Madrileña Red de Gas

CY 2018 Annual Results

April 10th, 2019

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Executive Summary

- This presentation summarizes the MRG activity in 2018 being it, the first time the Company presents audited figures on a Calendar Year basis. The previous year figures (2017), which have not been audited, have been calculated for comparing purpose
- During the year 2018, the company has achieved the following financial results: total revenues of €188MM and EBITDA of €141MM, representing 3% and 7% increase versus the same period for 2017. Main variances are driven by additional demand on account of net growth in connection points and cold temperatures, and the contribution of the LPG activity, partially offset by the decrease of natural gas meter rental prices
- The Company sustains a growth strategy based on increasing its presence in its current territory as well as in municipalities adjacent to it providing access to gas natural energy to new connection points.
- As of December 31st 2018, the Company has administrative authorization to perform distribution activities in 59 municipalities in the Region of Madrid and provides service to 903,346 connection points of which 879,301 correspond to natural gas and 24,045 to LPG
- MRG continues the improvement in its operational performance focussing on customer service and the deployment of actions to prosecute and minimize fraud related to gas leakage
- Cash flow from operating activities amounted to €116MM in CY2018 (excluding one-off effects) and has grown compared to the €103MM generated in the same period of 2017
- In October 2018, the Company closed the assignment of 2015 and 2016 Tariff Deficit receivables, achieving the monetization Tariff Deficits from years 2014, 2015 and 2016
- The Company undertook the €500MM bond repayment maturing in September 2018, using the proceeds available from the re-leverage completed in 2017
- Rating agencies S&P and Fitch reaffirmed Investment Grade rating for MRG and its debt

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MRG Corporate Overview

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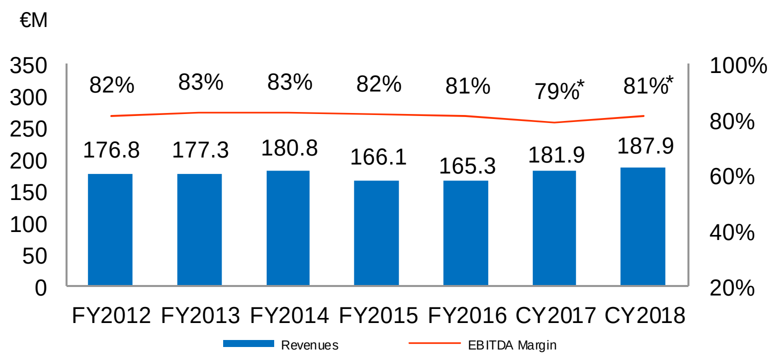
Key Corporate events

- Repayment of its €500MM bond, maturing in September 2018
- Monetization of 2015 and 2016 Tariff Deficit receivable raising additional cash for c.€5MM
- Management of an average of 28,000 Liquefied Petroleum Gas connection points in the territory of Madrid
- The Company has continued the LPG conversion plan, amounting c. 17,000 LPG connections points converted into natural gas since their acquisition in FY2017
- Focus on fraud prosecution initiatives to reduce leakage

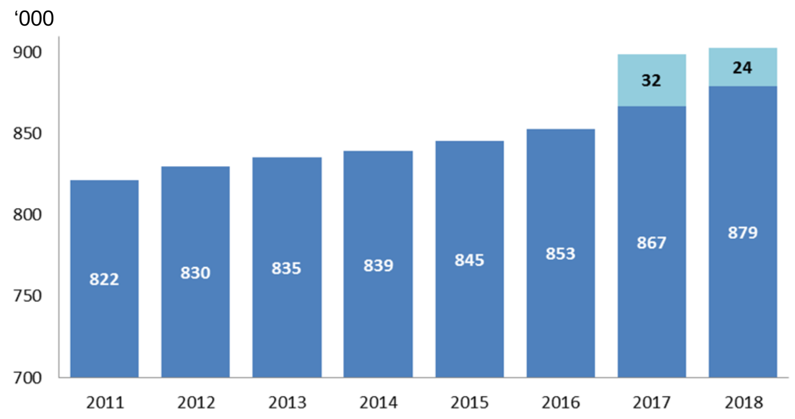
Key Figures 2012-2017



*EBITDA Margin excluding LPG business dilution

Source: MRG

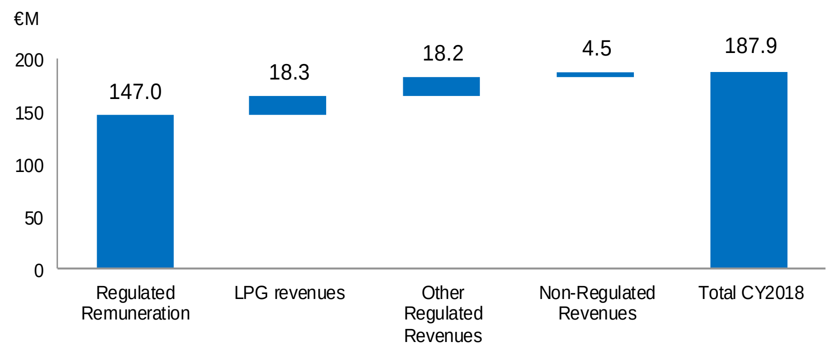
Development of Connection Points (2011-2018)



Source: MRG Natural Gas LPG

Revenue Breakdown (CY2018)

YE 31 December



Source: MRG

YE 30 June for FY figures
YE 31 December for CY figures

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Operating Overview

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Key Operating Data

Natural Gas	Units	2017	2018	Change %
Connection points	#	867,601	879,301	*1.35%*
< 4 bar		*867,507*	*879,207*	*1.35%*
> 4 bar		*94*	*94*	*0.00%*
Gas distributed	GWh	9,787	11,275	*15.2%*
< 4 bar		*9,061*	*10,449*	*15.3%*
> 4 bar		*726*	*826*	*13.8%*
Network length	km	5,727	5,772	0.8%
Municipalities (total)	#	59	59	-

Source: MRG; full year ending on December 31st

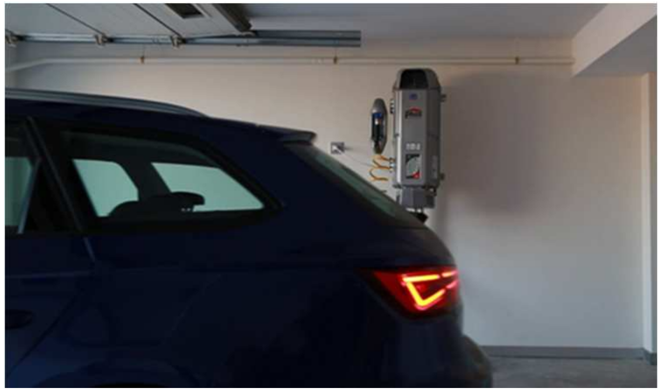
Commentary

- As of December 31 2018, the Company provides service to 879,301 connection points, growing 1.35% compared to the previous year. In addition, the company manages 32,061 connection points to distribute Liquefied Petroleum Gas (LPG)
- Natural gas network length grew by 0.8% up to 5,772 km over the existing municipalities. In addition, the LPG network has 373 Km
- Volume of gas distributed during the year higher than previous year due to higher demand as a consequence of temperatures and growth in the tertiary and industrial sector
- The company's strategy for the following years continues to focus on the growth of its current distribution network to municipalities adjacent to its existing territories which do not currently have natural gas supply, as well as gaining new connection points in its existing territories of operation
- As part of this strategy, MRG continues the conversion of LPG connection points acquired to Repsol in previous year to natural gas connection points. As of December 31, 2018, c.17,000 LPG connection points have been shifted to natural gas.

MRG Key Initiatives

MRG Committed to the Development of Natural Gas

- In line with the growth strategy to increasing the saturation of the current network, MRG has launched new commercial actions to capture new connection points which has delivered a higher growth in certain markets compared to previous years.
- The Company is actively involved in “Plan Renove” promoted by Community of Madrid, to convert residential community boiler rooms from gasoil and coal to natural gas. During 2018 40 boiler rooms have been converted
- The New edification market continues taking advantage of the growth of real state promotion in the Community of Madrid. During 2018, this market has grown 15% compared to the previous year with 4,259 connection points in service
- MRG has continued the LPG conversion plan, amounting in 8,000 LPG connections points converted into natural gas in 2018, which represents the avoidance of more than 3,000 tons / year of CO_2 emissions
- The Company has carried out the necessary steps for the supply of liquefied natural gas in the municipality of Miraflores de la Sierra, which currently has 1,100 customers
- One of MRG’s strategic goals is to promote the use of NGV as a sustainable mobility alternative. The company has taken actions to promote its use and maintains a continuous analysis of opportunities to meet this objective
- MRG is participating, together with SEDIGAS, GASNAM and ENAGAS, among others, in the promotion of alternative energy sources -such as biogas- supporting the development of this market in the area of R&D&i and the design of a regulatory framework



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Key Financials

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Income Statement - €MM

12 month period ending Dec 31st	2017 (1)	2018 (2)	Var.
Remuneration	132.2	147.0	11%
Other regulated revenue	45.9	36.5	-21%
Other revenue	3.8	4.5	18%
Variable costs	(29.8)	(27.6)	-7%
Overhead costs	(20.4)	(18.8)	-8%
Total costs	(50.2)	(46.5)	-7%
Recurring EBITDA	**131.8**	**141.4**	**7%**
EBITDA Margin (%)	*72.4%*	*75.3%*	*4%*
EBITDA Margin ex LPG dilution (%)	*78.9%*	*81.1%*	*3%*
EBIT	**97.3**	**110.6**	**14%**
Margin	*53.5%*	*58.9%*	*10%*
Interest expense	(45.9)	(42.9)	-7%
Income tax expense	(12.9)	(16.7)	30%
Net Income	**38.6**	**51.0**	**32%**

Source: MRG

Commentary

- As of December 2018 MRG achieved €141.4MM recurring EBITDA, representing 7% increase versus the previous year for the same period. Main variances are:
- Higher remuneration as a consequence of higher demand due to colder temperatures, growth in connection points, plus previous year's adjustments in remuneration
- Other regulated revenue decreased by 21% mainly due to the decrease of natural gas meter rental prices and lower revenues coming from LPG activity driven by conversion of LPG connection points to natural gas
- Variable costs lower than previous year aligned with the LPG activity volume
- Net income reached €51MM, mainly due to the better result of the year, and lower interest expense

Breakdown Natural Gas – LPG - €MM

12 month period ending Dec 31st	Natural Gas	LPG	Total
Remuneration	147.0	-	147.0
Other regulated revenue	18.2	18.3	36.5
Non-regulated revenue	4.4	0.1	4.5
Total revenues	169.6	18.3	187.9
EBITDA	**137.5**	**4.0**	**141.4**
EBITDA margin %	***81.1%***	***21.6%***	***75.3%***

- Lower EBITDA percentage due to the contribution of the LPG activity that has increased EBITDA but lowered the margin in percentage. (see table below)

Source: MRG

(1) Full year 2017 figures are not audited
(2) Audited under IFRS

Key Financials

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Cash Flow Statement - €MM

12 month period ending Dec 31st	2017 (1)	2018 (2)
EBITDA	131.8	141.4
Income tax paid	(7.5)	(5.9)
Working capital (3)	11.4	(6.3)
Tariff Deficit	44.0	7.3
Tariff Deficit receivable monetization (3)	44.9	4.8
Gas system tariff deficit	(1.0)	2.4
Capex	(19.2)	(15.1)
Organic growth	(9.6)	(9.3)
Maintenance	(1.1)	(1.7)
Others	(8.5)	(4.1)
Free Cash Flow	**160.5**	**121.3**
Free Cash Flow excluding one-off effects (3)	**102.7**	**116.5**

(3) One-off effects

Commentary

- Cash generation from operations excluding one-off effects amounts to €116.5MM as of December 2018. Compared to previous year, it has grown mainly driven by better EBITDA and lower Capex
- One-off effects split as follows:
  - CY2017 – non recurring variation in working capital coming from the LPG assets acquisition (€12.8MM) and 2014 Tariff Deficit MRG´s share monetization (€ 44.9 MM)
  - CY2018 – 2015 and 2016 Tariff Deficit MRG´s share monetization (€ 4.8 MM)
- Positive variance in the remaining gas system tariff deficit (2017 and 2018) showing a well balanced gas system behavior
- Capex
  - Other Capex includes c.€4MM focused on IT systems and other activities to boost fraud detection related to gas leakage. The total amount differs from 2017 mainly due to sectorization investment made in 2017
  - Organic capex slightly lower than previous year and in line with the efficient growth strategy of the Company
  - Maintenance slightly higher on the back of higher LPG maintenance Capex

Source: MRG

(1) Full year 2017 figures are not audited
(2) Audited under IFRS

Key Financials

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Balance Sheet - €MM

At December 31st	2017 (1)	2018 (1)
Gas distribution licences	740.3	748.4
Net fixed assets	379.3	358.5
Total Network Fixed Assets	**1,119.6**	**1,106.9**
Goodwill	**57.4**	**57.4**
Deferred Tax Asset	**27.2**	**24.9**
Other Non-Current Assets	**6.0**	**1.9**
Current Assets	**62.1**	**55.8**
Cash and cash equivalents	**616.0**	**63.0**
Total Assets	**1,888.4**	**1,309.9**
Equity	**304.8**	**233.3**
Long Term Debt	**1,459.1**	**942.6**
Deferred Tax	**40.4**	**50.2**
Other Non-Current liabilities	**25.7**	**24.1**
Current Liabilities	**58.5**	**59.7**
Total Liabilities & Shareholders	**1,888.4**	**1,309.9**

Source: MRG

Commentary

- Other non current assets variation mainly reflects the long term tariff deficit monetization
- Current assets variation includes seasonal tariff deficit for the year 2018
- Cash position variation reflects the repayment of €500MM bond which expired in September 2018
- The long term debt balance of MRG captures the on-loan agreements with MRG Finance BV (issuer of outstanding unsecured notes):

  - €275MM 4,500% due December 2023
  - €75MM 3,500% due March 2031
  - €300MM 1,3750% due April 2025
  - €300MM 2,250% due April 2029
- In addition, MRG holds a RCF amounting €200 MM which as of December 31st , 2018 remains undrawn

(1) Full year 2017 figures are not audited
(2) Audited under IFRS

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Capital Structure

	Bonds				Revolving Credit Facility
Size	€ 275M	€ 75M	€ 300M	€ 300M	€200M (undrawn)
Coupon / Margin	4,500%	3,500%	1,375%	2,250%	
Maturity	10 years (December 2023)	15 years (March 2031)	8 years (April 2025)	12 years (April 2029)	5 years (April 2022)
Rating	BBB (S&P) BBB (Fitch)	BBB (S&P) BBB (Fitch)	BBB (S&P) BBB (Fitch)	BBB (S&P) BBB (Fitch)	N/A

1. Investment grade bonds issued under MRG's €2bn EMTN Program with different tenors and size. Current structure reduces refinancing risk by spreading maturities
2. Revolving credit facility optimized to reduce cost and reinforce liquidity position with total flexibility.
3. The company repaid the €500MM Bond with maturity date September 2018 reducing the weighted average cost of debt
4. As of December 31st 2018, MRG's long term financing amounts €950MM, providing strong financial capacity
5. Rating agencies S&P and Fitch reaffirmed MRG's rating

(1) Audited under IFS

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Main takeaways

1. Stability in the regulatory framework resulted in a well balanced Gas System behaviour
2. Strong EBITDA and Free Cash Flow generation
3. Efficient customer base growth, with low capex requirements
4. Combined distribution business with the inclusion of LPG activity
5. Highly focussed on customer service and fraud prosecution related to gas leakage
6. Current debt structure reduces refinancing risk by spreading maturities and the Revolving credit facility provides additional liquidity with total flexibility
7. Reaffirmed strong commitment of shareholders to a solid and efficient long term capital structure

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