



First Half 2016 Results (1H16)

July 27, 2016



Disclaimer



This document is the property of Gas Natural SDG, S.A. (**GAS NATURAL FENOSA**) and has been prepared for information purposes only. As such, it cannot be disclosed, distributed or published for any other reason, in whole or in part, without the express and prior written consent of GAS NATURAL FENOSA.

This document is provided to the recipients exclusively for their information and such recipients are required to carry out their own analysis of the activities, financial condition and prospects of GAS NATURAL FENOSA. The information contained herein must not be used as a substitute for an independent analysis of GAS NATURAL FENOSA, its business and/or its financial condition.

The information contained in this document is not exhaustive and does not set out all the information a potential investor may require or need in order to make an informed decision on whether to purchase or transfer securities or financial instruments related to securities of GAS NATURAL FENOSA. The information contained in this document is subject to changes, corrections and additions without prior notification. GAS NATURAL FENOSA accepts no responsibility for the accuracy of the information contained in, or referred to, in this document, nor does it accept any responsibility for any errors in, or omissions from, this document. GAS NATURAL FENOSA does not undertake any obligation to update any information contained in this document, to correct any inaccuracies it may include, to provide additional information to the recipients of this document or to update this document as a result of events or circumstances that may arise after the date of this document or in order to reflect unforeseen events or changes in valuations or hypotheses on which such information is based.

Certain information and statements contained in this document may be based on GAS NATURAL FENOSA's internal studies, which may be based on assumptions or estimates which may not have been verified by independent third parties. As a result, the accuracy of such assumptions or estimates cannot be guaranteed. Additionally, part of the information contained herein may not have been audited or reviewed by GAS NATURAL FENOSA's auditors. Therefore, the recipients of this document should not place undue reliance on the information contained in this document.

This document may contain forward-looking statements. All statements included that are not historical facts, including, among others, those related to the financial condition, business strategy, management plans and plans for future operations of GAS NATURAL FENOSA are forward-looking statements. Forward-looking statements are based on various assumptions regarding present and future business plans of GAS NATURAL FENOSA and future market conditions. Furthermore, these forward-looking statements are subject to both foreseeable and unforeseeable risks, uncertainty and other factors that could substantially alter the actual results, achievements, performance or industrial results expressed or suggested in such forward-looking statements. The realisation of forward-looking statements is not guaranteed, as they are based, in some instances, on subjective judgments which may or may not realise. As a result, and for various other reasons, the actual future results may differ significantly from those expressed in forward-looking statements included in this document.

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER OR INVITATION TO PURCHASE OR SUBSCRIBE FOR SECURITIES OF ANY TYPE. FURTHERMORE, THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER OR INVITATION TO PURCHASE, SELL OR EXCHANGE SECURITIES IN SPAIN OR IN ANY OTHER JURISDICTION.

Neither this document nor any copy of this document may be sent, sent into or disclosed in the United States of America, Canada or Japan. The distribution of this document in other jurisdictions may also be restricted by law. Persons into whose possession this document comes must inform themselves about, and comply with, the relevant restrictions.

By accessing this document, the recipient accepts and agrees with the restrictions and limitations set forth above.

Agenda

1. Highlights
2. 1H16 results
3. Conclusions

Appendices

Highlights

1

Main figures



Chge vs 1H15

✓ Net income	€645 million	-14.1%
	Adjusted Net Income ¹	-6.5%
✓ EBITDA	€2,457 million	-6.2%
	Adjusted EBITDA ¹	-0.4%
✓ Net investments	€622 million	-8.9%
✓ Net debt	€15,832 million	-5.4%

Note:

1 Adjusted for translation effect and non-recurring items in 1H15

Subsequent events



- **Sale of 20% of GNL Quintero to Enagás Chile for US\$ 200 million**
 - freeing financial resources while at the same time maintaining rights of use of facility
 - ~€32 million net capital gain to be booked during 2H16
-
- **Sale of UF Gas's 42.5% in the regasification plant at Sagunto to Enagás for €106 million**
 - ~€21 million net capital gain to be booked during 2H16
-
- **Restructuring of natural gas business in Chile as scheduled**
 - split between natural gas and LPG companies implemented
 - cross takeover bids launched with settlement expected for early August

✓ **Continued effort towards asset portfolio optimization**

Outlook for 2016



- No optimisation of gas procurement portfolio in 1H16, unlike 1H15 due to both a lower gas demand in Spain and the convergence of commodity prices

- 1H15 positively impacted by non-recurring items (regulatory and other)

- Negative currency translation impact expected to be lower in 2H16

- Gas prices under pressure in 1H16 still impacted by crude and LNG pricing dynamics

- Capital gains from asset sales to be reflected in 2H16

- Expectations of a Net income in the €1.3-1.4 billion range for FY2016

✓ In line with the Strategic Vision 2016-2020

2016 interim dividend



- **Fulfillment of new dividend policy announced on 18/03/16 for the period 2016-2018 and included in the Strategic Vision 2016-2020**
 - payout of 70%
 - minimum dividend of €1/share
 - payment of interim dividend advanced to the month of September of the ongoing year
-
- **Interim dividend for 2016 approved by Board of €0.33/share payable on 27 September 2016**
 - fully paid in cash
-
- **Dividend of at least €1,001 million against 2016 results**

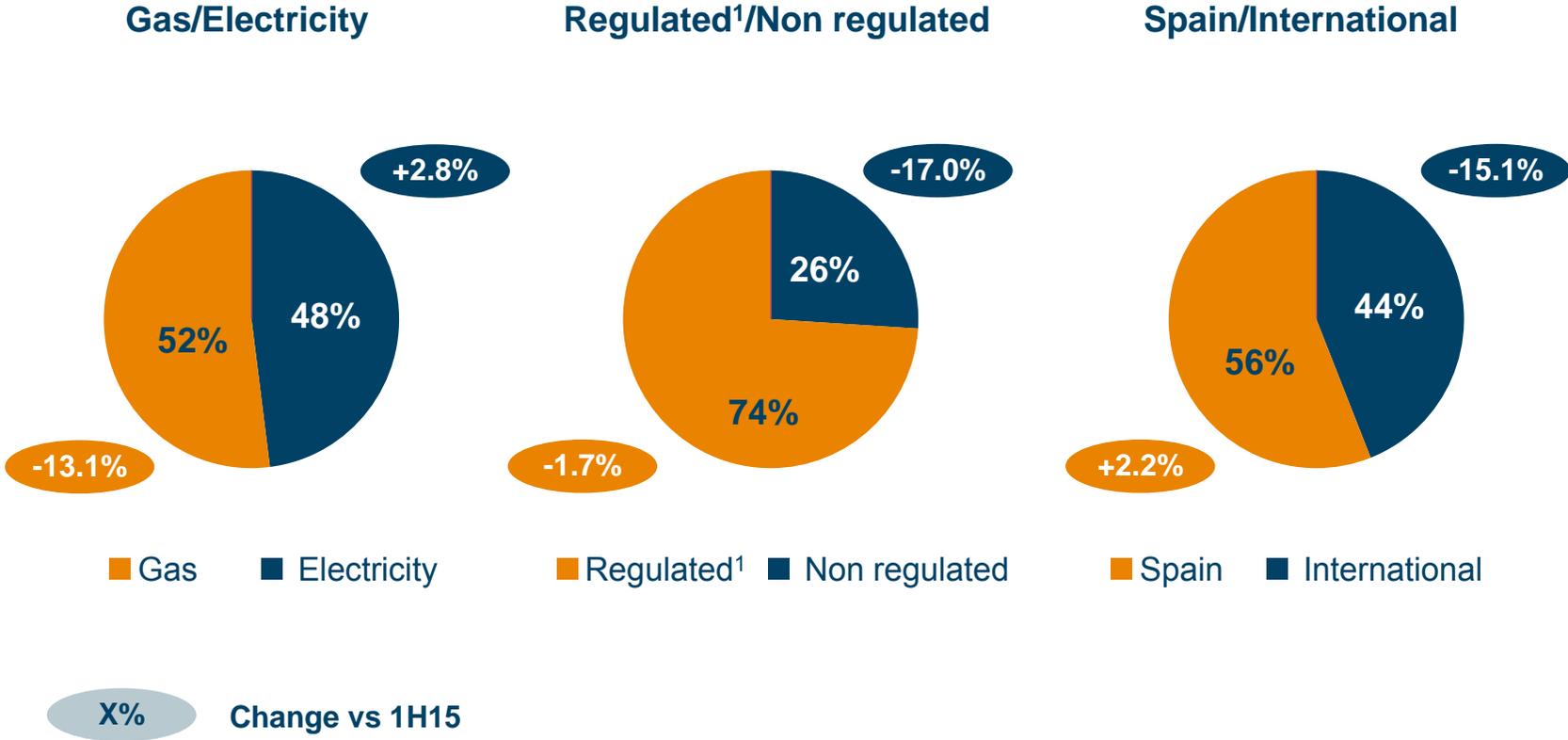
✓ **Fulfilling the commitment of an attractive and sustainable shareholder remuneration**

1H16 results

2

1H16 results

EBITDA breakdown

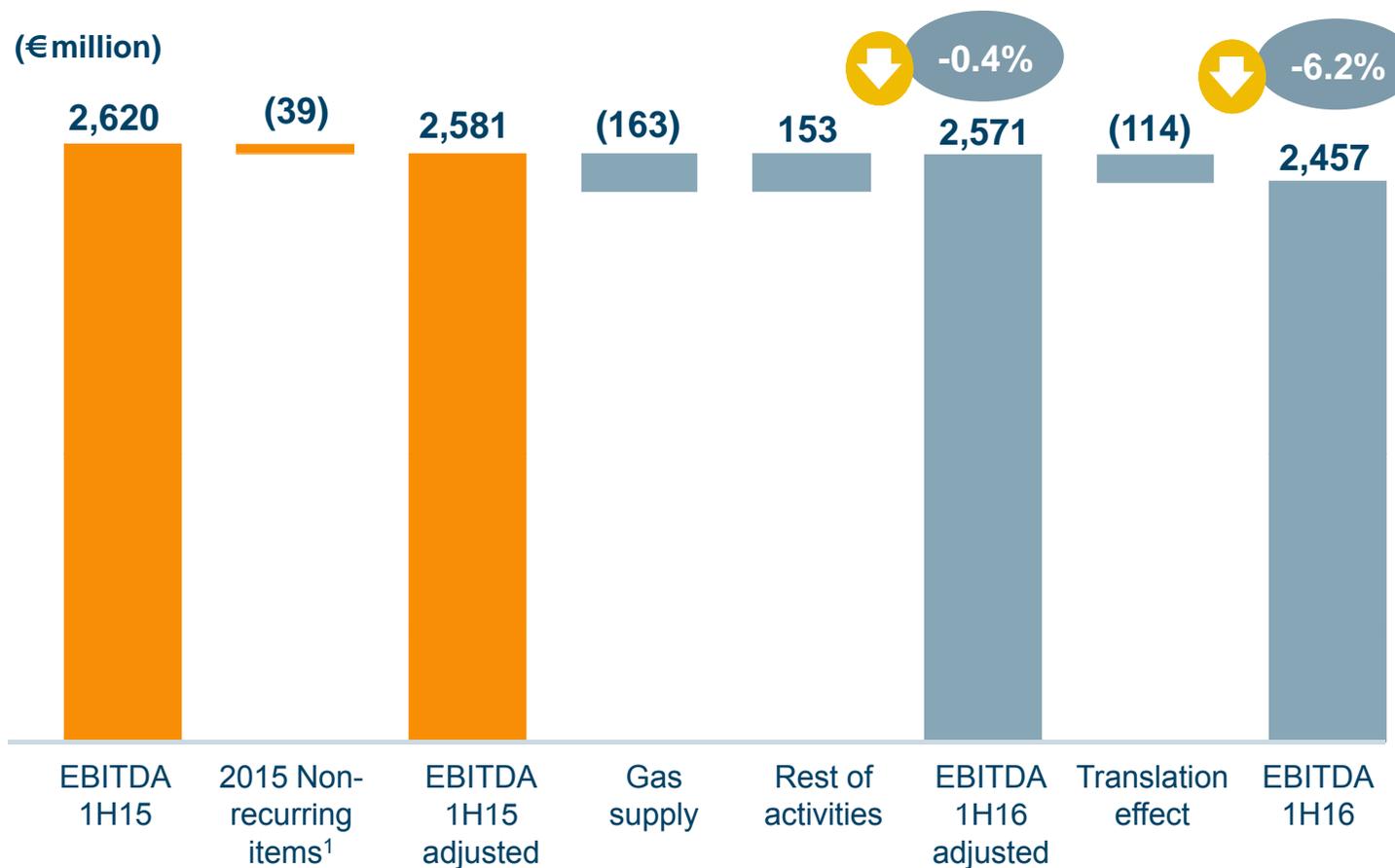


✓ Domestic EBITDA grows while international EBITDA -15.1%

Note:
 1 Includes contracted activities (EMPL, GPG, renewables)

1H16 results

EBITDA analysis



✓ EBITDA in 1H16 decreases mainly due to unfavourable currency and commodity price scenarios

Note:

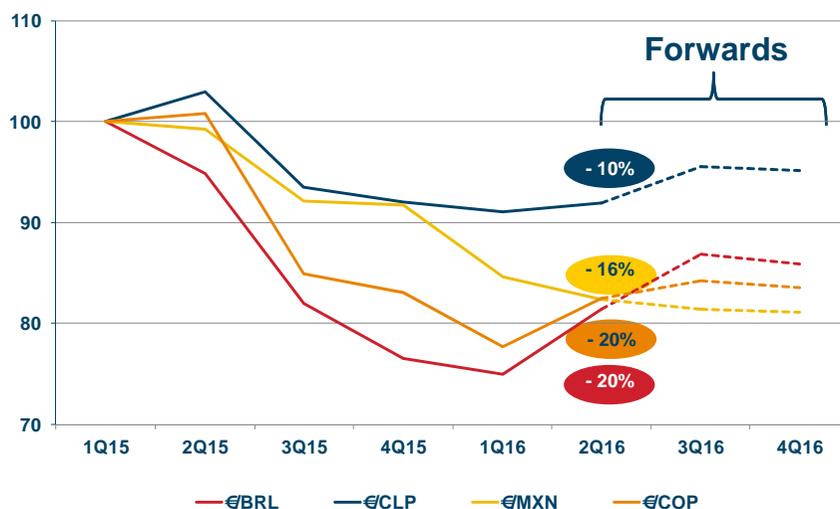
1 2015 positive non-recurring items arising from favorable settlements and other regularizations

1H16 results

Currencies – Translation effect impact on EBITDA



LatAm currencies (base 100, nominal)
-1H16 vs 1H15-



By currency

(€ million)

BRL	(26)
COP	(41)
MXN	(15)
US\$	-
Other ¹	(32)
TOTAL 1H16	(114)

✓ As expected, performance of BRL and COP impacted by inflationary tensions

✓ The contribution from LatAm should return to normal levels during 2H16

Note:

1 CLP, AR\$, MDL

1H16 results

EBITDA - Gas



17% of GNF EBITDA

- 54% Spain / 46% International
- 65% supply / 35% infrastructures

(€ million)

Activity	1H 2016	1H 2015	2015 Non-recurring items ¹	Currency translation	Activity	Activity growth
Infrastructures	146	143	-	-	3	2.1%
Supply	277	455	(15)	-	(163)	-35.8%
TOTAL	423	598	(15)	-	(160)	-26.8%

- **Infrastructures: mainly fees from Maghreb-Europe pipeline**
- **Gas supply accounts for 11% of total EBITDA in 1H16**

✓ **Gas business impacted by changes in commodity price environment**

Note:

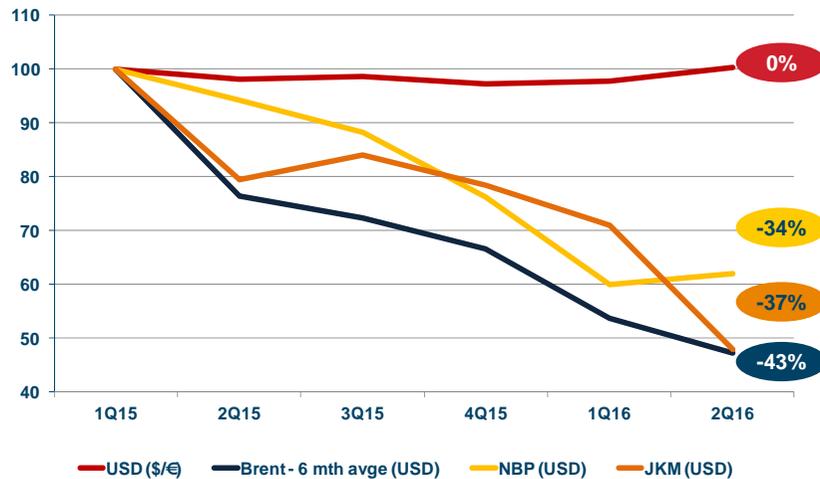
1 2015 non-recurring items arising from settlements of regulatory issues and other concepts

1H16 results

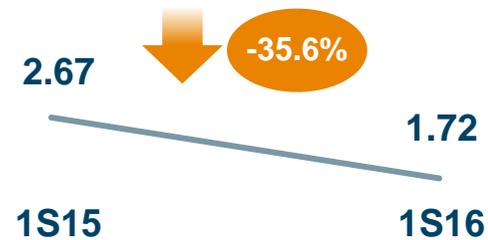
Gas Supply - 1H16 vs 1H15 (I)



**Brent, NBP, JKM and USD/€(base 100)
-1H16 vs 1H15-**



**EBITDA/MWh¹
(€)**



- Flat USD/€ conditioned by uncertainties on US monetary policy
- Negative lag effect of 6-month Brent

✓ 6-month Brent price dynamics in record lows for the decade plus a severe correction of LNG prices

✓ The flexibility inherent to GNF's business model would allow to stabilize margins even in the current adverse environment

Note:

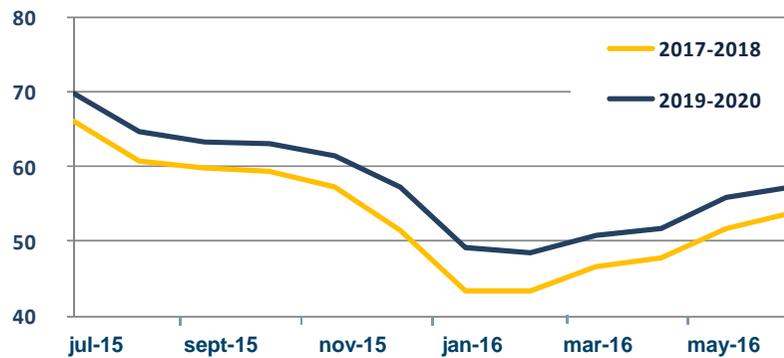
1 1H15 EBITDA adjusted by non-recurring items

1H16 results

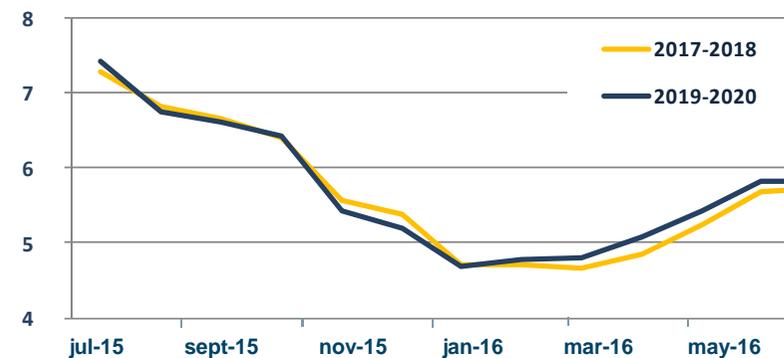
Gas Supply - 1H16 vs 1H15 (II)



Brent forward prices (\$/Bbl)



NBP forward prices (\$/MMBtu)



✓ Beginning to notice signs of a progressive recovery in the long term price signals, at levels that are above the minimum price levels recorded in 1Q16

✓ The capture of value in the LNG market in the medium term will be conditioned by the flexibility in the management of volumes and logistics

1H16 results

EBITDA - Electricity



20% of GNF EBITDA

- 75% Spain / 25% International

(€million)

Country	1H 2016	1H 2015	2015 Non-recurring Items ¹	Currency translation	Activity	Activity growth
Spain	376	357	(24)	-	43	12.0%
GPG	124	133	-	(2)	(7)	-5.3%
TOTAL	500	490	(24)	(2)	36	7.4%

- GPG: mainly PPA contracts

✓ Lower availability in Mexico due to programmed maintenance outages

Note:

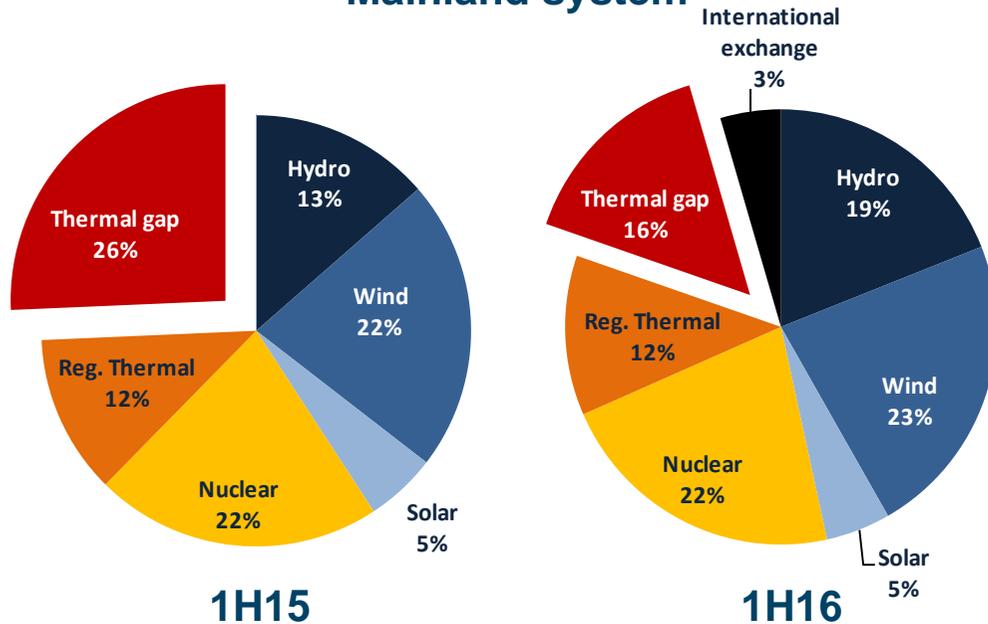
1 2015 non-recurring items arising from favorable settlements and other regularizations

1H16 results

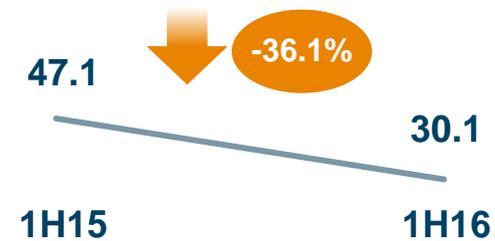
Electricity in Spain - 1H16 vs 1H15



Evolution of thermal gap Mainland system



Evolution of Pool prices (€/MWh)



- Thermal gap stressed by stagnation of domestic demand and the preponderance of hydro and wind
- The change in the generation mix leads OMEL pool prices to fall 36% vs the previous year

✓ Integrated EBITDA in Spain maintains a growing trend despite narrowing dynamics of the thermal gap

✓ The efficiency in the management of the integrated chain allows for the management of a tough low price environment

1H16 results

EBITDA - Networks

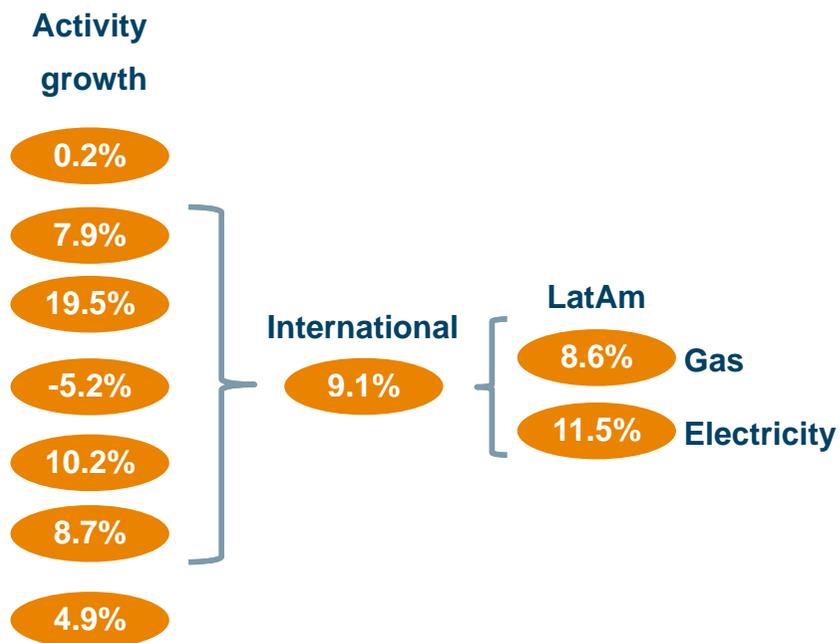


61% of GNF EBITDA

- 48% Spain / 52% International
- 55% gas / 45% electricity

(€million)

Country	1H 2016	1H 2015	Currency translation	Activity
Spain	727	725	-	2
Chile ¹	238	242	(23)	19
Colombia	210	210	(41)	41
Brazil	103	136	(26)	(7)
Mexico	84	88	(13)	9
Rest ²	136	127	(2)	11
TOTAL	1,498	1,528	(105)	75



✓ **International activities provide largest growth component**

Notes:

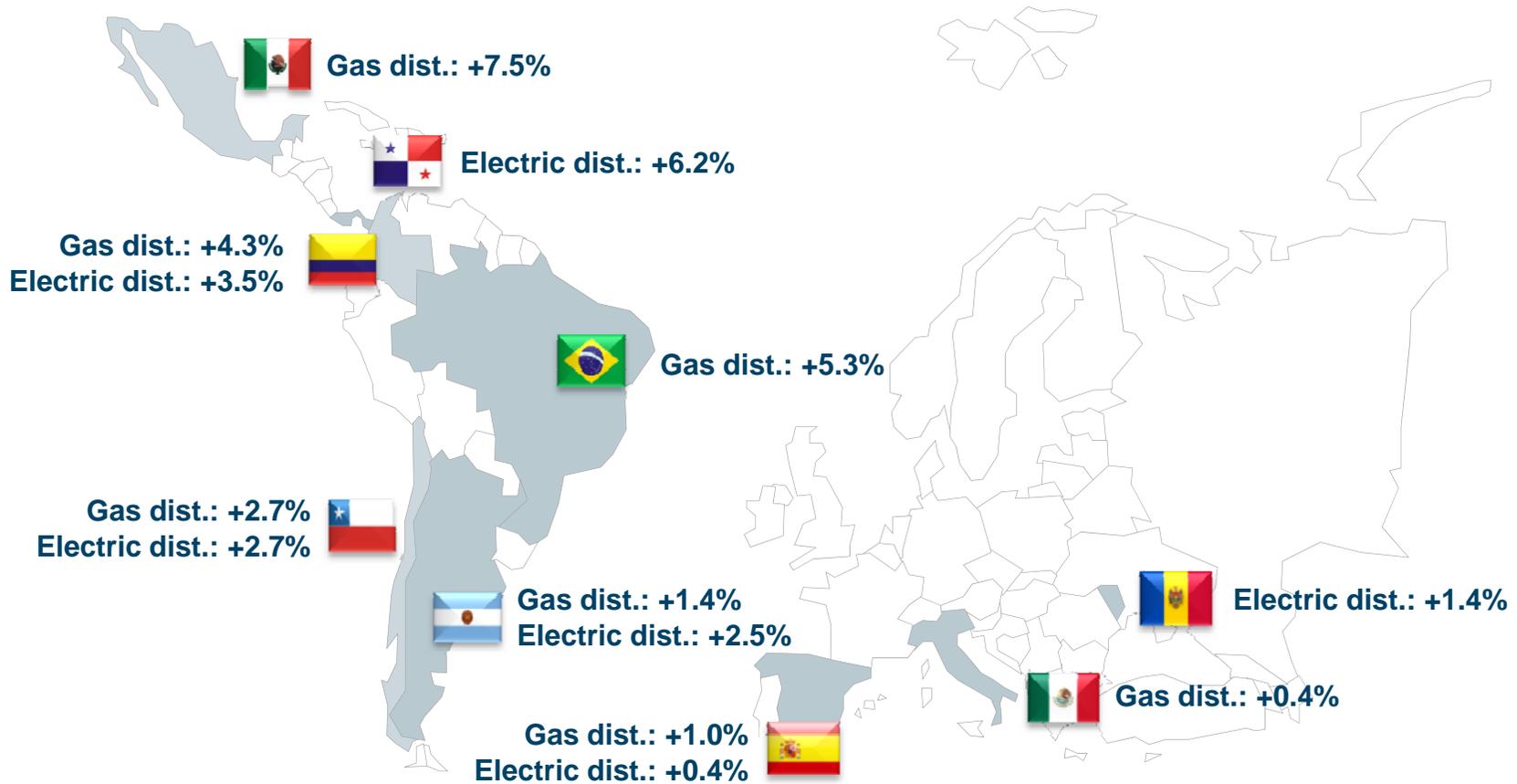
- 1 Includes data for CGE's subsidiaries in Argentina (not meaningful)
- 2 Moldova & Panama electricity distribution, gas distribution Argentina, Peru & Italy

1H16 results

Networks - Wide international presence



Increase in connection points vs 30/06/15

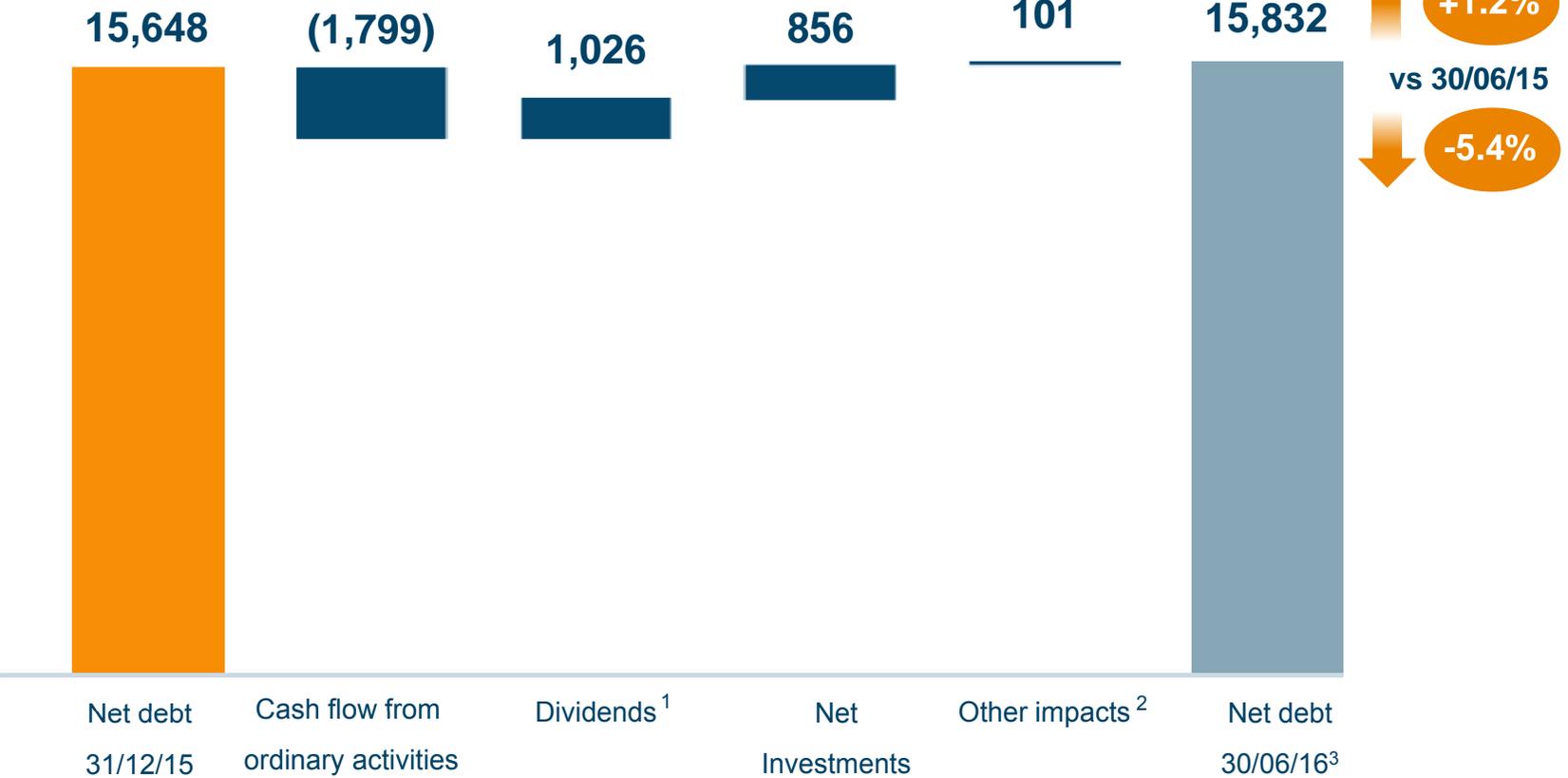


✓ Platform for growth in countries with stable and predictable regulations providing attractive rates of return for investments which have grown 4.1% over 1H15

1H16 results

Cash flow

(€million)



✓ **Net debt at similar levels as on 31/12/15 despite full payment in 1H16 of 2015 dividend**

Notes:

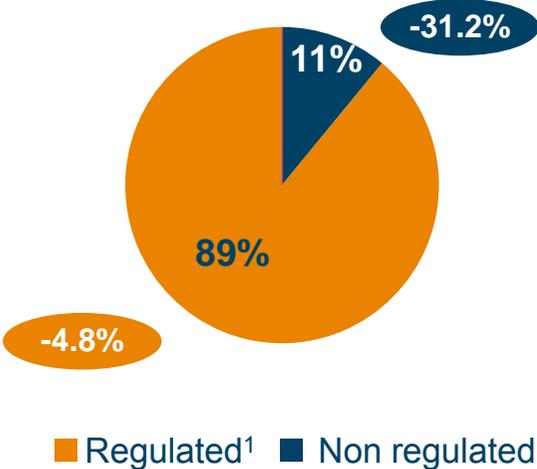
- 1 Basically dividend paid by Gas Natural SDG
- 2 Includes currency translation effect, change in consolidation perimeter and other

1H16 results

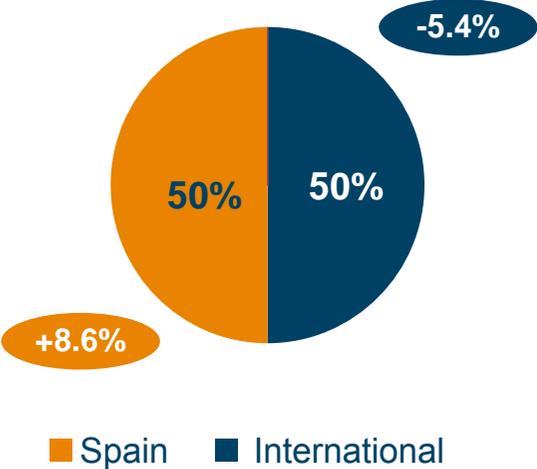
Net investments



Regulated¹/Non regulated



Spain/International



X% Change vs 1H15

✓ **Investments² in European regulated activities +12.2%**

Notes:
 1 Includes contracted activities (EMPL, GPG, renewables)
 2 Tangible and intangible

1H16 results

Financial discipline - A solid profile



✓ **Strong cash flow generation allows continued deleveraging**

✓ **Debt reduction: -5.4% vs 1H15 despite advancing final dividend payment to 2Q16**

✓ **Strong liquidity position (€ 11 billion)**

✓ **New 10-year bond at 1.25% coupon extending average life of debt**

✓ **GNF bonds eligible under ECB purchase programme¹**

✓ **Short-term financing at negative yields**

Note:

1 5 bonds purchased by ECB with maturities between 2018 and 2026

Conclusions

3

Conclusions



✓ EBITDA -6.2% and Net income -14.1% reflecting a challenging scenario for commodities and currencies

✓ Regulated activities continue to show strong performance in a context of regulatory stability

✓ LatAm remains a growth platform despite currency depreciations (activity growth of 8.6% and 11.5% in LatAm gas and electricity networks)

✓ Interim 2016 dividend of €0.33/share in cash payable in September

✓ In line with what is set out in the Strategic vision 2016-2020 for FY16

Appendices





1. Financials

Consolidated income statement



(€million)	1H16	1H15	Change %
Net sales	11,409	13,416	(15.0)
Purchases	(7,556)	(9,368)	(19.3)
Gross Margin	3,853	4,048	(4.8)
Personnel, Net	(506)	(505)	0.2
Taxes	(236)	(238)	(0.8)
Other expenses, Net	(654)	(685)	(4.5)
EBITDA	2,457	2,620	(6.2)
Depreciation and impairment losses	(868)	(872)	(0.5)
Provisions	(142)	(126)	12.7
Other	-	-	-
Operating Income	1,447	1,622	(10.8)
Financial results, Net	(415)	(450)	(7.8)
Equity income	(11)	7	(257.1)
Income Before Tax	1,021	1,179	(13.4)
Corporate tax	(240)	(288)	(16.7)
Discontinued operations results	30	13	130.8
Non-controlling interests	(166)	(153)	8.5
Net Income	645	751	(14.1)

EBITDA breakdown



(€million)	1H16	1H15	Change	
			€m	%
Networks:	1,498	1,528	(30)	(2.0)
Gas Distribution Europe	453	469	(16)	(3.4)
Gas Distribution LatAm	377	412	(35)	(8.5)
Electricity Distribution Europe	328	307	21	6.8
Electricity Distribution LatAm	340	340	-	-
Electricity:	500	490	10	(2.0)
Spain	376	357	19	(5.3)
GPG	124	133	(9)	(6.8)
Gas:	423	598	(175)	(29.3)
Infrastructures	146	143	3	2.1
Supply	277	455	(178)	(39.1)
Other	36	4	32	800.0
Total EBITDA	2,457	2,620	(163)	(6.2)

Net investments



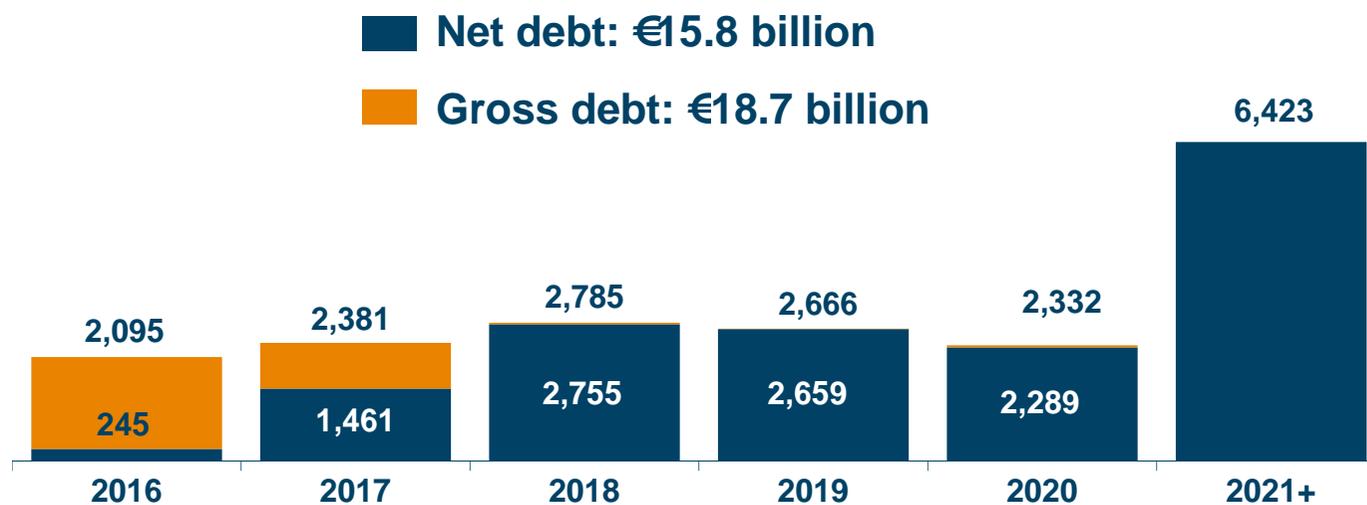
(€million)	1H16	1H15	Change	
			€m	%
Networks:	509	489	20	4.1
Gas Distrib Europe	145	145	-	-
Gas Distrib LatAm	112	135	(23)	-17.0
Elec Distrib Europe	108	81	27	33.3
Elec Dist LatAm	144	128	16	12.5
Electricity:	76	72	4	5.6
Spain	39	46	-7	-15.2
GPG	37	26	11	42.3
Gas:	14	18	(4)	-22.2
Infrastructures	2	3	(1)	-33.3
Supply	12	15	(3)	-20.0
Other	30	43	(13)	-30.2
Total tangible + intangible	629	622	7	1.1
Financial	26	86	(60)	-69.8
TOTAL GROSS	655	708	(53)	-7.5
Disposals and other	(33)	(25)	(8)	-32.0
TOTAL NET	622	683	(61)	-8.9

Financial structure (I)

A comfortable debt maturity profile



As of June 30, 2016
(€million)



- New €600 million 10-year bond in April (coupon 1.25%)
- Average life of Net debt >5 years
- 89% of Net debt maturing from 2018 onwards

✓ All financial needs covered until 2019

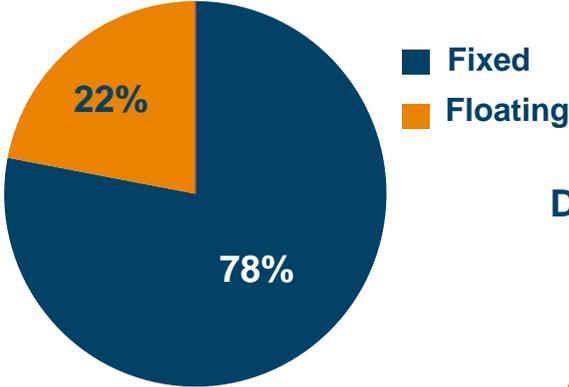
Financial structure (II)

An efficient net debt structure

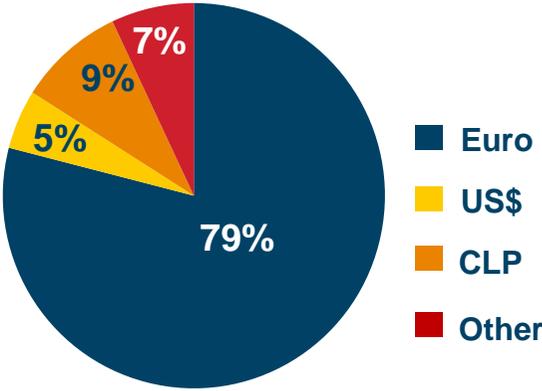


As of June 30, 2016

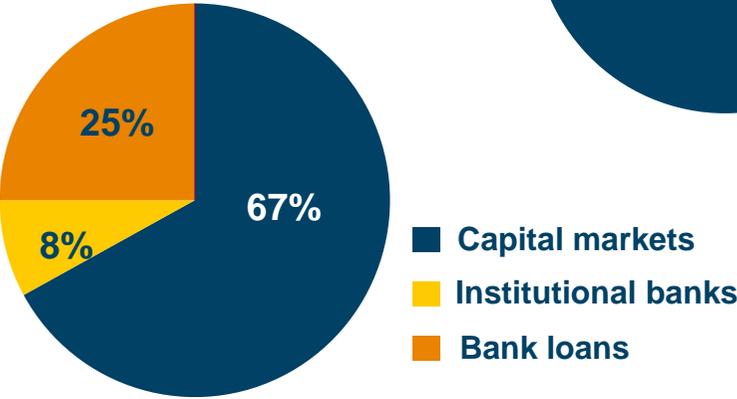
Majority of debt at fixed rates with very competitive cost



Conservative currency exposure policy



Diversified financing sources



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

Financial structure (III)

Strong liquidity position



As of June 30, 2016 (€million)	Limit	Drawn	Undrawn
Committed lines of credit	7,424	359	7,065
Uncommitted lines of credit	626	107	519
EIB loan	653	-	653
Cash	-	-	2,763
TOTAL	8,703	466	11,000

- Additional capital market capabilities of ~€5,100 million both in Euro and LatAm (Mexico, Chile, Panama and Colombia) programs

✓ Enough liquidity available to cover needs for over 24 months



2. Operating figures

Networks

Gas distribution Europe



Gas sales (GWh)

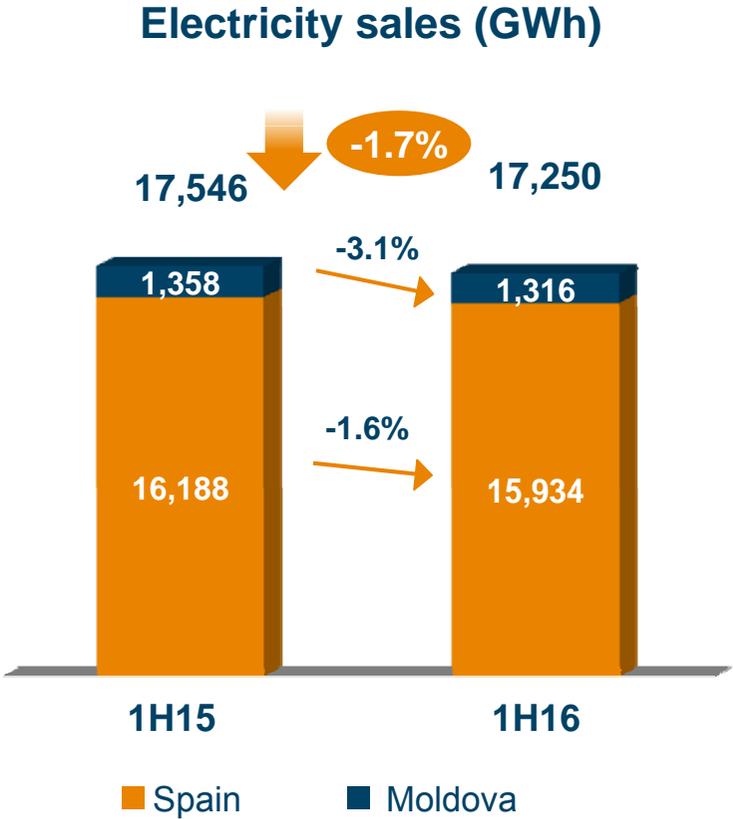


Connection points ('000)



Networks

Electricity distribution Europe



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

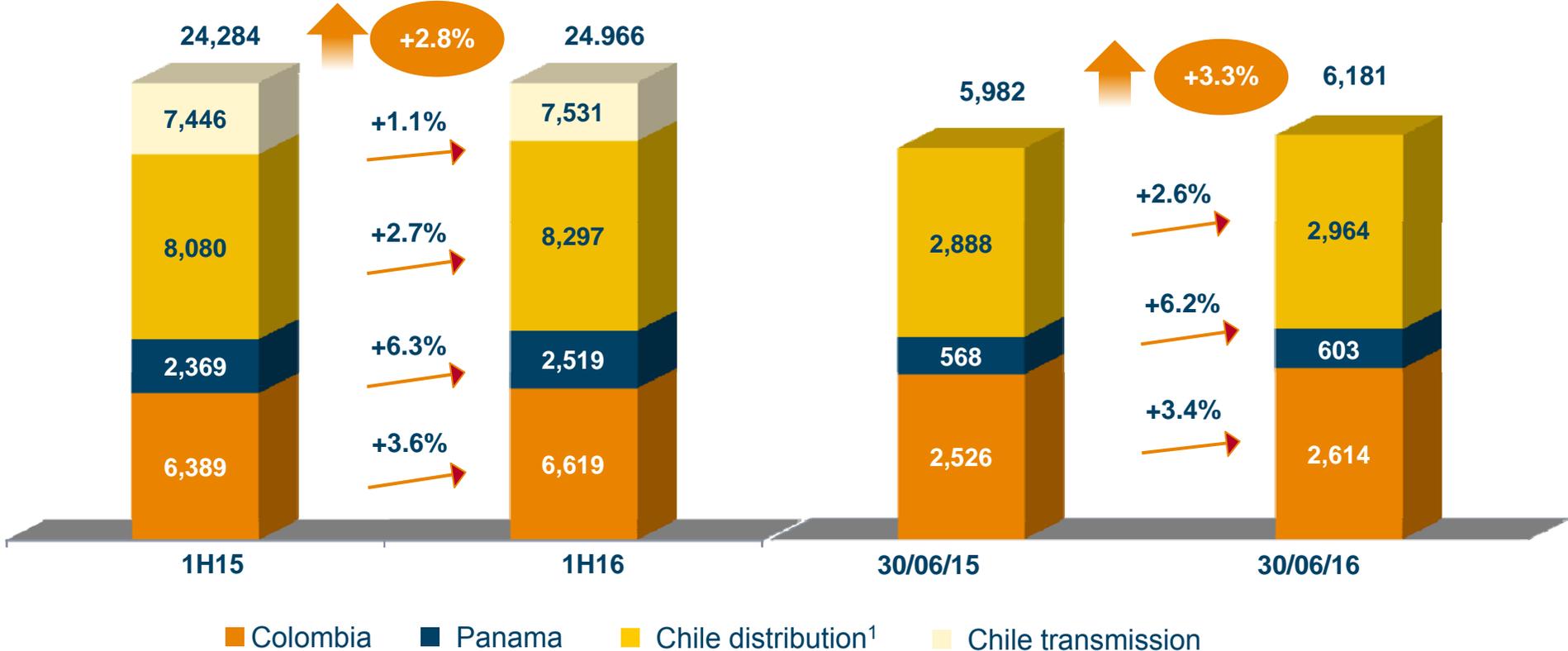
Networks

Electricity distribution LatAm



Electricity sales (GWh)

Connection points ('000)

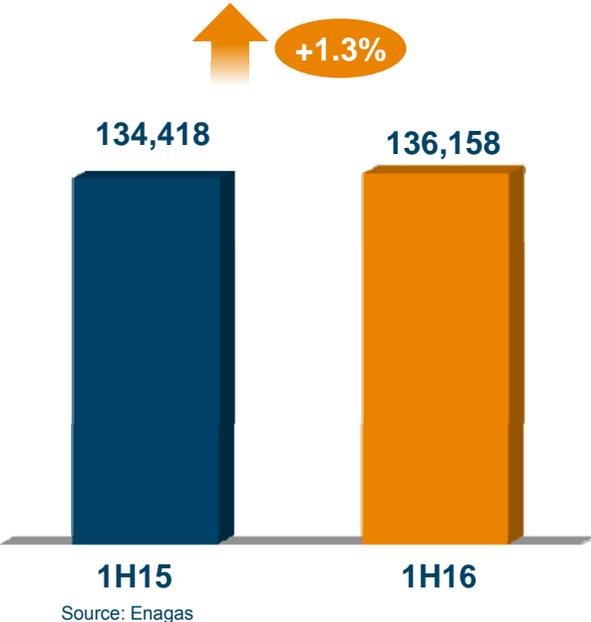


Note:
 1 Includes data for CGE's subsidiaries in Argentina

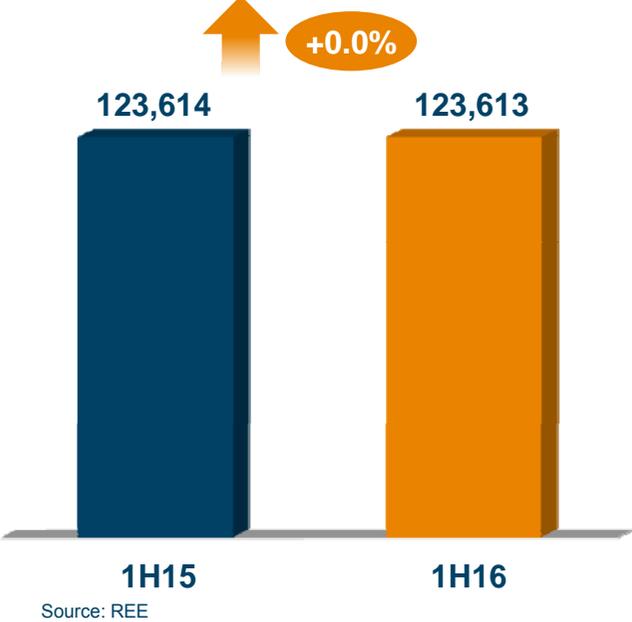
Gas and electricity demand in Spain



Conventional gas demand (GWh)



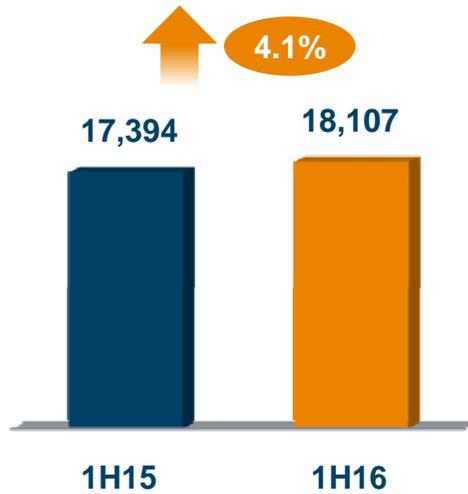
Electricity demand (GWh)



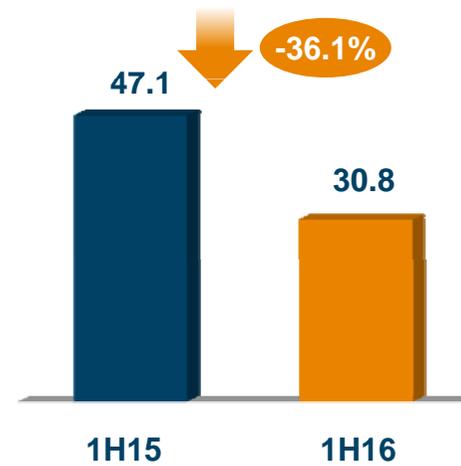
Electricity Spain (I)



Electricity sales (GWh)



Average pool price (€/MWh)

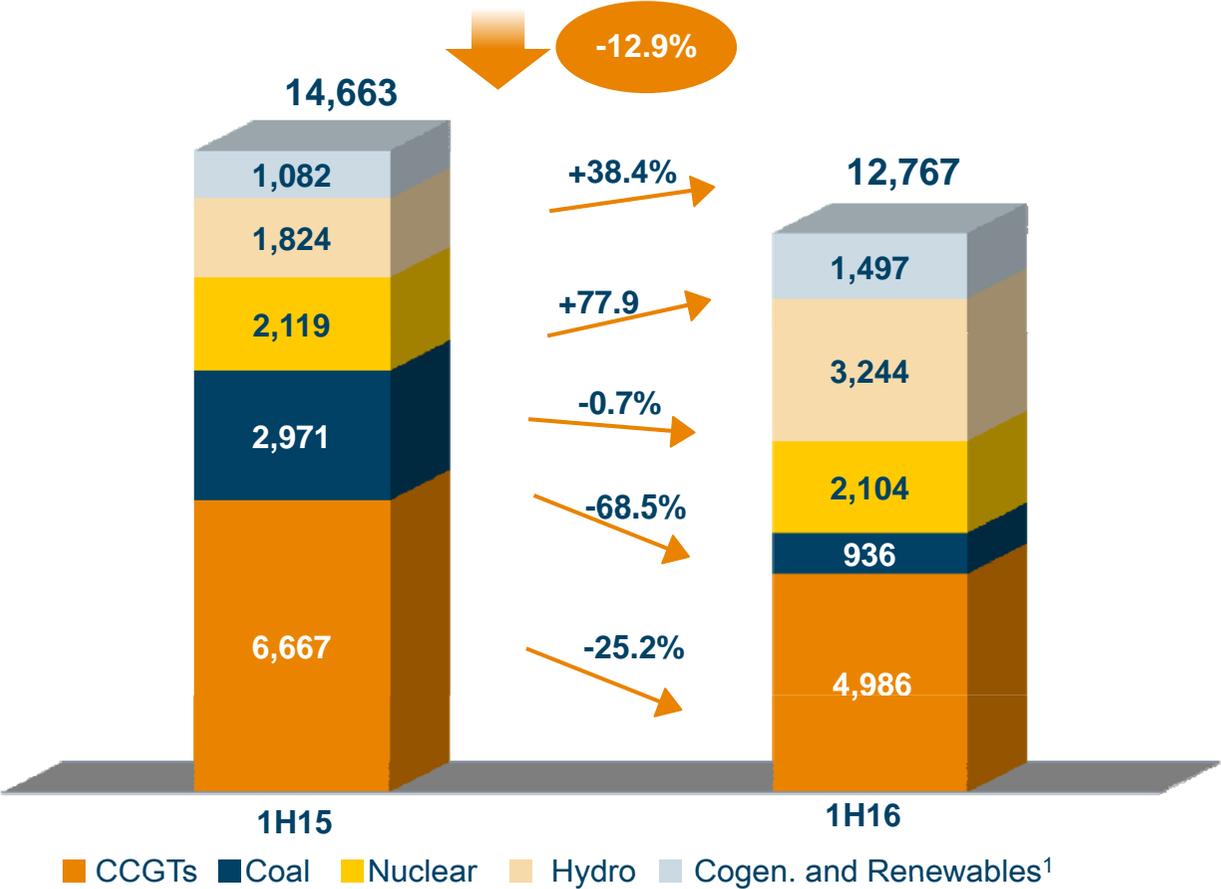


Source: REE

Electricity Spain (II)



GNF's total production (GWh)



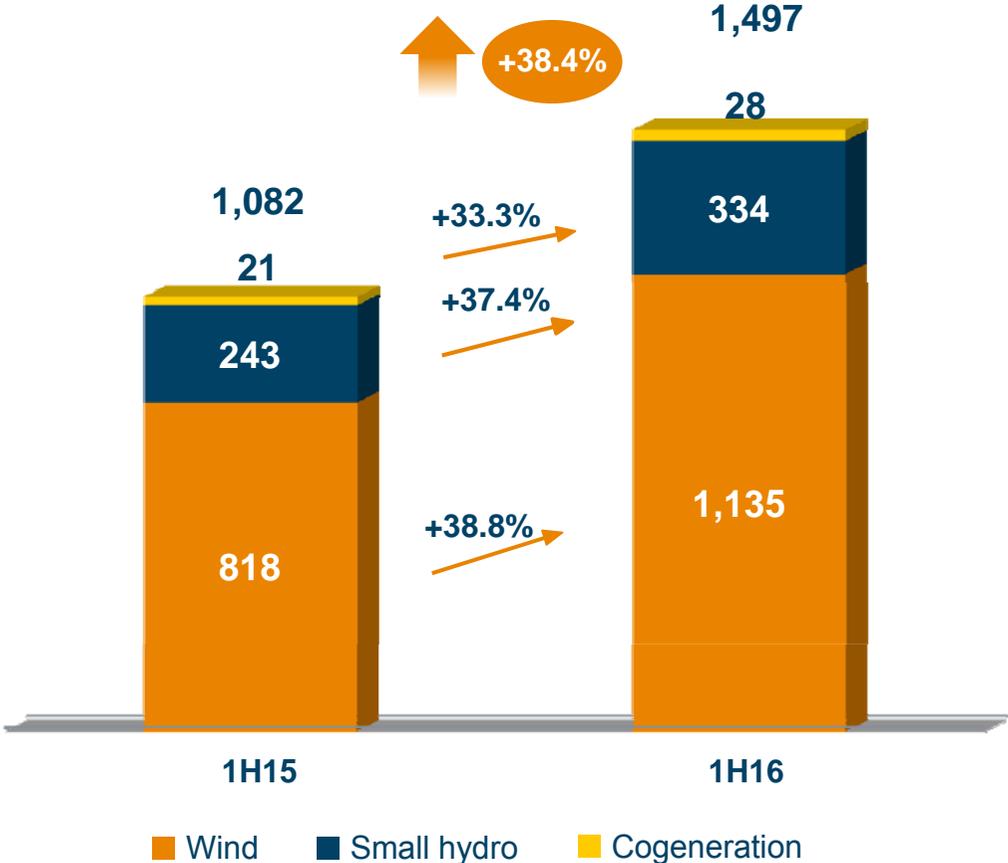
Note:

1 Formerly "Special Regime"

Electricity Spain (III)



GNF's total production in cogeneration and renewables¹ (GWh)

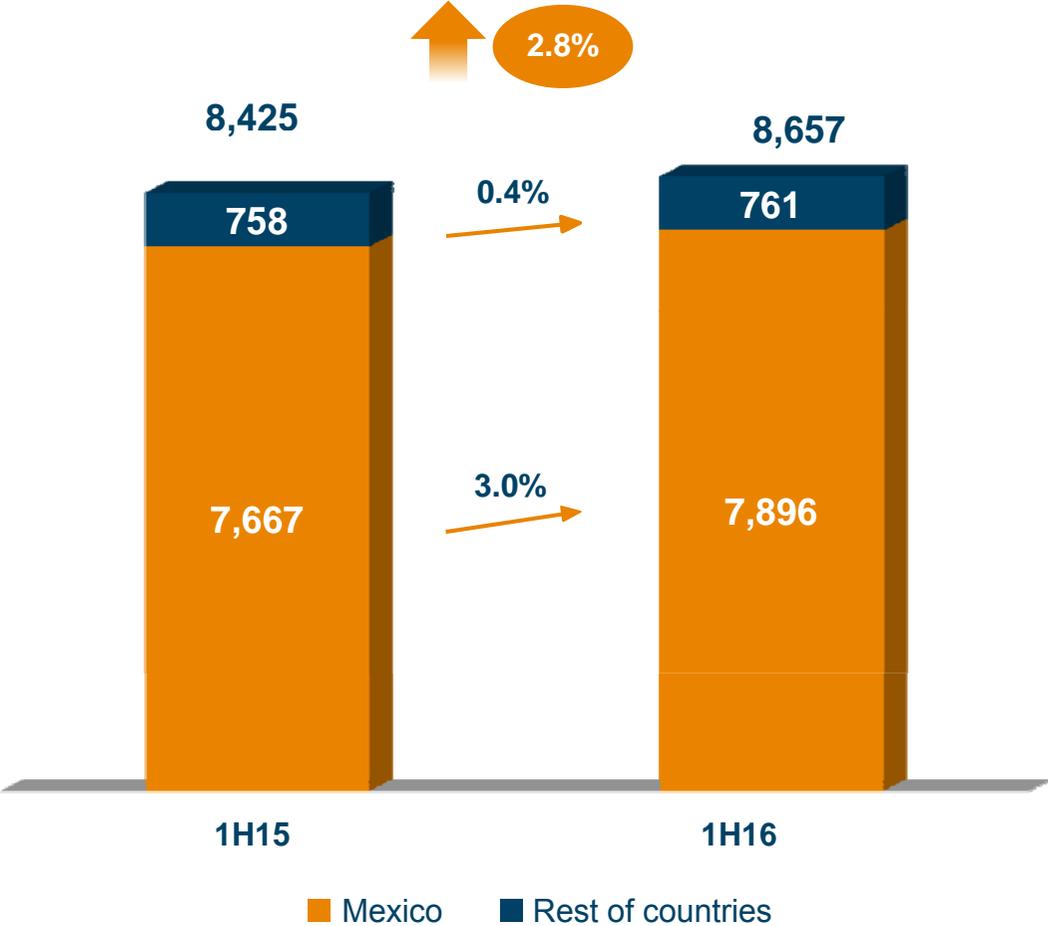


Note:
1 Formerly "Special Regime"

Electricity GPG

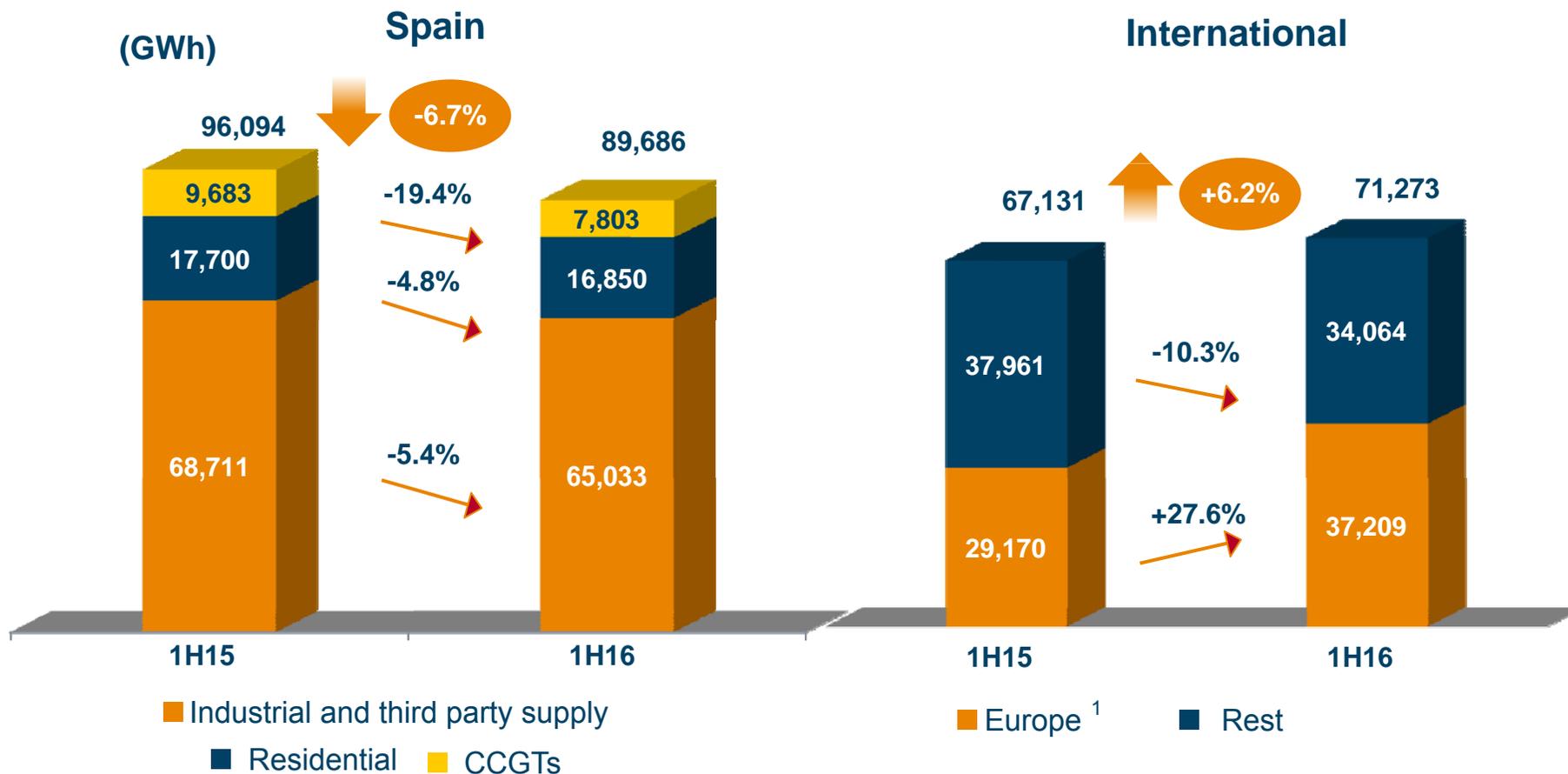


GPG's total production (GWh)



Gas

Gas sales by markets



Note:

¹ Sales to end customers, including retail sales in Italy



Thank you

This presentation is the property of Gas Natural Fenosa. Both its subject matter and its graphic design is for the exclusive use of its staff.

©*Copyright* Gas Natural SDG, S.A.

INVESTOR RELATIONS

telf. 34 912 107 815

telf. 34 934 025 897

e-mail: relinversor@gasnaturalfenosa.com

website: www.gasnaturalfenosa.com

