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ORDINARY SHAREHOLDERS' MEETING

27 JUNE 2018

REPORT DRAFTED BY THE BOARD OF DIRECTORS IN RELATION TO THE MODIFICATION OF THE REGULATIONS REGARDING THE ORGANISATION AND FUNCTIONING OF THE BOARD OF DIRECTORS OF "GAS NATURAL SDG, S.A." AND ITS COMMITTEES.

The Regulations regarding the organisation and functioning of the Board of Directors of "GAS NATURAL SDG, S.A." and its Committees (hereinafter, the "RBD") was approved by the Board at its meeting held on 24 March 2004 and was explained at the General Shareholders' Meeting held on 14 April 2004. Subsequently, the Regulations were modified at the meetings of the Board of Directors held on 23 February 2007, 18 December 2007, 25 February 2011, 30 September 2011, 30 November 2012, 27 February 2015 and 21 September 2016, and said modifications were explained at the first General Shareholders' Meetings held after each respective meeting of the Board of Directors.

The main function of the Board of Directors is to supervise and control the ordinary management of the Company, assigned to the Executive Chairman. Experience has demonstrated that, relatively frequently, the Board of Directors is required to dedicate its attention at some point to issues of scarce material relevance, which is not very efficient. Accordingly, in conjunction with the launch of the process for the drafting of the strategic plan, the materiality thresholds have been reviewed in order to ensure the homogeneity of the different precepts that establish the powers of the Board of Directors that may and that may not be delegated.

For the foregoing purposes, the wording of Article 5 of the Regulations is modified, as set out hereinbelow:

Previous wording:

ARTICLE 5.- Powers which may only be exercised by the Board of Directors

Notwithstanding the powers of representation and the management powers that the Articles of Association establish in favour of the Chairman and the Managing Directors, as well as the effects of the powers of attorney or delegations that have been directly conferred by the Company vis-à-vis third parties, the prior decision of the Board of Directors of “GAS NATURAL SDG, S.A.” shall be required in respect of the following aspects, however, in all events, in harmony with the legal autonomy of the governing bodies of the companies of the Group, pursuant to the applicable legislation of the jurisdiction in which said Group companies operate:

- I. Aspects that are not able to be delegated:
 - a) The supervision of the effective functioning of the Committees that have been established and of the actions of the delegated governing bodies and the managers that have been designated.
 - b) The determination of the general policies and strategies of the Company.
 - c) The authorisation or waiver of the obligations related to the duty of loyalty and diligence, as provided for under applicable legislation.
 - d) The organisation and functioning of the Board of Directors.
 - e) The drafting of the Annual Accounts and the presentation thereof to the General Shareholders Meeting.
 - f) The drafting of any type of report required from the governing body pursuant to the Corporate Enterprises Act, provided that the operation the subject of the report is unable to be delegated.
 - g) The appointment and removal of the Managing Directors of the Company, as well as the establishment of the terms and conditions of their respective contracts.
 - h) The appointment and removal of the managers that directly report to the Board or any of the members thereof, as well as the establishment of the basic terms and conditions of their respective contracts, including the remuneration thereof.
 - i) The decisions related to the remuneration of the Board Members,

- in accordance with the terms of the Articles of Association and, as the case may be, of the remunerations policy approved by the General Shareholders Meeting.
- j) The calling of the General Shareholders Meeting and the drafting of the agenda and the proposal for resolutions.
 - k) The policies regarding the treasury stock of the Company.
 - l) The powers that the General Shareholders Meeting has delegated upon the Board of Directors, unless the Board has been expressly authorised by the General Shareholders Meeting to sub-delegate said powers.
 - m) The establishment, investment and supervision of the management of the staff pension plans and any other obligations vis-à-vis staff that imply any type of long-term financial liabilities of the Company.
 - n) The aspects for which a qualified majority is required, as provided for under paragraph 4 of Article 10 of these Regulations.
- II. Aspects that are ordinarily not able to be delegated, however that may be adopted by the Steering Committee or by the Managing Director(s), by reasons of urgency, that have been duly justified, and that must be ratified at the first meeting of the Board of Directors that is held after the adoption of the decision.
- a) The approval of the management objectives, the annual financing plan, the investments and financing policy, the corporate social responsibility policy.
 - b) The determination of the policy for the control and management of risks, including tax risks, and the supervision of the internal information and control systems.
 - c) The determination of the corporate governance policy of the Company and of the Group of which the Company is the parent company; the organisation and functioning thereof and, in particular, the approval and modification of the Regulations thereof.
 - d) The approval of the financial information that, by reason that the Company is a listed company, must be periodically published by the Company.
 - e) The definition of the structure of the group of companies of which the Company is the parent company.
 - f) The approval of all types of investments and operations that, by reason of the significant sum or the special characteristics thereof, constitute strategic operations or are the subject of special tax risks, unless the approval thereof corresponds to the General Shareholders Meeting.
 - g) The approval of the creation or acquisition of shareholdings in

other special purpose entities or companies registered in countries or territories that are considered to be tax havens, as well as any other analogous transactions or operations that, by reason of their complexity, may undermine the transparency of the Company and its Group.

- h) The approval, subject to the prior report of the Audit Committee, of the operations that the Company or any of its Group companies carry out with Board Members, in the terms established in applicable legislation, or with shareholders that hold, either individually or jointly with other shareholders, a significant shareholding in the share capital of the Company, including shareholders that are represented on the Board of Directors of the Company or of other companies that form part of the corporate Group thereof or with any related-parties thereof.
- i) The determination of the tax strategy of the Company.

III. Aspects for which the resolutions or decisions thereof may be adopted, indistinctly, by the Board of Directors or by the Steering Committee:

- a) The definition of the general structure of delegations and empowerments.
- b) The incorporation of new companies or entities or the variation of the shareholdings in already existing companies.
- c) The approval of merger, take-over, split-off, integration or winding-up operations, with or without liquidation, for which any of the companies of the Group have any interests whatsoever.
- d) The disposal of shareholdings in the share capital of companies or of other fixed assets by any Group company.
- e) The approval of the investment projects to be implemented by any Group company.
- f) The approval of the programs for the issue and renewal of series of promissory notes, of debentures or of other similar securities by any Group company.
- g) The approval of financial operations, to be carried out by any Group company, that are not included in the Annual Financing Plan.
- h) The provision of guarantees and bonds by Group companies in order to guarantee the obligations of entities that do not belong to the Group, or that have, if they do belong to the Group, external partners.
- i) The assignment of rights regarding the commercial name and trademarks, as well as in respect of patents, technology and any other modality of industrial property that belongs to any Group

- company.
- j) The approval of the appointment and removal of the Trustees and other positions of the GAS NATURAL FENOSA FOUNDATION and of the natural persons legal representatives of GAS NATURAL SDG, S.A. in the situations in which GAS NATURAL SDG, S.A. is designated as the corporate director of any other company. Approval of contributions to sponsorship or patronage activities.
 - k) The formalisation of commercial, industrial or financial agreements that are of a relevant importance for the Group and that represent any modification, change or review of the current Strategic Plan or Annual Budget.

In relation to the aspects set out under paragraphs b), c), d), e), g), h) and i), the approval of the Board of Directors or the Steering Committee shall be required in relation to the resolutions or decisions that, by reason of the nature or amount thereof, are of special relevance for the Group. An operation shall be deemed to be of special relevance when the economic importance of the operation exceeds 15 million Euros, except in relation to paragraphs h) and i), in which case said limit shall be that of 5 million Euros and in respect of paragraph j), for which said limit shall be that of 200,000 Euros.

Unless any other regime is approved upon the adoption of the corresponding resolution or decision, it shall be considered that an investment or operation does not require any additional approval in the case of any deviation of the operation, when said deviation does not exceed 10% or a further 15 million Euros above of the amount authorised by the Board or, as the case may be, by the Steering Committee.

When necessary, the resolutions of the Board of Directors and of the Steering Committee must be adopted subject to the prior report of the pertinent Committee.

The Chairman, the Managing Director(s) or the Secretary shall execute the resolutions or decisions that are adopted by the Board of Directors in accordance with the terms of this Article, shall notify the authorisation or approval of the applicable terms thereof and shall execute the instructions that have been established for said resolution or decision.

New wording:

ARTICLE 5.- Powers which may only be exercised by the Board of Directors

Notwithstanding the powers of representation and the management powers that the Articles of Association establish in favour of the Chairman and the Managing Directors, as well as the effects of the powers of attorney or delegations that have been directly conferred by the Company vis-à-vis third parties, the prior decision of the Board of Directors of “GAS NATURAL SDG, S.A.” shall be required in respect of the following aspects, however, in all events, in harmony with the legal autonomy of the governing bodies of the companies of the Group, pursuant to the applicable legislation of the jurisdiction in which said Group companies operate:

I. Aspects that are not able to be delegated

- a) The powers that are provided for in applicable legislation as powers that may not be delegated.
- b) The establishment, investment and supervision of the management of the staff pension plans and any other obligations vis-à-vis staff that imply any type of long-term financial liabilities of the Company.
- c) The appointment and removal of the managers that directly report to the Board or any of the members thereof, as well as the establishment of the basic terms and conditions of their respective contracts, including the remuneration thereof.
- d) The aspects for which a qualified majority is required, as provided for under paragraph 4 of Article 10 of these Regulations.

II. Aspects that are ordinarily not able to be delegated, however that may be adopted by the Steering Committee or by the Managing Director(s), by

reasons of urgency, that have been duly justified, and that must be ratified at the first meeting of the Board of Directors that is held after the adoption of the decision.

- a) The approval of the management objectives, the annual financing plan, the investments and financing policy, the corporate social responsibility policy.
- b) The determination of the policy for the control and management of risks, including tax risks, and the supervision of the internal information and control systems.
- c) The determination of the corporate governance policy of the Company and of the Group of which the Company is the parent company; the organisation and functioning thereof and, in particular, the approval and modification of the Regulations thereof.
- d) The approval of the financial information that, by reason that the Company is a listed company, must be periodically published by the Company.
- e) The definition of the structure of the group of companies of which the Company is the parent company.
- f) The approval of all types of investments and operations that, by reason of the significant sum or the special characteristics thereof, constitute strategic operations or are the subject of special tax risks, unless the approval thereof corresponds to the General Shareholders Meeting.
- g) The approval of the creation or acquisition of shareholdings in other special purpose entities or companies registered in countries or territories that are considered to be tax havens, as well as any other analogous transactions or operations that, by reason of their complexity, may undermine the transparency of the Company and its Group.
- h) The approval, subject to the prior report of the Audit Committee, of the operations that the Company or any of its Group companies carry out with Board Members, in the terms established in applicable legislation, or with shareholders that hold, either individually or jointly with other shareholders, a significant shareholding in the share capital of the Company, including shareholders that are represented on the Board of Directors of the Company or of other companies that form part of the corporate Group thereof or with any related-parties thereof.
- i) The determination of the tax strategy of the Company.

III. For the purposes of the provisions of paragraph II f) hereinabove, the prior approval of the Board of Directors or of the Steering Committee shall be required in relation to:

- a) The approval of investments or the acquisition of assets of any type whatsoever, including any contributions that result from any corporate or restructuring operation, for an amount that exceeds 100 million Euros.
- b) The disposal of shareholdings in the share capital of companies or other fixed assets by any company of the Group and, in general, any operations for the disposal of assets, when the value thereof exceeds that of 50 million Euros. The foregoing limit shall also be applicable for the assignment of rights in relation to trade names, trademarks, patents, technology or any other modality of industrial property that belongs to any of the companies of the Group.
- c) The approval of financial operations, to be carried out by any company of the Group, for an amount that exceeds 500 million Euros.
- d) The granting of guarantees or bonds for a sum that exceeds 50 million Euros by companies within the Group in order to guarantee the obligations of companies in which the Group has a shareholding of less than 75%.
- e) The approval of contributions, without consideration, to any entity and, in particular, to any foundation, as well as any contributions that result from any sponsorship or patronage agreements, when the amount thereof exceeds 100,000 Euros.
- f) The formalisation, modification, renewal, non-renewal or cancelation of gas supply contracts for an amount that exceeds that of 200 million Euros, or of any other type of contract when the amount thereof exceeds 100 million Euros.
- g) In general, the approval of any expenses operation that is not included in the Budget and that is not provided for in the preceding paragraphs, when the amount thereof exceeds that of 100 million Euros.

Unless any other regime is approved upon the adoption of the corresponding resolution or decision, it shall be considered that an operation does not require any additional approval in the case of any deviation of the operation, when said deviation does not exceed 10% or a further 15 million Euros above of the amount authorised by the Board or, as the case may be, by the Steering Committee.

The additional approval of the Board or, as the case may be, of the Steering Committee, shall not be required for the capital investments, acquisitions or disposals of assets or the expenses operations that have been approved within the framework of the Annual Budget. The same will apply for acquisitions and disposal of assets if they are detailed in the Strategic Plan.

When necessary, the resolutions of the Board of Directors and of the Steering Committee must be adopted subject to the prior report of the pertinent Committee.

The Chairman, the Managing Director(s) or the Secretary shall execute the resolutions or decisions that are adopted by the Board of Directors in accordance with the terms of this Article, shall notify the authorisation or approval of the applicable terms thereof and shall execute the instructions that have been established for said resolution or decision.

Madrid, Spain, on 6 March 2018.

The Board of Directors of “Gas Natural SDG, S.A.”