Naturgy: Much More
2018-2022

London, 28th June 2018
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2. Value creation pillars
3. Business units goals
4. Financing strategy
5. Commitment with efficiency
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Industry trends and our industrial model
The industry is undergoing a special moment of transition

**Industry sector trends**

- **Low CO₂ and rise of renewables with Gas as a key contributor**
- **Renewables vs. primary energy demand in the world (%)**
  - 2016: 2%
  - 2040: 6%
- **Worldwide primary energy mix 2040**
  - 20% gas
- **Main energy source under the scenario compatible with Paris Agreement**
- **World electricity demand (TWh)**
  - 2016: 21,000
  - 2040: 34,000
  - +62%
- **Electricity as % of final energy demand**
  - 2016: 19%
  - 2040: 23%
- **Big data and analytics**
  - Increase of connected devices worldwide between 2017 and 2020: +27 billion
  - Increase of e-commerce sales worldwide between 2017 and 2020: +$1 trillion

**Main points**:
- The industry is undergoing a special moment of transition.
- Low CO₂ and rise of renewables with Gas as a key contributor.
- Renewable vs. primary energy demand in the world (%):
  - 2016: 2%
  - 2040: 6%
- Worldwide primary energy mix 2040: 20% gas
- Main energy source under the scenario compatible with Paris Agreement.
- World electricity demand (TWh):
  - 2016: 21,000
  - 2040: 34,000
  - +62%
- Electricity as % of final energy demand:
  - 2016: 19%
  - 2040: 23%

**Additional points**:
- Increase of connected devices worldwide between 2017 and 2020: +27 billion
- Increase of e-commerce sales worldwide between 2017 and 2020: +$1 trillion
Our industrial model

Energy transition as an opportunity

Customer at the center

Competitive & agile

Digitization

Naturgy is focused on answering with its own model
Our industrial model
Energy transition as an opportunity

Low CO₂ and rise of renewables with Gas as a key contributor

Renewables and natural gas
- Deliverable 3x growth in renewables by 2022
- Leadership in CCGTs
- Leadership in LNG
- Natural gas for mobility
- Renewable gas

Electrification and energy efficiency

Infrastructure
- Initiatives to increase electricity weight as part of the group towards ~50% by 2022
- Leading positions in countries showing strong fundamentals for organic growth based on:
  - Electrification
  - Natural gas penetration

Gas and infrastructure will play a key role in the energy transition
Our industrial model
Competitive & agile

- Full business units responsibility
- Workforce optimization

- Purchase contracts review
- Collaborative partnerships with suppliers
- Automation or outsourcing of non core tasks

- Capex and maintenance excellence centers
- Predictive models for asset maintenance
- Benchmarking of best practices

Solid and tangible levers to deliver committed efficiencies
Our industrial model  
Digitization

Key levers by 2022

**Customer relationship**

- 75% customer service to be served by digital channels
- 20% penetration through IoT

**Advanced analytics**

- Over 90% implemented data-driven management across the Group

**Processes & operations**

- Over 80% automation of internal processes & operations

**Remote control**

- 80% sensorization and remote control of assets

Ongoing main projects:

- Predictive models for asset maintenance
- Segmentation, churn prediction and advanced pricing models
- Technical and non technical losses
- Advanced customer default prediction
- Robotics

Key identified projects will drive a transformation of the Group thanks to digitization
Our industrial model
Customer at the center

Reinforce our engagement with customers through more than 20 million contracts worldwide

Key technological innovations
- Smart apps
- Remote control
- Mobility
- Distributed generation
- Storage
- Smart meters

Unique customer experience model
Targeted value added services & solutions
Enhanced customer segmentation
Innovation and digitization

~10 million contracts
Spain

~10 million contracts
LatAm
Value creation pillars
Value creation pillars

- Value creation
- Simplicity & accountability
- Shareholder remuneration
- Optimization
- Capital discipline
Value creation pillars

1. Simplicity & accountability
2. Optimization
3. Capital discipline
4. Shareholder remuneration
Simplicity & accountability
Corporate governance

Key changes

• Board reduced from 17 to 12 members
  - No Executive Committee
  - Board with significant global experience
  - Lead independent Director

• Simpler Corporate regulations
  - By-laws
  - AGM and Board regulations

Composition of the Board of Directors

Leaner structure leading to more agile decision-making process
Simplicity & accountability
Managerial organization

**Simplified organization**
- Structure avoiding duplicities
- Less subsidiaries
- Corporate functions re-allocated
- HQs focus on core functions

**Reinforced accountability**
- Centralized controlling
- Simpler governance of subsidiaries
- Empowerment of business units

**Higher accountability and autonomy of business units, full control by headquarters**
Simplicity & accountability

Business positioning

**Where to invest or reinforce**

- Sizable with growth potential
- Relevant market share or critical mass
- Stable regulatory framework
- Stable macro (EU, North America, OECD type countries)

- Electricity or gas networks
- Contracted power generation
- Services to customers
- Controlling stakes or path to control

- Meeting our IRR criteria

**Where to divest or reduce**

- Small and/or with low growth
- High regulatory risk
- High concentration
- Volatile macro

- Low integration or synergies within the group
- Volatile without hedge
- Financial stakes with no path to control

- Meeting our IRR criteria

**€5,300M fully identified growth capex**

**Additional divestments of ~€300M on top of those already completed**
Simplicity & accountability
Asset valuation review (€M)

Extraordinary effects in 2018

- Neutral on dividends distribution for 2018
  Enough results at individual P&L
- Positive impact on Group’s cash flow
  Tax effects
- One-off negative impact on consolidated P&L

EPS accretive 2019 onwards

Conducted consistently with Strategic Plan assumptions and based on an updated, conservative & sustainable scenario

Transparency and cash driven decisions with no impact on shareholders remuneration
**Simplicity & accountability**  
Strategic positioning

**Today**

- **Over 30 geographies**
  - Spain: 57%
  - Top 5 countries: 34%
  - Global trading: 8%
  - Others (24): 1%

**Balance of risks**

- Regulated: 52%
- Merchant or FX risk: 48%

**Majority of gas**

- Gas: 57%
- Electricity: 40%
- Services: 3%

- **Less than 10 geographies**
  - Spain: max. 40%
  - Others (max. 9): min. 50%
  - Global trading: 10%

**Mostly regulated**

- Gas: max. 40%
- Electricity: min. 50%
- Regulated: min. 70%

**Future**

- **Higher electricity weight**
  - Gas: max. 40%
  - Electricity: min. 50%
  - Services: 10%
Value creation pillars

1. Simplicity & accountability
2. Optimization
3. Capital discipline
4. Shareholder remuneration
Optimization
Opex streamlining

Annual Group opex (€M)
(based on existing asset base)

Group opex as % of gross margin
(based on existing asset base)

2017
2,500
Target 2022
~2,000
-500

2017
38.7%
Target 2022
30.0%

Measurable cost baseline
Leaner structure

Control over opex optimization with visible P&L impact
Focus on cash flow generation and overall capex optimization.

**Annual Group capex (€M)**

- 2015-2017 average: ~1,900
- 2018-2022 average: ~1,700
- Reduction: -200

**Average growth capex (%)**

- 2015-2017 average: Other 46%
- 2018-2022 average: Other 37%
- Growth: 54%
- Other: 46%

- Focus on growth capex meeting minimum return

- Growth 54% → Other 46%
- +9pp
Value creation pillars

1. Simplicity & accountability
2. Optimization
3. Capital discipline
4. Shareholder remuneration
Capital discipline
“The Golden Rules”

Net equity IRR threshold
Minimum profitability targets per business activity/country to ensure value creation

Positioning
Focus on target markets and businesses

Industrial role
Assume industrial lead through majority control or path to control

Risk management
Minimize volatility of commodity prices & FX

Strict capital discipline to ensure value creation and profitable growth in both organic & inorganic investments
Solid growth capex over the period which must meet the “Golden Rules”
Capital discipline
Free cash flow 2018-22

Capital discipline
Free cash flow 2018-22

Free Cash Flow (€M)

Operating Cash flow 16,900
Organic capex 8,400
Disposals 3,000
Minorities & other 2,600
Free Cash Flow after minorities 8,900

Including ~€2,700M completed in 1H 2018

Strong free cash flow profile to support an attractive shareholder remuneration
Value creation pillars

1. Simplicity & accountability
2. Optimization
3. Capital discipline
4. Shareholder remuneration
Shareholder remuneration

Our commitment

Dividend

- 30% step-up to €1.30 in 2018
- 5% minimum annual increase thereafter
- All cash

Payment calendar

- After 1H: ~20% of total
- After 3Q: ~35% of total
- After AGM: ~45% of total

Dividend evolution (€/share)

- CAGR 17-22: +10%

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend (€/share)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>1.30</td>
</tr>
<tr>
<td>2019</td>
<td>1.37</td>
</tr>
<tr>
<td>2020</td>
<td>1.44</td>
</tr>
<tr>
<td>2021</td>
<td>1.51</td>
</tr>
<tr>
<td>2022</td>
<td>1.59</td>
</tr>
</tbody>
</table>

Buy-back

- Up to €2,000M
- Max €400M p.a.
- In place when inorganic investments are not materialized
- Amortization decided at every AGM

2018 dividend payment calendar

- July’18: 0.95€/sh (€0.67+€0.28/sh.)
- Nov’18: 0.45€/sh
In the absence of inorganic opportunities meeting the “Golden Rules”, all free cash flow will be returned to shareholders.
03
Business units goals
## Business units

**Summary targets (€M)**

<table>
<thead>
<tr>
<th></th>
<th>Gas &amp; Power</th>
<th>Infra. EMEA</th>
<th>Infra. LatAm South</th>
<th>Infra. LatAm North</th>
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</thead>
<tbody>
<tr>
<td><strong>Asset base</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>~9,200</td>
<td>~9,800</td>
<td>~7,300</td>
<td>~1,500</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td>~1,700</td>
<td>~1,600</td>
<td>~1,200</td>
<td>~400</td>
</tr>
<tr>
<td><strong>Total capex</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-22</td>
<td>~2,700</td>
<td>~2,300</td>
<td>~2,300</td>
<td>~1,000</td>
</tr>
</tbody>
</table>
Gas & Power
Goals & opportunities

Gas, Power and Services sales

- New integrated commercial model
- Maximize portfolio value through customer focus
- High growth potential in services & solutions

International LNG

- Diversified and flexible procurement portfolio
- Secure contracted sales with end-customers
- Entry in new attractive market segments (FSRU, Small Scale solutions, Bunkering)

Europe Power Generation

- Doubling size in renewables lowering full cost
- Increase CCGT load factor
- Costs adjustments in conventional fleet

International power generation

- Growth in renewables
- Recurrent cash flow generation

Competitive integrated business model to optimize global margin
Gas & Power
Goals & opportunities

Gas, Power and Services sales

International LNG

Europe Power Generation

International power generation

Growth based on organic development and increased operational efficiency
Infrastructure EMEA
Infrastructure EMEA
Goals & opportunities

Spain gas networks
• Organic growth exploiting gas penetration potential
• Limited regulatory risk
• Improved efficiency through digital transformation

Spain electricity networks
• More flexible and digitized distribution system
• Future investment needs to offset regulatory risks
• Efficiency through digitization

EMPL
• Income secured until EMPL maturity (2021)
• Negotiations for EMPL renewal provide upside
Compelling industrial growth and efficiencies in networks offsetting regulatory risks
III.

Infrastructure South LatAm
Infrastructure South LatAm

Goals & opportunities

- **Chile Electricity**
  - **Distribution**: improvement of regulatory model in 2020 to capture upgrade on technology and quality of service
  - **Transmission**: Upgrade of networks and new 2017 law addressing bottleneck effect in renewables market

- **Chile Gas**
  - Organic growth via increased penetration and growing heating demand
  - Argentina-Chile Gas exchange through existing pipelines

- **Brazil Gas**
  - Organic growth via increased penetration and new concessions
  - Strong growth potential of services business in development

- **Argentina Gas**
  - Full application of integral tariff review from April 2018
  - Organic growth supported by networks upgrade and extension
  - Strong growth potential of services business in development

Strong organic growth potential in networks and upside from services business
Infrastructure South LatAm
Goals & opportunities

Growth Maintenance
EBITDA (€M) Capex (€M)

Chile Electricity

CAGR: +7%

2017 2022
308 436

1,105
451
654
Capex 18-22

Chile Gas

CAGR: +4%

2017 2022
206 245

497
76
421
Capex 18-22

Brazil Gas

CAGR: +3%

2017 2022
284 322

399
171
228
Capex 18-22

Argentina Gas

CAGR: +27%

2017 2022
48 159

323
189
134
Capex 18-22

Key operational targets

Sales (TWh) 2017 2022 CAGR

Chile Electricity

Network (km) 66,180 69,605 4%
CPs (’000) 2,857 3,280 3%

Brazil Gas

Sales (TWh) 2017 2022 CAGR

Network (km) 6,425 7,858 4%
CPs (’000) 599 789 6%

Argentina Gas

Sales (TWh) 2017 2022 CAGR

Network (km) 25,865 27,540 1%
CPs (’000) 1,651 1,832 2%

Capital discipline to ensure value creation and profitable growth
iv.
Infrastructure North LatAm
Infrastructure North LatAm
Goals & opportunities

Mexico Gas

- Organic growth by penetration and new concessions
- Strong growth potential of services via existing client base and new customers

Panama Electricity

- High growth and low risk economy with stable remuneration (USD)
- Positive expectations on tariff review 2019-2022
- Significant upside from operating efficiencies and lower energy losses
- Capture first mover advantage in services and solutions

Organic growth potential coupled with efficiencies and upside from services opportunity
## Infrastructure North LatAm

**EBITDA, Capex and KPIs**

### Mexico Gas

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (TWh)</th>
<th>CAGR %</th>
<th>CPs ('000)</th>
<th>CAGR %</th>
<th>Km</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>58</td>
<td></td>
<td>1,773</td>
<td></td>
<td>21,022</td>
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<tr>
<td>2022</td>
<td>74</td>
<td>+7%</td>
<td>2,831</td>
<td>+8%</td>
<td>25,739</td>
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</tbody>
</table>

### Panama Electricity

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (TWh)</th>
<th>CAGR %</th>
<th>CPs ('000)</th>
<th>CAGR %</th>
<th>Losses (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>5.11</td>
<td></td>
<td>641</td>
<td></td>
<td>11.74%</td>
</tr>
<tr>
<td>2022</td>
<td>6.48</td>
<td>+7%</td>
<td>769</td>
<td>+4%</td>
<td>10.61%</td>
</tr>
</tbody>
</table>

### Key operational targets

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<th>Metric</th>
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<td>Km</td>
<td>21,022</td>
<td>25,739</td>
<td>4%</td>
</tr>
</tbody>
</table>

**Growth**

**Maintenance**

**EBITDA (€M)**

- **Capex (€M)**

- **Strong fundamentals for organic growth**
Financing strategy
Financing strategy
Financial policy

Rating
Investment grade as a consolidated Group and at business level in Euro zone

Leverage
Efficient debt structure while maintaining current leverage

Liquidity & debt maturity
"Adequate" liquidity at each business unit
Maturity diversification
Flattish maturity profile; below €2,500M/year

Funding sources
Diversified; prioritizing capital markets & institutional funding

Interest & exchange rates
Stable cost of debt with a min. of 70% at fixed rate
Natural hedge → maximum funding at same currency

Capital structure optimization
Maximum financing allocated into business units
Financing strategy
Net debt & cost of debt evolution

Stable debt levels over the period supported by strong FCF generation
Commitment with efficiency
**Efficiency Plan**
Productivity across P&L

**Strong initiative**

(OPEX / Gross margin)

- **38.7%** to **30.0%**
- **-8.7pp**

2017 | Target 2022

- **Opex annual reduction of €500M by 2022**

**Tracking and accountability**

- End-to-end review of every single controlling process
- Reinforced and more stringent criteria for expenses and investments budgeting and approval
- Strict compliance with IRR minimum threshold
- Complete overhaul of monitoring and measurement tools to guarantee traceability

Ensure impact and visibility on the P&L
Efficiency Plan
Opex reduction initiatives

“Lean non-core”
- Bundle non-core functions & outsourcing services
- Alliances with expert partners

“Lean push-down”
- Allocation of operational functions into BUs
- Closer assessment of functional needs by each BU

“BU initiatives”
- Improvement of functions which remain in-house
- Greater automatization & digitization

Tangible efficiency plan through identified levers targeting €500M annual savings by 2022
Efficiency Plan
New role of the Corporation

New role of the corporation focused on determining the Group's strategy and policies as well as controlling the implementation and delivery of the plan.

- From
  - Service Provider to all businesses
  - Over €600M of intra Group cost
  - Decision making involves many Company stakeholders

- To
  - Setting policies and guidelines
  - Managing talent pool
  - Control of outsourcers
  - Transparent cost structure
  - Clear accountability at BUs
  - Assurance of financing and controlling function

Corporation – annual costs (€M)

- 2017: 636
- 2022E: <100
Global financial targets and management incentives
Key financial targets for 2022 (€M)

- **EBITDA**
  - 2017: 3,915
  - Target: ~5,000

- **Net income**
  - 2017: 1,360
  - Target: ~1,800

- **Annual avg. FCF**
  - 2017: ~1,300
  - Target: ~1,800

- **Net debt**
  - 2017: ~16,400
  - Target: ~16,400

**Dividends (€/share)**

- 2018: 1.30
- 2019: 1.37
- 2020: 1.44
- 2021: 1.51
- 2022: 1.59

**Share buy-back (€M)**

- (Up to €2,000M)
- 2018: 400
- 2019: 800
- 2020: 1,200
- 2021: 1,600
- 2022: 2,000
Management incentives

1. **Annual performance bonus for all managers**
   - Focused on key targets and monitored on a yearly basis:
     - Free cash flow
     - Profitability of investments
   - Performance
     - Subject to minimum achievement of 80%
   - Paid in cash annually

2. **Long term incentive for key managers**
   - Participation in a share scheme locked up until 2023 and linked to share price performance
7

Summary
Summary

+ More solutions for industry
+ More focused, simple and accountable
+ More empowerment to business units
+ More efficient and cash-generative
+ More value-driven through strict capital allocation
+ More attractive shareholder remuneration
+ More alignment of management interests

+ Much more value for shareholders
Naturgy: Much More

Q&A
Appendix
Macro assumptions

Spain

GDP (%)
constant prices

Chile

Inflation (%)
at the end of the year

Mexico

Interest rates (%)
10 years
local currency

Brazil

FX vs. EUR

Argentina

USA

Source: FMI; Bloomberg; EIU
### Market assumptions

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brent</strong> USD/bbl</td>
<td>75.3</td>
<td>75.5</td>
<td>71</td>
<td>67.8</td>
<td>65.6</td>
</tr>
<tr>
<td><strong>HH</strong> USD/MMBtu</td>
<td>2.9</td>
<td>2.8</td>
<td>2.7</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>NBP</strong> USD/MMBtu</td>
<td>7.8</td>
<td>7.7</td>
<td>7.2</td>
<td>6.9</td>
<td>6.9</td>
</tr>
<tr>
<td><strong>Spot Asia</strong> USD/MMBtu</td>
<td>9.6</td>
<td>9.1</td>
<td>8.5</td>
<td>8.2</td>
<td>8.2</td>
</tr>
<tr>
<td><strong>Pool price</strong> EUR/MWh</td>
<td>58.5</td>
<td>56.8</td>
<td>54.8</td>
<td>51.25</td>
<td>50.25</td>
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<tr>
<td><strong>Coal (API2 CIF ARA)</strong> USD/t</td>
<td>89.6</td>
<td>88</td>
<td>85.2</td>
<td>82.9</td>
<td>81.9</td>
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<tr>
<td><strong>CO₂ (EUA)</strong> EUR/t</td>
<td>14</td>
<td>16.1</td>
<td>16.3</td>
<td>16.6</td>
<td>17</td>
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<table>
<thead>
<tr>
<th></th>
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<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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<tbody>
<tr>
<td><strong>NBP as % of Brent</strong></td>
<td>10.4%</td>
<td>10.2%</td>
<td>10.1%</td>
<td>10.2%</td>
<td>10.5%</td>
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<tr>
<td><strong>JKM as % of Brent</strong></td>
<td>12.7%</td>
<td>12.1%</td>
<td>12.0%</td>
<td>12.1%</td>
<td>12.5%</td>
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