Naturgy

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Results

15 February 2023

Naturgy

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Results

1. 2022 snapshot

2022 snapshot

Scenario

Unprecedented energy scenario	**65-320 €/MWh** TTF min – max within the year
New **regulatory measures** and proposals	**>20** new regulations[1] in a year

Naturgy's role

Key player in **energy security** in Spain	**>30%** of imported gas + **56%** CCGTs production increase
Innovation and leadership in **client solutions**	**>60%** customers benefited from Naturgy's initiatives
Continued **investment in energy transition**	**70%** EU Taxonomy eligible capex

Naturgy's 2022 results

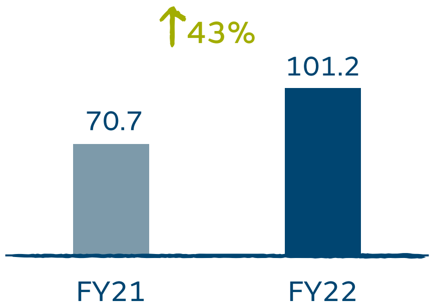
- Full year **results continue 9M22 trend**
- Significant **deleveraging**
- Total **2022 dividend** of **1.20 €/share**, implying a **payout** of **70%**
- Solid **progress** on key **ESG metrics**

Note:
1. Including RD, RD-laws, new laws, ministerial orders and CNMC resolutions

2. Scenario

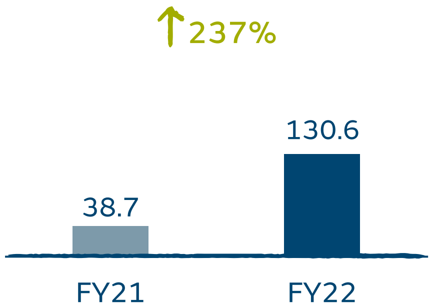
Energy markets evolution

Brent (USD/bbl)



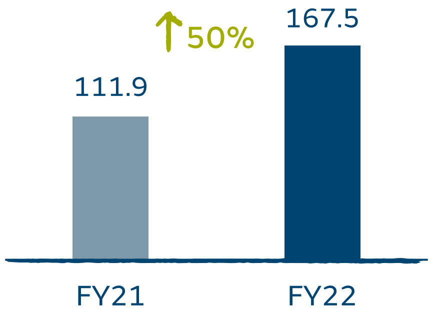
	FY21	FY22
Min.[1]	*50.3*	*76.4*
Max.[1]	*86.1*	*137.6*

TTF (€/MWh)



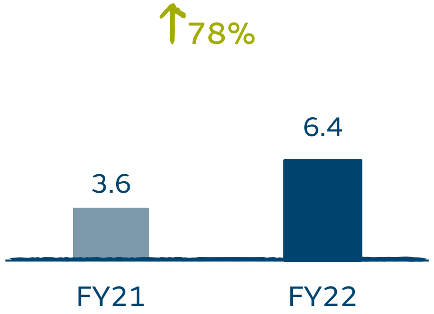
	FY21	FY22
Min.[1]	*14.1*	*65.0*
Max.[1]	*116.8*	*319.7*

Spanish electricity market (Pool) (€/MWh)



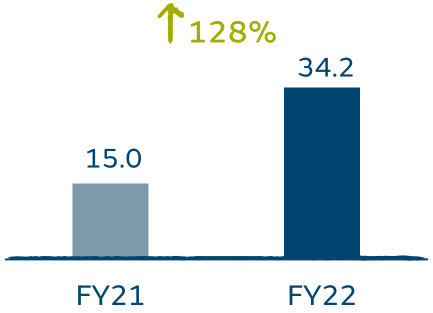
	FY21	FY22
Min.[1]	*1.4*	*2.7*
Max.[1]	*383.7*	*545.0*

Henry Hub (USD/MMBtu)



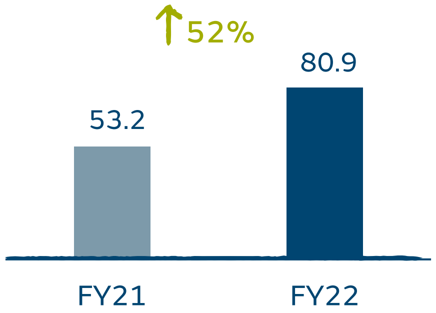
	FY21	FY22
Min.[1]	*2.3*	*3.6*
Max.[1]	*6.3*	*9.7*

JKM (USD/MMBtu)



	FY21	FY22
Min.[1]	*5.6*	*18.9*
Max.[1]	*56.3*	*84.8*

CO_2 (€/t)



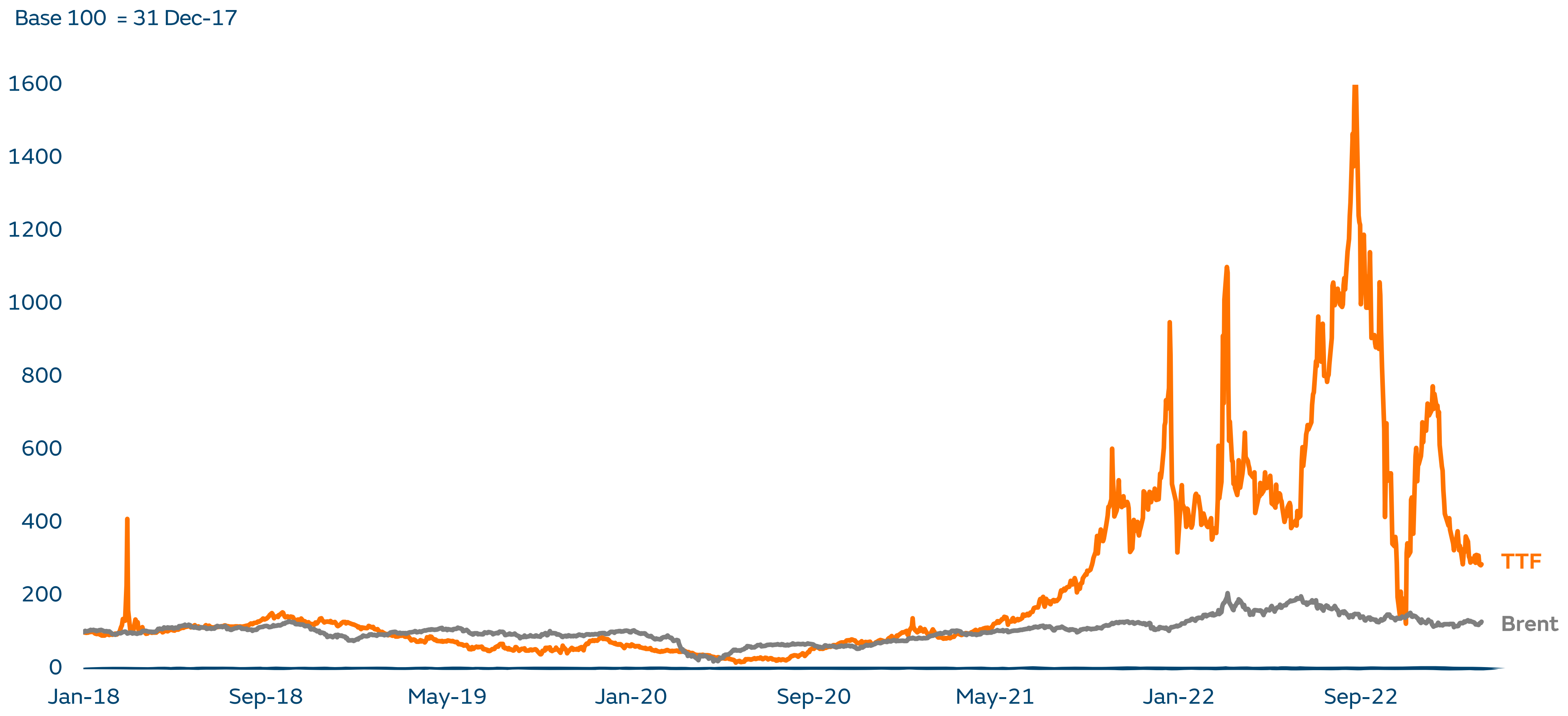
	FY21	FY22
Min.[1]	*31.5*	*57.9*
Max.[1]	*88.9*	*97.6*

Unprecedented rise of commodity prices and extreme volatility in both gas and electricity markets…

Source: Platts, Bloomberg, OMIE (monthly average)

Note:
1. Minimum and maximum daily prices during the period

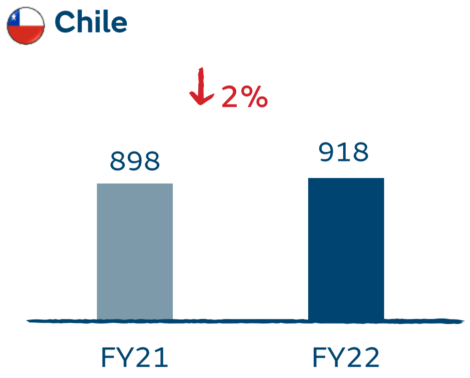
European gas and oil spot prices evolution

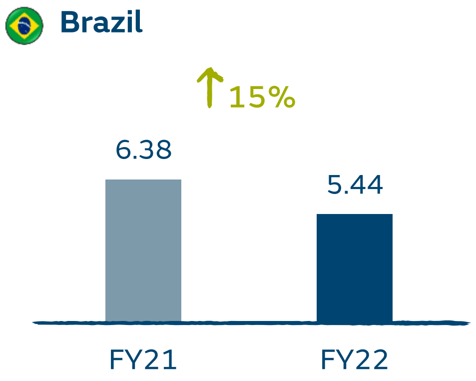


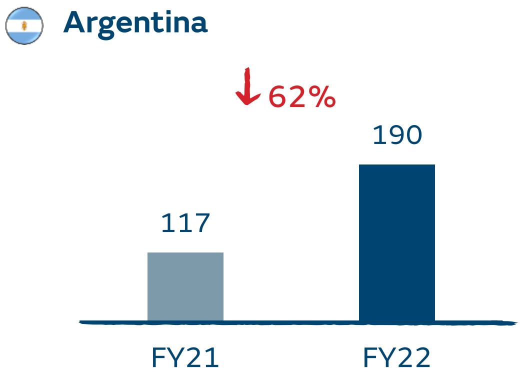
... particularly in European gas prices during 2022 compared to Brent

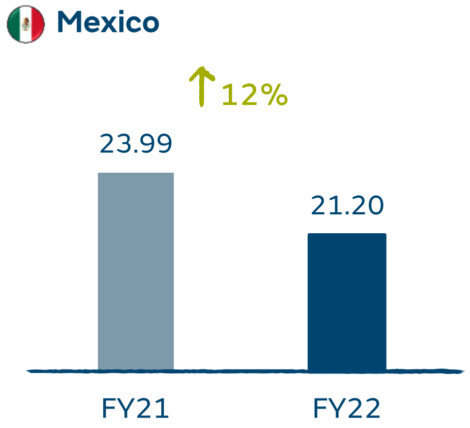
Source: Bloomberg

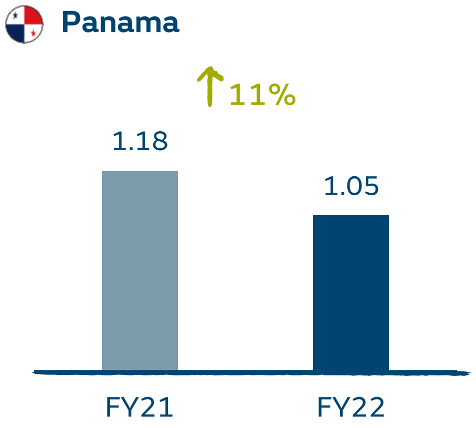
FX evolution[1]











USD, MXN and BRL appreciations vs. EUR

Source: Bloomberg
Note:
1. Variation with opposite sign to highlight currency appreciation

Main regulatory measures and proposals

Spain

- Temporary cap on regulated gas tariff increases (TUR)
- Clawback on windfall profits derived from infra-marginal generation sold > €67/MWh
- Additional measures protecting vulnerable customers and new social bond funding charged to all subjects
- "Iberian exception": temporary cap on CCGTs bidding price (cap on gas)
- 1.2% tax on aggregated turnover of liberalized activities in Spain (applicable 2023-24)

Europe

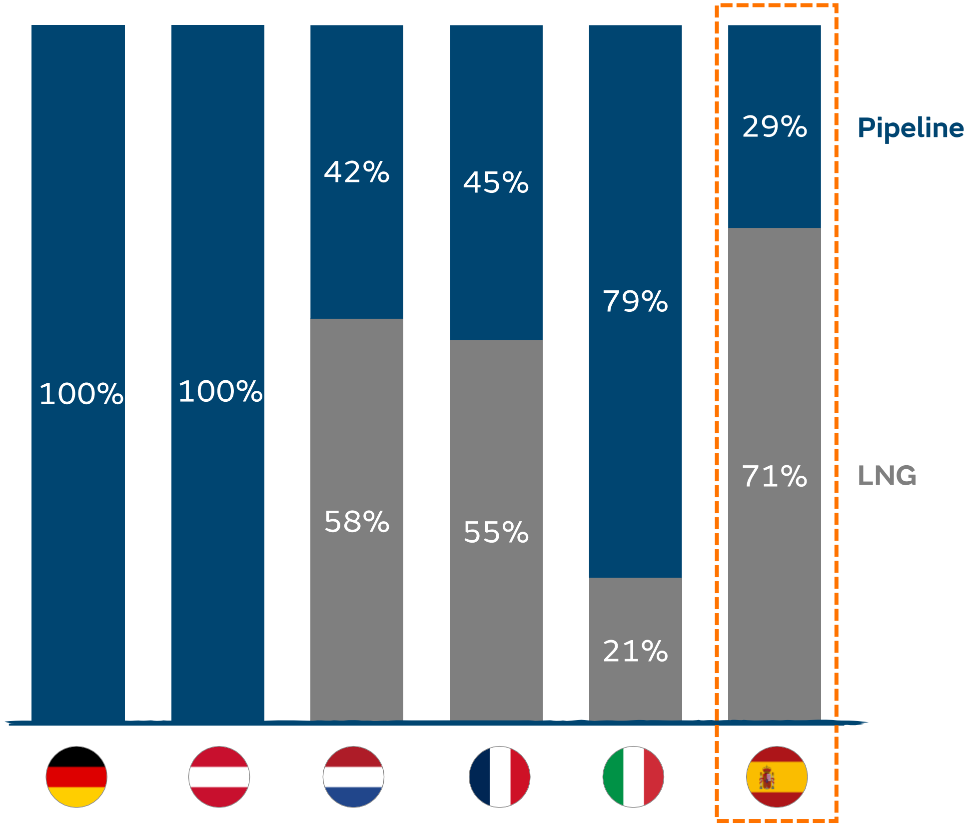
- Higher gas storage requirements from 80% (Nov. 2022) to 90% (Nov. 2023)
- "Solidarity contribution" of 33% tax on excess profits estimated as profits >120% the average profits during 2018-21
- Joint gas purchases (in progress)
- Price cap of 180 €/MWh on TTF subject to certain conditions (applicable from 2023)
- European power market reform expected during 2023

Regulatory changes to decouple electricity and gas prices, reduce volatility and cap prices

3. Naturgy's role in 2022

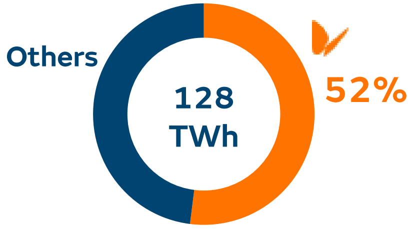
Naturgy played a key role to secure energy supply in Spain, with flexibility abroad

Imported natural gas by source in main European countries (2022, %)

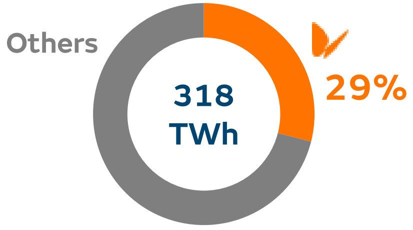


Imported natural gas in 2022

By pipeline



By LNG



LNG shipped abroad

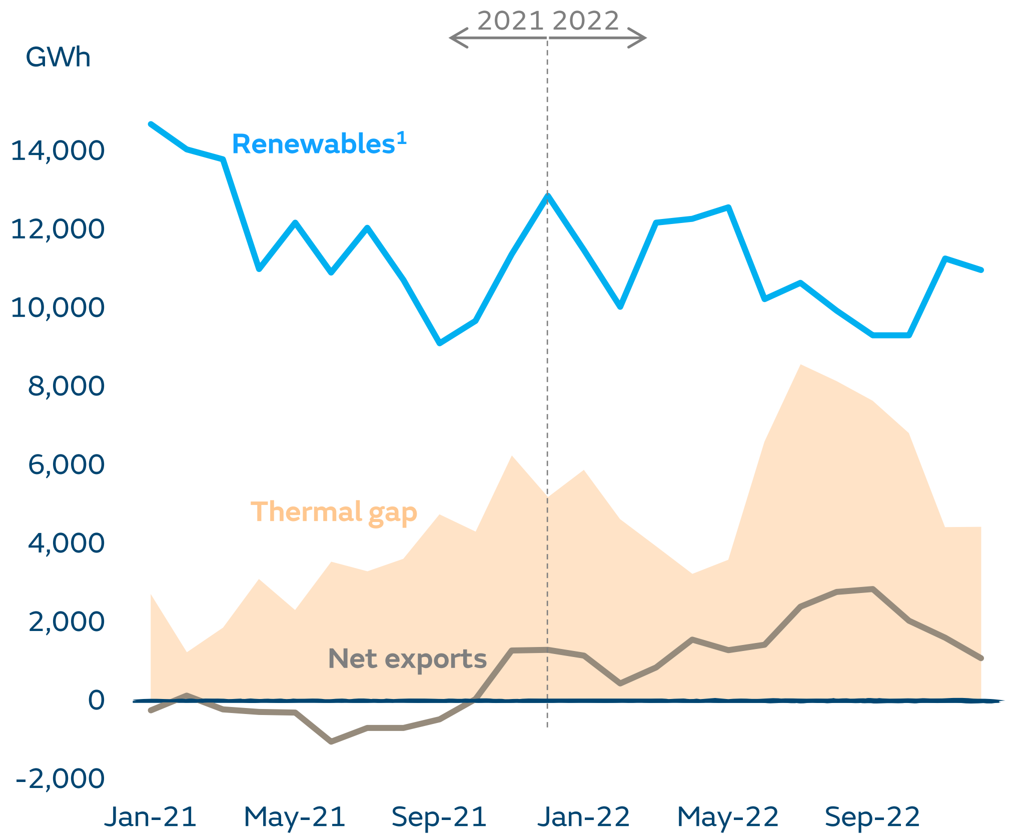
101 TWh

Essential role in procuring gas to the Spanish economy

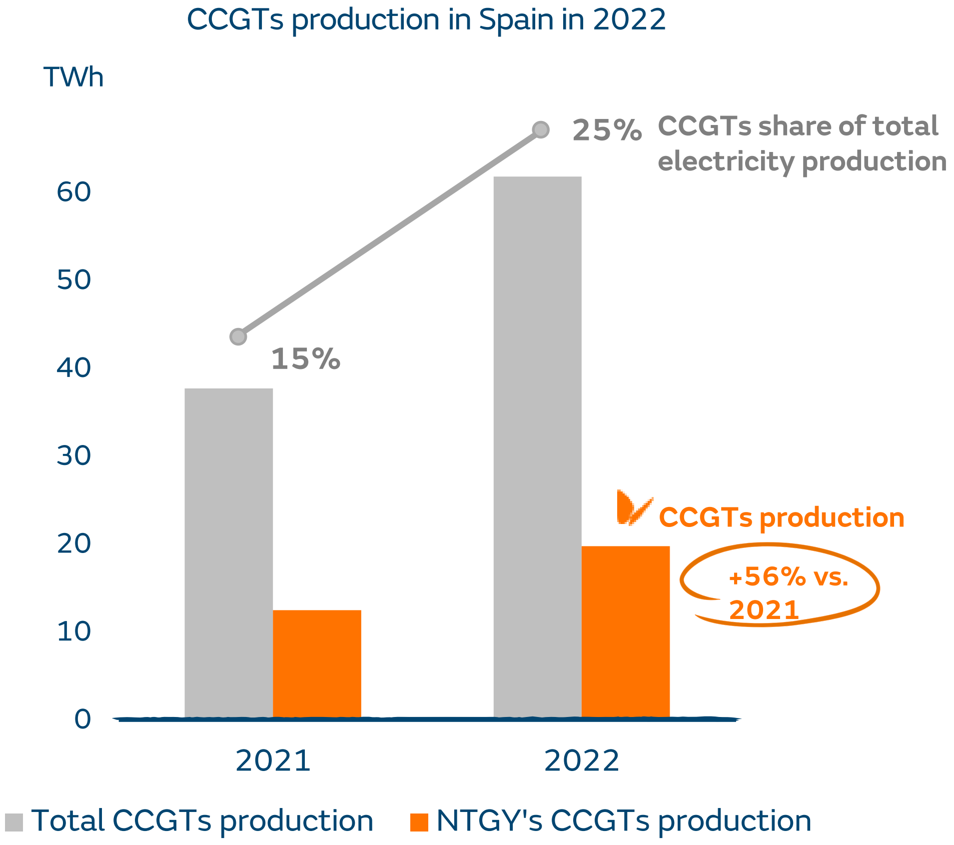
Source: Company estimates

CCGTs remained essential in Spanish power system

Lower hydro and higher energy exports led to higher thermal gap, highlighting CCGTs need and flexibility to balance renewables intermittency



Substantial production increase of CCGTs



CCGTs key to guarantee security of power supply

Source: Redeia

Note:

1. Includes hydro, wind, solar and cogeneration

First mover contributing innovative solutions for stakeholders

More than 60% of customer base taking advantage of long-term price initiatives in 2022

- **"Iniciativa compromiso":** long term fixed price offers to protect industrial and residential segments
  - 3-year electricity price commitment
  - 2-year gas price commitment for communities & SMEs
  - 3-year gas price commitment for industrial customers
  - Price reduction for 1.5m residential customers

- Measures to support the shift to **gas regulated tariffs** to reduce energy bills on consumers
  - Client service agents multiplied up to 12x to support customers' queries
  - 4,000 new contracts per day to regulated tariffs
  - Media campaigns to facilitate the shift to regulated tariffs

- Ongoing support to vulnerable clients through **Naturgy's foundation**

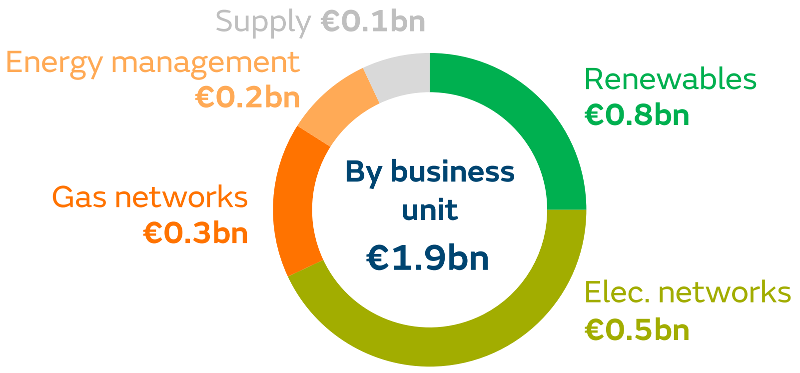
Fundación Naturgy

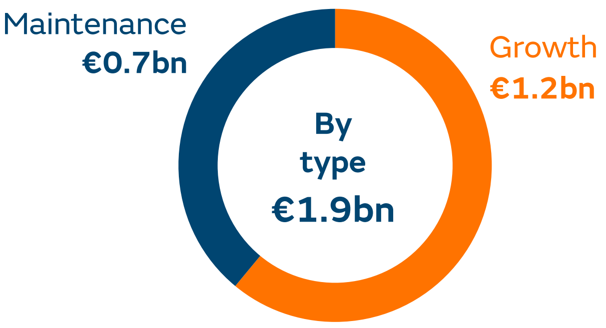
Committed to supporting society and consumers

Continued investment in energy transition

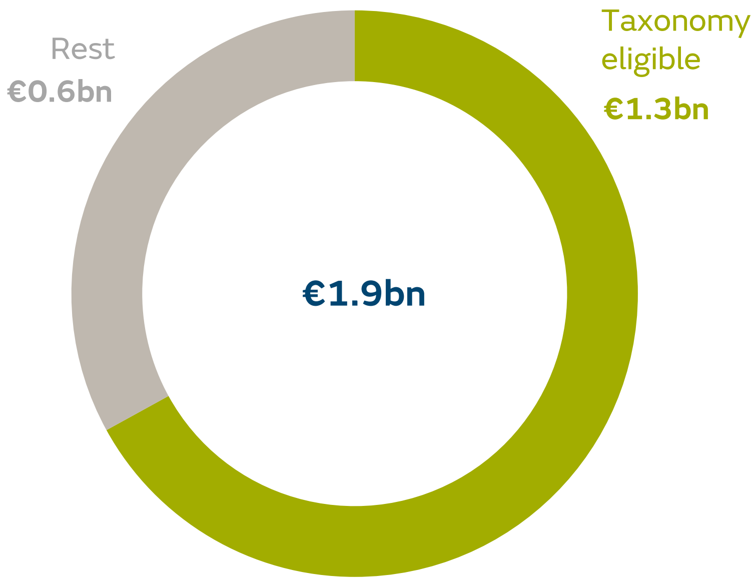
Capex allocation

+30% total capex vs. 2021





70% of total capex EU Taxonomy eligible



Committed to the energy transition

4. Consolidated results

Key highlights

1 Stable gas gross margin of 5-6% despite volatile gas scenario

2 Full year results continue 9M22 trend

3 Capex increased by 30% with networks and renewables representing >90% of growth capex

4 Balance sheet strength and net debt reduction

5 Total dividend of 1.20 €/share against 2022 results in line with Strategic Plan 21-25, implying a payout of 70%

Key figures

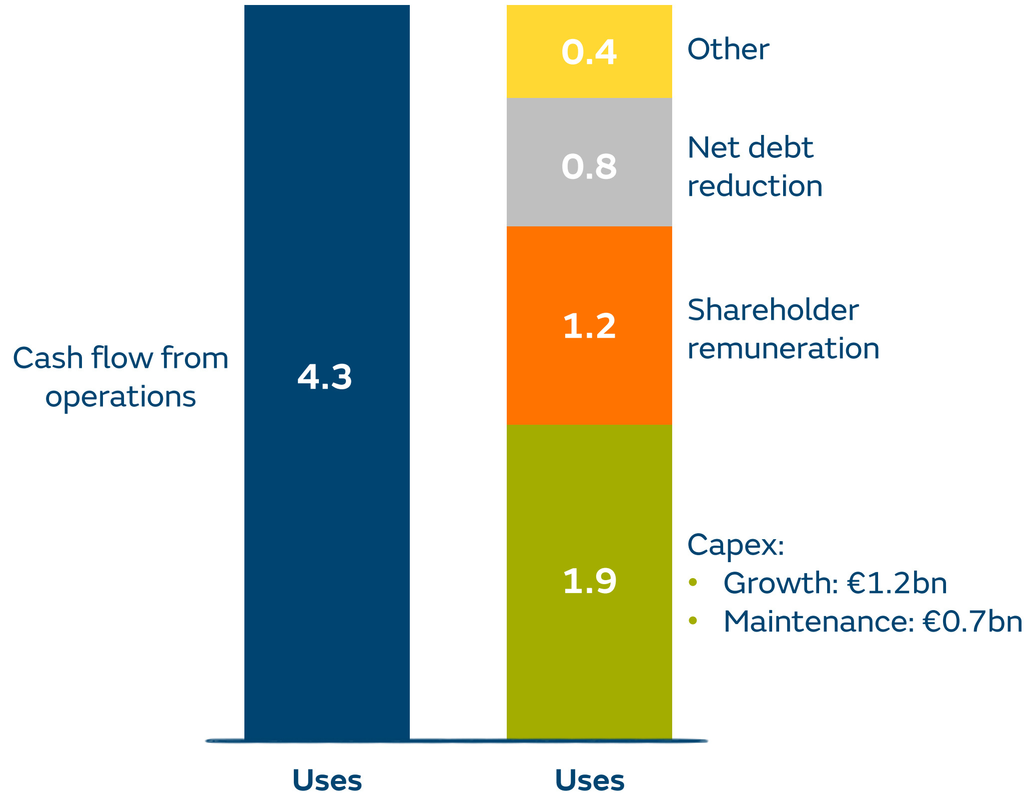
EBITDA	Net income
€4,954m	€1,649m

Capex	Net Debt (as of 31 Dec.)
€1,907m	€12,070m

Focus on managing market volatility

Prudent capital allocation

Sources and uses of cash 2022 (€bn)



Balance sheet strength

Net debt[1] 2022	€12.1bn
Net debt/EBITDA	2.4x
Rating[2] S&P / Fitch	BBB

Liquidity 2022	€9.5bn

Strong cash flow and balance sheet with solid liquidity

Notes:
1. Excluding €1bn outstanding hybrids
2. S&P: negative outlook; Fitch: stable outlook

Shareholder remuneration

DPS (€/sh.)

1st int. 2022	**2nd int. 2022**	**2022 final**
August-22	November-22	April-23
0.30 Paid	**0.40** Paid	**0.50** After AGM

Total 2022 dividend: 1.20 **Implied payout: 70%**

Final dividend against 2022 subject to AGM approval

Progressing on key ESG metrics

		2020	2022	2025	
Environment	Emissions reduction	16%	24%	24%	Reduction of tCO_2, (scopes 1+2+3)[1]
	Biodiversity	265	345	>350	Projects (#)
Social	Enhance diversity	27%	34%	>40%	Women in management positions
	Extending ESG throughout supply chain	70%	83%	95%	Suppliers ESG audited
Governance	ESG targets as a part of management incentives	3%	10%	10%	Variable pay ESG linked
	Climate change risks and taxonomy reporting	Partial	90%	100%	TCFD & Taxonomy implementation

Note:
1. vs. 2017. Scopes 1+2 aligned with 1.5ºC scenario and Scope 3 aligned with WB2D scenario

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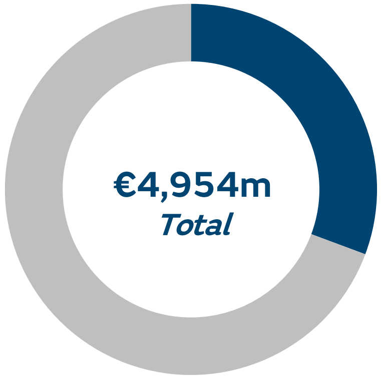
5. Results by business unit

Networks Spain

EBITDA

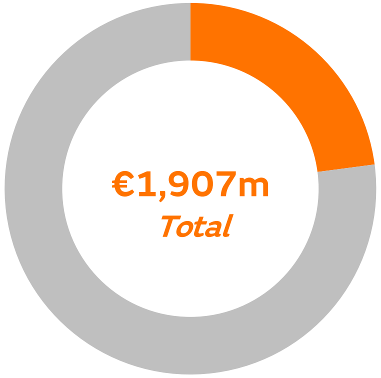


By business line

Networks Spain
31% of total

Gas
€837m (55%)
Electricity
€683m (45%)

Capex



By business line

Networks Spain
23% of total

Gas
€116m (27%)
Electricity
€321m (73%)

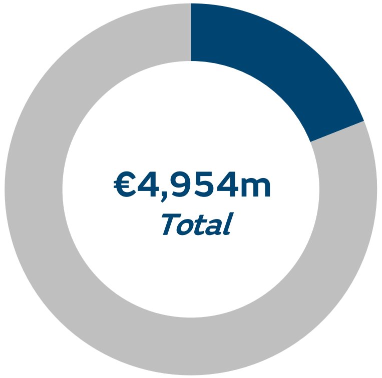
Highlights

- **Gas networks:** lower demand in the industrial segment, particularly in cogeneration, as well as in the residential segment, due to milder temperatures vs. 2021. Regulated remuneration adjustments due as part of the regulatory period 2021-26, are only partly compensated by lower opex
- **Electricity networks:** stable performance with growth from recognized investments partly offset by regulatory impacts. Comparison vs. 2021 figures affected by the restructuring plan in 2021

Gas flows impacted mainly by lower demand while electricity needs remained stable

Networks LatAm

EBITDA

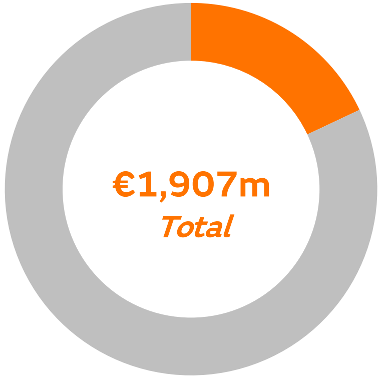


By business line

Networks LatAm
19% of total

- **Chile gas** €160m (17%)
- **Brazil gas** €307m (32%)
- **Mexico gas** €256m (27%)
- **Panama elec.** €143m (15%)
- **Argentina** €89m (9%)

Capex



By business line

Networks LatAm
18% of total

- **Chile gas** €40m (12%)
- **Brazil gas** €57m (17%)
- **Mexico gas** €68m (20%)
- **Panama elec.** €131m (39%)
- **Argentina** €43m (12%)

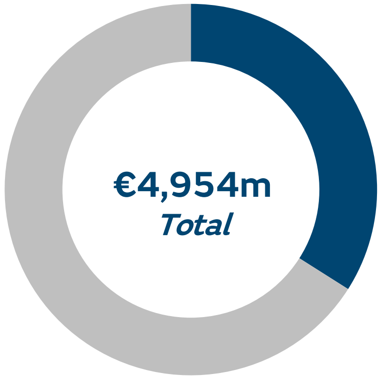
Highlights

- **Chile gas:** higher sales and margins in supply were not enough to compensate for weaker results in distribution, impacted by lower margins from the regulatory review and one-off provisions
- **Brazil gas:** tariff updates and positive FX partially offset by substantially lower demand, particularly in power generation, due to abundant hydro resource in the year
- **Mexico gas:** positive FX impact offset by lower volumes and lower residential demand vs. 2021
- **Panama electricity:** higher sales and positive FX impact
- **Argentina:** higher sales and tariff updates

Tariff updates and positive FX evolution

Energy management

EBITDA



By business line[1]

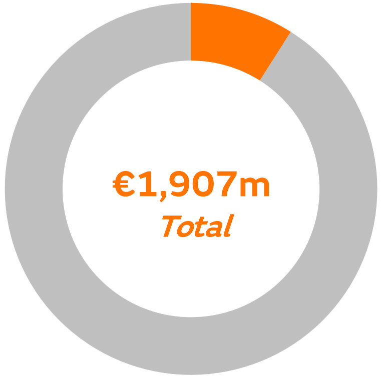
Energy mgmt.
34% of total

Wholesale gas[1]
- €987m (59%)

Spain therm. gen.
- €420m (25%)

LatAm therm. gen.
- €265m (16%)

Capex



By business line

Energy mgmt
9% of total

Wholesale gas
- €5m (3%)

Spain therm. gen.
- €87m (51%)

LatAm therm. gen.
- €77m (46%)

Highlights

- **Wholesale gas[1]:**

  Higher selling prices internationally due to greater indexation to gas hub references, compared to longer term priced LNG procurement contracts

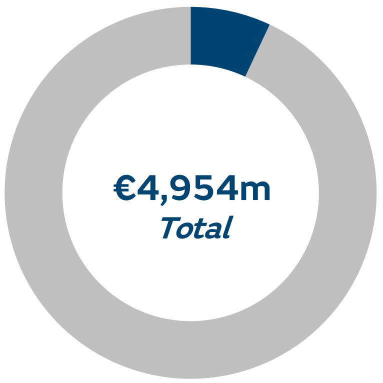
  The decoupling of TTF with physical gas sales has led to reassess the effectiveness of hedging in LNG gas sales
- **Spain thermal generation:** substantial increase in CCGTs production to cover the shortfall in renewables and avoid brownouts particularly in Q4
- **LatAm thermal generation:** excluding positive FX impact, contribution below 2021 due to lower production and availability in Mexican CCGTs, per planned outages and maintenance

Growth mainly driven by global gas scenario

Note:
1. Including Markets and procurement and International LNG

Renewables

EBITDA

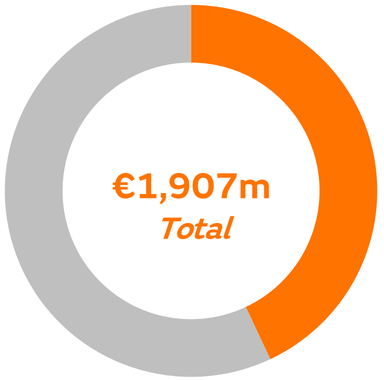


By business line

Renewables
7% of total

Spain & USA
€277m (76%)
Australia
€15m (4%)
LatAm
€74m (20%)

Capex



By business line

Renewables
43% of total

Spain & USA
€560m (69%)
Australia
€225m (28%)
LatAm
€27m (3%)

Highlights

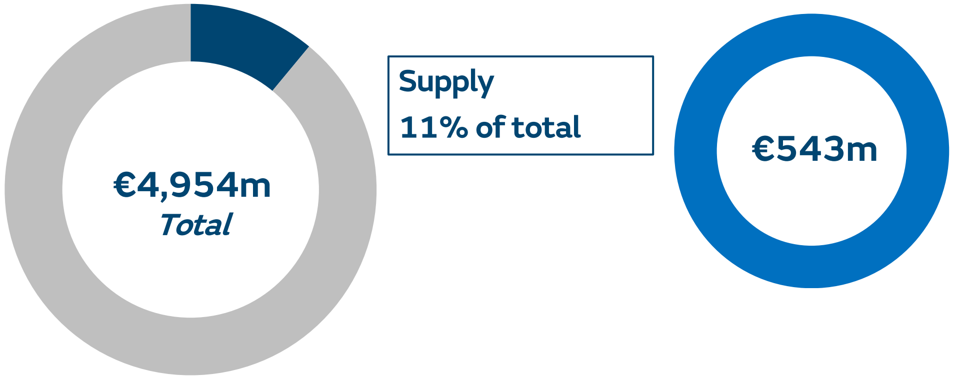
- **Spain & USA:**
  Higher prices and new capacity offset by lower hydro in Spain. Comparison affected by the recovery of the hydro canon in 2021 (+€191m)

  Progress on development of USA pipeline
- **Australia:** higher production and positive evolution of the mark-to-market valuation of existing PPAs offset by higher opex
- **LatAm:** higher margins (except in Chile) and positive FX impact

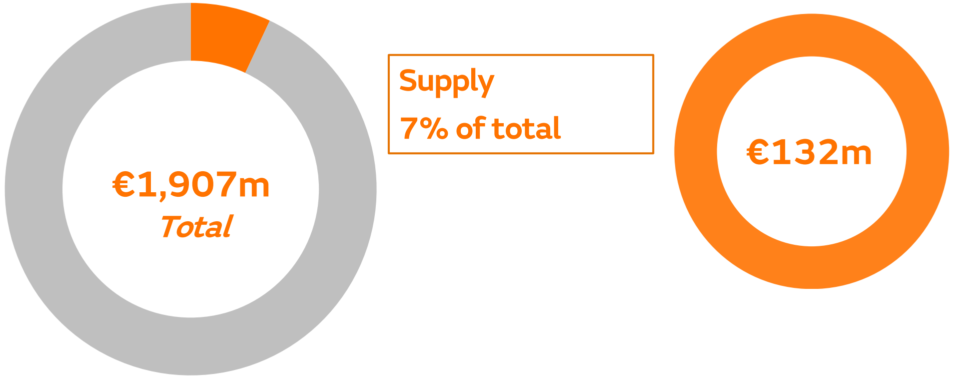
Growth mainly driven by higher prices, offset by lower hydro and one-off effects in Spain

Supply

EBITDA



Capex



Highlights

- **Gas supply:** improved overall margins and competitiveness from 2021 lows, specially in the industrial segment, following the withdrawal of some gas contracts and associated penalties in 2021. Sales in industrial and retail segments were lower vs. 2021
- **Power supply:** margin recovery from 2021 lows, which was impacted by power market buys at elevated pool prices due to a long supply position, dramatically impacting profitability in 2021. Power sales remained relatively stable vs. 2021

Margin recovery from anomalous 2021

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6. Summary and outlook 2023

Summary

1. Stable gross margins despite volatile gas scenario and regulatory uncertainty throughout 2022
2. Naturgy played a key role in guaranteeing energy supply for the system
3. Naturgy strives to support society at all times
4. Progress on key ESG metrics towards 2025 targets
5. Full year results continue 9M22 trend
6. Prudent capital allocation and dividend policy

Outlook 2023 based on current energy scenario

Networks	Networks Spain: • Stable gas volumes • Moderate growth in electricity distribution Networks LatAm: tariff inflation updates and demand growth
Markets	Volatility and uncertainty in commodity prices Wholesale gas: • Procurement pipeline contracts to be adapted to reflect 2023 market conditions • LNG portfolio flexibility and diversification allows to capture physical sales opportunities Renewables: additional developments coming into operation in Spain, Australia and USA Supply: sustained profitability based on improved competitiveness vs. anomalous 2021
Capex	Step-up in capex, with investments in renewables increasing by at least 50%
Net debt	Strong cash flow generation and capex acceleration in renewables maintaining a strong investment grade rating
Dividend	2023 dividend at least equal to 2022 (1.20 €/share)
Financial reporting	Starting in 2023, financial reporting will be done on a semiannual basis

2023 EBITDA guidance at least equal to 2022 EBITDA

Appendix

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Alternative Performance Metrics (i/iii)

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 2022	31 December 2021	
EBITDA	EBITDA = Revenue – Procurements + Other operating income – Personnel expenses – Other operating expenses + Gain/(loss) on disposals of fixed assets + Release of fixed asset grants to Income and other	Euros 4,954 million	Euros 3,529 million	EBITDA ("Earnings Before Interest, Taxes, Depreciation and Amortization") measures the Group´s operating profit before deducting interests, taxes, depreciations and amortizations. By dispensing with the financial, tax and accounting expenses magnitudes that do not entail a cash outflow, it allows evaluating the comparability of the results over time. It is an indicator widely used in the markets to compare the results of different companies.
Operating expenses (OPEX)	Personnel expenses (2)+ Own work capitalized + Other operating expenses - Taxes	Euros 1,794 million = 547 + 74 + 1,511 – 338	Euros 2,171 million = 940 + 77 + 1,315 – 161	Measure of the expenses incurred by the Group to carry out its business activities, without considering costs that do not involve cash outflows and taxes. Amount allowing comparability with other companies.
Investments (CAPEX)	Investments in intangible assets + Investments in property, plant & equipment	Euros 1,907 million = 333 + 1,574	Euros 1,484 million = 288 + 1,196	Measure of the investment effort of each period in assets of the different businesses, including accrued and unpaid investments. It allows to know the allocation of its resources and facilitate the comparison of the investment effort between periods. It is made up both of maintenance and growth investments (funds invested in the development or for the expansion of the Group's activities).

Alternative Performance Metrics (ii/iii)

Alternative performance metrics	Definition and terms	Reconciliation of values		Relevance of use
		31 December 2022	31 December 2021	
Net Investments (net CAPEX)	CAPEX- Other investment receipts/(payments)	Euros 1,833 million = 1,907 – 74	Euros 1,423 million = 1,484 – 61	Measure of the investment effort of each period without considering the assets transferred or contributed by third parties.
Gross financial debt	“Non-current financial liabilities” + "Current financial liabilities"	Euros 16,301 million = 13,999 + 2,302	Euros 16,812 million = 15,114 + 1,698	Measure of the Group's level of financial debt. Includes current and non-current concepts. This indicator is widely used in capital markets to compare different companies.
Net financial debt	Gross financial debt - "Cash and cash equivalents" - "Derivative financial assets associated with financial liabilities"	Euros 12,070 million = 16,301 - 3,985 – 246	Euros 12,831 million = 16,812 - 3,965 – 16	Measure of the Group's level of financial debt including current and non-current items, after discounting the cash and cash equivalents balance and asset derivatives linked to financial liabilities. This indicator is widely used in capital markets to compare different companies.
Leverage (%)	Net financial debt (5) / (Net financial debt + "Net equity")	54.7% = 12,070 / (12,070 + 9,979)	59.1% = 12,831 / (12,831 + 8,873)	Measure of the weight of external resources in the financing of business activity. This indicator is widely used in capital markets to compare different companies.
Cost of net financial debt	Cost of financial debt - "Interest (financial revenues)"	Euros 501 million = 568 - 67	Euros 491 million = 510 - 19	Measure of the cost of financial debt without considering income from financial interests. This indicator is widely used in capital markets to compare different companies.
EBITDA/Cost of net financial debt	EBITDA / Cost of net financial debt	9.9x = 4,954 /501	7.2x = 3,529 /491	Measure of the company's ability to generate operating resources in relation to the cost of financial debt. This indicator is widely used in capital markets to compare different companies.
Net financial debt/ EBITDA	Net financial debt / EBITDA	2.4x = 12,070/4,954	3.6x = 12,831/ 3,529	Measure of the Group's ability to generate resources to meet financial debt payments.

Alternative Performance Metrics (iii/iii)

Alternative performance metrics	Definition and terms	Reconciliation of values		Relevance of use
		31 December 2022	31 December 2021	
Market capitalization	No. of shares ('000) outstanding at end of period * Market price at end of period	Euros 23,571 million = 969,614 * Euros 24.31	Euros 27,760 million = 969,614 * Euros 28.63	Measure of the company's market value based on the market price of its shares.
Free Cash Flow after minorities	Net Free cash flow + Parent company dividends net of collected by other group companies + Purchase of treasury shares + Investment payments (group companies, associates and business units)	Euros 1,914 million = 744 + 1,153 + 0 + 17	Euros 2,113 million = 1,149 + 1,278 + 3 - 317	Measure of cash generation corresponding to operating and investment activities. It is used to evaluate funds available to pay dividends to shareholders, the payment of inorganic investments (acquisitions of companies or businesses) and to attend debt service.
Net Free Cash Flow	Cash flow generated from operating activities + Cash flows from investing activities + Cash flows from financing activities – Receipts/payments from financial liability instruments	Euros 744 million = 4,242 - 1,486 – 2,854 + 842	Euros 1,149 million = 1,001 + 1,896 – 2,851 + 1,103	Measure of cash generation to assess the funds available to debt service.
Average cost of financial gross debt	Annualized financial expense of the operations included in the gross financial debt excluding cost of financial lease liabilities and other refinancing expenses / monthly weighted average of the gross financial debt (excluding the debt by lease liabilities)	3.0% = (568-85-31) / 15,099	2.5% = (510 - 92 – 29) / 15,751	Measure of the effective interest rate of financial debt. This indicator is widely used in capital markets to compare different companies.
Liquidity	Cash and other equivalent liquid + Undrawn and fully committed lines of credit	Euros 9,482 million = 3,985 + 5,497	Euros 9,424 million = 3,965 + 5,459	Measure of the Group's ability to face any type of payment.
Economic value distributed	Procurements + Other operating expenses (includes Taxes) + Income tax payments + Personnel expenses + Work carried out for fixed assets + Financial expenses + Dividends paid by the parent company + Discontinued activities expenses before taxes	Euros 32,089 million = 27,194 + 1,511 + 762 + 547 + 74 + 837 + 1,164 + 0	Euros 22,470 million = 16,529 + 1,315 + 864+ 940 + 77 + 598 + 1,290 + 857	Measure of the company´s value considering the economic valuation generated by its activities, distributed to the different interest groups (shareholders, suppliers, employees, public administrations and society)

ESG Metrics

		FY22	FY21	Change	Comments
Health and safety					
Accidents with lost time[1]	units	8	8	-	An unusual high number of accidents in 4Q22 has led to a worsening of the frequency rate
LT Frequency rate[2]	units	0.12	0.10	20.0%	
Environment					
GHG Emissions[3]	M tCO2 e	15.1	13.5	11.9%	Lower hydro has led to higher CCGT production in the period to guarantee energy supply. New renewables into operation contributed to limit the emission factor increase
Emission factor	t CO2/GWh	279	261	6.9%	
Emissions-free installed capacity	%	37.5	36.3	3.3%	New wind capacity coming into operation in Spain
Emissions-free net production	%	29.4	35.4	-16.9%	Lower hydro production in the period vs. FY21
Interest in people					
Number of employees	persons	7,112	7,336	-3.4%	Perimeter changes and business resizing
Training hours per employee	hours	35.9	28.8	24.7%	Growth explained by positive response to follow-up campaigns and new platforms in operation
Women representation	%	32.7	32.0	2.2%	Significant women representation in new hirings
Society and integrity					
Economic value distributed[4]	€m	32,089	22,470	42.8%	Strong increase following activity growth
Notifications received by the ethics committee	units	43	61	-29.5%	Continues with the reducing trend in the last quarters

Notes:
1. In accordance to OSHA criteria
2. Calculated for every 200,000 working hours
3. Scopes 1 and 2
4. As defined in the Alternative Performance Metrics annex

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