

# Fourth Quarter 2010 Results (FY 10)

February 22, 2011



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# Agenda



- 1. Magnitudes**
- 2. Main Issues**
- 3. Summary of FY10 Consolidated Results**
- 4. Analysis of Operations (Pro-Forma)**
- 5. Conclusions**



# Magnitudes

# Magnitudes



**FY10 Net Income: €1,201 million (+0.5%)**

**FY10 EBITDA: €4,477 million (+14.1%)**

**FY10 Investments: €1,543 million<sup>1</sup> (-17.6%)**

**Net Debt as of 31/12/2010: €17.4 billion<sup>2</sup> (-16.7%)**

Notes:

1 Tangible and intangible investments

2 After securitisation of €1.74 billion tariff deficit, agreed disposal of Plana del Vent CCGT (€200 million) plus accounting effect of adding 50% of Eufer's attributable debt



## **Main Issues**

# Main Issues



**Update on Sonatrach gas contracts**

**Energy business**

**Regulated/Quasi-regulated mix**

**Strengthening of balance sheet**

**Shareholder remuneration**

# Update on Sonatrach gas contracts (I)

## Details on the litigation



**Litigation on two long-term gas supply contracts for a total 9 bcm p.a. maturing in 2020 and 2021**

**Arbitration Court's ruling entitled Sonatrach to apply a price increase on gas deliveries retroactively from January 2007**



**Maximum retroactive effects billed by Sonatrach of US\$ 1,970 million, covering the period January 2007 - July 2010**



# Update on Sonatrach gas contracts (II)

## GNF's reaction



**Ruling appealed before Swiss Federal Court: stay of execution granted, momentarily suspending price increases for past and present gas deliveries**

**GNF asked for the price revision for both contracts, which would have retroactive effects**

**Both parties still negotiating an agreement which could end the dispute**



**The impact of the ruling is as yet uncertain and not final**

# Update on Sonatrach gas contracts (III)

## Impact on 2010 accounts



**Contractual pass through of price increases to a part of the end customers**

**GNF's consolidated balance sheet as of 31/12/2010 includes a provision for the risks derived from the litigation with Sonatrach, as per the best estimate made with the available information on the development of the litigation, the negotiations on course and the amounts to pass through, which adequately cover the above risks, both for the retroactive period and the additional period ending 31/12/2010**

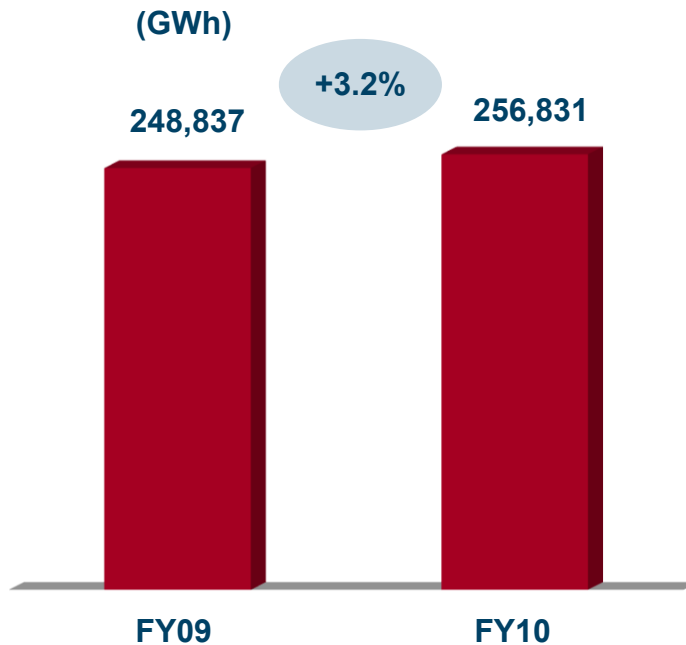
**Despite uncertainty on the outcome, an impact has been estimated in the audited 2010 accounts**

# Energy business (I)

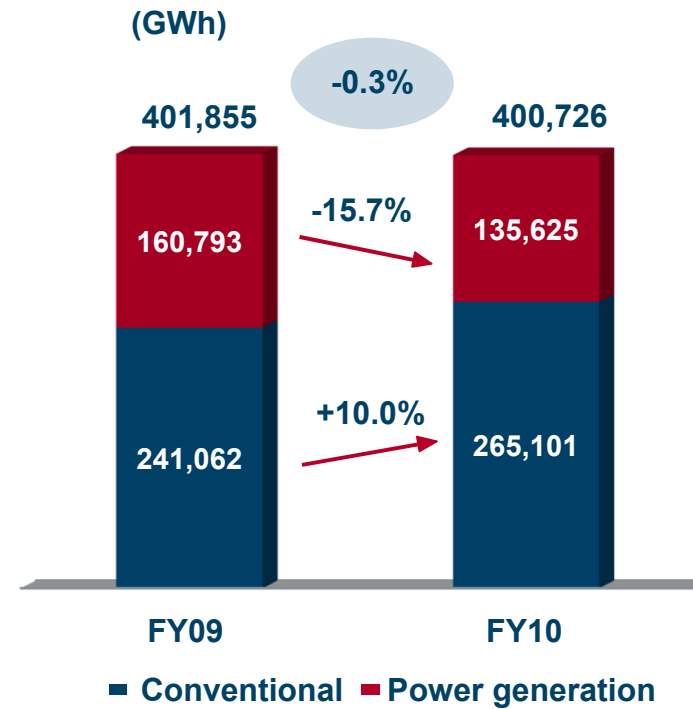
## Energy demand in Spain



Mainland electricity demand<sup>1</sup>



Gas demand<sup>1</sup>



**Pick-up of demand for both electricity and conventional gas**

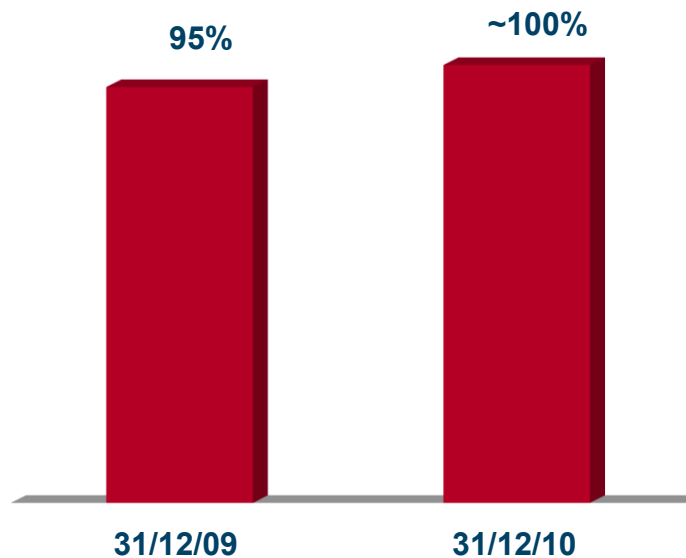
Note:  
<sup>1</sup> Sources: REE, Enagas

# Energy business (II)

## Hedging exposure to electricity business in Spain



Power generation volumes hedged against pool volatility



- Power generation hedged against pool volatility through:
  - Pool price-indexed gas contracts
  - Electricity supply contracts
- Successful electricity supply business
  - contracted industrial portfolio grows 1% to 23,800 GWh/year
  - Residential customer and small industries: 3,887,000 <sup>(1)</sup>

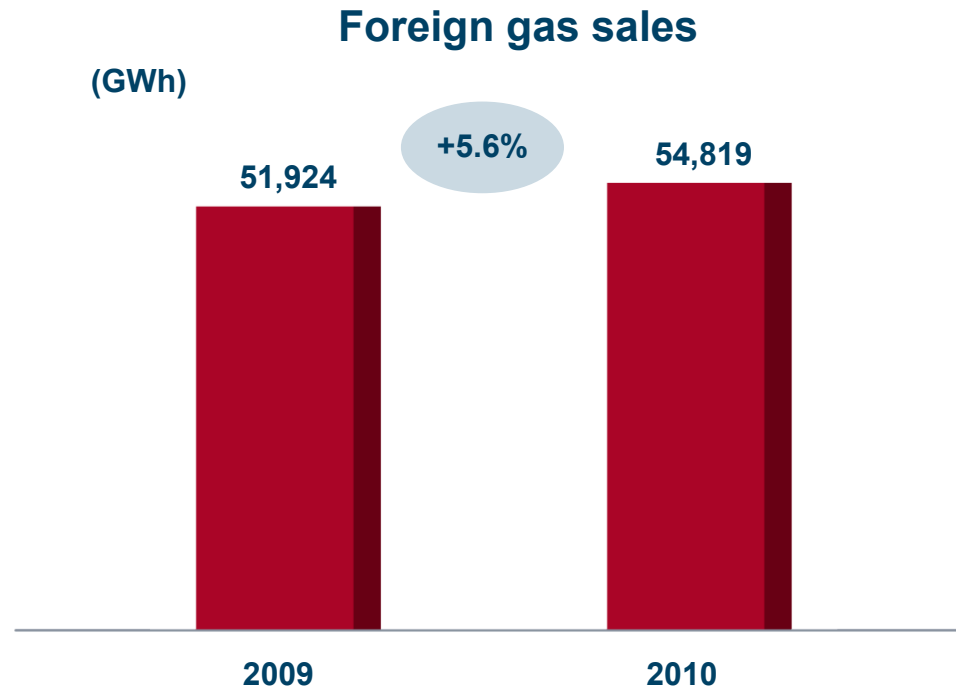
Achieving a balanced and stable business risk profile

Note:

1 Liberalised + TUR

# Energy business (III)

## Expanding gas sales abroad through opening of new markets



- GNF did not incur into take or pay in 2009 or 2010
- Utilization of 86.3% of Maghreb pipeline in 2010
- Fleet utilization of 99.5% in 2010
- Stream + UF Gas currently positioned as the world's third largest LNG operator <sup>(1)</sup>

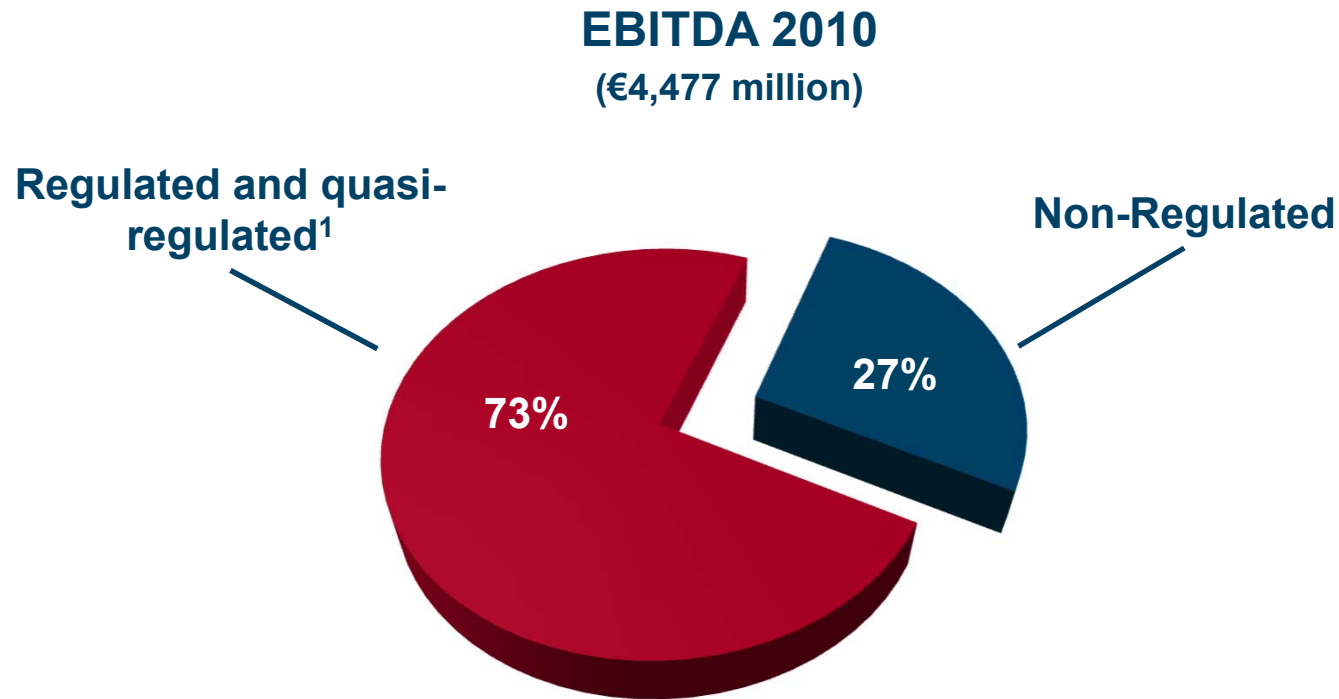
**Benefiting from flexibility in gas contracts as well as from position in LNG markets**

Note:

1 Source: Wood McKenzie (volumes in Mtpa)

# Regulated/Quasi-regulated mix (I)

## EBITDA breakdown by nature



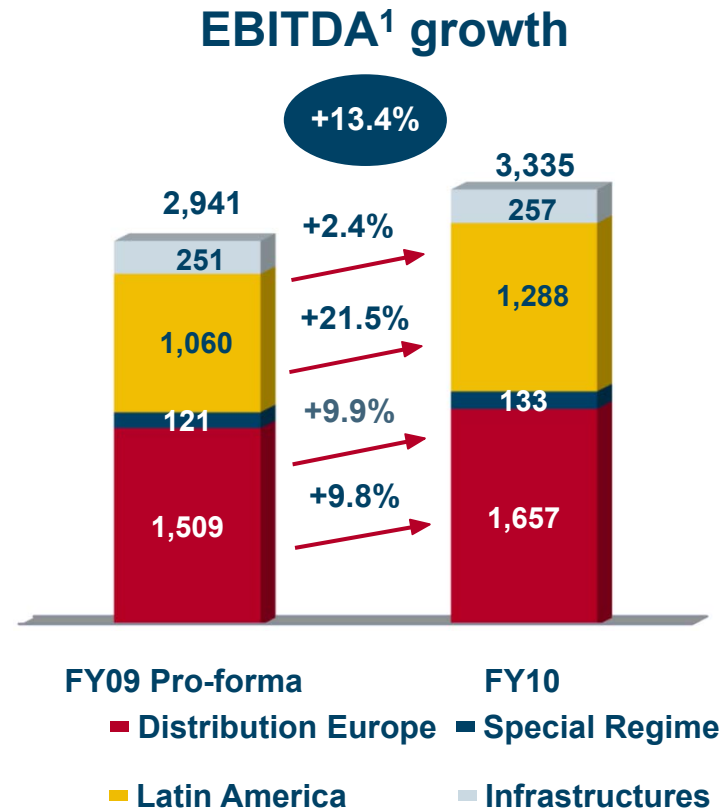
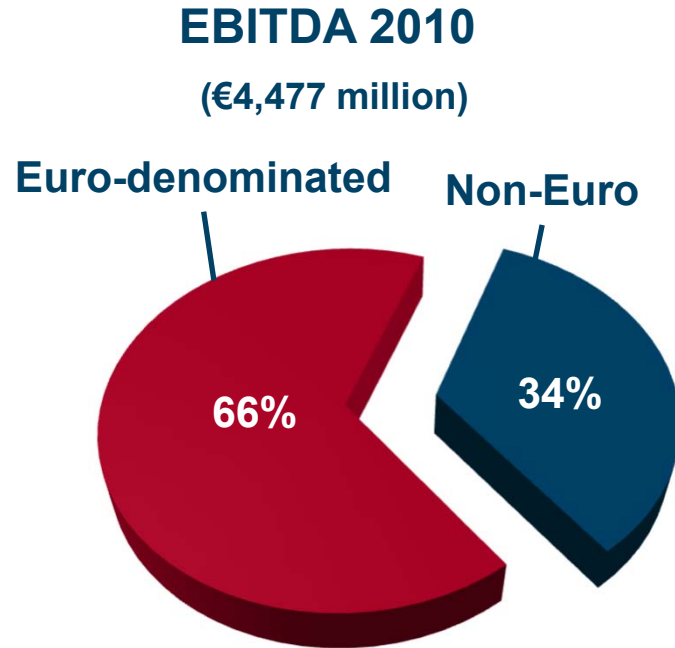
**Stable business performance after high proportion of regulated and quasi-regulated and focus on stable performance of non-regulated activities**

Note:

<sup>1</sup> Includes regulated gas and electricity distribution, gas infrastructures, power generation in Latin America and renewables in Spain

# Regulated/Quasi-regulated mix (II)

## Solid operating profile

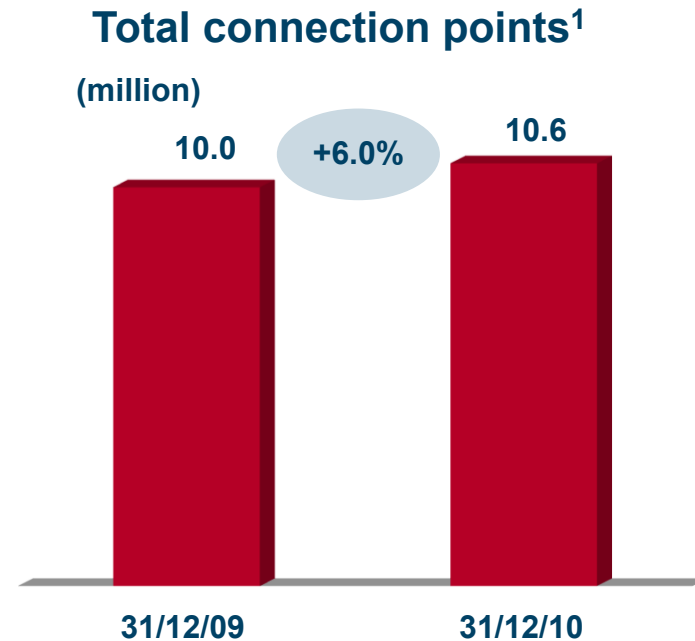


**High proportion of Euro-denominated EBITDA and growth from regulated and quasi-regulated activities underpin solid operating performance**

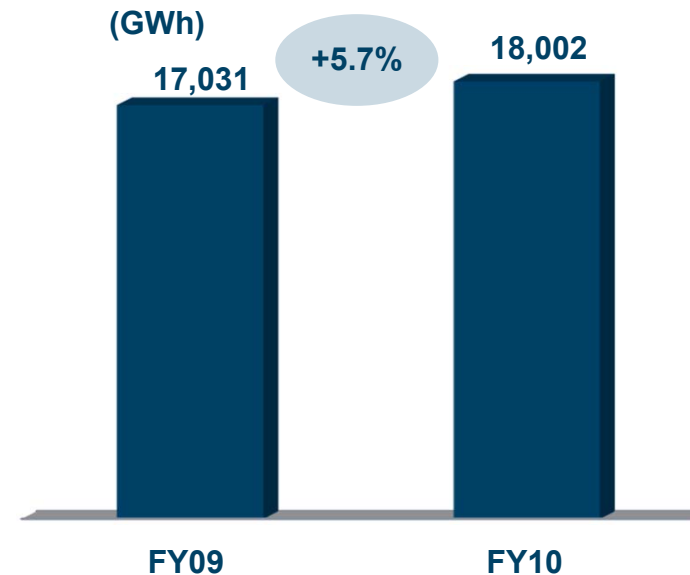
Note:  
1 Regulated and quasi-regulated

# Regulated/Quasi-regulated mix (III)

## Materializing a growth story in Latin America



### Electricity sales in Latin America<sup>2</sup>



- Network expansion for both gas and electricity achieved all through the region
- 29% increase in generation capacity in Mexico (new Norte Durango CCGT)

**Profiting from organic growth potential in regulated activities within parameters of high operational standards**

Notes:

1 Gas and electricity

2 Pro-forma

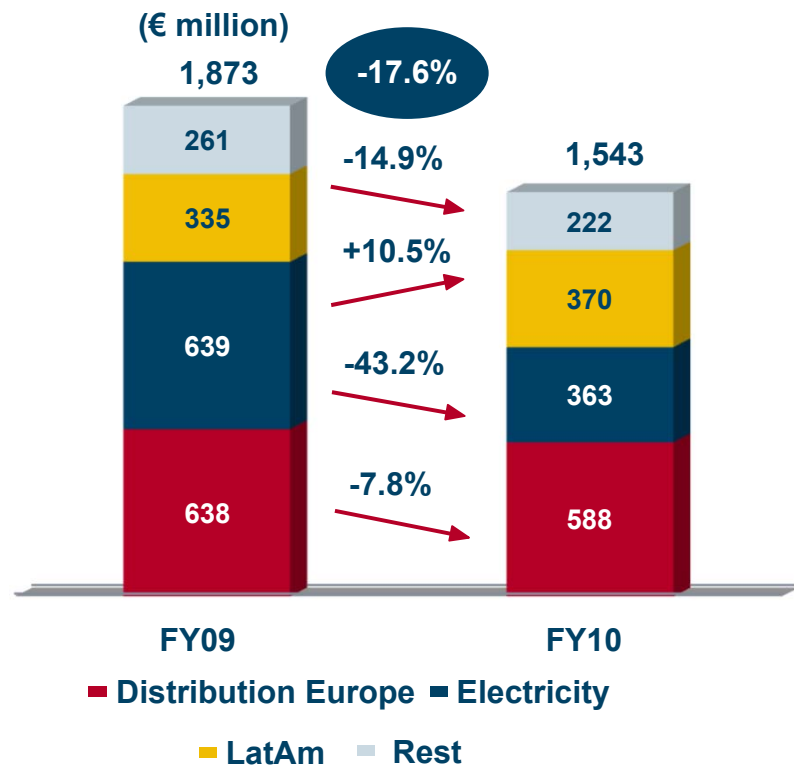


# Strengthening of balance sheet (I)

## Slowdown in investments



Total consolidated investments<sup>1</sup>



- Lower size of Spanish gas distribution network and slowdown in expansion due to crisis results in lower CAPEX
- Spanish electricity shows completion of CCGTs in 2009 and early 2010
- LatAm reflects investments in newly commissioned Norte Durango CCGT
- On a pro-forma basis, investments fall 21.1%

Investment focus on shorter payback periods and targeted returns

Note:

<sup>1</sup> Tangible and intangible

# Strengthening of balance sheet (II)

**Asset disposals totalling €4.1 billion at end of 2010**



**Financial stakes  
(no EBITDA contribution)**

- 5% in Cepsa, 18% in Indra, 5% in Enagas, 4.4% in Isagen, 1% in REE

**Other assets**

- 2.2 GW CCGT in Mexico
- 64% stake in EPSA (Colombia)
- Transportation assets sold to REE
- 35% of Gas Aragón

**Assets agreed with CNC**

- Gas assets in Madrid, Murcia and Cantabria (756,000 connection points)

**Pending regulatory approval to collect €200 million from sale of CCGT at Plana del Vent (asset agreed with CNC)**

# Strengthening of balance sheet (III)

## Amendment of CNC conditions in February



- The CNC released a new resolution on the asset disposal commitments, establishing pending disposals to be 300,000 gas connection points and 1,600 MW CCGT
- Sale of around 300,000 gas connection points in Madrid to Madrileña Red de Gas for €450 million agreed on 7 February 2011
  - Estimated gross capital gain of €250 million
  - Transaction to be completed once regulatory approvals are obtained

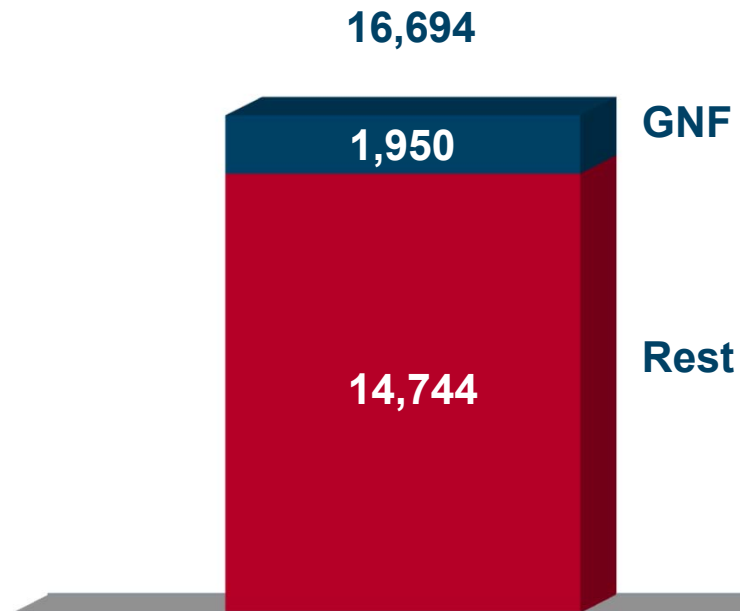
**Commitments with CNC to be fulfilled after completion of pending CCGT sales (800 MW in Arrúbal) currently in negotiation**

# Strengthening of balance sheet (IV)

## Securitisation of tariff deficit



Total amount of tariff deficit  
(€ million)<sup>1</sup>



- Includes €3,000 million for 2010<sup>2</sup> and €3,000 million for ex-ante 2011 deficit
- Spanish State guarantee up to €22,000 million
- €4,000 million collected by FADE through two bond issues, €448 million corresponding to GNF
- Banks requested to submit offers for third and fourth issue

**Expecting to continue to collect the rest during 2011**

Notes:

1 As of 31<sup>st</sup> December 2010, as per Resolution of Ministry of Industry of 20<sup>th</sup> January 2011

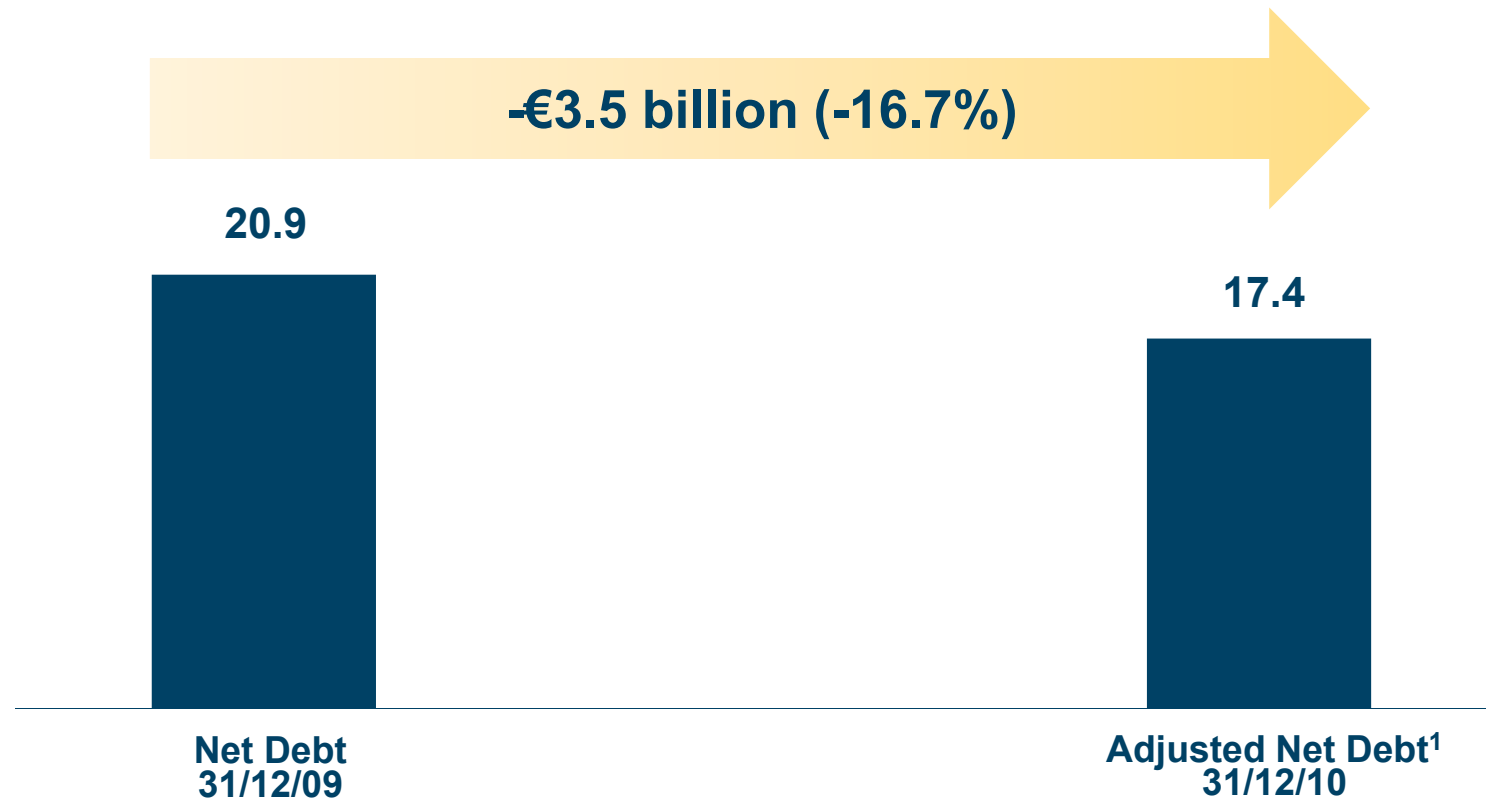
2 Ex-ante tariff deficit, pending final settlement of tariff deficit for 2010

# Strengthening of balance sheet (V)



## Debt reduction

(€ billion)



**Proven capacity to achieve debt reduction target according to plan**

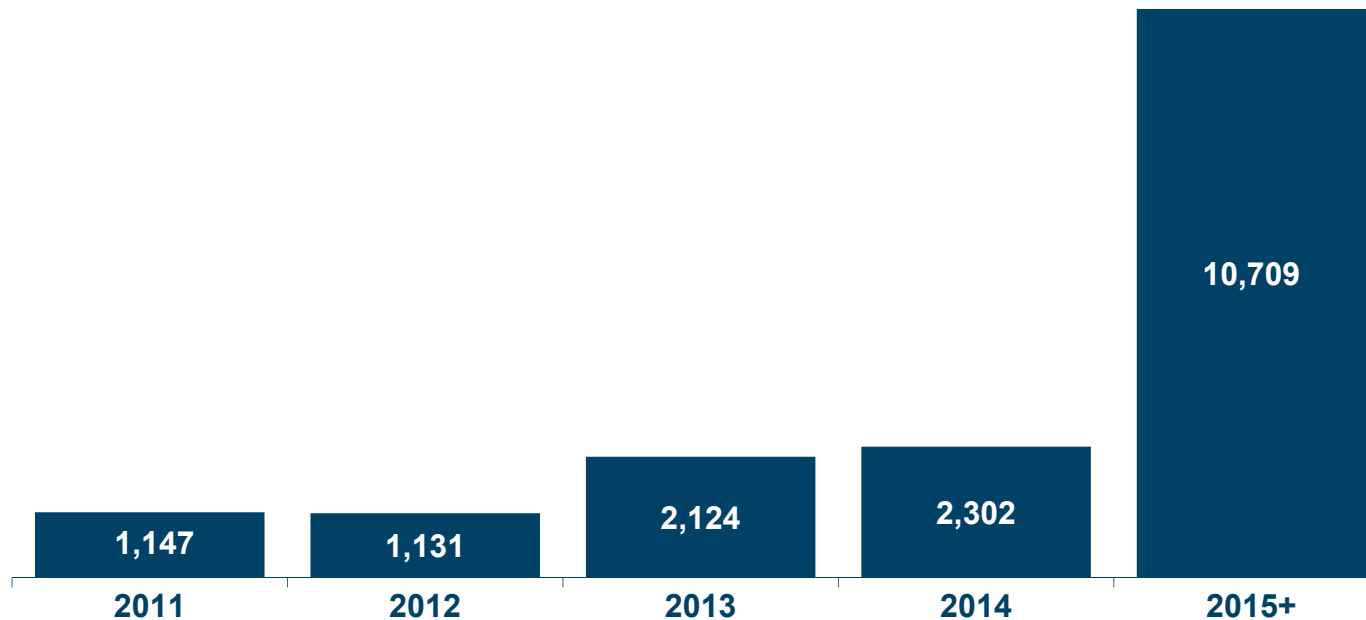
Note:

1 After securitisation of €1.74 billion tariff deficit, agreed disposal of Plana del Vent CCGT (€200m) plus accounting effect of adding 50% of Eufer's attributable debt

# Strengthening of balance sheet (VI)

## Maturity schedule for adjusted Net Debt (€17.4 billion<sup>1</sup>)

(€ million)



- €600 million, 6-year bond issue in January 2011
- Average life of debt: 4.8 years

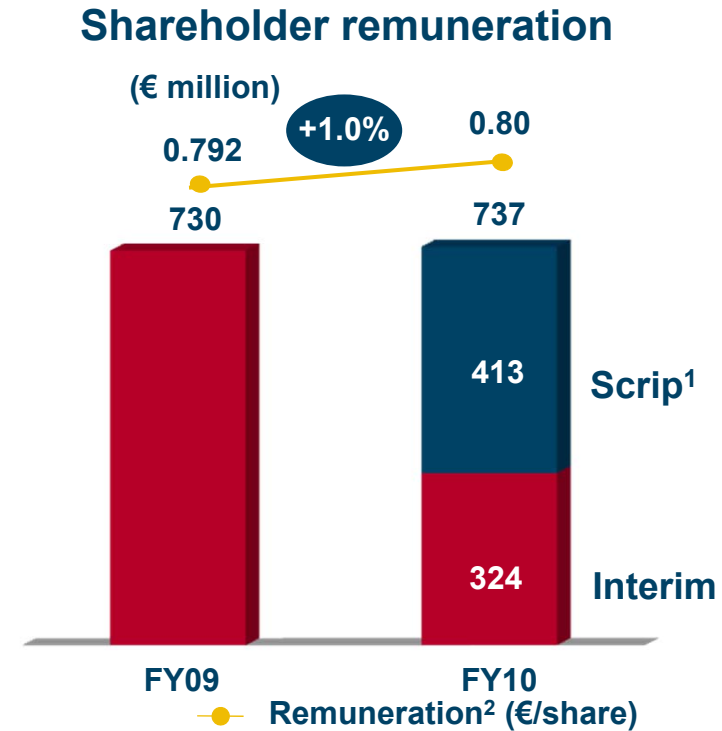
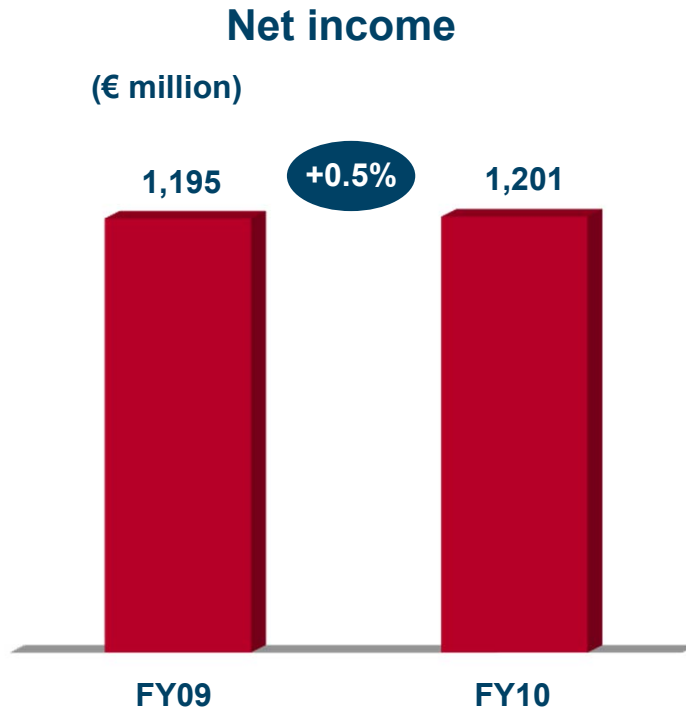
**61% of Net Debt maturing from 2015 onwards**

Note:

<sup>1</sup> Less tariff deficit of €1.74 billion, agreed disposal of Plana del Vent CCGT (€200 million) plus accounting effect of adding 50% of Eufes's attributable debt. Maturities adjusted after €600 million bond issue of 26 January 2011.

# Shareholder remuneration

## Remuneration against 2010 results



- Proposal to be submitted to AGM for approval
- Providing shareholders with a flexible remuneration scheme

**Remuneration in line with net income within a demanding operating, financial and macro environment**

Note:

1 Corresponds to maximum reference market value of a capital increase subject to approval by the AGM

2 Equivalent amount, considering maximum scrip amount and divided by total current number of shares



**Summary of FY10  
Consolidated Results**



# Consolidated Income Statement<sup>1</sup>



(€ million)	FY10	FY09	Change %
Net sales	19,630	14,873	32.0
Purchases	(12,970)	(9,133)	42.0
<b>Gross Margin</b>	<b>6,660</b>	<b>5,740</b>	<b>16.0</b>
Personnel, Net	(798)	(600)	33.0
Other expenses, Net	(1,385)	(1,217)	13.8
<b>EBITDA</b>	<b>4,477</b>	<b>3,923</b>	<b>14.1</b>
Depreciation	(1,716)	(1,389)	23.5
Provisions	(238)	(139)	71.2
Other results	370	50	-
<b>Operating Income</b>	<b>2,893</b>	<b>2,445</b>	<b>18.3</b>
Financial results, Net	(1,015)	(713)	42.3
Equity income	5	59	(91.5)
<b>Income Before Tax</b>	<b>1,883</b>	<b>1,791</b>	<b>5.1</b>
Taxes	(468)	(440)	6.4
<b>Income from Continued Operations</b>	<b>1,415</b>	<b>1,351</b>	<b>4.7</b>
Net Income from discontinued operations	-	39	-
Minority interest	(214)	(195)	9.7
<b>Net Income</b>	<b>1,201</b>	<b>1,195</b>	<b>0.5</b>

Note:

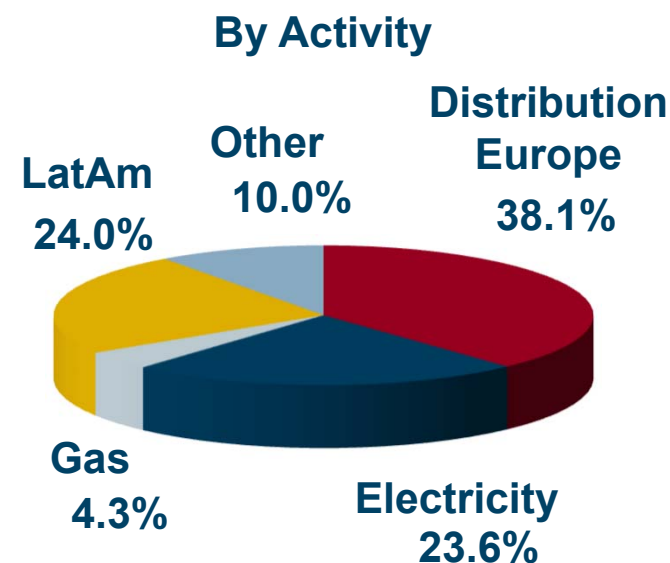
<sup>1</sup> FY09 figures include Unión Fenosa accounted under the equity method since 28 February 2009 and fully consolidated since 30 April 2009. In addition, FY09 figures differ from those reported in 2009 after application of CINIIF 12 thereby accounting for EPISA as an interrupted activity

# Consolidated Investments

## Tangible and intangible



(€ million)	FY10	FY09
<b>Distribution Europe:</b>	<b>588</b>	<b>638</b>
Electricity	329	245
Gas	259	393
<b>Electricity:</b>	<b>363</b>	<b>639</b>
Spain	285	493
Special Regime	76	135
Other	2	11
<b>Gas:</b>	<b>67</b>	<b>176</b>
Infrastructures	48	158
Supply	19	18
<b>LatAm:</b>	<b>370</b>	<b>335</b>
Generation	125	153
Gas Distribution	108	105
Electricity Distribution	137	77
<b>Other</b>	<b>155</b>	<b>85</b>
<b>Total</b>	<b>1,543</b>	<b>1,873</b>

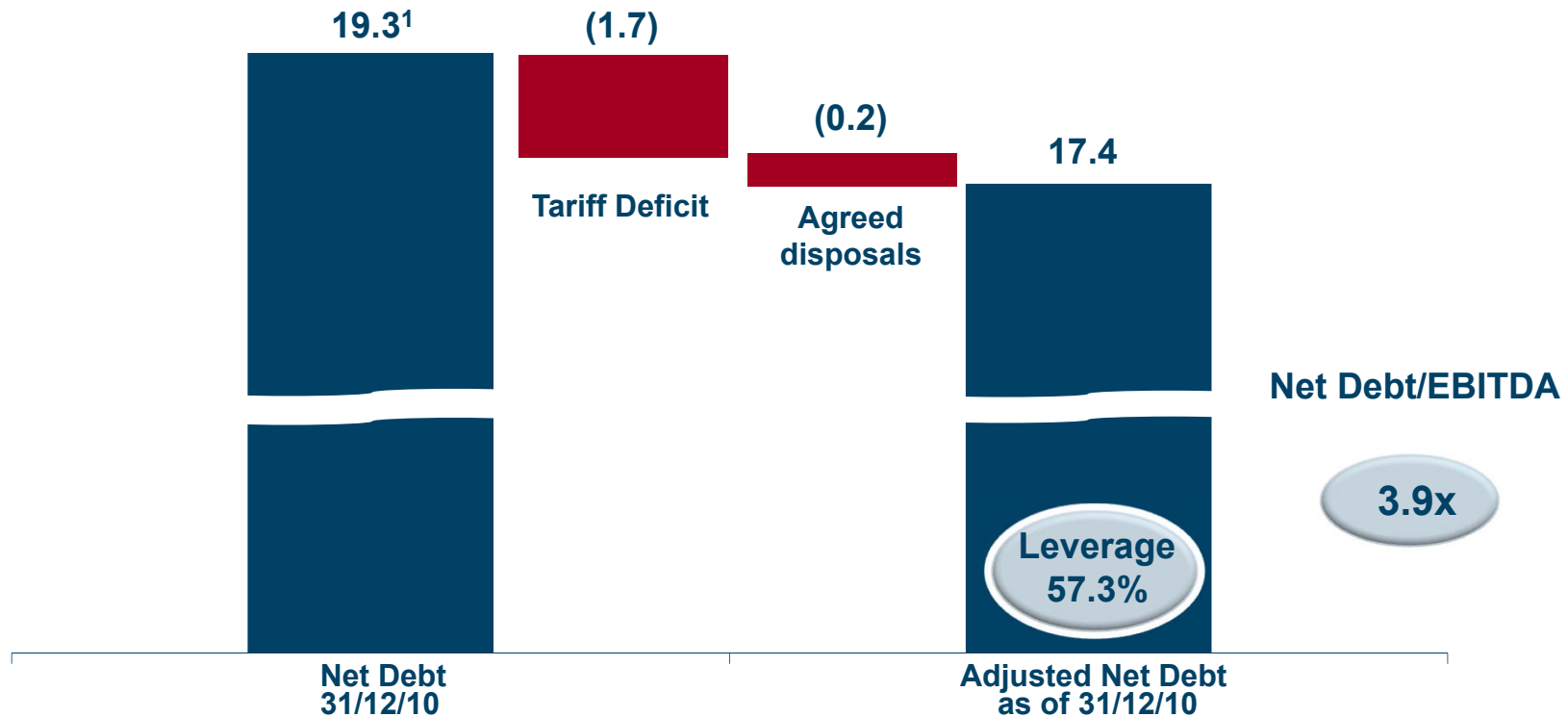


**CAPEX 17.6% lower (-21.1% pro-forma) after completing CCGTs and lower investments in gas distribution in Spain**

# Net Debt



(€ billion)



**Financial parameters continue to show a healthy capital structure**

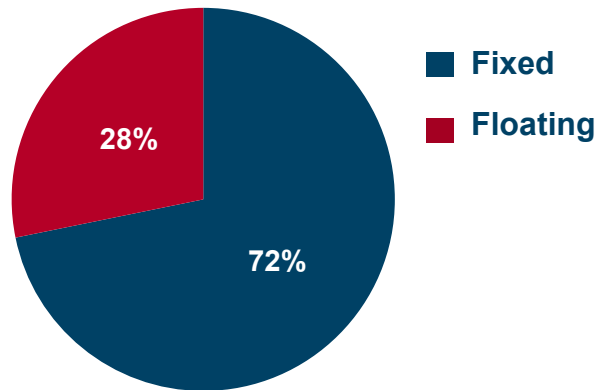
Note:

1 €19.1 billion plus accounting effect of adding 50% of Eufer's attributable debt

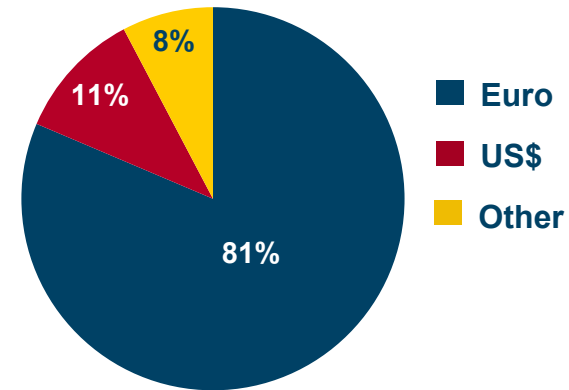
# Debt<sup>1</sup> Breakdown



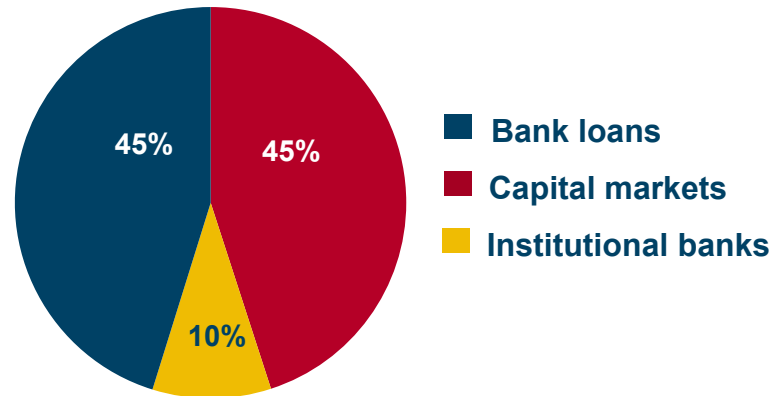
### Fixed vs. Floating



### Currencies



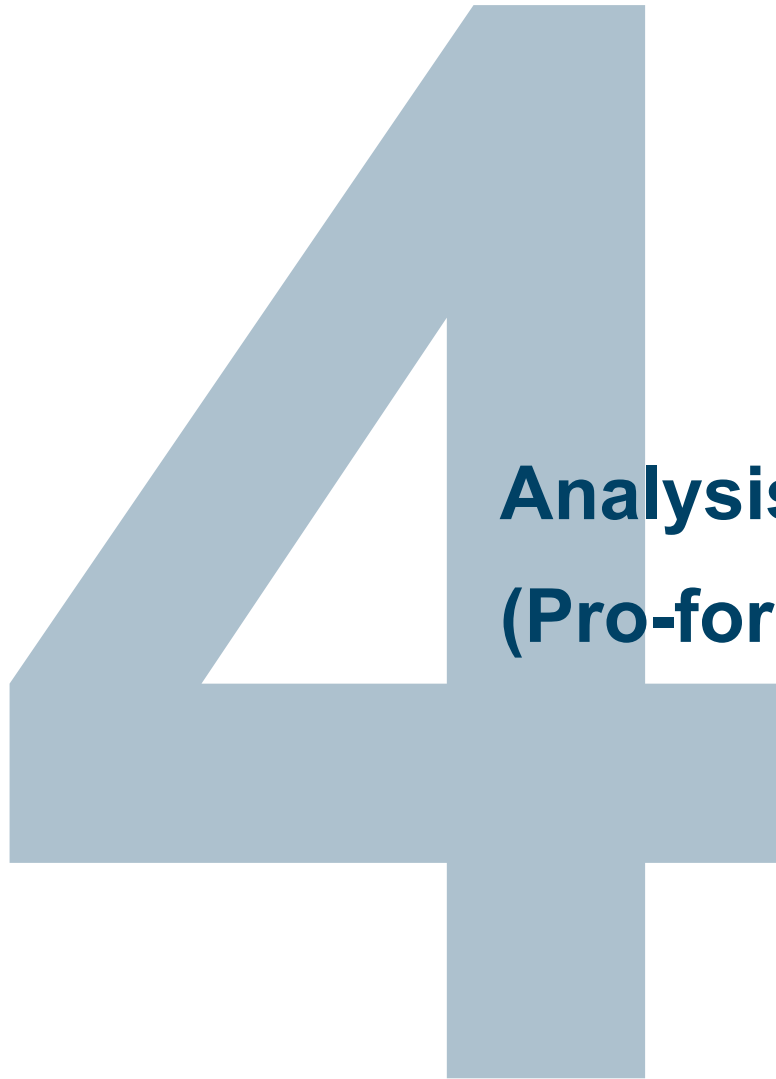
### Sources



**Fixed/floating, source and currency mixes provide a well-balanced financial risk profile**

Note:

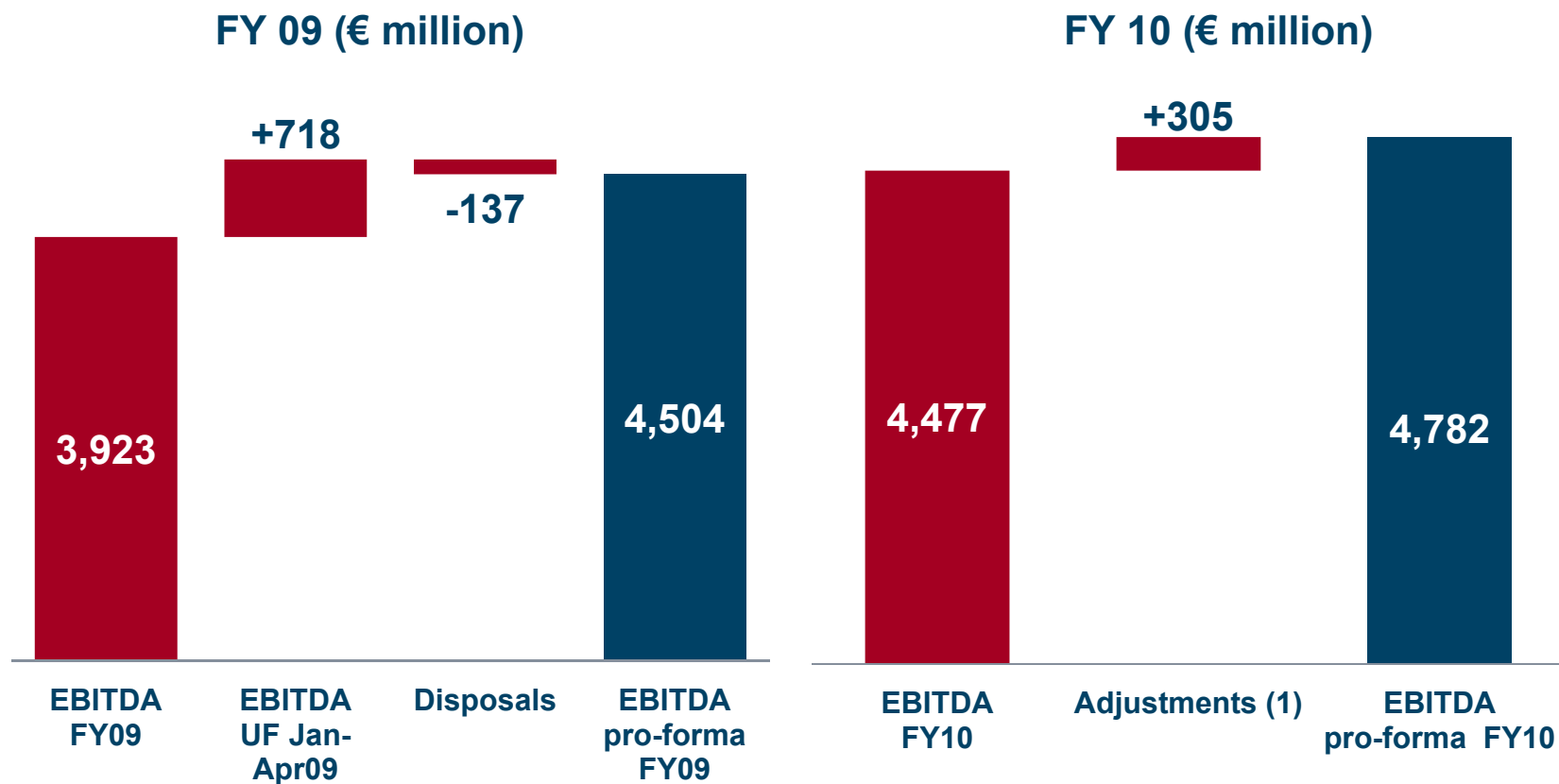
<sup>1</sup> Gross debt, adjusted for €1.74bn tariff deficit plus the agreed disposal of Plana del Vent CCGT (€200 million) plus the accounting effect of adding 50% of Eufes's attributable debt and considering the €600 million bond issue of 26 January 2011.



**Analysis of Operations  
(Pro-forma)**

# EBITDA

## Pro-forma vs. consolidated



Note:

1 Net effect of the adjustments for non-recurring items which include, among others, the additional provisions accounted for the risks derived from the litigation with Sonatrach.

# Pro-forma EBITDA Breakdown

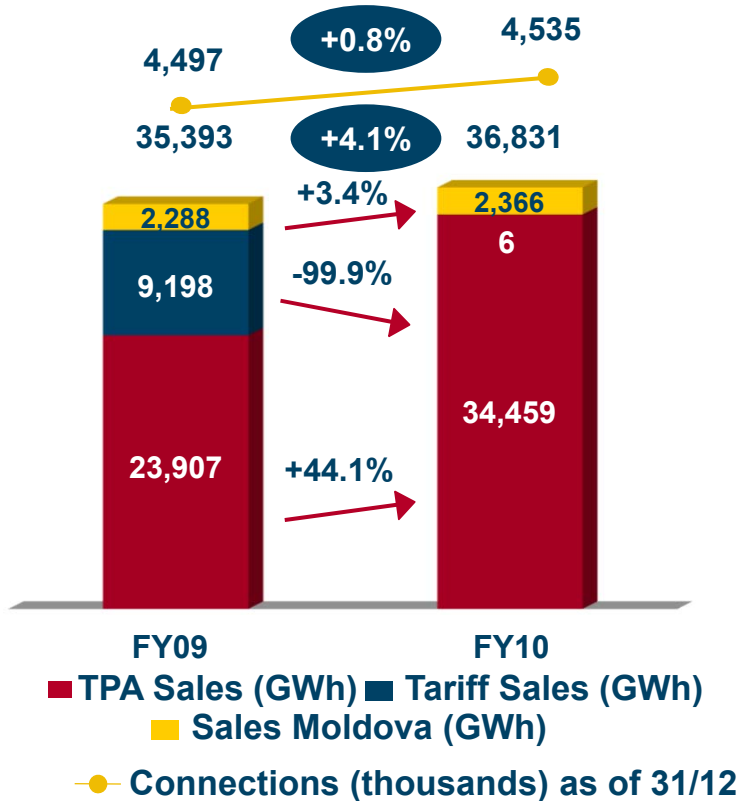


(€ million)	Pro-forma	Pro-forma	Change	
	FY10	FY09	€m	%
<b>Distribution Europe:</b>	<b>1,657</b>	<b>1,509</b>	<b>148</b>	<b>9.8</b>
Electricity	672	601	71	11.8
Gas	985	908	77	8.5
<b>Electricity:</b>	<b>989</b>	<b>1,062</b>	<b>-73</b>	<b>-6.9</b>
Spain	841	935	-94	-10.1
Special Regime	133	121	12	9.9
Other	15	6	9	-
<b>Gas:</b>	<b>777</b>	<b>788</b>	<b>-11</b>	<b>-1.4</b>
Infrastructures	257	251	6	2.4
Supply	520	537	-17	-3.2
<b>LatAm:</b>	<b>1,288</b>	<b>1,060</b>	<b>228</b>	<b>21.5</b>
Generation	263	219	44	20.1
Gas Distribution	635	510	125	24.5
Electricity Distribution	390	331	59	17.8
<b>Other</b>	<b>71</b>	<b>85</b>	<b>-14</b>	<b>-16.5</b>
<b>Total Pro-forma EBITDA</b>	<b>4,782</b>	<b>4,504</b>	<b>278</b>	<b>6.2</b>

# Distribution Europe

## Electricity

### Operating figures



- Recovery in consumption in Spain brings demand increase of +3.4% vs. 2009
- TIEPI in Spain of 61 minutes after impact from Xyntia storm, but only 2 minutes above 2009
- Additional €35 million added in 4Q after retroactive review of 2009 remuneration

**EBITDA of €672 million (+11.8%) thanks to the increase in 2010 remuneration, retroactive review of 2009 remuneration and efficiencies**

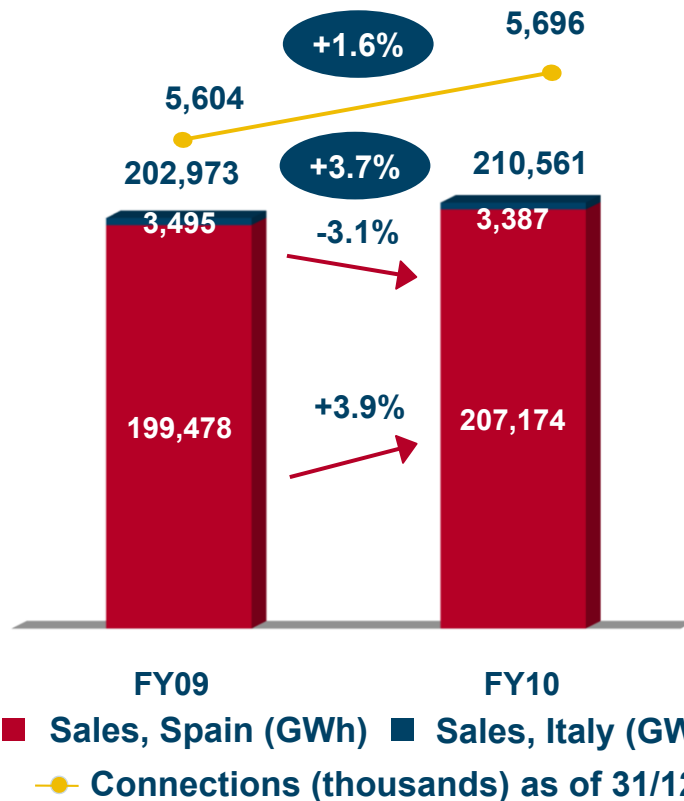


# Distribution Europe

## Gas



### Operating figures<sup>1</sup>



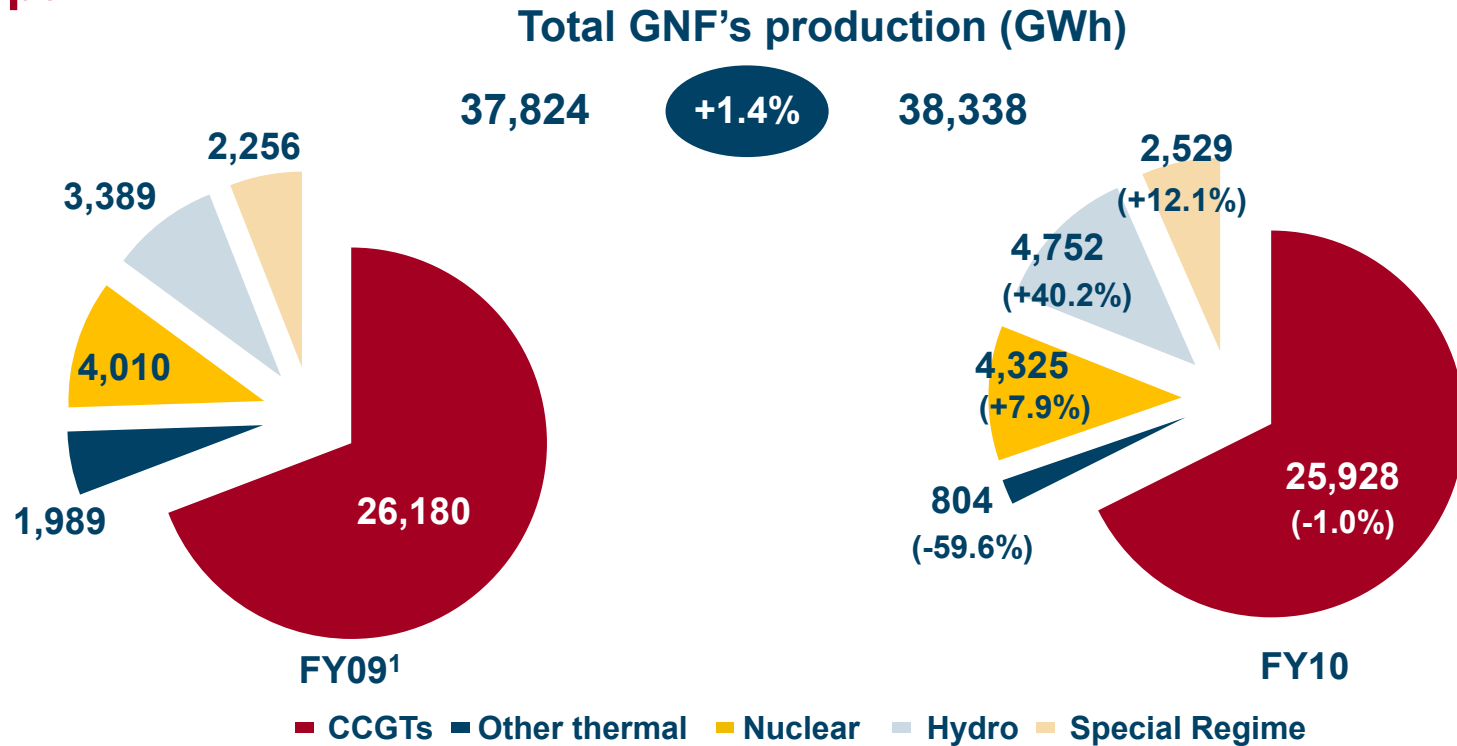
- Gas sales in Spain growing +3.9%
- Connection points grow 84,000 YoY in Spain (+1.5%) and 8,000 in Italy (+2.0%)
- Total network length of 50,780 km (+2.7% vs 31/12/2009)

**EBITDA grows 8.5% to €985 million, supported by the increase in remunerations in Spain and Italy**

Note:

<sup>1</sup> 2009 figures take into account sale of operations in Murcia, Cantabria and Madrid

# Electricity Spain



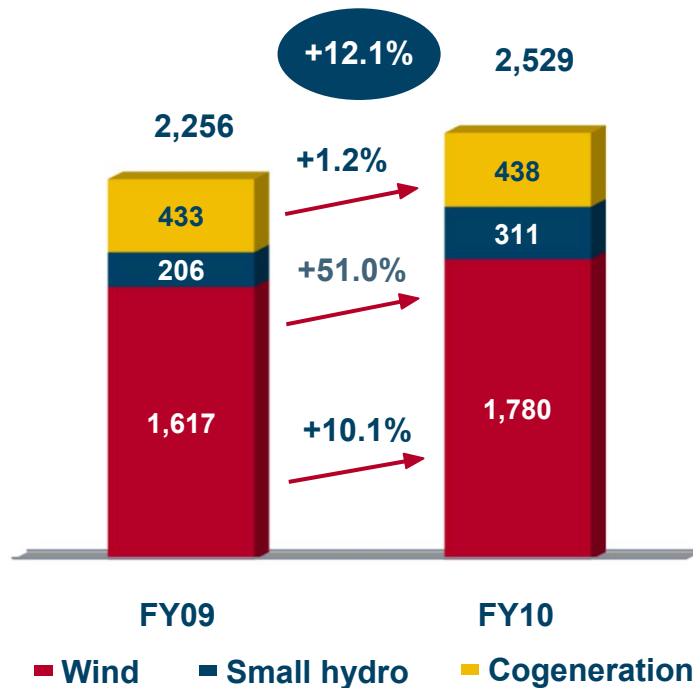
- Recovery of pool prices in 4Q10 leads to an average of €38.0/MWh for the year 2010, at par with 2009 levels
- Average CCGT load factor of 39.5% at year-end (41.5% in 2009)

**Supply customer portfolio and hedging position provide stability in operating parameters**

Note:  
1 Pro-forma

# Electricity Special Regime

Total production<sup>1</sup> (GWh)

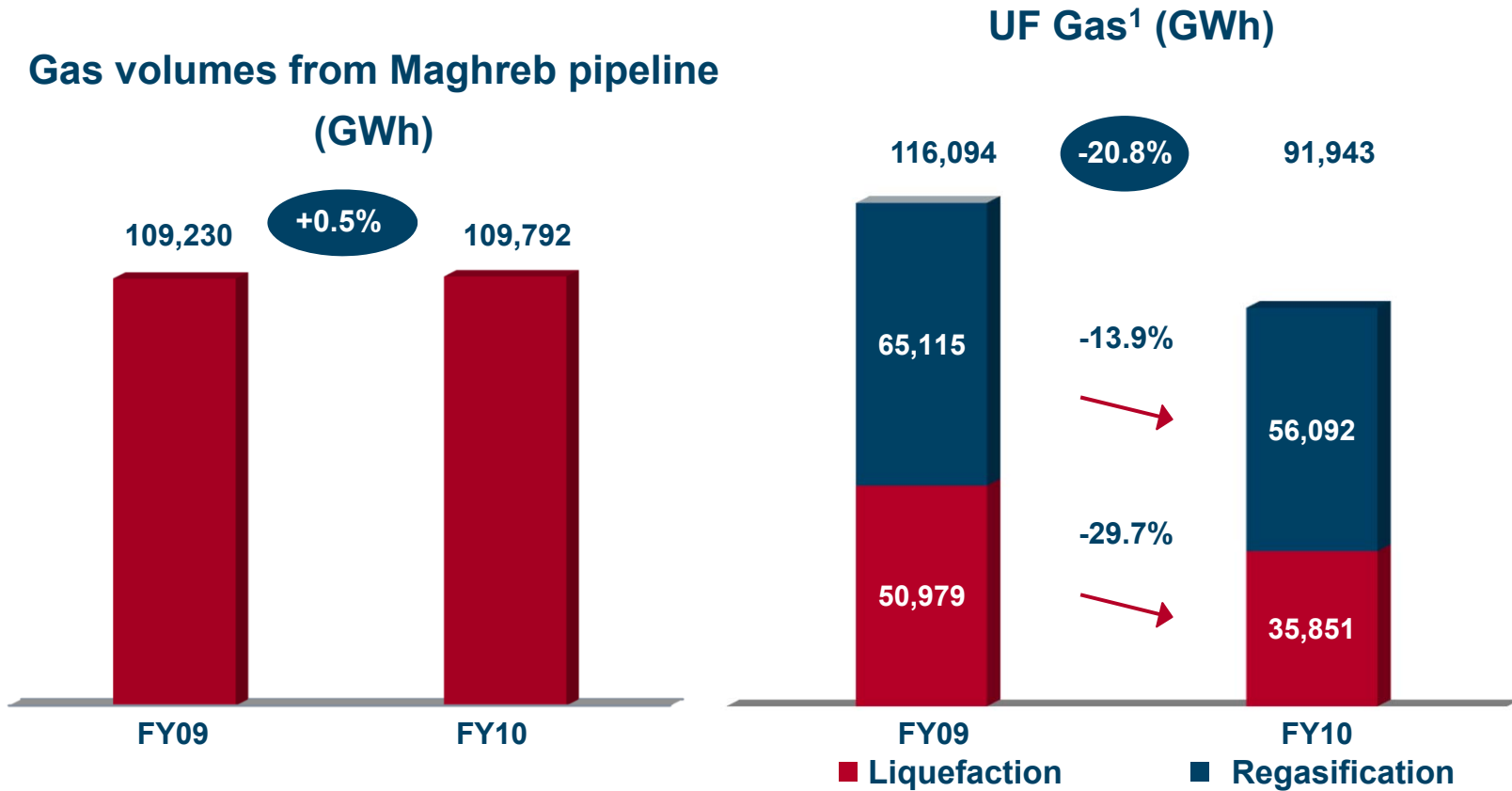


- 10% higher wind powered production after adding 19MW of new capacity and enjoying higher efficiency levels
- Small hydro favoured by higher rainfall in early 2010
- Agreement to split EUFER investments with Enel Green Power on a 50/50 basis

**EBITDA of €133 million (+9.9%) after higher sales and cost optimization**

Note:  
1 Attributable

# Gas Infrastructures



**EBITDA grows 2.4% to €257 million, thanks to the capacity payments to the facilities as per contractual terms**

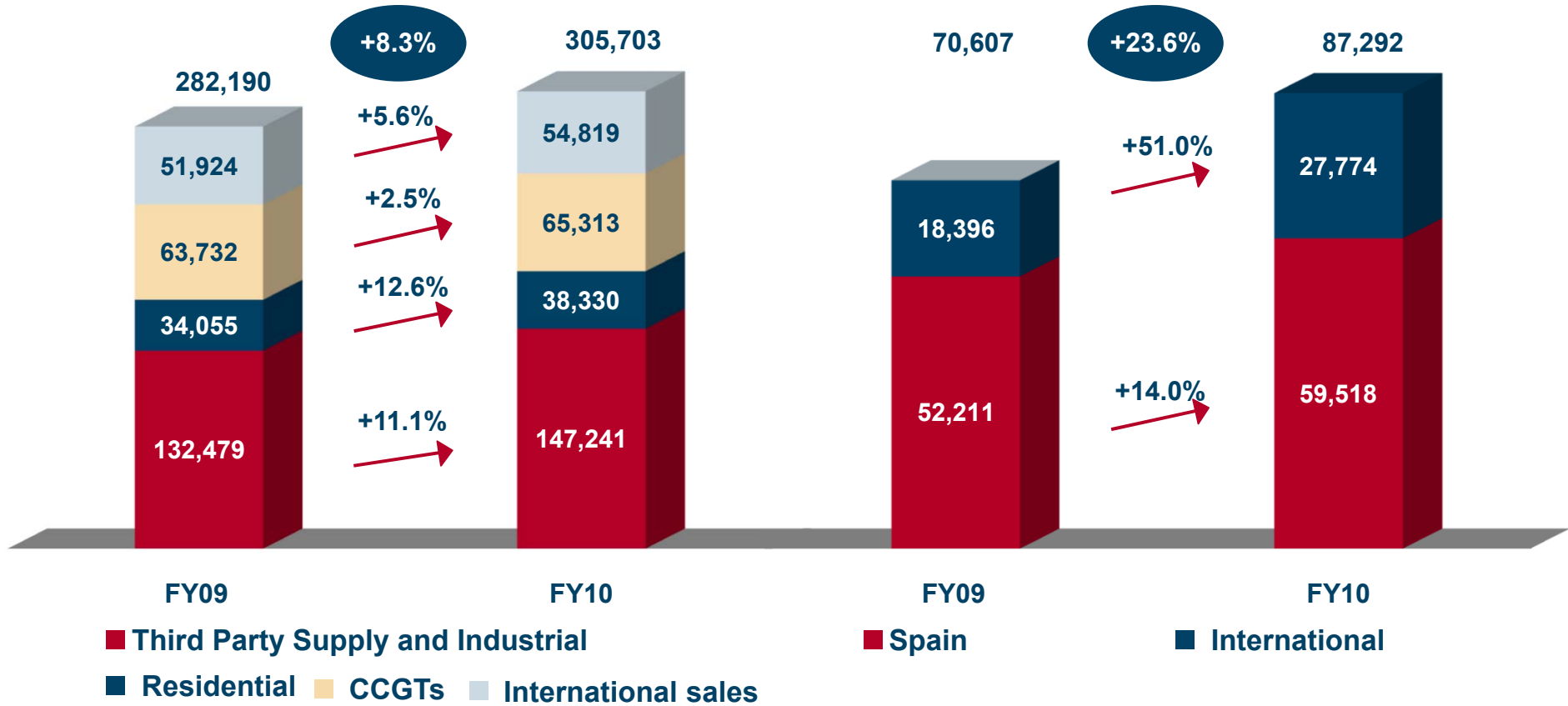
Note:  
1 100% attributable

# Gas Supply



Gas supply (GWh)

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

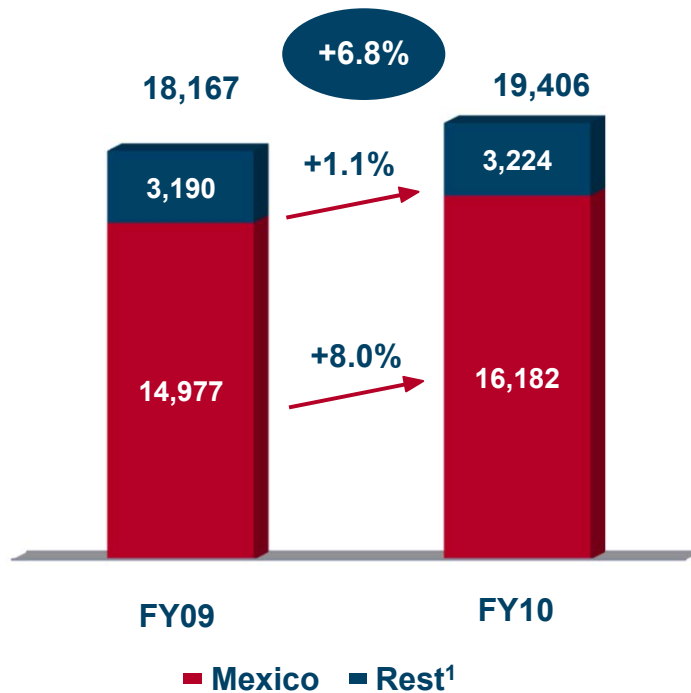


**Higher gas volumes sold thanks to diversification into international markets**

Note:  
1 100% attributable

# Latin America Electricity Generation

Total production (GWh)



- Higher production figures in Mexico reflect recent commissioning of new 450 MW CCGT in Durango
- Higher thermal production in Panama
- Higher power prices achieved in Puerto Rico and Dominican Republic

**EBITDA of €263 million (+20.1%) supported by the new capacity commissioned in 3Q10**

Note:

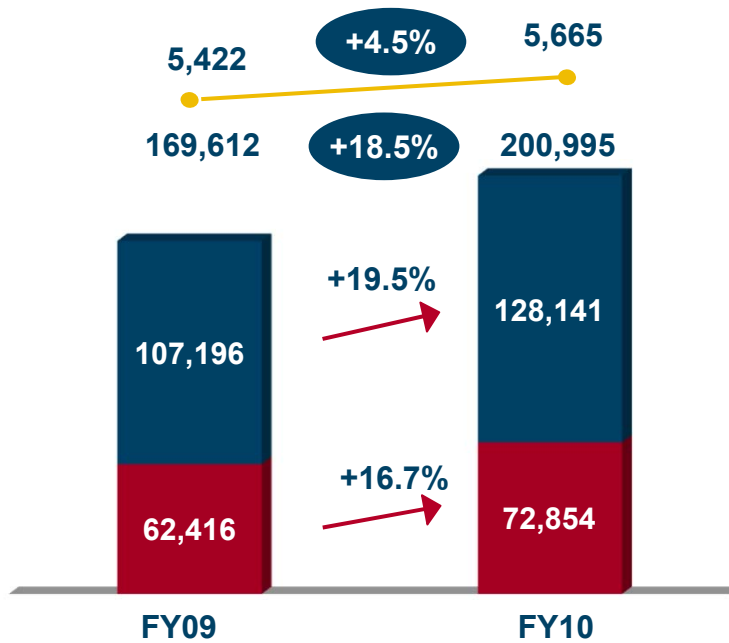
1 Includes Dominican Republic, Panama, Costa Rica, and Puerto Rico

# Latin America

## Gas Distribution

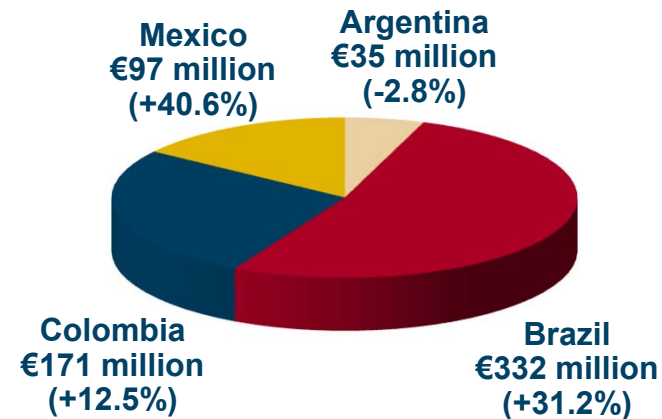


### Operating figures



### EBITDA contribution and growth by country

(Total €635 million, +24.5%)



- TPA Sales (GWh) ■ Tariff Sales (GWh)
- Connections (thousands) as of 31/12

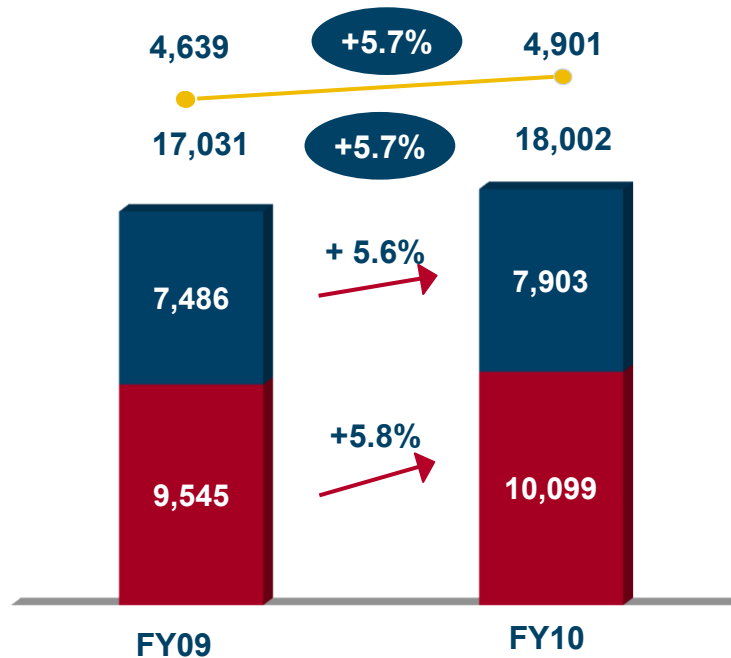
- Substantial growth in connections (+243,000 YoY), led by Colombia
- Volume growth focused in industry and power generation in Brazil

**EBITDA growth supported by activity and currency revaluation**

# Latin America

## Electricity Distribution

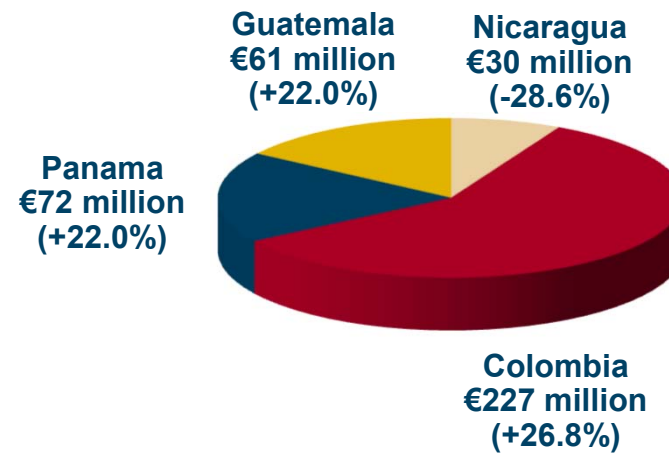
### Operating figures



- Colombia (GWh) ■ Central America (GWh)
- Connections (thousands) as of 31/12

- Higher demand in Colombia from both retail and industry supports EBITDA growth

### EBITDA contribution and growth by country (Total €390 million, +17.8%)



**Achieving network growth all through the region**



# 5

## Conclusions

# Conclusions



**EBITDA FY2010: €4,477 million (+14.1%)**

**Net Income FY2010: €1,201 million (+0.5%)**

**2010 shareholder remuneration: €737 million<sup>1</sup> (+1.0%)**

**Stronger capital structure with a well-balanced financial risk profile**

**Successful execution of asset sales program**

**Working towards fulfillment of 2010-14 Strategic Plan targets**

Note:

<sup>1</sup> Includes maximum reference market value of a capital increase subject to approval by the AGM

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# Thank you

INVESTOR RELATIONS

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