Madrileña Red de Gas

CY 2019 Annual Results

July 2020

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Executive Summary

- During the year 2019, the company has achieved the following financial results: total revenues of €186m (-0.8% YoY) and EBITDA of €146m (+3.1% YoY), driven by higher remuneration of natural gas activity but lower revenues from LPG activity.
- Sustainable cash flow from operating activities, amounting to €122m in CY2019 (+0.2% YoY)
- The Company sustains a growth strategy based on increasing its presence in its current territory as well as in municipalities adjacent to it providing access to gas natural energy to new connection points, focusing on high consumption customers and new edification opportunities, NGV promotion and replacement of polluting fossil fuel boilers by natural gas.
- MRG continues the improvement in its operational performance focussing on customer service and digitalization of processes.
- As of December 31st 2019, the Company has administrative authorization to perform distribution activities in 61 municipalities in the Region of Madrid (2 more than 2018) and provides service to 908,515 connection points (+3.3% YoY) of which 885,268 correspond to natural gas and 23,247 to LPG
- The definitive CNMC Circular (4/2020 of March 31st) setting the regulatory framework for the period 2021-2026, was published in the Official Gazzette the 3rd of April, 2020. The approved regulatory framework confirms continuity with current regulation and ensures stability in the long-term. It includes an adjustment to base remuneration which is based on the activity of the company in year 2000. Final adjustment is still pending to be published by the regulator
- Rating agencies S&P and Fitch reaffirmed its BBB qualification including a rating watch negative which is expected to be solved once there is clarity on the final remuneration adjustment.

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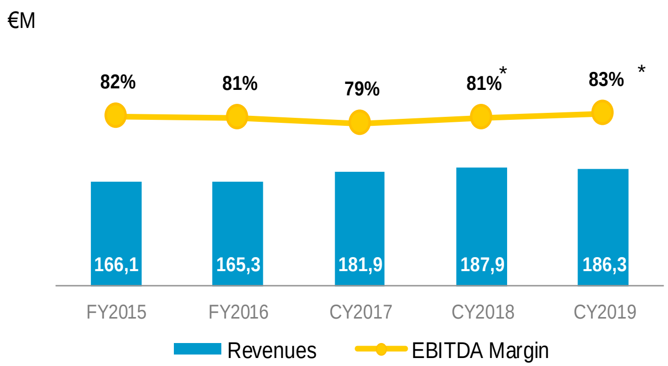
MRG Corporate Overview

The result of the year reaffirms MRG's strong track record of historic financial and operating performance and exceptionally strong cash conversion supported by a largely discretionary capex programme which affords MRG significant financial flexibility.

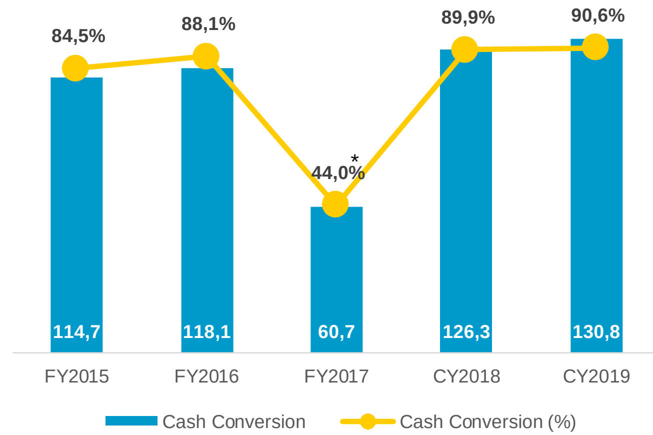
EBITDA Evolution (2015-2019)



*EBITDA Margin excluding LPG business dilution

Source: MRG

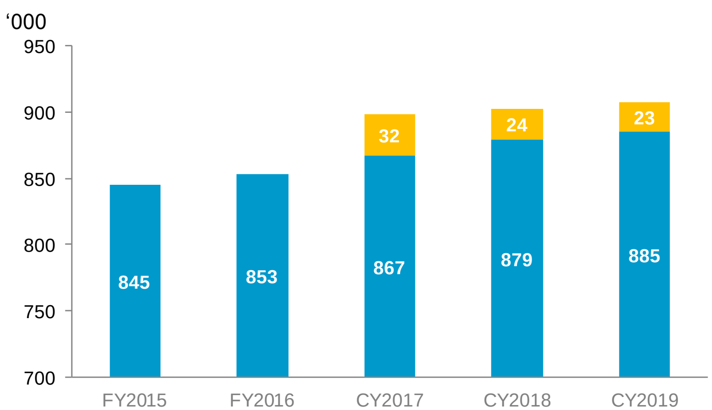
Cash conversion Evolution (2015-2019)



*Includes the acquisition of LPG connection points in 2017.

Source: MRG

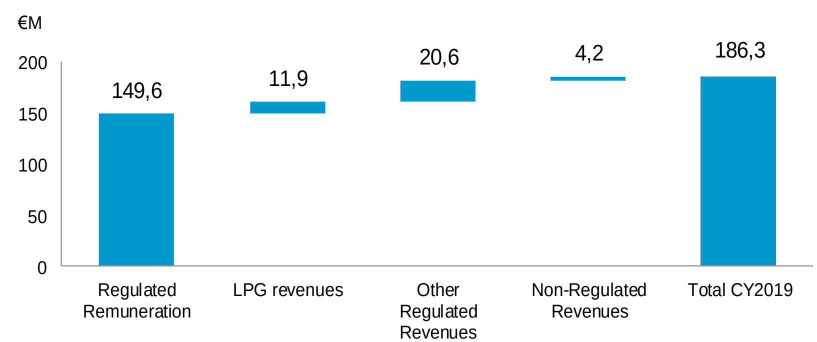
Development of Connection Points (2015-2019)



Source: MRG

Revenue Breakdown (CY2019)

YE 31 December



Source: MRG

YE 30 June for FY figures
YE 31 December for CY figures

LPG NG

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Operating overview

Madrileña RED DE GAS

CONNECTION POINTS (#)

908,515 2019
879,301 2018
⇧ 3.3%

<4 bar

908,414 2019
879,207 2018
⇧ 3.3%

>4 bar

101 2019
94 2018
⇧ 7.5%

GAS DISTRIBUTED (GWh)

10,124 2019
11,275 2018
⇩ -10.2%

<4 bar

9,259 2019
10,449 2018
⇩ -11.4%

>4 bar

866 2019
826 2018
⇧ 4.8%

- Volume of gas distributed during the year lower than previous year due to lower demand as a consequence of higher temperatures. Tertiary and industrial sector demand has experienced a 4.8% growth.
- The company's strategy continues to focus on the growth of its current distribution network to municipalities adjacent to its existing territories which do not currently have natural gas supply, as well as gaining new connection points in its existing territories of operation.

Network length (km)

5,824 2019
5,772 2018
⇧ 0.9%

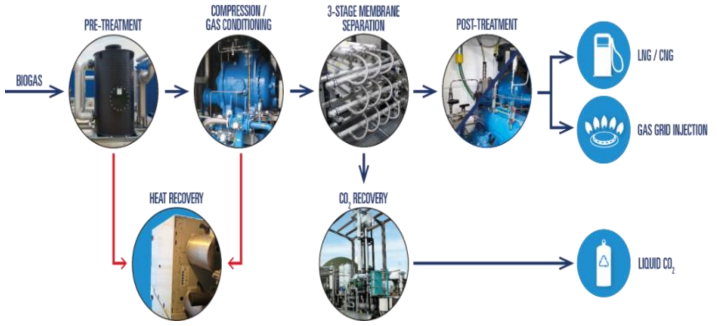
Municipalities

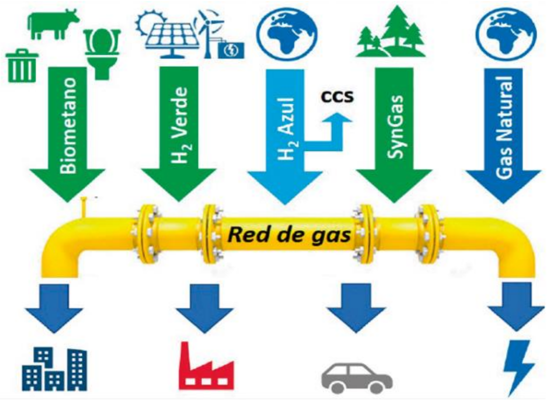
61 2019
59 2018
⇧ 2

MRG Key Initiatives

MRG Committed to the Development of Natural Gas

- MRG has obtained the authorization to distribute natural gas in two new municipalities, Moralzarzal and Casarrubuelos
- A new IT tool has been developed for the control of the existing new buildings promotions in the New Edification market
- Collaboration with the Community of Madrid and AGREMIA (Installation Companies Association) has been promoted, increasing the number and engagement of collaborating companies (more than 1,000 companies are working in the capture of new connection points, +4% vs previous year).
- In the High Consumption market, the consumption has increased 9% YoY (250 GWh). In this market, the replacement of residential central boilers has significantly increased (+25% YoY) contributing to the replacement of less polluting fuels and following Community of Madrid RENOVE plan. Regarding NGV (Natural Gas Vehicle), MRG has increased 35% YoY with the aim of facilitating sustainable mobility.
- MRG is working in different areas and work groups for the development of renewable gases, especially in regulatory aspects and fundamentally related to network injection.
- MRG continues developing online tools, creating a new website to facilitate our partner companies management and launching a new web application to contract LPG supply
- MRG is promoting ENERTY Project. It supports gas installer companies, gas distribution companies, public administrations and others gas system stakeholders providing a mobile application that digitalizes technical documentation for all-types gas installations.





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Key Financials

Income Statement - €m

12 month period ending Dec 31st	2018	2019	Var.
Remuneration	147.0	149.6	2%
Other regulated revenue	36.5	32.5	-11%
Other revenue	4.5	4.2	-6%
Variable costs	(27.6)	(21.8)	-21%
Overhead costs	(18.8)	(18.7)	-1%
Total costs	(46.5)	(40.5)	-13%
Recurring EBITDA	**141.4**	**145.9**	**3%**
EBITDA Margin (%)	*75.3%*	*78.3%*	*4%*
EBITDA Margin ex LPG dilution (%)	*81.1%*	*82.6%*	*2%*
EBIT	**110.6**	**113.7**	**3%**
Margin	*58.9%*	*61.0%*	*4%*
Interest expense	(42.9)	(27.3)	-36%
Income tax expense	(16.7)	(21.4)	28%
Net Income	**51.0**	**65.0**	**27%**

Source: MRG
(Audited under IFRS)

Breakdown Natural Gas – LPG - €m

12 month period ending Dec 31	NG	LPG	Total
Remuneration	149.6	0.0	149.6
Other regulated revenue	20.6	11.9	32.5
Other revenue	4.2	0.0	4.2
Total revenues	174.4	12.0	186.3
EBITDA	**143.9**	**1.9**	**145.9**
EBITDA Margin (%)	*82.6%*	*15.9%*	*78.3%*

Source: MRG

Comments

EBITDA 2019 increases +3% compared with 2018 mainly due to:

- Higher remuneration in 2019 driven by adjustments to final 2018 demand coming from the year closing which takes place in April and higher revised demand for 2019.
- Lower other regulated revenues and variable costs, mainly due to lower LPG activity due to the connection points that have been converted to natural gas and lower gas balance costs.
- Net income reached €65m, mainly due to the better result of the year, and lower interest expense aligned with current debt structure after the 500m€ repayment that took place in 2018.

Key Financials

Cash Flow Statement - €m

12 month period ending Dec 31 st	**2018**	**2019**
EBITDA	141.4	145.9
Income tax paid	(5.9)	(6.9)
Working capital	(6.3)	(20.5)
Sectorization(1)	-	(7.9)
Working capital variation	(6.3)	(12.6)
Tariff Deficit	7.3	16.6
Tariff Deficit receivable monetization (1)	4.8	-
Castor Project payments	-	14.5
Gas system tariff deficit	2.4	2.1
Capex	(15.1)	(13.5)
Organic growth	(9.3)	(9.7)
Maintenance	(1.7)	(1.6)
Others	(4.1)	(2.1)
Free Cash Flow	**121.3**	**121.6**
Free Cash Flow excluding one-off effects (1)	**116.5**	**114.9**

(1) One-off effects

Comments

- Sustainable cash generation from operations excluding one-off effects amounting to €114.9m as of December 2019, in line with previous year.
- One-off effects split as follows:
  - CY2018 – 2015 and 2016 Tariff Deficit MRG´s share monetization (€ 4.8m)
  - CY2019 – pending payment made to Naturgy related to network sectorization(*) (€7.9m) and payment received from Castor project (**) (€ 14.5m)
- Working capital variation mainly driven by lower billing.
- Capex
  - Organic capex slightly higher than previous year and in line with the efficient growth strategy of the Company
  - Maintenance in line with previous year
  - Other capex is lower as it included Fraud prosecution project which is in the final stage.

(*) Division of the natural gas network resulting from MRG's excision from Gas Natural Fenosa in 2010.

(**) Castor project consisted in the creation of a natural gas underground storage deposit. The project was not achieved and a reimbursement was made to gas system companies in 2019 following a Constitutional Court sentence.

Source: MRG
Audited under IFRS

Key Financials

Balance Sheet - €m

At December 31st	2018	2019
Gas distribution licences	748.4	751.0
Net fixed assets	358.5	354.9
Total Network Fixed Assets	**1,106.9**	**1,105.8**
Goodwill	**57.4**	**57.4**
Deferred Tax Asset	**24.9**	**21.5**
Other Non-Current Assets	**1.9**	**55.7**
Current Assets	**55.8**	**42.3**
Cash and cash equivalents	**63.0**	**103.4**
Total Assets	**1,309.9**	**1,386.2**
Equity	**233.3**	**298.1**
Long Term Debt	**942.6**	**943.8**
Deferred Tax	**50.2**	**60.1**
Other Non-Current liabilities	**24.1**	**37.5**
Current Liabilities	**59.7**	**46.7**
Total Liabilities & Shareholders' Equity	**1,309.9**	**1,386.2**

Source: MRG
Audited under IFRS

Comments

- Other non current assets increase on the back of an intercompany loan between MRG and its parent company
- The long term debt balance of MRG captures the on-loan agreements with MRG Finance BV (issuer of outstanding unsecured notes):

  - €275MM 4,500% due December 2023

  - €75MM 3,500% due March 2031

  - €300MM 1,3750% due April 2025

  - €300MM 2,250% due April 2029

- In addition, MRG holds a RCF amounting €200m which as of December 31st , 2019 remains undrawn. In February 2020 the RCF has been reduced to €75m in order to adjust it to the company's liquidity needs.

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Capital Structure

	Bonds				Revolving Credit Facility (*)
Size	€ 275M	€ 75M	€ 300M	€ 300M	€75M (undrawn)
Coupon / Margin	4.500%	3.500%	1.375%	2.250%	Euribor+50bps
Maturity	10 years (December 2023)	15 years (March 2031)	8 years (April 2025)	12 years (April 2029)	5 years (April 2022)
Rating	BBB (S&P) BBB (Fitch)	BBB (S&P) BBB (Fitch)	BBB (S&P) BBB (Fitch)	BBB (S&P) BBB (Fitch)	N/A

1 Investment grade bonds issued under MRG's €2bn EMTN Program with different tenors and size. Current structure reduces refinancing risk by spreading maturities

2 Revolving credit facility optimized to reduce cost and reinforce liquidity position with total flexibility.

3 As of December 31st 2019, MRG's long term financing amounts €950MM, providing strong financial capacity

4 Rating agencies S&P and Fitch reaffirmed MRG's rating, BBB with rating watch negative.

5 Financial policy in place supports investment grade commitment.

(*) RCF reduced to €75MM in February 2020

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Regulatory framework

Madrileña RED DE GAS

1	The definitive CNMC Circular (4/2020 of March 31st) setting the regulatory framework for the period 2021-2026, was published in the Official Gazzette the 3rd of April, 2020.
2	The new regulation continues with the current methodology, in which remuneration of gas assets is activity based, which ensures remuneration stability.
3	The methodology will adjust the retribution to connection points and its associated demand that was connected to MRG's current network before the year 2000. The adjustment aims to remunerate from 2021 these connection points and associated demand with the unitary remuneration equivalent to the current parametric formula.
4	Remuneration adjustments will be gradually implemented from the beginning of the regulatory period.
5	In alignment with the company's strategy and current regulatory framework, growth is even more incentivized by a higher marginal compensation for additional demand and new connection points.
6	Increasing of gas penetration in the industry and connection of NGV stations to the natural gas network is incentivized.

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ESG

Environment

- MRG's strategy focuses on supporting the ongoing energy transition in Spain.
- Involvement in different work groups for the development of renewable gases.
- Identification and evaluation of environmental aspects associated with processes, activities, services, workplaces and vehicle population.
- Installation of solar panels in MRG headquarters, to generate electricity for self-consumption.
- Commitment to the further development of NGV as a transportation method alternative.
- Replacing heating devices with a less polluting energy like natural gas
- Serious accident prevention policy involving dangerous substances in place – SEVESO III, all LPG plants have been inspected with favorable outcome.
- Annual carbon footprint report

Social

- Prevention plan to avoid the causes of accidents or occupational diseases in the workplace. No casualties or serious accidents during the year.
- MRG offers all its professionals subsidies to acquire natural gas vehicles
- Employees health and well-being is promoted.
- Personal data protection policy in place

Governance

- Participation in "GRESB Infrastructure" initiative.
- Code of the Ethics in place complementing MRG's Mission, Vision and Values.
- Risk management system.
- Integrated management system: Management system adaptation for prevention, environment and quality of ISO 45001:2018, ISO 14001:2015 and ISO 9001:2015 standards.
- Crime prevention policy in place.
- Commitment to investment grade qualification

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Resilient financial performance despite COVID-19

MRG has tackled the issue of COVID-19 proactively. Its role as a provider of critical infrastructure means guaranteeing the distribution of gas and the delivery of its services to customers and society is essential

Policies & Implementation

- Guaranteeing the supply of gas to customers is essential and, in that regard, MRG has implemented :
  - a **contingency plan** and **safety protocol** to guarantee the continuity of its operations
  - a protocol for domestic activities
  - **protection measures** for clients, employees and collaborators
- New safety and hygiene measures in its processes to assess social distancing as far as possible and contribute to slowing down the expansion of the coronavirus
- **Collaborating with solidarity initiatives**
- **Several donations**

Impacts & Mitigation

- The financial impact of COVID-19 is limited due to the **regulated nature of the business**, **strong liquidity** and **discretional capex** programme:
  - ✓ c. 98% of MRG's revenue stems from regulated activities
  - ✓ Prevalence of **domestic customers (over 90%)**
  - ✓ **Minimal impact to working capital**, driven by weaker tolls billing in industrial demand
  - ✓ The company holds €75m of **Revolving Credit Facility currently undrawn**, maturing in April 2022
  - ✓ **No significant financing needs until 2023**, when our €275m bond matures
  - ✓ **Flexible shareholder distributions policy, committed towards maintaining investment grade rating**

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Main takeaways

1. New regulatory framework for 2021-2026 ensures stability and continuity with activity based methodology consistent with the current remuneration framework
2. Strong EBITDA and Free Cash Flow generation
3. Efficient customer base growth, with low capex requirements
4. Highly focussed on customer service and digitalization of processes
5. Current debt structure reduces refinancing risk by spreading maturities and the Revolving credit facility provides additional liquidity with 6 total flexibility
6. Reaffirmed strong commitment of shareholders to a solid and efficient long term capital structure, committed with investment grade qualification
7. Commitment to ESG
8. Limited financial impact of COVID-19

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