2014 Results

Strategic Update and Outlook **2015-2017**

24-February-2015

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2014 **highlights**

New Regulatory Framework

Regulatory period 2014-2020

Transparent, sustainable, **stable** and **predictable**

Adapted to current economic environment and maturity of the Spanish Gas System

Regulatory **impact** on average annual revenues (€-120mill) will be **offset in Net Profit** through opex control, lower D&A and profits from international investments

Tax reform

Approved in **December 2014**

Reduces corporate tax rate from 30% to 28% in 2015 and to 25% in 2016 and beyond

Positive effect on regulated returns and cash flow generation

Tax reform has had an **exceptional-accounting positive impact** in 2014 due to the update of deferred taxes (€58mill)

Investments

Significant investments which ensure the company's future growth:

- **Peru** (TgP/COGA; Gasoducto Sur Peruano)
- **Europe** (TAP)

Sustainability

Best practices in Corporate Governance

Dow Jones Sustainability Index

EFQM +500

2014 **key financial indicators**

- Dividend **€1.30/share** (+2.4%)
- Investment **€625M**
- Net Profit **€406.5M** (+0.8%)
- Net Debt **€4,059M** (4.2x ND/EBITDA* Adjusted)

Meeting our targets for the 8th year in a row

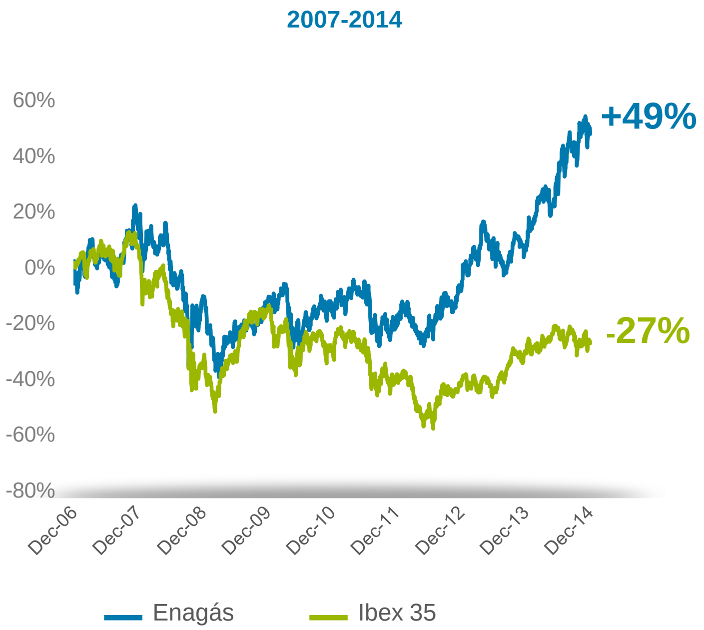
(*) EBITDA adjusted by dividends received from affiliated companies

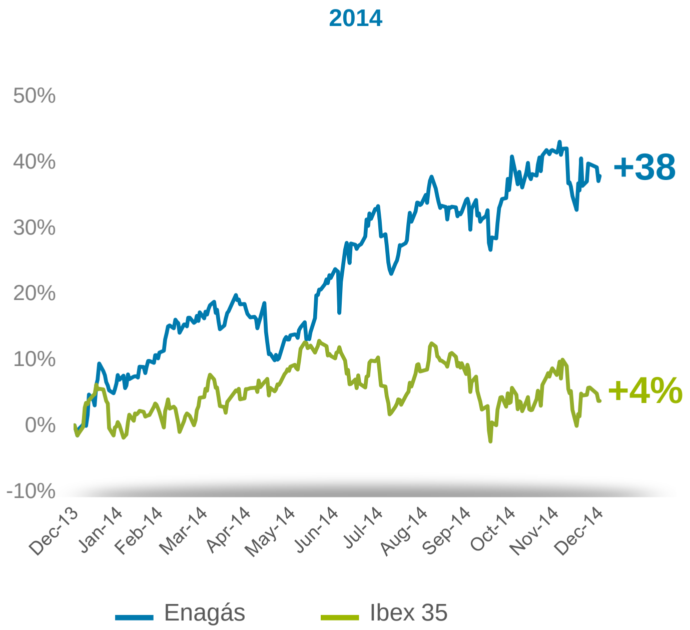
2014 **results analysis**

	2013*	2014	%Chg	Comments
Total revenues	1,261.9	1,223.8	-3.0%	• Impact of gas reform • Lower “Other revenues”
EBITDA	995.9	939.8	-5.6%	• Boosting efficiency plan • Provisions and other non-recurring expenses
EBIT	649.8	589.6	-9.3%	• Extension of regulatory life for pre-2008 transport assets • One-off asset write-down
Net Profit	403.2	406.5	0.8%	• Tax reform exceptional-accounting positive impact in 2014 due to the update of deferred taxes • Positive impact of TGP

(*) In 2014 and in accordance with IFRS 11 (whereby the option to apply the proportionate consolidation method for joint ventures is eliminated), BBG and Altamira are now consolidated under the equity method, contributing only their net profit. For this reason, 2013 has been restated integrating BBG and Altamira under the equity method

2014 **stock market performance**



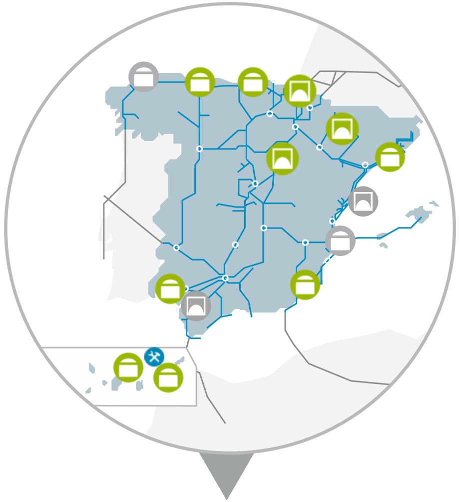


Enagás trading volume +18.25% vs. 2013

2014 **investments**

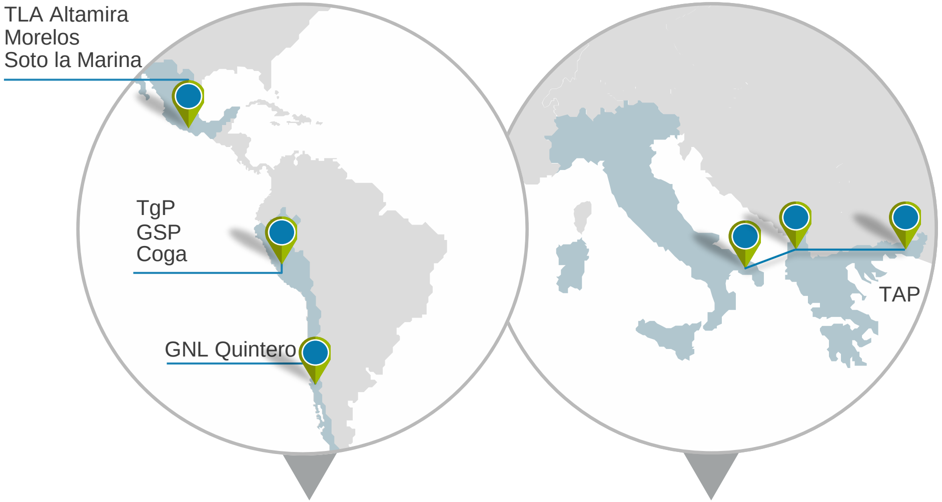
Total €625M

SPAIN



€147M

INTERNATIONAL



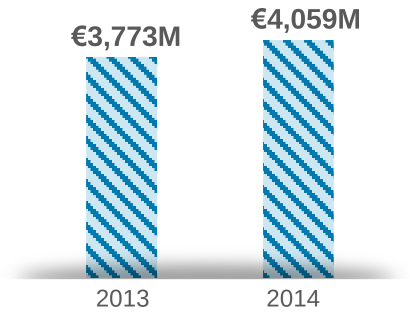
€478M

The company exceeded the investment target for 2014

Note: International investments include 20% of TgP, 25% of GSP, 16% of TAP and 30% of Coga

2014 **financial structure**

Net debt



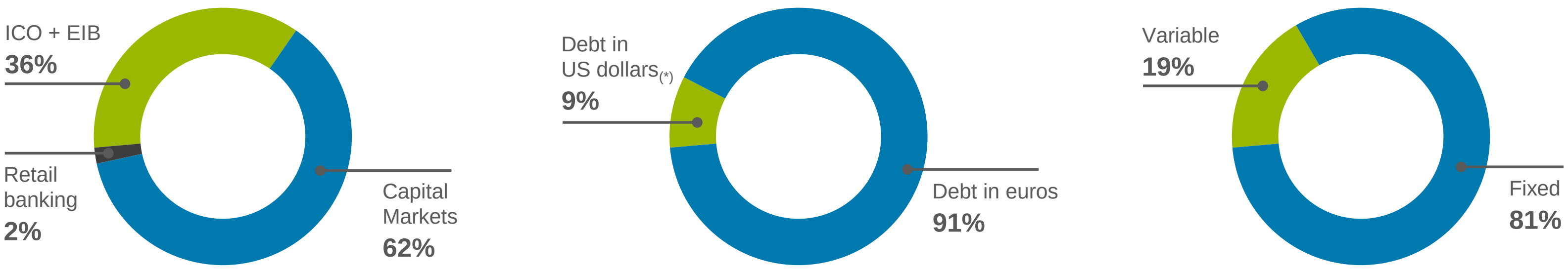
Leverage and liquidity

	2013	2014
Net debt/Ebitda* Adjusted	3.7x	4.2x
FFO/DN	18.5%	16.5%
Cost of debt	3.0%	3.2%
Liquidity	€2,114M	€2,443M

(*) EBITDA adjusted by dividends received from affiliated companies

2013 figures restated under IFRS 11 are the following: Net debt: €3,657M, Net debt/Ebitda* Adjusted 3.6x, FFO/DN: 19.5%

An efficient net debt structure



(*) US$1.0/€1.30

2015 **bond issue**

Bond issue

Issuer	Enagás Financiaciones, S.A.U.
Guarantor	Enagás, S.A.
Tenor	10 years
Maturity	06/02/2025
Issue amount	€600M
Annual coupon	1.25%
Yield	1.349%

Liability management

Acceptance of €282.3M in the exchange offered to holders of Notes maturing on 5 October 2017 (coupon of 4.25%)

- The **success of the placement**, in both term and a historically low cost of funding, helps further **improve the company's sound financial position**
- Issuance ratings
  - **S&P: BBB** (stable outlook)
  - **Fitch: A-** (stable outlook)
- Take-up of the offer was excellent; **more than 115 orders and over 10 times oversubscribed** (> € 6,0bn)

2014 conclusions

- Meeting our targets for the 8th year in a row
- New Regulatory Framework: Transparent, sustainable, stable and predictable
- Significant investments which ensure the company's future growth: TGP (20%) and COGA (30%), Gasoducto Sur Peruano (25%) and TAP (16%)
- Despite the regulatory reform, 2014 dividend will grow 2.4% as set in 2014 targets
- The Enagás share price closed the year 37.85% up, its best performance since the Strategic Plan was launched in 2007

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Global gas
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Global **demand and supply**

Global gas demand expected to **increase above 2% annually** through 2020

- Rising gas consumption concentrated in **non-OECD Asia-Pacific, the Middle East and the Americas**.
- **Power generation** is the leading driver, although gas is also starting to make inroads into **marine bunkers and road transport**.

Additional gas production capacity in all major regions, except Europe

- **Unconventional gas** and **LNG** will play an increasingly important role in global supply.
- **US has become the largest gas producer** (687.6 bcm), ahead of Russia.

Rising import needs matched by a growing number of LNG producers and exporters

- Global gas **trade will increase, with Asia overtaking Europe** as the world's biggest gas importer.
- **Regional price differentials narrow** but remain wide reflecting differences in pricing mechanisms, the high cost of transport between regions and local market conditions.

Sustained gas demand growth, increased trade and arbitrage opportunities between regions will require significant gas infrastructure development in the coming years

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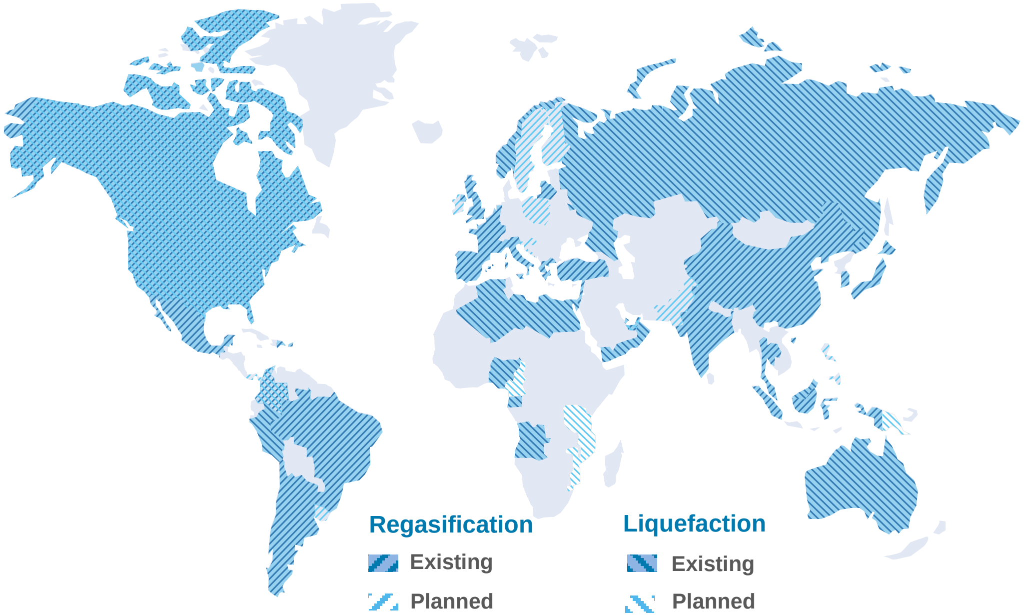
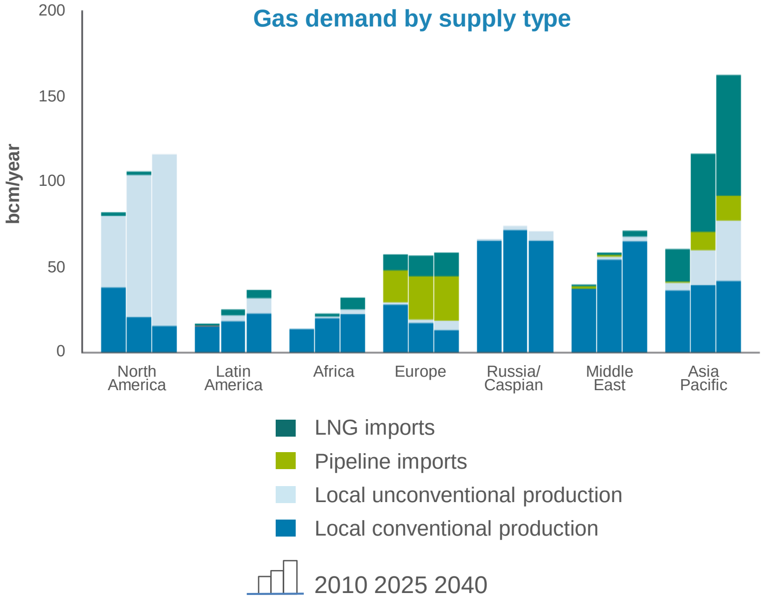
LNG plays a key role in global demand/supply balance

Existing and planned LNG infrastructures



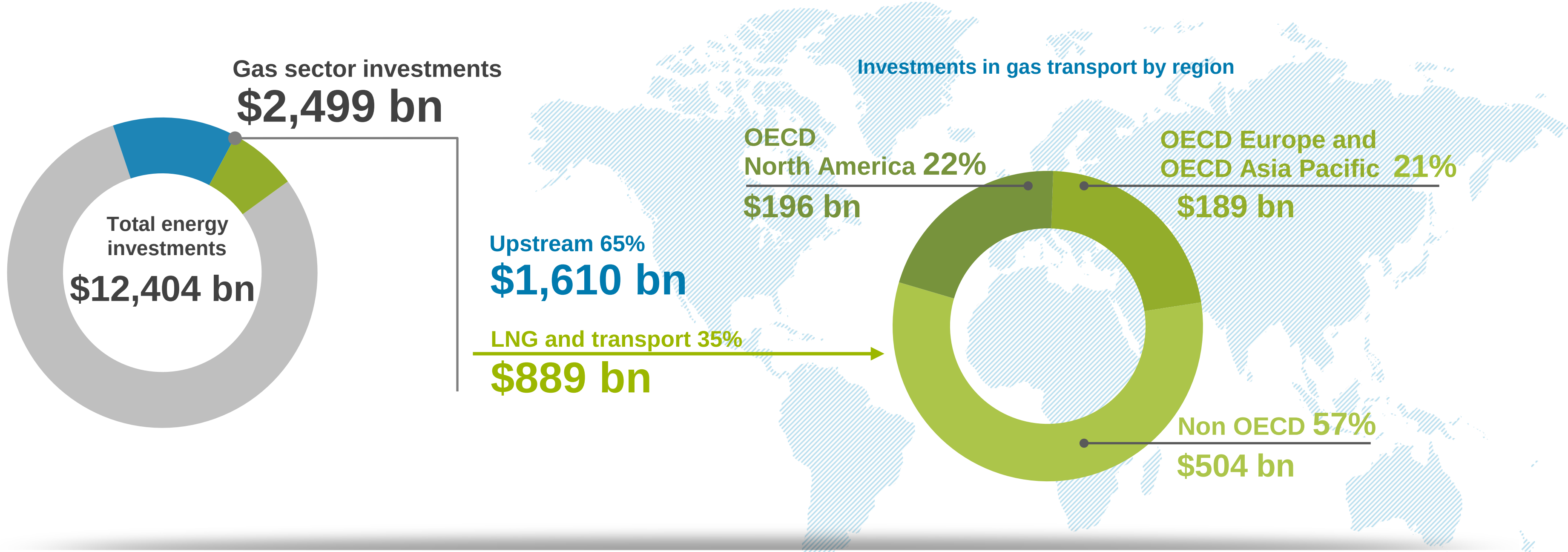


The number of LNG exporting and importing countries has increased in recent years to 20 and 29 respectively. The number of importing countries is expected to further increase to 56 by 2020

Source: Enagás based on various sources (Goldman Sachs, Parallax, ExxonMobil)

Investment needs in gas infrastructures

Gas sector cumulative investments 2014-2020 *



There will be additional brownfield opportunities due to divestments by upstream and/or downstream companies as well as institutional investors

(*) Source: IEA (World Energy Investment Outlook 2014), cumulative investments for energy supply for the period 2014-2020 in the New Policies Scenario. All investment data are presented in real terms in year-2012 US dollars and reflect "overnight investment", i.e. capital spent is assigned to the year production (or trade) is started.

Enagás as a key midstream player

1
Short-run uncertainties remain…

Economic outlook in key energy consuming countries

Energy markets:

- Evolution of Regional gas price trends
- Shale gas development

Climate Change Policy

- Impact of CO_2 price on fuel switching
- COP-21 November 2015 Paris

Policy and Regulatory Environment

2
…but in the medium run the outlook for gas is promising…

Lower fossil fuel prices should enhance economic activity and **foster demand for gas**

In all scenarios, **gas is set to consistently increase in the next decades** to meet rising energy demand

Key role of **gas as fuel “bridge”** in the energy transition

Increasing need of gas supply infrastructure

3
…and Enagás is a key midstream partner.

Infrastructure company, **leader** in midstream (NG and LNG)

Independent company and **solid** financial structure

Proven **track record** in international investment

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Strategic and Financial **guidelines**

- Continued efforts in operating efficiency
- Realistic and profitable Investment Plan
- Focus on international growth
- Strong financial position
- Ensuring adequate and competitive shareholder remuneration
- Sustained growth in net profit

Sustainability as framework for the development of Enagás' business

Strengthening our strategic drivers

Growth **drivers**

Leverage Enagás experience as TSO

Highly competitive and mature market → Enagás to become a key European player with an increasing relevance in the Internal Energy Market

Develop natural gas infrastructure in growth markets

Fast growing markets → Lay the foundations for Enagás business model as independent TSO in countries with high growth potential

Strengthen Enagás position as a global specialist in LNG regasification and liquefaction

Global LNG market → Take advantage of opportunities worldwide to connect gas markets, maintaining Enagás position as a global leader in LNG

Successful strategic approach adopted in 2011 to be maintained

Europe

Opportunities

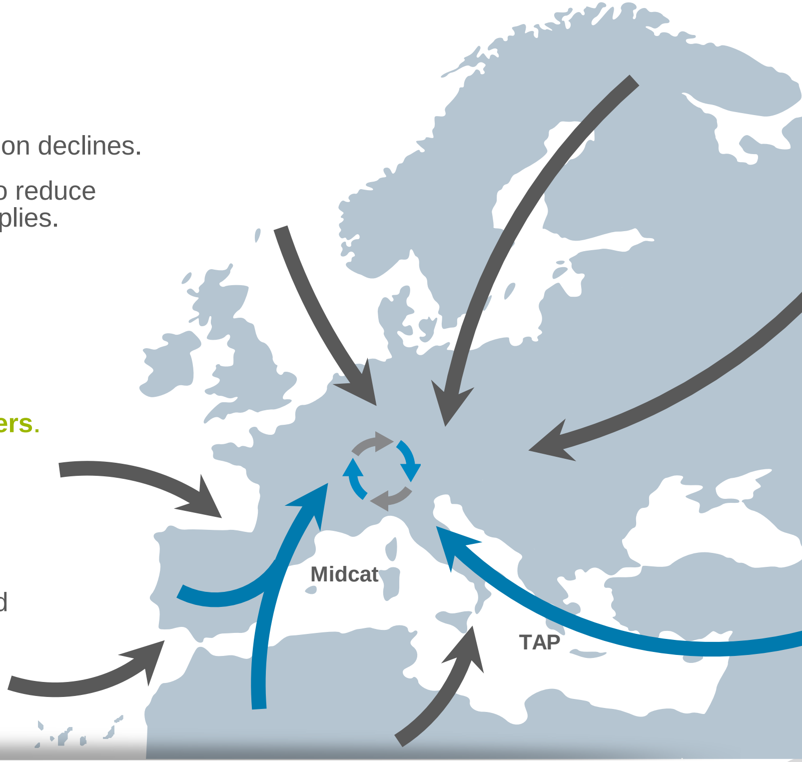
- **Increasing import needs (NG and LNG)** as EU gas production declines.
- `Energy Union´ requires **enhanced cross-border capacity** to reduce fragmentation and **new gas corridors** for alternative gas supplies.
- Acquisition of **operating assets**.

Strategic fit

- Enagás key role within Europe as **TSO of `special grid connection significance´**.
- **Predictable** market, working with **strategic European partners**.
- Priority projects: **TAP** and **Midcat**.

Challenges

- Mature and highly competitive EU markets.
- Prospects for gas hinge on national and European energy and environmental policies.



Enagás can decisively contribute to the integration of European gas markets and to boost greater resilience of European gas supply

Mexico

Opportunities

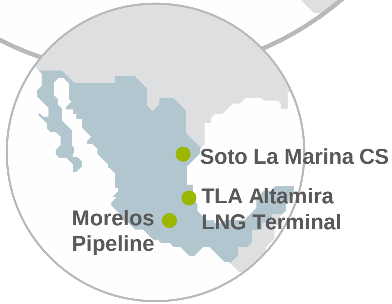
- One of the **top 10 gas markets worldwide**, with high growth potential in the next decade.
- **Energy Reform approved** to ensure system security and economic efficiency by opening the market to domestic and foreign private investment.

Strategic fit

- Presence of Enagás **since 2011**.
- **Ambitious development plan** for new gas transmission infrastructure, largely driven by the development of shale gas in US.
- Infrastructures with guaranteed revenues through **long-term contracts with CFE and PEMEX**.

Challenges

- Competitive auctions for new infrastructure.
- Potential impact on government plans of lower oil exports revenues.



México remains a priority market for Enagás' international investments

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Source: SENER – Secretaría de Energía, Prospectiva Gas Natural y Gas LP 2013-27

Peru

Opportunities

- Gas transmission and distribution **investment official forecast** for the period 2014-2025 **exceeds $11.5 bn**.

Strategic fit

- Development of **new pipelines**.
- Revenues guaranteed through **long-term contracts**.
- Enagás role as **Strategic Operator**.

Challenges

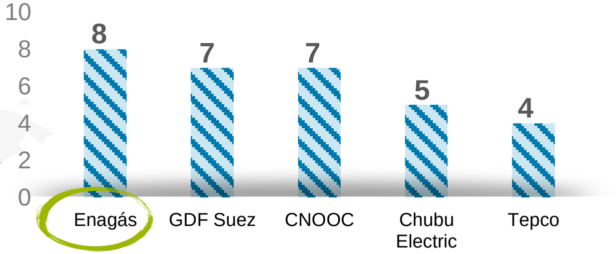
- Producers' response to falling oil prices.
- Maintaining high rates of expected economic growth.

Peru is one of the countries with the greatest potential for development of gas infrastructure in Latam and where Enagás is best positioned within the region

Source: Ministerio de Energía y Minas de Perú, Plan Energético Nacional 2014-2025

LNG

Top energy companies by number of receiving terminals



Top energy companies by regasification volume (Bcm/year)

Source: Enagás based on International Gas Union (IGU).

Enagás is a leading global LNG company: first by number of LNG regasification terminals and third by regasification volume. Future growth in LNG is priority, focused on key markets (Asia-Pacific, Middle East and the Americas)

1) Pending authorizations

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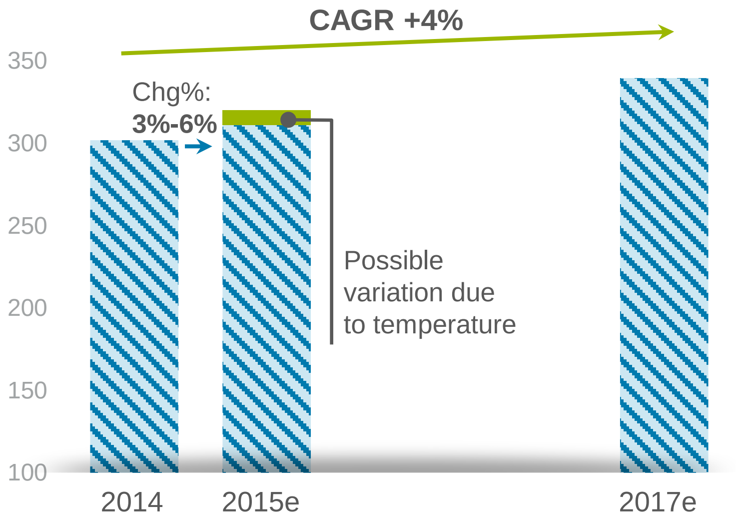
Spain: **demand outlook**

Share of gas in primary energy mix

2014E: ~ 19% → 2020E: ~24%

Source: Enagás and MINETUR, Official Draft Energy Planning 2015-2020

Total gas demand 2014-2017 (TWh)



Source: Enagás GTS

Expected increase of gas demand in Spain driven by GDP growth, greater penetration of natural gas in final consumption and partial recovery of gas use for power generation

A visible and stable **regulatory framework**

Key principles

Adapt to Maturing Network	• Lower focus on investments, more on system quality • Provide attractive returns
Sustainable	• Support elimination of current tariff deficit
Predictable	• Simpler system • Easier to project long-term
Stability	• 6-year regulatory periods. First ends in Dec. 2020

Methodology

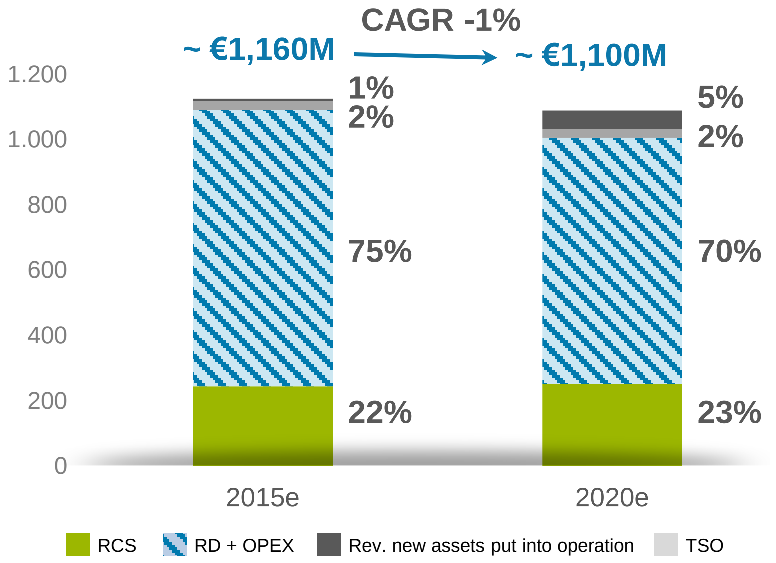
Linked to Operating Asset Base

RDA (Remuneration during Regulatory Useful Life)	• Remuneration linked to the net asset within its useful regulatory life: • Financial Remuneration rate 2015-2020: 5.09% • Extension of regulatory life pre 2008 transport assets
RCS (Remuneration for Continuity of Supply)	• Remuneration linked to the long term availability of assets for the gas system with appropriate maintenance • RCS is not affected by assets' amortization • Based on the formula: Previous Year RCS x 0.97 x (1+ ∆ Gas Demand) • Limited impact of changes in demand in the formula: RCS revenues will vary by ~+€4.5M; ~-€19M with +/- 5% change in gas demand
O&M	• Remuneration based on opex variability • Once the useful life ends, the extension of useful life will be remunerated in addition to O&M retribution

New regulatory framework solves the tariff deficit issue and increases competitiveness of Spanish companies

Sustainable, stable and predictable revenues

Regulated revenues according to the new regulation



Net Profit will continue to grow due to:

Operational efficiency	Efficiency plan 2014-2020 Value creation through operating efficiency
Amortization	Lower D&A (extension of regulatory life pre 2008 transport assets)
Financial discipline	Commitment to maintain strong investment grade
Investment plan	New investments in Spain Investment Plan (International development focused on our five strategic criteria)
Tax reform	Positive impact

Regulatory impact on revenues (€-120M) will be buffered in Net Profit through opex control, lower D&A and profits from international investments and tax reform

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Strategic criteria for international investments

Core Business

NG transmission and underground storage

LNG infrastructure and logistic solutions (bunkering, storage platforms).

Related activities

Risk Profile

Infrastructure capacity mostly contracted on a **long-term basis**

Solid offtakers

Governance

Strategic role as an industrial partner with **veto rights in most important decisions**.

Enagás managers in key positions (engineering, Asset Management, O&M…)

Financial and technical working groups to promote management coordination and ensure quality standards and expected returns

Partners

Establish partnerships with local groups and/or companies with **complementary skills**

High quality partners

Returns

Stable and predictable cash flows with **attractive returns**

Reinforcing strategic criteria set in 2011

Proven **track record**

	TLA Altamira	Morelos	GNL Quintero	Soto La Marina	TGP+COGA	Gasoducto Sur Peruano	Trans Adriatic Pipeline
	2011 40.0%	2012 50.0%	2012 20.4%(1)	2013 50.0%	2014 20.0%	2014 25.0%	2014 16.0%
							
Equity committed	**$59M**	**$39M**	**$176M**	**$12,5M**	**$481M**	**$292M**	**€270M**
Core Business	Regasification	Transport	Regasification	Transport	Transport	Transport	Transport
Governance	Board Management/Operation Veto Joint control COO	Board Management/Operation Veto Joint control CEO	Board Management/Operation Veto Joint control (Largest shareholder)	Board Management/Operation Veto Joint control CEO	Board Management / Operation Veto Position of significant influence / Joint Control (COGA) COO (COGA)	Board Veto Joint Control COO and Controller	Position of significant influence
Risk Profile	Long-Term contract Shell AA (S&P) Total AA- (S&P)	25 years contract CFE mxAAA (S&P)	Use or pay long-term contracts GNL Chile BBB (S&P)	20 years contract CFE BBB (S&P)	Long-term contract BBB/BBB+ (S&P)	Long-term contract (guaranteed by the Goverment)	Long-term contract European PCI project
Returns	Dividends received to date above initial plan	Under construction	Dividends received to date above initial plan	Under construction	Dividends as from 2015	Under construction	Construction starting in 2016
Partners	Vopak -	elecnor -	Endesa Enap A/A1 BBB+ A+ BBB-	fermaca -	CPP Investment Board AAA (S&P) SK energy BBB (S&P) BBB- Suez A (S&P) GyM AAA (Pe)	ODEBRECHT BBB (S&P Bond Rating)	Fluxys - bp A Statoil AA- SOCAR BB+ axpo -

More than 200 opportunities analyzed in 63 countries

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How does Enagás manage its international investments

- Board representation with veto right in major decisions
  (Financial and Dividend Policy, Investment, Corporate Transactions, etc.)
- Key management positions at affiliates
  (i.e. COO, Asset Manager, CFO, etc.)
- Ad-hoc provision of best practices
  (Financial, Technical, Commercial, etc.)
- Supply of ancillary services
  (Property Engineering, O&M, etc.)

Stand alone businesses
No oversizing of Enagás' corporate services
Maximizing efficiency and profitability, guaranteeing performance standards and sustainability

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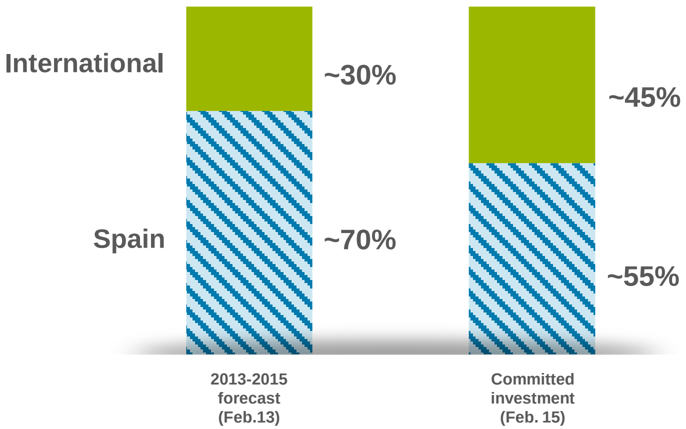
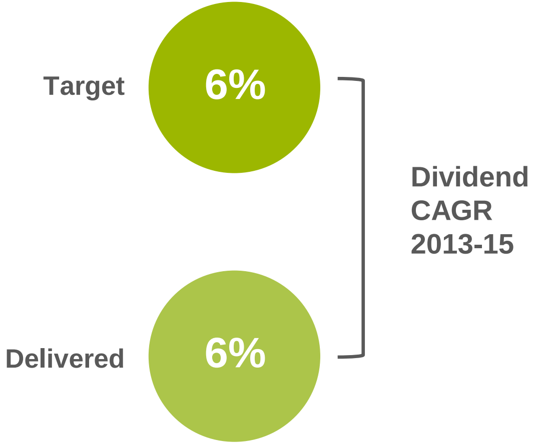
Why a **Strategic Update**:

2013-2015 **targets met and new regulatory framework** up to 2020

Equity investment 2013-2015



Dividend growth 2013-15



With already committed capex, the 2013-2015 investment objective has been met. Despite the impact of the Regulatory Reform in Spain, Enagás has been able to maintain its 2013-2015 dividend growth commitment

2015-2017 **capex in Spain**

Spain

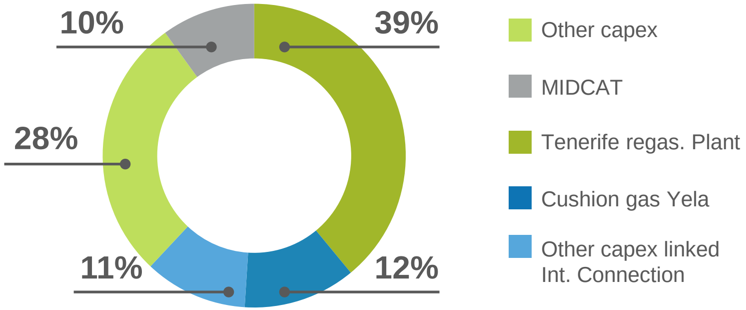
- Mature Spanish gas infrastructure market
- Realistic investment forecast, in line with expected gas demand
- The two regasification plants in Canary Islands account for most of capex in Spain for the period 2015-2020.
- Agreement to acquire shareholdings in BBG and Saggas (*)

Cross-border interconnections

- European Council Conclusions recognised the importance of cross-border interconnections with France (MIDCAT) and Portugal, both considered as PCIs (Projects of Common Interest)

Annual Average

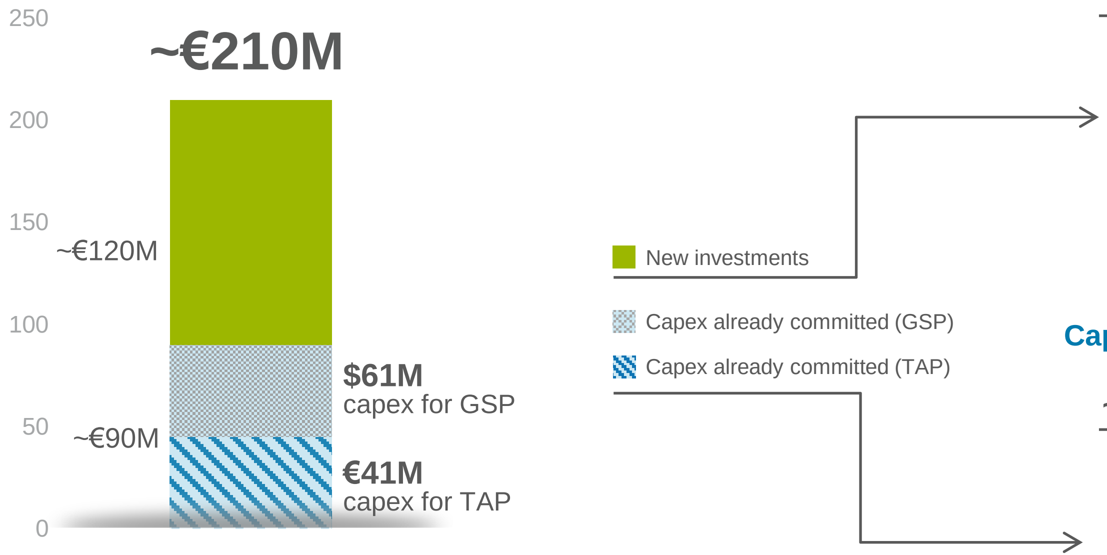
~€220M



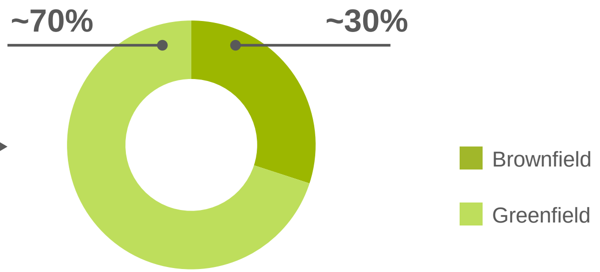
(*) Subject to approval from regulatory authorities and possible exercise of pre-emptive rights by other shareholders

2015-2017 **international capex plan**

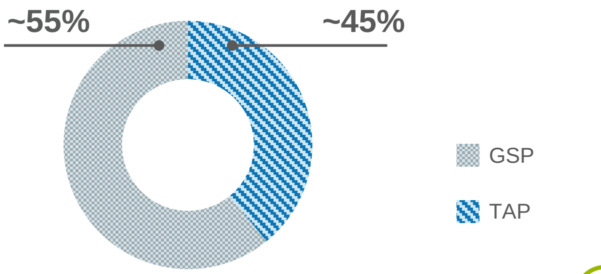
Annual average (equity investments)



New investments 2015-2017



Capex already committed 2015-2017

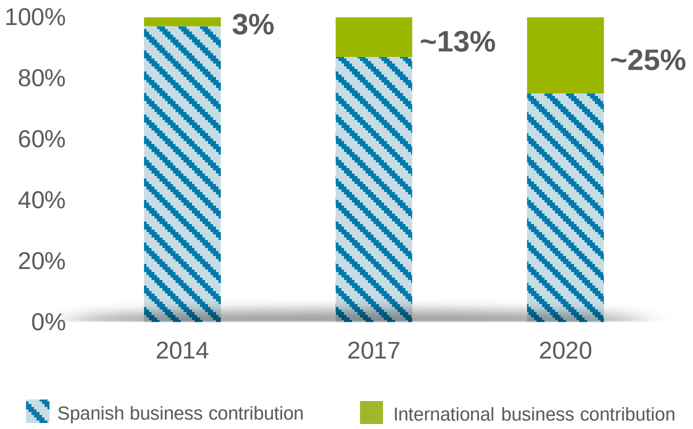


ECB estimated exchange rate for 2015: US$1/ €1.25)

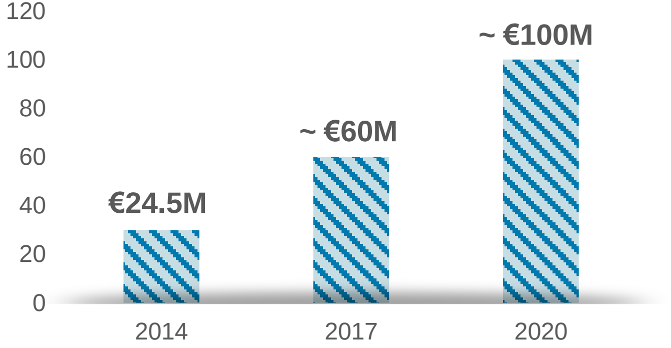
International **business contribution**

(Net Profit and Dividends from investment already committed)

Net Profit – Spain vs. international (M€)

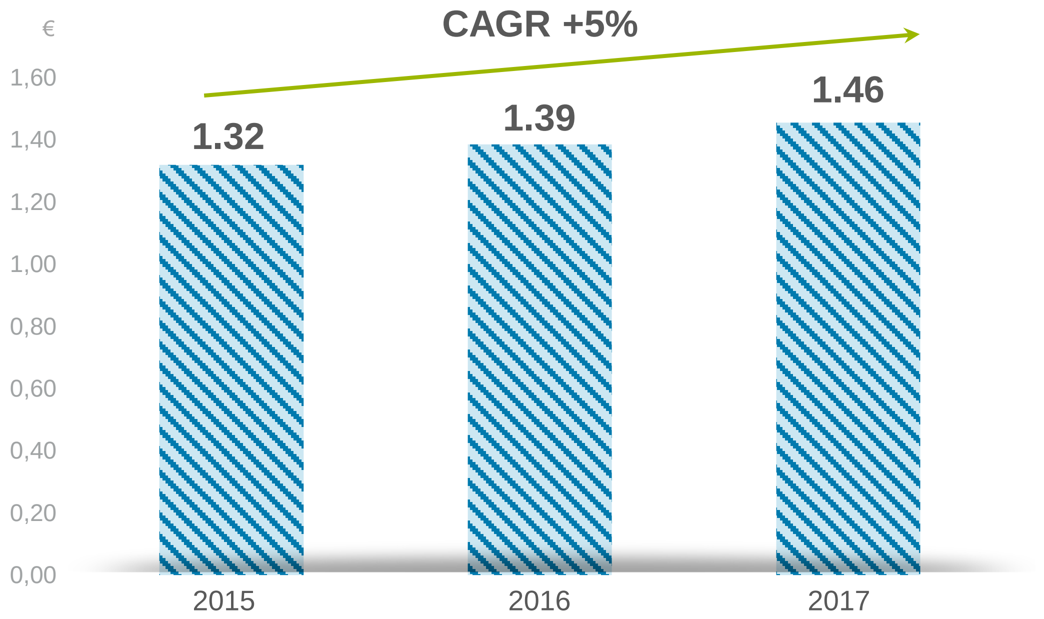


Dividend income from international business (M€)



Committed investments in greenfield assets will allow for future growth that compensates remuneration loss in Spain regulated business

Dividend growth as main priority



2015 dividend
in accordance with
Strategic Plan 2013-2015
despite the regulatory review

Future growth
in line with the best in class
within the European
regulated utilities universe

Maintaining an attractive shareholder remuneration policy

Note: Dividends are subject to approval by the Annual General Meeting, acoording to Spanish corporate legislation

2015-2017 **targets**

- 2015-2017 average annual equity investment of **~€430M** (~50% international investments)
- 2015-2017 CAGR Dividend: **+5%**
- 2014-2017 CAGR Net Profit: **+1%**
- Results from international committed investments will account for at least **~13%** of Net Profit in 2017
- Dividends coming from today's international committed investments will represent **~€60M**
- Commitment to maintain our current credit ratings **(S&P: BBB / Fitch: A-)**

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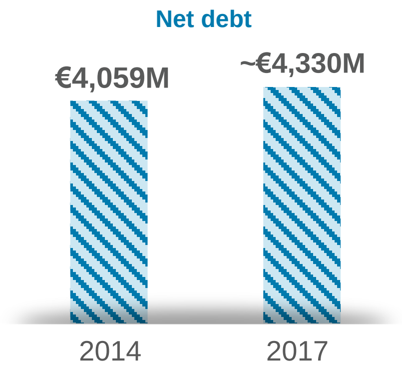
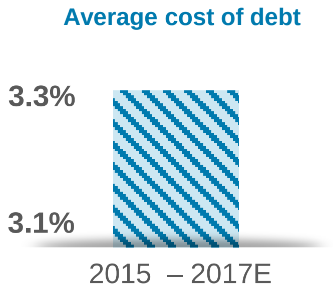
Financial **policy**



Commitment to maintain our current credit ratings **(S&P: BBB/Fitch: A-)**



Average cost of debt is currently at 3.2% and **is expected to remain** between 3.1-3.3%

Note: Acceptance of €282.3M in the exchange offered to holders of Notes maturing on 5 October 2017 (coupon of 4.25%)

2015 **targets**

- ☑ Dividend **€1.32/share**
- ☑ Net Debt **€4,240M** S&P: BBB / Fitch: A-
- ☑ Capex **€430M** (~50% int. investment)
- ☑ Net Profit growth **+0.5%**
- ☑ Cost of debt **~3.1%**

Conclusions

- Stable and predictable regulatory framework until 2020
- Regulatory impact compensated by efficiencies, lower amortization, lower taxes and international profit contribution
- Attractive shareholder return as main strategic priority
- International strategy offers value-creation growth opportunities in the long term for Enagás as a key midstream player
- Prudent financial strategy and commitment to maintain strong current ratings

Legal disclaimer

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2014 Results

Strategic Update and Outlook **2015-2017**

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