1H19 Results

24 July 2019

Agenda

1. CNMC proposals for consultation
2. Progress on Strategic Plan 18-22
3. 1H19 consolidated results
4. 1H19 results by business unit
5. Conclusions

01

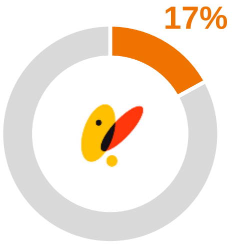
CNMC proposals for consultation

Preliminary assessment of CNMC proposals

Gas networks

- Misdiagnosis of the Spanish gas system
- Insufficient remuneration of the asset base
- Asymmetrical sharing of efficiencies
- Obligation to perform certain unprofitable investments
- Disincentivizes growth
- Transition period too short compared to assets useful life
- Lack of visibility post 2026

Ordinary EBITDA contribution[1] 2018



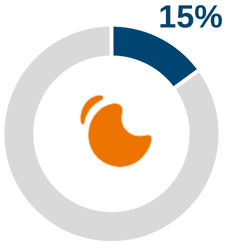
New regulatory period from 2021 to 2026

Abrupt model change after years of stability

Electricity networks

- Stable model, mostly technical changes
- Introduction of WACC-based remuneration
- Insufficient risk recognition
- Harsher efficiency factor than comparable countries
- Transition period in line with current model, which presumes stability beyond 2025

Ordinary EBITDA contribution 2018



New regulatory period from 2020 to 2025

Model continuity with adaptations

Uneven regulatory outcome

Note:
1. Ex. minorities

Strategy to protect the business

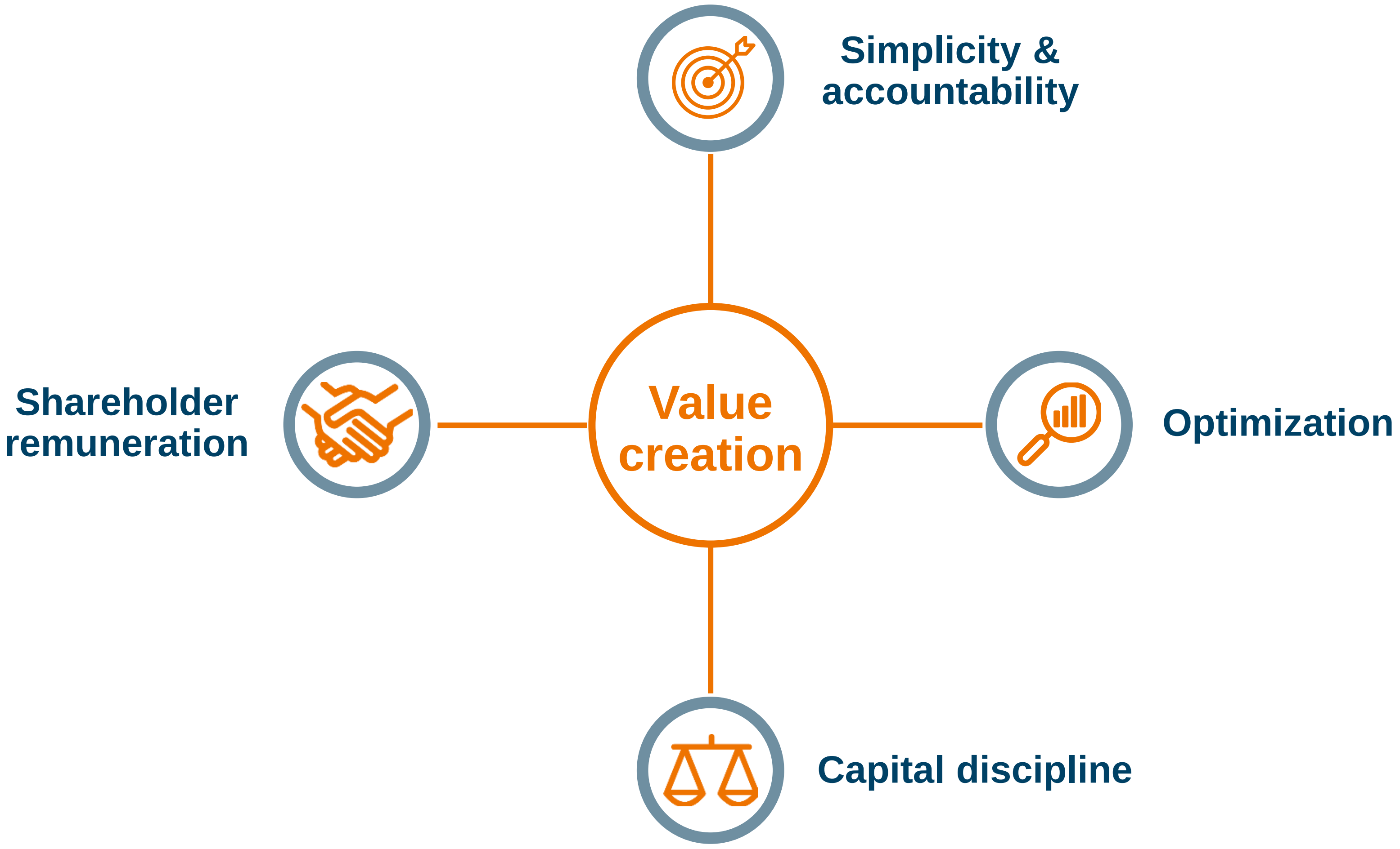
- **Preparation of comprehensive allegations to defend and protect the interests of all our stakeholders**
  - Fair valuation of the asset base
  - Adequate risk-adjusted returns
  - Reasonable and stable model to sustain growth
  - Fair implementation calendar
- **Analysis of all available judicial alternatives**
- **All options for Nedgia are on the table:**
  - Temporary halt to active commercial operations, honoring commitments and not altering maintenance and safety investments
  - In-depth analysis of future business alternatives

The company will continue to stand up for all stakeholders

02

Progress on Strategic Plan 18-22

Value creation pillars



Progress on Strategic Plan

Simplicity & accountability

Naturgy

Business positioning: sale of selected assets

Completed

Total proceeds: ~ €2.7bn

- Gas distribution and supply
- Nedgia (20%)
- Gas distribution and supply
- Kangra
- Real estate assets

Signed

Expected proceeds: ~ €0.25bn

- Electricity distribution
- Transemel electricity transmission
- Asset swap for control

More simplicity

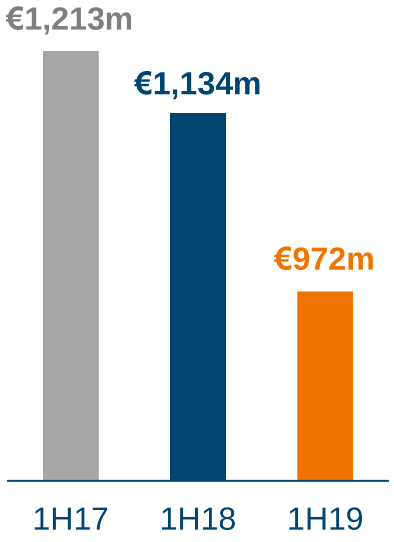
- **Reduction of 33 subsidiaries**
- **Reduced management structure from 6 to 3 layers**
- **Exited from 4 countries: Italy, Colombia, South Africa and Moldova**
- **Greater reporting disclosure across the board**

Firm steps in simplification

Optimization

Efficiencies with visible P&L impact

Ordinary opex[1]



New FY19 efficiencies target:

Minimum

€150m

vs initial target: €100m

Other optimizations

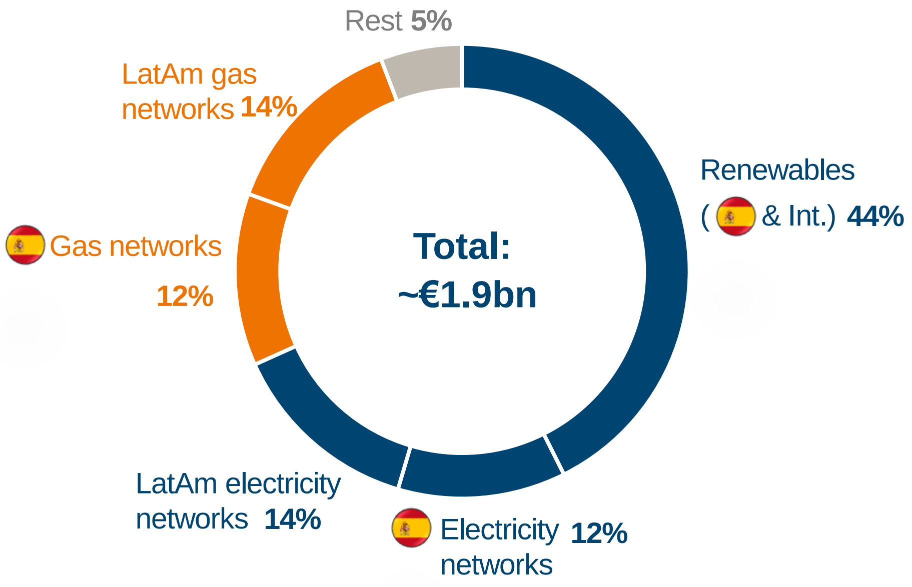
- **Launch of office premises relocation and optimization in process**
  - Targeting 50% reduction of the group's corporate centers by 2022
- **Progress on Lean Project**
  - Outsourcing of IT infrastructure to IBM
  - Advancing in other business stacks
- **€1.5bn refinancing of subsidiaries to cancel intra group debt**

Steady progress on optimization efforts

Note:
1. Decline includes: IFRS16, FX, efficiencies and others

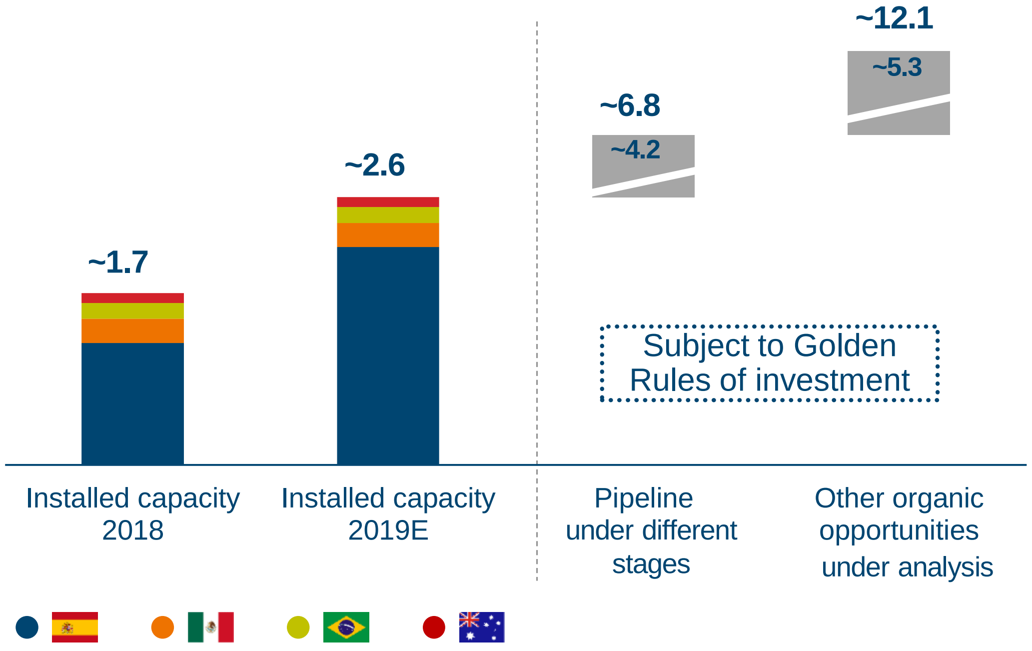
Capital discipline

Total capex by activity (LTM)



70% on renewables & electricity networks

Renewables exposure (GW)



Deploying capital for energy transition

Shareholder remuneration

Naturgy

Dividend as per SP 18-22

1st interim: July 31, 2019

2nd interim: November 2019

2019 final: March 2020

0.29 €/sh.

2019 dividend

1.37 €/sh

Share buy-back

Completed LTM
(as of 30 June)
€400m

Expected accretion upon share cancelation in August
(approved)
~1.7%

Launch of new tranche till end of June 2020
(approved)
€400m

Delivering on the 2018-2022 shareholder remuneration commitment

03

1H19 consolidated results

Key highlights

1 **Energy scenario headwinds**

2 **Stability in Gas & Power due to de-risking**

3 **Strong performance of LatAm Infrastructure**

4 **Acceleration of efficiency plan**

5 **Investments mostly in electricity**

6 **Focus on CF generation leading to net debt reduction**

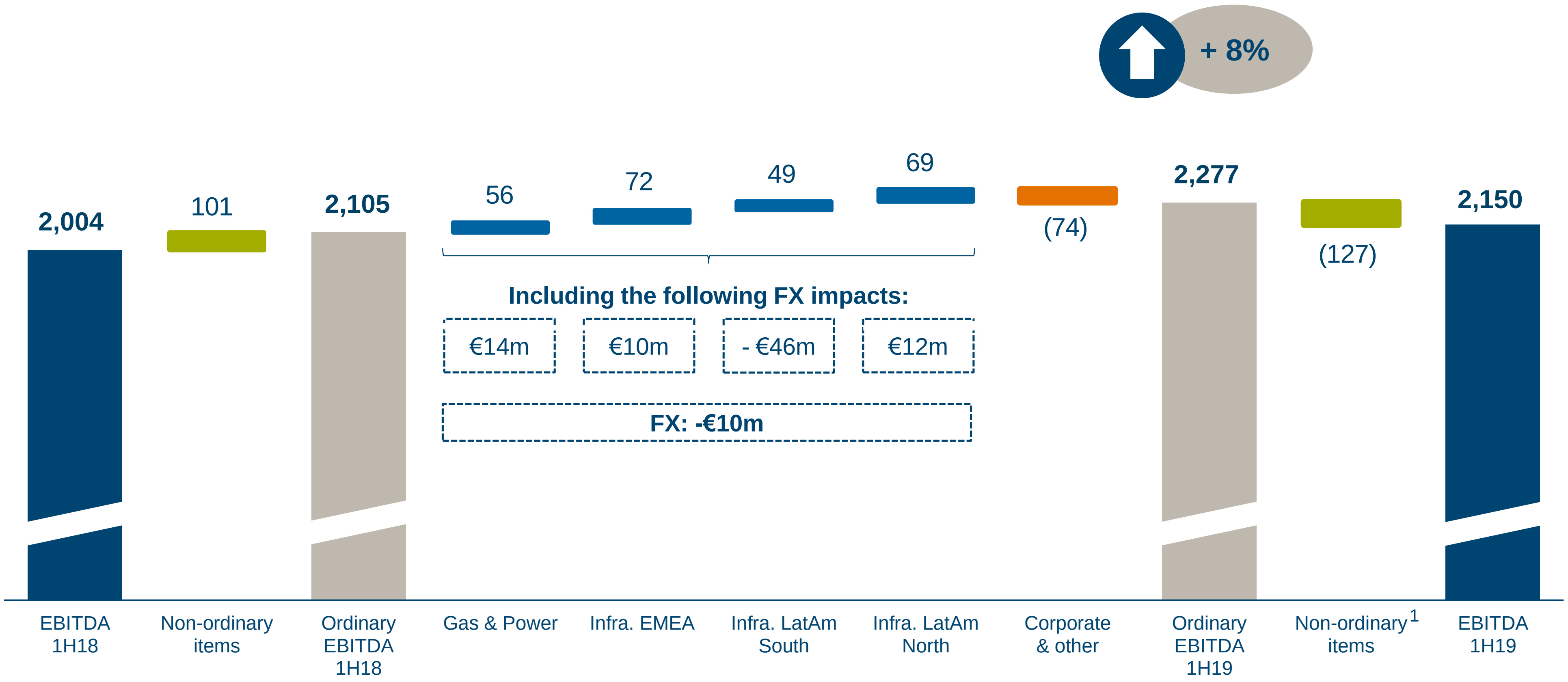
Key figures (€m, % vs. 1H18)

Ordinary EBITDA		Ordinary Net Income	
2,277	+ 8%	699	+30%

Capex	Net Debt (€bn)
702	14.8

Solid 1H19 results

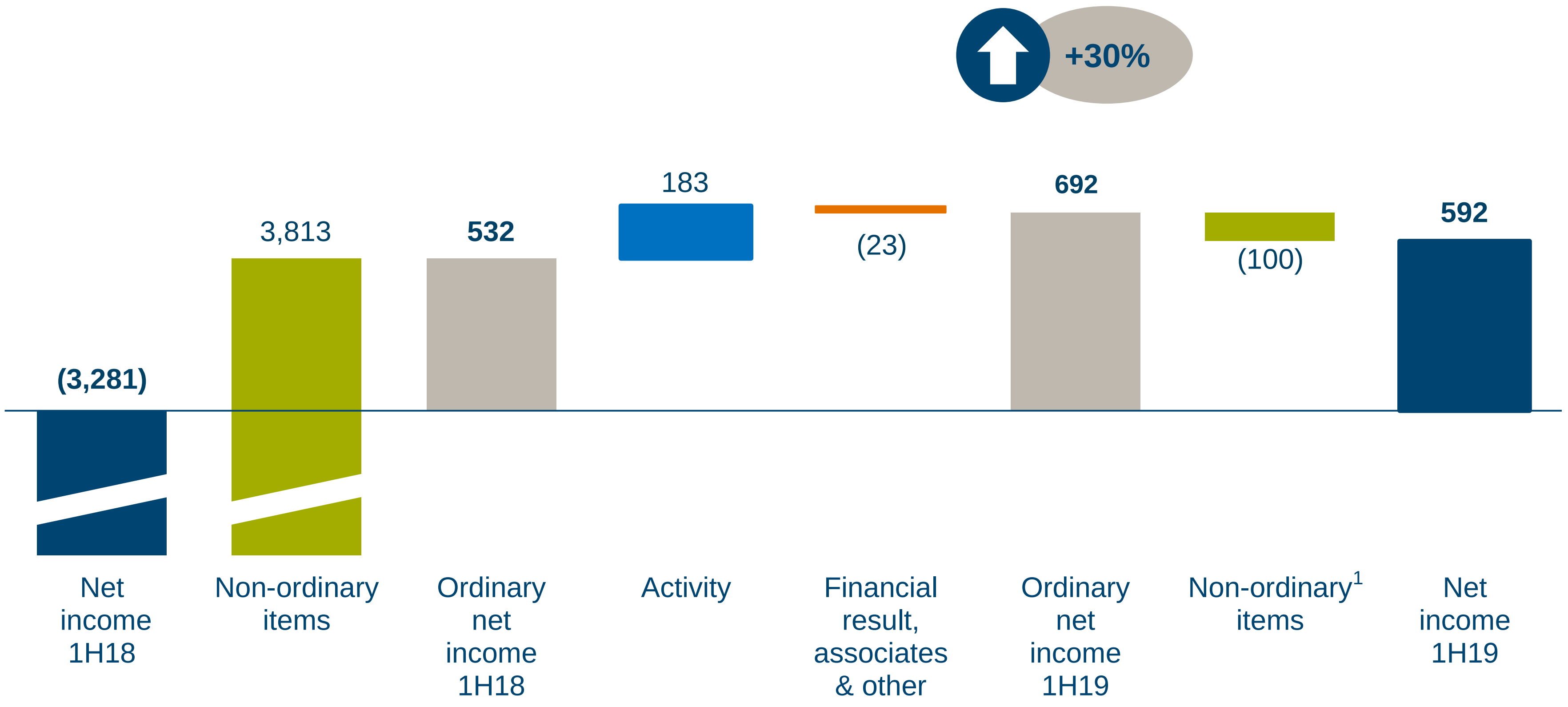
EBITDA evolution (€m)



Positive performance across all businesses

Note:
1. Of which: -€110m corresponding to restructuring costs, -20€m to CNMC CCGT fine and +€3m to sales of land and buildings.

Net Income evolution (€m)



Ordinary earnings growth

Note:
1. Of which: -€82m corresponding to restructuring costs, -€20m to asset write-down, -€20m to CNMC CCGT fine and +€22m to sales of land and buildings.

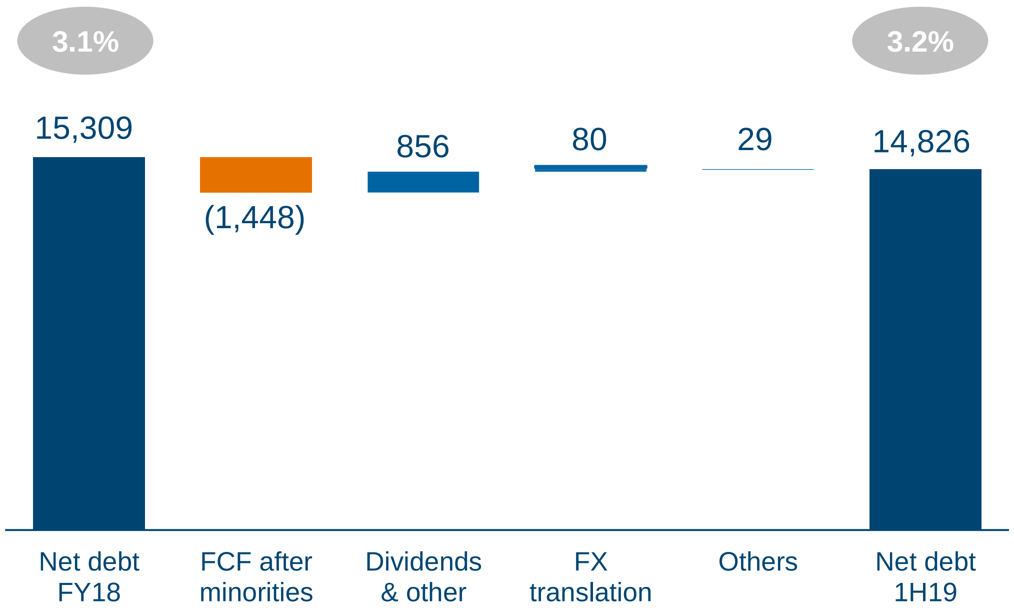
Cash flow and Net debt evolution (€m)

Cash flow

	1H19	vs. 1H18
EBITDA	**2,150**	**7%**
Taxes	(107)	
Net interest cost	(331)	
Other non-cash items	(64)	
Funds from operations	**1,648**	**14%**
Change in working capital	808	
Cash flow from operations	**2,456**	**97%**
Growth capex[1]	(447)	
Maintenance capex[1]	(225)	
Divestments	31	
Dividends to minorities	(146)	
Other	(221)	
Free cash flow after minorities	**1,448**	**-44%[2]**
Dividends and other	(856)	
Free cash flow	**592**	

Net debt

(%): avg. cost of debt[3]



Focus on cash flow generation leading to net debt reduction

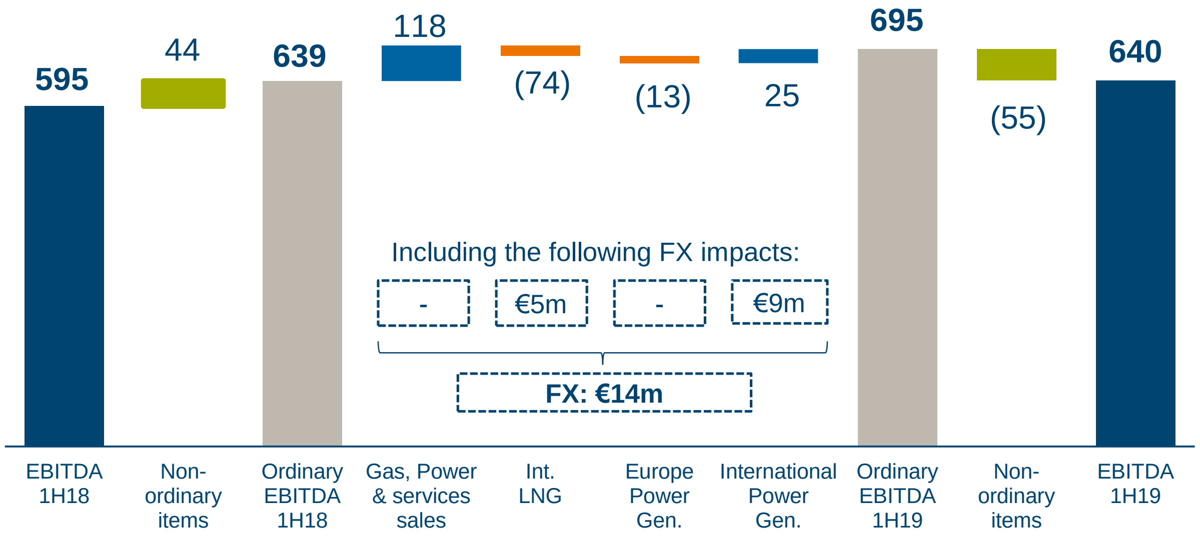
Note:
1. Net of cessions and contributions; 2. Nedgia 20% disposal; 3. Does not include cost from IFRS 16 debt.

04

1H19 results by business unit

Gas & Power

EBITDA evolution (€m)



Highlights

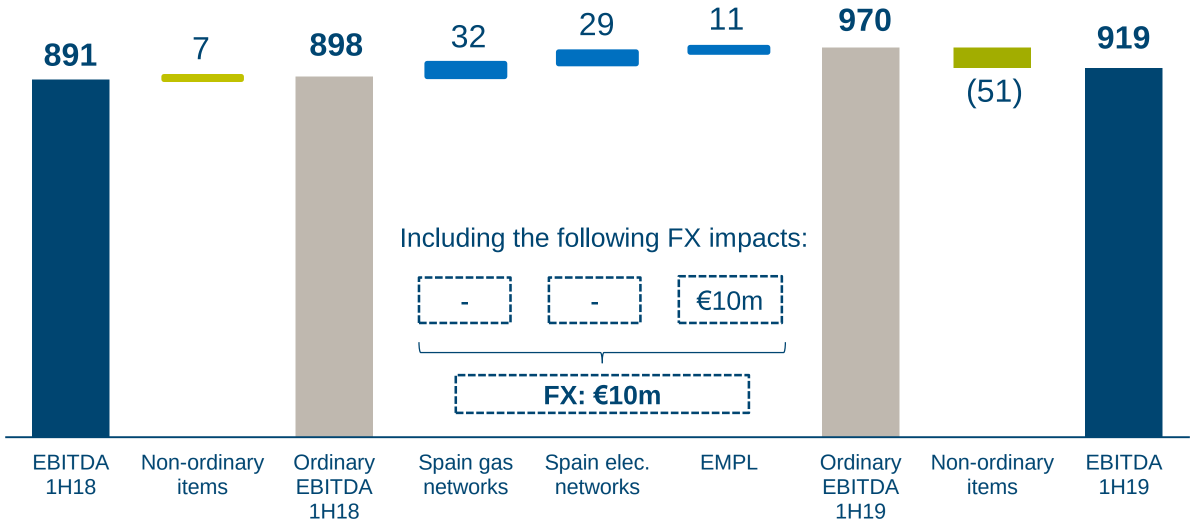
- ✓ **Gas, Power & services sales**: margin recovery in power supply and efficiencies partially offset by lower sales
- ✓ **International LNG:** lower sales and margins impacted by scenario vs. a strong 2018. 90%/68% of volumes secured for 2019/2020 respectively
- ✓ **Europe Power Generation:** low hydro and increased competition in CCGTs due to excess gas and high CO_2 costs eroded margins; suspension of CCGTs availability capacity payments weighs vs. 1H18
- ✓ **International Power Generation:** higher margins, new installed capacity and favorable FX

€336m of total capex, of which **80%** growth

Margin recovery in G&P sales and efficiencies, offset by Europe power generation and LNG

Infrastructure EMEA

EBITDA evolution (€m)



Highlights

- ✓ **Spain gas networks:** efficiency improvements more than compensate for mild demand
- ✓ **Spain electricity networks:** efficiencies, investment and lower interruption times vs. 1H18
- ✓ **EMPL:** annual tariff increase and favorable FX

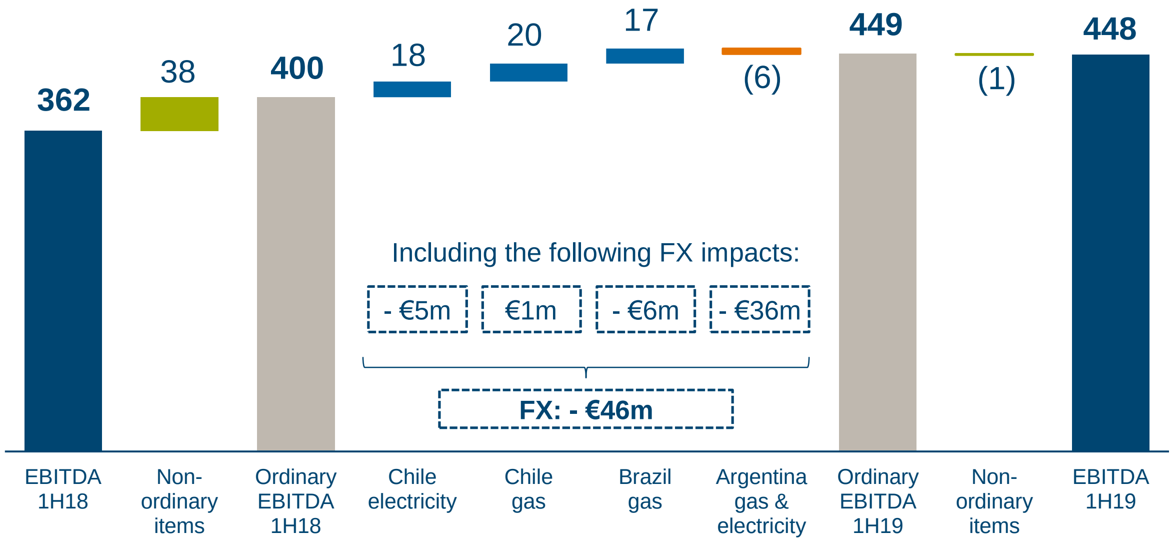
- **CNMC proposals released on 5 July**

€171m of total capex, of which **~60%** growth

Solid ordinary growth and efficiencies across businesses

Infrastructure South LatAm

EBITDA evolution (€m)



Highlights

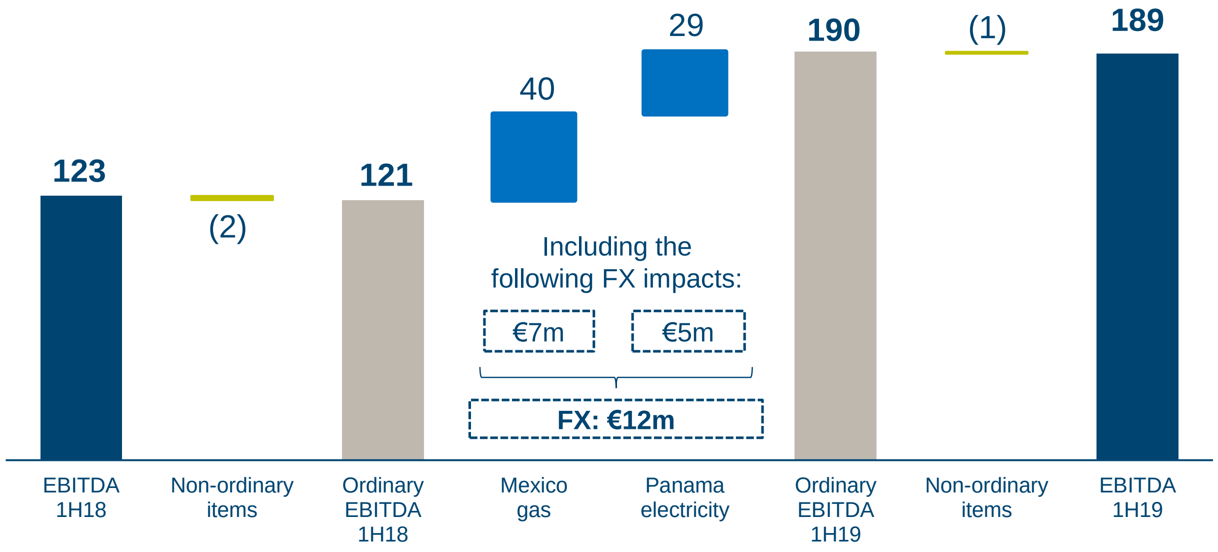
- ✓ **Chile electricity:** solid growth driven by tariff indexation and efficiencies
- ✓ **Chile gas:** higher sales and margins supported by tariff indexation and efficiencies
- ✓ **Brazil gas:** tariff indexation and efficiencies partially offset by FX
- ✓ **Argentina:** tariff indexation offset by FX

€123m of total capex, of which **~55%** growth

Continued improvement driven by tariff indexation and efficiencies

Infrastructure North LatAm

EBITDA evolution (€m)



Highlights

- ✓ **Mexico gas:** annual indexation update, commercial repositioning and efficiencies
- ✓ **Panama electricity:** new regulatory period and higher demand/temperatures vs. last year

€65m of total capex, of which **~60%** growth

Continued improvement supported by regulatory updates and efficiencies

05
Conclusions

Summary 1H19 results

- ✓ Energy scenario headwinds
- ✓ De-risking of merchant activities support stability despite the more challenging scenario
- ✓ Strong performance of LatAm Infrastructure businesses
- ✓ Acceleration of efficiency plan
- ✓ Investments mostly in electricity
- ✓ Focus on cash flow generation leading to net debt reduction

On track to meet 2019 targets

Final remarks

Solid progress on Strategic Plan

Commitments Capital Markets Day	Achievements one year later
Firm simplification with focus on business positioning	~€2.9 bn Divested signed
Efficiency as key pillar of the transformation	~15% Opex reduction 1H19 vs 2H18
Deploying capital for energy transition, with a focus on value over size	~0.9 GW New renewables in operation or near completion
Shareholder remuneration commitment	~€1.7 bn Shareholder remuneration

Achievements confirm Naturgy is on track to deliver Strategic Plan 18-22

1H19 results

Q&A

Appendix

Alternative Performance Metrics

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
		30 June 2019	30 June 2018	
Ebitda	Operating profit (2)	Euros 2,150 million	Euros 2,004 million	Measure of earnings before interest, taxes, depreciation and amortisation and provisions
Ordinary Ebitda	Ebitda - Non-ordinary items	2,277 = Euros 2,150 million + 127	2,105= Euros 2,004 million + 101	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 (2) - Non-ordinary items	Euros 692 million = 592 + 100	Euros 532 million = -3,281 + 3,813	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 (4) + Investments in property, plant & equipment (4)	Euros 699 million = 69 + 630	Euros 1,145 million = 121 + 1,024	Realised investments in property, plant & equipment and intangible assets.
Net Investments	CAPEX (5) + Financial investments (6) - Proceeds from divestitures of PPE and intangible assets (6) - Other proceeds/(payments) of investments activities (6)	Euros 672 million = 699 + 0 - 27 - 0	Euros -1,429 million = 1,145 + 35 - 2,609	Total investments net of the cash received from divestments and other investing receipts.
Gross financial debt	Non-current financial liabilities (1) + "Current financial liabilities" (1)	Euros 18,339 million = 15,258 + 3,081	Euros 15,928 million = 13,711 + 2,217	Current and non-current financial debt

Alternative Performance Metrics

Alternative performance metrics	Definition and terms	Reconciliation of values		Relevance of use
		30 June 2019	30 June 2018	
Net financial debt	Gross financial debt (5) - "Cash and cash equivalents" (1) - "Derivative financial assets" (4)	Euros 14,826 million = 18,339 - 3,489 - 24	Euros 12,362 million = 15,928 - 3,492 - 74	Current and non-current financial debt less cash and cash equivalents and derivative financial assets
Leverage (%)	Net financial debt (5) / (Net financial debt (5) + "Net equity" (1))	50.7% = 14,826 / (14,826 + 14,414)	44.8% = 12,362 / (12,362 + 15,220)	The ratio of external funds over total funds
Cost of net financial debt	Cost of financial debt (4) - "Interest revenue" (4)	Euros 308 million = 317 - 9	Euros 274 million = 286 - 12	Amount of expense relative to the cost of financial debt less interest revenue
Ebitda/Cost of net financial debt	Ebitda (5) / Cost of net financial debt (5)	7.0x = 2,150 / 308	7.3x = 2,004 / 274	Ratio between Ebitda and net financial debt
Net financial debt/LTM Ebitda	Net financial debt (5) / Ebitda in the last four quarters (5)	3.6x = 14,826 / 4,165	3.2x = 12,362 / 3,889	Ratio between net financial debt and Ebitda
Free Cash Flow after minorities	Free Cash Flow (5) + Dividends and other (4) + Acquisitions of treasury shares (4) + Inorganic investments payments (4)	Euros 1,448 million = 592 + 560 + 288 + 8	Euros 2,589 million = 2.555 + 0 + 7 + 27	Cash flow generated by the Company available to pay to the shareholders (dividends or treasury shares), the payment of inorganic investments and debt payments.
Free Cash Flow	Cash flow generated from operating activities (3) + Cash flows from investing activities (3) + Cash flow generated from financing activities (3) - Receipts and payments on financial liability instruments (3)	Euros 592 million = 2,456 - 859 + 172 - 1,177	Euros 2,555 million = 1,244 + 191 - 1,164 + 2,284	Cash flow generated by the Company available to pay the debt.

(1) Consolidated balance sheet line item; (2) Consolidated income statement line item; (3) Consolidated statement of cash flows line item; (4) Figure detailed in the notes to the consolidated financial statements; (5) Figure detailed in the Alternative Performance Metrics (APM); (6) Figure detailed in the Directors' Report

ESG metrics

ESG metrics		1H19	1H18	Change	Comments
Health and safety					
Lost time (LT) incidents (1)	units	**8**	11	-27.3%	The absence of lost time incidents in 2Q19 has allowed to improve significantly vs. 1H18
LT Frequency rate (2)	units	**0.14**	0.16	-12.5%	Despite the reduction in working hours during the period, the reduction in accidents has allowed for the metric to improve
Environment					
GHG Emissions	M tCO2 e	**7.8**	8.1	-3.7%	Decrease explained by a significant reduction in Spanish hydro and coal production, which has been offset by an increase in CCGT and nuclear production in Spain, as well as international renewable
Emission factor	t CO2/GWh	**308.6**	312.2	-1.2%	
Emissions-free installed capacity	%	**27.3**	26.1	4.5%	Increase due to new wind capacity coming into operation in Australia
Emissions-free net production	%	**26.4**	28.8	-8.3%	Decrease explained by the lower hydro production in Spain
Interest in people					
Number of employees	persons	**11,706**	13,908	-15.8%	Reduction in number of employees following the application of simplicity and efficiency policies
Training hours per employee	hours	**14.1**	25.2	-44.0%	raining hours have been affected by the reduction of employees and the divestment of certain affiliates
Women representation	%	**31.7**	30.3	4.6%	Increase in accordance with the commitment for diversity and gender equality policies
Society and integrity					
Economic value distributed	M€	**10,687**	10,870	-1.7%	Reduction mostly explained by lower purchases and external services
Notifications received by the ethics committee	units	**107**	109	-1.8%	Stable evolution

(1) In accordance to OSHA criteria; (2) Calculated for every 200,000 working hours

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