

# FY20 Results

4 February 2021





1

Recent events

2

Scenario

3

Consolidated results

4

Results by business unit

5

Summary 2020 and outlook 2021

# Recent events

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# Recent events

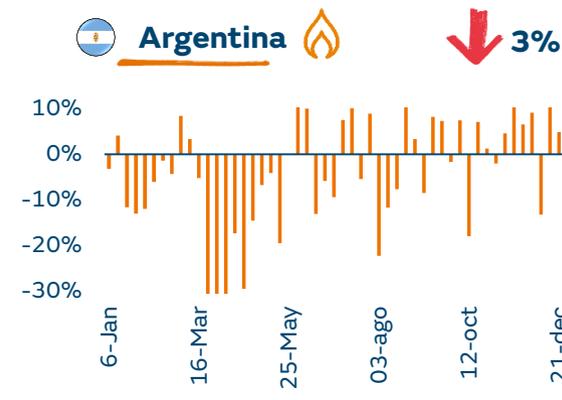
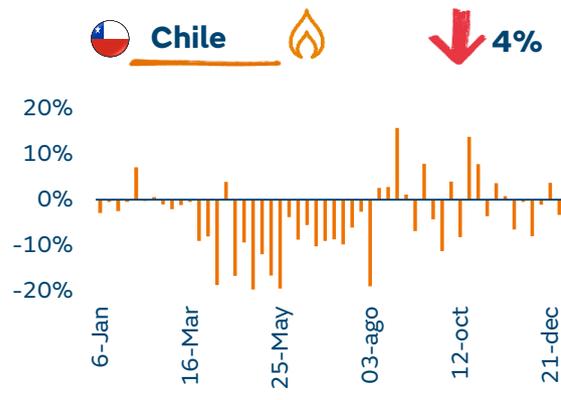
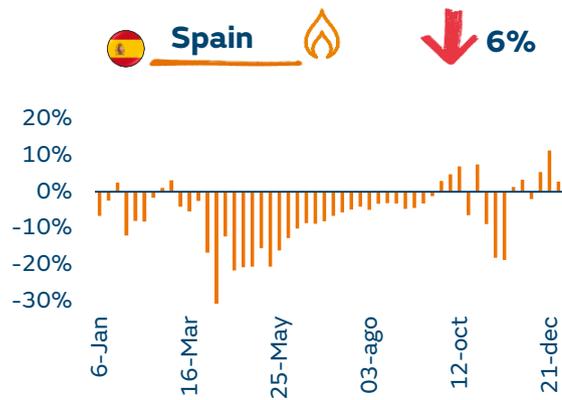
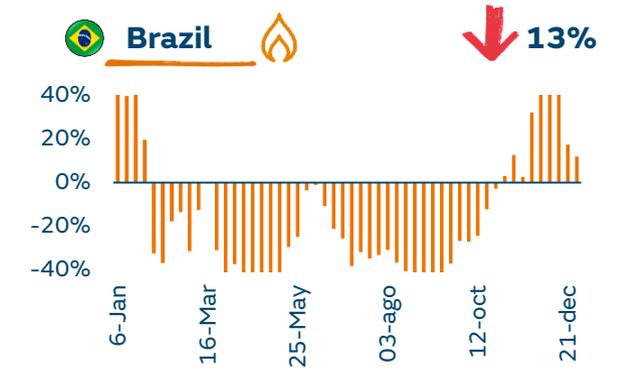
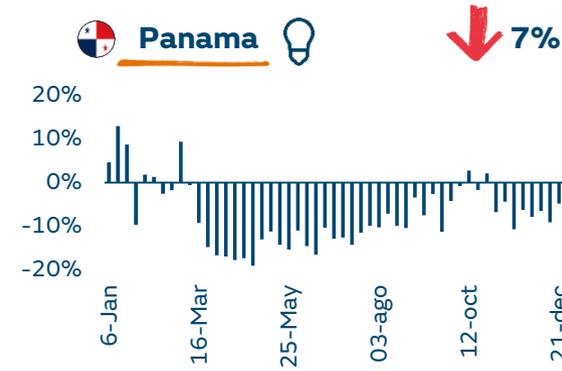
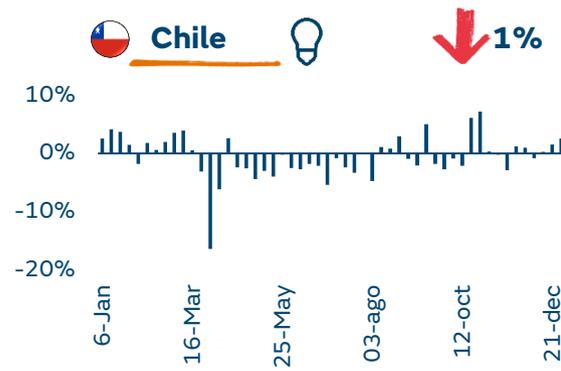
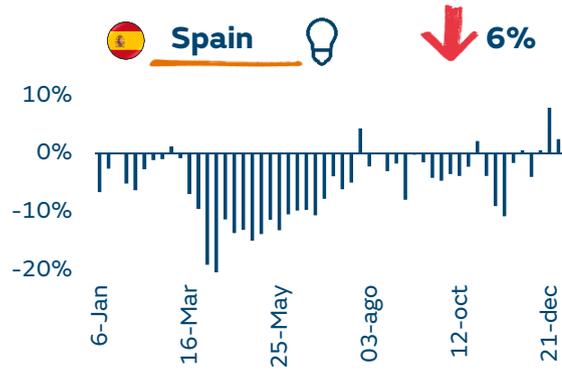
- ➔ **IFM tender offer**
  - › **Unsolicited and partial for up to 22.689% of Naturgy's share capital at €23/share**
    - **Naturgy informed of interest shortly before public announcement**
    - **Bidder had not requested nor received any information from the Company**
    - **Naturgy became aware of bid terms at public announcement**
  - › **The Company continues to operate in the best interest of its shareholders**
    - **Developing efforts to lead in the energy transition**
    - **Executing its asset rotation strategy**
  - › **Naturgy's Board will comment on the offer when appropriate**
- ➔ **CMD date subject to developments**

Scenario

2

# Electricity and gas demand evolution during 2020

Weekly avg. FY20 vs. FY19

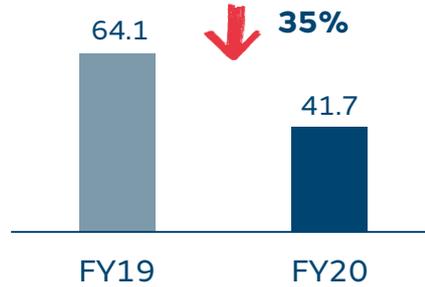


Electricity Gas

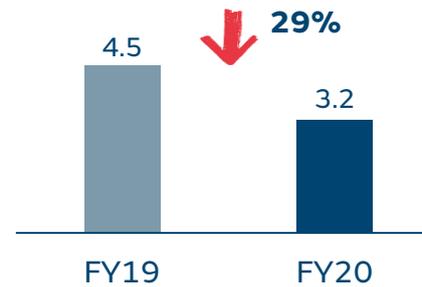
**Energy demand strongly impacted by COVID-19**

# Energy markets evolution during 2020 (avg. FY20 vs. FY19)

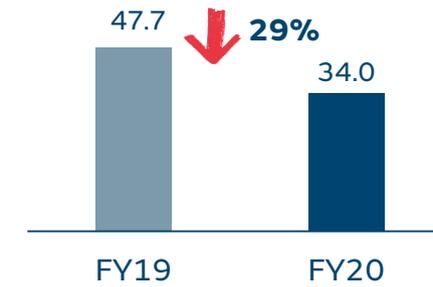
**Brent (USD/bbl)**



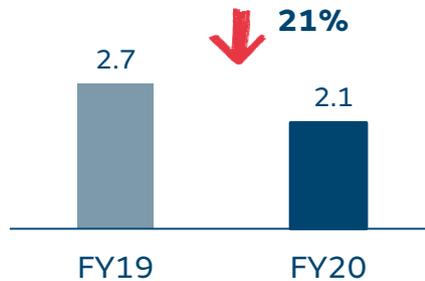
**NBP (USD/MMBtu)**



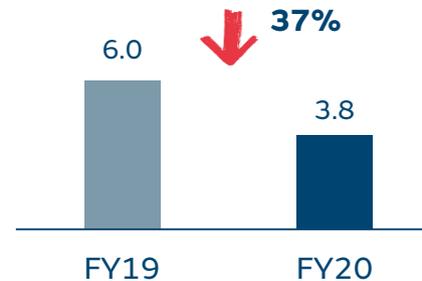
**Spanish electricity market (Pool) (€/MWh)**



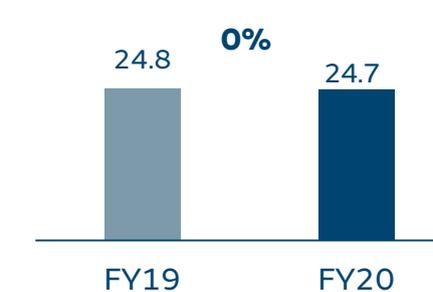
**Henry Hub (USD/MMBtu)**



**JKM (USD/MMBtu)**

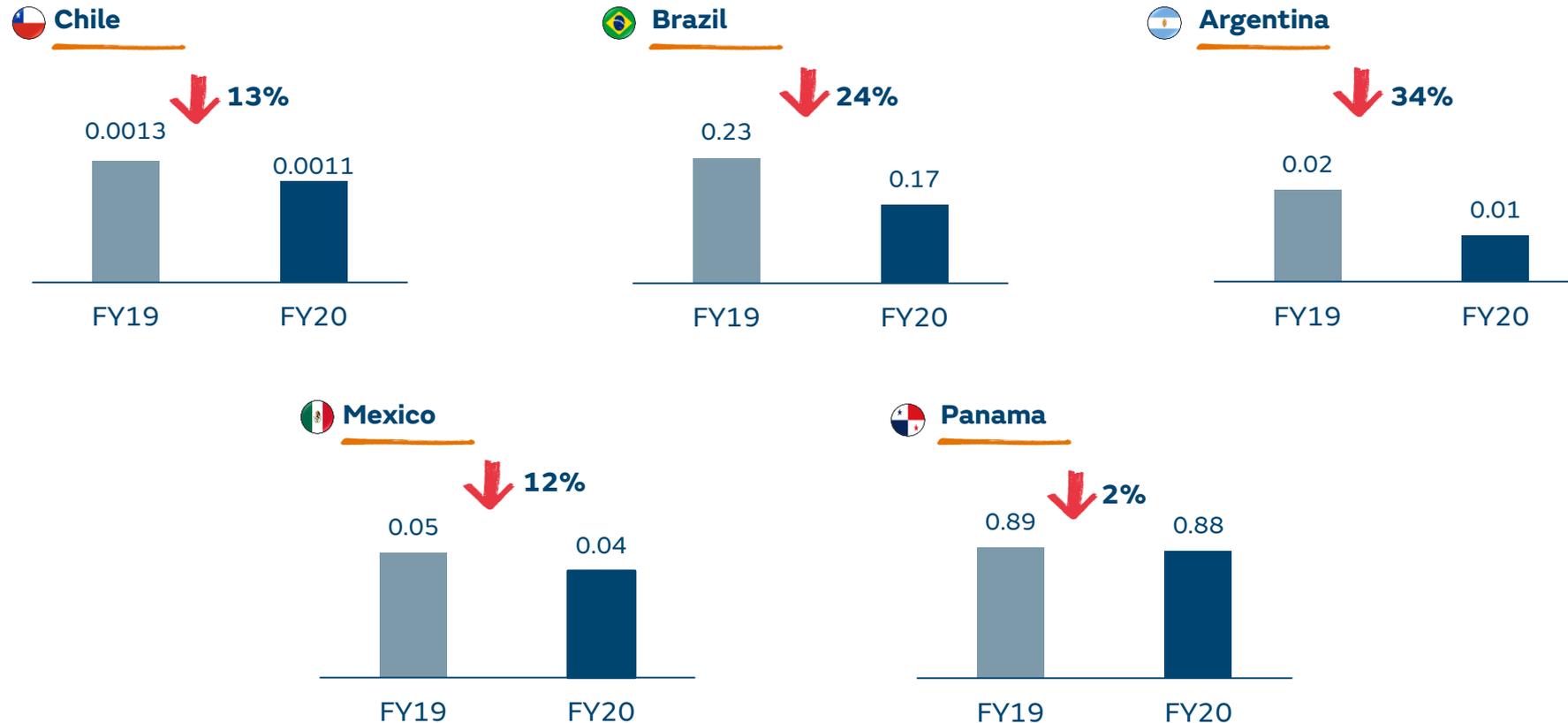


**CO<sub>2</sub> (€/t)**



**Structural challenges in 2020 and ongoing volatility in 2021**

## FX evolution during 2020 (avg. FY20 vs. FY19)



Ongoing FX weakness

# Consolidated results



# New reporting structure and perimeter changes

<p>①</p>	<p><b>Networks</b></p> <ul style="list-style-type: none"> <li>&gt; Spain</li> <li>&gt; LatAm</li> </ul>		<ul style="list-style-type: none"> <li>&gt; CGE Electricidad classified as held for sale following disposal agreement with China State Grid</li> </ul>
<p>②</p>	<p><b>Energy management</b></p>		<ul style="list-style-type: none"> <li>&gt; Energy management composed of i) markets and procurement, ii) international LNG, iii) pipelines (EMPL), iv) Spain thermal generation and v) international thermal generation</li> <li>&gt; Markets and procurement includes all gas procurement and internal and external sales (except from International LNG and gas sales to end customers &lt;500GWh in Spain)</li> </ul>
<p>③</p>	<p><b>Renewables</b></p>		<ul style="list-style-type: none"> <li>&gt; Includes all renewable generation (including hydro) previously reported as part of European power generation and International power generation</li> </ul>
<p>④</p>	<p><b>Supply</b></p>		<ul style="list-style-type: none"> <li>&gt; Includes all power sales to end customers in Spain</li> <li>&gt; Includes gas sourcing from markets and procurement unit and sales to end customers &lt; 500GWh in Spain</li> </ul>

Reporting focused on energy transition and aligned with new organizational structure

# Key highlights

- 1 Impact from challenging scenario: demand, FX and tariff/prices
- 2 New regulation in Spain electricity distribution  
Volume step down in the EMPL
- 3 Asset valuation review consistent with energy scenario (mainly in CCGTs)
- 4 CGE Electricidad disposal agreement
- 5 Acceleration in efficiencies to offset operating environment
  - > €545m efficiencies in recurrent Opex
  - > Above initial target and 2 years ahead

## Key figures (€m, % vs. FY19)

Ordinary EBITDA

3,714

~4.0bn  
At constant  
perimeter

Ordinary Net Income

872

Capex

1,279

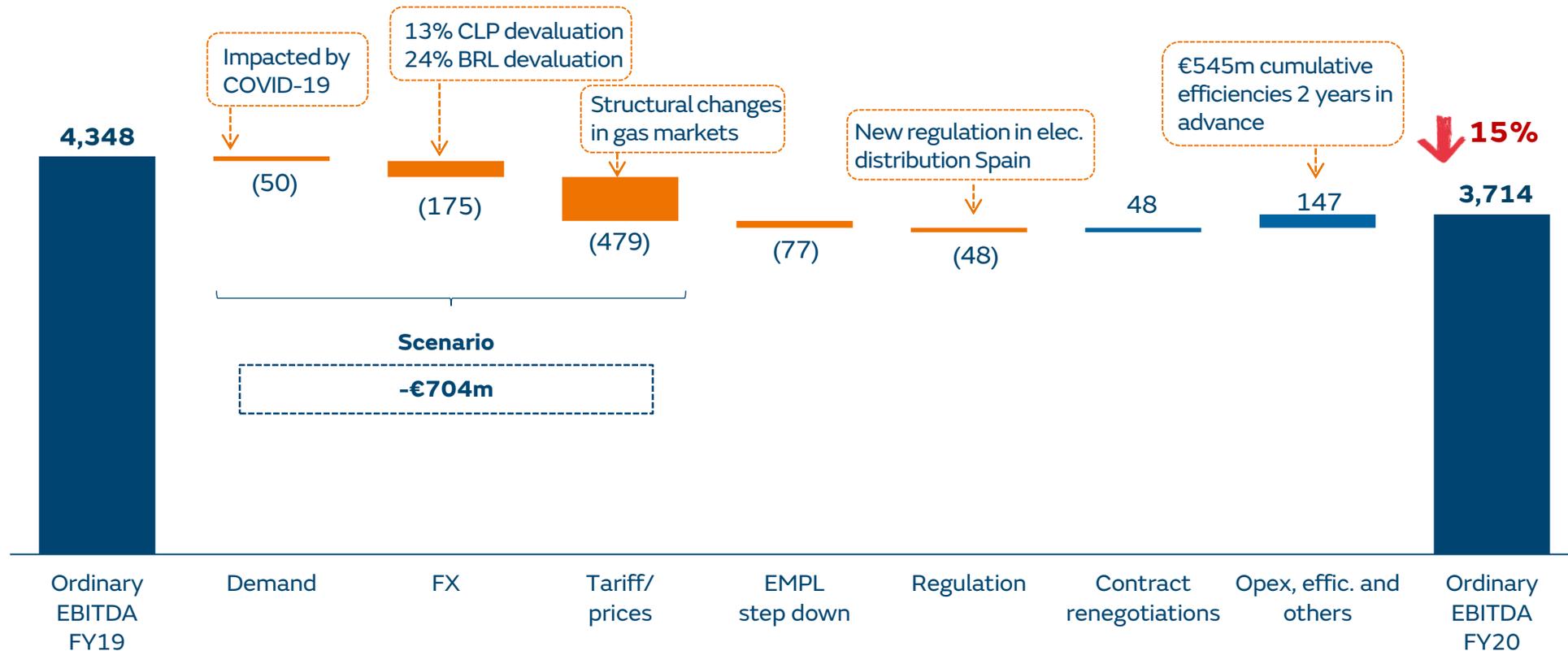
CF from operations

3,432

2020 EBITDA guidance met at constant perimeter

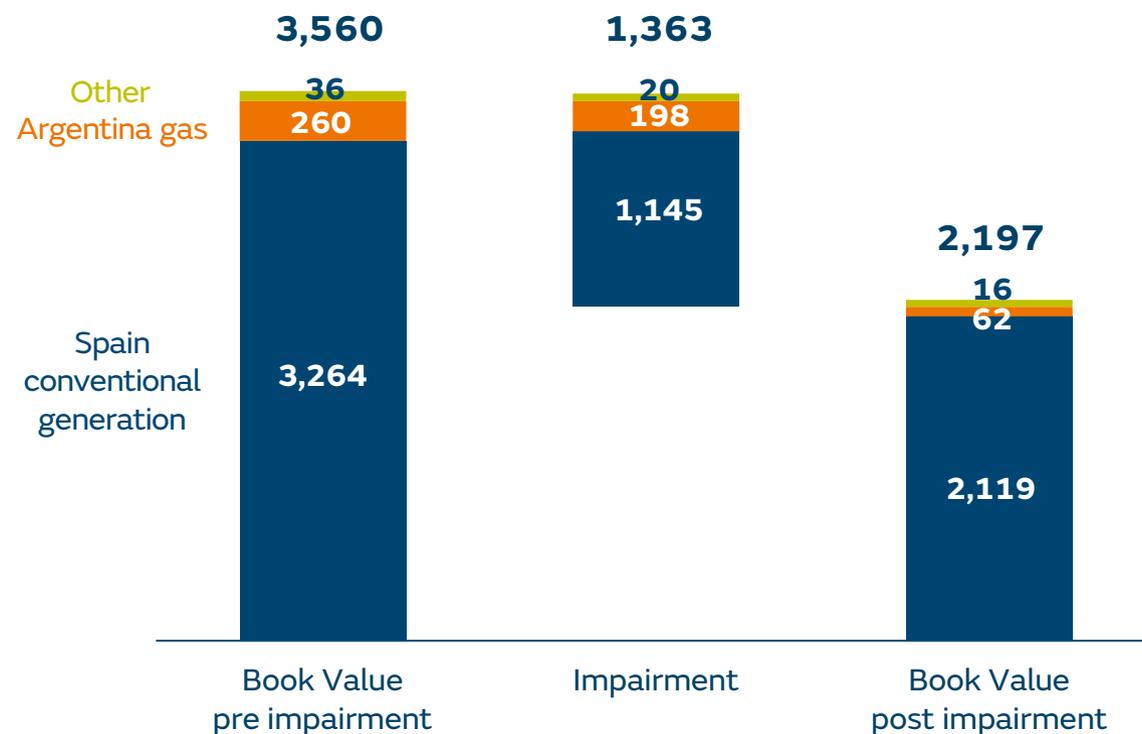
# Ordinary EBITDA evolution by key drivers (€m)

➔ Excluding CGE Electricidad



Negative headwinds partly offset with opex efficiencies and gas contracts renegotiations

# Asset valuation review (€m)



## Summary

- > Spain conventional generation (mainly CCGTs) €1,145m impairment due to structural changes in energy scenario
- > Argentina €198m write down to reflect macro scenario and hyperinflation

## Main impacts

- > No cash impact in 2020
- > Positive impact on P&L from 2021 onwards due to lower D&A (~€75m/year)

**Non cash €1,363m asset valuation review driven by scenario**

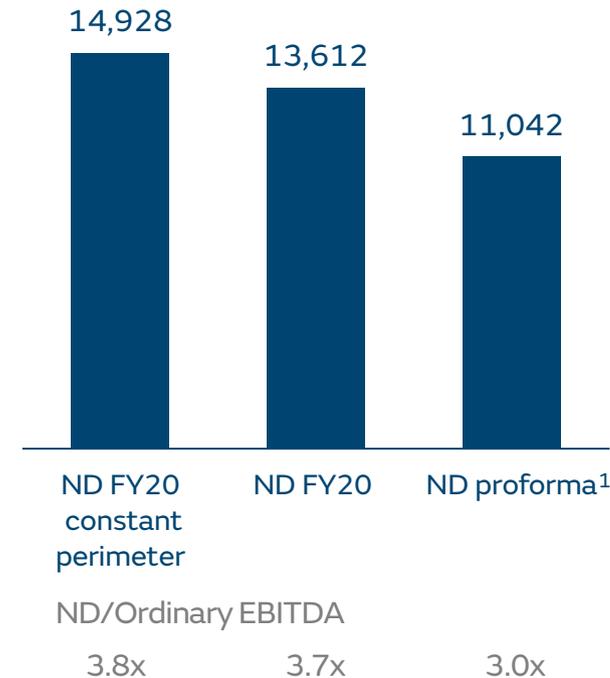
# CGE Electricidad disposal agreement

## Summary

- 1 Sale of Naturgy's entire equity shareholding in CGE-Electricidad (96.04%) to China State Grid
- 2 Purchase price of **€2,570m (equity value) fixed in Euros and payable in cash** upon completion. The transaction implies an **enterprise value (100%) of €4,312m**
- 3 The transaction is expected to generate pre-tax capital gains of approximately €400m on **pre-tax cash proceeds of €2,570m to be cashed in 2021**
- 4 **ND/LTM EBITDA** proforma of the transaction would stand at **3.0x (vs. 3.7x ordinary)** as of December 2020

## Consolidated impacts (€m)

### Net debt



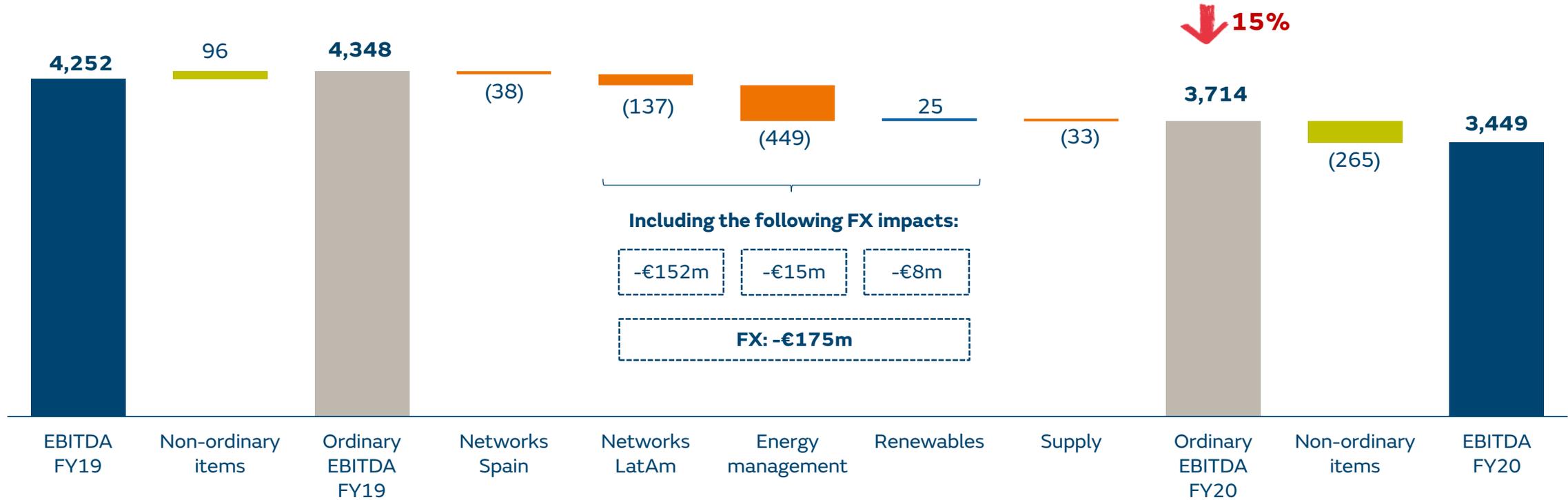
### P&L



**Substantial deleveraging with limited earnings dilution**

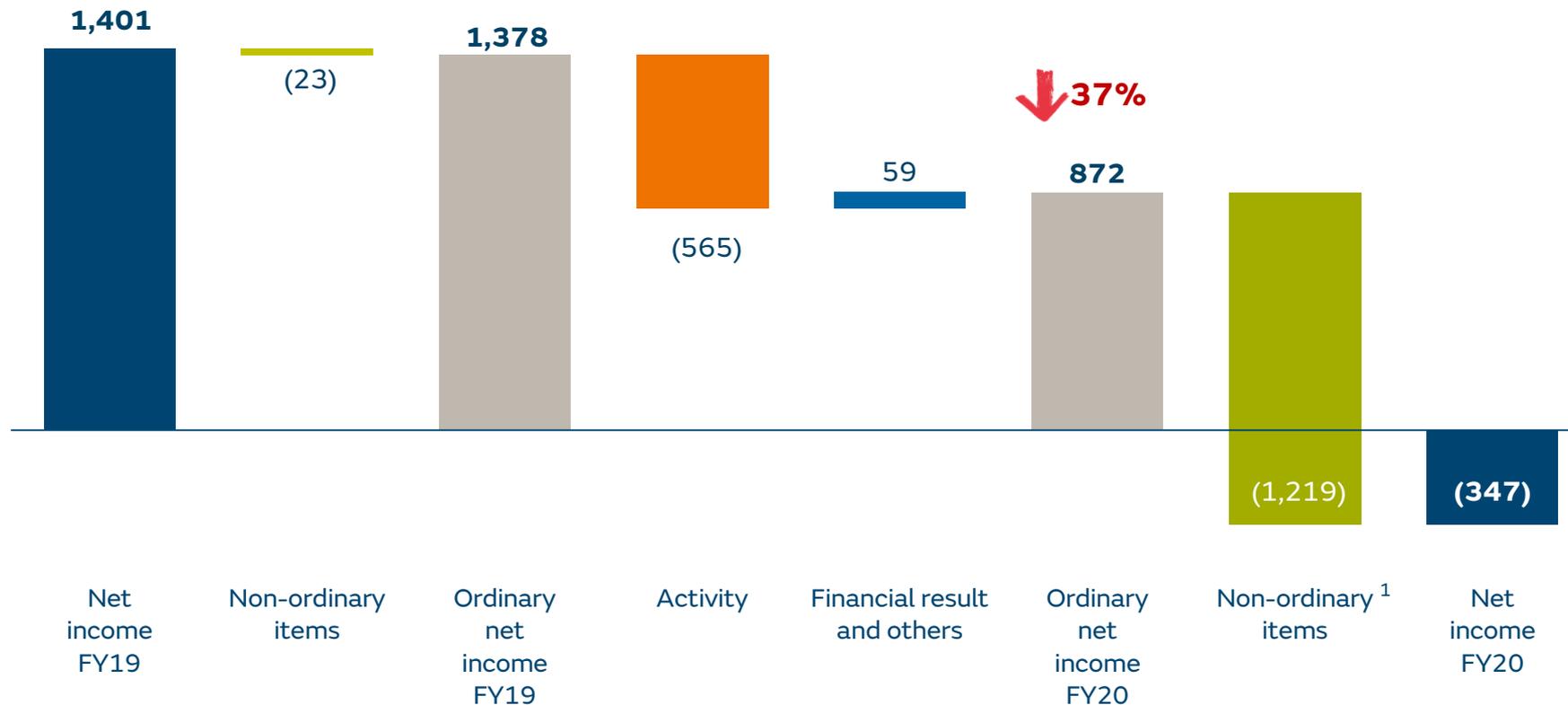
# EBITDA evolution by business unit (€m)

➔ Excluding CGE Electricidad



Performance impacted by multiple headwinds in energy scenario and FX

## Net Income evolution (€m)



Results impacted by weaker operations and impairment

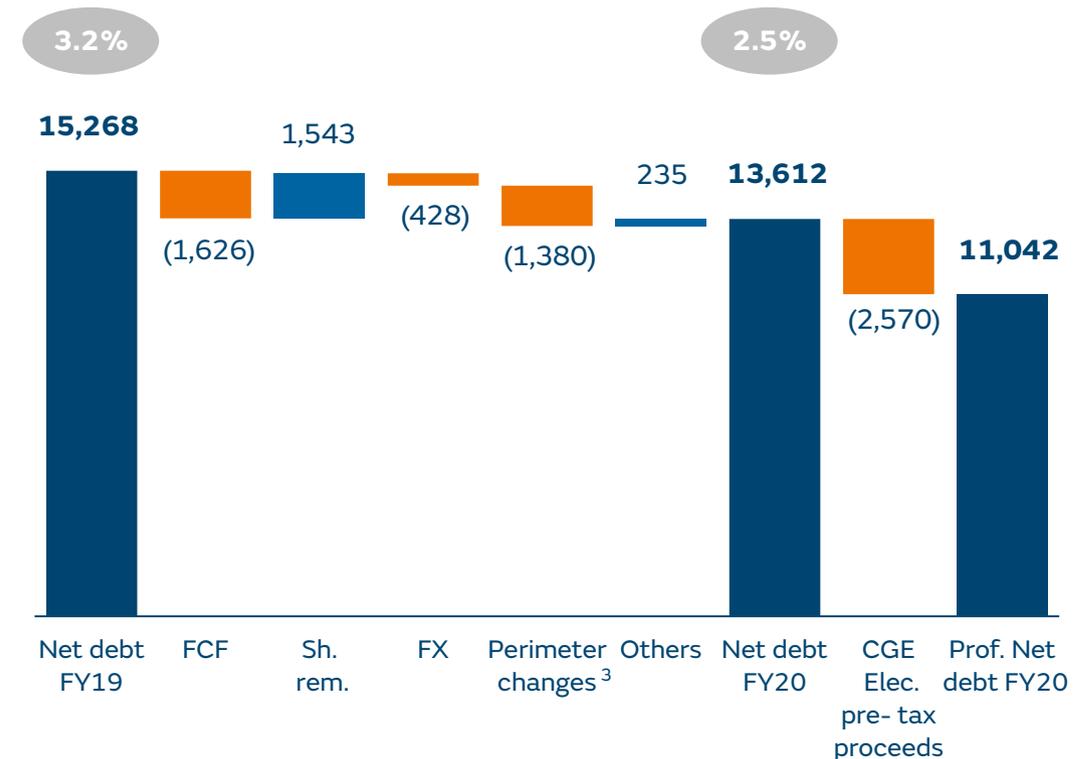
# Cash flow and net debt evolution (€m)

## Cash flow

	FY20	vs. FY19
<b>Ordinary EBITDA</b>	<b>3,714</b>	<b>-15%</b>
Non-ordinary items	(265)	
<b>EBITDA</b>	<b>3,449</b>	<b>-19%</b>
Taxes	(214)	
Net interest cost	(538)	
Other non-cash items	(53)	
<b>Funds from operations</b>	<b>2,644</b>	<b>-24%</b>
Change in working capital	788	
<b>Cash flow from operations</b>	<b>3,432</b>	<b>-15%</b>
Capex <sup>1</sup>	(1,228)	
Dividends to minorities	(443)	
Divestments & Other	(135)	
<b>Free cash flow</b>	<b>1,626</b>	<b>-17%</b>

## Net debt

(%): avg. cost of debt<sup>2</sup>



**Lower net debt driven by perimeter changes and FX**

# Shareholder remuneration FY 2020

DPS (€/sh.)



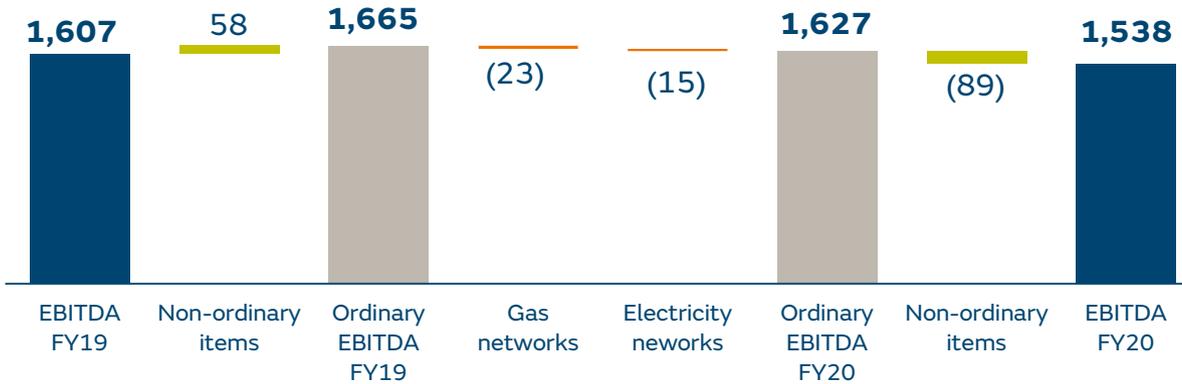
**Final dividend against 2020 to be paid in 1Q 2021**

# Results by business unit



# Networks Spain

## EBITDA evolution by business line (€m)



## Highlights

- > **Gas networks:** lower sales as result of mild weather and economic slowdown partially compensated by business optimization
- > **Electricity networks:** lower financial remuneration due to new regulatory period and lower fees on meters interventions
- > Overall impacted by COVID-19

## Ordinary EBITDA evolution by key drivers (€m)

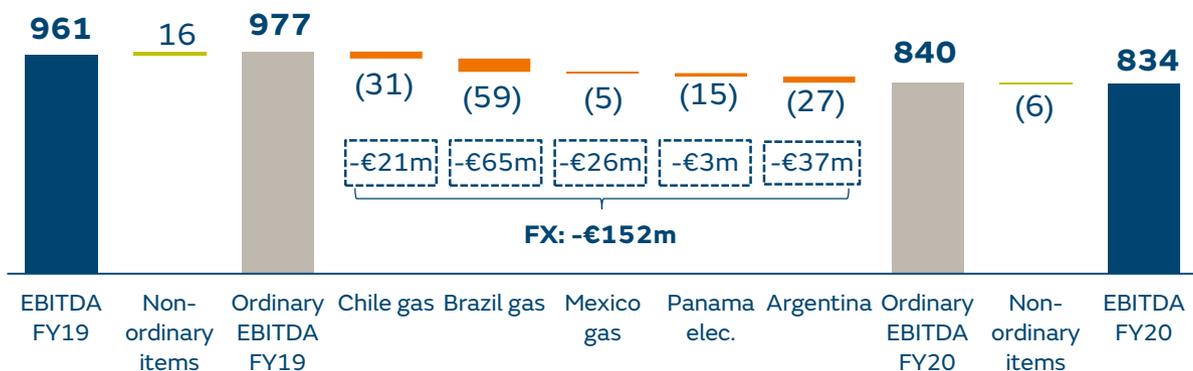


€321m capex, of which ~85% remunerated

Resilient results despite scenario and changes in regulation

# Networks LatAm

## EBITDA evolution by business line (€m)



## Ordinary EBITDA evolution by key drivers (€m)



## Highlights

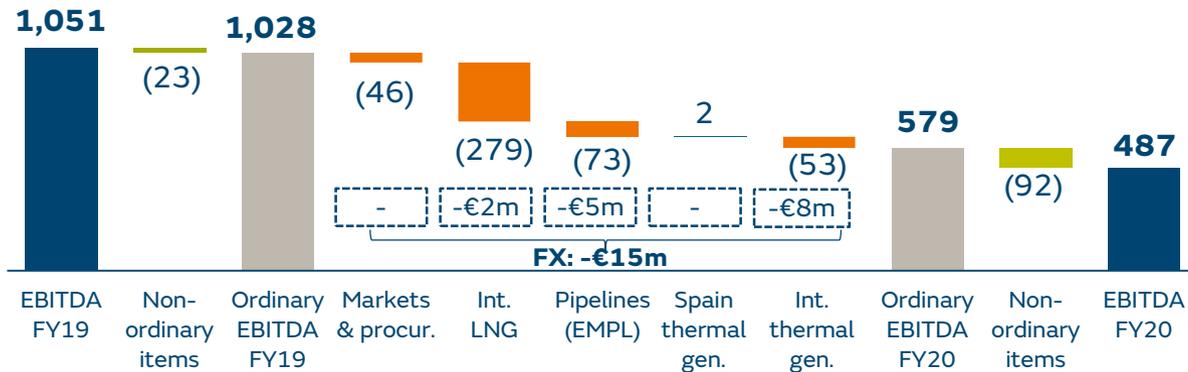
- > **Chile gas:** tariff indexation and efficiencies offset by lower demand
- > **Brazil gas:** tariff indexation, efficiencies and lower energy losses offset by FX and demand
- > **Mexico gas:** higher margins and tariff updates not sufficient to compensate for FX and sales decrease
- > **Panama electricity:** lower demand partially compensated by efficiencies
- > **Argentina:** tariff updates offset by lower gas sales and FX

€342m capex, of which ~80% remunerated

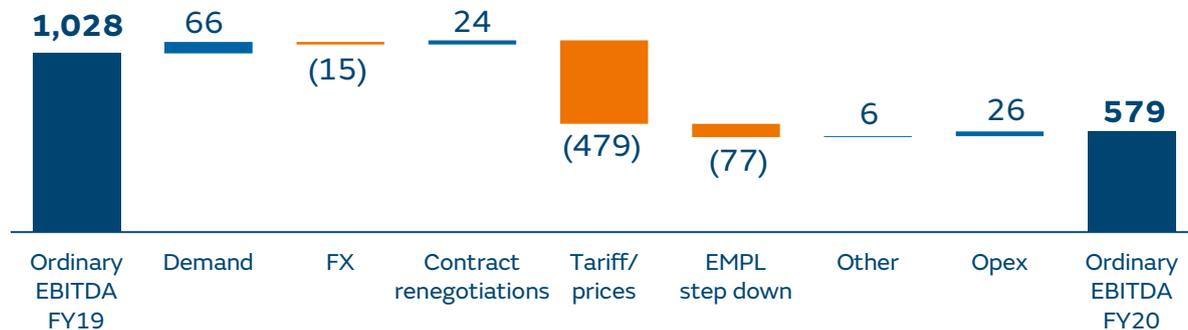
Results impacted by lower demand and FX

# Energy management

## EBITDA evolution by business line (€m)



## Ordinary EBITDA evolution by key drivers (€m)



## Highlights

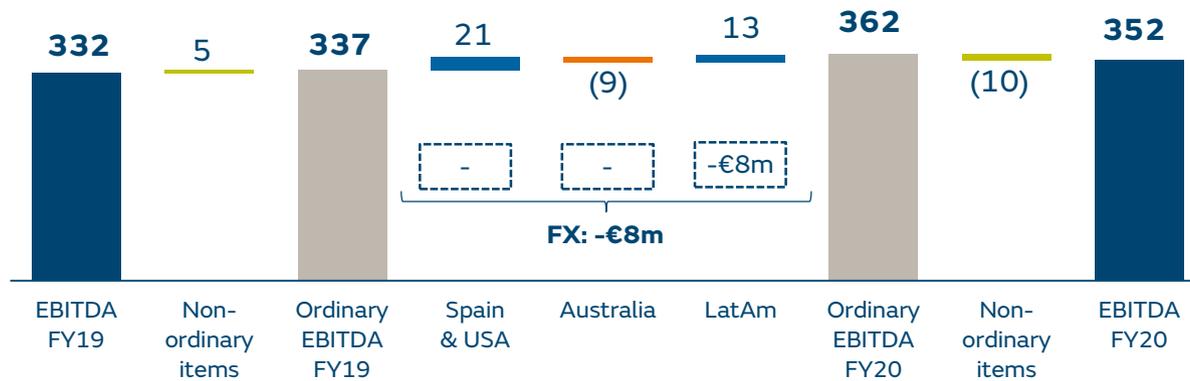
- > **Markets and procurement:** loss of gas supply cost competitiveness and negative contribution of volume sales to avoid unrecoverable take or pay requirements
- > **International LNG:** depressed LNG scenario resulting in negative margins partially compensated via financial hedging and cancellation of some cargoes
- > **Pipelines (EMPL):** step-down of EMPL capacity
- > **Spain thermal generation:** higher margins driven by lower CCGTs generation costs and additional efficiencies
- > **International thermal generation:** lower merchant margins in Dominican Republic and lower volumes in Mexico partially compensated by efficiencies and higher margins in PPA sales

€93m capex, of which ~15% remunerated

Depressed gas scenario throughout 2020

# Renewables

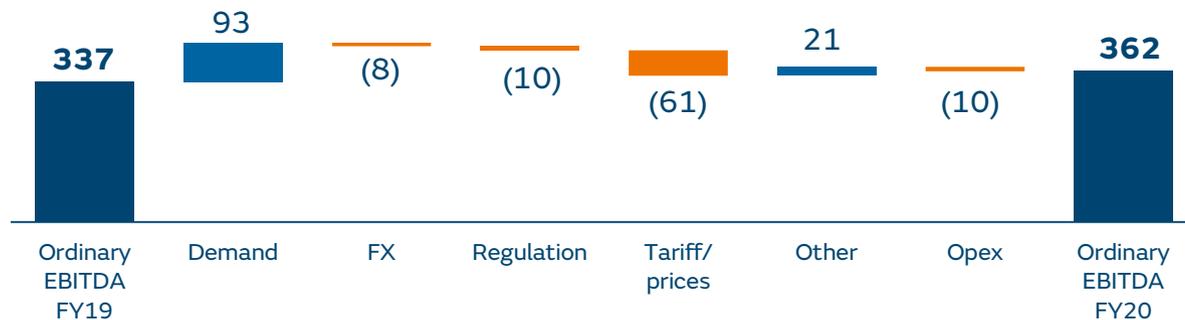
## EBITDA evolution by business line (€m)



## Highlights

- › **Spain:** increased renewable and hydro generation in Spain, partially offset by lower pool prices
- › **Australia:** progressing in new wind farms developments to double existing renewable capacity
- › **LatAm:** higher wind resource and prices in Mexico offset by lower contribution from Brazil solar
- › **USA:** preparing the entrance in 2021 through proprietary developments

## Ordinary EBITDA evolution by key drivers (€m)

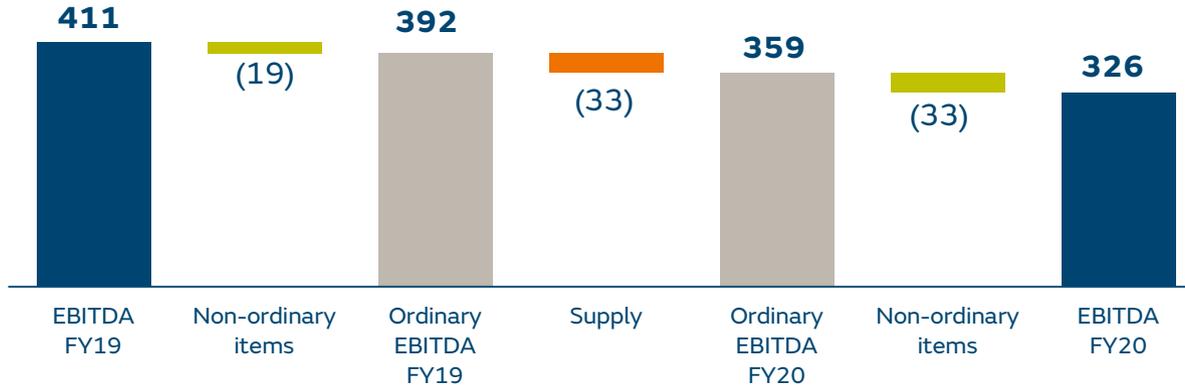


€429m capex, of which ~95% remunerated

New renewable capacity gradually increasing its contribution

# Supply

## EBITDA evolution by business line (€m)



## Highlights

- > **Power supply:** lower demand partially compensated by lower pool prices and operational improvements
- > **Gas supply:** continued margin pressure and lower sales in residential and SMEs segment

## Ordinary EBITDA evolution by key drivers (€m)



€55m capex, of which ~60% remunerated

Lower demand and continued pressure on gas margins

# Summary 2020 and outlook 2021



# Summary 2020

- ① **Energy demand, prices and LatAm currencies impacted by COVID-19**
- ② **Structural challenges moving forward**  
**Gas contract renegotiations**
- ③ **Acceleration in efficiencies as key lever to offset scenario**  
**Non cash €1,363m asset valuation review driven by scenario**
- ④ **CGE Electricidad disposal agreement**

**2020 EBITDA guidance met at constant perimeter**

# Outlook 2021

## 1 Networks Spain

- › Higher volumes and efficiencies in gas
- › New regulatory framework (gas distribution)
- › Electricity distribution growth driven by capex and efficiencies

## 2 Networks LatAm

- › Demand recovery levels unlikely until 2022
- › Ongoing FX weakness only partly compensated with tariff updates
- › Deconsolidation of CGE Electricidad from 2020

## 3 Energy management

- › Signs of recovery in scenario but limited upside in gas sold into Europe
- › Ongoing challenges in International LNG
- › Expiry of EMPL concession in Oct 2021

## 4 Renewables

- › Growing renewable capacity to gradually increase contribution to results
- › Spain, Australia and USA main markets for future development
- › Greenfield development of Solar PV/batteries projects in USA as per recent acquisition

## 5 Supply

- › Improvement mainly supported by mild recovery and structural changes

## Assets

- › Execution of asset rotation strategy including closing of:
  - UFG
  - CGE Electricidad

**New opportunities amid persisting headwinds over 2021**

# Appendix

# Alternative Performance Metrics (i/ii)

Naturgy's financial disclosures contain magnitudes and metrics drafted in accordance with International Financial Reporting Standards (IFRS) and others that are based on the Group's disclosure model, referred to as Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS.

The chosen APMs are useful for persons consulting the financial information as they allow an analysis of the financial performance, cash flows and financial situation of Naturgy, and a comparison with other companies.

Below is a glossary of terms with the definition of the APMs. Generally, the APM terms are directly traceable to the relevant items of the consolidated balance sheet, consolidated income statement, consolidated statement of cash flows or Notes to the Financial Statements of Naturgy. To enhance the traceability, a reconciliation is presented of the calculated values.

Alternative performance metrics	Definition and terms	Reconciliation of values		Relevance of use
		31 December 2020	31 December 2019	
Ebitda	Operating profit	Euros 3,449 million	Euros 4,252 million	Measure of earnings before interest, taxes, depreciation and amortization and provisions
Ordinary Ebitda	Ebitda - Non-ordinary items	Euros 3,714 million = 3,449 + 265	Euros 4,348 million = 4,252 + 96	Ebitda corrected of impacts like restructuring costs and other non-ordinary items considered relevant for a better understanding of the underlying results of the Group.
Ordinary Net income	Attributable net income of the period - Non-ordinary items	Euros 872 million = -347 + 1,219	Euros 1,378 million = 1,401 + 23	Attributable Net Income corrected of impacts like assets write-down, discontinued operations, restructuring costs and other non-ordinary items considered relevant for a better understanding of the underlying results of the Group.
Investments (CAPEX)	Investments in intangible assets + Investments in property, plant & equipment	Euros 1,279 million = 187 + 1,092	Euros 1,685 million = 222 + 1,463	Realized investments in property, plant & equipment and intangible assets.
Net Investments	CAPEX - Other proceeds/(payments) of investments activities	Euros 1,228 million = 1,279 - 51	Euros 1,607 million = 1,685 - 78	Total investments net of the cash received from divestments and other investing receipts.
Gross financial debt	Non-current financial liabilities + "Current financial liabilities"	Euros 17,539 million = 14,968 + 2,571	Euros 17,987 million = 15,701 + 2,286	Current and non-current financial debt

# Alternative Performance Metrics (ii/ii)

Alternative performance metrics	Definition and terms	Reconciliation of values		Relevance of use
		31 December 2020	31 December 2019	
Net financial debt	Gross financial debt - "Cash and cash equivalents" - "Derivative financial assets"	Euros 13,612 million = 17,539 – 3,927 - 0	Euros 15,268 million = 17,987 – 2,685 – 34	Current and non-current financial debt less cash and cash equivalents and derivative financial assets
Leverage (%)	Net financial debt / (Net financial debt + "Net equity")	54.7% = 13,612 / (13,612+ 11,265)	52.2% = 15,268 / (15,268 + 13,976)	The ratio of external funds over total funds
Cost of net financial debt	Cost of financial debt - "Interest revenue"	Euros 498 million = 515 - 17	Euros 547 million = 570 - 23	Amount of expense relative to the cost of financial debt less interest revenue
Ebitda/Cost of net financial debt	Ebitda / Cost of net financial debt	6.9x = 3,449 / 498	7.8x = 4,252 / 547	Ratio between Ebitda and net financial debt
Net financial debt/LTM Ebitda	Net financial debt / Last twelve months Ebitda	3.9x = 13,612 / 3,449	3.6x = 15,268/ 4,252	Ratio between net financial debt and Ebitda
Free Cash Flow after minorities	Free Cash Flow + Dividends and other + Acquisitions of treasury shares + Inorganic investments payments	Euros 1,626 million = 79 + 1,359 + 184 + 4	Euros 1,958 million = 238 + 1,307 + 405 + 8	Cash flow generated by the Company available to pay to the shareholders (dividends or treasury shares), the payment of inorganic investments and debt payments.
Net Free Cash Flow	Cash flow generated from operating activities + Cash flows from investing activities – Other GC divestment receipts + Cash flow generated from financing activities - Receipts and payments on financial liability instruments	Euros 79 million = 3,432 – 1,142 – 190 – 388 – 1,633	Euros 238 million = 4,021 – 1,456 – 1,599 – 728	Cash flow generated by the Company available to pay the debt.

# ESG Metrics

ESG metrics		FY20	FY19	Change	Comments
<b>Health and safety</b>					
Accidents with lost time <sup>(1)</sup>	units	<b>4</b>	14	-71.4%	Significant improvement linked to the implementation of the Plan Naturgy 2019, as well as the impact from remote work due to Covid-19 crisis
LT Frequency rate <sup>(2)</sup>	units	<b>0.04</b>	0.12	-66.7%	Reflects the reduction in accidents, although slightly adjusted by a lower number of working hours, following workforce reduction
<b>Environment</b>					
GHG Emissions	M tCO2 e	<b>14.3</b>	15.4	-7.1%	Higher renewable production in the period
Emission factor	t CO2/GWh	<b>297</b>	301	-1.3%	
Emissions-free installed capacity	%	<b>32.9</b>	30.0	9.7%	New renewable capacity coming into operation in Spain, as well as the shutdown of the coal capacity
Emissions-free net production	%	<b>32.4</b>	27.0	20.0%	Higher wind and hydro production in Spain
<b>Interest in people</b>					
Number of employees	persons	<b>9,335</b>	10,156	-8.1%	Perimeter changes and workforce optimization
Training hours per employee	hours	<b>26.6</b>	25.2	5.6%	Ratio increase shows growing relevance of on-line training, as well as the implementation during the period of specific training dedicated to facilitate the adaptation to post-COVID situation
Women representation	%	<b>32.9</b>	32.4	1.5%	Commitment for diversity and gender equality policies
<b>Society and integrity</b>					
Economic value distributed	m€	<b>16,235</b>	21,533	-24.6%	Affected by lower purchases and external services due to optimization efforts
Notifications received by the ethics committee	units	<b>80</b>	149	-46.3%	Improved oversight and accountability

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