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GAS NATURAL SDG, S.A.
ORDINARY GENERAL SHAREHOLDERS MEETING
APRIL 20, 2017

REPORT DRAFTED BY THE BOARD OF DIRECTORS OF “GAS NATURAL SDG, S.A.” FOR THE PURPOSES OF SECTIONS 286, 297 AND 506 OF THE CORPORATE ENTERPRISES ACT REGARDING THE RESOLUTION PROPOSAL TO AUTHORISE THE BOARD TO INCREASE THE SHARE CAPITAL, INCLUDING THE POWER TO WAIVE THE PREFERENTIAL SHARE SUBSCRIPTION RIGHTS. MODIFICATION OF THE TRANSITORY ARTICLE OF THE ARTICLES OF ASSOCIATION.

This report has been drafted by the Board of Directors of “GAS NATURAL SDG, S.A.” in accordance with the obligation established in Section 286 of the Corporate Enterprises Act (hereinafter, the “LSC”), in relation to Sections 297 and 506 of said Act.

In accordance with the provisions of Section 297.1 b) of the LSC, the General Shareholders Meeting may, subject to the requirements established for the modification of the Articles of Association, delegate upon the Board of Directors the power to carry out, on one or more occasions, the increase of the share capital up to a certain amount, and when and in the amount that the Board of Directors decides, without previously requesting the specific authorisation of the General Shareholders Meeting. The aforementioned share capital increase, or increases, may not exceed that of half of the share capital and must be carried out, by way of monetary share subscriptions, within the maximum period of five (5) years, as from, in both cases, the date of the authorisation in favour of the Board of Directors.

Furthermore, as provided for under Section 506 of the LSC, in the case of listed companies, when the General Shareholders Meeting delegates in favour of the directors the power to increase the share capital, in accordance with the provisions of the aforementioned Section 297.1 b), the General Shareholders Meeting may also delegate upon the directors the power to exclude or waive the preferential share subscription rights in relation to the issues of shares the subject of the delegated powers, when in the interests of the company, although, said proposal for exclusion or waiver must be included in the meeting notification of the General Shareholders Meeting and

the shareholders shall be provided with a report from the directors in which said proposal is justified.

Accordingly, the shareholders are hereby informed that the authorisation for the Board of Directors to increase the share capital included in the proposal the subject of this report also includes, in accordance with the provisions of Section 506 of said Act, the authorisation in favour of the directors of the power to exclude, either totally or partially, the preferential share subscription rights of shareholders in relation to the issues of shares the subject of the delegated powers, when in the interests of the company, and all of the foregoing subject to the terms provided for under Section 506 of the LSC, although this power will be limited to the fact that the exclusions of the right subscription do not exceed, as a whole, the 20% of the Company's current share capital.

In any event, it is hereby expressly stated that the exclusion, whether total or partial, of the preferential share subscription rights constitutes merely a power that the General Shareholders Meeting confers upon the Board of Directors and the exercise thereof shall depend upon the Board of Directors itself, taking as a guide the social interest, in light of the circumstances that exist, on a case by case basis and in total accordance, as it cannot be otherwise, with the legal requirements. If, in exercise of the foregoing powers and for reasons of convenience to the social interest, the Board of Directors was to decide to exclude or waive the preferential share subscription rights in relation to a specific share capital increase, that it decides to carry out in the future pursuant to the authorisation provided by the General Shareholders Meeting, the Board shall issue, at the time at which it decides to carry out the share capital increase, a report that shall detail the specific reasons, in the interests of the company, that justify said measure, that shall be the subject of the corresponding Report of the Accounts Auditor, that is referred to in Section 506 of the LSC. Both reports shall be provided to shareholders and shall be notified to the first General Shareholders Meeting that is held after the decision to increase the share capital, in accordance with the provisions of the aforementioned provision.

Said report, that shall also contain the complete text of the proposal, shall be drafted in compliance with the aforementioned legal obligation provided for under Sections 286, 297 and 506 of the LSC, and shall be provided to shareholders in the manner provided for under said sections.

Justification and reason for the proposed resolution

The dynamics of any commercial company and, in particular, of the companies the shares of which are listed for official trading, require that the governing and administrative bodies thereof have available at all times the most suitable instruments in order to provide adequate responses to the different requirements of the company or the needs of the market. The foregoing needs may include that of providing the company with new economic and financial resources in order to meet said demands, which may be obtained by means of new contributions of capital.

Moreover, taking into account the current global economic climate and the high volatility of markets, the rapid response of companies is of paramount importance and constitutes a determining factor for a successful outcome in relation to potentially obtaining additional resources.

The LSC, in order to avoid difficulties such as not being able to predict short-term and medium-term needs for share capital increases and for having to request authorisation from the General Shareholders Meeting in order to increase the share capital, with the costs and delays that the holding of said meeting would imply, thereby hindering a rapid and effective response, provides, in Section 297.1 b) thereof, that the General Shareholders Meeting may authorise the Board of Directors to increase the share capital, within certain limits, and in compliance with a series of requirements, without previously requesting the specific authorisation of the General Shareholders Meeting, as well as the possibility to exclude and waive the preferential share subscription rights, in accordance with the provisions of Section 506 of the LSC, in the case that reasons exist, in the interests of the company, that justify said measure.

In light of the foregoing legal possibility, that is frequently used by companies the shares of which are listed for official trading, the General Shareholders Meeting, held on 20 April 2012, authorised the Board of Directors to increase the share capital, within 5 years through monetary disbursement by one or more share capital increase procedures, up to a maximum amount of €495,836,069.-, issuing by way of the issue of new ordinary, preferential or redeemable shares, with or without voting rights, and on par or with a share issue premium, without the need for further authorization by the Board.

On this occasion, it is proposed once again to grant the Board of Directors the power to agree to capital increases up to the limit of 50% of the share capital at the time of authorization within the same period of 5 years. Currently, the share capital amounts to €1,000,689,341.-. Accordingly, the

maximum authorised share capital increase would amount to the sum of €500,344,670.-.

Furthermore, in accordance with the provisions of Section 506 of the LSC, the authorisation for the Board of Directors to increase the share capital the subject of this report also includes the power to exclude, either totally or partially, the preferential share subscription rights of shareholders in relation to the issues of shares carried out in exercise of the aforementioned delegated powers, when in the interests of the company, and all of the foregoing subject to the terms provided for under the aforementioned section. However, in accordance with best practices in matters of corporate governance, and although the law does not require it, the Board proposes to limit this power so that exclusions from the preferential subscriptions right do not exceed as a whole the 20% of the share capital of the Company.

The Board of Directors considers that the foregoing power to exclude the preferential share subscription rights, enables the directors to significantly speed up the process and the response time that is sometimes required within current financial markets, thereby enabling the company to take advantage of the moments in which the market conditions are most favourable. Furthermore, the removal or waiver of the preferential share subscription rights distorts to a lesser degree the trading of the shares of the company during the share issue period, which is usually shorter than in a share issue subject to preferential share subscription rights.

Likewise, it should be noted that GAS NATURAL SDG, S.A. In the past has made prudent use of said faculty. In the light of past experience and best practices in this field, it is proposed to limit this possibility in the sense that exclusions from the pre-emptive right do not exceed as a whole the 20% of the Company's current share capital.

Thus, it will be the Board of Directors that decides in each case whether or not to exclude such right, within the framework of this limitation in view of the social interest and valuing the specific circumstances and in compliance with the legal requirements.

In the event that the Board of Directors decides to exercise the exclusion of the preferential share subscription rights in relation to a specific share capital increase that may be carried out in exercise of the authorisation provided by the General Shareholders Meeting, the Board shall issue, at the time of the share capital increase, a report that explains the specific reasons, in the interests of the company, that justify said decision for the exclusion or waiver of the preferential share subscription rights, that shall

also be the subject of the pertinent audit report, as provided for under Section 506 of the LSC. Both reports shall be provided to shareholders and shall be notified to the first General Shareholders Meeting that is held after the decision to increase the share capital, in accordance with the provisions of the aforementioned provision.

As a result of the foregoing, the Transitory Article of the Articles of Association shall be modified, as said modification shall facilitate the flexibility of the future adoption of any decisions to increase the share capital of the company, such that said power may be exercised at the time which is considered most appropriate in the interests of the company, and, furthermore, the exclusion and waiver of the preferential share subscription rights may also be established.

Proposed resolution:

Fourteen.-

1) Taking into account the current amount of the share capital, to authorise the Board of Directors, with powers to delegate said authorisation upon the Executive Committee, to increase the share capital by the sum of FIVE HUNDRED MILLION THREE HUNDRED AND FORTY-FOUR THOUSAND SIX HUNDRED AND SEVENTY EUROS (€500,344,670.-) within the period of five (5) years, as from today's date, by means of monetary payments, by one or more share capital increase procedures and when and in the amount that is deemed necessary by the Board of Directors, by way of the issue of ordinary, preferential or redeemable shares, with or without voting rights, with or without share issue premiums, without the need for any new authorisation of the General Shareholders Meeting, as well as to modify the Articles of the Articles of Association that are required for the share capital increase or increases that are carried out by virtue of the aforementioned authorisation, with provision for incomplete share subscription, and all of the foregoing in accordance with the provisions of Section 297.1 b) of the Corporate Enterprises Act, and to revoke the authorisation provided by the Shareholders Meeting of 20 April 2012.

2) The Board of Directors is expressly authorised, with powers to delegate said authorisation upon the Executive Committee, to exclude and waive, in full or in part, the preferential share subscription rights in relation to all or any of the share issues that may be established by virtue of the foregoing authorisation. This power is limited to the fact that exclusions from the pre-emptive right do not exceed as a whole the 20% of the Company's current share capital.

3) As a result of the foregoing resolution, to modify the Transitory Article of the Articles of Association, which, hereinafter, shall read as follows:

“TRANSITORY ARTICLE.- DELEGATION UPON THE BOARD OF DIRECTORS.

The Board of Directors of the Company, with powers to delegate said authorisation upon the Executive Committee, and during a maximum period of five (5) years as from today’s date (20/04/2017), is hereby authorised to increase the share capital by the sum of FIVE HUNDRED MILLION THREE HUNDRED AND FORTY-FOUR THOUSAND SIX HUNDRED AND SEVENTY EUROS (€500,344,670.-), by means of monetary payments, by one or more share capital increase procedures and when and in the amount that is deemed necessary by the Board of Directors, by way of the issue of ordinary, preferential or redeemable shares, with or without voting rights, with or without share issue premiums, without the need for any new authorisation of the General Shareholders Meeting, with the option of, as the case may be, establishing the total or partial exclusion and waiver of the preferential share subscription rights up to the limit of 20% of the share capital at the time of this authorization, as well as to modify the Articles of the Articles of Association that are required for the share capital increase or increases that are carried out by virtue of the aforementioned authorisation, with provision for incomplete share subscription, and all of the foregoing in accordance with the provisions of Section 297.1.b) of the Corporate Enterprises Act.”

Barcelona, Spain, on 7 March 2017.

The Board of Directors of “GAS NATURAL SDG, S.A.”