

# First Half 2014 Results (1H14)

July 24, 2014



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# Agenda



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



## Highlights

# Key financial indicators



**Net Income: €932 million (+19.5%)<sup>1</sup>**

**EBITDA: €2,421 million (-3.0%)<sup>1</sup>**

**Investments: €666 million<sup>2</sup> (+15.4%)<sup>1</sup>**

**Net Debt: €13,472 million<sup>3</sup> (-5.5% vs 31/12/13)<sup>1</sup>**

Notes:

- 1 Changes vs 1H13 after restatement of 1H13 figures to IFRS 11.
- 2 Tangible and intangible
- 3 Net debt of €12,881 million excluding electricity tariff deficit for 2013 and withholdings on 2014 electricity payments made by CNMC

# Recent events (I)

## Regulation in Spain: Gas Sector

- **Measures included in Royal Decree-Law 8/2014, in effect as of 5 July 2014**
- **New regulation brings both higher stability and predictability**
  - **Financial stability: rules set to prevent future tariff deficits from arising, and current tariff deficit to be recovered over 15 years**
  - **Predictability: 6-year regulatory periods, first one to end in 2020**
- **Remuneration for distribution continues to be based on a parametric formula**
  - **Incentive on growth focused on higher volume customers and network expansion into new municipalities**
- **Impact on 2014 accounts (distribution and transmission) of ~€45 million lower remuneration**

## Recent events (II)



### Regulation in Spain: Cogeneration and Renewables

- **Royal Decree and Ministerial Order approved in June, with measures in effect from 13 July 2013, with remuneration calculated on standards, paid over the asset's regulatory life**
  - **Market price + specific remuneration, with regulated IRR set at 7.44% for current facilities**

### Cashing on sale of non-core assets

- **Sale of telecoms assets for €510 million with gross capital gains of €252 million**

## Recent events (II)



### Developments carried out on vectors of future growth for GNF

#### Midstream gas business

- **Procurement:** New 2 bcm, 20-year long LNG contract signed with Cheniere starting deliveries in 2019
- **Wholesales:** Long term LNG contract signed in Chile with deliveries due to start in 2016

#### International gas distribution networks

- **Agreement signed with CEMIG to develop gas distribution network in Brazil**



# IFRS 11



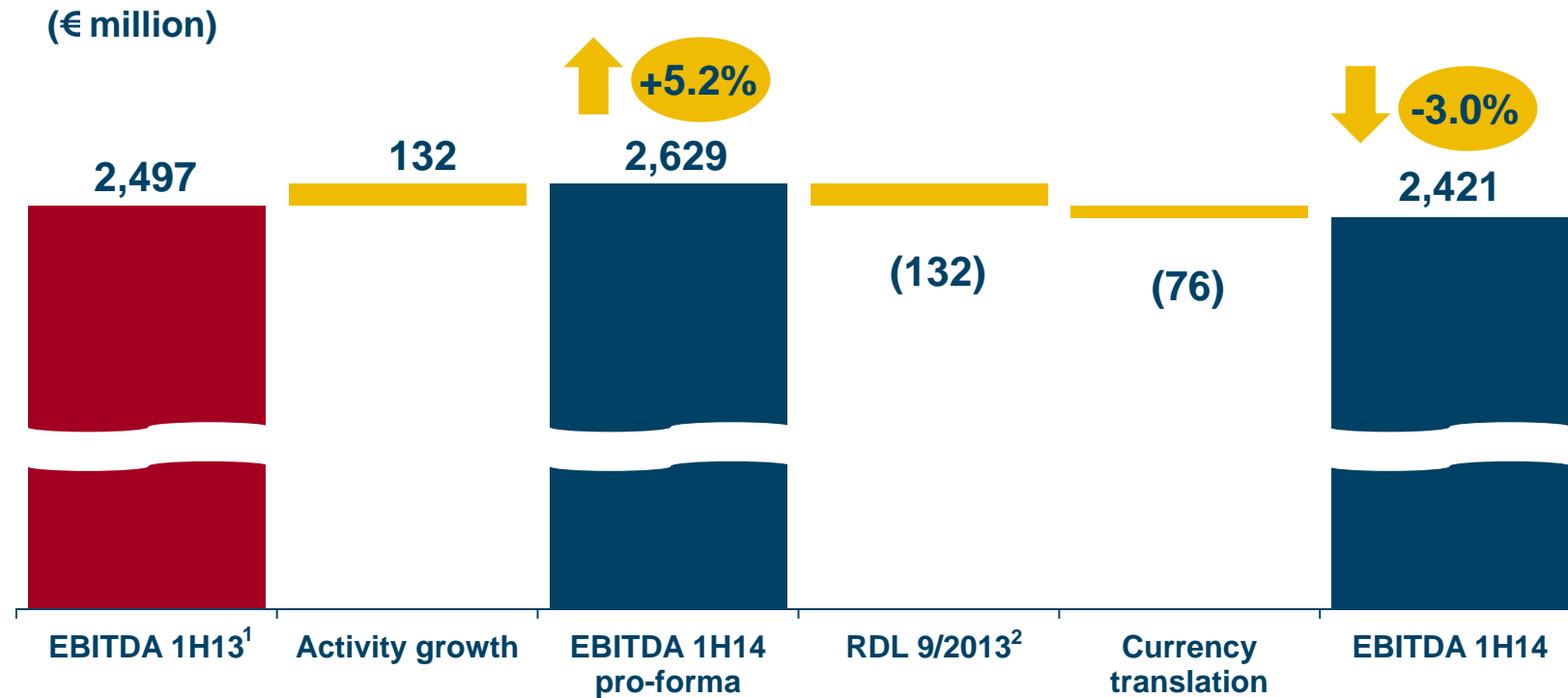
- As from 1 January 2014, IFRS 11 is mandatory, so the equity method is now used for the accounting of joint ventures.
- The following table shows the restatement to IFRS 11 of GNF's 1H13 figures:

(€ million)	1H13 as reported	1H13 IFRS 11	Change
Net Income	780	780	-
EBITDA	2,634	2,497	(137)
Investments	596	577	(19)
Net Debt	15,136	14,743	(393)

**EBITDA change breakdown**

UF Gas	(78)
Ecoeléctrica	(34)
Renewables	(20)
Other	(5)

# EBITDA 1H14 vs 1H13



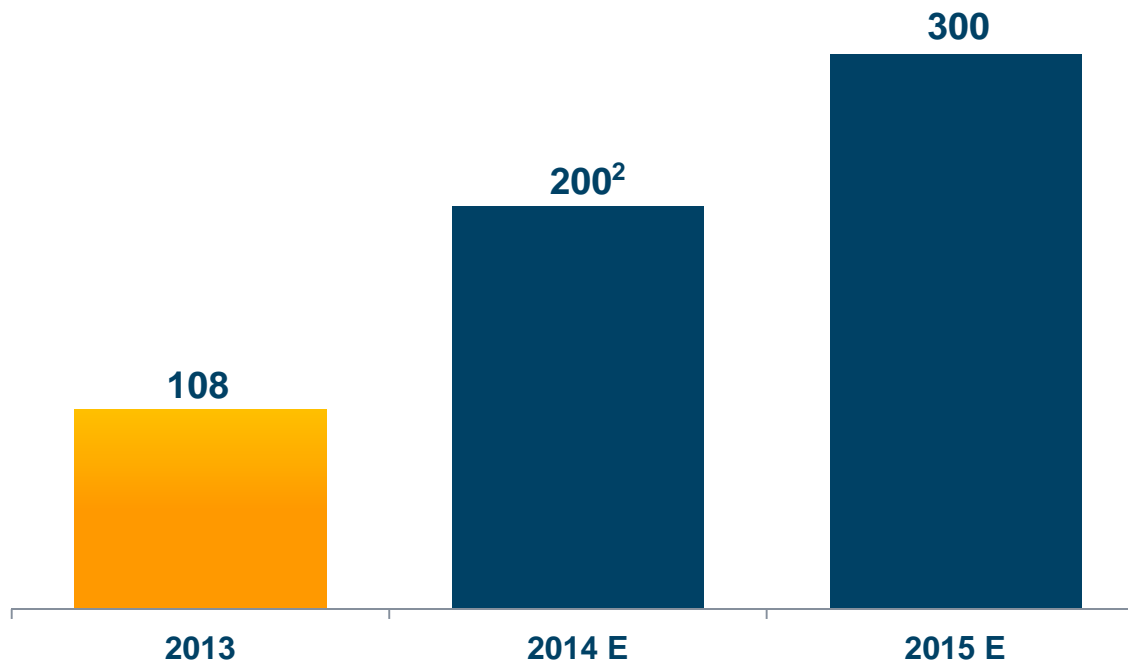
**Operational improvements offset by translation of currency exchange differences and impact from RDL 9/2013<sup>2</sup>**

Note:

- 1 Restated for comparative purposes under IFRS 11
- 2 Impacts on Electricity, both liberalized and regulated (formerly "Special Regime") and electricity distribution in Spain. RDL 9/2013 having been in effect from 14 July 2013 therefore without impact on 1H13.

# 2013-2015 Efficiency plan

Cost savings on EBITDA<sup>1</sup> (€million)



## Key initiatives in 2013-2014

- Reducing services and discretionary cost
- Streamline commercial and operational costs
- Cost optimization in corporate areas

**Achieved €165 million at end 2Q14, in line with targets set in the Strategic Plan 2013-2015**

Notes:

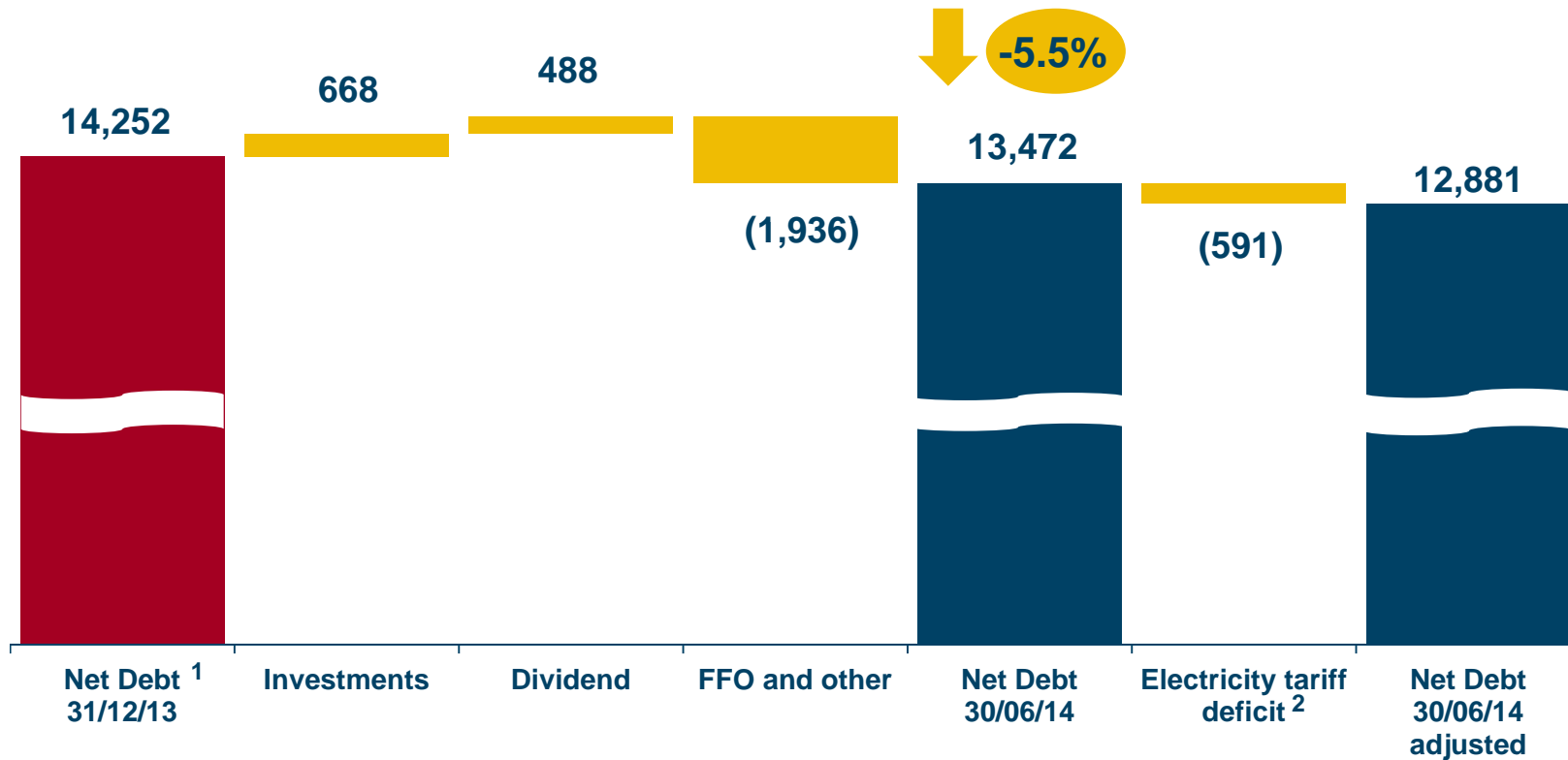
1 Restated under IFRS 11

2 €57 million achieved in 1H14

# Net Debt evolution



(€million)



**Solid cash flow generation in 1H14 allows for steady Net Debt reduction despite investments, dividend payment and tariff deficit**

Notes:

1 Restated for comparative purposes under IFRS 11

2 €436 million electricity tariff deficit for 2013 and €155 million withheld by CNMC against 2014 electricity payments

2

**Financials**

# Consolidated income statement



(€million)	1H14	1H13 <sup>1</sup>	Change %
Net sales	12,154	12,531	(3.0)
Purchases	(8,522)	(8,744)	(2.5)
<b>Gross Margin</b>	<b>3,632</b>	<b>3,787</b>	<b>(4.1)</b>
Personnel, Net	(422)	(436)	(3.2)
Taxes	(233)	(256)	(9.0)
Other expenses, Net	(556)	(598)	(7.0)
<b>EBITDA</b>	<b>2,421</b>	<b>2,497</b>	<b>(3.0)</b>
Depreciation and impairment losses	(796)	(807)	(1.4)
Provisions	(116)	(114)	1.8
Other	253	8	-
<b>Operating Income</b>	<b>1,762</b>	<b>1,584</b>	<b>11.2</b>
Financial results, Net	(398)	(386)	3.1
Equity income	(12)	(35)	-
<b>Income Before Tax</b>	<b>1,352</b>	<b>1,163</b>	<b>16.3</b>
Corporate tax	(331)	(273)	21.2
Minority interest	(89)	(110)	(19.1)
<b>Net Income</b>	<b>932</b>	<b>780</b>	<b>19.5</b>

Note:

1 Restated for comparative purposes under IFRS 11

# EBITDA breakdown



(€million)	1H14	1H13 <sup>1</sup>	Change	
			€m	%
<b>Distribution Europe:</b>	<b>803</b>	<b>819</b>	<b>(16)</b>	<b>(2.0)</b>
Electricity	305	316	(11)	(3.5)
Gas	498	503	(5)	(1.0)
<b>Electricity:</b>	<b>377</b>	<b>429</b>	<b>(52)</b>	<b>(12.1)</b>
Spain Liberalized	346	356	(10)	(2.8)
Spain Cogen and Renewables <sup>2</sup>	26	66	(40)	(60.6)
Other	5	7	(2)	(28.6)
<b>Gas:</b>	<b>622</b>	<b>580</b>	<b>42</b>	<b>7.2</b>
Infrastructures	140	135	5	3.7
Supply	482	445	37	8.3
<b>LatAm:</b>	<b>546</b>	<b>620</b>	<b>(74)</b>	<b>(11.9)</b>
Electricity Distribution	151	165	(14)	(8.5)
Gas Distribution	299	355	(56)	(15.8)
Generation	96	100	(4)	(4.0)
<b>Other</b>	<b>73</b>	<b>49</b>	<b>24</b>	<b>49.0</b>
<b>Total EBITDA</b>	<b>2,421</b>	<b>2,497</b>	<b>(76)</b>	<b>(3.0)</b>

Notes:

1 Restated for comparative purposes under IFRS 11

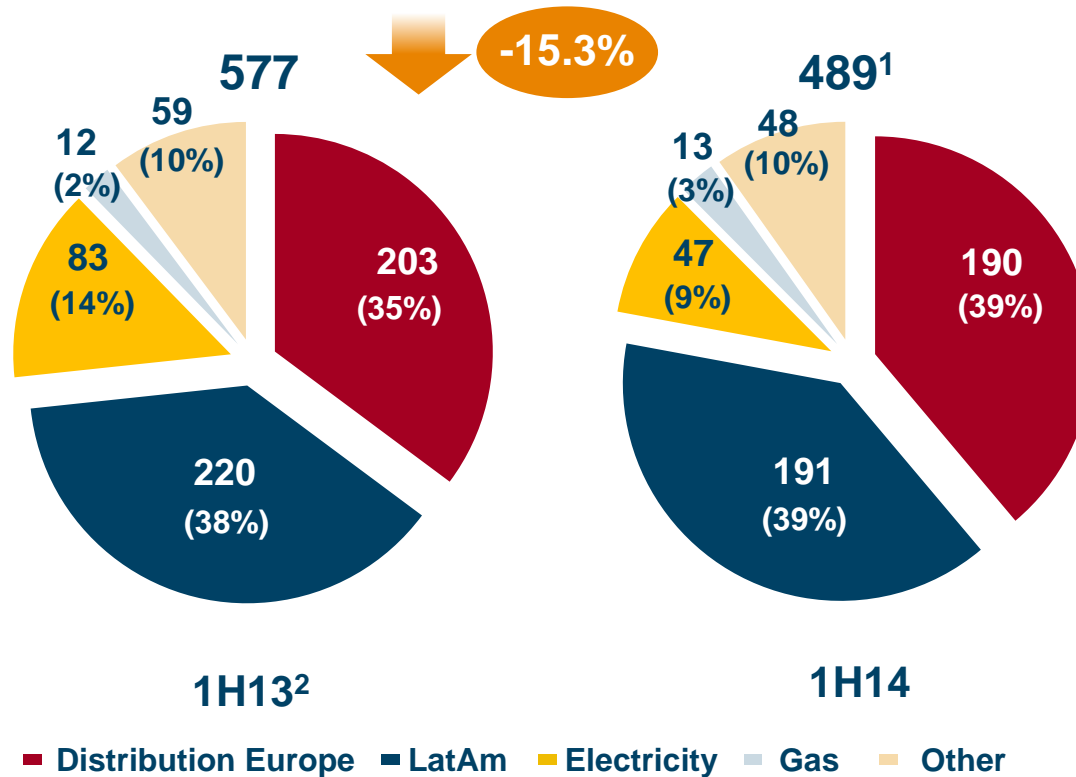
2 Formerly "Special Regime"

# Investments

## Tangible and intangible



(€million)



- In addition, €177 million corresponding to a new LNG tanker (under lease)

**Capex focus on future growth vectors: gas distribution networks in Europe and LatAm activities**

Notes:

1 Tangible and intangible investments; total investments of €666 million after adding €177 million from new tanker under lease

2 Restated under IFRS 11



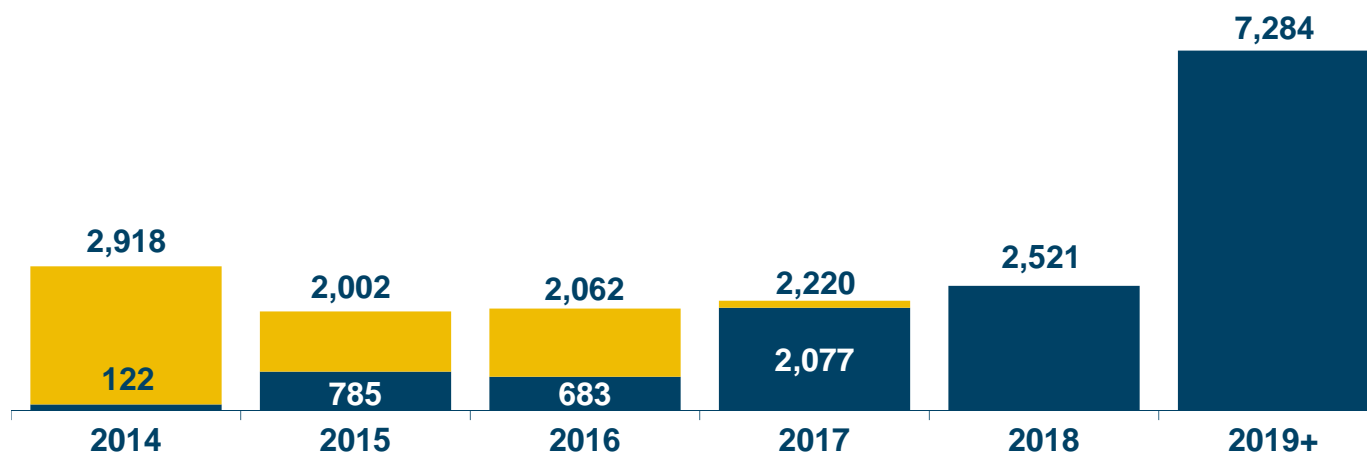
# A comfortable Debt maturity profile

As of June 30, 2014

(€million)



■ Net Debt: €13.5 billion<sup>1</sup>  
■ Gross Debt: €19.0 billion



- Average life of Net Debt >5 years
- 88% of Net Debt maturing from 2017 onwards

**All financial needs from 2014 to 2016 are already covered**

Note:

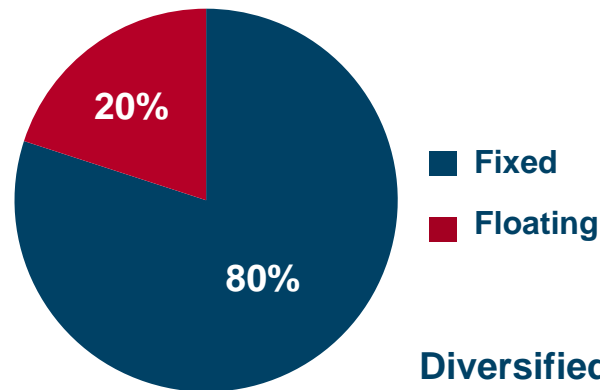
<sup>1</sup> Net debt of €12,881 million excluding tariff deficit for 2013 and withholdings on 2014 payments made by CNMC

# An efficient Net Debt structure

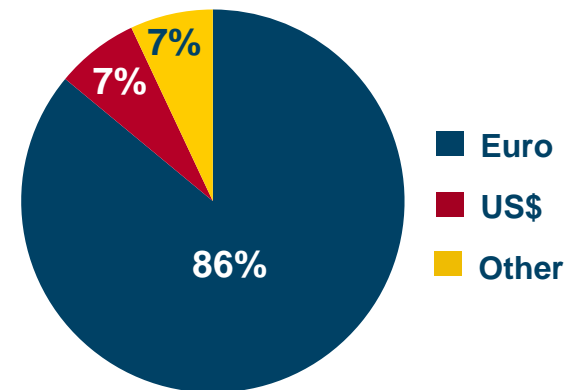
As of June 30, 2014



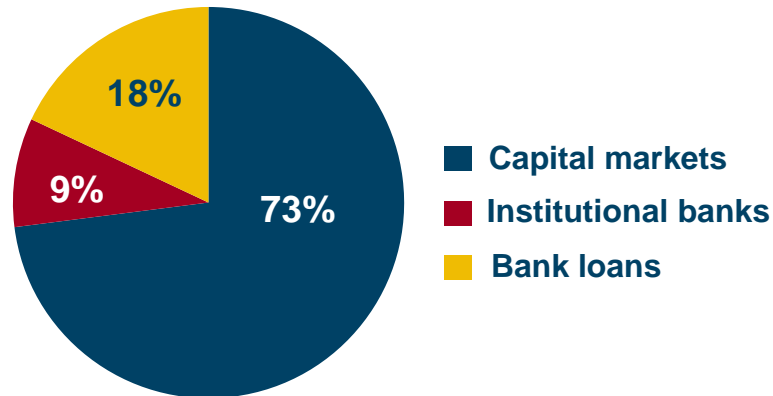
Majority of debt at fixed rate with very competitive cost



Conservative currency exposure policy



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, 2014

(€million)	Limit	Drawn	Undrawn
Committed lines of credit	7,194	275	6,919
Uncommitted lines of credit	190	55	135
Undrawn EIB loan	225	-	225
Cash	-	-	5,528
<b>TOTAL</b>	<b>7,609</b>	<b>330</b>	<b>12,807</b>

- Additional capital market capabilities of ~€2,200 million both in Euro and LatAm (Mexico, Panama and Colombia) programmes

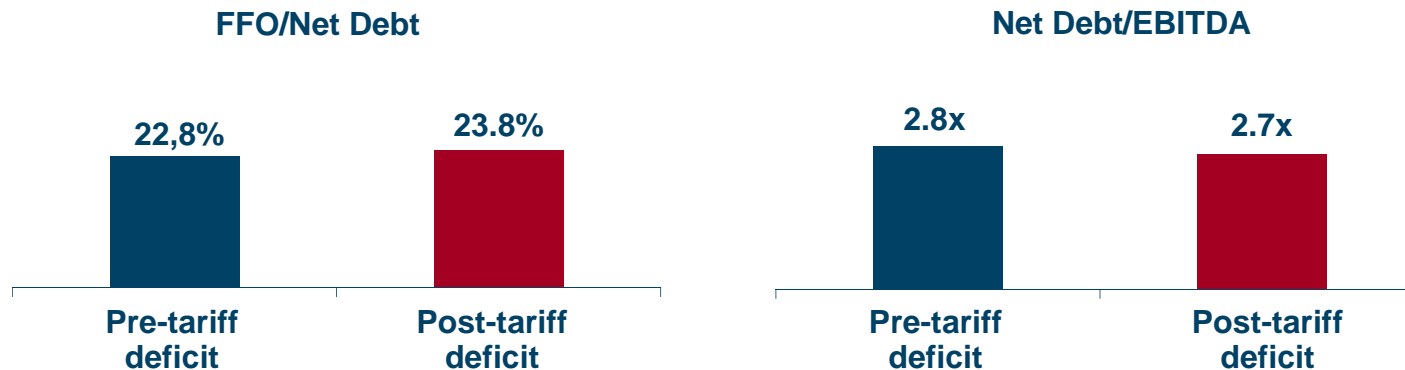
**Enough liquidity available to cover needs for over 24 months**

# A sound capital structure



## Solid cash flow and financial ratios...

(June 30, 2014)



## ... supported by a strong capital structure

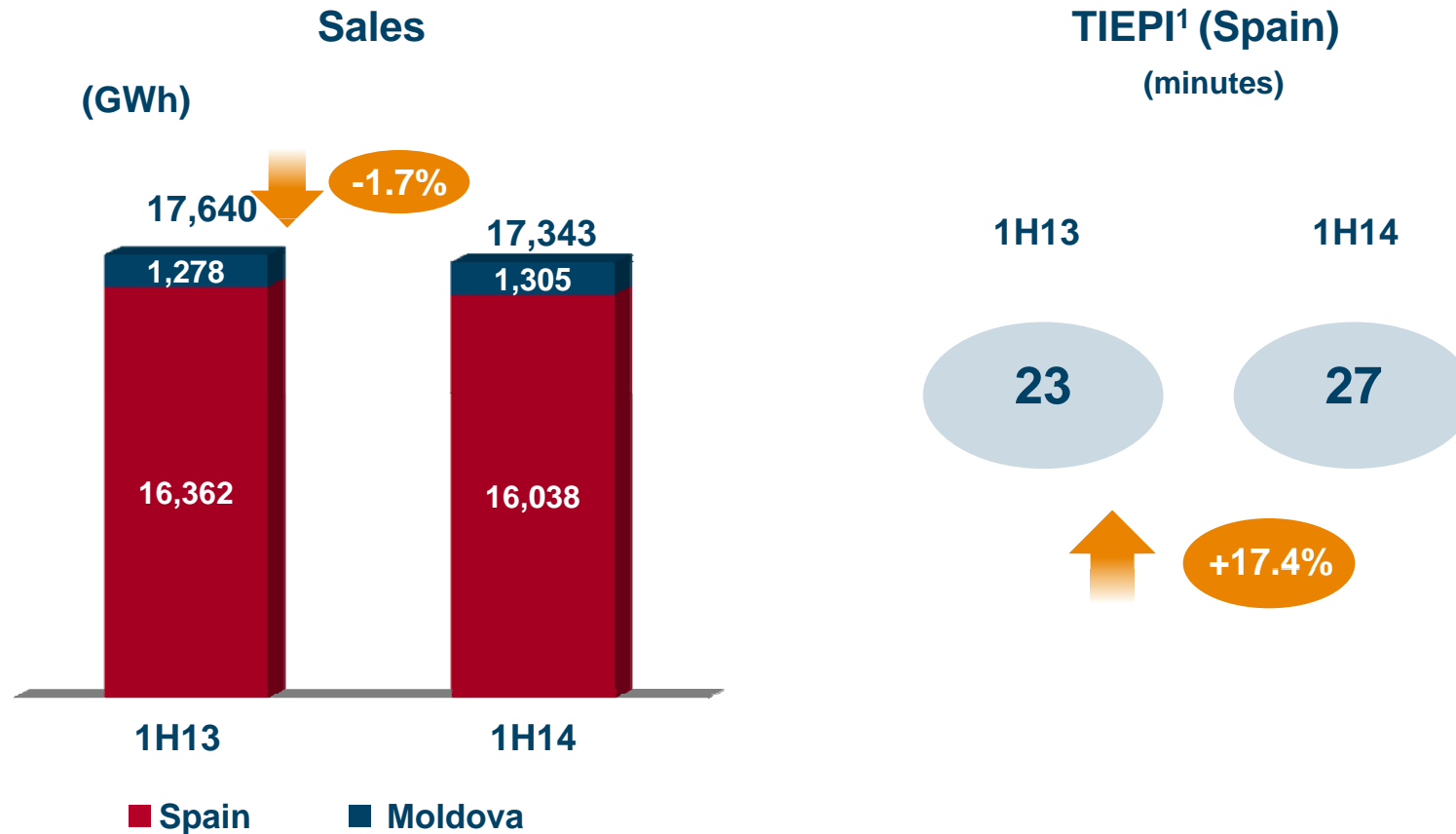
- Diversified debt maturity profile
- 80% at fixed interest plus next years' rates fixed in a low scenario bring a predictable and stable cost of debt
- No FX risk: subsidiaries financed in local/denominated currency



## **Analysis of operations**

# Distribution Europe

## Electricity (I)



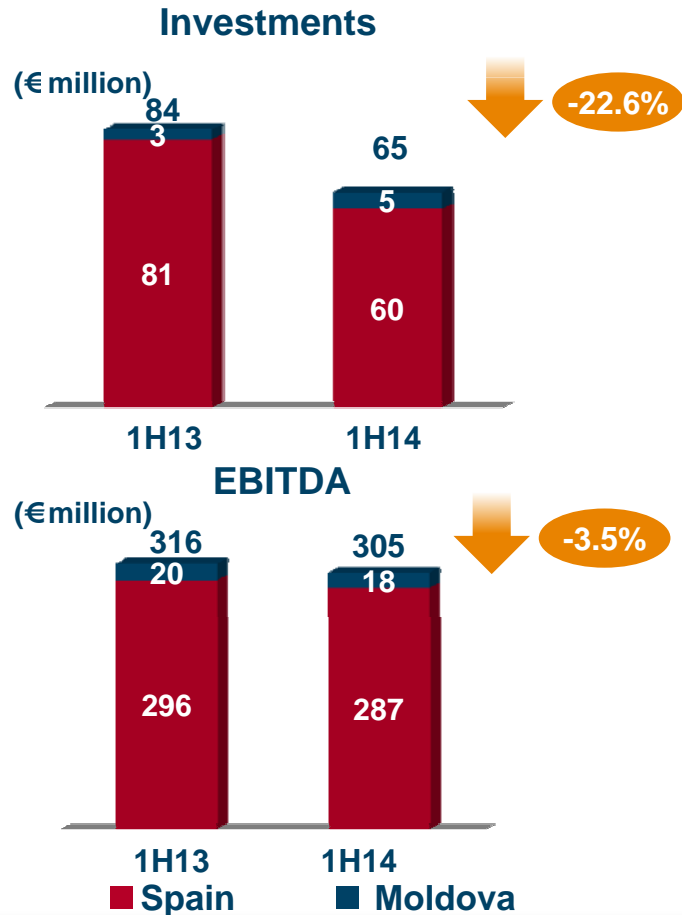
**Lower electricity sales after falling demand in Spain due to mild winter weather and weaker markets**

Note:

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

# Distribution Europe

## Electricity (II)



- Over 4.52 million connection points at end of 1H14
- Service quality in Spain remains within average for last years
- Recent regulatory measures in Spain lead to lower opex and sharp containment in capex
- Efficiency plan with focus on electricity distribution

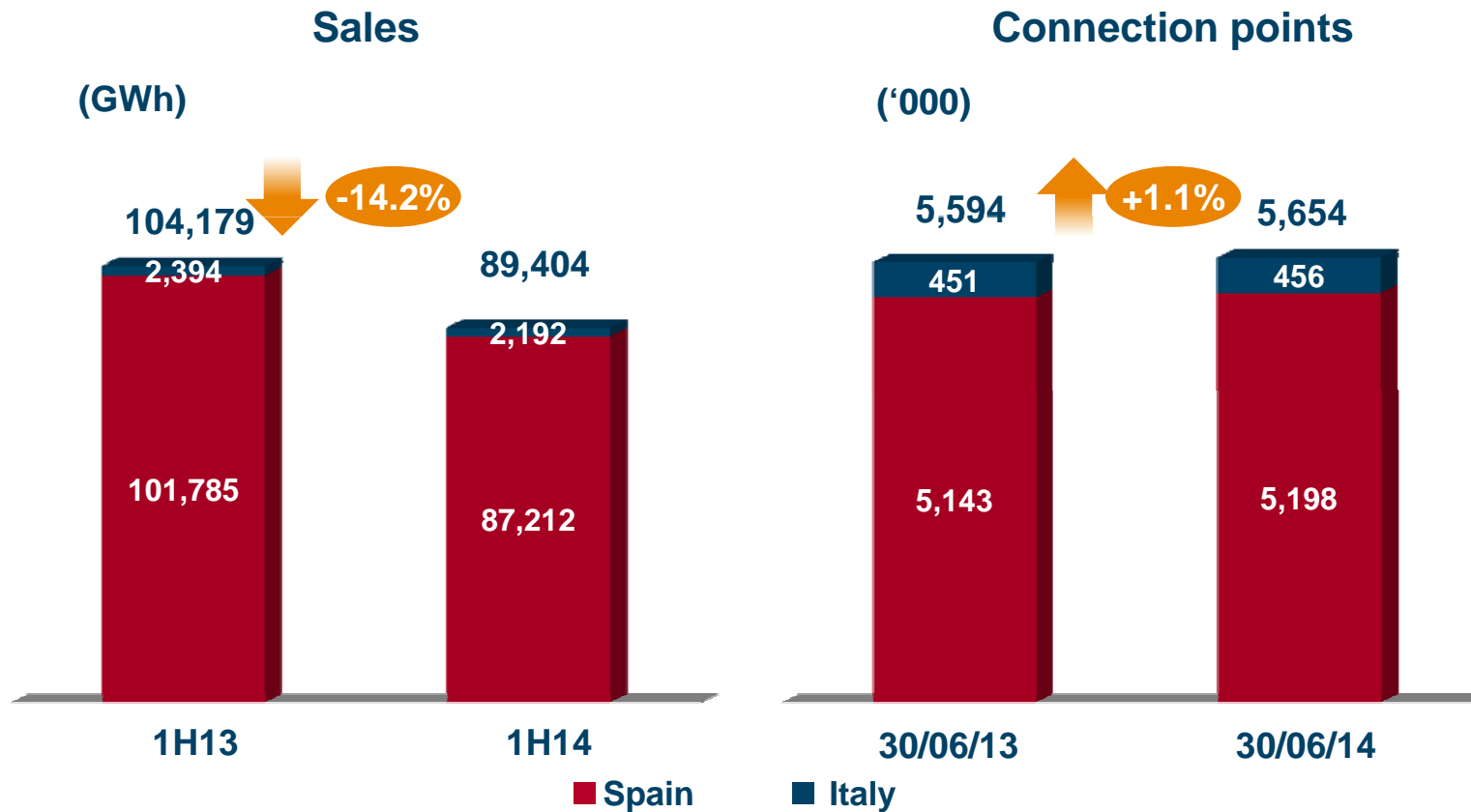
**Results include impact from new regulation in Spain (RDL 9/2013)<sup>1</sup>**

Note:

<sup>1</sup> RDL 9/2013 having been in effect from 14 July 2013 therefore without impact on 1H13

# Distribution Europe

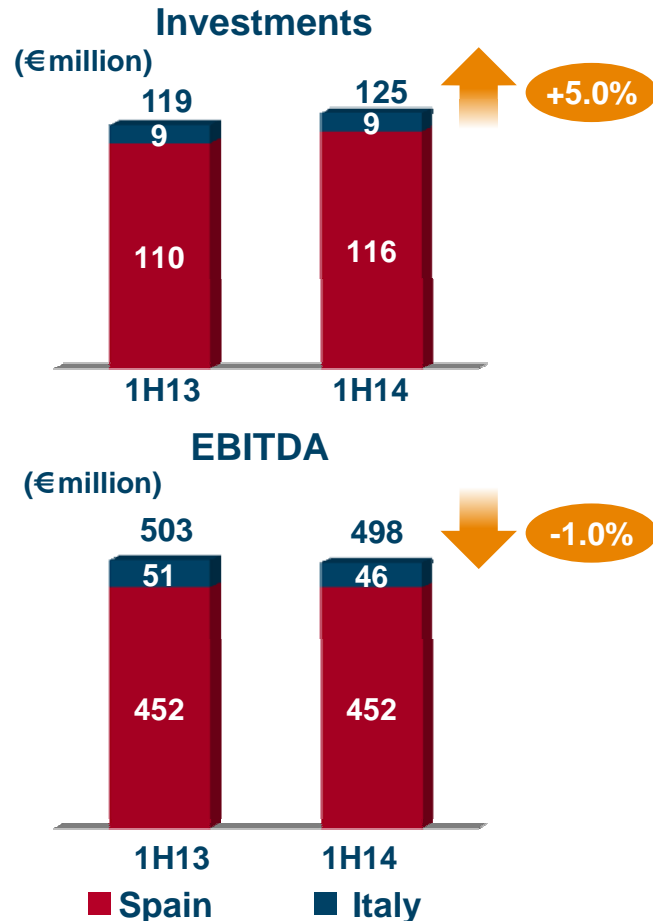
## Gas (I)



**Lower gas demand in Spain and Italy after a mild winter  
Continued expansion of distribution networks**



# Distribution Europe Gas (II)



- Lower gas sales in Spain due to a very mild winter
- Italy includes both regulated distribution and liberalized retail supply
- EBITDA in Italy drops -9.8% after lower sales to retail supply due to mild weather in the first quarter

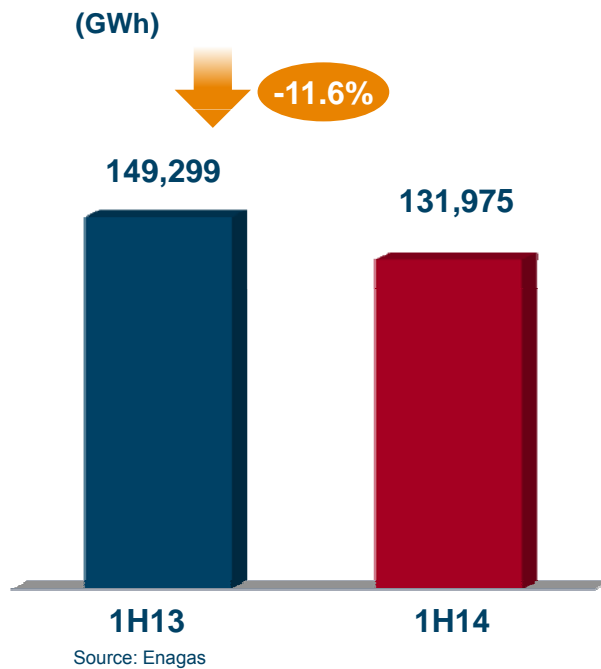
**EBITDA suffering from a temporary weather-driven setback in Italy**

# Energy

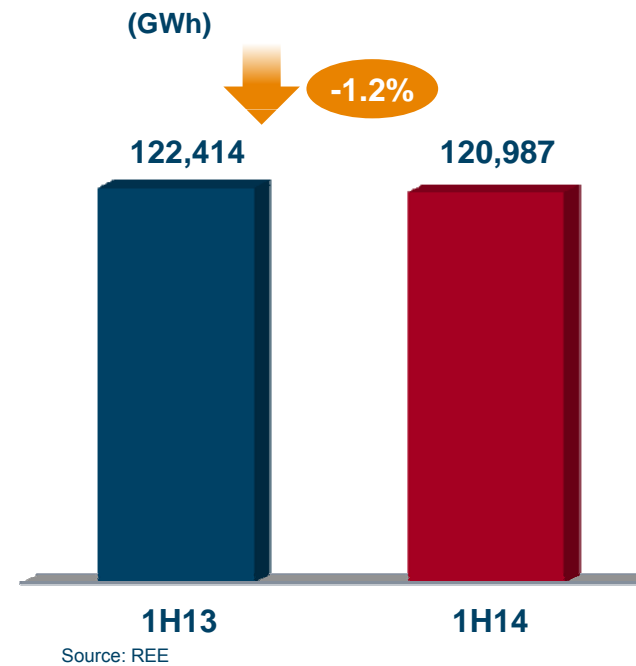
## Gas and electricity demand in Spain



### Conventional gas demand



### Electricity demand



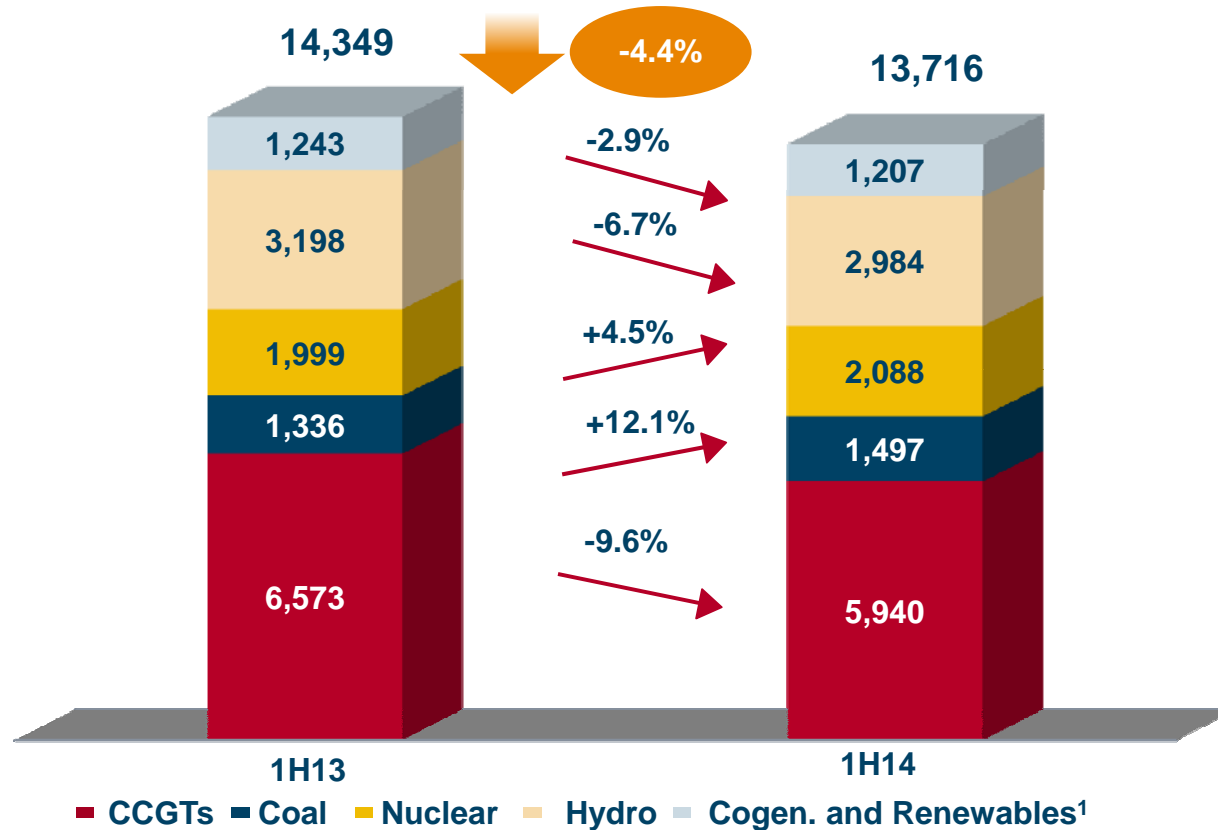
Gas demand depressed by milder winter which together with weaker markets also leads to lower electricity demand

# Energy

## Electricity in Spain



GNF's total production (GWh)



**Thermal gap recovery in 2Q14 but still lower average pool prices vs 1H13**

Note:

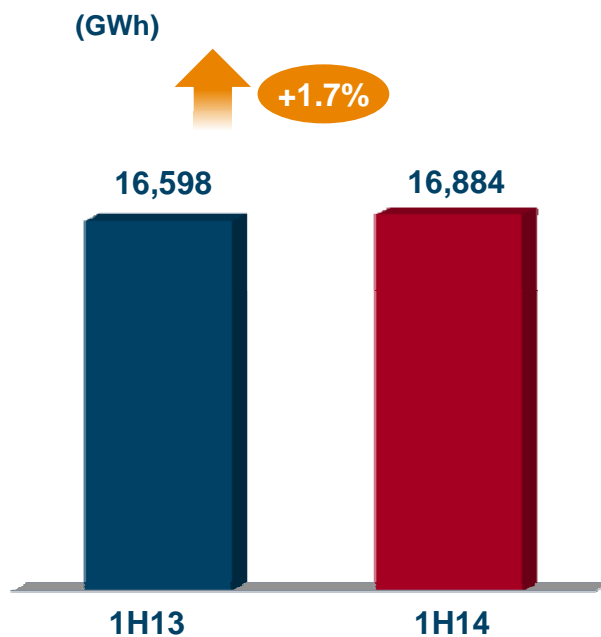
1 Formerly "Special Regime"

# Energy

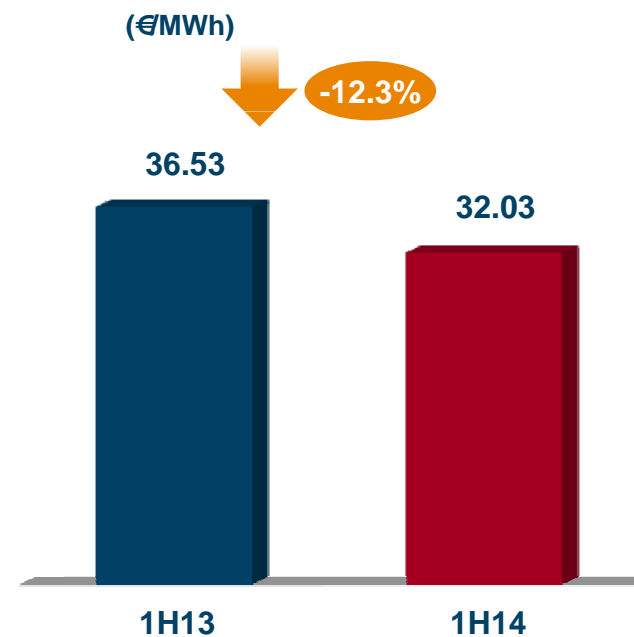
## Electricity Spain



### Electricity sales



### Average pool price

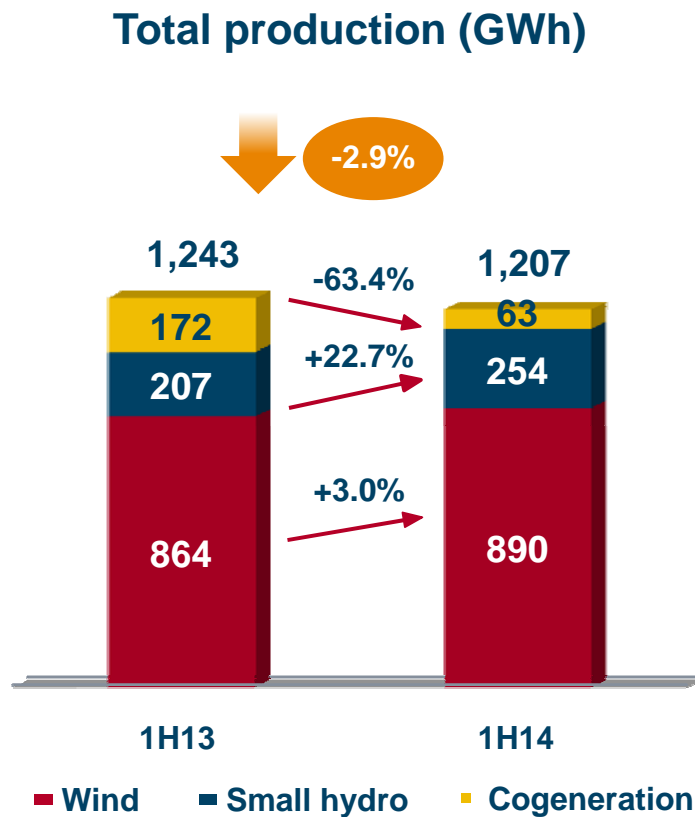


Source: REE

**EBITDA impact from new regulatory measures (RDL 9/2013)<sup>1</sup> compensated with good performance from liberalized supply**

# Energy

## Cogeneration and renewables<sup>1</sup>



- Wind-powered production boosted by higher wind factor in the period
- Commissioning of new small hydro plants leads to a significant growth in output
- Temporary halt of part of cogeneration capacity after new regulation
- Negative impact from low pool price environment in 1H14

Results include the impact from new regulatory measures (RDL 9/2013)<sup>2</sup>

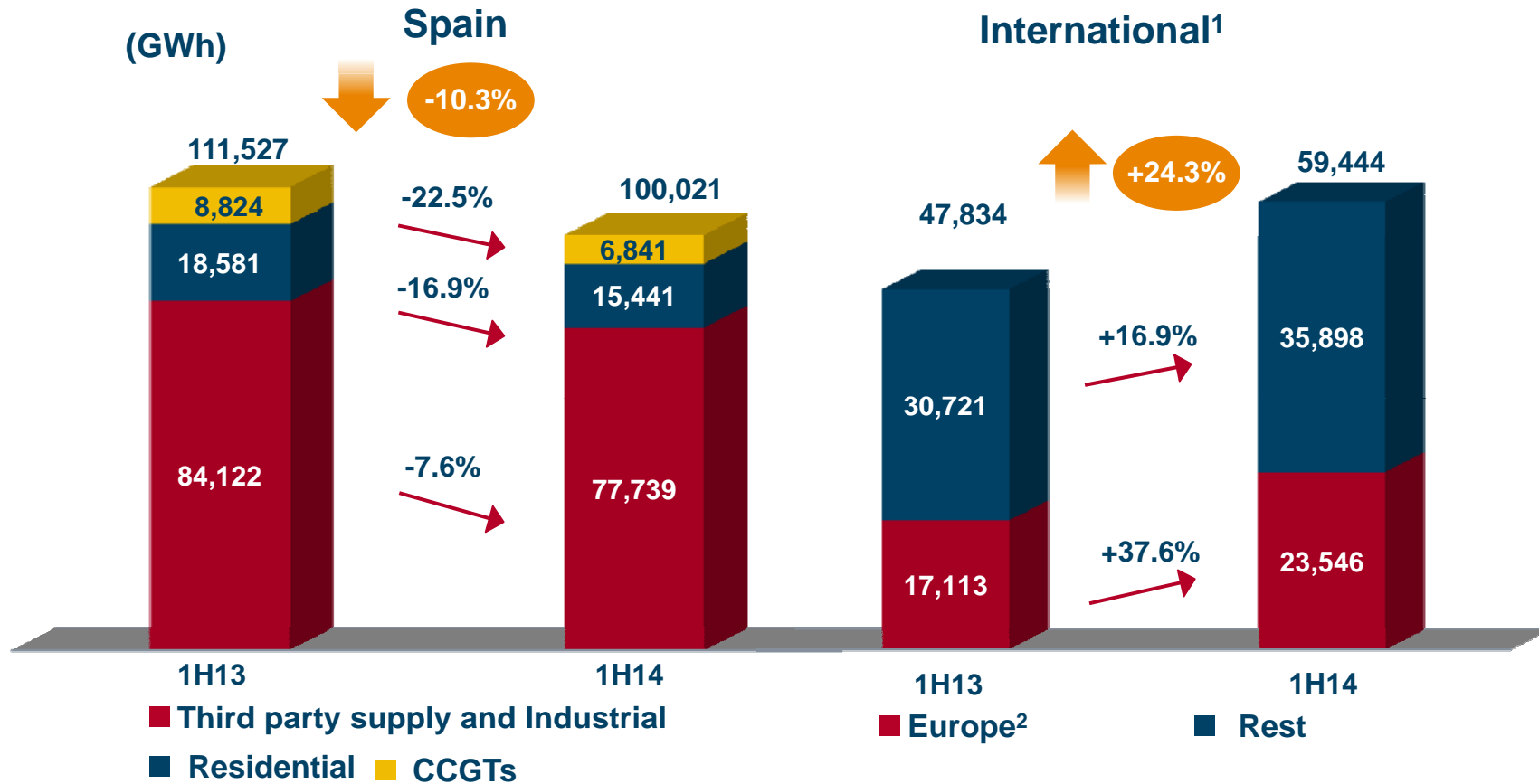
Notes:

1 Formerly "Special Regime"

2 RDL 9/2013 having been in effect from 14 July 2013 therefore without impact on 1H13

# Energy

## Gas supply (I)



**Spanish sales impacted by mild winter and lower sales to CCGTs; maintaining growth in foreign markets**

Notes:

1 Does not include UF Gas

2 Sales to end customers, including retail supply in Italy

# Energy

## Gas supply (II)



- International sales now represent 37% of total in 1H14
  - Consolidating presence in main international LNG markets in Asia and America (new contract in Chile)
  - Sustained sales growth in Europe with an aim to increase presence to new countries
- Expanding in Spanish liberalized market
  - Over 11.3 million active contracts (gas, power and services)
  - Continuing expansion into both residential and small and medium enterprise (SME) markets
  - Average contracts per customer increase 5.6% to 1.50 with a 20.5% growth in maintenance contracts
- New tanker added to LNG fleet will further enhance operating flexibility

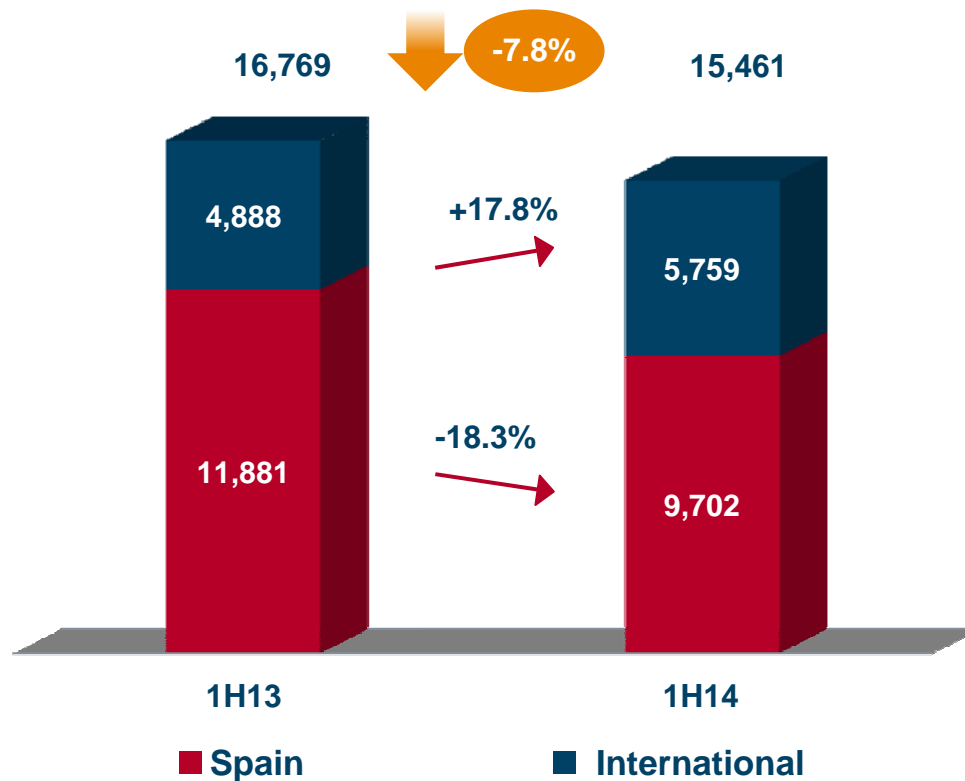
**Benefiting from balanced and well-diversified customer base**

# Energy

## UF Gas



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



- Lower volumes in Spain after a 36.2% drop in industrial sales due to lower demand from both industrial customers and power generation
- Foreign sales maintain a healthy performance
- Absence of gas deliveries from Egypt

**Better net income contribution<sup>1</sup> vs 1H13**

Note:

<sup>1</sup> Attributable amounts for GNF (50% holding)

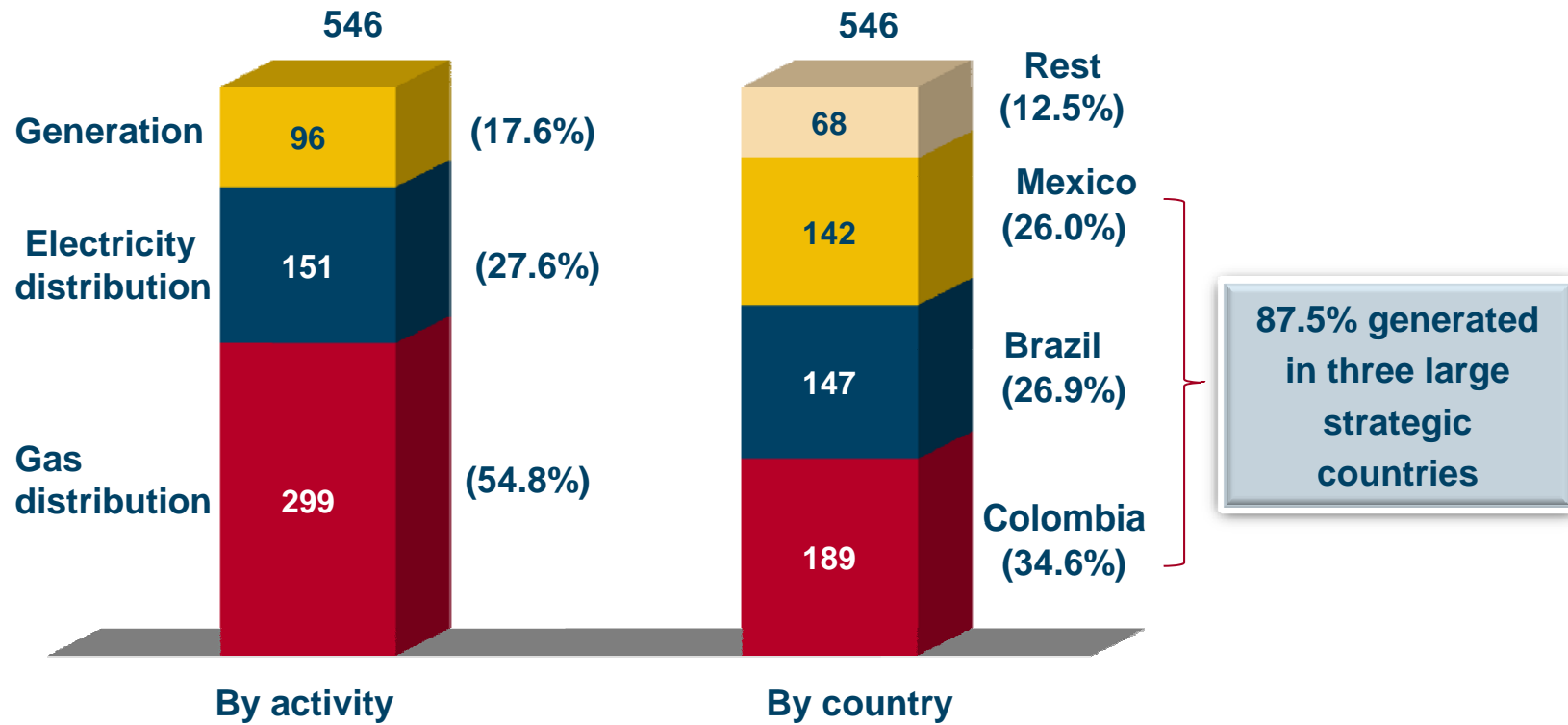


# Latin America

## EBITDA breakdown



(€million)



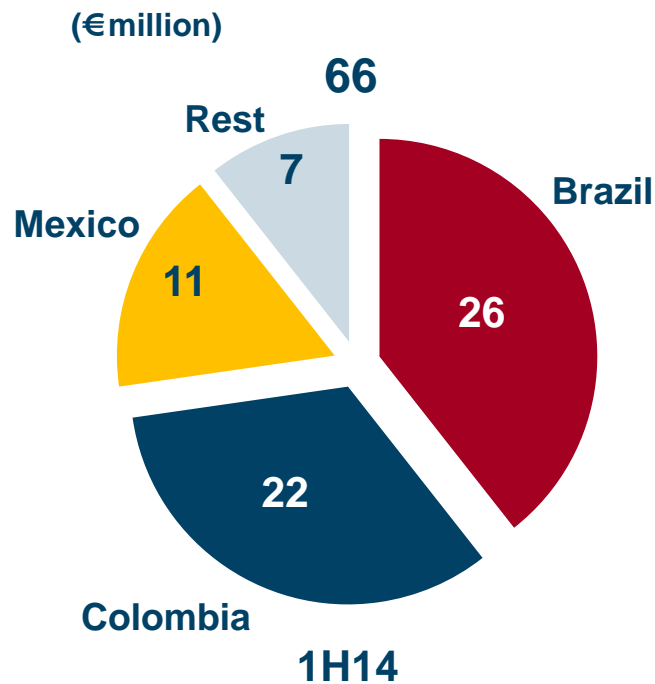
**Benefiting from business and geographical diversification**

# Latin America

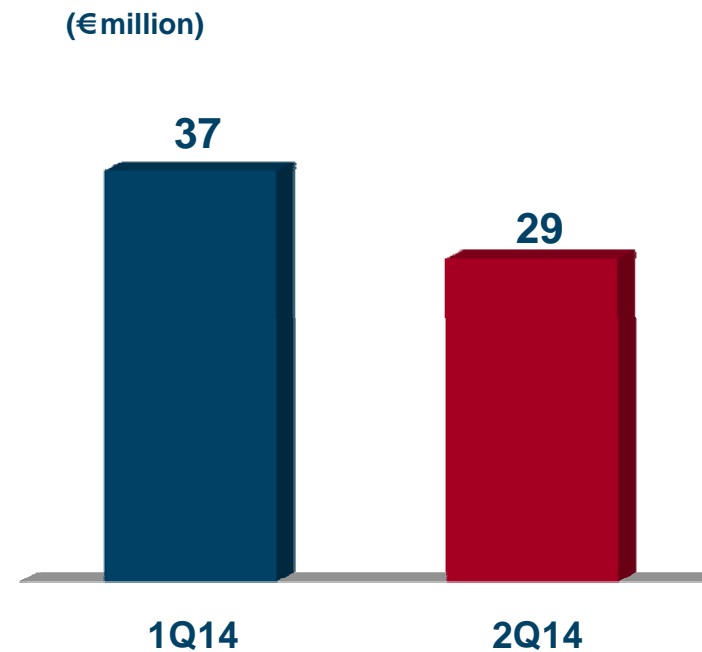
## EBITDA impact of currency exchange differences



By country



By quarter



EBITDA drops -1.3% disregarding impact from disposals and translation of currency exchange differences

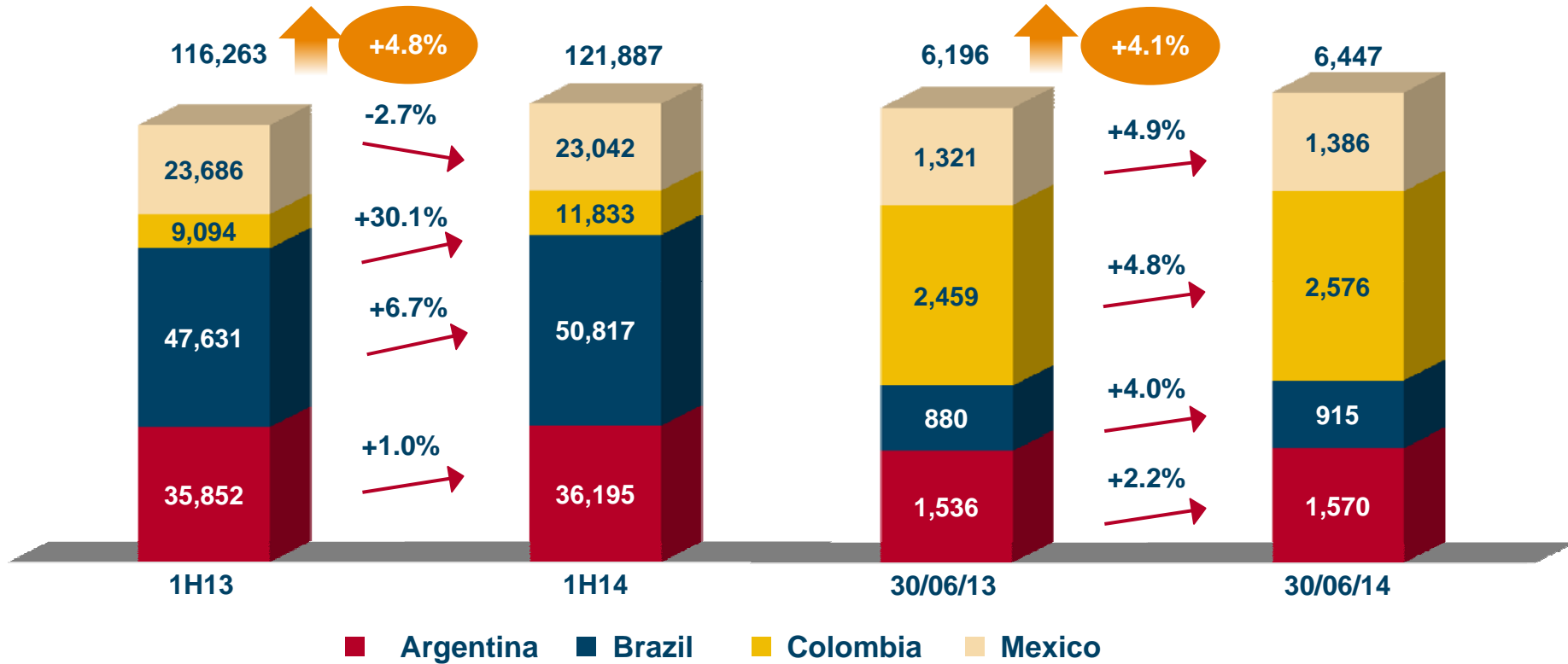
# Latin America

## Gas distribution (I)



Gas sales (GWh)

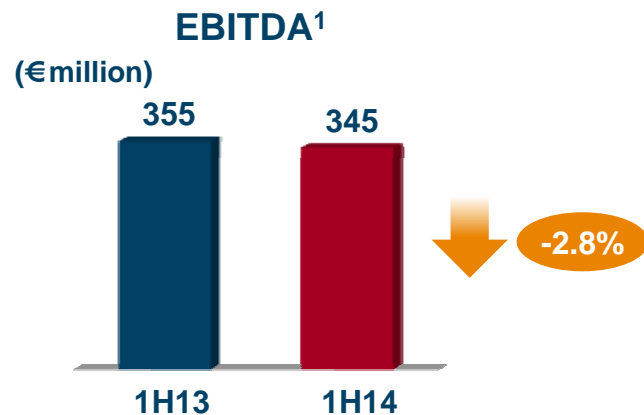
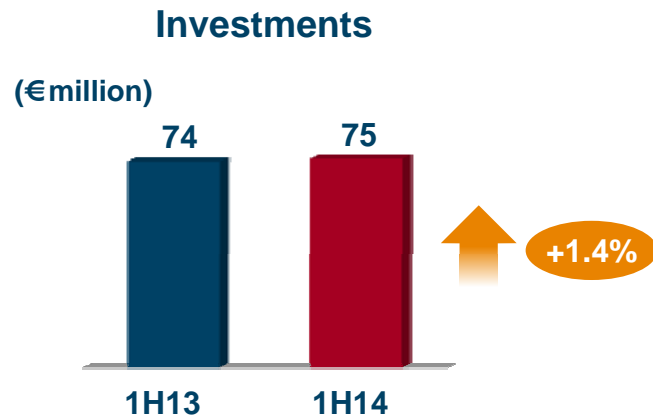
Connection points (000)



Activity growth benefited from higher Colombian industrial sales

# Latin America

## Gas distribution (II)



- Investment in network development leads to 251,000 new connection points vs end 1H13
- Brazil: regulatory review in Rio; strong sales to power generation and expanding in residential and SME markets
- Colombia: benefiting from growth in both industrial and retail customer portfolios
- Mexico: sustained network expansion with an emphasis in the capital
- Peru: activity to be initiated in 2H15

**Region constitutes an important vector for growth**

Note:

1 Disregarding impact from translation of currency exchange differences

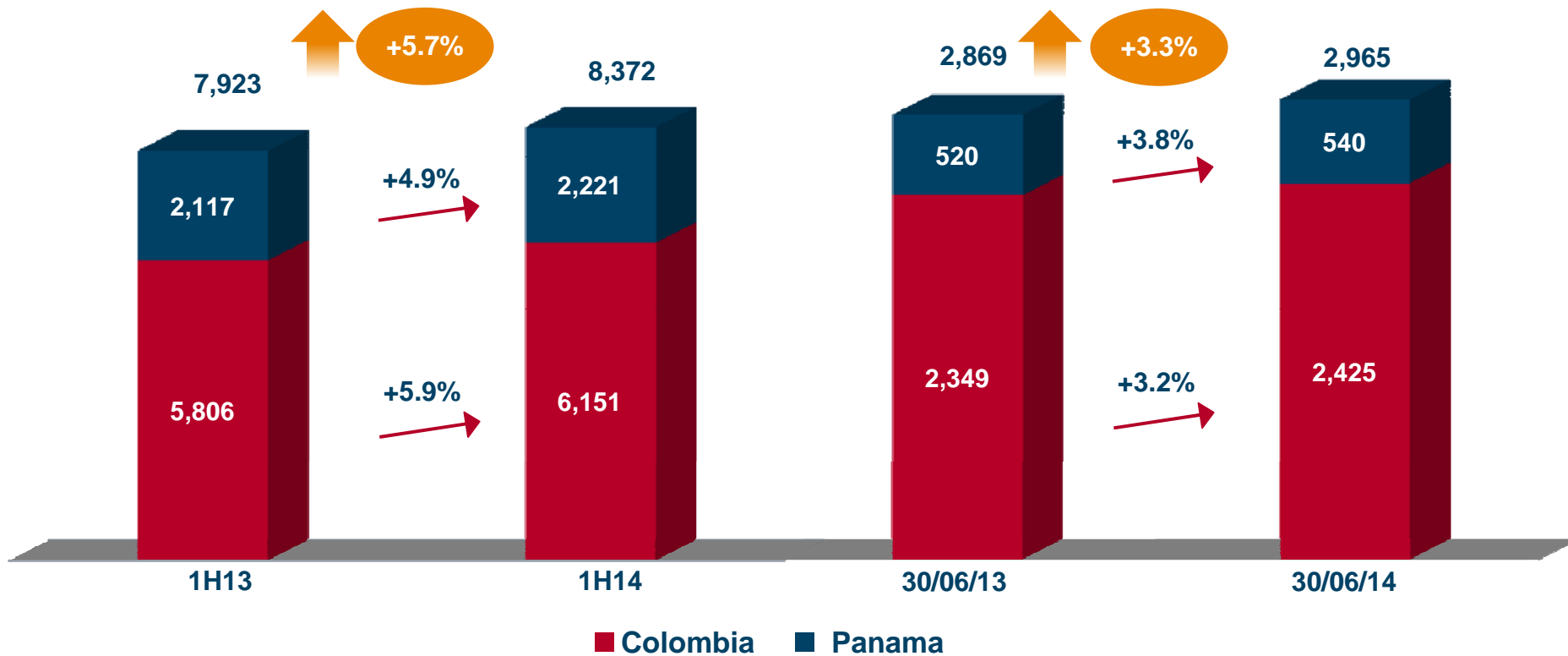
# Latin America

## Electricity distribution (I)



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

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

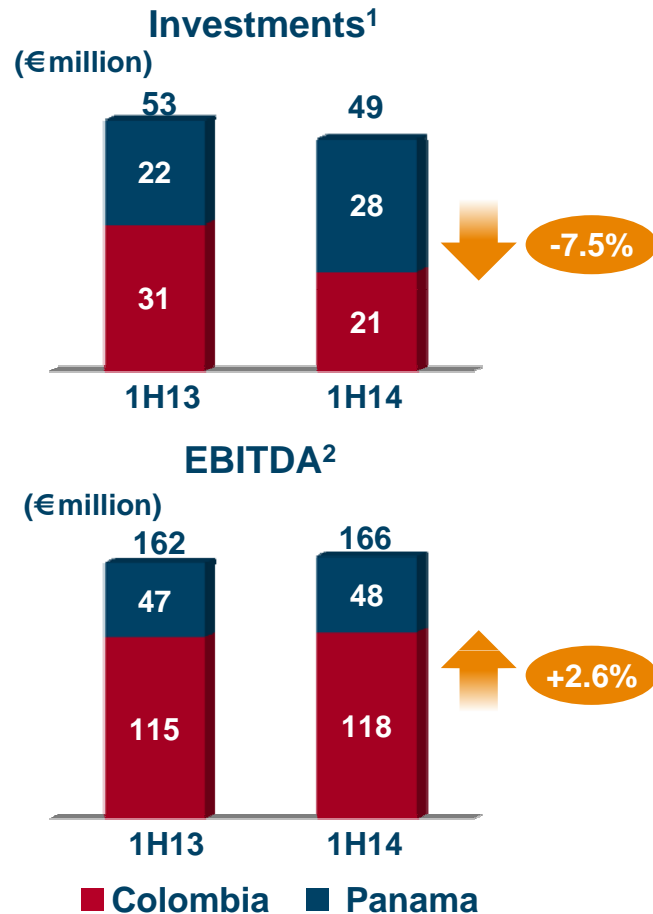


**Current operations offer potential for both network growth and efficiency improvements**

Note:  
 1 Excluding operations in Nicaragua, sold in February 2013

# Latin America

## Electricity distribution (II)



- Performance helped by growth in demand and customer figures
- Reduction of energy losses and bad debt in line with plan

**Strong operating performance with EBITDA +2.6% disregarding disposals and translation of currency exchange differences**

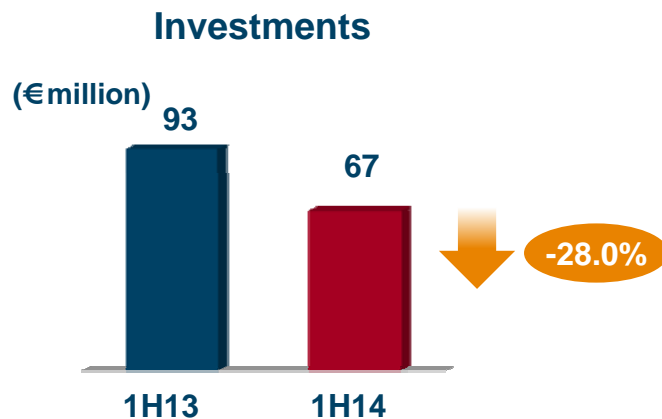
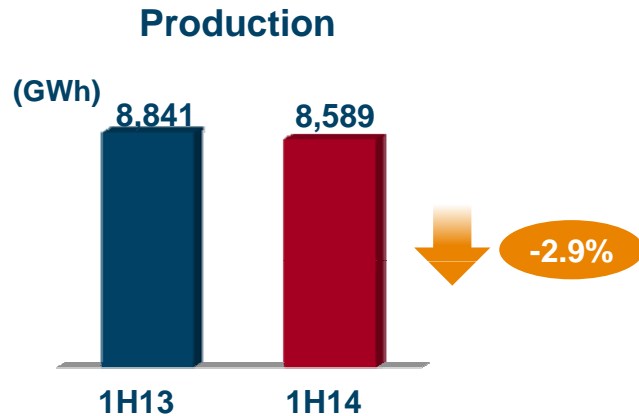
Note:

1 Disregarding disposal of Nicaraguan assets in 2013

2 Disregarding disposal of Nicaraguan assets in 2013 and impact from translation of currency exchange differences

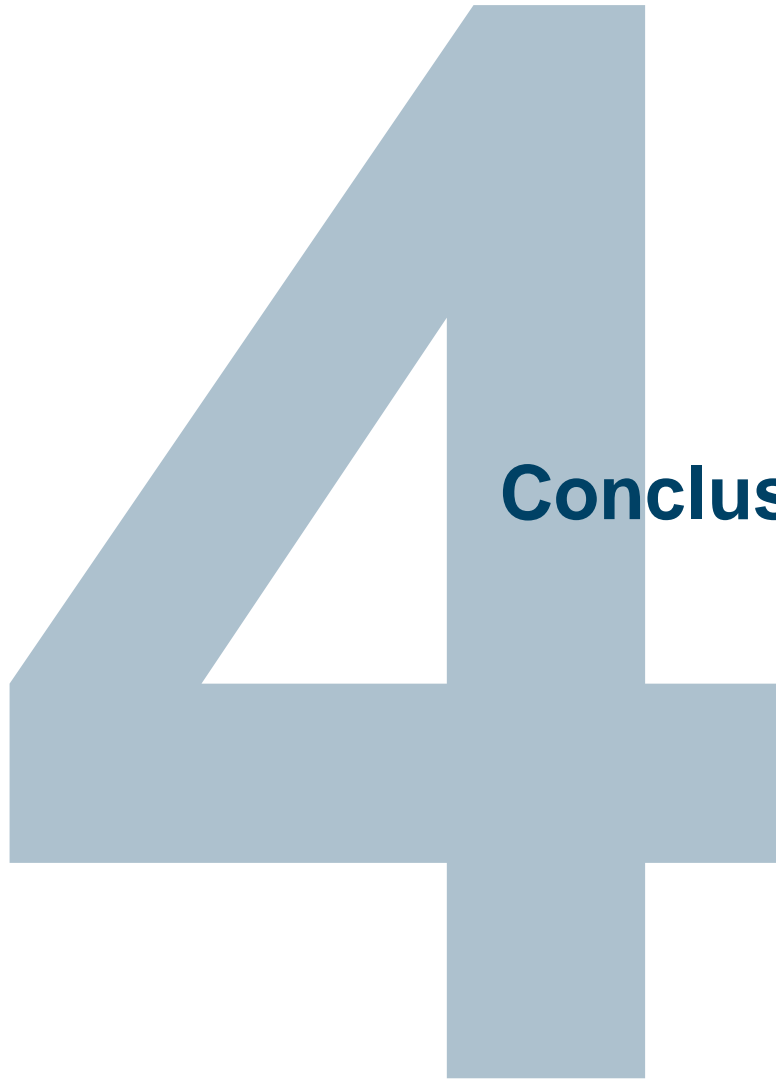
# Latin America

## Generation



- Lower generation activity in Central America and Caribbean
- Lower investments corresponding to higher concentration of capex for Bii Hioxo wind farm (Mexico) in 1H13
- EBITDA grows 2.0% disregarding impact from translation of foreign exchange differences

Maintaining a stable activity profile



## **Conclusions**



# Conclusions



**EBITDA -3.0% after impact from regulation and translation, +5.2% disregarding the above impacts**

**Net income +19.5% after disposal of telecoms assets**

**Enhancing developments in activities that constitute future growth vectors**

**Recent regulatory developments in electricity and gas in Spain help dispel uncertainty**

**Confidence in fulfilling the targets set in the 2013-2015 Strategic Plan**

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# Thank you

INVESTOR RELATIONS

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