

# First Half 2013 Results

July 23, 2013



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# Agenda



- 1. Highlights**
- 2. Financials**
- 3. Analysis of operations**
- 4. Conclusions**



## Highlights

# Key financial indicators



**Net income: €780 million (+1.7%)**

**EBITDA: €2,634 million (+2.9%)**

**Investments: €596 million<sup>1</sup> (+11.4%)**

**Net debt: €15,136 million<sup>2</sup> (-5.4% vs 31/12/12)**

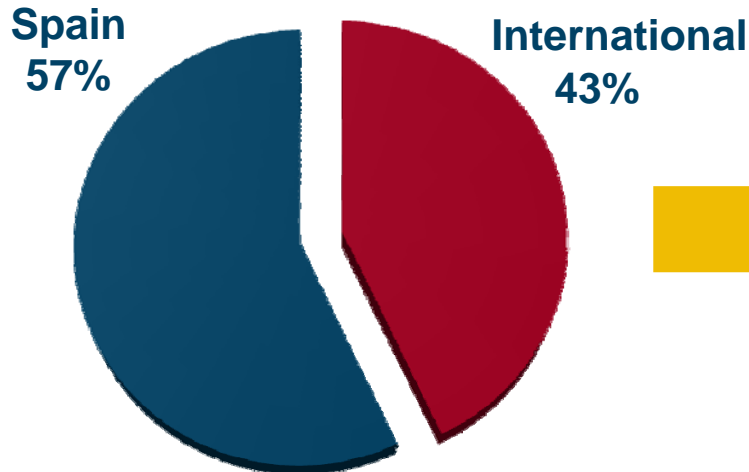
Notes:

- 1 Tangible and intangible
- 2 Net debt of €14,221 million excluding tariff deficit

# A higher share from international operations (I)

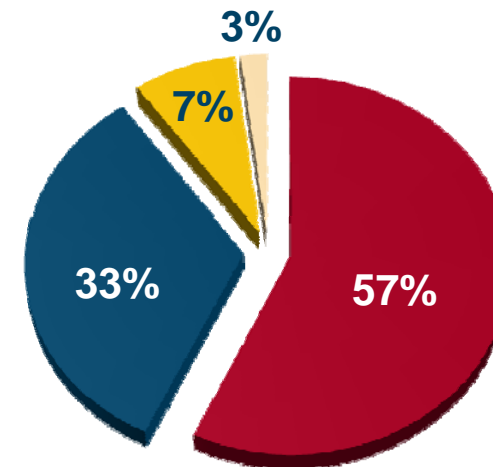
Geographical breakdown  
of 1H13 EBITDA

EBITDA: €2,634 million



EBITDA from international  
operations

EBITDA: €1,144 million



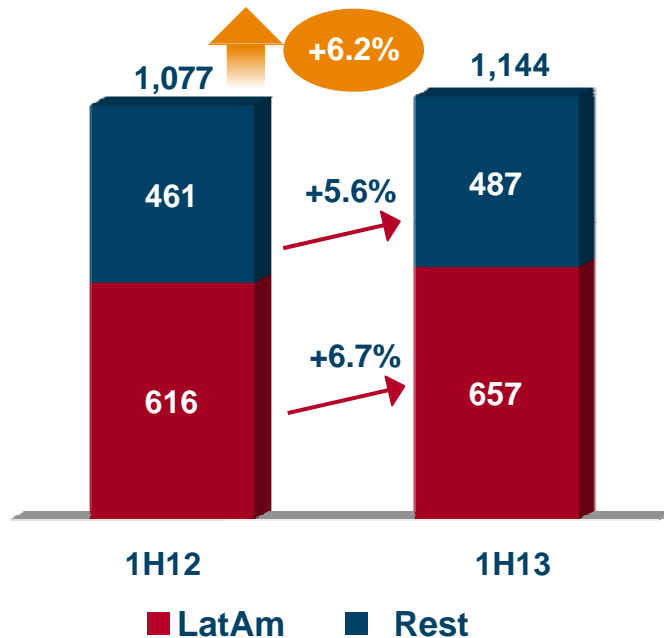
■ LatAm ■ Gas (Infrastructures & Supply)  
■ Distribution Europe ■ Rest

Increasing role of international operations enhances and improves the EBITDA diversification, both geographically and by line of business

# A higher share from international operations (II)

## EBITDA from international operations

(€million)



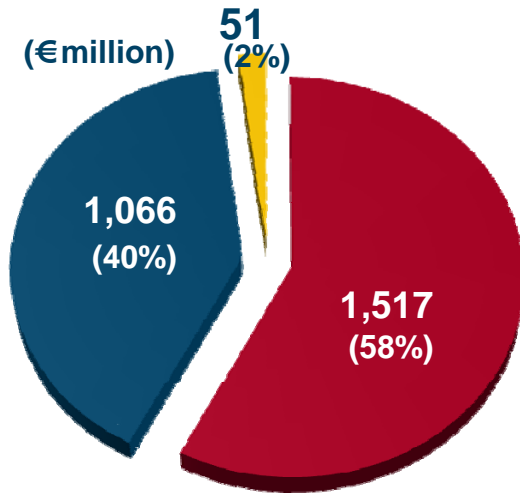
- Latin American activities continue to maintain a robust and sustained growth
- Gas wholesale operations in foreign markets enjoy a continuous and healthy expansion

The solid performance from international operations proves the soundness of GNF's business model

# A higher share from gas activities

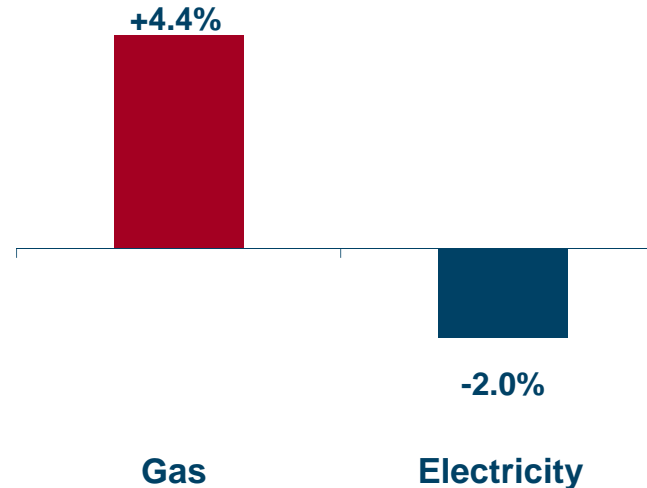


EBITDA: €2,634 million



■ Gas ■ Electricity ■ Other

EBITDA growth 1H13/1H12



- Higher EBITDA from gas activities supported by:
  - growing liberalized activities despite lack of Egyptian gas
  - continued development of distribution networks in markets with still low penetration rates

Higher level of gas-power integration than peer companies



# Latest events



- **Successful public bond issuances for ~€1,550 million to date in 2013**

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- **Construction initiated of 234 MW Bii Hioxo wind farm in Mexico**

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- **Cash payment of final dividend of €504 million on 1<sup>st</sup> July (final payout of 62.1%)**

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- **€475 million loan agreed with EIB with the first tranche (€250 million, 8-year) signed on 9<sup>th</sup> July**

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- **Royal Decree-Law 9/2013 of 12<sup>th</sup> July with new measures to reduce the electricity tariff deficit in Spain**

# Spain: regulatory measures in 2013 to reduce the tariff deficit (I)



- As per the presentation made by the Minister of Industry, Energy and Tourism on 12th July, the structural deficit of the electricity industry is €10,500 million:

	€million
Total structural deficit	10,500
Amount already covered	(6,000)
Pending amount	4,500

- Current measures intend to solve the deficit issue as follows:

	€million
State budget	900
Electricity tariff	900
Companies	2,700
<b>TOTAL</b>	<b>4,500</b>

# Spain: regulatory measures in 2013 to reduce the tariff deficit (II)



- **Royal Decree-Law 9/2013 of 12<sup>th</sup> July**, with measures of urgency to guarantee the financial stability of the electricity industry, the main ones being:
  - **New remuneration regime electricity transmission and distribution (remainder of 2013 + 2014 and thereafter) (Treasury Bond +200bp in 2014)**
  - **Government to review access charges quarterly**
  - **New regulation for Special Regime: energy sold at market price + complements in order to achieve a reasonable return (Treasury Bond +300bp)**
  - **Tariff deficit: state guarantee raised by €4,000 million to cover extra deficit from 2012**
  - **Capacity payments: reduction to €10,000 / MW p.a. payable over twice the number of years remaining to cover current 10-yr period**
  - **50% of extrapeninsular costs to be absorbed by the state budget**
  - **Social voucher: financed by the electric utilities' parent companies**

# Spain: regulatory measures in 2013 to reduce the tariff deficit (III)



- **Draft law project on electricity sector:**
  - **Financial sustainability of the system**
  - **Allow temporary closure of generation facilities**
- **Other measures announced by the Government:**
  - **6.5% increase in access charges for electricity (in August 2013)**
  - **Interruptibility: subject to a market mechanism**
- **Other pending measures:**
  - **Several RD's on remuneration of regulated activities**

# Spain: tariff deficit for 2013



(€million)

2013	MO Jan 2013	Estimate <sup>2</sup>
<b>Access charges<sup>1</sup></b>	<b>14,364</b>	<b>14,678</b>
<b>Costs</b>	<b>7,168</b>	<b>7,565</b>
Transmission and distribution	7,147	6,619
Extrapeninsular system	0	925
Other (CNE, SO)	21	21
Premia to Special Regime	9,050	9,251
Debt service	2,602	2,629
Interruptibility	749	749
Other	(13)	(240)
<b>Tariff deficit</b>	<b>(5,191)</b>	<b>(5,275)</b>
<b>Other adjustments</b>	<b>(364)</b>	<b>296</b>
<b>Total deficit</b>	<b>(5,555)</b>	<b>(4,979)</b>
Revenues from fiscal measures	2,921	2,647
CO <sub>2</sub> auctions	450	150
Draft Law: Extraordinary revenues	2,200	2,200
<b>Total Deficit (-)/Excess (+)</b>	<b>16</b>	<b>19</b>

**No tariff deficit expected for year 2013**

Notes:

1. 6.5% increase from 1 August 2013
2. Estimates according to Spanish Government

# Spain: impact of recent regulatory measures on GNF



- The foreseeable impact of the recent regulatory measures on GNF refers to CCGT capacity payments, electricity distribution, social voucher and Special Regime. In any case the impact will materialize after 30<sup>th</sup> June 2013
- 
- Calculations at this stage are preliminary as they are based on limited currently available information. An accurate appraisal of the impact would require the details from new developments on legislation, especially for Special Regime and social voucher
- 
- Initial estimates of the impact (before tax) would be €90 million and €180 million for 2013 and 2014, respectively
- 
- Of these, impact on CCGT capacity payments would be €45 million in 2013 and €2 million in 2014, however their impact on results in the following years will be substantially lower

# Impressions on regulatory reform in Spain



- Traditional activities of the electricity industry (conventional generation, transmission and distribution) will bear an unfair share of the burden which totals €4,500 million in 2013 and corresponds to the measures approved in 2012 (fiscal measures, RD 13/2012) and RDL 9/2013

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- Most of the system's extra costs actually correspond to political decisions that are alien to the electricity business

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- Despite the above, the recent measures imply a low contribution to the effort from the State's budget

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- Some activities have been severely penalized
  - Insufficient returns on electricity distribution
  - Lower capacity payments significantly impact CCGTs

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- Allowed regulated returns of 6-7% seem incompatible with the current cost of capital for Spanish corporates

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## Financials



# Consolidated income statement



(€million)	1H13	1H12	Change %
Net sales	12,895	12,439	3.7
Purchases	(8,929)	(8,639)	3.4
<b>Gross Margin</b>	<b>3,966</b>	<b>3,800</b>	<b>4.4</b>
Personnel, Net	(451)	(423)	6.6
Levies	(263)	(148)	77.7
Other expenses, Net	(618)	(670)	(7.8)
<b>EBITDA</b>	<b>2,634</b>	<b>2,559</b>	<b>2.9</b>
Depreciation and impairment losses	(981)	(890)	10.2
Provisions	(114)	(107)	6.5
Other	8	20	(60.0)
<b>Operating Income</b>	<b>1,547</b>	<b>1,582</b>	<b>(2.2)</b>
Financial results, Net	(405)	(431)	(6.0)
Equity income	4	7	(42.9)
<b>Income Before Tax</b>	<b>1,146</b>	<b>1,158</b>	<b>(1.0)</b>
Taxes	(252)	(288)	(12.5)
Minority interest	(114)	(103)	10.7
<b>Net Income</b>	<b>780</b>	<b>767</b>	<b>1.7</b>

# EBITDA breakdown



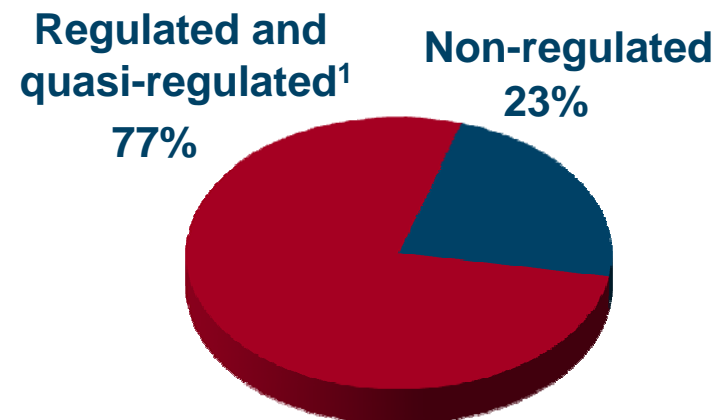
(€million)	1H13	1H12	Change	
			€m	%
<b>Distribution Europe:</b>	<b>825</b>	<b>822</b>	<b>3</b>	<b>0.4</b>
Electricity	322	325	(3)	(0.9)
Gas	503	497	6	1.2
<b>Electricity:</b>	<b>445</b>	<b>457</b>	<b>(12)</b>	<b>(2.6)</b>
Spain	352	370	(18)	(4.8)
Special Regime	86	81	5	6.2
Other	7	6	1	16.7
<b>Gas:</b>	<b>658</b>	<b>646</b>	<b>12</b>	<b>1.9</b>
Infrastructures	135	110	25	22.7
Supply	445	363	82	22.6
UF Gas	78	173	(95)	(54.9)
<b>LatAm:</b>	<b>655</b>	<b>616</b>	<b>39</b>	<b>6.3</b>
Electricity Distribution	165	181	(16)	(8.8)
Gas Distribution	356	310	46	14.8
Generation	134	125	9	7.6
<b>Other</b>	<b>51</b>	<b>18</b>	<b>33</b>	<b>-</b>
<b>Total EBITDA</b>	<b>2,634</b>	<b>2,560</b>	<b>75</b>	<b>2.9</b>

# Consolidated investments

## Tangible and intangible



(€million)	1H13	1H12
<b>Distribution Europe:</b>	<b>205</b>	<b>250</b>
Electricity	86	125
Gas	119	125
<b>Electricity:</b>	<b>84</b>	<b>80</b>
Spain	70	62
Special Regime	14	18
<b>Gas:</b>	<b>20</b>	<b>24</b>
Infrastructures	5	14
Supply	7	7
UF Gas	8	3
<b>LatAm:</b>	<b>227</b>	<b>141</b>
Generation	100	32
Gas Distribution	74	65
Electricity Distribution	53	44
<b>Other</b>	<b>60</b>	<b>40</b>
<b>Total</b>	<b>596</b>	<b>535</b>



- International investments grow +56.7% to €282 million

**Growth in international investments focused on Latin American power generation and distribution markets**

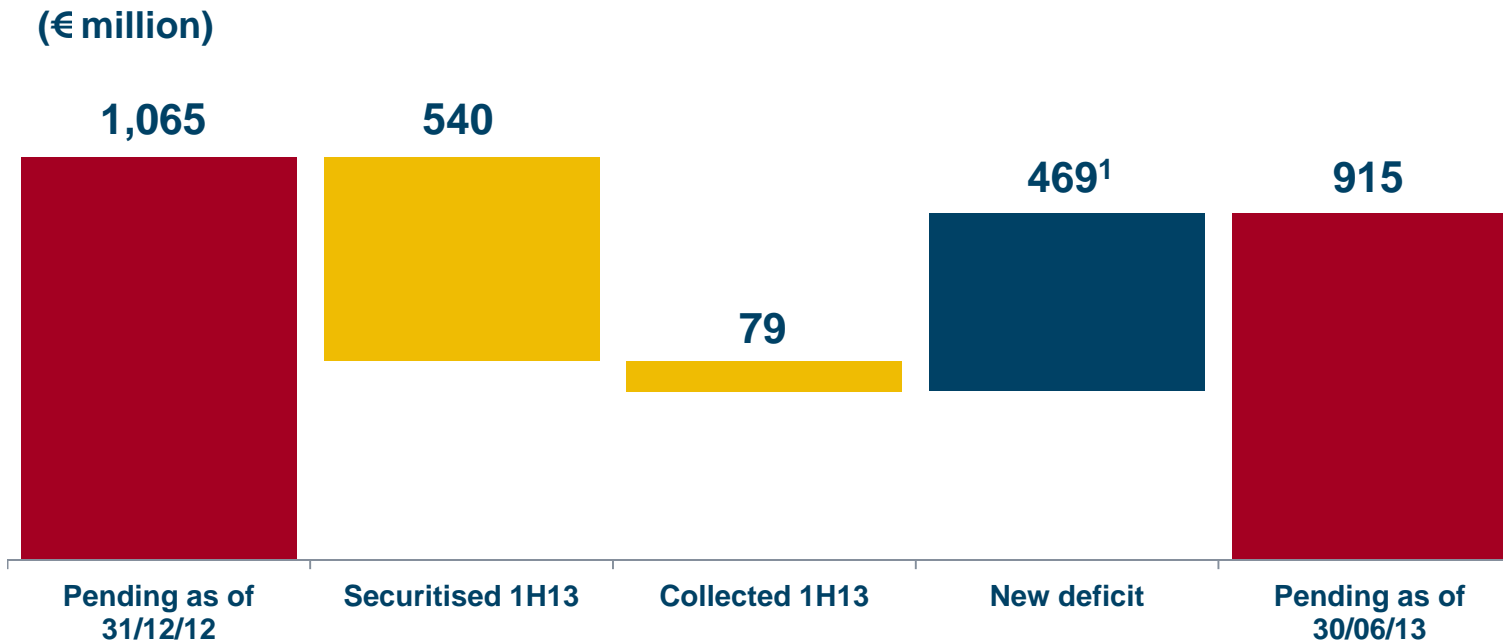
Note:

1 Distribution Europe, Special Regime in Spain, gas infrastructures and Latin America

# Securitisation of tariff deficit



Tariff deficit amounts for GNF



- €540 million collected by GNF in 1H13 through sales carried out by FADE
- New deficit includes €353 million for 1H13, which should be zero at year-end

**RD-L 9/13 raises the state guarantee by €4,000 million, enabling securitisation of 2012 tariff deficit amount**

Note:

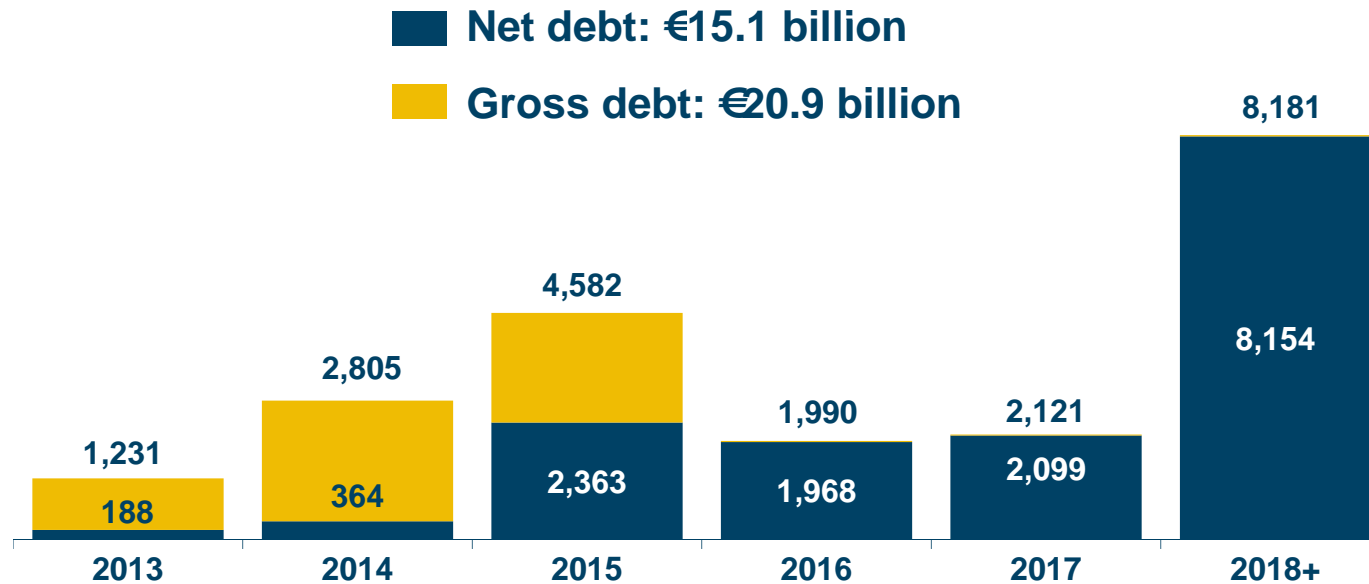
1 Includes €353 million of deficit generated in 1H13, deficit from past years included in settlements during 1H13 and interest accrued on tariff deficit for past years

# A comfortable debt maturity profile

As of June 30, 2013



(€million)



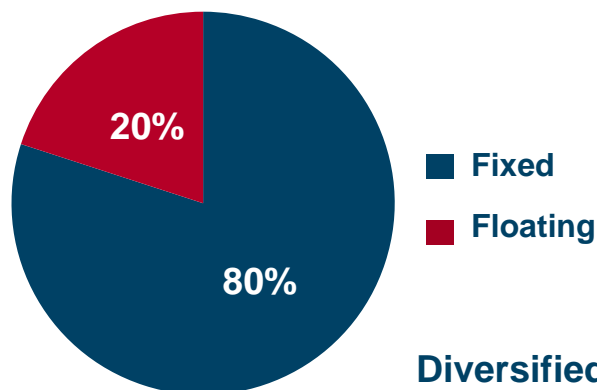
- Average life of net debt ~5 years
- 68% of net debt maturing from 2017 onwards

All financial needs from 2013 to 2014 already covered, currently focusing on 2H 2015

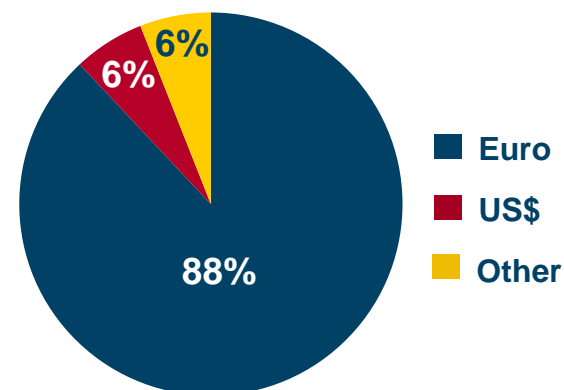
# An efficient net debt structure



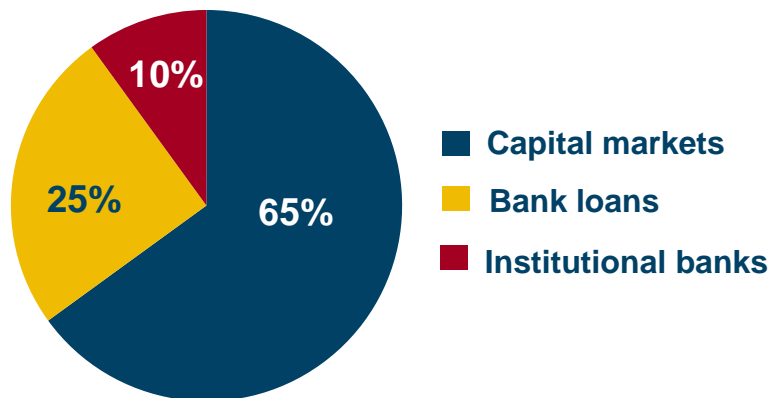
Significant level of fixed rate obtained at very competitive levels



Currency exposure consistent with business risk



Diversified financing sources



**Efficiency of debt structure as key pillar for value creation despite a challenging financial environment**

# Ample liquidity available



As of June 30, 2013

(€million)	Limit	Drawn	Undrawn
Committed lines of credit	5,453	206	5,247
Uncommitted lines of credit	213	125	88
Cash	-	-	5,771
<b>TOTAL</b>	<b>5,666</b>	<b>331</b>	<b>11,106</b>

- Additional capital market capabilities of around €3,500 million in both Euro and LatAm programmes (Mexico, Argentina, Panama), complemented by recent COP 500 billion programme
- Additional liquidity with €475 million loan with EIB and €100 million NOK 10-year private placement, both signed post 30<sup>th</sup> June

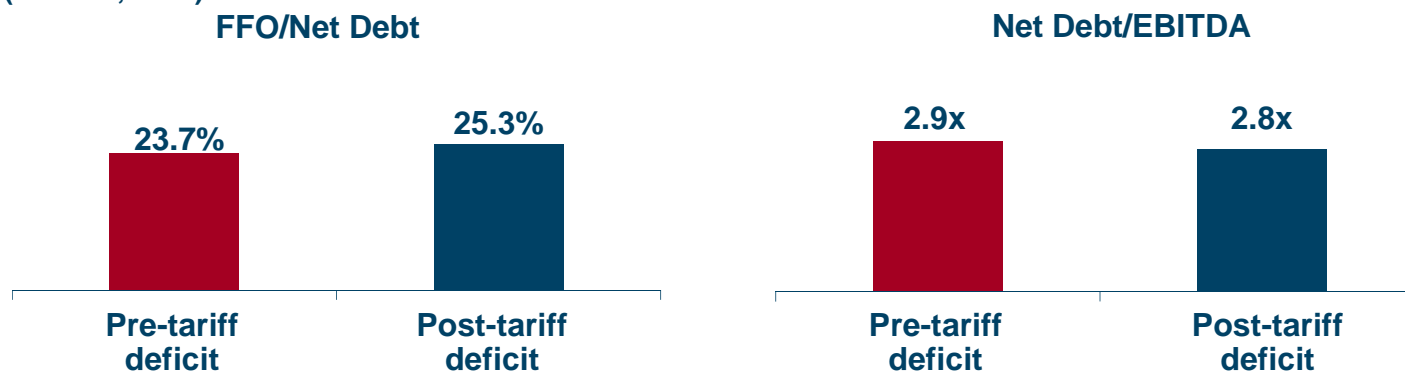
**Enough liquidity available to cover needs above 24 months**

# A sound capital structure



Solid cash flow and leverage ratios...

(June 30, 2013)



... supported by a strong capital structure...

- Diversified debt maturity profile
- 80% fixed interest rate and next years' rates fixed in a low scenario: predictable and stable cost of debt
- No FX risk: subsidiaries financed in local/denominated currency

... and a competitive cost of debt (4.2%)

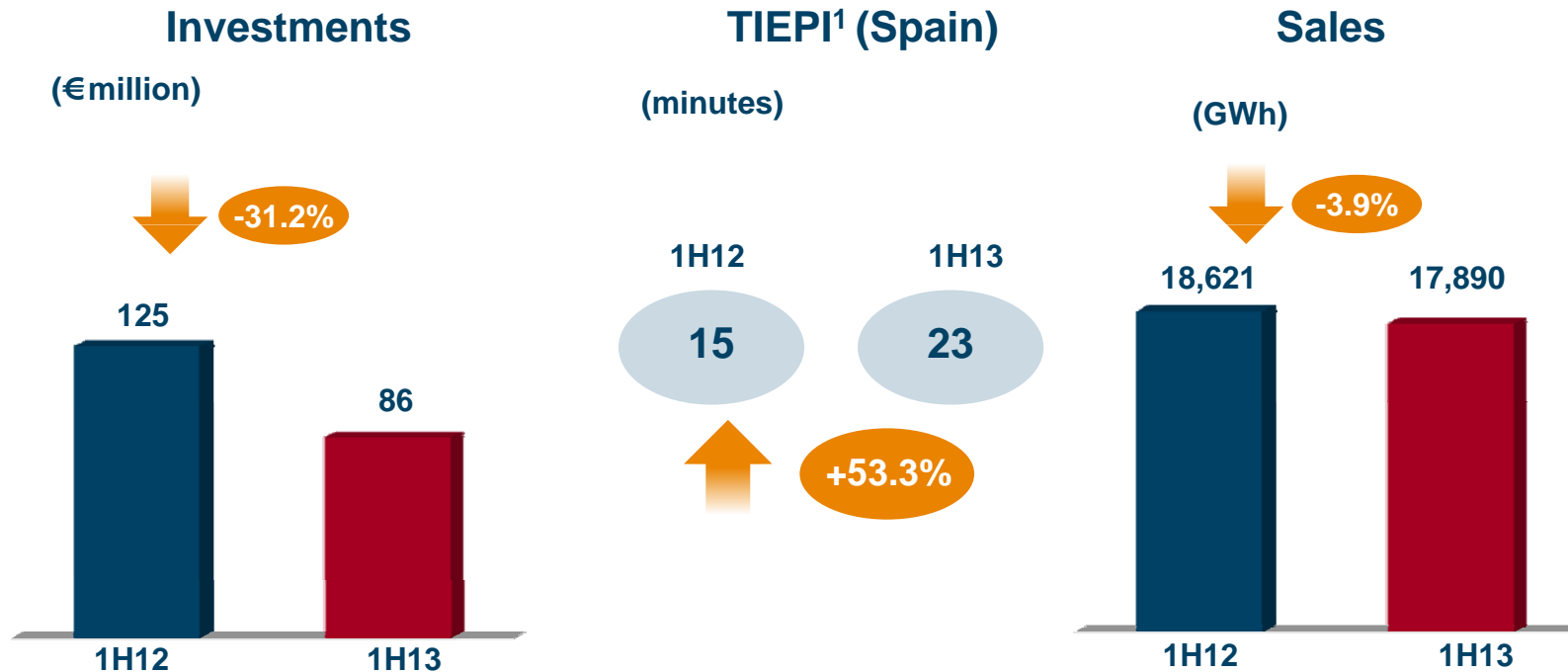




## **Analysis of operations**

# Distribution Europe

## Electricity



- Lower sales in Spain, in line with average fall in demand for the country
- Downward adjustment of opex and capex after recent regulatory measures

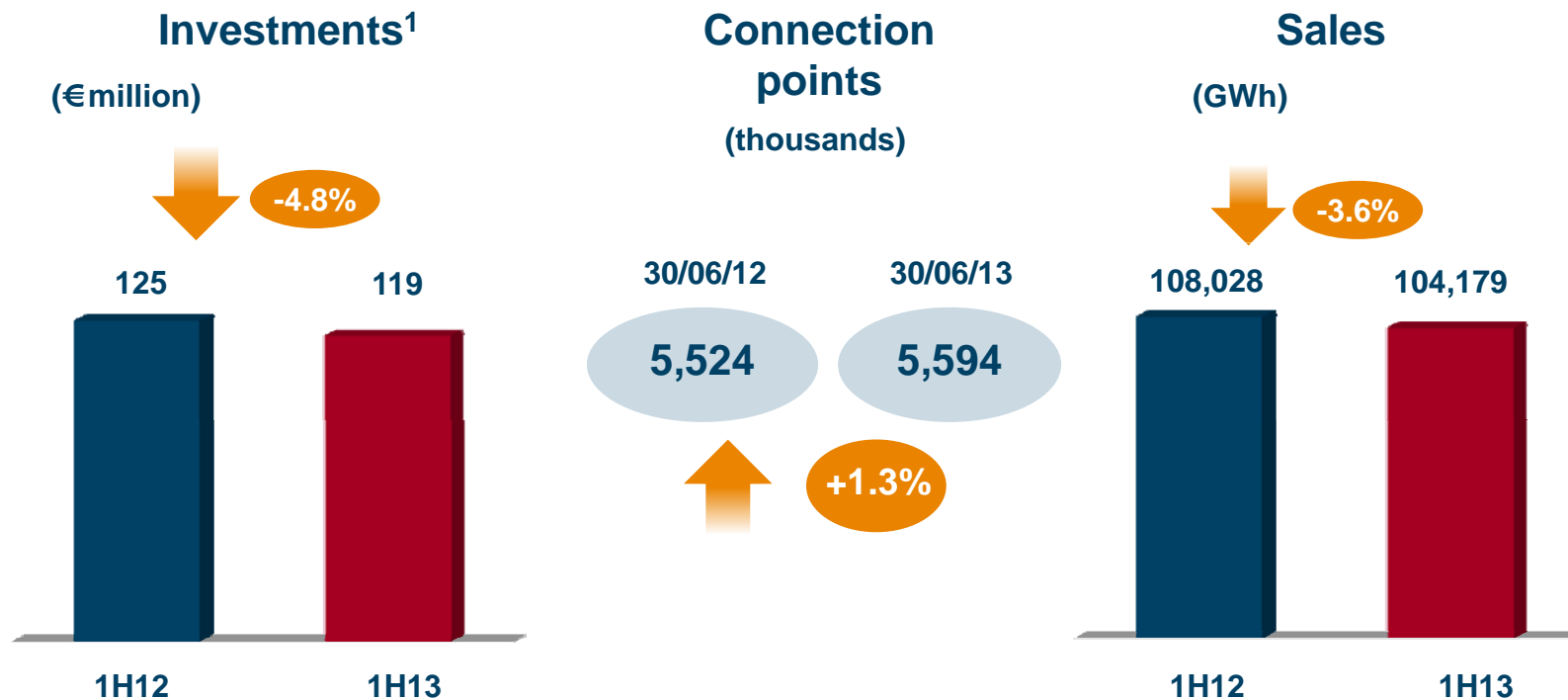
Pending to analyze and establish business strategy after RD-L 9/13

Note:

1 "Tiempo de interrupción equivalente de la potencia instalada" = Equivalent time of power supply interruption for the installed capacity

# Distribution Europe

## Gas



- Investment focus on efficient network expansion with still low penetration levels in Spain

Remuneration of Spanish gas distribution consistent with the economic environment

Note:

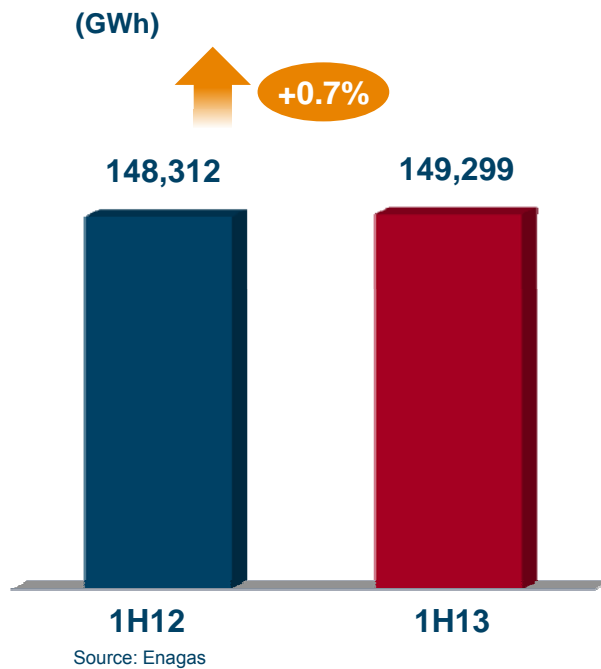
1 Tangible and intangible

# Energy

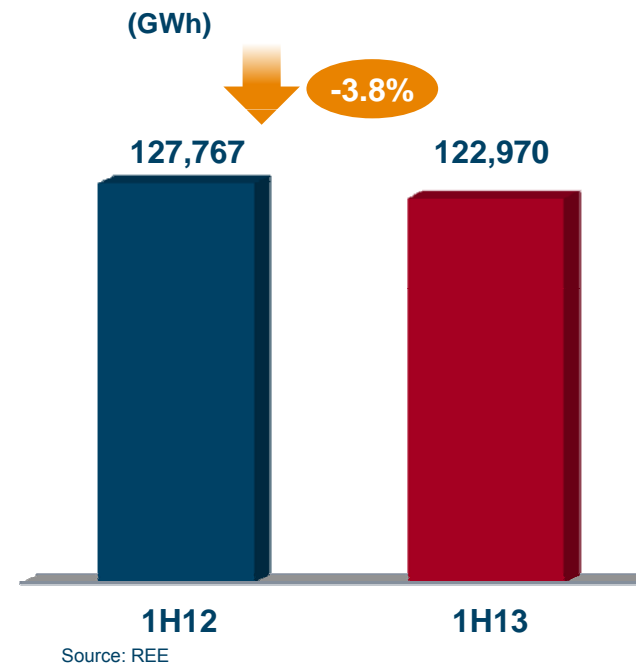
## Gas and electricity demand in Spain



### Conventional gas demand



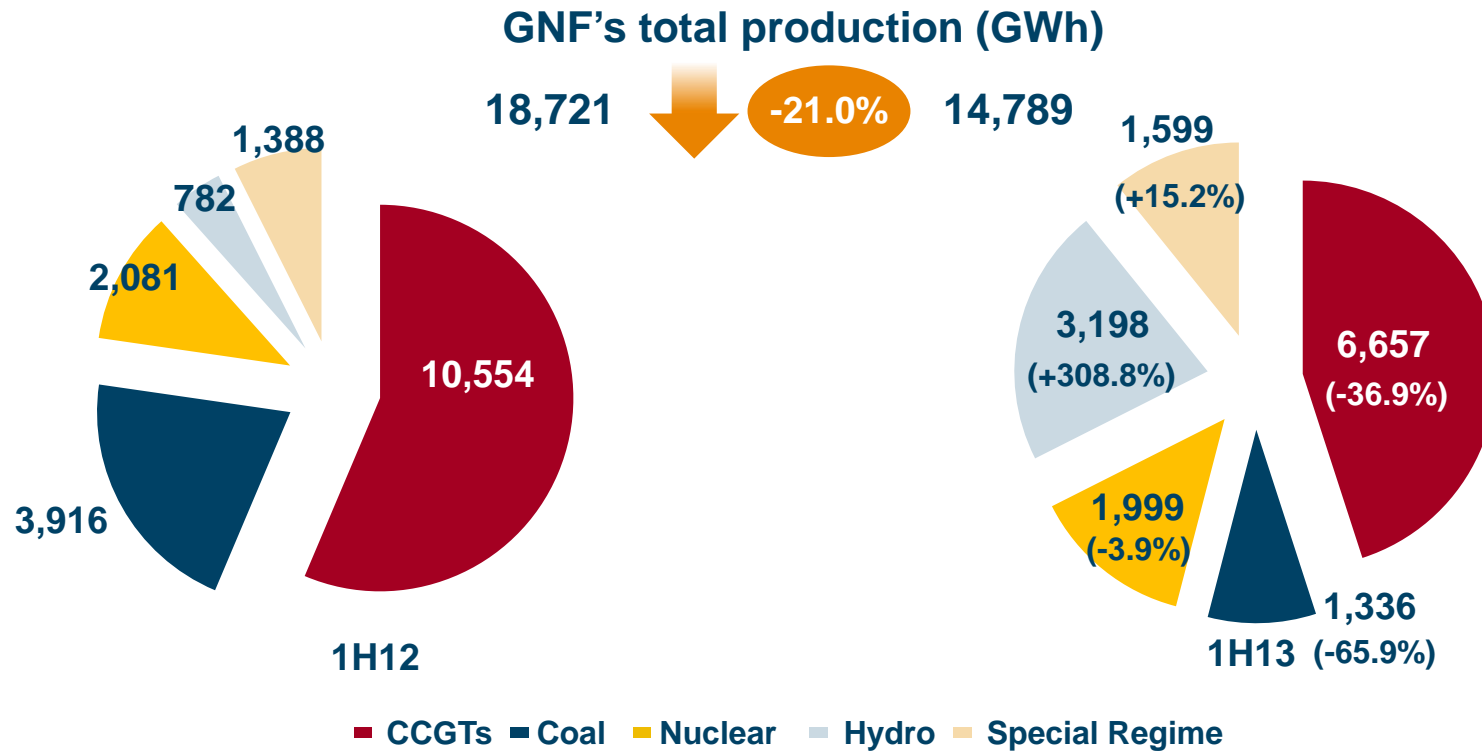
### Electricity demand



**Weaker Spanish economy reflected in lower electricity demand despite a resilient conventional gas demand**

# Energy

## Electricity in Spain



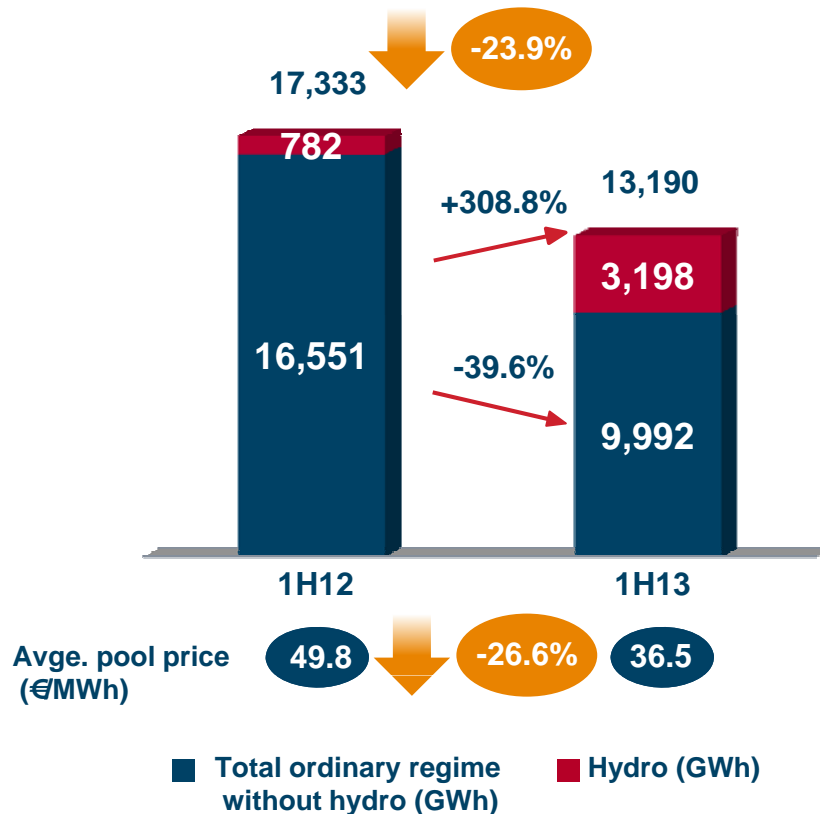
- Thermal technologies decrease their output after higher hydro and wind production in the period

Impact of RD-L 9/13 on this activity to be appraised

# Energy

## Ordinary regime in Spain

### GNF's ordinary regime production



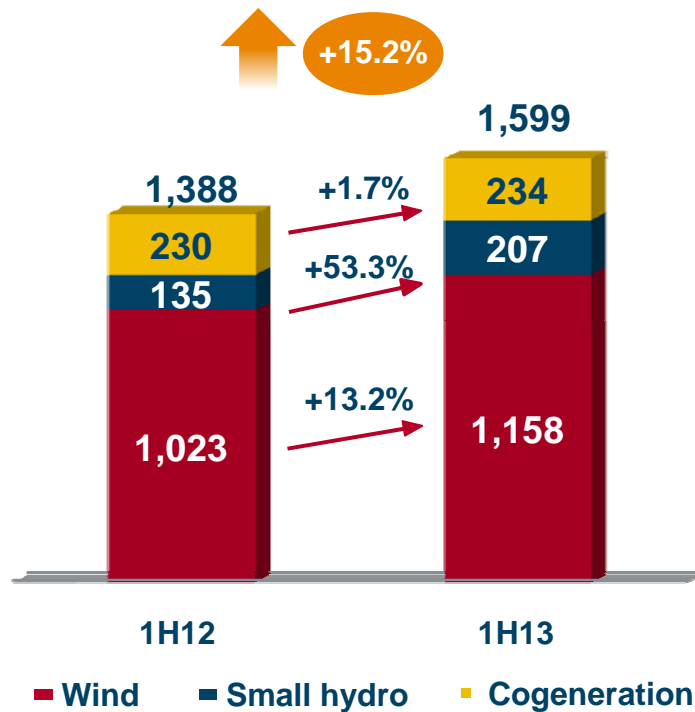
- Enjoying an optimized position in supply business, which provides a good hedge against pool price volatility
- A higher hydro production having a positive contribution by reducing GNF generation cost

**Tax measures in 1H13 represent an impact of -€143 million**

# Energy

## Special regime

### Total production (GWh)

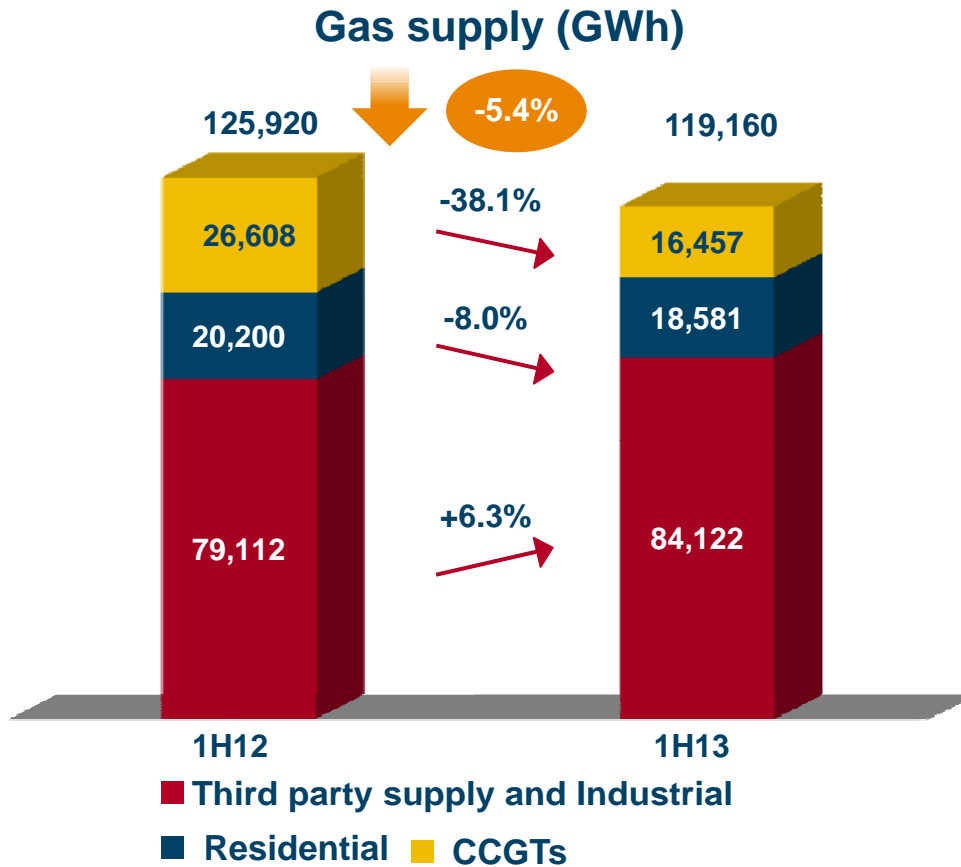


- Wind-powered production boosted by higher wind factor in the period
- Heavy rainfall in the period leads to a significant growth in small hydro production
- New small hydro projects in Galicia to be commissioned in 3Q13

Results in 1H13 include a -€10 million impact from tax measures

# Energy

## Gas supply in Spain



- GNF's sales to conventional segment +3.4%
- Growth in customer portfolio enables leadership in each end market segment
- Average 1.42 contracts per residential customer (+2.9%)
- Maintenance contracts grow +11.0% to 2.0 million

**Benefiting from balanced and well-diversified customer base**

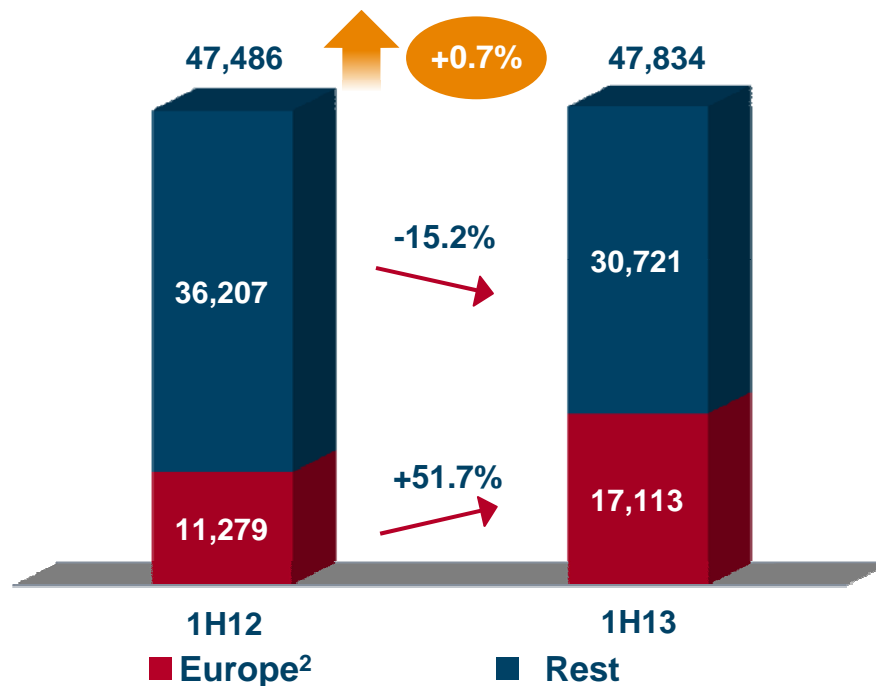


# Energy

## International gas sales maintain growing trend



Foreign sales (GWh)<sup>1</sup>



- International gas sales representing ~30% of total
- Consolidating presence in Asian and American markets (South, Caribbean)
- Expansion of commercial operations in central Europe, Italy and Portugal
- Average contract duration of 2 years

**Consolidating GNF's strength in Europe and reinforcing its position as a global LNG player**

Notes:

1 Does not include UF Gas

2 Sales to end customers, including retail supply in Italy

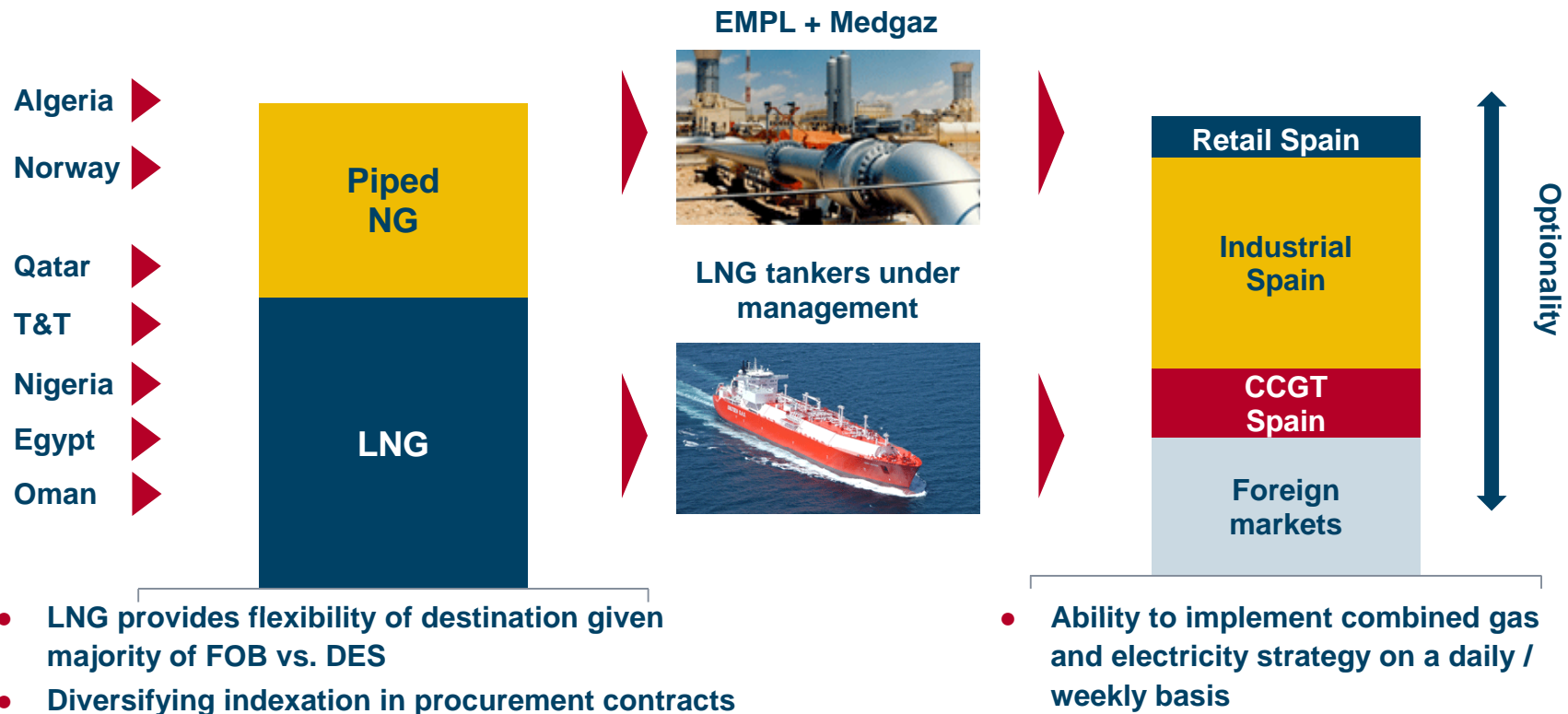
# Energy

## An integrated gas business model



Diversity in gas origins and procurement of both NG and LNG...

...complemented with a diversified array of end markets



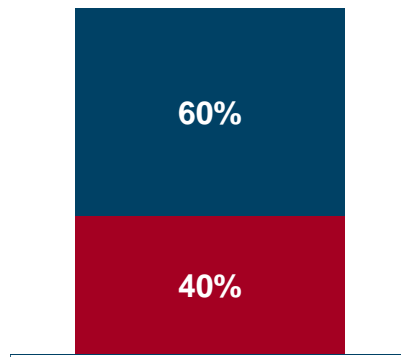
**A unique business model which provides an extremely efficient commodity hedge, allowing optimisation**

# Energy



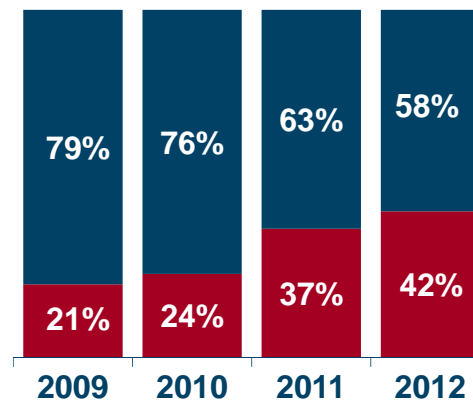
## LNG sales enjoy an increasingly higher weighting

GNF's gas sales in 2012



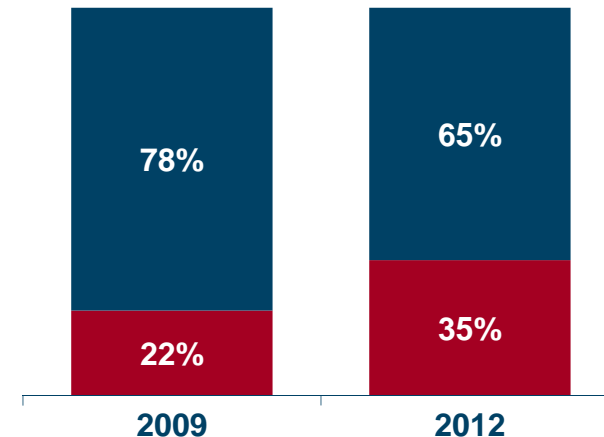
■ NG ■ LNG

GNF's LNG sales



■ International ■ Domestic

LNG destination flexibility (world markets)



■ Flexible ■ Non-flexible

Source: CERA, Stream

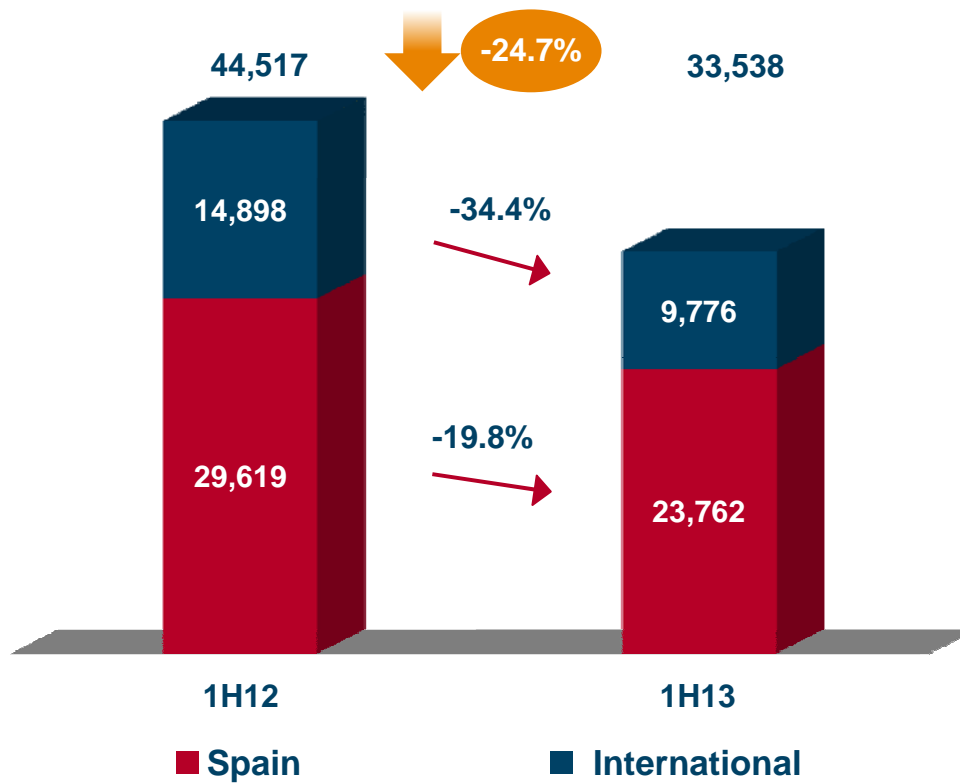
- Growing international sales places GNF as one of the world's main LNG operators
- GNF is well positioned to profit from future growth opportunities
- 5 bcm LNG Cheniere contract (2016) will contribute to further development

# Energy

## UF Gas



Gas supply<sup>1</sup> (GWh)



- Results impacted mainly by:
  - Lower gas deliveries from Egypt, compensated with purchases from alternative sources at high spot prices especially in 1Q
  - Lower sales to CCGTs in Spain

**EBITDA<sup>2</sup> (supply and infrastructures) of €78 million (-54.9%)**

Notes:  
 1 100% attributable  
 2 50% attributable

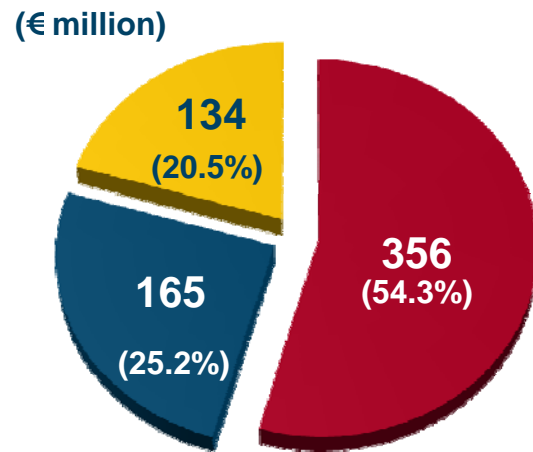
# Latin America (I)

## EBITDA breakdown



EBITDA by activity

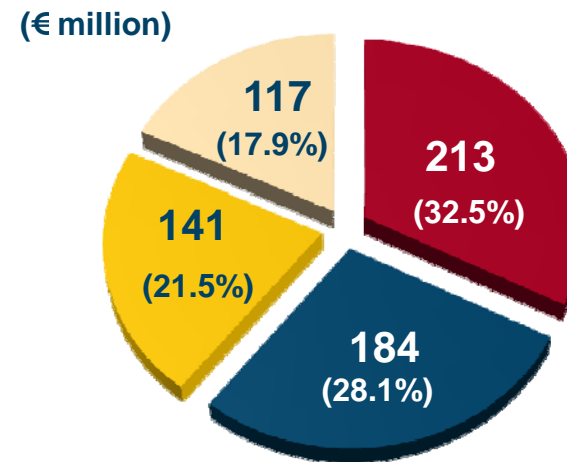
EBITDA: €655 million



- Gas distribution
- Electricity dist.
- Generation

EBITDA by country

EBITDA: €655 million

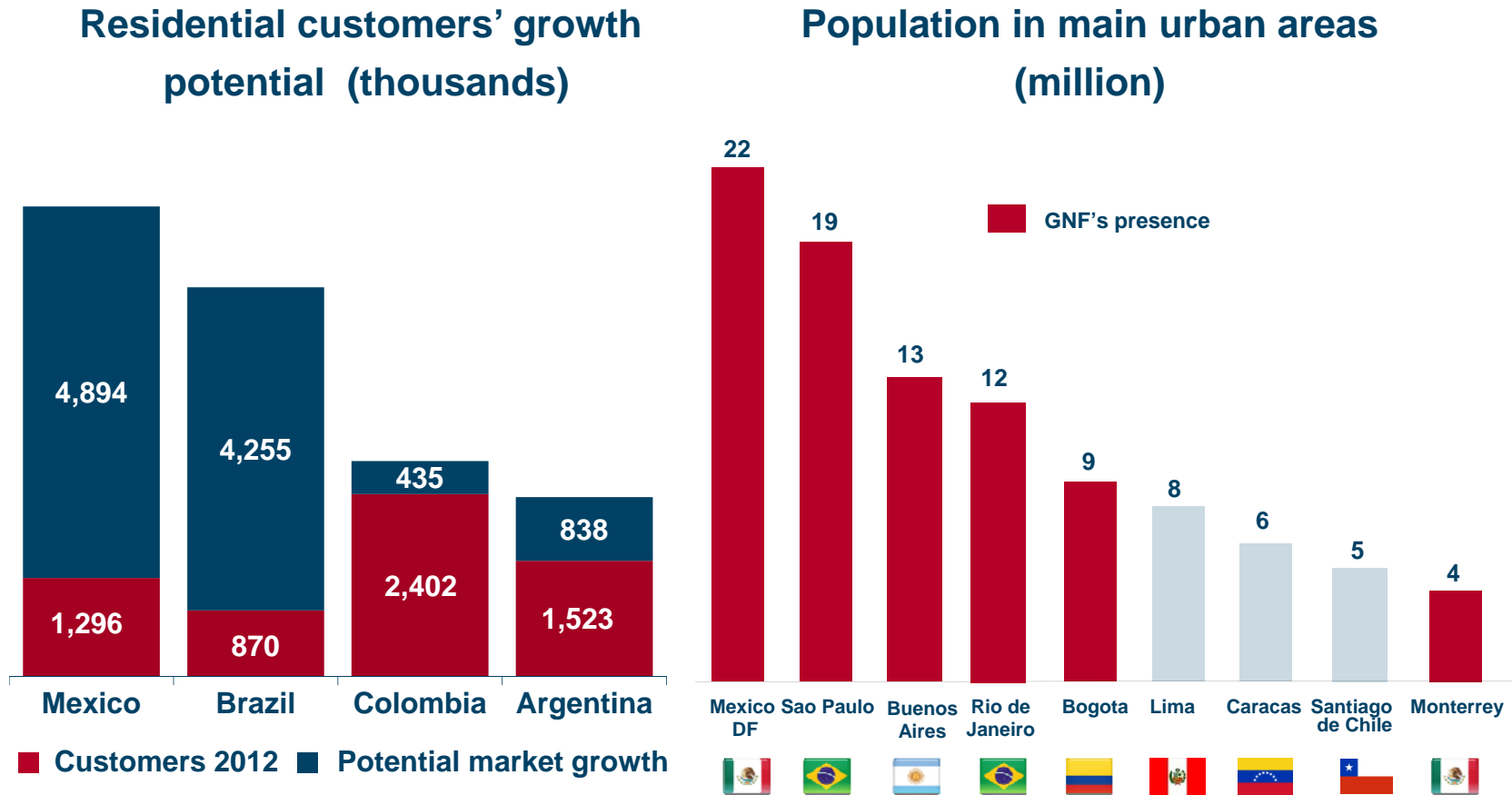


- Colombia
- Brazil
- Mexico
- Rest

Benefiting from business and geographical diversification

# Latin America (II)

Positioned to exploit growth in the region



High growth potential for residential markets in our gas distribution franchises

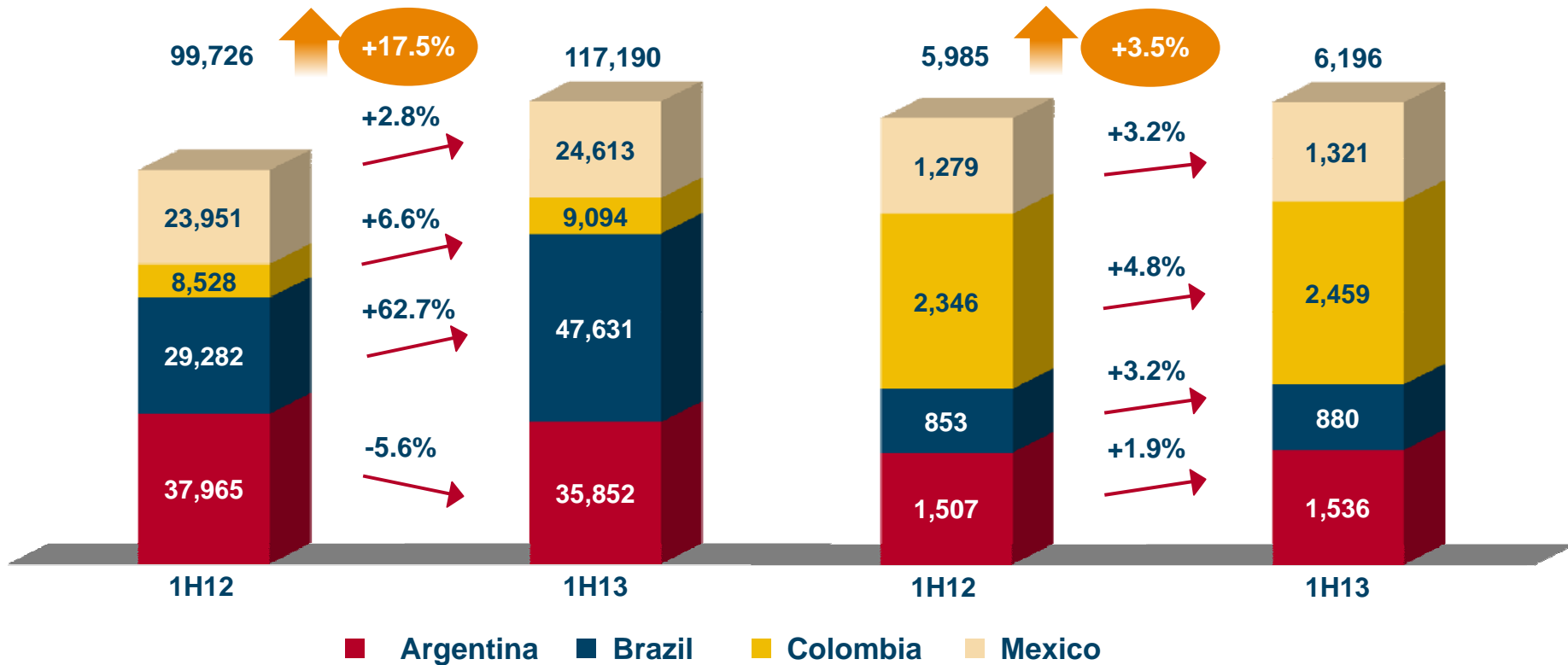
# Latin America (III)

## Gas distribution



Gas sales (GWh)

Connection points (000)



**Gas demand in 1H13 boosted by power generation in Brazil**

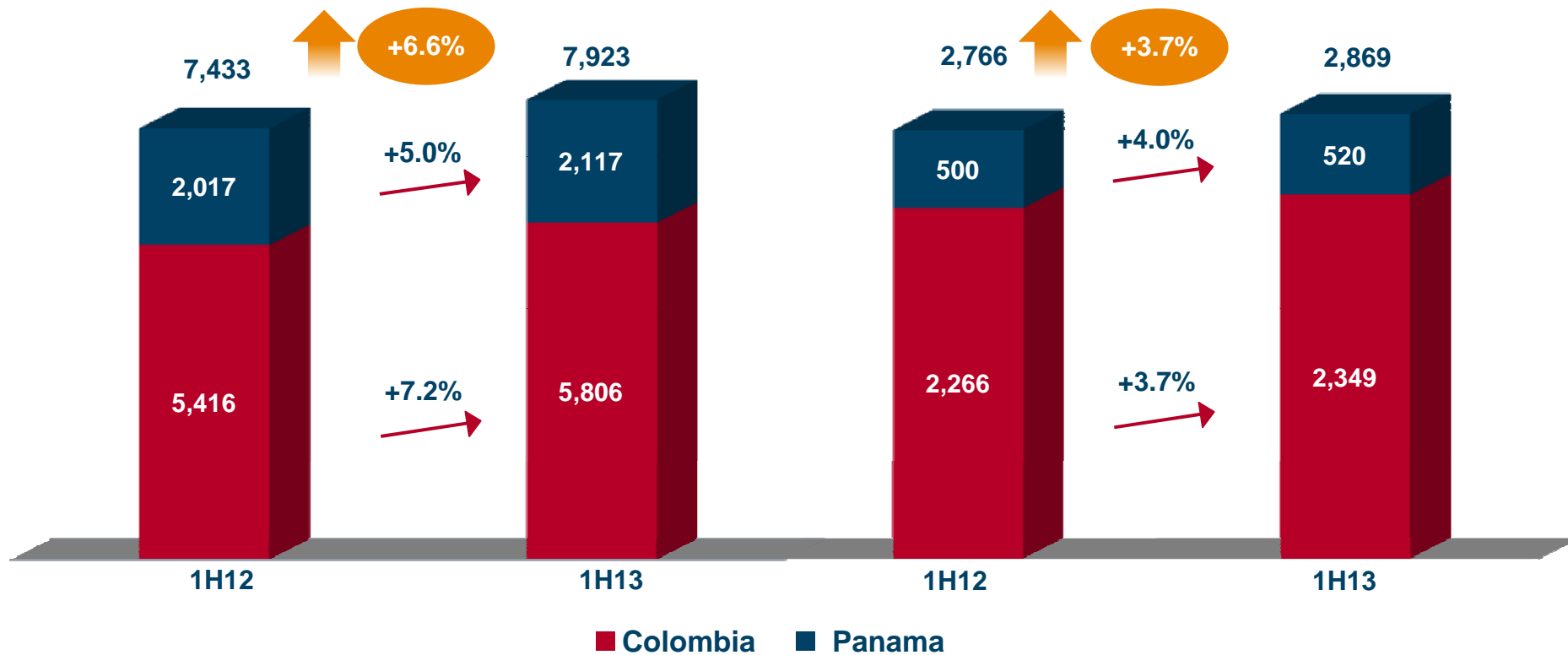
# Latin America (IV)

## Electricity distribution



Electricity sales (GWh)<sup>1</sup>

Connection points (000)<sup>1</sup>



**EBITDA of €165 million (-8.8%) impacted by disposals and FX**

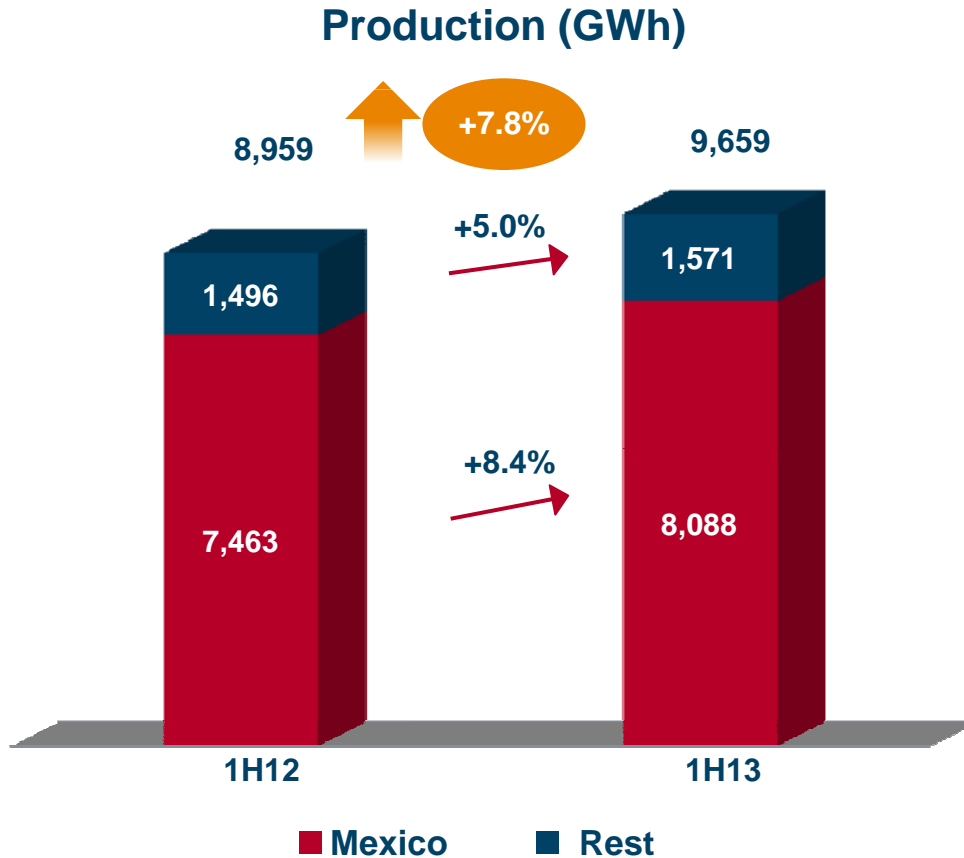
Note:

1 Excluding operations in Nicaragua, sold in February 2013



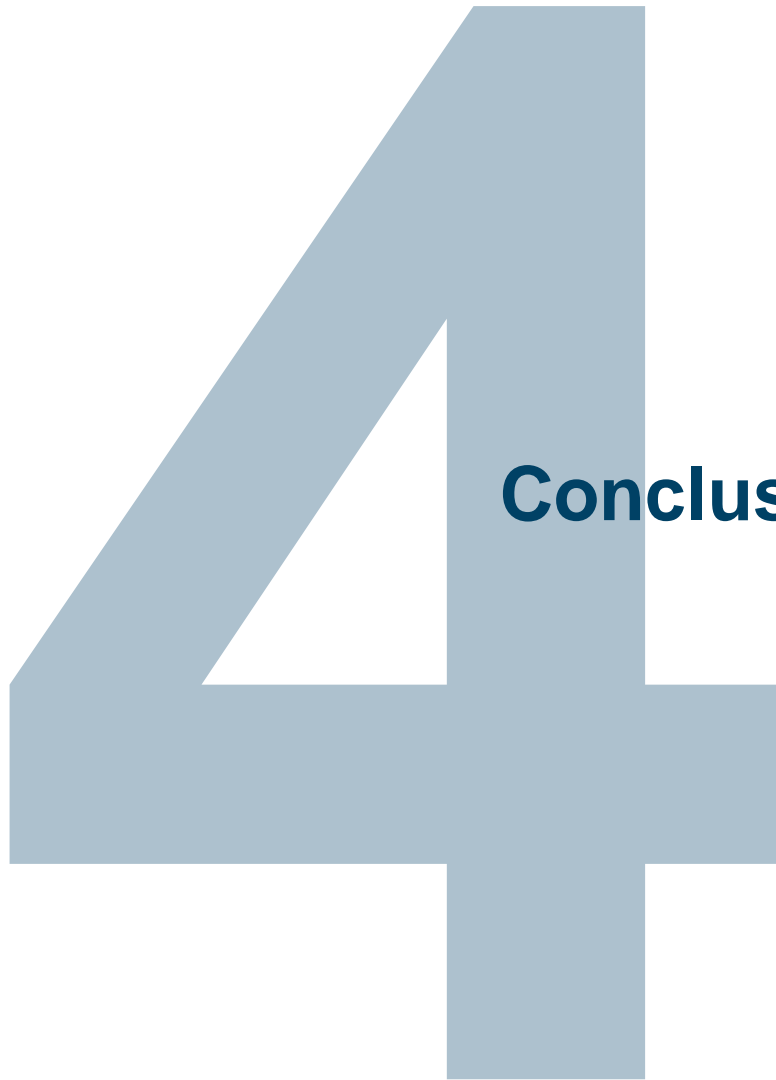
# Latin America (V)

## Generation



- Higher dispatching levels in Puerto Rico and Dominican republic
- New projects under development:
  - Torito: 50 MW hydro in Costa Rica
  - Bii Hioxo: 234 MW wind farm in Mexico

**EBITDA grows +7.2% to €134 million**



# Conclusions

# Conclusions



**Our balanced business mix allows a solid and reliable performance**

**EBITDA +2.9% despite asset disposals and regulatory changes and  
Net Income +1.7%**

**Successful deleveraging and lengthening of average life of debt  
achieved within a short time frame**

**Recent regulatory changes will lead to redefine the future development  
of some of the group's activities in accordance with an added value  
approach**

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# Thank you

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