

Union Fenosa Financial Services USA, L.L.C.

Management Report

June 30, 2015

Union Fenosa Financial Services USA, LLC, (hereinafter, "the Company") was incorporated on February 3, 2003 as a limited liability company in accordance with the Limited Liability Companies Act of the State of Delaware in the United States of America.

Its exclusive corporate purpose is to issue Preferred Capital Securities and Common Capital Securities, as well as to perform distributions among them and to assign practically all of the funds obtained to executing borrowing arrangements with subsidiaries of the Gas Natural Fenosa Group.

Since September 2009, the Company's Preferred Capital Securities have the guarantee of Gas Natural SDG, S.A., which has replaced Unión Fenosa, S.A. as guarantor, following the merger by takeover in September 2009 of Unión Fenosa, S.A. by Gas Natural SDG, S.A. as the acquiring company.

As a result of the merger, Gas Natural SDG, S.A. has assumed all Unión Fenosa S.A.'s obligations in the issue carried out by the Company. Gas Natural SDG, S.A. with registered address at Plaza del Gas number 1 in Barcelona, Spain is the parent company of the Gas Natural Fenosa Group. Gas Natural SDG, S.A. is the shareholder of the Company.

On 11 April 2003 the Company registered in the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) (CNMV) a prospectus for the issue of Preferred Capital Securities for a value of EUR 500,000,000, with the possibility of an increase up to EUR 750,000,000. The main information about these Preferred Capital Securities is as follows:

- On 20 May 2003, the Company issued Preferred capital securities for EUR 609,244,650,000.
- The Company's Preferred Capital Securities are traded on the AIAF Spain's benchmark market for Corporate Debt and Private Fixed Income. AIAF is a regulated market and is subject to supervision by the CNMV.
- The Preferred Capital Securities were not redeemable prior to May 20, 2013. On or after such date, the Company may redeem at its option the Preferred Capital Securities at any time, in whole or from time in part, at a redemption price equal to 100% of the liquidation preference plus an amount equal to the then-current dividend accrued and unpaid to the date fixed for redemption.
- The Preferred Capital Securities can be purchased in the Spanish Secondary Trading Market (AIAF), whenever the Company considers it convenient, up to a maximum amount of 10% of the issuance. Such purchases may take place at a price under the nominal value.
- The dividend for these Preferred Capital Securities from the payment date up to May 20, 2013 was the equivalent of the three-month Euribor rate plus a differential of 0.250% (annual percentage rate). However, the minimum dividend was 4.250% (annual percentage rate) which is equivalent to a quarterly nominal interest rate of 4.184% and a maximum of 7.000% (annual percentage rate) which is equivalent to a quarterly nominal interest rate of 6.823%.
- From 20 May 2013, the dividend is the equivalent of the three-month Euribor rate plus a differential of 4.000% (annual percentage rate) which is equivalent to a differential of the quarterly nominal interest rate of 3.941%.

The details of this issue can be consulted on the following web site: www.aiaf.es.

On April 16, 2013 the Board of Managing Directors decided to make a public and voluntary purchase offer for the Preferred Capital Securities to the security holders. The conditions of the purchase offer were the following:

- The Company purchased the Preferred Capital Securities at 93% of each Preferred Capital Security's nominal value, which was equal twenty three EUR and twenty five cents (EUR 23,25) for each Preferred Capital Security. The dividend accrued from the last unpaid dividend payment date up to the corresponding date of acquisition, was paid and did not form part of the purchase price offered.
- The purchase price for Preferred Capital Securities tendered pursuant to the purchase offer could be paid in cash through a single payment.
- The Preferred Capital Securities acquired by the Company in the Purchase Offer were automatically cancelled.

The Company published a relevant event with the conditions of the repurchase offer at the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*).

On May 20, 2013, the Company repurchased 21,582,476 Preferred Capital Securities issued from the security holders. The aggregate nominal amount of Preferred Capital Securities that filed their corresponding acceptance was EUR 539,561,900, which represented 88.56% of the total nominal. The repurchase price amounted to EUR 501,792,567, corresponding to the 93% of the Preferred Capital Securities nominal value. Therefore, from that date to August 2, 2013, the outstanding numbers of preferred capital securities were 2,787,310 which amounted to EUR 69,682,750.00 (the Preferred Capital Securities).

Additionally, on July 10, 2013 pursuant to Section 6.01(d) (xiii) of the LLC Agreement, the Company decided to purchase Preferred Capital Securities in the Spanish Secondary Trading Market up to a maximum of 10% of the issuance outstanding. On August 2, 2013, the Company purchased 23,675 Preferred Capital Securities at 90% of each Preferred Capital Security's nominal value, which was equal twenty two EUR and fifty cents (EUR 22.50) for each Preferred Capital Security. The repurchase price amounted to EUR 532,687.50, corresponding to the 90% of the Preferred Capital Securities nominal value, that amounted to EUR 591,875.

The Preferred Capital Securities acquired by the Company in the Spanish Secondary Trading Market were automatically cancelled, pursuant to Section 7.01 b) of the LLC Agreement.

Therefore, from that date on, the outstanding preferred capital securities are 2,763,635 which amount to EUR 69,090,875.

1. Highlights of the period from June 2014 up to June 2015

Remuneration of the Preferred Capital Securities during the period 2014 until the 30th June 2015 has been as follows:

<u>Start of the period</u>	<u>End of the period</u>	<u>Nominal interest rate</u>
20 May 2014	20 August 2014	4.259%
20 August 2014	20 November 2014	4.137%
20 November 2014	20 February 2015	4.022%
20 February 2015	20 May 2015	3.989%
20 May 2015	20 August 2015	3.930%

2. Business risks

As the preference issues have the guarantee of Gas Natural SDG, S.A., the business risk is linked to that of the Gas Natural Fenosa Group, which we refer to and which is described in its consolidated annual accounts. The Gas Natural Fenosa Group's 2014 and June 2015 consolidated annual accounts are available in the CNMV website (www.cnmv.es) and in the Company's website (www.gasnaturalfenosa.com).

3. Analysis of the results for the year

The Company's net profit during the first half of 2015 was EUR 1,361,810 a decrease of around 11.04% compared to the same period of 2014, due to the development of the three-month Euribor.

A total amount of EUR 1,381,817 was distributed as a dividend.

4. Investments

Since 2003 and until October 2014, the Company on lent the proceedings from the issuance of Preferred Capital Securities to Gas Natural Fenosa Finance B.V, (formerly Unión Fenosa Finance, B.V.) a 100% subsidiary of the Gas Natural Fenosa Group.

In order to assure that the Company had sufficient funds to be able to cover the obligations on the purchases of the Preferred Capital Securities, this loan was partially cancelled on May 20 and on August 2, 2013, in proportion to the number of Preferred Capital Securities finally acquired.

Also, on May 30, 2014 the Board of Directors decided to sign a new addendum of the loan agreement extending the limit of the maturing date to May 21, 2018.

In October 2014, Gas Natural Finance, B.V. decided to cancel the intra-group loan for the outstanding amount of EUR 69,090,875 and the funds raised for these cancellation were on-lent by the Company to Gas Natural SDG, S.A., signing a new loan agreement with the same maturity date.

As a consequence, the Company's investments are mainly a loan granted to Gas Natural SDG S.A.

5. Technological research, development and innovation

During the first half of 2015, the Company has not carried out any activity related to research, development and innovation.

6. Environment

Given the Company's activity, it has no environmental responsibilities, expenses, assets, provisions or contingencies which may be significant relating to its net worth, financial position and results.

7. Foreseeable development

As at June 30, 2015, the Company had no plans to issue new Preferred Capital Securities or to repurchase more Preferred Capital Securities to the security holders.

8. Corporate Governance Report

Union Fenosa Financial Services USA, LLC, is fully controlled by Gas Natural SDG, S.A.

For the purposes of Rule 5 of Circular 1/2004, of 17 March, of the CNMV, we refer you to Gas Natural S.D.G, S.A.'s Annual Corporate Governance Report corresponding to the 2014 financial year, which appears in the CNMV's website and the Company's website (www.gasnaturalfenosa.com).

According to the above-mentioned Circular, it is therefore justified for Union Fenosa Financial Services USA, LLC not to prepare the Annual Corporate Governance Report.

9. Events subsequent to the balance sheet

No events following 30 June 2015 have taken place which could alter the accounts closed on that date.

10. Treasury stock

During the first half of 2015, the Company has had no treasury stock.

In accordance with current legislation, the directors sign the management report of Unión Fenosa Financial Services USA, LLC relating to the Financial Statements as at 30 June 2015.

Madrid/Delaware, 22nd July 2015

Gregory F. Lavelle (Director).
In the United States of America

Donald J. Puglisi (Director)
In the United States of America

Alfonso Serrano (Director)
In Spain

Eloy Prieto (Director)
In Spain

Juan José Rivero Aranda (Director)
In Spain