Madrileña Red de Gas

CY 2020 Annual Results

July 2021

Table of Contents

Madrileña RED DE GAS

Executive summary

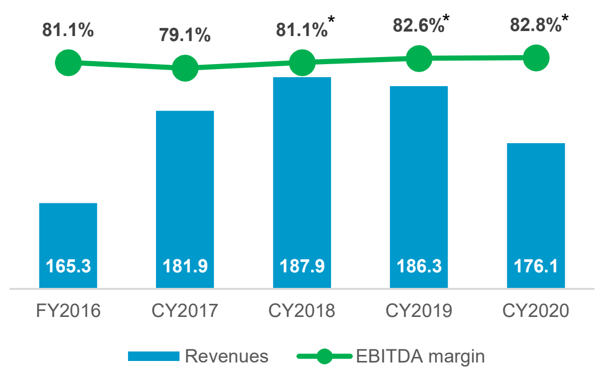
Regulation	▪ CNMC published the final Resolution setting the **remuneration haircut for MRG at €24.5m by 2026, resulting in average cut within the period 2021-2026 of 10.1%** ▪ Regulatory outcome **provides revenue stability and visibility for the next 6 years** ▪ Remuneration **methodology is consistent with previous methodology** which incentivises profitable growth and cost efficiencies **aligned with previous and current MRG strategy** ▪ Retained gradual phasing of haircut, providing visibility and therefore **greater scope to address or mitigate the regulated decline in revenue**
2020 Performance	▪ **Despite COVID 19, MRG achieved excellent financial results** in line with pre-COVID forecasts ▪ **Lower natural gas demand** compared to previous year **due to warmer temperature** in 2020 vs 2019**, lower volume of planned periodical inspections** to be executed within the five years cycle and **improvement in costs** as a result of operational efficiencies **explain the results obtained in year 2020** ▪ **98% revenues from regulated activities** ▪ **Sustainable cash** generated **from operations amounting to €119.4m** ▪ The company **continues to increase its customer base** with 912.670 connection points (+0.5% YoY) ▪ **Historical record of demand from High Consumption customers** reaching 0.9TWh (+4.3% YoY)
Key iniciatives	▪ **Commitment to decarbonisation process** ▪ Optimizing and boosting **Digitalisation, Automation and Robotisation** ▪ **Focus on the customer satisfaction** ▪ **Natural gas for vehicles, Energy Solutions, Hydrogen and Biogas/Biomethane** will form a key part of the Group strategy
Financial policy	▪ **Strong shareholder commitment to investment grade rating** ▪ **Rated by S&P with BBB-** with **stable outlook. Fitch** solved credit watch and **rated MRG's debt at BBB-** with **stable oulook.** ▪ **DBRS** Morningstar publicly **rated MRG** and its debt for the first time in 2020 with **BBB (low) and stable trend**
ESG	▪ **Involved in key sectors linked to Energy Transition** ▪ MRG will issue its first **specific ESG report considering the GRI standard** for the year 2020

Table of Contents

MRG Corporate Overview

The result of the year reaffirms MRG's strong track record of historic financial and operating performance. Strong cash conversion ratio is best-in-class in the sector and allows MRG's to flex its financial policy if required

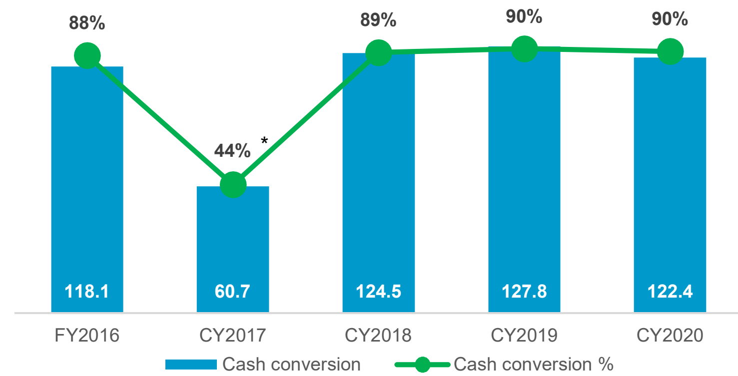
EBITDA margin Evolution (2016-2020)



*EBITDA Margin excluding LPG business dilution

Source: MRG

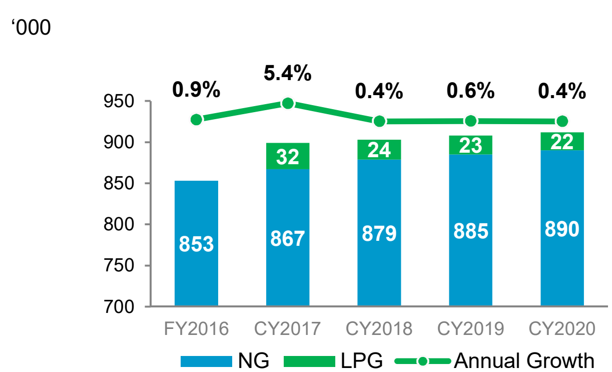
Cash conversion Evolution (2016-2020)



*Includes the acquisition of LPG connection points in 2017.

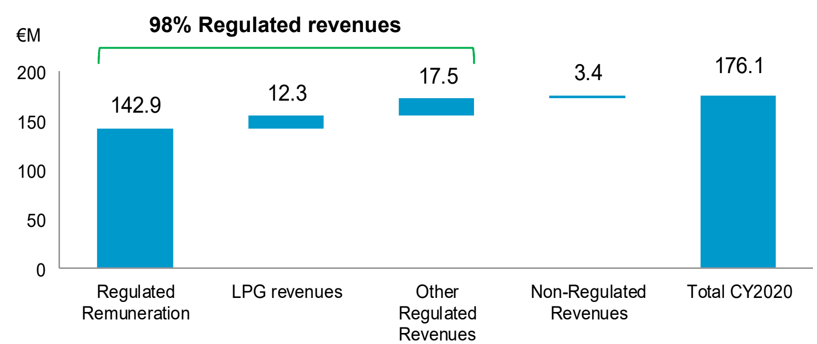
Source: MRG

Development of Connection Points (2016-2020)



Source: MRG

Revenue Breakdown (CY2020)



Source: MRG

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

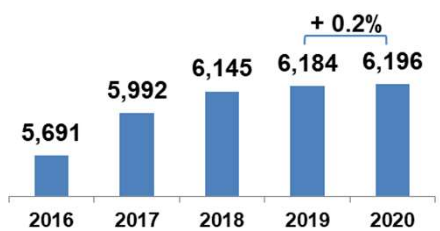
Table of Contents

Operating overview

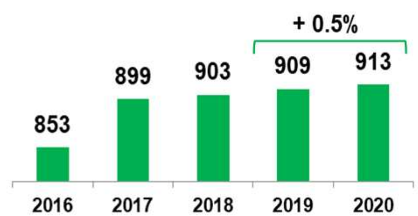
MRG successfully expanded its network length and connection points in 2020, despite COVID-19

Key Operating Metrics

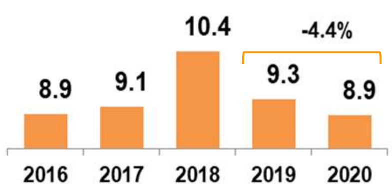
Network Length (Km)



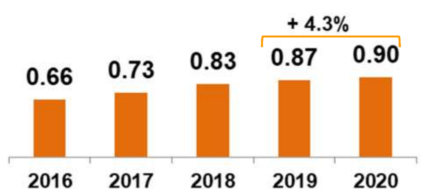
Connection Points ('000)



Gas Distributed < 4bar



Gas Distributed > 4bar



Comments

- **Despite the impact of COVID-19, the Company's management and operational team have demonstrated strong operational capabilities and successfully managed to activate a large number of new customers** (in line with pre-covid forecasts) in 2020:
  - Over 4,000 additional net connection points (+0.5% Y-o-Y) were added to MRG's network
  - A historical record of 0.9TWh of gas distributed in >4bar pressure was distributed to MRG's customers (+4.3% Y-o-Y) driven by a higher demand from high consumption customers
    - This growth confirms the relevance of natural gas in this sector due to the efficiency, sustainability and greater savings
- 8.9TWh of gas in < 4bar pressure was distributed to MRG's customers (-4.4% Y-o-Y), a decline driven by warmer temperatures across the year compared to previous year
- In 2016, a fraud prosecution initiative was implemented, with the Company investing €9m in campaigns and algorithms that helped to identify fraudulent customers. Since then, the company efficiently reduced the cost of such gas losses

Table of Contents

MRG Key Initiatives

Expansion

- Deployment of **new commercial tools through call center and telemarketing pilot project** that have enabled faster reactivation of connection points and reaching our potential customers through a more direct and secure way
- **High consumption customers: the market specialization of our team** has promoted a more effective commercial work. **The consumption has increased by more than 210GWh despite COVID-19 impact**
- **Four partnership agreements have been signed for third party networks**, giving rise 2.5Km of network and 1,151 potential households

Big strides towards customer service excellence through digitalization of the customer journey and optimization of processes

- **Digital transformation** of urgencies services and network maintenance
- **Consolidation of the energy digital certificates tool "Enerty"** providing transparency and legal certainty to the installation certification process
- The company has reached a **4.1/5 stars valuation in Google** search engine, achieving the best valuation compared to its peers.
- **Development of Big data**
- **Incorporation of Robot Process Automation (RPA)** in critical business processes and operations, such as customer service or the management of suppliers, achieving internal efficiencies
- **New channels** have been activated to interact with the customers more quickly and easily
- **Optimization and consolidation of the Virtual Office** to offer a customer's self service, including online appointments for periodic inspections which allow a more flexible service for the customers
- **Deployment of our own multi-channel customer service management tool** and reorganized the telephone service on specialized levels, leading to take advantage Artificial Intelligence tools in the cloud, develop greater autonomy and agility to implement new services to clients, and greater integration between different platforms and greater feedback as well as a better channeling of customer service
- Incorporation of new surveys in our channels, **assessing Customer satisfaction**, **Customer promotion** and **Customer Effort Score**

MRG Key Initiatives

Ongoing promotion of Natural Gas for Vehicles for transport

- **Three new partnership agreements have been concluded** with strategic partners to develop, construct and operate new gas stations both in Madrid and outside the region.
- **Two new gas stations** under construction **in MRG zone, totalizing six gas stations operating in our area.**
- **The web platform GECO** will facilitate the connection between workshops and users who are interested in converting their vehicles to natural gas

GECO

Energy Transition

- **Collaboration agreement signed with engineering company Biovic specialized in bio gas plants**, to jointly explore project opportunities for the injection of bio methane in the gas distribution network **and with hydrogen technologies company ARIEMA** to develop green hydrogen projects.
- **Member of the Spanish Hydrogen Association**
- **Enegy solutions, NGV for transport, Hydrogen and Biomethane/Biogas** will form **a key part of the Group strategy**
- MRG **is promoting with other partners several projects** leveraging on the unique opportunity of the EU funds

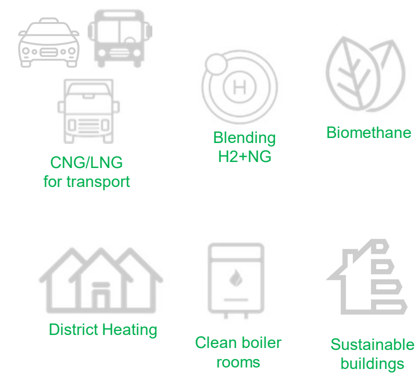


Table of Contents

Key Financials

Income Statement - €m

12 month period ending Dec 31 st	2019	2020	Var.
Remuneration	149.6	142.9	-4%
Other regulated revenue	32.5	29.8	-8%
Other revenue	4.2	3.5	-18%
Recurring EBITDA	**145.9**	**139.7**	**-4%**
EBITDA Margin (%)	*78.3%*	*79.3%*	*1%*
EBITDA Margin ex LPG dilution (%)	*82.6%*	*83.5%*	*1%*
EBIT	**113.7**	**106.8**	**-6%**
Margin	*61.0%*	*60.6%*	*-1%*
Interest expense	(27.3)	(20.8)	-24%
Income tax expense	(21.4)	(21.2)	-1%
Net Income	**65.0**	**64.8**	**-0.3%**

Source: MRG
(Audited under IFRS)

Breakdown Natural Gas – LPG - €m

12 month period ending Dec 31 st	Natural Gas	LPG	Total
Remuneration	142.9	-	142.9
Other regulated revenue	17.4	12.3	29.8
Other revenue	3.5	0.0	3.5
EBITDA	**136.8**	**2.9**	**139.7**
EBITDA margin %	***83.5%***	***23.6%***	***79.3%***

Source: MRG

Comments

- The Company obtained solid financial results in 2020 with an EBITDA of €139.7m, slightly below previous year (-4% Y-o-Y) mainly due to:
  - Lower revenues from remuneration, due to lower customer demand caused by warmer temperatures in 2020 compared to 2019
  - Final 2019 remuneration has ended being €143.6m. Remaining revenues included in 2019, come from adjustments to 2018 (previous year demand)
  - Lower other regulated revenues, explained by the lower volume of planned periodical inspections to be executed within the five years cycle
  - Nonetheless, the decline in total revenues has been partially offset by an improvement in costs as a result of operational efficiencies, such is IT systems improvements and fraud prosecution
- Notwithstanding the above, MRG maintained and even improved its EBITDA margin to 79% (78% in 2019)

Key Financials

Cash Flow Statement - €m

12 month period ending Dec 31st	2019	2020
EBITDA	145.9	139.7
Income tax paid	(6.9)	(7.1)
Working capital	(20.5)	13.9
Sectorization[1]	(7.9)	0.0
Working capital variation	(12.6)	13.9
Tariff Deficit	16.6	(12.9)
Castor Project payments	14.5	(14.5)
Gas system tariff deficit	2.1	1.6
Capex	(13.5)	(14.3)
Organic growth	(8.6)	(8.7)
Maintenance	(2.7)	(4.2)
Others	(2.1)	(1.4)
Free Cash Flow	**121.6**	**119.4**
Free Cash Flow excluding one-off effects [1]	**114.9**	**133.9**

(1) One-off effects

Source: MRG
Audited under IFRS

Comments

- Sustainable cash generated from operations amounting to €119.4m, which represents a +16% result compared to previous year (after excluding year 2019 one-off effects).
- In regards to working capital, main variations are explained by:
  - One-off effect due to sectorization (*) payment made to Naturgy in 2019 (€7.9m)
  - Non-cash item coming from remuneration adjustment included in EBITDA with no cash impact (€4.3m)
  - Settlements: payment received from the system from adjustments to previous years 2018 and 2019 remuneration (€10.8m)
- Gas system tariff deficit variation explained by the one-off system recovery of Castor project (**) costs in 2019 returned to the owners of the previous years system tariff deficits
- Excluding one off effects, the gas system tariff deficit position was similar to previous years.
- Despite lock-down period (particularly a severe lock-down in Madrid from April to June 2020), MRG recovered its expansion activity and invested a total of €8.7m in expanding its network, in line with the previous year's investment
- Maintenance variation is explained by the LPG deposits dismantling cost after LPG plants conversion to natural gas

(*) 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.

Key Financials

Madrileña RED DE GAS

Balance Sheet - €m

At December 31st	2019	2020
Gas distribution licences	751.0	751.0
Net fixed assets	354.9	339.2
Total Network Fixed Assets	**1,105.8**	**1,090.1**
Goodwill	**57.4**	**57.4**
Deferred Tax Asset	**21.5**	**17.9**
Other Non-Current Assets	**55.7**	**212.1**
Current Assets	**42.3**	**47.7**
Cash and cash equivalents	**103.4**	**46.6**
Total Assets	**1,386.2**	**1,471.8**
Equity	**298.1**	**362.5**
Long Term Debt	**943.8**	**945.2**
Deferred Tax	**60.1**	**70.0**
Other Non-Current liabilities	**37.5**	**38.6**
Current Liabilities	**46.7**	**55.6**
Total Liabilities & Shareholders' Equity	**1,386.2**	**1,471.8**

Source: MRG
Audited under IFRS

Comments

- The main Balance Sheet variation during 2020 was related to other non-current assets variance that is explained by the intercompany loan between MRG and its parent company Elisandra V
- 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
  - €300MM 1,3750% due April 2025
  - €300MM 2,250% due April 2029
  - €75MM 3,500% due March 2031
- In addition, MRG holds a RCF amounting €75m which as of December 31st , 2020 remains fully undrawn
- Regarding this RCF, in order to adjust to the Company's liquidity needs and optimise financial costs, last February 2020, the RCF amount was reduced from €200m to €75m

Table of Contents

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 (low) (DBRS)	BBB- (S&P) BBB- (Fitch) BBB (low) (DBRS)	BBB- (S&P) BBB- (Fitch) BBB (low) (DBRS)	BBB- (S&P) BBB- (Fitch) BBB (low) (DBRS)	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 2021, MRG's long term financing amounts €950MM, providing strong financial capacity

4. On August 17th 2020, MRG and its debt were publicly rated DBRS Morningstar with BBB (low) with stable trend

   On September 14th 2020, Fitch downgraded MRG's debt rating to BBB-from BBB with stable outllok

   On June 9th 2021, Standard and Poors has affirmed MRG's rating in BBB- and has revised outlook to stable from negative

5. Flexible financial policy in place that strongly supports investment grade commitment

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

Table of Contents

Madrileña RED DE GAS

ESG – Main events 2020

Madrileña RED DE GAS

Environment

- **Efficiently reduced gas losses**
- **Collaboration with different administrations**, such as the Madrid City Council, to substitute boilers' consumption from polluting fuels such us coal or diesel to natural gas
- **Dismantling** of more than 100 LPG deposits
- **Collaboration agreement** with Xucrogas **to convert more than 300 LPG connection points into natural gas**
- **Annual carbon footprint report**: MRG has continued to maintain the system of environmental performance indicators

Social

- **Emergency contingency plan for COVID-19** included **down payment for suppliers** to help them avoid financial problems and **donations to different social initiatives** to help mitigate the impact of the sanitary and economic crisis
- Besides 2020 special situation due to COVID-19, MRG and its employees **collaborate with different solidarity initiatives**
- **Equality plan** negotiations initiated in 2020
- **Prevention plan** to avoid the causes of accidents or occupational diseases in the workplace. No casualties or serious accidents during the year

Governance

- **First specific ESG report** considering the GRI standard
- **GRESB rating shows a progressive improve**ment each year
- **Improvements to existing integrated management system** following ISO 45001, ISO 14001 and ISO 9001 standards **through the digitalization of processes** and with the alignment of its objectives with GRESB requirements

Table of Contents

Madrileña RED DE GAS

Main takeaways

1. **Regulatory framework guarantees revenues stability for the period 2021 - 2026**
2. **High resilience to unexpected events. No impact in 2020 financials from COVID-19**
3. **Highly focussed on cost efficiencies and increasingly oriented to customer service**
4. Involved in the **promotion of projects in key sectors linked to Energy Transition**
5. Current **debt structure reduces refinancing risk** by spreading maturities and the **Revolving credit facility provides additional liquidity with total flexibility**
6. **Strongly committed with investment grade qualification. Rated with IG.**
7. **Commitment to ESG**

Disclaimer

NOT FOR DISTRIBUTION IN THE UNITED STATES, CANADA OR JAPAN

This presentation has been prepared by Madrileña Red de Gas, S.A.U. (the "**Company**"). Certain statements in this presentation are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties and assumptions could adversely affect the outcome and financial effects of the plans and events described in this presentation. Forward-looking statements contained in this presentation that refer to past trends or activities should not be taken as a representation that such trends or activities will necessarily continue in the future. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should not place undue reliance on forward-looking statements, which speak only as at the date of this presentation. It should be noted that the Company's auditors have not reviewed the information in this presentation.

This presentation (and its contents) are being made available on the basis that the information contained herein may not be reproduced, disclosed, redistributed or passed on, directly or indirectly, to any other person (unless he or she is affiliated with the recipient and has agreed to comply with these restrictions on redistribution) or published, in whole or in part, for any purpose without the prior written consent of the Company.

The distribution of this document in certain jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

This document does not constitute or form part of, and should not be construed as, an offer to sell or issue or the solicitation of an offer to buy or acquire securities of the Company in any jurisdiction or an inducement to enter into investment activity. No part of this document, nor the fact of its distribution, should form the basis of, or be relied on in connection with, any contract or commitment or investment decision whatsoever.

The information contained herein is not for publication or distribution in the United States of America (the "United States"), Canada, Japan or any other jurisdiction where the distribution of such information is restricted by law, and does not constitute an offer to sell, or solicitation of an offer to buy, securities in the United States, Canada, Japan or in any other jurisdiction in which it is unlawful to make such an offer or solicitation. Offers and sales of securities in the United States may not be made absent registration under the U.S. Securities Act of 1933, as amended, or an applicable exemption there from. This document does not solicit money, securities or any other type of consideration, and, if any money, securities or other type of consideration is sent in response hereto, it will not be accepted.