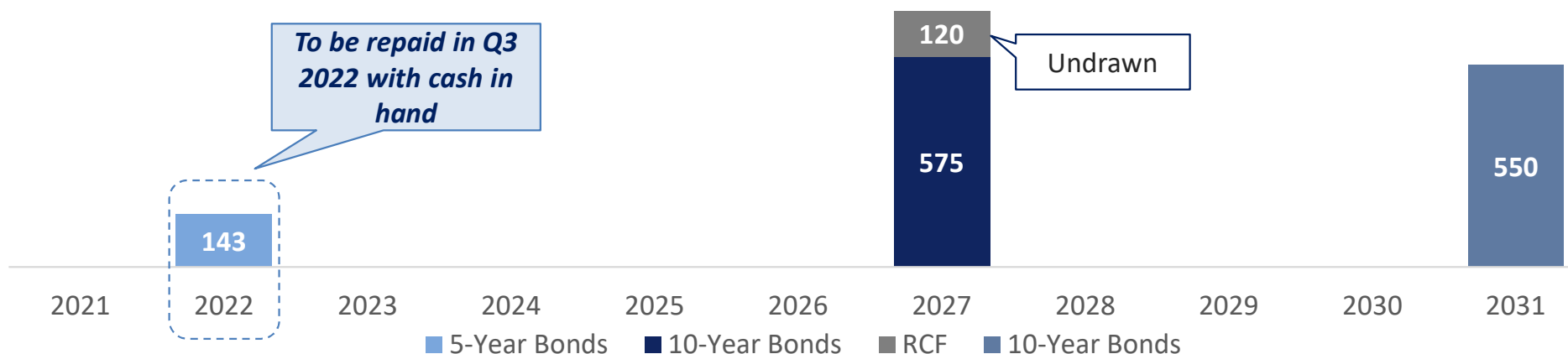
## Financing Structure, Liquidity & Rating (cont'd)

Debt and Liquidity Position as of 31<sup>st</sup> December 2021 (Nortegas Energía Distribución, S.A.U. and subsidiaries)

Instrument	Available (€M)	Drawn (€M)	Coupon
2022 Bonds	--	143	0.918%
Revolving Credit Facility <sup>(1)</sup>	120	--	Euribor + 0.75%
2027 Bonds	--	575	2.065%
2031 Bonds	--	550	0.905%
<b>Cash on Balance Sheet</b>	<b>164</b>	--	--
<b>Total</b>	<b>284</b>	<b>1,268</b>	--

*To be repaid in Q3 2022 with cash in hand*

Debt Maturities as of 31<sup>st</sup> December 2021 (€M)



### Key Data Points

Net Debt <b>€1,116M</b>	ND/EBITDA <b>6.3x</b>	Rating S&P <sup>2</sup> <b>BBB-</b> Stable outlook	Average Maturity <b>6.7 yrs</b>	Average Financial Cost <b>1.37%</b>
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(1) Undrawn as of 31st December 2021, at NEG level; (2) S&P conducts their analysis on Nortegas on a consolidated basis with its parent, Nature. Stand-alone credit profile (SACP) of Nortegas is "bbb", issuer credit rating is "BBB-".

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# 4 Strong ESG Commitment

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

ESG commit.	E	S	G
Selected NG's ongoing initiatives	 <ul style="list-style-type: none"> <li>Support energy objectives towards decarbonisation</li> <li>Support the development of biomethane and green hydrogen and enable injection into the gas distribution network</li> <li>Displacement of more polluting fuels (eg. Diesel central heating to natural gas)</li> <li>Promotion of natural gas for vehicles</li> <li>Installation of smart meters</li> <li>Leak identification, methane emissions reduction</li> </ul>	 <ul style="list-style-type: none"> <li>Generate value to our community, supporting our <b>Social License</b></li> <li>HSE fully integrated in business activities</li> <li>DEI (Diversity, Equity and Inclusion) Strategy implemented. Signed a collaboration agreement with ITAKA Foundation in order to achieve the integrations of young migrants through the education</li> <li>Nortegas continued to help communities as COVID situation developed in 2021</li> <li>Promote technology R&amp;D in collaboration with regional &amp; national development authorities</li> <li>UN Global Compact: Committed to comply with the 17 sustainable development goals</li> </ul>	 <ul style="list-style-type: none"> <li>Transparency, integrity, ensuring <b>sustainable growth in the business</b></li> <li>HSE, S&amp;IC, Audit Appointment and Remuneration board committees</li> <li>Solid policy structure: HSE, Ethics Code, Compliance and Crime prevention , Cybersecurity, and Antibribery and Anti Corruption</li> <li>Mission, Vision, Values and Purpose</li> <li>Climate risks and opportunities assessment according to TCFD</li> </ul>

- **5-star rating and 92 points out of 100 in 2021 GRESB Assessment**
- Nortegas plan is making its financing structure a **sustainable linked loan** aligned with the Loan Market Association (LMA) Sustainability Linked Loan Principles (SLLP)
- The **Sustainability Indicators** are largely recognized, **comply with the principles of the SLLP and are aligned with the sustainability strategy and objectives of Nortegas**



 SDGs to which Nortegas contributes the greatest



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**Integrated infrastructure company with complementary energy services**

- Development and operation of gas infrastructure
  - **Organic growth** plan in underpenetrated areas and network saturation
- Growth through complementary **energy infrastructure services** leveraged in current organization, channels, assets and industry know-how
  - Eg. Natural Gas central heating installation & maintenance, LPG boiler maintenance

## LPG Individual Boilers

- Significant growth in the **A Punto maintenance service, with 6,200 LPG customers** signed up for the service as of 2021
- Increase in margin per customer by more than 50%



## Hydrogen Distribution Infrastructure



### Basque Hydrogen Corridor:

Initiative to promote green H<sub>2</sub> use and increase its presence in the market



**Nortegas leading** the development of 2 projects:

- 100% Hydrogen Pipeline
- Test facility for key components of Nortegas' network, residential appliances and industrial processes with Hydrogen

# 5 Preparing our Gas Networks for Hydrogen: H2SAREA

## Full replica of our gas distribution network to test H2 Blending with Natural Gas

### Objectives

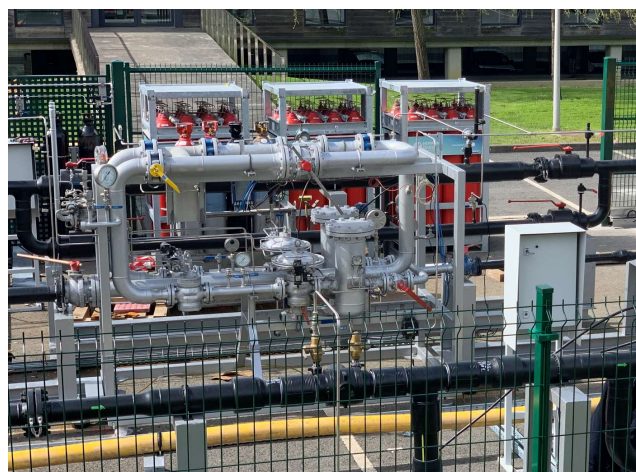
- Blending H<sub>2</sub> & Natural Gas: Blending ranges of 5%-20%
- Specific tests for higher H<sub>2</sub> % up to 100%
- Domestic Pilot project: gas installation, including kitchen and boiler tested for blended H<sub>2</sub>/NG
- Specific analysis of H<sub>2</sub> impact on certain industrial processes
- Safety procedures for Hydrogen operations

### Status

- Full testing facility already working
- Gas network elements under test
- Residential appliances under test
- Industrial workstream ongoing

### Components and systems tested:

- Domestic burners and domestic installations
- Non welded metallic joints
- PRS (Pressure Reduction Station)
- Compressors
- Hydrogen separators and sensors
- Hydrogen injection system



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## 6 Key Takeaways

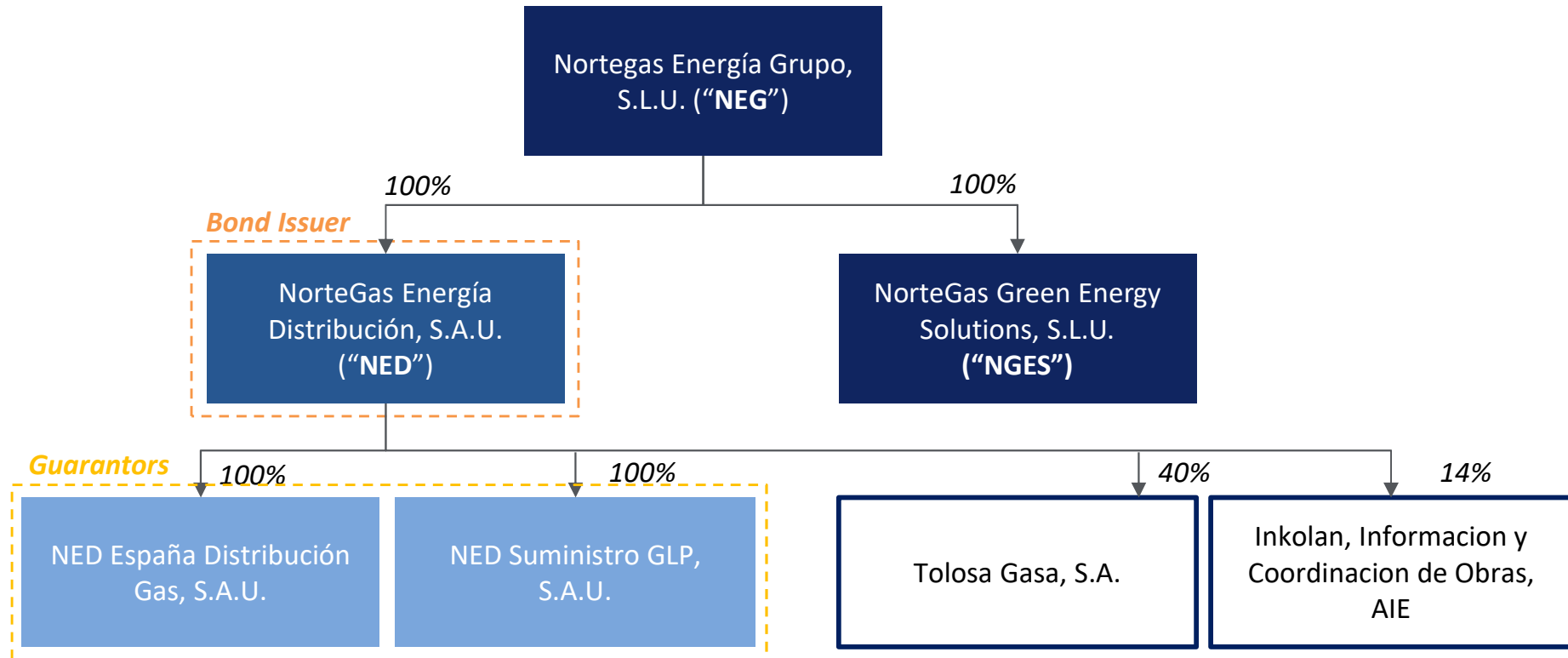


- **Top growth** aligned with **record years** in industrial and residential
- Distribution company, business model **not exposed to current volatile commodity prices**
- **Strong Cash generation** of €143M, showing a **high cash conversion** (80.3%)
- **Optimised financial structure** after the successful issuance of a 10-yr €550M bond @ 0.905% . Maturities extended to 6.7yrs. 100% drawn debt is fixed rate
- **BBB- / Stable rating** from S&P's (December 2021)
- **ESG factors are continuously promoted**, targeting responsible investments and a **better management of risk** for more sustainable long-term returns
- **Getting ready for H2. Leveraging NGES to develop new gases infrastructure** that support NED assets in the Energy Transition

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**Appendix**

# Appendix: Legal Chart



# Supporting Energy Transition through Nortegas Green Energy Solutions



(Note: outside of the Bonds' Perimeter<sup>(1)</sup>)



**Nortegas' infrastructure enabling the energy transition**

- **Nortegas Energía Grupo, through Nortegas Green Energy Solutions ("NGES")<sup>(1)</sup>** is investing in **complementary green energy infrastructure**
  - **Investments are made by Nortegas Group outside of the bond perimeter**
  - These investments enhance the role of NED's gas grids in the energy transition, for the mid and long term
- **Renewable gas, Hydrogen, Natural Gas for Vehicles**, are initiatives where Nortegas Green Energy Solutions is already investing on

## Natural Gas for Vehicles

Successful agreement with **Repsol for the development of NGV stations**

- 4 Fully operational stations
- 7 Stations under permitting and construction



## Biomethane

- **1 Plant under construction**
- **Significant project pipeline developing**



## Hydrogen Projects under Development

**benorth<sub>2</sub>**

First green hydrogen generation plant for electricity generation and network injection supplying via virtual PPAs

**H2UDF**

Green H<sub>2</sub> generation facility from mine water and injection into the natural gas distribution grid

## Boiler Rooms

**3 boiler rooms transformed & 9 in the process of being transformed** from more pollutant fuels (e.g. Diesel) to natural gas **in 2021**

**12 boiler room transformation contracts signed in YTD 2022**



(1) Legal chart in Appendix





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