



# Naturgy: Much More

2018-2022

London, 28<sup>th</sup> June 2018


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# 01

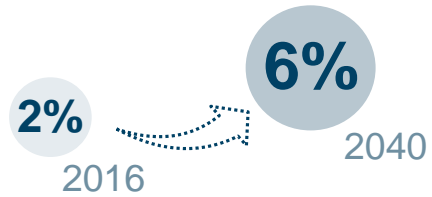
Industry trends and our industrial model

# Industry sector trends




**Low CO<sub>2</sub> and rise of renewables with Gas as a key contributor**

Renewables vs. primary energy demand in the world (%)

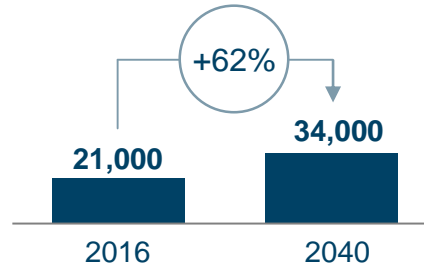


Worldwide primary energy mix 2040

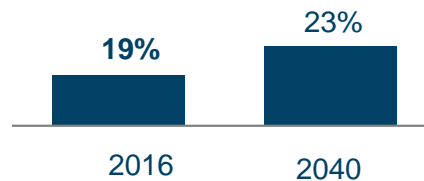




**Electrification and energy efficiency**

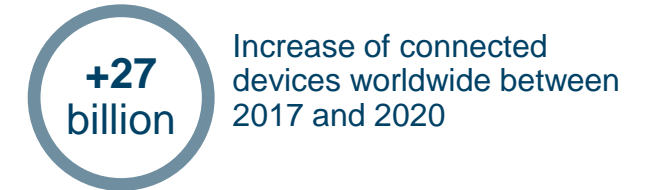
World electricity demand (TWh)



Electricity as % of final energy demand

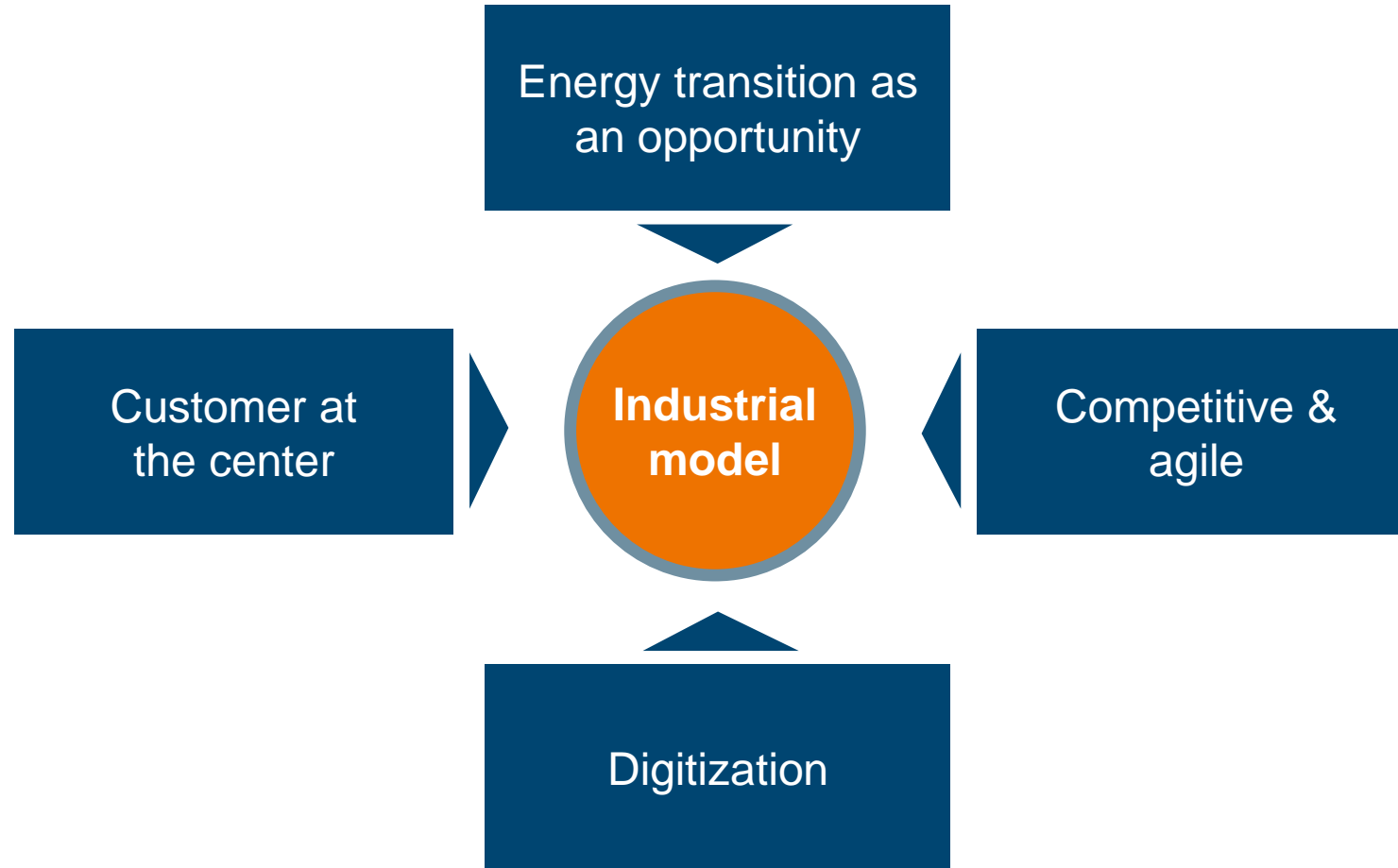



**Big data and analytics**



The industry is undergoing a special moment of transition

# Our industrial model



Naturgy is focused on answering with its own model

# Our industrial model

Energy transition as an opportunity

Low CO<sub>2</sub> 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



## Organization

- Full business units responsibility
- Workforce optimization



## Process reengineering

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



## Asset management

- 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

Ongoing main projects

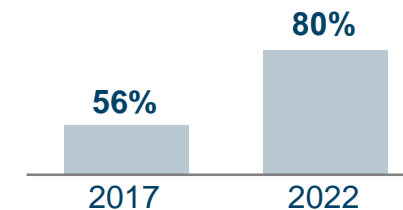
-  Predictive models for asset maintenance
-  Segmentation, churn prediction and advanced pricing models
-  Technical and non technical losses
-  Advanced customer default prediction
-  Robotics

#### Processes & operations

- Over 80% automation of internal processes & operations

#### Remote control

- 80% sensorization and remote control of assets



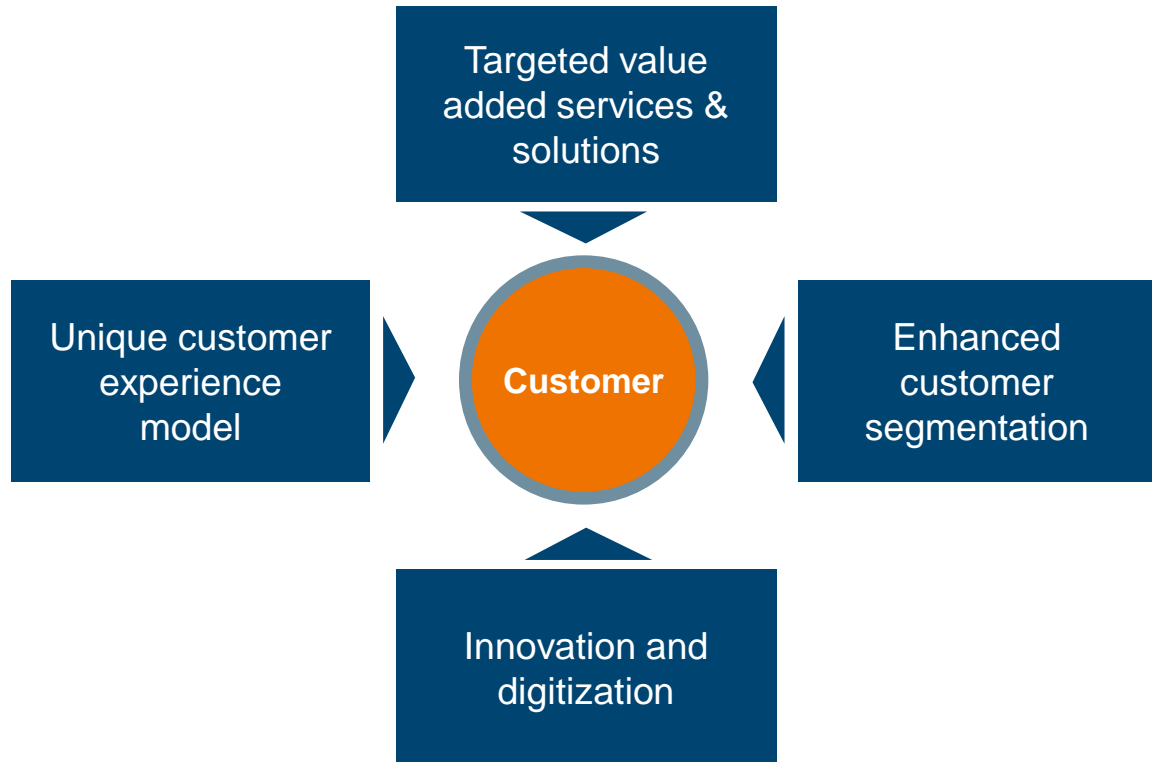
Key identified projects will drive a transformation of the Group thanks to digitization



# Our industrial model

Customer at the center

*Much more*



## Key technological innovations

Smart apps

Remote control

Mobility

Distributed generation

Storage

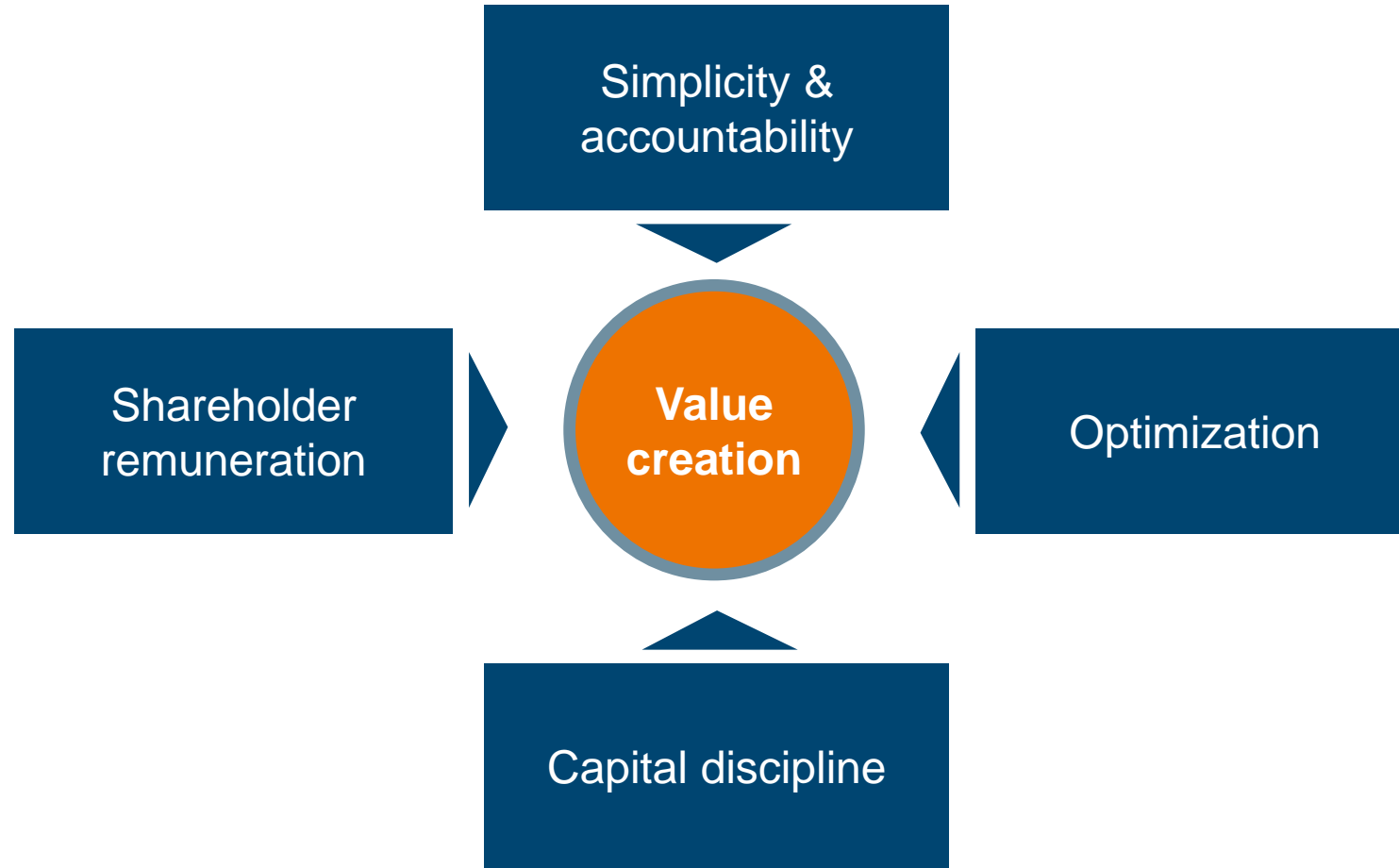
Smart meters

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

# 02

## Value creation pillars

# Value creation pillars



# 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

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No Executive Committee

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Board with significant global experience

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Lead independent Director

- Simpler Corporate regulations

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By-laws

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AGM and Board regulations

## Composition of the Board of Directors



● Executive Chairman

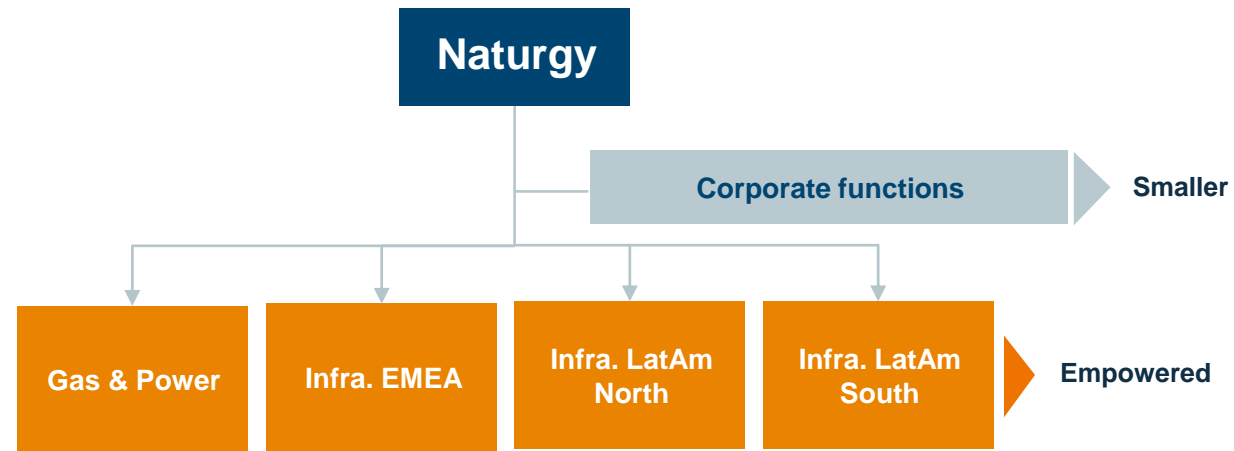
● Independent Directors

● Proprietary 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



## Markets

### 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)

## Businesses

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

## Returns

- Meeting our IRR criteria

€5,300M fully identified growth capex

### 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

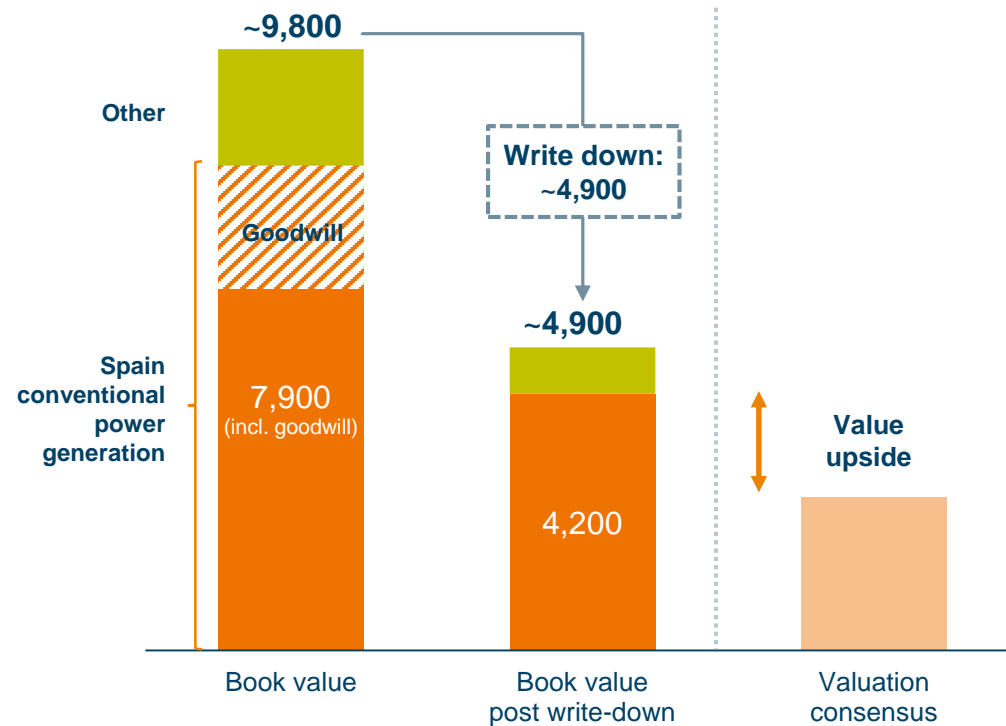
- Meeting our IRR criteria

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

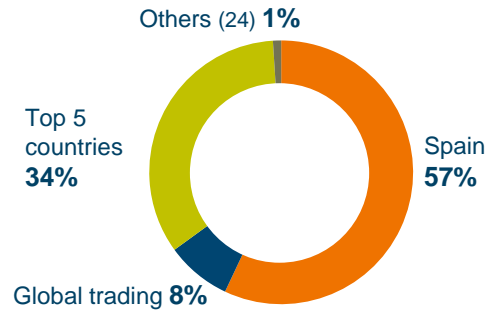


# Naturgy

Much more

Today

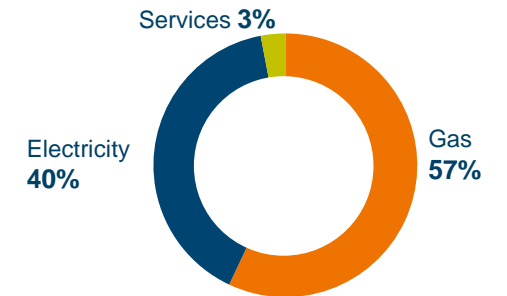
## Over 30 geographies



## Balance of risks

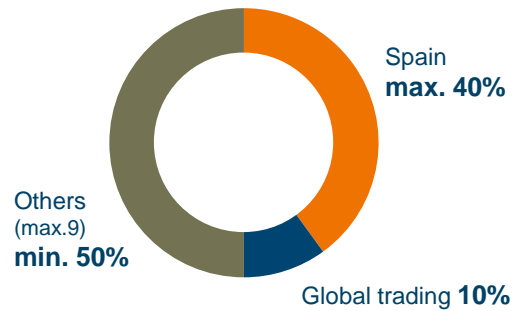


## Majority of gas

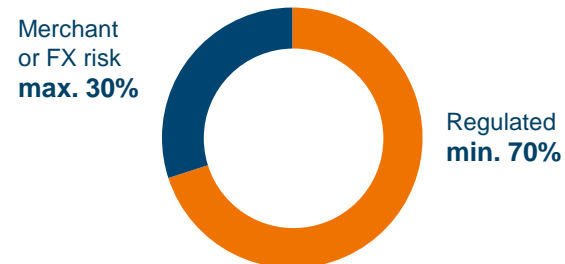


Future

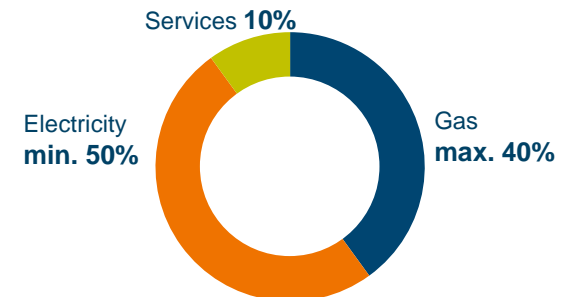
## Less than 10 geographies



## Mostly regulated

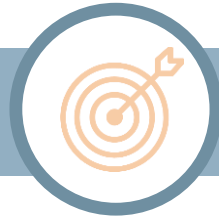


## Higher electricity weight



Rebalancing of portfolio: more cash flow visibility and lower volatility

# Value creation pillars



1. Simplicity & accountability



**2. Optimization**



3. Capital discipline

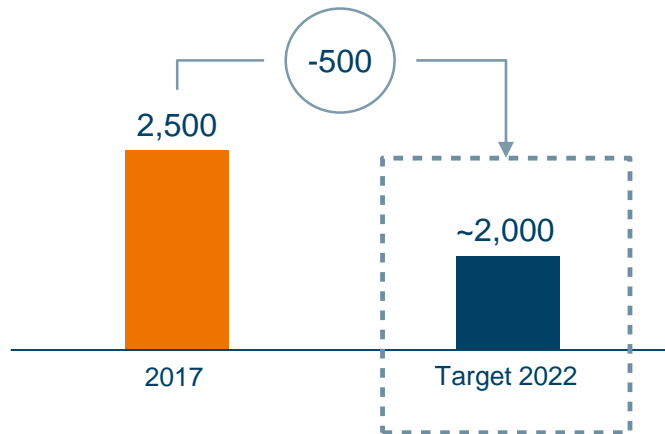


4. Shareholder remuneration



## Annual Group opex (€M)

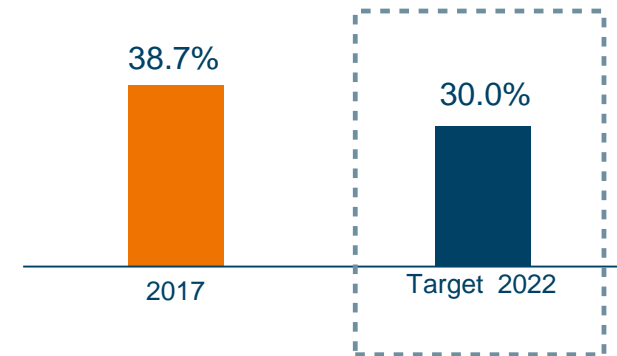
(based on existing asset base)



Measurable cost baseline

## Group opex as % of gross margin

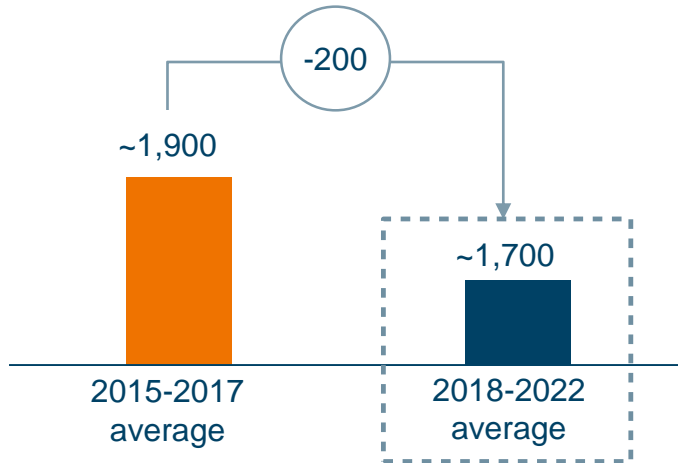
(based on existing asset base)



Leaner structure

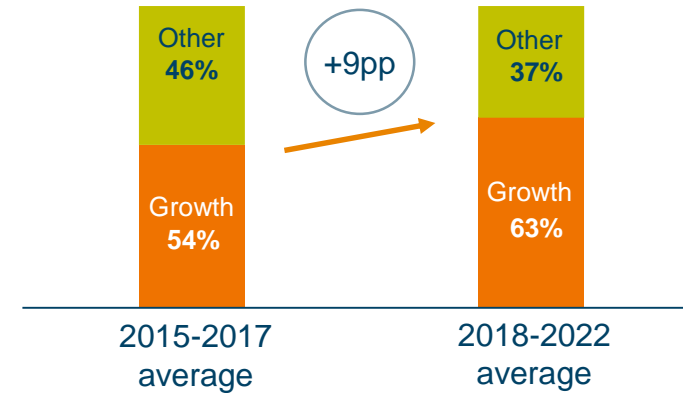
Control over opex optimization with visible P&L impact

## Annual Group capex (€M)



Maintenance capex optimization

## Average growth capex (%)



Focus on growth capex meeting minimum return

Focus on cash flow generation and overall capex optimization

# 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



## Industrial role

Assume industrial lead through majority control or path to control



## Positioning

Focus on target markets and businesses



## Risk management

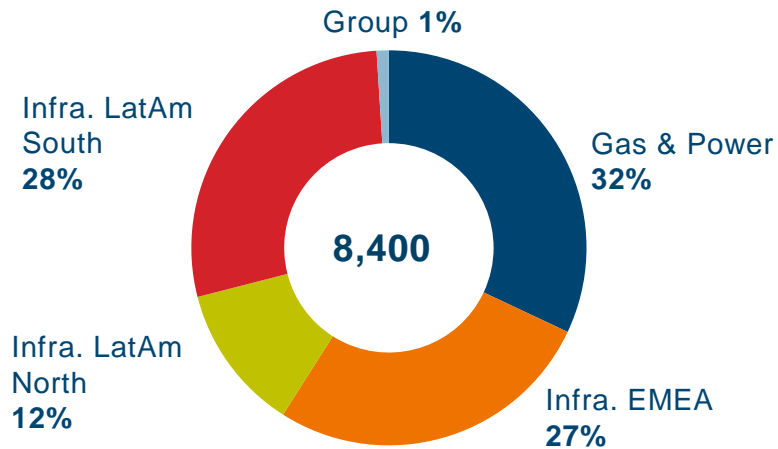
Minimize volatility of commodity prices & FX

Strict capital discipline to ensure value creation and profitable growth in both organic & inorganic investments

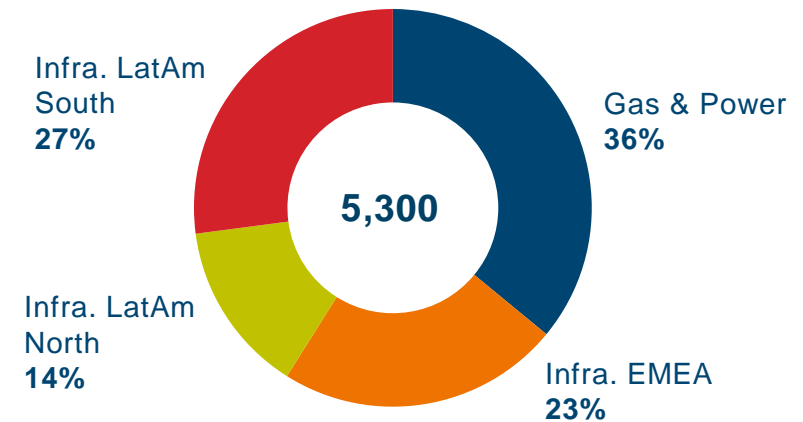
# Capital discipline

Organic capex 2018-22

Total capex by business (€M)



Growth capex by business (€M)

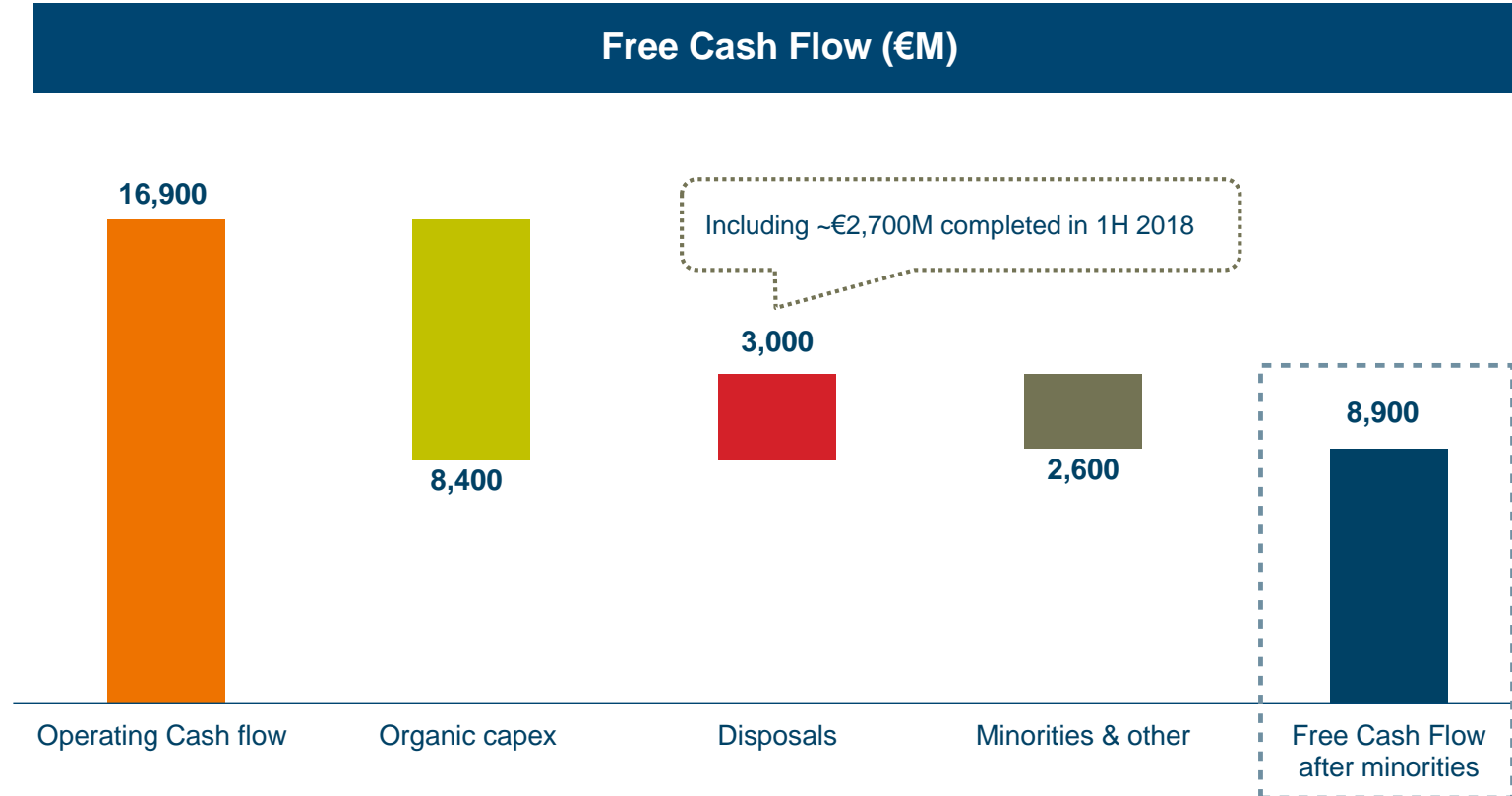


Fully identified growth capex

Solid growth capex over the period which must meet the “Golden Rules”

# Capital discipline

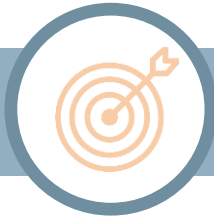
Free cash flow 2018-22



**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

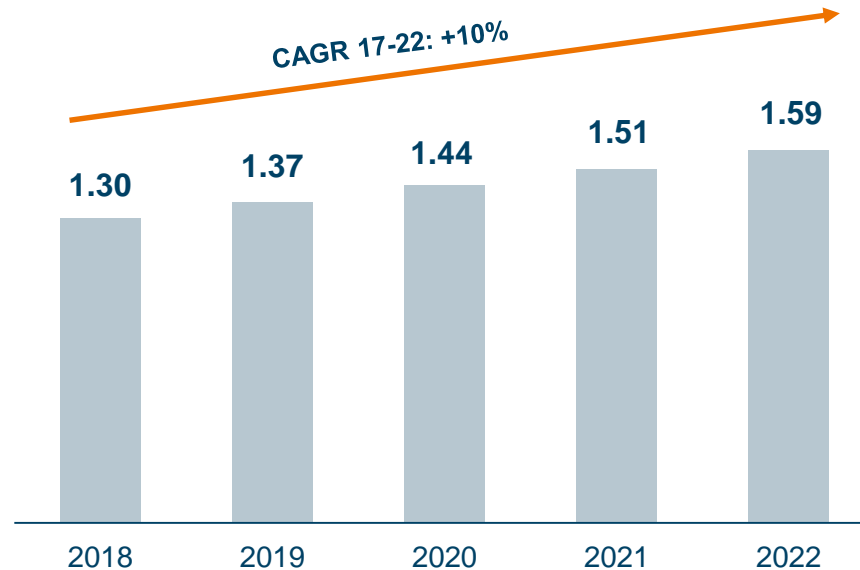
## Dividend

- 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)



### 2018 dividend payment calendar

July'18: 0.95€/sh (€0.67+€0.28/sh.)  
Nov'18: 0.45€/sh

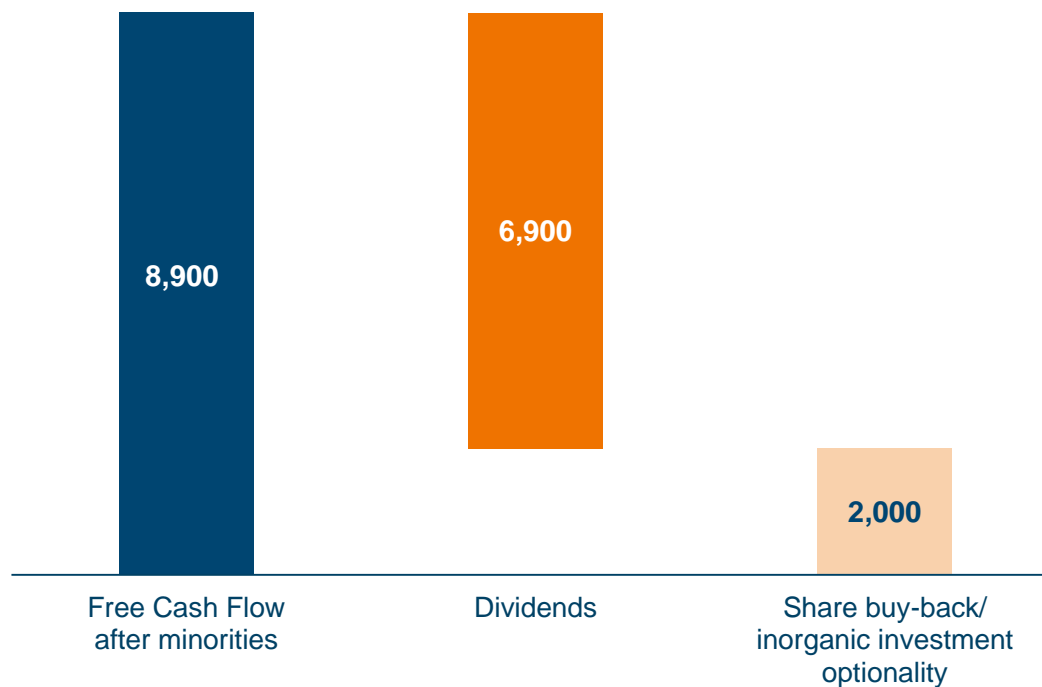
1.40€/sh.

## Buy-back

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

# Shareholder remuneration

Our commitment (€M)







**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)

	 Gas & Power	 Infra. EMEA	 Infra. LatAm South	 Infra. LatAm North
Asset base 2018	~9,200	~9,800	~7,300	~1,500
EBITDA 2022	~1,700	~1,600	~1,200	~400
Total capex 18- 22	~2,700	~2,300	~2,300	~1,000



Gas & Power

# 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

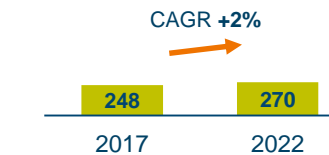
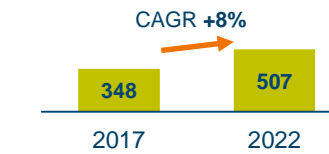
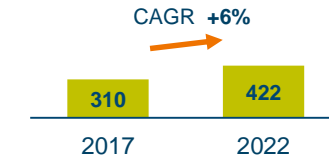
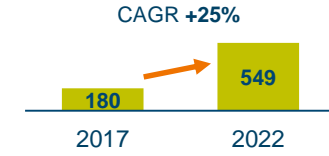
**Gas, Power and Services sales**

**International LNG**

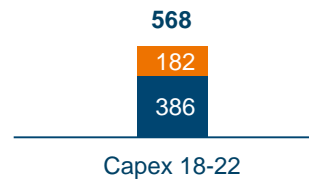
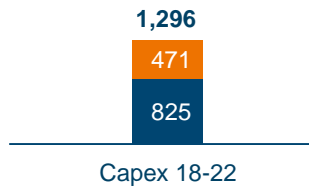
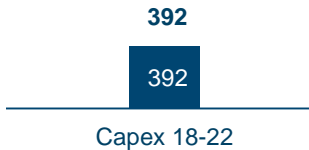
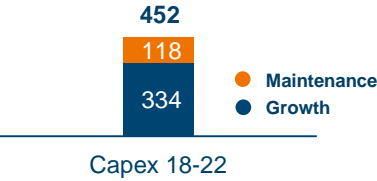
**Europe Power Generation**

**International power generation**

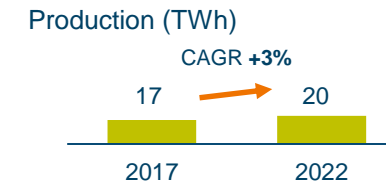
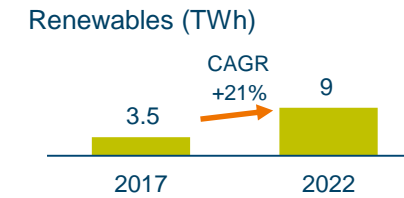
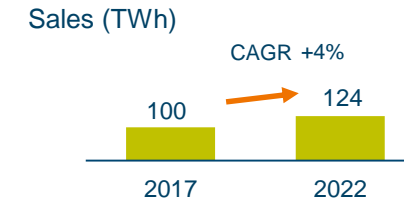
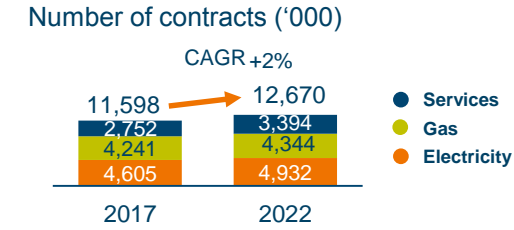
### EBITDA (€M)



### Capex (€M)



### Key operational targets



**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

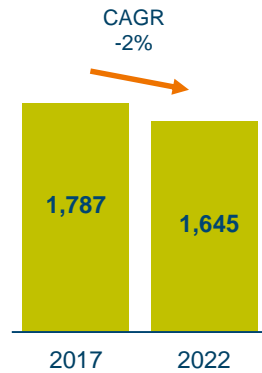
High cash flow generation businesses with upside from efficiencies

# Infrastructure EMEA

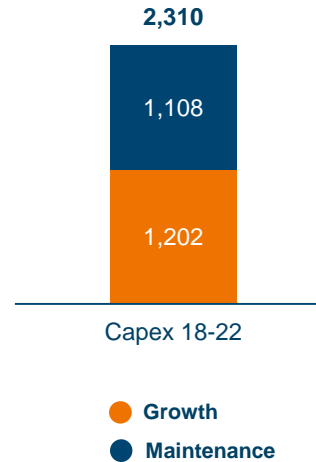
## EBITDA, Capex and KPIs



### EBITDA (€M)



### Capex (€M)



### Key operational targets

#### Spain gas networks

	2017	2022	CAGR
Remunerated Sales (TWh)	141	156	2.1%
CPs ('000)	5,371	5,910	1.9%

#### Spain electricity networks

	2017	2022	CAGR
OPEX/km (€/km)	1,882	1,396	-5.8%
TIEPI (min.)	43	39	-1.7%

Compelling industrial growth and efficiencies in networks offsetting regulatory risks



# Infrastructure South LatAm

# Infrastructure South LatAm

## Goals & opportunities

<b>Chile Electricity</b>	<ul style="list-style-type: none"><li>• <b>Distribution:</b> improvement of regulatory model in 2020 to capture upgrade on technology and quality of service</li><li>• <b>Transmission:</b> Upgrade of networks and new 2017 law addressing bottleneck effect in renewables market</li></ul>
<b>Chile Gas</b>	<ul style="list-style-type: none"><li>• Organic growth via increased penetration and growing heating demand</li><li>• Argentina-Chile Gas exchange through existing pipelines</li></ul>
<b>Brazil Gas</b>	<ul style="list-style-type: none"><li>• Organic growth via increased penetration and new concessions</li><li>• Strong growth potential of services business in development</li></ul>
<b>Argentina Gas</b>	<ul style="list-style-type: none"><li>• Full application of integral tariff review from April 2018</li><li>• Organic growth supported by networks upgrade and extension</li><li>• Strong growth potential of services business in development</li></ul>

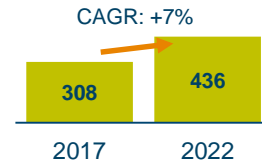
**Strong organic growth potential in networks and upside from services business**

# Infrastructure South LatAm

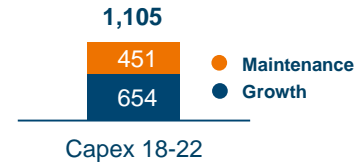
## Goals & opportunities

- Chile Electricity
- Chile Gas
- Brazil Gas
- Argentina Gas

### EBITDA (€M)

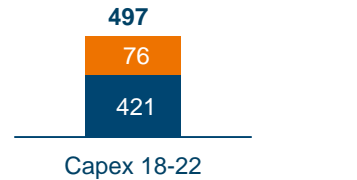
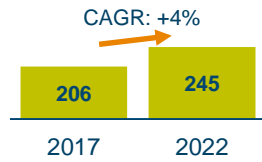


### Capex (€M)

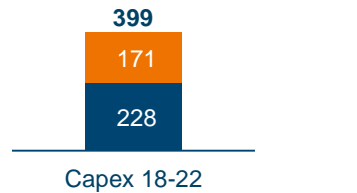
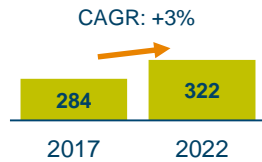


### Key operational targets

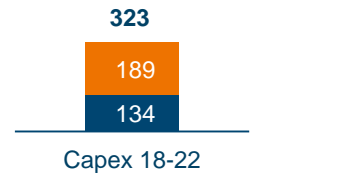
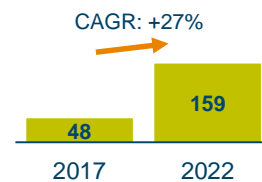
	2017	2022	CAGR
Sales (TWh)	15	18	4%
Network (km)	66,180	69,605	1%
CPs ('000)	2,857	3,280	3%



	2017	2022	CAGR
Sales (TWh)	46	71	9%
Network (km)	6,425	7,858	4%
CPs ('000)	599	789	6%



	2017	2022	CAGR
Sales (TWh)	89	90	0%
Network (km)	7,536	8,708	3%
CPs ('000)	1,090	1,210	2%



	2017	2022	CAGR
Sales (TWh)	72	79	2%
Network (km)	25,865	27,540	1%
CPs ('000)	1,651	1,832	2%

Capital discipline to ensure value creation and profitable growth

Naturgy 

*Much more*

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

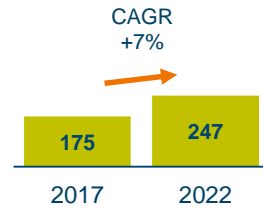


# Infrastructure North LatAm

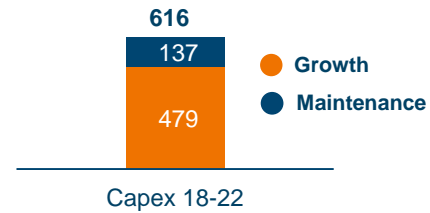
## EBITDA, Capex and KPIs

### Mexico Gas

#### EBITDA (€M)



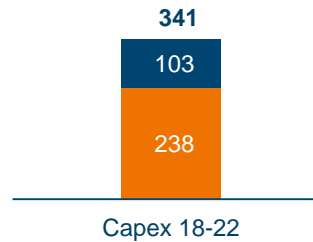
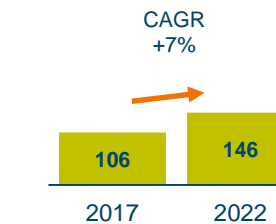
#### Capex (€M)



#### Key operational targets

	2017	2022	CAGR
Sales (TWh)	58	74	5%
CPs ('000)	1,773	2,631	8%
Km	21,022	25,739	4%

### Panama Electricity



	2017	2022	CAGR
Sales (TWh)	5.11	6.48	5%
CPs ('000)	641	769	4%
Losses (%)	11.74%	10.61%	-2%

Strong fundamentals for organic growth

# 04

## 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

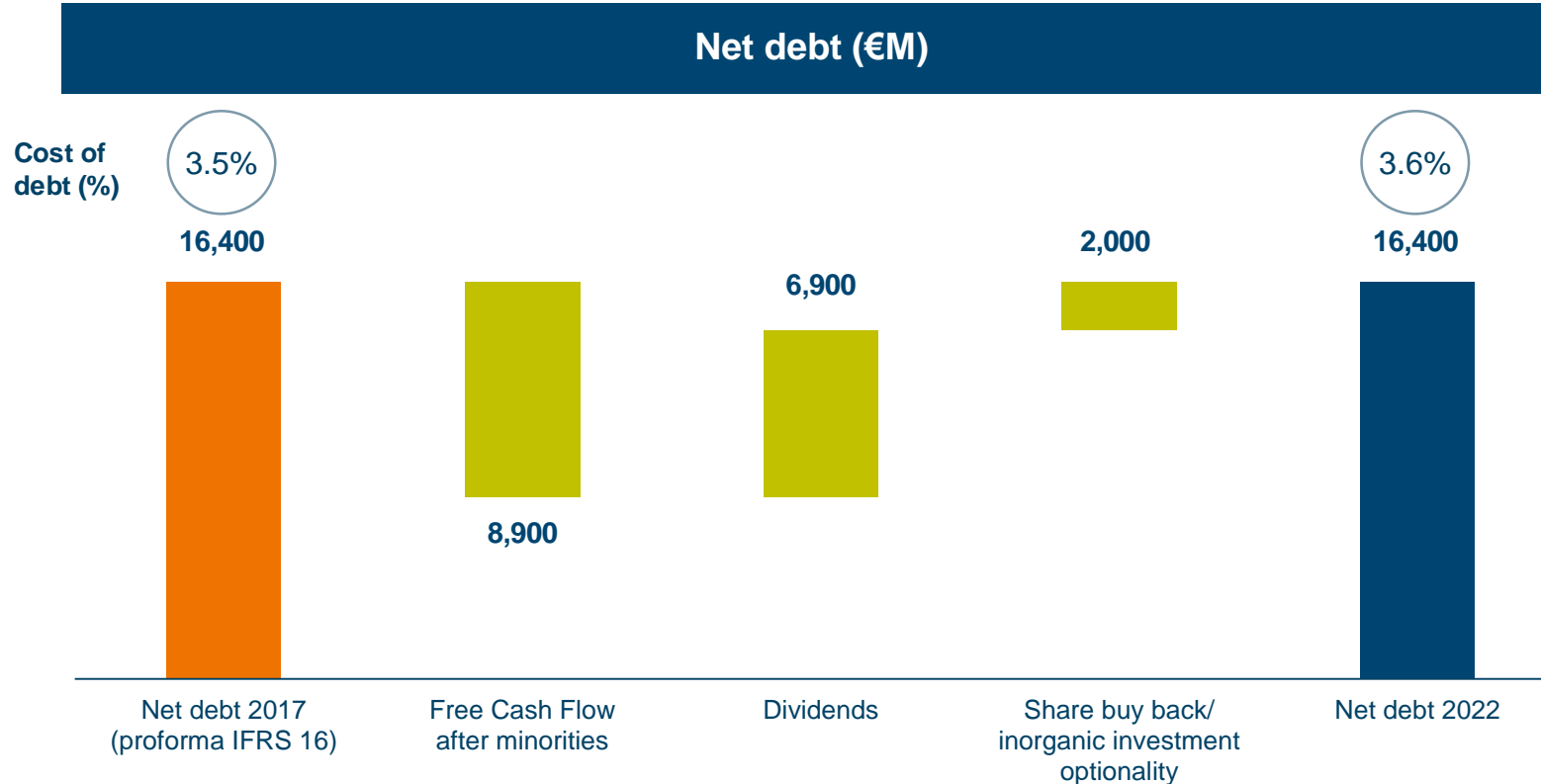


### Capital structure optimization

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

**05**

Commitment with efficiency

# Efficiency Plan

Productivity across P&L

## Strong initiative

(OPEX / Gross margin)



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”

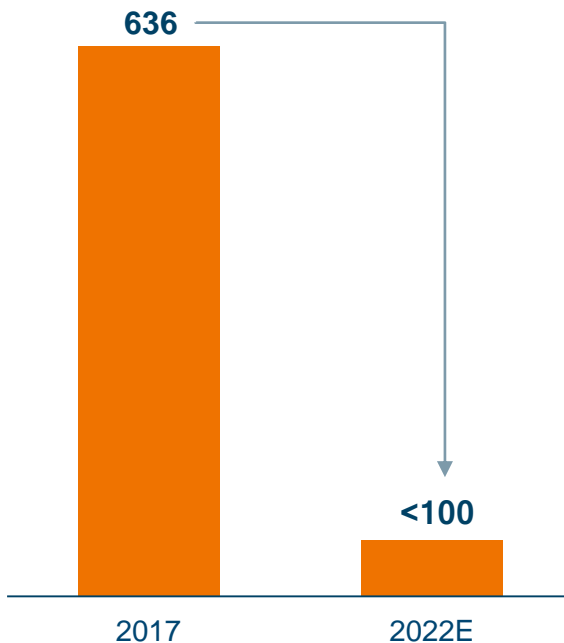
- Improvement of functions which remain in-house
- Greater automatization & digitization

Tangible efficiency plan through identified levers targeting €500M annual savings by 2022

# Efficiency Plan

New role of the Corporation

## Corporation – annual costs (€M)



### 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

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



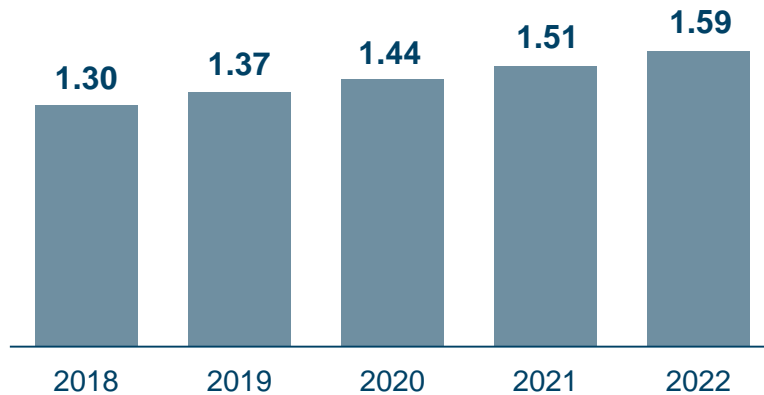
# 6

## Global financial targets and management incentives

# Key financial targets for 2022 (€M)

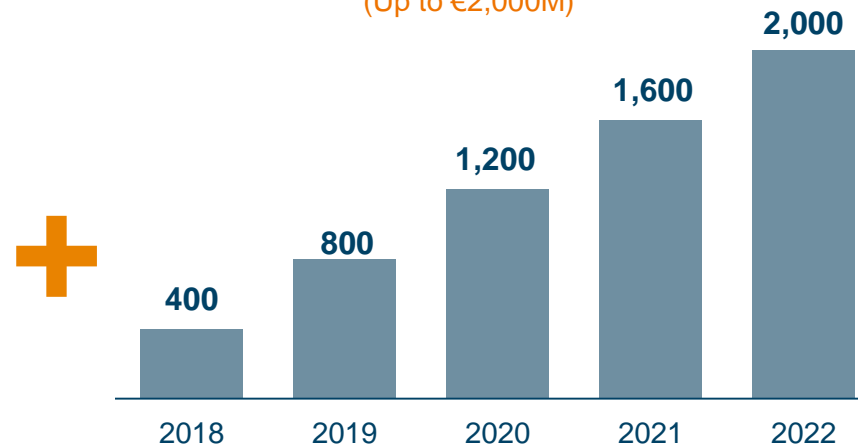
<b>EBITDA</b> 2017: 3,915	~5,000	<b>Annual avg. FCF</b> 2017: ~1,300	~1,800
<b>Net income</b> 2017: 1,360	~1,800	<b>Net debt</b> 2017: ~16,400	~16,400

**Dividends (€/share)**



**Share buy-back (€M)**

(Up to €2,000M)



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

Management incentive program designed to align interests with shareholders and engage the management team with delivery of the 2018-2022 Strategic Plan

# 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**



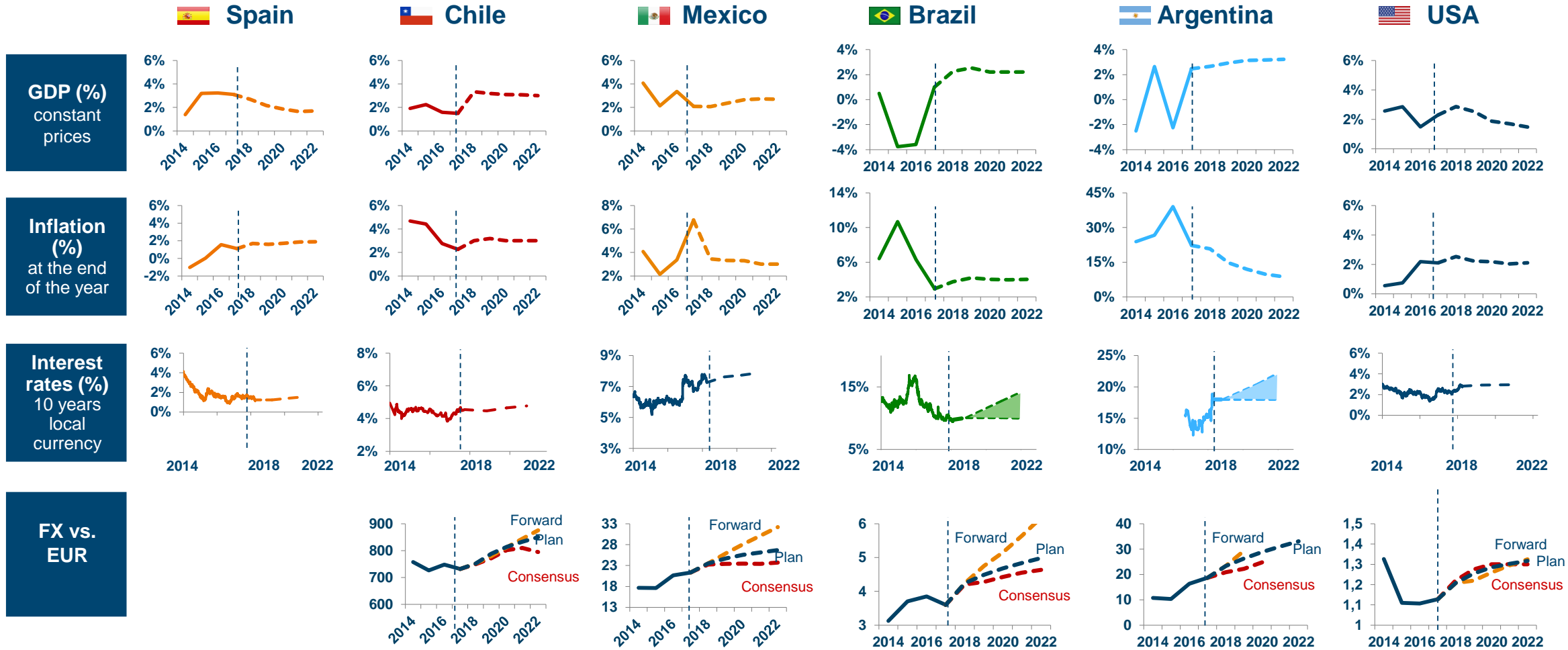
# Naturgy: Much More

## Q&A

# Appendix

# Macro assumptions

Much more





# Market assumptions

		2018	2019	2020	2021	2022
<b>Brent</b>	USD/bbl	75.3	75.5	71	67.8	65.6
<b>HH</b>	USD/MMBtu	2.9	2.8	2.7	2.7	2.7
<b>NBP</b>	USD/MMBtu	7.8	7.7	7.2	6.9	6.9
<b>Spot Asia</b>	USD/MMBtu	9.6	9.1	8.5	8.2	8.2
<b>Pool price</b>	EUR/MWh	58.5	56.8	54.8	51.25	50.25
<b>Coal (API2 CIF ARA)</b>	USD/t	89.6	88	85.2	82.9	81.9
<b>CO<sub>2</sub> (EUA)</b>	EUR/t	14	16.1	16.3	16.6	17
<b>NBP as % of Brent</b>		10.4%	10.2%	10.1%	10.2%	10.5%
<b>JKM as % of Brent</b>		12.7%	12.1%	12.0%	12.1%	12.5%



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CAPITAL MARKETS

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