Madrileña Red de Gas

CY 2022 Annual Results

July 2023

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Executive summary

2022 Performance	**Sustained growth within a year marked by warmer temperatures and high gas prices** ▪ **EBITDA amounting to €130.4m**, -8% Y-o-Y driven by lower remuneration, due to the haircut applied, warmer temperatures, and higher natural gas prices, partially offset by lower costs. ▪ **Sustained high cash generated** from operations amounting to **€96m (c.85% cash conversion ratio).** ▪ **More than 900k natural gas connection points** reached (893k the previous year). ▪ Successful achievement of the LPG to natural gas customer conversion plan (**7,515 connection points converted).** ▪ **First in the ranking in terms of natural gas connection points net growth among all Spanish DSOs** (1)
Key initiatives	**Involvement in the development of green solutions and committed to sustainability** ▪ **Pioneers in domestic use of H2** for heating and hot water **projects** ▪ **Active collaboration** with different stakeholders **to promote and develop the use of hydrogen and biomethane.** ▪ Promotion of **natural gas for mobility**: **4 new NGV stations** operating in 2022 ▪ Adapting capabilities to comply with urgent measures in the Energy Sector and focus on **client satisfaction**. ▪ **ESG: First position** among its peers in Spain and second in Europe. **GRESB score of 96 points** (93 points in 2021) over 100 possible and 5 stars (maximum level). ▪ **Sustainability –linked Term Loan facility** amounting **€225m.**
Financial Policy & Debt Profile	**Commitment to an IG rating supported by a strong capital structure with flexible debt profile and long term maturity** ▪ **Flexible and sustainable financing** supported by a **new 5-year and sustainabilty –linked Term Loan facility** (**€225m).** ▪ **Early redemption of the €275m 2023 Bond.** ▪ **Low exposure to market volatility** – 89% of debt at fixed rate. ▪ **Liquidity supported by the extension of €75m RCF** maturing in April 2026 +1 year extension. ▪ Strong shareholder **commitment to investment grade rating**. On July 2023, **S&P has affirmed MRG's rating in BBB- (Outlook stable).**
Additional updates	▪ Capitalization of the intercompany loans between MRG and its parent company Elisandra V. No changes in debt security or lender seniority. ▪ The company has appealed the **CNMC resolution** in which the regulator considers that transactions made during FY2022 result in a position of the regulated company that is not considered to be in compliance with Article 62.6 of Law 34/1998 (2)

(1) Source: CMNC's Q4 2022 and summary of the year report: "Boletin trimestral de supervición del mercado minorista de Gas Natural en España" / (2) Subsequent events note in MRG FY2022 Financial Statements for further disclosure

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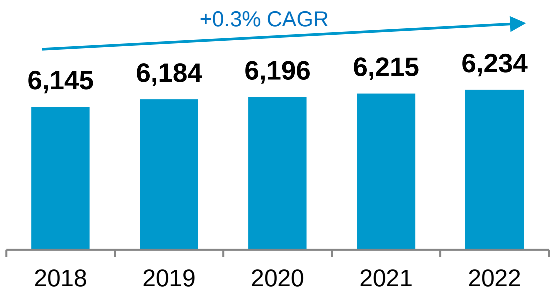
Operating overview

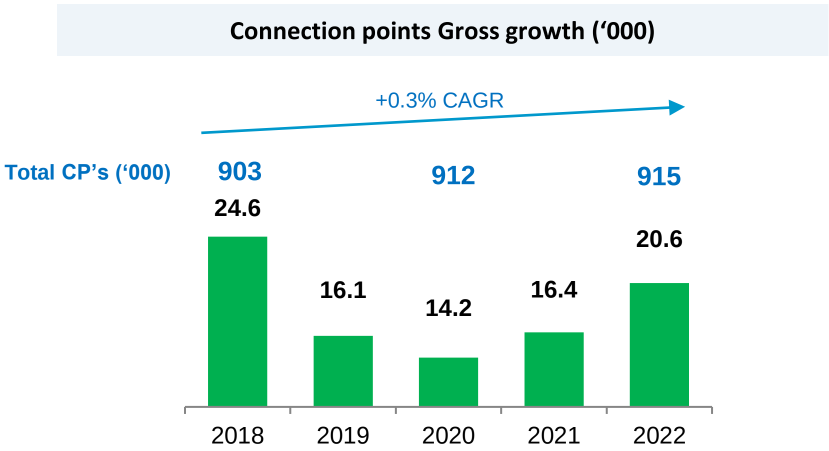
Key Operating Metrics

Network Length (Km)



Source: MRG
Including Aliara GLP

Connection Points ('000)



Source: MRG
Total CP's including LPG (MRG + Aliara GLP)

Comments

Sustained growth in 2022:

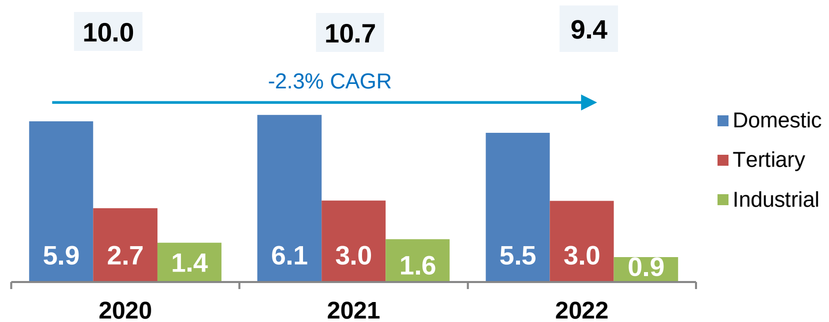
- Reached the threshold of 900,000 NG connection points being the main drivers:
  - Commercial campaigns in inhabited houses, tertiary and commercial sector
  - Central Boilers (c.25 new central boilers equivalent to c.1,000 households)
  - Successful implementation of LPG connections points to natural gas conversion plan. LPG connections points remaining in MRG will gradually be converted to natural gas.
- The group company Aliara GLP was created with the aim to separate the LPG activity from Natural Gas. Aliara GLP manages c.6.307 connection points which were purchased from MRG in April 2022.

Operating overview

Key Operating Metrics

Distributed Energy

MRG's Demand (TWh)



Source: MRG

Domestic: P<4bar, Cons.<=50MWh/y
Tertiary: P<4bar, Cons.<=8GWh/y
Industrial: Cons.>8GWh/y

Natural Gas Demand in Spain 2022 (GWh)

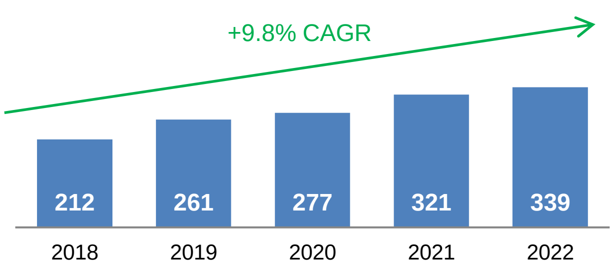
	Jan-Dec 2022	Var. vs 2021
DOMESTIC DEMAND	**364,425**	**-3,7%**
Conventional	226,388	-21,4%
Electricity generation	138,037	+52,7%

Source: Enagas Statistical Report, December 2022

Comments

- **Total distributed energy** during 2022 was **9.4 TWh** (-13% Y-o-Y). Nonetheless, the decrease has been lower than the one in conventional domestic demand for the Gas System (-21.4% Y-o-Y) :
  - Domestic (-11% Y-o-Y), due to warmer temperatures in 2022, given the sensitivity of the domestic demand to temperatures.
  - Tertiary demand remained in line with previous year, despite warmer temperatures and price instability
  - Industrial (-42% Y-o-Y) influenced by the natural gas prices increase.
- **NGV** distributed through MRG **network shows continuous growth,** despite prices instability.

NGV Demand (GWh)



Source: MRG

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MRG Key Initiatives

MRG group takes part in several initiatives with the aim of becoming a pioneer in the field of Green Hydrogen in Spain

Green Hydrogen field and Biomethane

MRGs contribution to sustainable climatization and decarbonization through green H2

- **Pioneers** in domestic use of H2 for heating and hot water.
- First project in Spain featuring green hydrogen for domestic use.
- **MRG** and **Pryconsa** (leading Spanish building company) signed an agreement in September 2022 for the construction of 98 dwellings with a centralized **hydrogen boiler for heating and hot water** in Valdemoro (Madrid).
- Total H2 demand **24.7 t/year**.

Generating, supplying and promoting green H2 for all productive sectors in Madrid

- Project to decarbonize public **urban mobility** in the Madrid region and extending the use of **green H2** to all productive sectors.
- **MRG** partnering with **FRV** (leading global solar energy solutions company) and **Grupo Ruiz** (Spanish passengers mobility group).
- The project first phase consists of a **5MW electrolyzer** and **5 public hydrogen refueling stations** (HRS) to supply **445t of H2**.
- Agreement with Federación professional del Taxi with the representation of more than 15,000 licenses.
- The project has 70% of the off-takers covered.

Other Biomethane and Hydrogen projects

- Closely following several biomethane projects in different locations in the Madrid region, to **inject biomethane into MRG Network.**
- Steadily **growing pipeline of H2 heating projects**.

MRG Key Initiatives

MRG group takes part in several initiatives with the aim of becoming a pioneer in the field of Green Hydrogen in Spain

Green Hydrogen field and Biomethane

Collaboration with different stakeholders

- As an active actor in the energy transition, MRG **collaborates** with different stakeholders and regulators to **prepare the road for the use of hydrogen** amongst all productive sectors.
- MRG, in collaboration with Arup and Universidad Politécnica de Madrid, has agreed with Industry Department of Community of Madrid to develop a **Technical Procedure regarding 100% H2 network.**
- **CNMC – GTS**: Working on "**Biomethane Connection Procedure**" to set a technical procedure to link Production Plant to distribution network.

Work groups memberships

- **Member of the Ministry (IDAE) advisory group for H_2** which has four workstreams: 1) Production 2) Uses and Consumption 3) Transmission and Distribution and 4) Equipment and Technology.
- Participating in **Sedigas H_2 Think Tank** to position of **H_2 Ready Boilers** above Aerothermal Heat Pumps for TBC (Technical Building Code) and to promote the use of H_2 Ready Boilers through the collaboration with boilers manufacturers.
- European initiative Ready4H2 consisting on the combination of the hydrogen expertise and experiences across European gas distribution companies, corroborates the distribution networks are H2-capable.

MRG Key Initiatives

Other initiatives contributing to the energy transition

Promotion of use of natural gas as a cleaner energy source

- **MRG is a key player in the "Plan Renove"** from the Energy Foundation of Community of Madrid from individual atmospheric boilers **to condensing boilers.**

Continued investment on NGV, contributing to decarbonization of transports

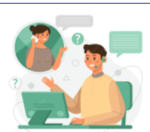
- NGV continues to grow: **four new NGV stations** operating in 2022.
- Through Aliara, the group was operating a total of **11 gas stations by the end of 2022.**
- All gas stations can be migrated to hydrogen.

10 CNG Stations
+3
vs. last year

1 LNG Station
+1
vs. last year

Digitalization and processes flexibily

- Required **changes in processes and IT developments** arising from the urgent national measures that were taken in response to the economic and social consequences to the escalating prices due to the war in Ukraine **were implemented in record time and with minimal disruption.**
- Increase in the number of **self-service processes** in MRG's **website** and fully **renewed Whatsapp's** customer care channel.



Helping the customer through a tense year

- MRG has provided customers with **advice on how to save gas** without having to make large investments by providing them with a ten-point plan of ideas.
- MRG has facilitated and **improved real meter reads**.

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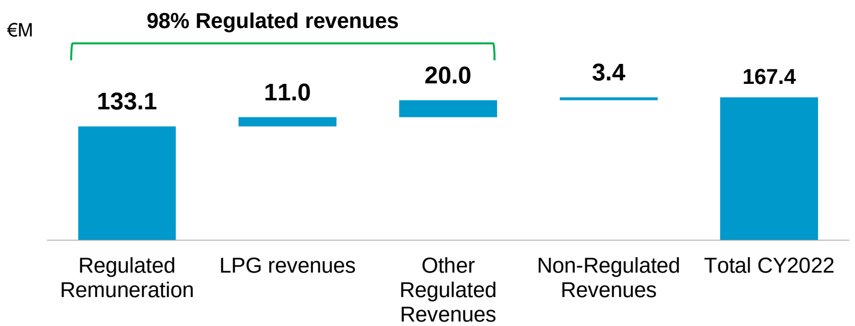
Key Financials

Income Statement - €m

12 month period ending Dec 31st	2021	2022	Var.	Var.
Remuneration	145.8	133.1	(12.6)	-9%
Other regulated revenue	37.4	30.9	(6.4)	-17%
Other revenue	3.7	3.4	(0.3)	-8%
Recurring EBITDA	**141.3**	**130.4**	**(10.9)**	**-8%**
EBITDA Margin (%)	*75.7%*	*77.9%*		*3%*
EBITDA Margin ex LPG dilution (%)	*79.5%*	*82.5%*		*4%*
EBIT	**106.7**	**97.2**	**(9.5)**	**-9%**
Margin	*57.1%*	*58.1%*	*0.9%*	*2%*
Interest expense	(13.3)	24.7	38.0	-285%
Income tax expense	(23.1)	(31.8)	(8.7)	38%
Net Income	**70.3**	**90.1**	**19.8**	**28.2%**

Source: MRG
(Audited under IFRS)

Revenue Breakdown (CY2022)



Comments

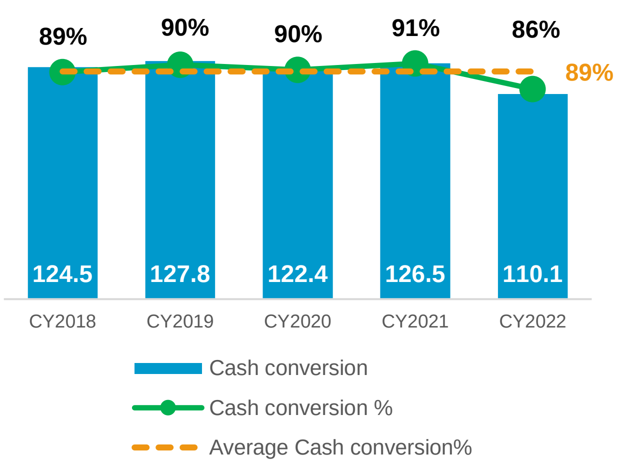
- The Company obtained **solid financial results in 2022** with an EBITDA of €130.4m, -8% Y-o-Y mainly explained by:
  - Apart from the remuneration cut applied in 2022 **the company has achieved lower revenues from remuneration**, **due to warmer temperatures** that have motivated the reduction of demand.
  - **LPG conversion plan to natural gas** of c. 7,500 connection points and **the sale to the group company Aliara GLP of c. 6,300 LPG connection points**, explains the variance in regulated revenues. **The lower volume of planned periodical inspections** compared to the previous year, also explains the total variation.
  - Other regulated revenues in line with the previous year.
  - Revenues remain concentrated in regulated activity
  - **Lower costs as a result of savings in gas balance losses** and **lower volume of activity** in **LPG** and planned **periodical inspections.**
  - Financial result in 2022 includes financial income coming from debt capitalization.

Key Financials

Cash Flow Statement - €m

12 month period ending Dec 31st	2021	2022
EBITDA	141.3	130.4
Income tax paid	(5.6)	(5.2)
Working capital	(9.9)	(4.5)
Tariff Deficit	13.3	(7.0)
Capex	(13.1)	(17.6)
Organic growth	(8.0)	(14.0)
Maintenance	(3.5)	(3.6)
Others	(1.6)	0.0
LPG sale to Aliara (1)	0.0	11.1
Free Cash Flow	**126.0**	**107.3**
Free Cash Flow excluding one-off effects	**126.0**	**96.2**

(1) One-off effect
Source: MRG
Audited under IFRS



Cash conversion = EBITDA – Capex

Source: MRG

Comments

Sustainable cash generated from operations amounting to €96m, which represents a -24% result compared to previous year.

The main variances are explained by:

- **EBITDA** result.
- **Better working capital position** mainly due to cash inflow coming from positive adjustments to remuneration non-recognized in the previous year.
- The year 2021 resulted in a Gas system surplus, whereas 2022 ended on a deficit position, which explains the variation in **Tariff deficit.**
- **MRG has invested a total of €14m in expanding its network and executing the LPG conversion plan into natural gas,** in line with its sustainable and profitable Expansion strategy.
- **Similar level of maintenance and other investments** which include digitalization, process automation and system's development aiming at costs efficiency and customer satisfaction.
- **No additional sectorization capex needed** in 2022 explains "Others" capex variance.
- LPG connection points sale to the group company Aliara LPG amounted €11.1m.
- Cash conversion ratio of 86% in 2022, remains within the historical range. Capex is discretionary.

Financial Update

MRG Balance sheet - €m

At December 31st	2021	2022
Total Network Fixed Assets	1,058.7	1,045.9
Goodwill	57.4	57.4
Deferred Tax Asset	14.7	12.4
Other Non-Current Assets	339.2	7.8
Current Assets	44.9	35.5
Cash and cash equivalents	33.5	16.2
Total Assets	1,548.4	1,175.2
Equity	432.8	752.9
Long Term Debt	944.6	225.0
Deferred Tax	79.9	91.9
Other Non-Current liabilities	36.1	37.0
Current Liabilities	54.9	68.4
Total Liabilities & Shareholders' Equity	1,548.4	1,175.2

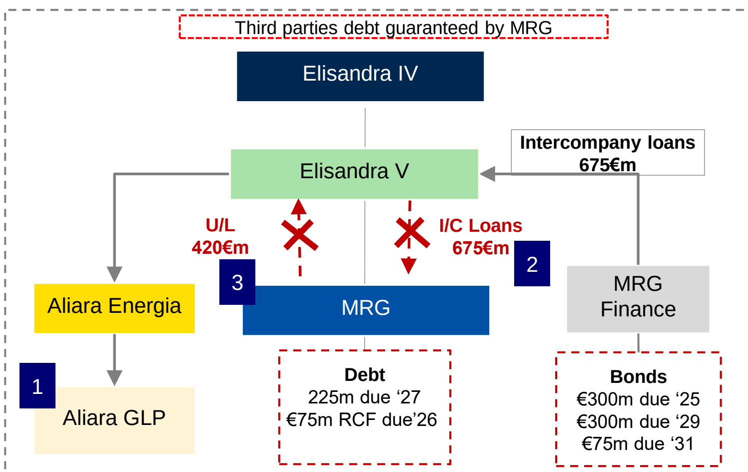
Audited under IFRS

Comments

The MRG main Balance Sheet variations during 2022 are related to:

- **The cancellation of the outstanding upstream loan between MRG and Elisandra V**, resulting in variation on "Other non-current assets" balance.
- **The long-term debt reduction and equity increase** through the **capitalization of the IBLAs between MRG and Elisandra V** .The transaction has resulted in changes in the balance sheet position of long-term debt and in the equity position.
- On November 14th, the company has **repaid the 2023 Bond** through a Make-whole execution for €275m and has **disposed a new 5-year loan** formalized in August 2022 amounting €225m.
- In addition, MRG holds a RCF amounting €75m which as of December 31st , 2022 was drawn for €20m. The RCF was refinanced in February 2022 maturing in 2026 plus an additional one-year extension.
- Debt capitalization movements do not affect previous guarantee structure.

Internal corporate structure amendments



Comments

1. A new company of the group has started to operate LPG connection points that are not planned to be converted to natural gas.
2. Capitalization of the intercompany loan agreements between MRG and its parent company
3. Cancellation of the loan of MRG to its parent company

- The internal corporate amendments do not impact on consolidated financial balance sheet and consolidated financial metrics
- The capitalization of the intecompany loans (2) would lead the regulated company to comply with the regulatory financial prudence ratios. However, final position of the regulated company resulting from the transaction is being challenged by the regulator in the resolution of March 2023 (1)

(1) On March 2023, the Company has been requested by the CNMC to reverse the Intercompany Credit Agreement (Upstream Loan) disposal carried out in May 2021 between MRG and its parent company Elisandra V for €101m in a manner compatible with Article 62.6 of Law 34/1998 of the Hydrocarbons Sector. According to the regulator the transactions made to revert such disposals result in a position of the regulated company that is not considered to be in compliance with Article 62.6 of Law 34/1998

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Madrileña RED DE GAS

Capital structure

Madrileña RED DE GAS

	Apr-25 Note	Apr-29 Note	Mar-31 Note	RCF	Bank debt
Issuer	MRG Finance, B.V.	MRG Finance, B.V.	MRG Finance, B.V.	MRG S.A.U.	MRG S.A.U.
Guarantee	MRG S.A.U.	MRG S.A.U.	MRG S.A.U.	MRG S.A.U.	MRG S.A.U.
Issuance amount	€300m	€300m	€75m	€75m*	€225m
Maturity	April 2025	April 2029	March 2031	February 2026 + 1y extension	August 2027
Pricing	Fixed 1.375%	Fixed 2.250%	Fixed 3.500%	Euribor + margin	55% Fixed 45% Eur + margin
Ranking	Senior	Senior	Senior	Senior	Senior

Rating

S&P: BBB-
DBRS: BBB (low)

Average cost of debt

2.2%

Average maturity

4.6y

Main actions in 2022

1. **Refinancing plan executed**: €275m bond fully repaid and new **ESG-linked bank loan facility** issued amounting to €225m **providing greater flexibility** to the MRG group capital structure. Deleverage of 50 €M in gross debt
2. **Revolving credit facility refinanced to reinforce liquidity position** with total flexibility. RCF maturing in 2026 plus 1 year extension
3. **Reduction in average cost of debt** to 2.2% from 2.7%
4. **Extension of the average maturity of debt** (average **debt maturity 4.6 years**)

Main features

1. **Investment grade bonds** issued under MRG's €2bn EMTN Program with different tenors. Reduced refinancing risk by spreading maturities
2. **Long term and flexible financing** amounts €900m, providing **strong financial capacity**
3. **ESG-linked to GRESB score financing** (€225m Term Loan)
4. **Flexible financial policy** in place that strongly supports investment grade commitment
5. **Low exposure to market volatility** – **89%** of debt at **fixed rate**

* €20m disposed as of Dec. 31st, 2022

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Madrileña RED DE GAS

ESG Achievements: GRESB score

GRESB 2022 Score

2022 GRESB Infrastructure Asset Benchmark Report

MADRILEÑA RED DE GAS | MADRILEÑA RED DE GAS

GRESB Rating ★★★★★

Participation & Score

2019	2020	2021	2022
42	48	93	96

Peer Comparison

2nd — Europe | Gas Distribution Network | Maintenance and operation — Out of 9

ESG Breakdown

		GRESB Average	Benchmark Average
Environmental	28 / 28	23	25
Social	45 / 46	38	44
Governance	23 / 26	18	21

Rankings

44th	GRESB Score	Out of 649
2nd	GRESB Score within Network Utilities: Gas Distribution Companies / Europe / Private	Out of 10
3rd	GRESB Score within Network Utilities: Gas Distribution Companies	Out of 13
1st	Management Score	Out of 652
2nd	GRESB Score within Network Utilities: Gas Distribution Companies / Europe	Out of 10
1st	Management Score within Network Utilities: Gas Distribution Companies	Out of 13
279th	Performance Score	Out of 649
32nd	GRESB Score within Private	Out of 470
5th	Performance Score within Network Utilities: Gas Distribution Companies	Out of 13

- GRESB score of **96 points** over 100 possible and 5 stars (maximum level), which breakdown to:
  - Environmental: 28/28
  - Social: 45/46
  - Governance: 23/26
- MRG has achieved **second** GRESB score within Network Utilities: Gas distribution Companies / Europe and the **first** position in the management score ratio over the entire ESG score universe.

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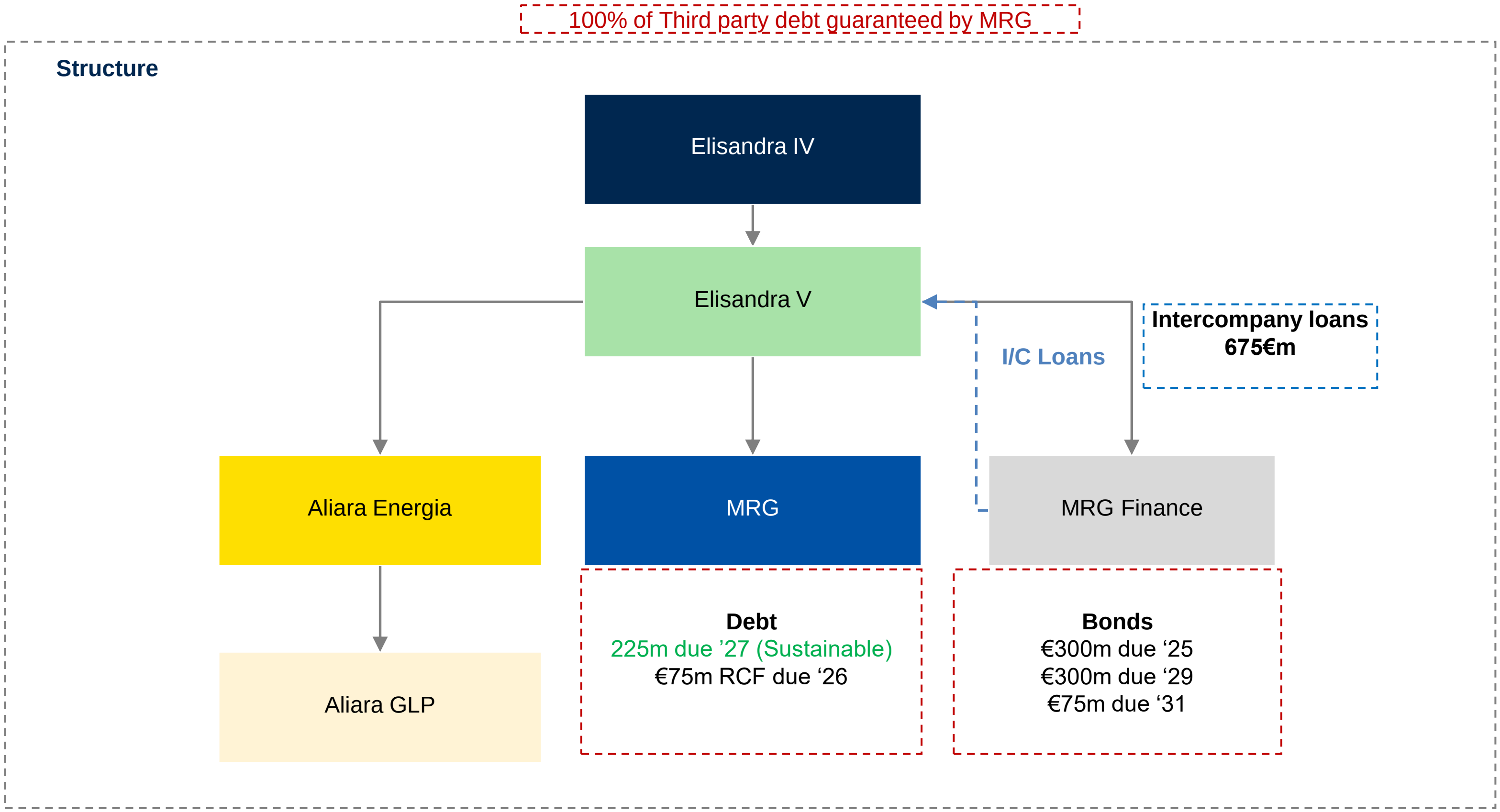
Main takeaways

Madrileña RED DE GAS

1	**High resilience**, **financial strength** and **revenue generation predictability**
2	Highly focussed on **cost efficiencies** and fast reaction and adaptability to **customer needs arising from changing market conditions**
3	Network suitable for **renewable gases** such as hydrogen and bio methane
4	Involved in **key H2 initiatives** of the Madrid Region. Development of gas stations network for **low carbon emissions mobility**
5	Strong financial and liquidity position. **Commitment with Investment Grade qualification**
6	Committed with **ESG: 5 stars** rating and **2nd GRESB** score within Network Utilities: Gas distribution Companies / Europe and the **1st** position in the management score ratio over the entire ESG score universe

Annexes

Corporate structure



Consolidated financials

Consolidated Cash flow Statement (1) – M€

At December 31st	2021	2022
Profit/(loss) for the period before income tax	79	88
Adjustments	58	35
Amortization and depreciation	*32*	*32*
Net Financial expenses	*25*	*4*
Others	*2*	*(1)*
Changes in working capital	6	(8)
Interest paid	(26)	(33)
Income tax paid	(6)	(5)
Cash flow from operating activities	**112**	**77**
Investments	(17)	(21)
Amounts collected from grants	1	2
Debt service	(1)	(31)
Issuace of bank loans	*0*	*255*
Repayments and amortizations	*(1)*	*(286)*
Share premium and reserves distributions	(104)	(41)
Net increase in cash	**(8)**	**(13)**

Consolidated Balance Sheet (1) – M€

At December 31st	2021	2022
Non current assets	1,953	1,941
Current Assets	36	40
Cash and cash equivalents	42	29
Total Assets	**2,031**	**2,009**
Equity	**681**	**711**
Long Term Debt	977	898
Deferred Tax	297	309
Other Non-Current liabilities	25	28
Short Term Debt	11	32
Other Current liabilities	38	31
Total Liabilities & Shareholders' Equity	**2,031**	**2,009**

(1) Audited under IFRS

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