

FitchRatings

Fitch: Impact of Corporate Formalities of Gas Natural, Union Fenosa Merger
11 May 2009

Fitch Ratings-London/Barcelona-11 May 2009: Fitch Ratings has confirmed, upon a request by Spanish integrated electricity and gas utility Union Fenosa, S.A. (Fenosa), that the proposed corporate formality of merging Fenosa and Gas Natural SDG, in and of itself, is unlikely to affect the senior unsecured 'A' rating on Union Fenosa Finance, B.V.'s debt and to Union Fenosa Emisiones, S.A.'s EMTN programme, which benefit from a guarantee by Fenosa.

Fitch rates Fenosa at Long-term Issuer Default (IDR) 'A-' and Short-term IDR 'F2'. Union Fenosa Financial Services USA, LLC's 2003 hybrid securities and Union Fenosa Preferentes S.A.'s 2005 hybrid - all guaranteed by Fenosa - are rated 'A-' and 'BBB+' respectively. Gas Natural's ratings are Long-term IDR 'A-', Short-term IDR 'F2', and senior unsecured 'A'. Except for the Short-term IDRs, all the ratings for Fenosa and Gas Natural are on Rating Watch Negative (RWN).

Between July 2008 and April 2009, Gas Natural acquired 95.22% of Fenosa. The latter currently operates as a subsidiary of Gas Natural and its ratings are aligned with those of its parent as per Fitch's Parent and Subsidiary Linkage Criteria, dated 19 June 2007 and available on www.fitchratings.com. Fitch understands that there are no restrictions on Gas Natural as a shareholder of Fenosa. In order to further integrate both entities, Fitch has been informed that the Board of Directors of Fenosa and Gas Natural have proposed their merger. While the corporate formality of merging the two companies into one, in and of itself, is unlikely to affect the senior unsecured rating, Fitch notes that a pending review by the agency of the impact to the business and financial profiles of both companies as a result of the acquisition by Gas Natural of Fenosa has the potential to result in a rating downgrade of both entities and hence to impact Fenosa's senior unsecured debt ratings.

Fitch's rating action commentary "Fitch Downgrades Gas Natural to 'A-'; Maintains Negative Watch", dated 26 February 2009, states with respect to the RWN that "Fitch will assess the future balance sheet structure of the merged businesses, the debt maturity profile, any financial covenants present in the acquisition facility and any new debt to be raised, as well as the timing of disposals, potential synergies and strategy for the businesses. Gas Natural's Long-term IDR and senior unsecured ratings may be downgraded by a further notch if the company does not reduce leverage towards 4.5x in the 18-24 months following the close of the transaction".

Due to the alignment of Fenosa's ratings with those of Gas Natural, the ratings of both entities are expected to move in tandem, whether or not the second step in the integration process (ie the corporate formality of merging the two companies into one, following the acquisition by Gas Natural of Fenosa) takes place.

Fitch assumes that the entity that results from the corporate formality of merging the two companies into one will replace Fenosa as the guarantor of its senior unsecured debt issues on essentially the same terms as the existing guarantee. This rating confirmation does not address whether the corporate formalities of merging the two companies into one is permitted by the terms of the documents and does not address whether these formalities are in the best interests of, or prejudicial to, some or all of the holders of Fenosa's senior unsecured debt.

Fitch expects to resolve the RWNs on Fenosa's and Gas Natural's ratings within the next month.

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