# Redexis

## 2019 First Half Results

**29 July 2019**

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# H1 2019 Milestones

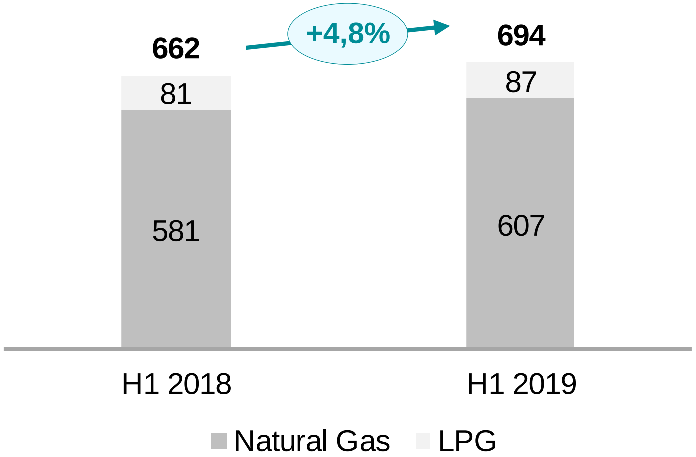
| | |
|---|---|
| **Continued growth** | • More than 24 thousand new contracts, 24,5% higher than H1 2018<br>• +322% growth of contracted industrial annualized demand compared with previous year<br>• +213 km of network added in first half of 2019 (+6,3% vs. 2018) |
| **Stable financial performance** | • Revenue remains stable at €126 million despite warmer February and March<br>• EBITDA increase by 1,2%, reaching €88,4 million<br>• €22,5m Net Income, 44,6% growth<br>• Affirmed rating by S&P on July 25th 2019, after release of CNMC's draft: BBB-, outlook stable |
| **Promoting sustainable mobility and clean energy** | • Cepsa agreement to create largest network of Natural Gas for Vehicles (NGV) refueling stations<br>• Joined 'Power to Green Hydrogen' project to provide green hydrogen infrastructure in Mallorca |
| **Committed to ESG** | • Converted syndicated credit facility into Sustainable, linking interest rate to ESG external rating<br>• Carried out ESG materiality analysis<br>• Signed II Equality Plan, guaranteeing women's rights and equal opportunities in the workplace |
| **New draft regulation** | • Draft Circulars for next regulatory period (2021-26) released by CNMC and consultation opened<br>• Redexis is working on allegations to present to the CNMC<br>• Based on current draft, no impact expected on average in Distribution, and limited in Transmission |

NOTE: Financial figures are not audited

# Operational review

| Operating highlights (H1) | Unit | 2018 | 2019 | %change |
|---|---|---|---|---|
| **Distribution Connection Points** | | | | |
| Natural Gas (P<4b) | # | 580.987 | 606.699 | 4,4% |
| LPG | # | 80.802 | 86.546 | 7,1% |
| Natural Gas (P>4b) | # | 278 | 295 | 6,1% |
| **Total** | **#** | **662.067** | **693.540** | **4,8%** |
| **Municipalities served** | **#** | **488** | **520** | **6,6%** |
| **Network length** | Km | | | |
| Distribution network | Km | 8.546 | 9.183 | 7,5% |
| Transmission network | Km | 1.643 | 1.643 | - |
| **Total** | **Km** | **10.188** | **10.826** | **6,3%** |
| **Energy distributed** | | | | |
| P<4b | GWh | 3.699 | 3.577 | (3,3%) |
| LPG | GWh | 284 | 255 | (10,2%) |
| 4b<P<60b | GWh | 4.181 | 4.438 | 6,2% |
| P>60b | GWh | 9.041 | 10.032 | 11,0% |
| **Total** | GWh | **17.205** | **18.302** | **6,4%** |

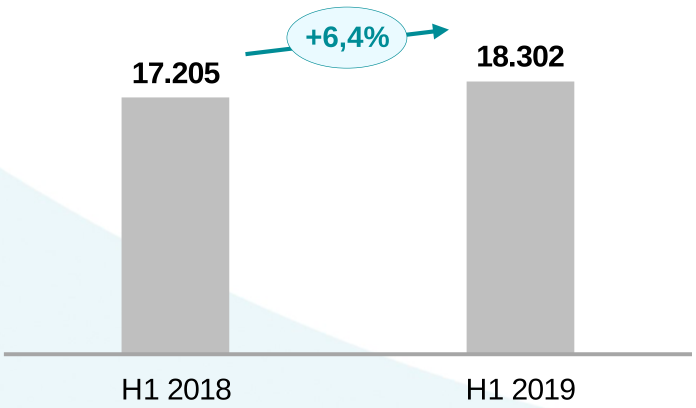
## Connection points ('000)




## Comments

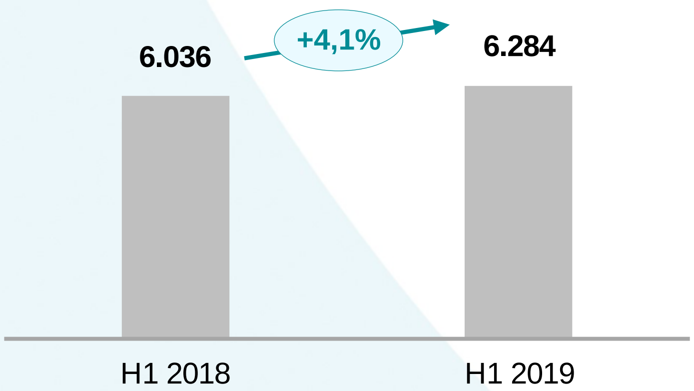
- Signed 24,4 new contracts, +24,5% vs. H1 2018
- 21,3 thousand new connections points added by June 30th
- 4 new municipalities commissioned in natural gas in Murcia, Extremadura, and Castile and Leon
- 19 municipalities integrated from the acquisition of LPGs CPs
- 15 authorisations granted in Eastern Andalucía, C.Valenciana, Castile-La Mancha and Madrid
- Warm February and March affecting residential demand

## Energy distributed (GWh)

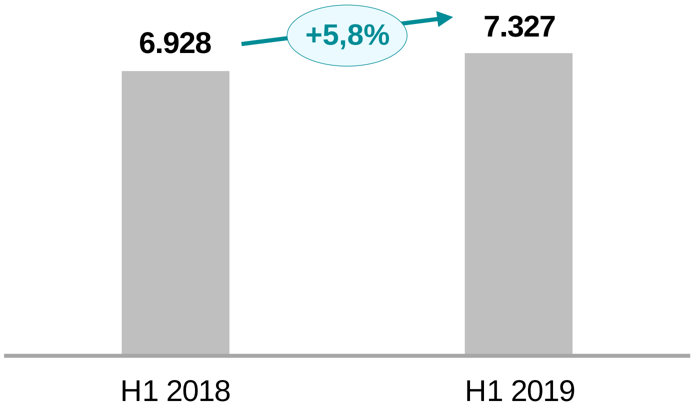


# Operational review
## Industrial and commercial segments

### Energy distributed (GWh)




### Connection points



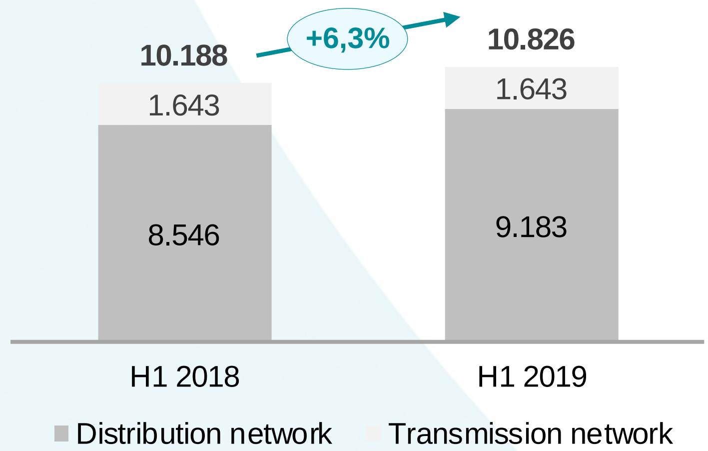

### Comments

- Industrial and commercial contracted energy increased by 191,5%, reaching to 752 GWh
- Strong performance of industrial segment:
  - Contracted 670 GWh of annualized demand (+322% vs. H1 2018)
  - +1TWh of connected annualized demand (expected), meaning +442% vs. same period in 2018
- Industrial and commercial contracting grew by 44,4% up to 855 new contracts at June 30th

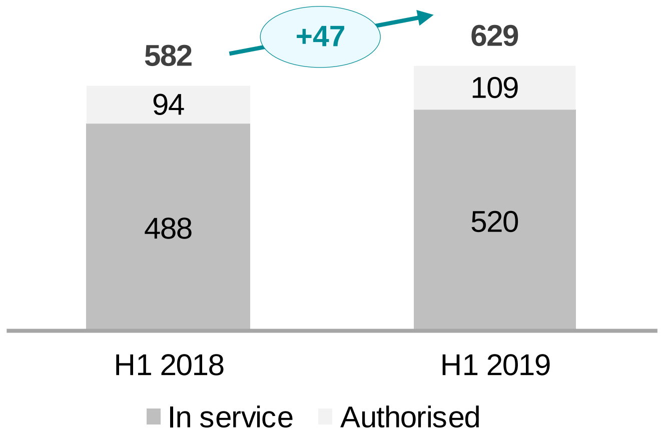
# Operational review

## CAPEX and assets

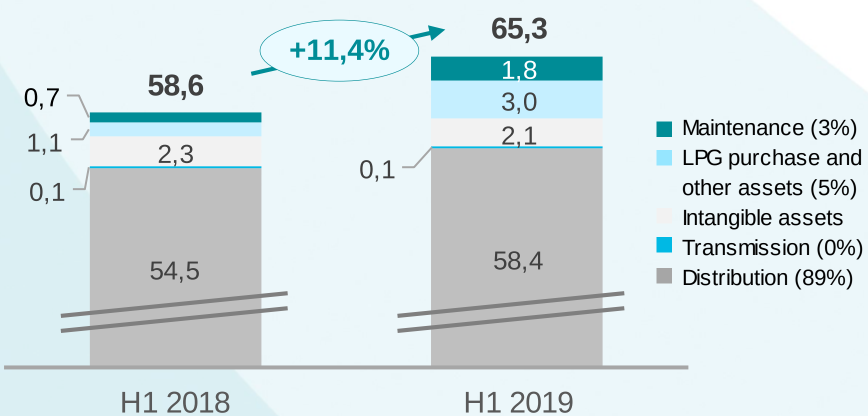
### Network length (Km)




### Municipalities

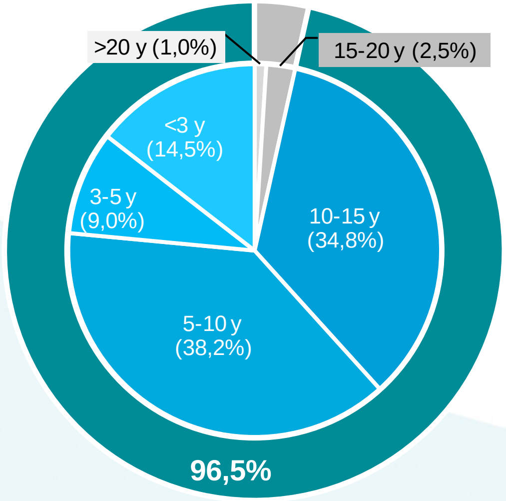



### Capex breakdown (€m)




### Age of distribution assets (as of Dec/2018)

- 96,5% of assets are less than 15 years old




NOTE: Financial figures are not audited

# Operational review

## Promoting sustainable mobility and renewable energy

### Promoting sustainable mobility

**GNV**

- Redexis has recently reached an agreement with Cepsa for the expansion of NGV to create the largest network of natural gas refueling stations in Spain, planning to reach 80 stations by 2023

### Promoting a sustainable economy

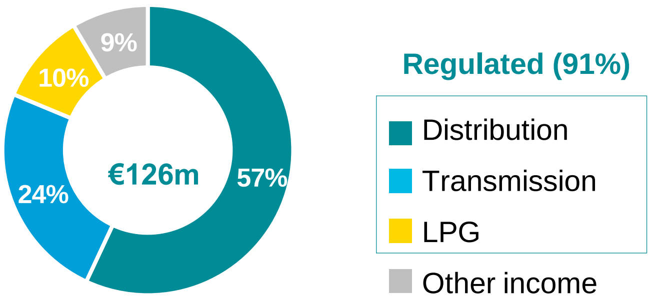
**Hydrogen**

- The company has announced investments amounting to €60 million euros over the next five years to promote initiatives related to this energy vector at a national level
- We are participating in the Lloseta project in Mallorca, a pioneering project at national level, for the injection of hydrogen into the natural gas distribution network

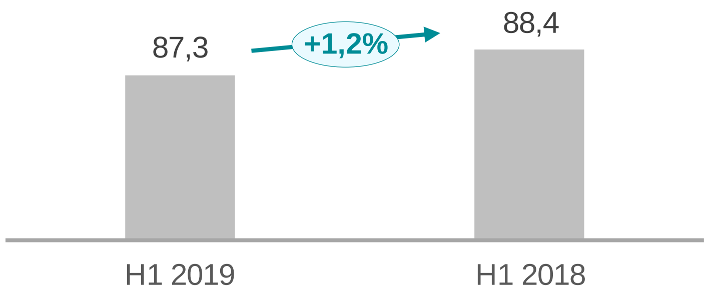
# Financial review
## Business Income Statement

| P&L account (H1) | 2018 | 2019 | %change |
|---|---|---|---|
| *Data in € million* | | | |
| Distribution - regulated | 55,7 | 58,2 | 4,5% |
| Other regulated distribution income | 12,7 | 13,4 | 5,0% |
| Transmission - regulated | 31,2 | 30,6 | (2,2%) |
| LPG regulated business | 16,4 | 12,8 | (21,8%) |
| Other Operating Income | 3,6 | 3,8 | 6,6% |
| Self-constructed non-current assets | 6,4 | 6,9 | 7,9% |
| **Total Revenues and other income** | **126,0** | **125,6** | **(0,3%)** |
| Supplies | (13,4) | (11,1) | (17,6%) |
| Personnel expenses | (12,5) | (13,9) | 11,3% |
| Other Operating expenses | (12,9) | (12,3) | (4,0%) |
| **EBITDA** | **87,3** | **88,4** | **1,2%** |
| *EBITDA margin (%)* | *69,3%* | *70,3%* | *1,0pp* |
| *EBITDA Margin ex LPG dilution (%)* | *76,9%* | *76,6%* | *(0,3pp)* |
| Depreciation and amortisation | (39,5) | (41,7) | 5,6% |
| Impairment on non-current assets | (1,0) | (0,0) | (97,8%) |
| Restructuring and other non-recurring expenses | (9,2) | (0,0) | (100,0%) |
| **EBIT** | **37,6** | **46,6** | **24,0%** |
| Finance income | 0,1 | 0,1 | 4,9% |
| Finance costs | (16,4) | (16,7) | 2,0% |
| **Net financial result** | **(16,3)** | **(16,6)** | **2,0%** |
| **EBT** | **21,3** | **30,0** | **40,8%** |
| Income tax | (5,7) | (7,5) | 30,3% |
| **Net result for the period** | **15,6** | **22,5** | **44,6%** |
| Result for the period attributable to owners of the Parent | 15,6 | 22,5 | 44,6% |
| Result for the period attributable to non-controlling interests | 0,0 | (0,0) | |

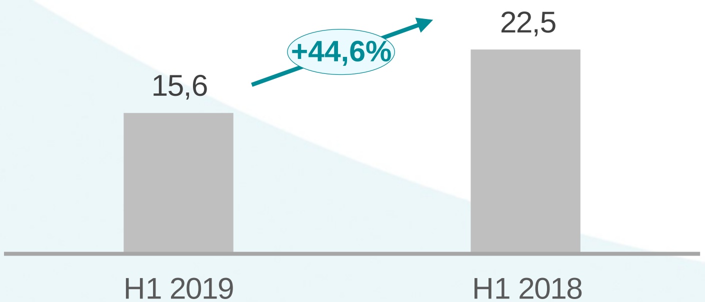
### Revenue and other income




### EBITDA (€m)




### Net income (€m)




NOTE: Financial figures are not audited

# Financial review
## Business Cash Flow Statement

| Business Cash Flow (H1) | 2018 | 2019 | %change |
|---|---|---|---|
| *Data in € million* | | | |
| **EBITDA** | **87,3** | **88,4** | **1,2%** |
| **Adjustment for non-cash items (included in EBITDA):** | | | |
| Change in provisions | 0,2 | 0,1 | (42,3%) |
| Government grants taken to income | (0,8) | (0,1) | (84,2%) |
| Net change in working capital | 27,9 | 17,3 | |
| **Cash flow from operating activities** | **114,6** | **105,7** | **(7,8%)** |
| Acquisition of GLPs | (2,9) | (3,1) | |
| Acquisition of property, plants and equipments | (68,3) | (71,8) | 5,1% |
| Income tax paid | (1,3) | (0,7) | (46,2%) |
| **Free Cash Flow** | **42,0** | **30,1** | **(28,4%)** |
| Interest paid | (25,0) | (28,9) | 15,4% |
| Interest received | 0,1 | 0,1 | 4,9% |
| Finance income | (24,9) | (28,8) | 15,4% |
| **Cash flow ex financing activities** | **17,1** | **1,3** | **(92,4%)** |
| Acquisition financial assets | (0,4) | | |
| Proceeds / (Repayment) of EIB | | 50,0 | |
| Proceeds / (Repayment) of 2027 bond tap | (3,6) | | (100,0%) |
| Proceeds / (Repayment) of Dividends | (220,0) | (30,0) | |
| Proceeds from other financial liabilities | (0,0) | (0,7) | |
| Restructuring and other non-recurring expenses | (9,2) | - | (100,0%) |
| **Net increase / decrease in cash and cash equivalents** | **(216,1)** | **20,6** | **(109,5%)** |
| Cash and cash equivalents BOP | 289,4 | 49,7 | |
| Cash and cash equivalents EOP | 73,3 | 70,3 | (4,1%) |

### Comments

- Cash conversion (EBITDA to Cash flow from operating activities) remains robust
- Temporary differences in working capital related to settlements with the Gas System
- PPE expenditures remain mostly growth driven
- Interest payments increased due to the payment in 2019 of the full coupon corresponding to the tap of 2027 bond issued in nov/17
- Drawdown of €50m from EIB facility
- Ordinary dividend payment of €30m

NOTE: Financial figures are not audited

# Financial review
## Balance Sheet

| Balance Sheet | FY 2018 | H1 2019 |
|---|---|---|
| *Data in € million* | | |
| **ASSETS** | | |
| Property, plant and equipment | 1.243,2 | 1.267,6 |
| Goodwill | 219,2 | 219,2 |
| Other intangible assets | 557,5 | 557,2 |
| Right of Use Assets | 2,2 | 4,5 |
| Deferred tax assets | 46,6 | - |
| Non-current financial assets | 7,7 | 0,2 |
| Deficit of the system | 5,2 | 4,1 |
| **TOTAL NON-CURRENT ASSETS** | **2.081,5** | **2.052,7** |
| Inventories | 5,9 | 6,0 |
| Trade and other receivables | 55,3 | 46,2 |
| Other current financial assets | 0,2 | 0,1 |
| Other current assets | 5,6 | 7,9 |
| Cash and cash equivalents | 49,7 | 70,3 |
| **TOTAL CURRENT ASSETS** | **116,8** | **130,5** |
| **TOTAL ASSETS** | **2.198,4** | **2.183,2** |

| Balance Sheet | FY 2018 | H1 2019 |
|---|---|---|
| *Data in € million* | | |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | |
| Equity attributable to equity holders of the parent | 654,0 | 646,5 |
| Non-controlling interest | 0,0 | 0,0 |
| **TOTAL EQUITY** | **654,0** | **646,5** |
| Deferred income | 21,3 | 21,2 |
| Long term liabilities (Bonds) | 1.139,5 | 1.140,7 |
| Loans and borrowings (Banks) | 158,3 | 207,7 |
| Other financial liabilities | 3,1 | 5,4 |
| Deferred tax liabilities | 105,9 | 63,4 |
| Provisions for employee benefits | 4,0 | 4,1 |
| Other provisions | 0,6 | 0,6 |
| **TOTAL NON-CURRENT LIABILITIES** | **1.432,8** | **1.443,2** |
| Short term liabilities (Bonds) (Accrued interests) | 19,4 | 5,7 |
| Loans and borrowings (Banks) (Accrued interests) | 1,8 | 2,1 |
| Fixed asset suppliers | 65,9 | 56,1 |
| Trade and other payables | 19,0 | 23,7 |
| Current income tax liabilities | 0,8 | 3,5 |
| Provisions for employee benefits | 0,1 | 0,0 |
| Other current liabilities | 4,6 | 2,4 |
| **TOTAL CURRENT LIABILITIES** | **111,5** | **93,5** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | **2.198,4** | **2.183,2** |

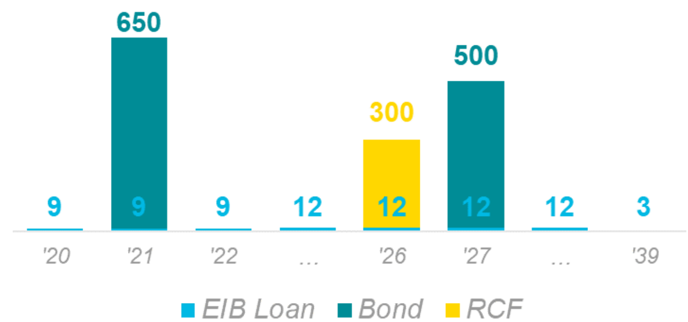
NOTE: Financial figures as of June 30th 2019 (H1 2019) are not audited

# Financial review
## Disciplined investment grade financial policy

### Liquidity Position

| Instrument | Amount (€m) | Drawn (€m) | Available (€m) |
|---|---|---|---|
| Bonds | 1.150,0 | 1.150,0 | - |
| RCF | 300,0 | - | 300,0 |
| EIB loans | 285,0 | 210,0 | 75,0 |
| Cash & Eq | 70,3 | - | 70,3 |
| | **1.805,3** | **1.360,0** | **445,3** |

### Maturity profile




Rating S&P
**BBB–**
stable outlook
*(July 2019)*

Available liquidity
**€445,3m**

Avg. Financial cost
**2,2%**

Avg. debt maturity
**5,63y**

### H1 2019 Financing Milestones

- ✓ Sale of 2015-2017 deficit: €5,7m
- ✓ Amend & Extend of €300m RCF and conversion to ESG linked, extending maturity and reducing interest rates
- ✓ EIB Drawdown of €50m, 20y maturity
- ✓ Renewal of the EMTN Programme
- ✓ S&P rating affirmed on July/19: BBB- outlook stable

NOTE: Financial figures are not audited

# Financial review

## Investment Grade rating affirmed in July with outlook stable

**BBB-**

**Outlook Stable**

*July 25th 2019*

### Summary of S&P credit action release

- The impact on DSOs will be asymmetric, and largely depend on each company's net asset base age as of 2020
- The proposed scheme will have less of an impact on Redexis
  - Asset base very young, with 95% of its assets younger than 15 years
  - Intensive expansion capex in past years, averaging €160 million over the past five years, of which most was expansionary capex
- Distribution
  - Don't anticipate a significant impact in the ordinary part of the remuneration for Redexis because it depends on relatively stable components
  - The proposed scheme maintains remuneration for growth: Expect Redexis will keep its growth strategy unchanged, which means no deviation of the capex plan
- Transmission
  - Remuneration for continuity of supply will be removed in four years, this will result in a drop in remuneration of about €10 million per year for Redexis
  - Largely manageable for the company, in particular since it will also be entitled to additional remuneration due its expansion strategy and due to its flexible dividend
- Stable outlook on Redexis captures our view that the proposed remuneration scheme, if established as law by November 2019, will have a limited impact in the gas operator's EBITDA generation and credit metrics

> "The stable outlook also reflects our expectation that Redexis' strategy over the next 12 to 24 months will continue to prioritize its grid expansion and the addition of incremental connection points to its customer base, while posting FFO to debt above 10% and debt to EBITDA below 8.0x.

# Redexis commitment to ESG

Partners of the Spanish Network of the United Nations Global Compact, working in line with the Sustainable Development Goals (SDG)

Participation in the process of auditing best practices in ESG matters by Gresb BV

A materiality analysis has been carried out with the aim of review stakeholders and establish the material aspects

Conversion of its €300m revolving credit facility into sustainable ("ESG-linked RCF") in May 2019

**Environment**

- Integrated Environmental policy approved by senior management
- Followed-up biodiversity projects to improve evaluation and mitigate the impact on the natural spaces deteriorated due to our activity
- Commitment to the development of natural gas vehicle (NGV): Agreement with Cepsa
- Promoting the development of clean and renewable energies: biomethane or hydrogen
- Submitted GRESB survey in June 2019, reflecting improvements to ESG practices
- ISO 14001 certification, updated in June 2018
- ISO 50001 certification, obtained in June 2018
- Carbon footprint, obtained in December 2018

**Social**

- No casualties/serious accidents in H1 2019
- Signature of the Group's second collective agreement in December 2018
- 5,5% of staff is unionized as of June 30$^{th}$ 2019
- II Equality Plan signed in 2019: guarantee women's rights in the workplace and equal opportunities
- Healthy Business Excellence Certificate and OHSAS 18001 updated in June 2018
- Absenteeism rate 1,7% in 2018 vs. Spain average 5,3% (source Adecco)
- Developed sustainable actions in the municipalities where it operates

**Corporate Governance**

- Constitution of the Appointments and Remuneration Committee and the Audit and Risk Committee
- Internal Code of Conduct
- Protocol for the communication of irregular facts
- Internal and external whistleblower channel
- Adaptation of policies to the new data protection rules

# Regulatory milestones

## Draft of proposed regulation for 2021-26 released for consultation

| Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2021 |
|---|---|---|---|---|
| **RDL 1/2019 (Jan'19)**<br>RD Law 1/2019, transferring Ministry competencies to CNMC<br><br>**Energy transition law draft and NECP draft (Feb'19)**<br>The Ministry presented energy transition law draft and National Energy and Climate Plan 2021-2030 draft | **OM 406/2019 (Apr'19)**<br>The Ministry approved the Energy Policy Guidelines | **CNMC draft proposals (Jul'19)**<br>Draft of new regulation Agents & Ministry hearing process. The Companies and the Ministry may submit its allegations to the CNMC until 9 August<br><br>**The Proposals would be submitted to the State's Council (Autumn '19)** | **Final regulation to be published by the CNMC (Dec'19)** | **New regulation entry into force** |

# Analysis of proposed CNMC's Circular drafts

- Redexis is working on technically supported allegations to the CNMC to improve the proposed regulation and reduce the impact of remuneration cuts in the current draft
- However, under current proposed draft, we estimate the impact on total revenue to be non material
  – Virtually neutral until 2023
  – Limited impact on annual average during the regulatory period 2021-2026

**Summary of CNMC Draft Proposal**

| | |
|---|---|
| **Distribution** | • Remuneration of depreciated assets gradually removed in 4 years<br>• Asset base revised with a 5,83% financial rate on net assets, and O&M allowance of 2020 costs<br>• Reduction coefficient (f) applied to the remuneration of the asset base to recognize financial cost reductions<br>• Remuneration of growth maintained with same parameters values<br>• Remuneration of growth supplemented with a new term of 0,50 Euro/MWh for the connection of 4-60bar networks (industrial segment)<br>• New term for the life extension of depreciated assets is introduced<br>• New efficiency term is introduced |
| **Transmission** | • Remuneration of continuity of supply gradually removed in 4 years<br>• Updated financial rate proposed (5,44% versus current 5,09%)<br>• Unit values for O&M remuneration might be revised<br>• Net investment value for transmission assets pre 2008 is reduced, as according to CNMC these were not properly calculated in 2014 (regulatory life of those assets changed from 30 to 40 years)<br>• New efficiency term is introduced |

# Conclusions

- Continued track of growth in domestic and industrial segments
- Sustained delivery on financial metrics
- Advancing in sustainable mobility and renewable energy
- Commitment to ESG
- New draft regulation for 2021-26 with limited expected impact