

GAS NATURAL SDG, S.A.

Gas Natural SDG, S.A., in compliance with the provisions of article 228 of the consolidated text of Act 24/1988, of 28 July, on the Securities Market, hereby notifies the National Securities Market Commission of the following

REGULATORY DISCLOSURE

Gas Natural Fenosa sends a press release about the measure taken by the Colombian authority regarding Electricaribe.

Barcelona, 14 March 2017.

GAS NATURAL FENOSA URGES THE GOVERNMENT OF COLOMBIA TO QUASH THE MEASURE OF THE SUPERINTENDENT OF RESIDENTIAL PUBLIC SERVICES

- **The measure adopted by the Colombian authorities is contrary to the spirit of the deepening of trade relations between the European Union and Colombia under the Free Trade Agreement and has a negative impact on the climate required to propitiate flows of international investment.**
- **Gas Natural Fenosa reaffirms its willingness to maintain an open dialogue with the Government of Colombia to reach an agreement that, by providing the company with an adequate regulatory framework, establishes the necessary legal and economic regulations to allow it to continue operating Electricaribe, and to carry out the appropriate Investments.**
- **The Colombian government cannot ignore the fact that Electricaribe has been suffering from a chronic situation of fraud and non-payments for many years, totalling 1.3 billion euros. The solution requires the establishment of a secure and reasonable legal framework.**
- **Electricaribe's investment between 2011 and 2015 amounted to 255 million euros, which could have been three times greater if it had been able to count on government measures to address the serious problem of fraud and non-payment noted above.**

GAS NATURAL FENOSA regrets the decision announced today by the Superintendent of Residential Public Services of Colombia to liquidate the company Electricaribe and calls on the Colombian authorities to quash this measure and to work to find a satisfactory solution and, above all, one which is sustainable for the provision of electricity supply in the area.

The decision of the Superintendent obviates the fundamental problem and is in contradiction of the public statements made by the Chairman of Electricaribe and the special agent on the deficiencies of the current legal and regulatory framework.

Electricaribe is a regulated company and as such supplies all the customers in its area under the conditions that the government determines at any particular time. The current regulatory framework does not take into account the specificities of the Caribbean area and the problems it presents.

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Thus, they have reported that with the current regulatory framework they expect to end 2017 with a deficit of 85 million euros and have publicly stated that: "the culture of non-payment has to be changed, by setting an example from governmental bodies" (Edgardo Sojo, Current Chairman of Electricaribe, appointed by the Superintendent, March 8, 2017).

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The decision to liquidate Electricaribe is contrary to the process of dialogue that, in recent months, the multinational has maintained with the Colombian authorities, always with the objective of reaching an agreement satisfactory to all parties and one that solves the critical situation that the Colombian company is experiencing, derived from the regulatory insecurity existing in the country due to the fraud and non-payment suffered.

The measure adopted is also contrary to the spirit of the deepening of trade relations between the European Union and Colombia under the Free Trade Agreement and has a negative impact on the climate required to propitiate international investment flows to that country.

The order for the company's liquidation is clearly a step in the opposite direction to the principles advocated by the Organisation for Economic Co-operation and Development (OECD), of which Colombia is a candidate for accession. The OECD promotes the development of stable regulation that protects the correct functioning of the investments in the member countries, something that is not being fulfilled in Colombia in the case of Electricaribe.

Given this situation of faits accomplis, GAS NATURAL FENOSA has no choice but to accede to an international institution to resolve the situation created in the manner provided for in the bilateral Agreement on Reciprocal Protection of Investments between Spain and Colombia, a recourse it has been voluntarily putting off so far.

Situation of delays in payment and fraud permitted by the Government

The lack of importance attributed by the Superintendent who dictates the liquidation to the very serious problem of delays in payment and fraud is surprising. The need for more investments in the area is a recognised fact, but there is a tendency to ignore that the fundamental reason is that Electricaribe is owed more than 1,300 million euros by its customers (more than 200 in 2016 alone), according to audited figures which include large debts by Colombian public agencies, and this is so because there is no regulatory

framework that sufficiently protects the interests of the electricity company and prevents it from being forced to supply power without being able to charge.

To all of the above must be added the existence of fraud for an amount exceeding 100 million euros per year. The company has filed more than 16,000 complaints (5,000 in the last 2 years), which obtained only 85 convictions.

It is a flight of fancy to say that the management of the risk of fraud or non-payment is in the hands of Electricaribe.

Despite the magnitude of the figures, despite audits to that effect and the numerous written reports to various official bodies, and the fact that the Colombian State owns 14% of the equity (it fell from 30% to 14% when it did not take part in equity increases) and has two representatives on the Board of Directors, the Colombian Authorities and especially the aforementioned Superintendent, have not taken the necessary measures to prevent the collapse of the company due to the lack of adequate regulation and legal security.

The Electricaribe company was acquired by Union Fenosa in 2000; in 2009, GAS NATURAL FENOSA acquired Unión Fenosa, and since then, and in a continuous manner, it has been warning the Colombian Government of the grave situation and the continued deterioration of the electricity distribution company in the face of the problem of late payment and fraud. Since the start of the investment, more than 800 million euros have been invested from Spain in Electricaribe, and no dividend has ever been paid.

The pretension of the Superintendent that the current problem of Electricaribe can be resolved simply by increasing the equity of the company makes no economic sense and avoids facing the fundamental problem. Electricaribe is a regulated company and - naturally - must have all the necessary capital required, provided that the regulation and legal security allow it to obtain the income necessary to maintain and develop its business, and to obtain a reasonable profit. These circumstances today do not exist for Electricaribe.

The forced deconsolidation of the company

GAS NATURAL FENOSA has already been forced to deconsolidate its shareholding in Electricaribe by reclassifying it, as required by accounting regulations, as a financial asset for its book value of 475 M €. Obviously, the international claim for damages will be made for the entirety of its fair market value, which is much higher.

With more than 170 years of history, GAS NATURAL FENOSA is the leading gas distributor in Latin America and the fourth distributor of electricity. The multinational supplies energy to eight of the 10 principal cities in Latin America.

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