

First quarter results 2017

12 May 2017

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Highlights of the period

Net profit amounted to €298 million in the first quarter of 2017.

- Net profit amounted to €298 million in the first quarter of 2017, 9.4% less than in the same period of 2016. For comparison purposes, it is necessary to consider that Electricaribe's results are not consolidated in the first quarter of 2017; in like-for-like terms, the reduction would be 8.3%.
- EBITDA amounted to €1,104 million in the first quarter of 2017, 9.2% less than in the same period of 2016 (5.3% in like-for-like terms without considering Electricaribe's results). This decrease is concentrated in the Electricity business whose evolution has been conditioned by weather factors, with a contraction of Gas Natural Fenosa's hydroelectric production of 75.4%.
- On 11 January 2017, €1,000 million of 10-year notes with an annual coupon of 1.375% were issued in the euromarket under the EMTN programme.
- On 14 March 2017, Colombia's Superintendent of Public Utilities announced the decision to liquidate the company Electricaribe. Subsequently, on 22 March 2017, Gas Natural Fenosa presented the pertinent documentation to initiate arbitration proceedings before the United Nations Commission on International Trade Law (UNCITRAL) in order to recover the company with a viable regulatory framework or, barring that, obtain compensation based on the fair value of the company, estimated at over €1,000 million.
- On 11 April 2017, €1,000 million of 7-year notes with an annual coupon of 1.125% were issued in the euromarket under the EMTN programme; they were paid for in April 2017. In parallel, Gas Natural Fenosa tendered for its notes maturing between 2018 and 2021, with the result that the new bonds were swapped for the redeemed bonds.
- As of 31 March 2017, the indebtedness ratio was 44.4%, i.e. below the 2016 ratio of 45.9%, while the net financial debt/EBITDA ratio was 3.2 in line with 2016.
- On 20 April 2017, the Shareholders' Meeting approved the distribution of income, consisting of allocating €1,001 million out of 2016 income to dividends, the same amount as in the preceding year, representing a 74.3% payout. That is a dividend of €1 per share, of which €0.330 per share was paid as an interim dividend in cash on 27 September 2016 and the remaining €0.670 per share will be paid also in cash in June 2017.

1. Main aggregates

1.1. Main financial aggregates

| (€ Mn) | 1Q17 | 1Q16 | % |
|--------------------------------------|--------|--------|-------|
| Net sales | 6,450 | 5,954 | 8.3 |
| EBITDA | 1,104 | 1,216 | -9.2 |
| Operating income | 651 | 724 | -10.1 |
| Net income | 298 | 329 | -9.4 |
| Cash flow from operations (CFO) | 795 | 837 | -5.0 |
| Average number of shares (million) | 1,001 | 1,001 | - |
| Share price at 31/03 (€) | 20.54 | 17.77 | 15.6 |
| Market capitalisation at 31/03 | 20,554 | 17,782 | 15.6 |
| Net profit per share (€) | 0.30 | 0.33 | -9.4 |
| Investments, net | 321 | 257 | 24.9 |
| Net equity | 19,328 | 18,671 | 3.5 |
| Attributable net equity | 15,511 | 14,542 | 6.7 |
| Net interest-bearing debt (at 31/03) | 15,464 | 15,817 | -2.2 |

1.2. Ratios

| | | 1Q17 | 1Q16 |
|-----------------------------------|-------|------|------|
| Leverage | % | 44.4 | 45.9 |
| EBITDA/ Financial result | times | 6.8 | 6.5 |
| Net interest-bearing debt /EBITDA | times | 3.2 | 3.1 |
| P/E | times | 15.6 | 12.5 |
| EV/EBITDA | times | 7.4 | 6.5 |

Note: Share performance and balance sheet at 31 March.

1.3. Key operating figures

Distribution

| | 1Q17 | 1Q16 | % |
|---|----------------|----------------|--------------|
| Gas distribution (GWh) | 120,815 | 120,988 | -0.1 |
| Europe | 58,546 | 54,546 | 7.3 |
| TPA ¹ | 58,546 | 54,546 | 7.3 |
| Latin America | 62,269 | 66,442 | -6.3 |
| Gas sales | 35,047 | 36,498 | -4.0 |
| TPA | 27,222 | 29,944 | -9.1 |
| Electricity distribution (GWh) | 14,608 | 17,802 | -17.9 |
| Europe | 8,928 | 8,932 | -0.0 |
| Electricity sales | 733 | 705 | 4.0 |
| TPA | 8,195 | 8,227 | -0.4 |
| Latin America (*) | 5,680 | 8,870 | -36.0 |
| Electricity sales | 5,302 | 8,286 | -36.0 |
| TPA | 378 | 584 | -35.3 |
| Electricity transmitted (GWh) | 3,875 | 3,929 | -1.4 |
| Latin America | 3,875 | 3,929 | -1.4 |
| Gas distribution connections ('000) (at 31/03) | 13,620 | 13,260 | 2.7 |
| Europe | 5,778 | 5,744 | 0.6 |
| Latin America | 7,842 | 7,516 | 4.3 |
| Electricity distribution connections ('000) (at 31/03) | 8,238 | 10,694 | -23.0 |
| Europe | 4,588 | 4,558 | 0.7 |
| Latin America (*) | 3,650 | 6,136 | -40.5 |
| ICEIT in Spain (minutes)² | 57 | 17 | - |

(*) 1Q16 includes Electricaribe contribution to the consolidated figures.

Gas business

| | 1Q17 | 1Q16 | % |
|--|---------------|---------------|-------------|
| Wholesale supply (GWh) | 84,367 | 76,025 | 11.0 |
| Spain | 40,436 | 37,486 | 7.9 |
| Rest of Europe | 20,441 | 20,395 | 0.2 |
| International LNG | 23,490 | 18,144 | 29.5 |
| Retail supply (GWh) | 14,140 | 13,902 | 1.7 |
| Gas transportation – EMPL³ (GWh) | 28,713 | 24,163 | 18.8 |

¹ Third-Party Access (energy distributed). Includes TPA services in secondary transmission.

² Installed Capacity Equivalent Interruption Time.

³ Europe-Magreb pipeline.

Electricity business

| | 1Q17 | 1Q16 | % |
|------------------------------------|---------------|---------------|-------------|
| Electricity generated (GWh) | 11,561 | 11,322 | 2.1 |
| Spain | 7,275 | 7,082 | 2.7 |
| Generation | 6,544 | 6,202 | 5.5 |
| Hydroelectric | 465 | 1,893 | -75.4 |
| Nuclear | 1,225 | 1,092 | 12.2 |
| Coal | 1,669 | 522 | - |
| CCGT | 3,185 | 2,695 | 18.2 |
| Renewables and Cogeneration | 731 | 880 | -16.9 |
| Global Power Generation | 4,286 | 4,240 | 1.1 |
| Mexico (CCGT) | 3,691 | 3,621 | 1.9 |
| Mexico (Wind) | 223 | 261 | -14.6 |
| Costa Rica (hydroelectric) | 79 | 67 | 17.9 |
| Panama (hydroelectric) | 18 | 13 | 38.5 |
| Dominican Republic (oil-fired) | 212 | 244 | -13.1 |
| Kenya (oil-fired) | 63 | 34 | 85.3 |
| Installed capacity (MW) | 15,418 | 15,471 | -0.3 |
| Spain | 12,716 | 12,769 | -0.4 |
| Generation | 11,569 | 11,624 | -0.5 |
| Hydroelectric | 1,954 | 1,954 | - |
| Nuclear | 604 | 604 | - |
| Coal | 2,010 | 2,065 | -2.7 |
| CCGT | 7,001 | 7,001 | - |
| Renewables and Cogeneration | 1,147 | 1,145 | 0.2 |
| Global Power Generation | 2,702 | 2,702 | - |
| Mexico (CCGT) | 2,035 | 2,035 | - |
| Mexico (Wind) | 234 | 234 | - |
| Costa Rica (hydroelectric) | 101 | 101 | - |
| Panama (hydroelectric) | 22 | 22 | - |
| Dominican Republic (oil-fired) | 198 | 198 | - |
| Kenya (oil-fired) | 112 | 112 | - |

2. Analysis of consolidated results

The main details of the income statement are as follows:

| (€ Mn) | 1Q17 | 1Q16 | % |
|---|-------|-------|-------|
| Net sales | 6,450 | 5,954 | 8.3 |
| EBITDA | 1,104 | 1,216 | -9.2 |
| Operating income | 651 | 724 | -10.1 |
| Net financial income | -173 | -199 | -13.1 |
| Profit/(loss) of entities recorded by the equity method | - | -9 | - |
| Income tax expense | -112 | -121 | -7.4 |
| Non-controlling interests | -68 | -71 | -4.2 |
| Net income | 298 | 329 | -9.4 |

2.1. Changes in consolidation scope and other material transactions

Throughout 2016, Electricaribe, a company owned 85.38% by Gas Natural Fenosa, experienced severe liquidity stress as a result of the actions and omissions of the Republic of Colombia. On 14 November 2016 the Superintendence for Residential Public Services of the Republic of Colombia (“the Superintendence”) ordered the seizure of the goods, assets and businesses of Electricaribe, as well as, the removal of the members of the governing body and the general manager, and their replacement by a special agent appointed by the Superintendence, therefore, at 31 December 2016, Gas Natural Fenosa had lost control and any significant influence over Electricaribe. Afterwards, on 11 January 2017 the Superintendence agreed the intervention extension to the 14 March 2017, announcing at that date, the decision of winding up Electricaribe.

On 22 March 2017, Gas Natural Fenosa presented the pertinent documentation to initiate arbitration proceedings before the United Nations Commission on International Trade Law (UNCITRAL) in order to recover the company with a viable regulatory framework or, barring that, obtain compensation based on the fair value of the company, estimated at over €1,000 million. A formal request has been made for arbitration before the UNCITRAL Tribunal, which, like the World Bank’s ICSIC, is envisaged as an appropriate venue for settling differences under the bilateral agreement between Colombia and Spain on promotion and reciprocal protection of investments.

On 31 December 2016, Gas Natural Fenosa ceased to consolidate Electricaribe and, in line with the requirements of the applicable accounting standard, IFRS 10, it derecognised its assets, liabilities and non-controlling interests for an amount of €475 million. In addition, under IAS 39, the investment in Electricaribe has been recognised at fair value (€475 million) under available-for-sale financial assets. As the investment in Electricaribe involves unlisted equity instruments and, therefore, no quoted share price is available, it has been valued using a prudent approach. However, Gas Natural Fenosa believes that the final amount that may reasonably be expected to be recognised by the agencies and courts that may decide on the applicable price or indemnity based on fair market value will be higher than the figure mentioned above.

2017

There have been no significant changes in the consolidation scope in 2017.

2016

On 18 December 2015, Gas Natural Fenosa, which, through CGE, owned a 56.62% controlling stake in Chilean company Gasco, S.A., signed an agreement with a group of shareholders that owned 22.4% of Gasco, S.A., referred to as the Pérez Cruz family, to demerge Gasco, S.A. into two companies, one focused on the natural gas business, to remain under the control of Gas Natural Fenosa, and the other focused on the liquefied petroleum gas (LPG) business, which would be controlled by the Pérez Cruz family. Once the split had been completed, on 6 July 2016, each of the parties made a tender offer to acquire 100% of its company in order to pursue its respective business independently. On 8 August 2016, Gas Natural Fenosa announced the sale of the shares of Gasco, S.A. for a total amount of 160,197 million Chilean pesos (€220 million), i.e. a capital gain of €4 million, and the takeover bid for Gas Natural Chile, S.A. success, acquiring an additional 37.88% of that company's capital for a total of 223,404 million Chilean pesos (€306 million). As a result, Gas Natural Fenosa's controlling stake in Gas Natural Chile, S.A. became a 94.50%.

In April 2016, Unión Fenosa Gas (a company recognised by the equity method) sold to the Galicia Regional Government and the Tojeiro Group, through Gasifica, S.A., its 21.0% stake in Regasificadora del Noroeste, S.A. (Reganosa) for €28 million, which resulted in a capital gain of €1 million, net of taxes, for Gas Natural Fenosa.

In June 2016, Unión Fenosa Gas reached an agreement to sell its 42.5% stake in Planta de regasificación de Sagunto, S.A. (Saggas), held through Infraestructuras de Gas S.A., to Enagás for €106 million. This transaction was completed in July 2016, providing Gas Natural Fenosa with a capital gain, net of taxes, of €21 million.

On 29 June 2016, Gas Natural Fenosa, through the company Aproveisionadora Global de Energía (AGESA), a subsidiary of Gas Natural Chile, S.A., concluded an agreement with Enagás for the sale of 20.0% of the interest in GNL Quintero, S.A. (Chile) for USD 200 million, which, following the adjustments for dividends at the closing date, amounted to USD 197 million (€182 million). The operation was concluded in November 2016 and resulted in a capital gain of €128 million before taxes and non-controlling interests, or €50 million net.

On 29 July 2016 Gas Natural Fenosa acquired the 100% of the Irish gas and electricity supply company Vayu Limited (Vayu) under the new strategic plan which envisages growth in the energy supply business in Europe. This transaction complements its existing position in other European markets (France, Italy, Belgium, Netherlands, Portugal, Germany and Luxembourg) and will enable it to engage in LNG trading and operations. Vayu has a 15% share of gas supply to large industrial and commercial customers in Ireland, and around 6% of the electricity supply market.

2.2. Analysis of results

2.2.1. Net sales

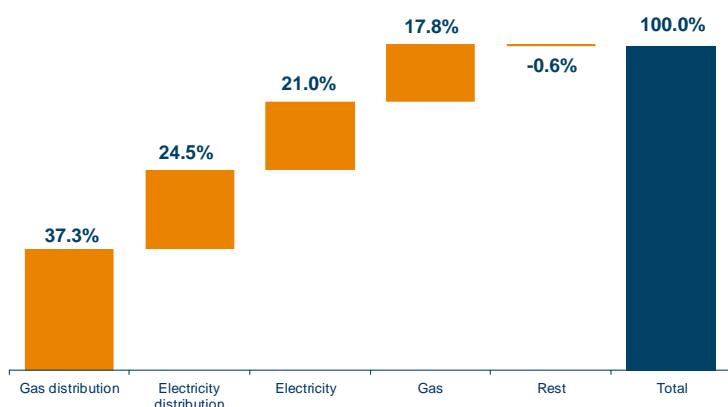
Net sales totalled €6,450 million in the first three months of 2017, an 8.3% increase with respect to the same period of 2016 due basically to the year-on-year increase in sales volumes and prices in the gas business as well as the evolution of exchange rates.

2.2.2. EBITDA and EBIT

Consolidated EBITDA in the first quarter amounted to €1,104 million, €112 million (9.2%) less than in the same period of 2016. Nevertheless, the first quarter of 2017 does not include the figures for Electricaribe; consequently, in like-for-like terms, the reduction would be just 5.3%.

Foreign currency fluctuations in consolidation had a positive impact on EBITDA in the first quarter of 2017 amounting to €29 million with respect to the same period of 2016, mainly due to appreciation of the Brazilian real and the Chilean peso.

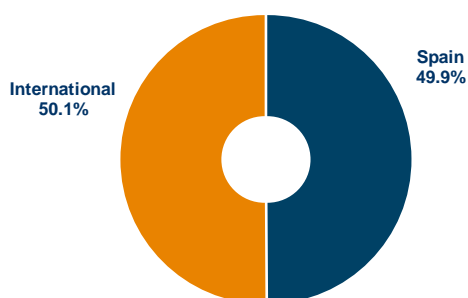
Contribution to EBITDA by business



The chart illustrates the business lines' contributions to consolidated EBITDA, showing an appropriate degree of diversification, including a notable contribution by gas distribution (37.3% of the consolidated total), followed by electricity distribution (24.5%), the gas business (21.0%) and the electricity business (17.8%).

Contribution to EBITDA by geography

EBITDA from Gas Natural Fenosa's international activities increased by 3.6% to account for 50.1% of the consolidated total, compared with 43.9% in the same period of last year. EBITDA from operations in Spain fell by 19.2% and declined as a share of the consolidated total to 49.9%.



Depreciation and amortisation charges and impairment losses in 1Q17 amounted to €423 million, a 2.8% decrease year-on-year basically due to the extension of the combined cycle plants useful life.

Provisions for bad debts amounted to €30 million, compared with €57 million in 2016; this reduction is due basically to deconsolidating Electricaribe.

EBIT in the first quarter of 2017 declined by €73 million (-10.1%) with respect to the same period of 2016, to €651 million (-8.1% in like-for-like terms without considering Electricaribe).

2.2.3. Financial income

The breakdown of financial results is as follows:

| (€ Mn) | 1Q17 | 1Q16 |
|--|-------------|-------------|
| Cost of net interest-bearing debt | -162 | -186 |
| Other financial expenses/revenues | -14 | -17 |
| Financial income - Costa Rica ¹ | 3 | 4 |
| Net financial income | -173 | -199 |

¹ Power generation concessions in Costa Rica are recognised as financial assets in accordance with IFRIC 12.

The cost of net interest-bearing debt in the first quarter of 2017 was €162 million, i.e. lower than in the same period of 2016 due to deconsolidating Electricaribe and to the lower coupons on new debt issued to refinance maturing debt.

The average cost of gross interest-bearing debt is 3.9%, and 73.5% of the gross debt is at fixed rates.

2.2.4. Equity-accounted affiliates

In 1Q17 there is no contribution to the result from equity-accounted affiliates, compared with -€9 million in 1Q16 as Ecoeléctrica and others (Chile and renewable generation) positive contribution is compensated by Unión Fenosa Gas sub-group negative contribution.

2.2.5. Income tax

The effective tax rate as of 31 March 2017, based on the best estimate of the effective tax rate for the full year, was 23.5%, the same as one year earlier.

2.2.6. Non-controlling interests

The main items in this account are the non-controlling interests in EMPL, in GPG, in gas distribution companies in Chile, Brazil, Colombia and Mexico, and in electricity distribution companies in Chile and Panama, as well as accrued interest on perpetual subordinated notes.

Income attributed to non-controlling interests amounted to -€68 million in 1Q17, compared with -€71 million in 1Q16.

2.2.7. Net income

Net income amounted to €298 million, a reduction of 9.4% with respect to the same period of 2016. Nevertheless, for comparison purposes, it is necessary to consider that Electricaribe's results are not consolidated in the first quarter of 2017; in like-for-like terms, the reduction would be 8.3%.

3. Balance sheet and cash flow

The key balance sheet figures are as follows:

| (€ Mn) | 1Q17 | 1Q16 | % |
|---|--------|--------|------|
| Property, plant and equipment and intangible assets | 34,463 | 33,918 | 1.6 |
| Net interest-bearing debt | 15,464 | 15,817 | -2.2 |
| Net equity | 19,328 | 18,671 | 3.5 |
| Attributable net equity | 15,511 | 14,542 | 6.7 |

3.1. Investments

The breakdown of net investments by type is as follows:

| (€ Mn) | 1Q17 | 1Q16 | % | |
|---|------------|------------|-------------|---|
| Capital expenditure and intangible assets | 320 | 266 | 20.3 | Investments in property, plant and equipment and intangible assets amounted to €320 million in 1Q17, a 20.3% increase with respect to 1Q16, due basically to greater investment in gas and electricity distribution in Latin America, as well as Electricity. |
| Financial investments | 12 | 10 | 20.0 | |
| Total gross investments | 332 | 276 | 20.3 | |
| Disposals and others | -11 | -19 | -42.1 | |
| Total net investments | 321 | 257 | 24.9 | |

Capital expenditure and intangible assets, by activity

| (€ Mn) | 1Q17 | % contribution | 1Q16 | % contribution | % variation |
|--|------------|----------------|------------|----------------|-------------|
| Gas Distribution | 114 | 35.6 | 119 | 44.7 | -4.2 |
| Spain | 42 | 13.1 | 66 | 24.8 | -36.4 |
| Italy | 4 | 1.3 | 5 | 1.9 | -20.0 |
| Latin America | 68 | 21.3 | 48 | 18.0 | 41.7 |
| Electricity Distribution | 129 | 40.3 | 106 | 39.8 | 21.7 |
| Spain | 42 | 13.1 | 45 | 16.9 | -6.7 |
| Moldova | 1 | 0.3 | - | 0.0 | - |
| Latin America | 86 | 26.9 | 61 | 22.9 | 41.0 |
| Gas | 9 | 2.8 | 7 | 2.6 | 28.6 |
| Infrastructure | 2 | 0.6 | 1 | 0.4 | - |
| Procurement and Supply | 7 | 2.2 | 6 | 2.3 | 16.7 |
| Electricity | 62 | 19.4 | 30 | 11.3 | - |
| Spain | 23 | 7.2 | 17 | 6.4 | 35.3 |
| Global Power Generation | 39 | 12.2 | 13 | 4.9 | - |
| Rest | 6 | 1.9 | 4 | 1.5 | 50.0 |
| Total capital expenditure and intangible assets | 320 | 100.0 | 266 | 100.0 | 20.3 |

The electricity distribution business accounts for 40.3% of the consolidated total, is the main target of capital expenditure, and expanded by 21.7% with respect to the same period of 2016. Electricity distribution in Latin America represents a 26.9% over the consolidated total and increases a 41.0% basically due to the investment increase in Chile.

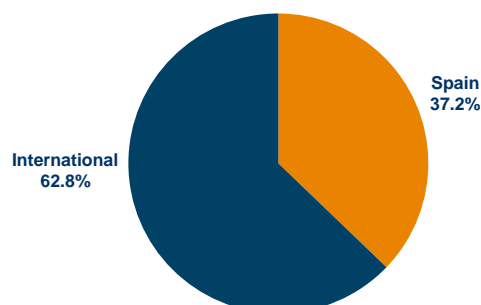
Gas distribution accounts for 35.6% of the consolidated total and declined by 4.2% with respect to the same period of the previous year. Gas distribution in Latin America represents a 21.3% over the consolidated total and increases a 41.7% with respect to the same period of 2016 with investment increases in all the countries both in network maintenance and growth.

Electricity activity represents a 19.4% over the consolidated total. In Spain it increases a 35.3% with respect to the same period of the previous year basically due to new wind project in Canary Islands. In GPG it increases a 200% basically due to the development of photovoltaic projects in Brazil.

Capital expenditure and intangible assets, by region

Capital expenditure outside Spain increased by 54.6% to account for 62.8% of the total (vs. 51.1% in the same period of 2016).

Investments in Spain declined by 12.5%, to account for 37.2% of the total, compared with 48.9% in 2016.



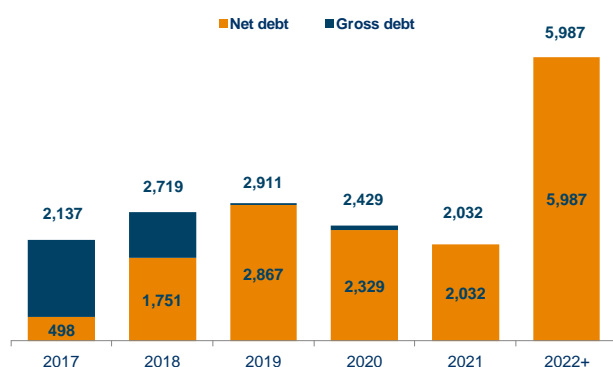
3.2. Debt and financial management

3.2.1. Interest-bearing debt

At 31 March 2017, net interest-bearing debt amounted to €15,464 million and leverage was 44.4% (€15,817 million and 45.9%, respectively, at 31 March 2016).

The net debt/EBITDA ratio was 3.2 and the EBITDA/interest ratio was 6.8 at 31 March 2017, evidencing that the company maintained its credit fundamentals stable with respect to the preceding year.

Maturity of interest-bearing debt (€ Mn)



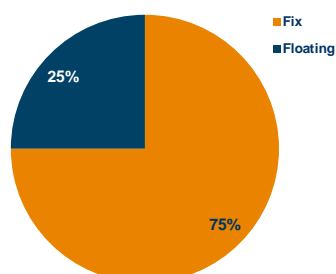
A total of 85.4% of the net interest-bearing debt matures in or after 2019. The average term of the debt is 5.5 years.

The figure shows Gas Natural Fenosa's net and gross debt maturity calendar at 31 March 2017. Gross debt amounted to €18,215 million.

Of the net financial debt, 9.2% is short term and the other 90.8% is long term.

Structure of net interest-bearing debt

Having consideration for the impact of financial hedges, most of the debt is at fixed rates:



The breakdown of the net interest-bearing debt by currency at 31 March 2017, in absolute and relative terms, is as follows:

| (€ Mn) | 31/03/17 | % |
|----------------------------------|---------------|--------------|
| EUR | 12,345 | 79.8 |
| CLP | 1,431 | 9.3 |
| USD | 959 | 6.2 |
| BRL | 340 | 2.2 |
| MXN | 324 | 2.1 |
| COP | 59 | 0.4 |
| Others | 6 | - |
| Net interest-bearing debt | 15,464 | 100.0 |

3.2.2. Liquidity

At 31 March 2017, cash and cash equivalents together with available bank finance totalled €10,619 million, providing the company with sufficient liquidity to cover its debt maturities for more than 24 months, with the following breakdown:

| Liquidity sources (€ Mn) | Limit | Drawn | Undrawn |
|---------------------------|--------------|-------------|---------------|
| Committed credit lines | 7,700 | -552 | 7,148 |
| Uncommitted credit lines | 519 | -53 | 466 |
| Undrawn loans | 352 | - | 352 |
| Cash and cash equivalents | - | - | 2,653 |
| Total | 8,571 | -605 | 10,619 |

Additionally, at 31 March 2017, the company had €5,815 million available in the form of shelf registrations for financial instruments, including €3,395 million in the Euro Medium Term Notes (EMTN) programme; €500 million in the Euro Commercial Paper (ECP) programme; and a combined €1,920 million in the stock market certificates programmes on the Mexico Stock Exchange, the commercial paper programme on the Panama Exchange, the straight bonds programme in Colombia and the bond lines in Chile.

3.2.3. Main financial transactions

As part of the ongoing process of optimising interest-bearing debt, on 11 January 2017 Gas Natural Fenosa, through its Euro Medium Term Notes (EMTN) programme, issued notes amounting to €1,000 million, maturing in January 2027, with an annual coupon of 1.375%.

To that same end, bilateral bank finance transactions were renegotiated during the period for an amount of €2,000 million.

On 28 March 2017, Gas Natural Fenosa issued a tender for up to €1,000 million of five bonds maturing in 2018, 2020 and 2021 (redeemed bonds).

At the same time, Gas Natural Fenosa communicated its intention of issuing €1,000 million of 7-year notes with an annual coupon of 1.125% in the euromarket under the EMTN programme (new bonds).

On 11 April 2017, as a result of the aforementioned tender offer, the new bonds replaced the redeemed bonds.

As a result, the redeemed bonds were amortised and cancelled, after which the outstanding nominal amount of the five bond issues which the tender offer addressed was:

| Mature | Nominal (€ Mn) |
|----------------|----------------|
| January 2018 | 513 |
| February 2018 | 586 |
| January 2020 | 686 |
| January 2020 | 434 |
| 2021 (several) | 631 |

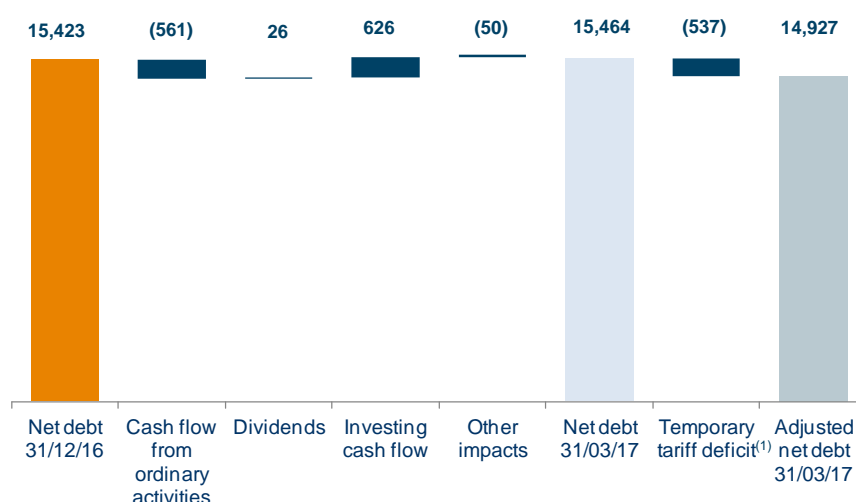
3.2.4. Credit rating

The accompanying table shows the credit rating of Gas Natural Fenosa's long-term and short-term debt:

| Agency | Short term | Long term |
|-------------------|------------|-----------|
| Fitch | F2 | BBB+ |
| Moody's | P-2 | Baa2 |
| Standard & Poor's | A-2 | BBB |

3.3. Cash flows

The cash flow and reconciliation of net interest-bearing debt in 1Q17 are as follows:



⁽¹⁾ Includes €81Mn electricity tariff deficit and €456Mn gas tariff deficit (2014: €331Mn; 2015: €10Mn; 2016: €61Mn and 2017: €54Mn)

Other impacts reflect conversion differences, changes in consolidation scope and other effects.

3.4. Equity and shareholder remuneration

The distribution of 2016 income proposed to the Shareholders' Meeting on 20 April 2017 entailed allocating €1,001 million to dividends, the same amount as in 2016. That represents a dividend of €1 per share and a pay-out of 74.3%, i.e. a dividend yield of 5.6% based on the share price on 31 December 2016 (€17.91).

An interim dividend amounting to €0.330 per share out of 2016 earnings was paid entirely in cash on 27 September 2016.

At 31 March 2017, Gas Natural Fenosa's shareholders' equity totalled €19,328 million. Of that total, €15,511 million is attributable to Gas Natural Fenosa.

4. Analysis of results by activity

The criteria used to assign amounts to the activities are as follows:

- › All revenues and expenses relating directly and exclusively to a specific business activity are allocated directly to it.
- › The margin on intercompany transactions is allocated on the basis of the market which is the final destination of the sale.
- › Corporate expenses and revenues are assigned on the basis of their use by the individual business lines.

4.1. Gas distribution

4.1.1. Spain

This area includes gas distribution, third-party access (TPA), the activities in Spain that are charged for outside the regulated distribution remuneration (meter rental, customer connections, etc.), and the piped liquefied petroleum gas (LPG) business.

4.1.1.1. Results

| (€ Mn) | 1Q17 | 1Q16 | % |
|--|------------|------------|------------|
| Net sales | 332 | 295 | 12.5 |
| Purchases | -36 | -7 | - |
| Net personnel expenses | -19 | -19 | - |
| Other revenues and expenses | -52 | -54 | -3.7 |
| EBITDA | 225 | 215 | 4.7 |
| Depreciation, amortisation and impairment expenses | -76 | -72 | 5.6 |
| Change in operating provisions | - | - | - |
| Operating income | 149 | 143 | 4.2 |

Net sales in the gas distribution business totalled €332 million, €37 million more than in the same period last year, due basically to the LPG business, where the acquisition of distribution points was completed in the fourth quarter of 2016.

The increase in the LPG business required a larger number of shiploads to meet the higher demand.

For all that along with the positive impact in operating expenses of efficiency measures implementation, EBITDA increased by 4.7%.

4.1.1.2. Main aggregates

The main aggregates in gas distribution in Spain were as follows:

| | 1Q17 | 1Q16 | % |
|-------------------------------------|--------|--------|-------|
| Gas sales - TPA (GWh) | 56,658 | 52,865 | 7.2 |
| LPG sales (ton) | 63,822 | 8,441 | - |
| Distribution network (km) | 52,828 | 51,449 | 2.7 |
| Change in connection points ('000) | 5 | 20 | -75.0 |
| Connection points ('000) (at 31/03) | 5,318 | 5,286 | 0.6 |

Regulated gas sales increased by 7.2% (+3,793 GWh).

Residential demand is aligned with the one of the same quarter of the previous year increasing by 2% (+278 GWh).

Growth was concentrated in the industrial market. Demand under 60 bars increased by 10% (+2,232 GWh). Demand for transportation and industrial consumption over 60 bar increased by 11% (+1,283 GWh).

The growth in LPG sales was due to the acquisition of supply connections in the fourth quarter of 2016.

In the first quarter of 2017, the distribution network expanded by 872 km.

4.1.2. Italy

This area refers to regulated gas distribution in Italy.

4.1.2.1. Results

| (€ Mn) | 1Q17 | 1Q16 | % |
|--|-----------|-----------|---|
| Net sales | 21 | 21 | - |
| Purchases | - | - | - |
| Net personnel expenses | -3 | -3 | - |
| Other revenues and expenses | -4 | -4 | - |
| EBITDA | 14 | 14 | - |
| Depreciation, amortisation and impairment expenses | -6 | -6 | - |
| Change in operating provisions | - | - | - |
| Operating income | 8 | 8 | - |

EBITDA amounted to €14 million, in line with the same period of the previous year, as the remuneration remains the same in 2017 after the updating of the WACC recognised by the Italian regulator in 2016 as a result of the decline in the risk-free rate.

4.1.2.2. Main aggregates

| | 1Q17 | 1Q16 | % |
|-------------------------------------|-------|-------|------|
| Gas sales - TPA (GWh) | 1,888 | 1,681 | 12.3 |
| Distribution network (km) | 7,276 | 7,176 | 1.4 |
| Connection points ('000) (at 31/03) | 460 | 458 | 0.4 |

A total of 1,888 GWh of gas were distributed, i.e. 12.3% more than in 2016, due to more favourable weather.

The distribution grid expanded by 100 km in the last 12 months, to 7,276 km at 31 March 2017.

Gas Natural Fenosa has 459,905 gas distribution connection points in Italy, a slight increase with respect to the previous year.

4.1.3. Latin America

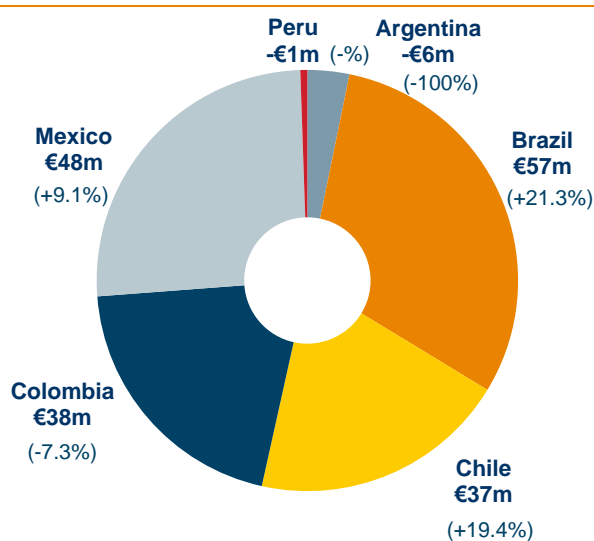
This division involves regulated gas distribution in Argentina, Brazil, Chile, Colombia, Mexico and Peru. In Chile, it also includes the gas supply business.

4.1.3.1. Results

| (€ Mn) | 1Q17 | 1Q16 | % |
|--|------------|------------|------------|
| Net sales | 1,032 | 865 | 19.3 |
| Purchases | -743 | -613 | 21.2 |
| Net personnel expenses | -33 | -29 | 13.8 |
| Other revenues and expenses | -83 | -64 | 29.7 |
| EBITDA | 173 | 159 | 8.8 |
| Depreciation, amortisation and impairment expenses | -44 | -40 | 10.0 |
| Change in operating provisions | -4 | -5 | -20.0 |
| Operating income | 125 | 114 | 9.6 |

Revenues increased by 19.3% to €1,032 million, affected by appreciation of the main Latin American currencies.

EBITDA in Latin America, by country



EBITDA amounted to €173 million, an increase of 8.8% with respect to the same period of the previous year, impacted by currency performance in Argentina (-4.9%), Mexico (-8.8%), Colombia (13.3%), Brazil (22.2%) and Chile (9.7%). Excluding the effect of currency fluctuations, EBITDA would have declined by 1.9%.

The figure shows gas distribution EBITDA in Latin America, by country, and the variation with respect to the same period of 2016.

Brazil contributed 32.9% of EBITDA, adjusted for the currency effect, EBITDA would have declined by 4.2%. Dispatching and TPA of the thermal plants were 30% lower than in the same period of 2016, while gas sales in the residential-commercial market were down 6.9% year-on-year. In contrast, a change in trend was observed in the industrial market, which expanded by 4.5%; additionally, sales of natural gas for vehicles increased by 12% year-on-year as it proved more competitive than liquid fuels.

Mexico accounted for 27.7% of total EBITDA in this business. Excluding the exchange rate effect, Mexico's EBITDA increased by 16.8%, and the sales margin increased by 15.2%, with growth in all markets.

EBITDA in Colombia amounted to €38 million, a 19.5% decline year-on-year (excluding the exchange rate effect) as a result of the lower commercialisation margin in the secondary market. This market registered atypically good performance in the first quarter of 2016 due to the El Niño phenomenon, which produced a sharp decline in hydroelectric output.

Chile contributed €37 million in EBITDA (+12.9% at constant exchange rates), i.e. 21.4% of total EBITDA from Latin America.

EBITDA in Argentina amounted to -€6 million despite the entry into force on 7 October 2016 of a new tariff table for all markets, basically due to regularisation of the 2016 sales estimates in the first quarter of 2017. Overall sales volumes increased by 1.2% in the first quarter, while the residential-commercial market, the largest contributor to the margin, expanded by 3%.

4.1.3.2. Main aggregates

| | 1Q17 | 1Q16 | % |
|-------------------------------------|--------|--------|------|
| Gas activity sales (GWh) | 62,269 | 66,442 | -6.3 |
| Gas sales | 35,047 | 36,498 | -4.0 |
| TPA | 27,222 | 29,944 | -9.1 |
| Distribution network (km) | 83,142 | 80,556 | 3.2 |
| Change in connection points ('000) | 69 | 68 | 1.5 |
| Connection points ('000) (at 31/03) | 7,842 | 7,516 | 4.3 |

The main physical aggregates by country in 1Q17 are as follows:

| | Argentina | Brazil | Chile | Colombia | Mexico | Total |
|-------------------------------------|-----------|--------|--------|----------|--------|--------|
| Gas activity sales (GWh) | 14,983 | 16,579 | 11,287 | 6,707 | 12,713 | 62,269 |
| Change vs. 1Q16 (%) | 1.2 | -17.4 | -3.6 | -3.4 | -1.5 | -6.3 |
| Distribution network (km) | 25,715 | 7,327 | 7,031 | 21,959 | 21,110 | 83,142 |
| Change vs. 31/03/2016 (km) | 1,003 | 87 | 164 | 415 | 917 | 2,586 |
| Connection points ('000) (at 31/03) | 1,636 | 1,046 | 588 | 2,886 | 1,686 | 7,842 |
| Change vs. 31/03/2016 ('000) | 20 | 48 | 24 | 118 | 116 | 326 |

There were a total of 7.842 million gas distribution connections at 31 March 2017. Customer numbers increased by 326 thousand year-on-year, notably in Colombia and Mexico.

Sales in the gas activity in Latin America, which includes both gas sales and TPA (third-party access) services, totalled 62,269 GWh, i.e. less than in the same period of 2016, particularly due to lower sales in Brazil.

The gas distribution grid expanded by 2,586 km (+3.2%) in the last 12 months, to 83,142 km at the end of March 2017. This sizeable expansion is attributable most notably to Mexico, which added 917 km, and Argentina, which added 1,003 km.

Highlights in Latin America in 2016:

- › In Argentina, after almost a year of intense negotiations, on 31 March 2017 the tariffs resulting from the Integral Tariff Review (RTI) were published in the form of Argentine Ministry of Energy and Mining Resolution no. 74-E, which establishes the value of natural gas at the point it enters the transportation system, and ENARGAS Resolution no. 4354, which reports the outcome of the RTI for Gas Natural BAN, S.A., including the new distribution tariff tables.

The outcome of the RTI process made possible a major investment plan that entails a significant change in the scale of this business. The new tariff will be phased in over three stages, and will be adjusted for inflation every six months.

Completion of the RTI process and application of the new tariffs will normalise the company in economic and financial terms.

- › In Brazil, residential-commercial customer numbers increased by 2% year-on-year, particularly in the horizontal saturation and expansion segments. Revenues declined by 17.4% due to lower utilisation of the thermal power points, which resulted in a 30% decline in power generation and TPA demand, and a 6.9% decline in the residential-commercial market. In contrast, sales in the industrial market increased by 4.5% as the economy began to recover, and natural gas sales for vehicles increased by

12% as this fuel was more competitive than liquid fuels and also because of the increase in vehicle conversions.

- › In Colombia, gas and TPA sales declined by 3.4% year-on-year, due mainly to a 4.7% decline in the industrial market as a result of the atypical sales volume in the secondary market in the first quarter of 2016. Residential-commercial customer numbers increased by 24,230 net in the first quarter of 2017, a 1.6% increase year-on-year, basically in the horizontal saturation segment.

Unregulated businesses in Colombia expanded year-on-year, as the margin in the residential and SME market increased by 27.5%, basically because of good performance by Servigas, which was partly offset by a 13.0% decline in energy services revenues despite the 34.7% increase in the number of live contracts, because of the lower mobility margin.

- › Mexico continued to implement the growth acceleration plan, having increased customer numbers by 8% and made progress in all areas in the first quarter of 2017. Gas sales fell by 1.5%, including a 6% decline in the TPA market due to lower demand by thermal power plants and a 4.5% decline in residential-commercial sales, contrasting with a notable 5.6% increase in industrial sales due to an increase in both activity and customer numbers.

As part of the ongoing Energy Reform, in December we were granted a concession to distribute gas in the Mexico Valley area (Cuautitlán-Texcoco-Hidalgo). This area adjoins Mexico City and will enable gas to be distributed in a market close to the existing grid. Commercialisation commenced this year and customer numbers are expected to reach 125,000 within five years.

- › The number of supply connections in Chile increased by 23,570, including growth in the residential-commercial (4.2%) and industrial (0.6%) segments with respect to the first quarter of 2016. As for gas sales and TPA, the strongest growth was observed in the industrial (4.3%) and residential-commercial (3.5%) segments, while TPA declined by 6.5% year-on-year.

The new Gas Act, promulgated in February 2017, filled a legal vacuum and reduced the uncertainties related to investments in this business, thereby enabling the gas distribution business to expand and paving the way for greater usage of natural gas in Chile, which is one of the main objectives of Chile's Energy Agenda and Energy Policy, both drafted in processes directed by the Ministry of Energy.

In this context of legal certainty, an aggressive expansion plan has been set in motion since February that substantially increases investment in grid-connected areas, where the goal is to increase saturation, and also expands the grid to other regions of the country.

These activities will focus on the central and southern regions in 2017, with the goal of doubling the new customer addition rate (by adding approximately 20,000 new connection points) with respect to a standard year.

- › In Peru, the company continues development work after rescheduling the beginning of commercial operations, originally planned for the second half of the year, which depends on completion of the construction of the gas terminal.

As a result of the concession awarded in July 2013, Gas Natural Fenosa plans to supply energy to an area in south-west Peru that is not yet connected to the gas grid, where it expects to supply natural gas to over 80,000 households.

4.2. Electricity distribution

4.2.1. Spain

The electricity distribution business in Spain includes regulated distribution of electricity and network services for customers, basically connections and hook-ups, metering and other actions associated with third-party access to Gas Natural Fenosa's distribution network.

4.2.1.1. Results

| (€ million) | 1Q17 | 1Q16 | % |
|--|------------|------------|-------------|
| Net sales | 211 | 210 | 0.5 |
| Purchases | -1 | - | - |
| Net personnel expenses | -32 | -22 | 45.5 |
| Other revenues and expenses | -35 | -36 | -2.8 |
| EBITDA | 143 | 152 | -5.9 |
| Depreciation, amortisation and impairment expenses | -56 | -56 | - |
| Change in operating provisions | -1 | -1 | - |
| Operating income | 86 | 95 | -9.5 |

The Ministerial Order on electricity tolls for 2017 (ETU/1976/2016) establishes that, until the approval of the remuneration of transmission and distribution for 2017 under the provisions of Royal Decree 1047/2013, of 27 December, and Royal Decree 1048/2013, of 27 December, the proportional part of the remuneration established in Order IET/981/2016 and Order IET/980/2016, which established the remuneration for electricity transmission and distribution companies for 2016, will be paid.

Net revenues amounted to €211 million, i.e. 0.5% more than in the same period of 2016, due to application of the aforementioned Ministerial Orders and to the accrual of investments that were brought into operation.

In the first quarter of 2017, EBITDA amounted to €143 million, a 5.9% decrease with respect to the same period of 2016 due to an increase of net personnel expenses by 45.5% as a result of the implementation of business efficiency measures which will have a positive impact in subsequent periods.

4.2.1.2. Main aggregates

| | 1Q17 | 1Q16 | % |
|-------------------------------|-------|-------|------|
| Electricity sales - TPA (GWh) | 8,195 | 8,227 | -0.4 |
| Connections ('000) (at 31/03) | 3,707 | 3,688 | 0.5 |
| ICEIT (minutes) | 57 | 17 | - |

The fact that February and March 2017 were warm, and that 2016 was a leap year, explain most of the slight decline in energy supplied in the first quarter of 2017. Domestic demand amounted to 62,982 GWh in the first quarter, a 0.3% increase according to figures from Red Eléctrica de España (REE).

The number of supply points increased by 5,259 net in year-on-year terms.

The ICEIT outage indicator increased sharply in the first quarter due to storms in Galicia on 2 and 8 February, where wind speeds reached 178 km/hour, with close to 400,000 customers being affected at times. Galicia accounted for 93% of the total ICEIT of Gas Natural Fenosa.

As at 31 March 2017 86.2% of the installed meters are intelligent meters and the 82% of the invoicing is remote.

4.2.2. Moldova

The business in Moldova includes regulated distribution of electricity and the supply of electricity at the bundled tariff in the capital city and the central and southern regions. Gas Natural Fenosa is responsible for 70% of electricity distribution in Moldova.

4.2.2.1. Results

| (€ million) | 1Q17 | 1Q16 | % |
|--|-----------|-----------|-------------|
| Net sales | 66 | 69 | -4.3 |
| Purchases | -49 | -52 | -5.8 |
| Net personnel expenses | -2 | -2 | - |
| Other revenues and expenses | -3 | -2 | 50.0 |
| EBITDA | 12 | 13 | -7.7 |
| Depreciation, amortisation and impairment expenses | -1 | -1 | - |
| Change in operating provisions | - | - | - |
| Operating income | 11 | 12 | -8.3 |

Net revenues reflect the pass-through effect of procurement costs together with the capital expenditure and operation and maintenance work performed in accordance with the country's current regulations.

The decline in EBITDA in 2017 is due to the regulator's adjustment to the distribution toll, approved on 17 March 2017, for the difference between investments actually made and the minimum required under the current tariff methodology.

4.2.2.2. Main aggregates

| | 1Q17 | 1Q16 | % |
|-------------------------------------|------|------|-----|
| Electricity activity sales (GWh) | 733 | 705 | 4.0 |
| Connection points ('000) (at 31/03) | 881 | 870 | 1.3 |

In 2017, the company continued to implement its plan to improve operations in Moldova, focusing on processes linked to energy control in the distribution networks, operating processes associated with the entire customer management cycle, and optimisation of facility O&M.

- Electricity supplied increased by 4.0% in 2017 as colder temperatures boosted consumption.
- The number of supply connections totalled 881,181, i.e. an increase of 1.3% in the last twelve months, primarily as a result of growth in the real estate sector.

4.2.3. Latin America

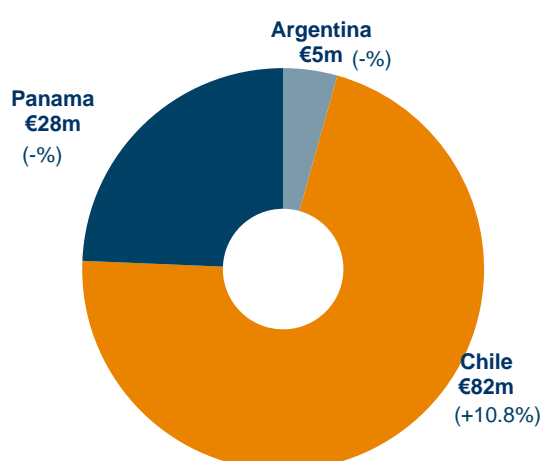
This division involves regulated electricity distribution in Argentina, Chile and Panama, and electricity transmission in Chile.

In 2016, this area also included electricity distribution in Colombia.

4.2.3.1. Results

| (€ Mn) | 1Q17 | 1Q16 | % |
|--|------------|------------|--------------|
| Net sales | 873 | 1,153 | -24.3 |
| Purchases | -666 | -864 | -22.9 |
| Net personnel expenses | -34 | -48 | -29.2 |
| Other revenues and expenses | -58 | -87 | -33.3 |
| EBITDA | 115 | 154 | -25.3 |
| Depreciation, amortisation and impairment expenses | -32 | -38 | -15.8 |
| Change in operating provisions | -5 | -27 | -81.5 |
| Operating income | 78 | 89 | -12.4 |

EBITDA in Latin America, by country



EBITDA from electricity distribution in Latin America totalled €115 million. Excluding Colombia's contribution to EBITDA in the first quarter of 2016, EBITDA in this business would have increased by 10.6%, mainly as a result of the appreciation by the Chilean peso.

At constant exchange rates and in like-for-like terms, excluding Electricaribe, EBITDA would have increased by 2.9%.

EBITDA in Panama amounted to €28 million in 2017, a 3.6% reduction at constant exchange rates. This change was due primarily to lower demand.

EBITDA in Chile and Argentina (CGE) amounted to €87 million, a €4 million increase at constant exchange rates.

4.2.3.2. Main aggregates

| | 1Q17 | 1Q16 | % |
|-------------------------------------|-------|-------|-------|
| Electricity activity sales (GWh) | 5,680 | 8,870 | -36.0 |
| Electricity sales | 5,302 | 8,286 | -36.0 |
| TPA | 378 | 584 | -35.3 |
| Connection points ('000) (at 31/03) | 3,650 | 6,136 | -40.5 |

Electricity sales amounted to 5,680 GWh, a 36.0% decline, basically due to the mentioned deconsolidation of Colombia. But for that effect, sales would have risen by 1.7%.

There was a 1.2% reduction in electricity sales in Panama because of the decline in the average temperature and the high precipitation in the last few months, resulting in lower use of air conditioning. Additionally, the Panamanian economy has shown signs of slowing since the second half of 2016, which has affected demand for energy.

The main physical aggregates by country in 1Q17 are as follows:

| | Argentina | Chile | Panama | Total |
|-------------------------------------|-----------|-------|--------|-------|
| Electricity activity sales (GWh) | 558 | 3,887 | 1,235 | 5,680 |
| Change vs. 1Q16 (%) | 1.6 | 2.7 | -1.2 | -36.0 |
| Connection points ('000) (at 31/03) | 223 | 2,805 | 622 | 3,650 |
| Change vs. 31/03/2016 ('000) | 6 | 74 | 26 | 106 |

The increase in sales and in connection points (excluding the effect of Electricaribe desconsolidation) reflects the sustained growth in the electricity distribution businesses in Latin America.

Electricity transmission in Chile

| | 1Q17 | 1Q16 | % |
|-------------------------------|-------|-------|------|
| Electricity transmitted (GWh) | 3,875 | 3,929 | -1.4 |
| Transmission network (km) | 3,528 | 3,528 | - |

Power transmission in Chile decreased by 1.4% year-on-year, mainly due to lower activity in the first quarter. The transmission grid is 3,528 km long, the same as at the end of the first quarter of 2016.

4.3. Gas

4.3.1. Infrastructure

This area includes operating the Maghreb-Europe gas pipeline as well as gas exploration, production, storage and regasification.

4.3.1.1. Results

| (€ Mn) | 1Q17 | 1Q16 | % |
|--|-----------|-----------|------------|
| Net sales | 86 | 80 | 7.5 |
| Purchases | - | - | - |
| Net personnel expenses | -1 | -1 | - |
| Other revenues and expenses | -4 | -4 | - |
| EBITDA | 81 | 75 | 8.0 |
| Depreciation, amortisation and impairment expenses | -13 | -12 | 8.3 |
| Change in operating provisions | - | - | - |
| Operating income | 68 | 63 | 7.9 |

Net sales in the infrastructure business totalled €86 million in the first quarter of 2017, a 7.5% increase.

EBITDA increased by 8.0% year-on-year to €81 million, mainly as a result of the 3% increase in the international shipping tariff on the Maghreb-Europe pipeline and the positive USD exchange rate effect.

4.3.1.2. Main aggregates

The main aggregates in international gas transportation are as follows:

| | 1Q17 | 1Q16 | % |
|-------------------------------|--------|--------|------|
| Gas transportation-EMPL (GWh) | 28,713 | 24,163 | 18.8 |
| Portugal-Morocco | 10,373 | 9,482 | 9.4 |
| Spain (Gas Natural Fenosa) | 18,340 | 14,681 | 24.9 |

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz represented a total volume of 28,713 GWh, 18.8% more than in the same period last year. Of that figure, 18,340 GWh were shipped for Gas Natural Fenosa through Sagane and 10,373 GWh for Portugal and Morocco.

Gas Natural Fenosa owns 14.9% of Medgas, the company that owns and operates the subsea gas pipeline connecting Beni Saf (Algeria) with Almería (Spain) (capacity: 8 bcm/year). That capacity is associated with a new supply contract amounting to 0.8 bcm/year. A total of 2,331 GWh were shipped via the Medgaz pipeline for Gas Natural Fenosa in 1Q17.

The company currently has 916 GWh of company-owned gas storage capacity. Pipeline replacement and initial well drilling work as part of one of the exploration, production and storage projects that Gas Natural Fenosa plans for the Guadalquivir Valley in the coming years concluded in December 2016. Work on this project is expected to resume in the second half of 2017. There are other four projects which are at various stages of the permit process.

4.3.2. Supply

This business includes wholesale gas procurement and supply both in the Spanish liberalised market and in other countries, maritime shipping, retail supply of gas and other related products and services in the liberalised market in Spain and Italy, and supply of gas at the last-resort tariff (TUR) in Spain.

4.3.2.1. Results

| (€ Mn) | 1Q17 | 1Q16 | % |
|--|------------|------------|-------------|
| Net sales | 3,078 | 2,537 | 21.3 |
| Purchases | -2,842 | -2,313 | 22.9 |
| Net personnel expenses | -20 | -19 | 5.3 |
| Other revenues and expenses | -65 | -54 | 20.4 |
| EBITDA | 151 | 151 | - |
| Depreciation, amortisation and impairment expenses | -19 | -14 | 35.7 |
| Change in operating provisions | -12 | -12 | - |
| Operating income | 120 | 125 | -4.0 |

Net sales amounted to €3,078 million, a 21.3% increase with respect to the same period of last year. EBITDA amounted to €151 million, the same as in 1Q16.

4.3.2.2. Main aggregates

Wholesale supply

The main aggregates in the wholesale gas supply activity are as follows:

| | 1Q17 | 1Q16 | % |
|---------------------------------|-----------|-----------|------|
| Gas supply (GWh) | 84,367 | 76,025 | 11.0 |
| Spain | 40,436 | 37,486 | 7.9 |
| Gas Natural Fenosa supply | 29,881 | 27,591 | 8.3 |
| Supply to third parties | 10,555 | 9,895 | 6.7 |
| International | 43,931 | 38,539 | 14.0 |
| Rest of Europe | 20,441 | 20,395 | 0.2 |
| International LNG | 23,490 | 18,144 | 29.5 |
| Gas carrier fleet capacity (m3) | 1,095,532 | 1,031,344 | 6.2 |

Wholesale supply by Gas Natural Fenosa totalled 84,367 GWh, an 11.0% increase, basically due to the international business (+14.0%).

Gas Natural Fenosa supplied 40,436 GWh of gas to end customers in Spain, i.e. 7.9% more than in the same period of the previous year.

International gas supply amounted to 43,931 GWh in the first quarter of 2017, a 14.0% increase year-on-year, driven particularly by international LNG supply.

In the organised market in gas through MIBGAS, DA (day-ahead) and WD (within day) contracts became more firmly established and there was an increase in liquidity driven by actions proposed by the system operator (GTS) to achieve equilibrium in the gas balance; Gas Natural Comercializadora is one of the few active participants in this market. Additionally, the figure of "voluntary market maker" was created in January 2017, giving the market greater liquidity and depth.

In the first quarter of 2017, Gas Natural Fenosa participated in the auction for underground storage capacity for the period from April 2017 to March 2018. Gas Natural Fenosa was awarded 10.3 TWh of capacity, i.e. 46.2% of the total contracted capacity via direct assignment.

Gas Natural Europe has a strong position in natural gas supply in Europe, with a presence in France, Belgium, Luxembourg, the Netherlands and Germany. It is also an active trader in these countries' liquid markets, enabling Gas Natural Fenosa to optimise its position and seize opportunities in European markets.

Sales in France in the first quarter of 2017 amounted to 9.9 TWh, to customers in numerous segments such as industry, local government and the public sector. Sales in Belgium, Luxembourg, the Netherlands and Germany amounted to 5.1 TWh in the same period.

Gas Natural Fenosa is also active in the wholesale market in Italy and Ireland, where it sold 3.3 TWh and 0.4 TWh, respectively, in the first quarter of 2017.

Gas Natural Fenosa is still Portugal's second-largest operator (and its largest foreign operator), with a 15% market share, and it sold 1.7 TWh in the first quarter of 2017. Its activities are focused in the industrial market, where it has a share of over 17%.

The company continues to diversify into international markets, having sold gas in the Americas and Asia. This strengthens the company' presence in the main international LNG markets, providing it with a medium-term position in growing countries and new markets.

Retail supply

The main aggregates in the retail gas supply activity are as follows:

| | 1Q17 | 1Q16 | % |
|--|--------|--------|------|
| Retail contracts (Spain) (thousands, at 31/03) | 11,711 | 11,691 | 0.2 |
| Energy contracts | 8,846 | 8,867 | -0.2 |
| Energy services contracts | 2,865 | 2,824 | 1.5 |
| Contracts per customer (Spain) | 1.52 | 1.51 | 0.7 |
| Retail supply (GWh) | 14,140 | 13,902 | 1.7 |
| Spain | 12,489 | 12,315 | 1.4 |
| Italy | 1,651 | 1,587 | 4.0 |

In the retail market, Gas Natural Fenosa focuses on meeting its customers' energy needs. With a range of quality products and services, it has 12.3 million active gas, electricity and maintenance contracts, of which 578 thousand are in Italy.

In the Italian retail market, Gas Natural Fenosa has a portfolio of 434,431 gas supply contracts and 51,569 electricity supply contracts, with an overlap of 26 thousand between the two. Additionally, 91,498 customers have a maintenance contract.

Gas Natural Fenosa provides a comprehensive service by integrating the supply of both energies (gas and electricity) with maintenance services to achieve efficiencies and enhance customer satisfaction; it supplies both energies to over 1.5 million homes, a large percentage of which have a maintenance contract in place.

With a strong focus on continued growth in the retail business, the company sells products and services throughout Spain, having obtained 443 thousand new contracts in 2017.

In the residential market, Gas Natural Fenosa updates its product portfolio in order to offer electricity and natural gas tariffs that fit each customer's profile. New products meet customer needs in terms of usage, how they wish to pay, when they use energy and whether they are interested in consuming renewable energy.

Gas Natural Fenosa remains committed to innovation to meet and even anticipate its customers' expectations by adding new functionalities in all digital channels, such as the ability to buy services and receive customer care online; its online platform receives 6 million queries per year.

The broad, diversified offering of services for residential customers and SMEs has enabled the company to increase the number of active contracts to 2.8 million, managed through the group's own operating platform with 112 associated firms connected via an online system, through which it provides an excellent service and satisfies even the most demanding customers. As a result of this performance, the portfolio of energy and services contracts in the retail segment increased in value.

The number of gas and electricity maintenance contracts in the SME market continues to grow, having attained 26,000.

Gas Natural Fenosa continues to develop its own network of natural gas service stations that are open to the public; at the end of March 2017, it had a total of 48 service stations (both compressed and liquefied natural gas). A total of 27 stations are open to the public and 21 are private.

The integrated energy services solutions business continues to expand. A survey conducted by DBK identified Gas Natural Servicios as market leader in energy services.

Unión Fenosa Gas

Gas supplied in Spain by Unión Fenosa Gas⁴ (equity method) amounted to 11,445 GWh in 1Q17, compared with 8,747 GWh in 1Q16. Additionally, a total of 8,603 GWh of energy was traded in international markets in the first quarter of 2017, compared with 5,791 GWh in the same period of 2016.

⁴ Assuming 100%.

4.4. Electricity

4.4.1. Spain

This area basically includes power generation in Spain, wholesale and retail electricity supply in the liberalised market in Spain, and electricity supply at the Small Consumer Voluntary Price (PVPC).

4.4.1.1. Results

| (€ Mn) | 1Q17 | 1Q16 | % |
|--|------------|------------|--------------|
| Net sales | 1,352 | 1,337 | 1.1 |
| Purchases | -1,029 | -950 | 8.3 |
| Net personnel expenses | -34 | -34 | - |
| Other revenues and expenses | -163 | -148 | 10.1 |
| EBITDA | 126 | 205 | -38.5 |
| Depreciation, amortisation and impairment expenses | -112 | -130 | -13.8 |
| Change in operating provisions | -7 | -11 | -36.4 |
| Operating income | 7 | 64 | -89.1 |

Net sales in the electricity business in Spain amounted to €1,352 million, 1.1% more than in the same period of 2016, while EBITDA amounted to €126 million, 38.5% less than in the same period last year.

EBITDA evolution has been conditioned by weather factors, with a contraction of Gas Natural Fenosa hydroelectric production of 75.4%, turning from a wet year in 2016 to a very dry year in 2017. It has also been affected by the increase in taxes as a consequence of the high market prices.

Depreciation, amortisation and impairment expenses amounted to €112 million with a decrease of €18 million (-13.8%) as compared with the same period of the previous year, basically because of the extension of combined cycle plants useful life from 25 to 35 years as from 1 January 2017 based on the technical studies completed this quarter in line with the common practice of the industry main peers.

Market context

Electricity demand in mainland Spain amounted to 63,900 GWh in the first quarter of 2017, an increase of 0.1% with respect to the same period of 2016 (+1.1% adjusting for the leap year), i.e. a continuation, though more subdued, of the rising trend of the previous three quarters.

Performance was mixed in the quarter: strong growth in January (+7.2%) was followed by declines in February (-4.6%, or -1.6% adjusting for the leap year) and March (-2.4%).

Peak capacity usage in one hour in 1Q17 was registered on 18 January: 41,015 MW, i.e. higher than the 38,239 MW attained in the same quarter of 2017 (17 February 2016) but still well below the all-time record of 44,876 MW reached in December 2007.

The balance of international power flows was a net importation in physical terms: 1,456 GWh in the first quarter of 2017 (vs. 1,983 GWh imported in the same quarter of 2016). Performance in the quarter was mixed: 532 GWh were exported in January, due to outages at French nuclear power plants and the major cold wave in Europe; this was followed by imports of 528 GWh in February and 1,459 GWh in March (the latter being the largest single-month importation to date).

Consumption for pumped storage amounted to 1,225 GWh in 1Q17, i.e. 33.7% less than in 1Q16 (2,203 GWh) due to high market prices in the early part of the quarter.

Net domestic output amounted to 64,011 GWh, a 0.5% decrease, in the first quarter of 2017.

Compared with 1Q16, renewable output fell by 24.8% and covered 38.8% of total demand in 1Q17, i.e. 12.5 points less than in the same period of 2016.

Wind power output fell by 15.5% in the quarter with respect to the same quarter last year, with declines in all three months. Wind covered 22.6% of demand in the period, 4.0 percentage points less than in the same quarter in 2016.

Output by other renewables declined by 34.4% in the quarter, as the -43.6% reduction in conventional hydroelectric output was only partly offset by a 5.1% increase in solar photovoltaic output.

In terms of hydroelectric energy capability, the first quarter of 2017 was average, with an exceedance probability of 74% when compared with the historical average; i.e. statistically, 74 out of every 100 years would be wetter. However, performance was mixed during the quarter: January was extremely dry (99% exceedance probability) while February was wet (39% exceedance probability).

Non-renewable output increased by 25.1% year-on-year in 1Q17, with growth in all technologies. The thermal gap expanded in 1Q17 by 51.2%, achieving coverage that was 8.5 points higher than in the same period of 2016 (25.1% vs. 16.6%).

Nuclear output increased by 11.2% in the quarter, while coal-fired output increased by 69.8%. Year-to-date, utilisation of the former capacity guarantee units was 46%, compared with 53% for other coal-fired units.

In the first quarter of 2017, CCGT output increased by 25.6% with respect to the same period of 2016. CCGT output covered 9% of demand in the quarter, 1.9 percentage points more than in 1Q16.

Other non-renewable thermal, cogeneration and waste-to-power experienced an increase of 13.6% in 1Q17 with respect to 1Q16.

The weighted average price in the daily power generation market was €57.89/MWh in the first quarter of 2017, i.e. €26.85 more than in 1Q16 (€31.24/MWh) and practically in line with 4Q16 (€57.85/MWh). Average daily prices in the quarter ranged from €21.44/MWh (12 March) to €93.22/MWh (25 January). Monthly prices fell from €73.69/MWh in January to €53.00/MWh in February and down to €43.82/MWh in March.

As for other commodities, Brent crude prices rose from an average of \$49.33/bbl in the fourth quarter of 2016 to \$53.71/bbl (+8.9%) in the first quarter of 2017; February marked the highest price in the quarter (\$55.11/bbl), a level last seen in the summer of 2015. API 2, Europe's main coal price indicator, decreased by \$4.15/ton in the quarter, from an average of \$85.69/ton in the fourth quarter of 2016 to \$81.55/ton in the first quarter of 2017, including a sharp decline in March (almost \$10/ton lower than in February). Nevertheless, average prices in the quarter were still 80% higher than in the year-ago quarter. The price of CO₂ emission rights (EUAs on Bluenext) averaged €5.17/ton, 6.2% less than the €5.52/ton average in the previous quarter.

4.4.1.2. Main aggregates

The main aggregates in Gas Natural Fenosa's electricity business in Spain were as follows:

Power generation capacity

| | 31/03/2017 | 31/03/2016 | % |
|-----------------------------|------------|------------|------|
| Installed capacity (MW) | 12,716 | 12,769 | -0.4 |
| Generation | 11,569 | 11,624 | -0.5 |
| Hydroelectric | 1,954 | 1,954 | - |
| Nuclear | 604 | 604 | - |
| Coal | 2,010 | 2,065 | -2.7 |
| CCGT | 7,001 | 7,001 | - |
| Renewables and Cogeneration | 1,147 | 1,145 | 0.2 |
| Wind | 979 | 977 | 0.2 |
| Small hydroelectric | 110 | 110 | - |
| Cogeneration and others | 58 | 58 | - |

On 17 May 2016, the market operator definitively retired Narcea thermal power plant unit 1; this did not affect the income statement as the plant was fully depreciated.

Electricity generated and sold

| | 1Q17 | 1Q16 | % |
|--|-------|-------|----------|
| Electricity produced (GWh) | 7,275 | 7,082 | 2.7 |
| Generation | 6,544 | 6,202 | 5.5 |
| Hydroelectric | 465 | 1,893 | -75.4 |
| Nuclear | 1,225 | 1,092 | 12.2 |
| Coal | 1,669 | 522 | - |
| CCGT | 3,185 | 2,695 | 18.2 |
| Renewables and Cogeneration | 731 | 880 | -16.9 |
| Wind | 590 | 694 | -15.0 |
| Small hydroelectric | 122 | 174 | -29.9 |
| Cogeneration and others | 19 | 12 | 58.3 |
| Electricity sales (GWh) | 9,024 | 8,996 | 0.3 |
| Liberalised market | 7,471 | 7,494 | -0.3 |
| Small Consumer Voluntary Price System (PVPC) | 1,553 | 1,502 | 3.4 |
| Generation market share (%) | 17,2 | 17,0 | 0.2 p.p. |

Gas Natural Fenosa generated 7,275 GWh of electricity in mainland Spain in the first quarter of 2017, i.e. 2.7% more than in the same period of 2016. Of that figure, 6,544 GWh were from conventional sources, a 5.5% increase with respect to the same period last year.

Conventional hydroelectric output totalled 465 GWh in the quarter, 75.4% less than in the same period of 2016.

The first quarter of 2017 was very dry, with an exceedance probability of 95%, i.e. in statistical terms, 95 out of every 100 years would be wetter.

Reservoirs in the Gas Natural Fenosa watersheds were at 38% of capacity, eleven points lower than at the end of 1Q16 and four points above the level at the beginning of the year.

Nuclear output increased by 12.2% in 1Q17 with respect to 1Q16, although the figures are affected by changes in the dates of scheduled shut-downs.

Coal-fired output totalled 1,669 GWh in the quarter, compared with 522 GWh in the same period of 2016, while capacity utilisation stood at 38%.

CCGT output in the first quarter of 2016 totalled 3,185 GWh, 18.2% more than in the same period of 2016. Gas Natural Fenosa's CCGT capacity utilisation was 21%, ten points more than in the industry as a whole.

Emissions⁵ of CO₂ in the first quarter of 2017 from Gas Natural Fenosa's coal-fired power plants and CCGTs that are affected by the regulation governing greenhouse gas emission trading totalled 2.7 million tons (+1.2 million tons with respect to the same period of 2016). This significant increase was due mainly to greater utilisation of coal-fired plants.

Gas Natural Fenosa applies a comprehensive approach to its portfolio of CO₂ emission rights for the post-Kyoto (2013-2020) period, acquiring the necessary emission rights and credits through active participation in the secondary market.

Gas Natural Fenosa's share of conventional electricity output was 17.2% in the first quarter of 2017, 0.2 points more than in the same date of 2016.

As for electricity supply, 9,024 GWh were sold in the first quarter of 2017, including sales to the liberalised market and under the last resort tariff, a 0.3% increase with respect to the same period of 2016. The electricity supply portfolio is in line with Gas Natural Fenosa's strategy of maximising margins, optimising market share, and hedging against price variations in the electricity market.

In the area of renewables and cogeneration, in 2017 Gas Natural Fenosa Renovables (GNF Renovables) commenced construction of 7 of the 13 wind farms registered under the maximum quota of 450 MW authorised by the Ministry of Industry, Energy and Tourism for the Canary Islands. These 7 farms under construction will have a combined installed capacity of 27 MW. This capacity will enjoy a special remuneration system and it is planned to bring it into service by 31 December 2018. At the same time, work continues to obtain the necessary permits to begin building the other 6 wind farms in the first half of 2017.

Renewable and cogeneration output in the first quarter of 2017 (731 GWh) was lower than in the same period of 2016 (880 GWh). This reduction was due mainly to lower winds, with the result that wind output was 104 GWh lower, while lower precipitation reduced hydroelectric output by 52 GWh. As for cogeneration, the higher market prices made it possible to increase operating hours at the two operational plants, increasing output by 7 GWh with respect to the previous quarter.

At 31 March 2017, GNF Renovables had a consolidable total operational capacity of 1,147 MW, of which 979 MW are wind, 110 MW are small hydroelectric and 58 MW are cogeneration and photovoltaic. Those figures include the capacity of the slurry cogeneration plants that are being liquidated (43 MW); the company is awaiting publication of the new remuneration parameters for this technology in order to decide whether to bring this mothballed capacity partly or fully back into service.

⁵ Greenhouse gases

4.4.2. Global Power Generation (GPG)

GPG encompasses all of the Group's international power generation assets and holdings in Mexico, Puerto Rico, the Dominican Republic, Panama, Costa Rica, Kenya and Australia (wind projects), and the assets operated for third parties via group company O&M Energy.

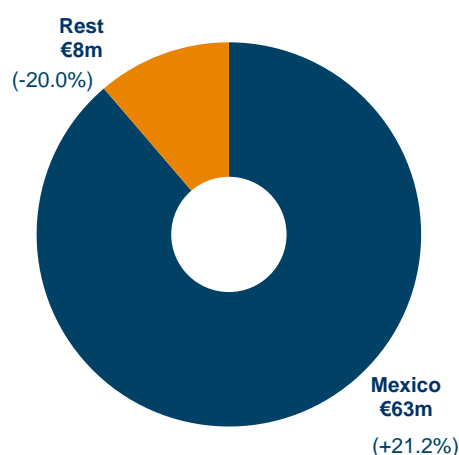
4.4.2.1. Results

| (€ Mn) | 1Q17 | 1Q16 | % |
|--|-----------|-----------|-------------|
| Net sales | 228 | 175 | 30.3 |
| Purchases | -125 | -80 | 56.3 |
| Net personnel expenses | -10 | -10 | - |
| Other revenues and expenses | -22 | -23 | -4.3 |
| EBITDA | 71 | 62 | 14.5 |
| Depreciation, amortisation and impairment expenses | -31 | -32 | -3.1 |
| Change in operating provisions | - | - | - |
| Operating income | 40 | 30 | 33.3 |

GPG's EBITDA in 1Q17 amounted to €71 million, up 14.5% compared with 1Q16, due mainly to higher EBITDA in Mexico and lower corporate expenses.

Depreciation, amortisation and impairment expenses amounted to €31 million with a decrease of 3.1% as compared with the same period of the previous year, basically because of the extension of combined cycle plants useful life from 25 to 35 years as from 1 January 2017 based on the technical studies completed this quarter in line with the common practice of the industry main peers.

EBITDA, by country



EBITDA in Mexico increased by 21.2% because the contribution margin increased, basically due to higher spare capacity, better availability, better performance, and favourable trends in the contracts' benchmark indices. Additionally, results at Bii Hioxo improved due to more efficient management of the sales mix.

EBITDA in the Dominican Republic declined by 29.1% due to the impact on margins of lower output and lower spot prices after expiration of the PPA⁶ with the distribution companies.

EBITDA in Panama increased by 26.7% due to higher precipitation in the areas where the plants are located.

EBITDA in Kenya fell by 7.1% year-on-year due to extraordinary revenue (insurance) booked in 2016. This effect was broadly offset by higher output as a result of greater dispatching of the plants.

⁶ PPA: Power Purchase Agreement

4.4.2.2. Main aggregates

Power generation capacity

| | 31/03/2017 | 31/03/2016 | % |
|--------------------------------|------------|------------|---|
| Installed capacity (MW) | 2,702 | 2,702 | - |
| Mexico (CCGT) | 2,035 | 2,035 | - |
| Mexico (Wind) | 234 | 234 | - |
| Costa Rica (hydroelectric) | 101 | 101 | - |
| Panama (hydroelectric) | 22 | 22 | - |
| Dominican Republic (oil-fired) | 198 | 198 | - |
| Kenya (oil-fired) | 112 | 112 | - |

Electricity generated

| | 1Q17 | 1Q16 | % |
|--------------------------------|-------|-------|-------|
| Electricity generated (GWh) | 4,286 | 4,240 | 1.1 |
| Mexico (CCGT) | 3,691 | 3,621 | 1.9 |
| Mexico (Wind) | 223 | 261 | -14.6 |
| Costa Rica (hydroelectric) | 79 | 67 | 17.9 |
| Panama (hydroelectric) | 18 | 13 | 38.5 |
| Dominican Republic (oil-fired) | 212 | 244 | -13.1 |
| Kenya (oil-fired) | 63 | 34 | 85.3 |

Availability factor (%)

| | 1Q17 | 1Q16 | Chg. p.p. |
|--------------------------------------|------|------|-----------|
| Mexico (CCGT) | 91.3 | 87.2 | 4.1 |
| Costa Rica (hydroelectric) | 99.9 | 91.2 | 8.7 |
| Panama (hydroelectric and oil-fired) | 96.4 | 92.9 | 3.5 |
| Dominican Republic (oil-fired) | 93.0 | 92.1 | 0.9 |
| Kenya (oil-fired) | 97.7 | 96.2 | 1.5 |

Output in Mexico increased year-on-year as a result of the different schedule of maintenance shutdowns and greater sales of surplus energy at Tuxpan, which began selling surplus power in February 2017. These effects were offset by lower output at Bii Hioxo because of lower winds. Differences in maintenance calendars between years resulted in higher availability than last year.

Hydroelectric output in Costa Rica was favoured by higher precipitation. As discussed in section 2.2.3, the Costa Rica concessions are accounted for as finance leases in accordance with IFRIC 12.

Higher output in Panama was the result of higher precipitation as the first quarter of 2016 was especially dry in the areas where the plants are located. The higher availability year-on-year is attributable to that fact that the La Yeguada plant underwent a major overhaul in 2016.

Output in the Dominican Republic declined year-on-year due to higher hydroelectric generation and to the withdrawal of the more efficient plants from the system in 2016.

Oil-fired output in Kenya was higher than in the same period of 2016 as a result of higher dispatching this year due to withdrawal of the more efficient plants from the system.

Ecoeléctrica

Ecoeléctrica, the CCGT plant in Puerto Rico (equity accounted), contribution to the consolidated figures in 1Q17 amounts to €15 million and increases as compared with the same period of previous year (€7 million) as a result of higher capacity revenues. Production in the 1Q17 is 841 GWh (100% figures) in line with 1Q16 (842 GWh).

Regulatory disclosures

Summarised below are the regulatory disclosures to the Comisión Nacional del Mercado de Valores (CNMV) since 1 January 2017:

- › Gas Natural Fenosa completes a €1,000 million bond issue (disclosed 11 January 2017, registration number 246991).
- › Gas Natural Fenosa files the invitation to the presentation of earnings for 2016 (disclosed 20 January 2017, registration number 247308).
- › Gas Natural Fenosa publishes its 2016 results (disclosed 8 February 2017, registration number 247971).
- › Gas Natural Fenosa files the presentation of earnings for 2016 (disclosed 8 February 2017, registration number 247975).
- › Gas Natural Fenosa publishes its Annual Corporate Governance Report for 2016 (disclosed 10 February 2017, registration number 248047).
- › Gas Natural Fenosa publishes its Annual report on director remuneration for 2016 (disclosed 10 February 2017, registration number 248048).
- › Gas Natural Fenosa discloses information on earnings for the second half of 2016 (disclosed 10 February 2017, registration number 248051).
- › The Board of Directors of Gas Natural Fenosa gives notice of the Ordinary Shareholders' Meeting (disclosed 8 March 2017, registration number 249300).
- › Gas Natural Fenosa publishes a press release on the measures adopted by the Colombian authorities with respect to Electricaribe (disclosed 14 March 2017, registration number 249527).
- › Gas Natural Fenosa files notice of the Ordinary Shareholders' Meeting for 20 April 2017 (disclosed 15 March 2017, registration number 249538).
- › Gas Natural Fenosa discloses information on the tender offer for bonds (disclosed 28 March 2017, registration number 250049).
- › Gas Natural Fenosa completes a €1,000 million bond issue (disclosed 28 March 2017, registration number 250066).
- › Gas Natural Fenosa announces a change in the date of publication of its 1Q17 earnings to 12 May 2017 (disclosed 5 April 2017, registration number 250334).
- › Gas Natural Fenosa discloses the indicative results of the tender offer to holders of bonds issued by Gas Natural Capital Markets, S.A. and guaranteed by Gas Natural SDG, S.A. (disclosed 5 April 2017, registration number 250340).
- › Gas Natural Fenosa discloses the final results of the tender offer to holders of bonds issued by Gas Natural Capital Markets, S.A. and guaranteed by Gas Natural SDG, S.A. (disclosed 5 April 2017, registration number 250360).
- › Gas Natural Fenosa completes a €1,000 million bond issue (disclosed 11 April 2017, registration number 250658).
- › Gas Natural Fenosa files a copy of the presentation used at the press conference before the Ordinary Shareholders' Meeting (disclosed 20 April 2017, registration number 250894).

- › Gas Natural Fenosa announces that the Ordinary Shareholders' Meeting has approved all proposals contained in the agenda submitted by the Board of Directors (disclosed 20 April 2017, registration number 250917).
- › GAS NATURAL publishes the invitation to the 1Q17 earnings presentation (disclosed 27 April 2017, registration number 251215).

Annexes. Financial statements

- › GAS NATURAL FENOSA: CONSOLIDATED INCOME STATEMENT
- › GAS NATURAL FENOSA: BREAKDOWN BY BUSINESS AREA
- › GAS NATURAL FENOSA: CONSOLIDATED BALANCE SHEET
- › GAS NATURAL FENOSA: CONSOLIDATED CASH FLOW STATEMENT

Consolidated income statement

| (€ Mn) | 1Q17 | 1Q16 |
|--|--------------|--------------|
| Net sales | 6,450 | 5,954 |
| Purchases | -4,654 | -4,059 |
| Gross income | 1,796 | 1,895 |
| Other operating revenues | 65 | 58 |
| Net personnel expenses | -252 | -249 |
| Taxes | -126 | -124 |
| Other operating expenses | -379 | -364 |
| EBITDA | 1,104 | 1,216 |
| Other results | - | - |
| Depreciation, amortisation and impairment expenses | -423 | -435 |
| Change in operating provisions | -30 | -57 |
| Operating income | 651 | 724 |
| Net financial income | -173 | -199 |
| Income from disposal of financial instruments | - | - |
| Profit/(loss) of entities recorded by the equity method | - | -9 |
| PROFIT/(LOSS) BEFORE TAXES | 478 | 516 |
| Income tax expense | -112 | -121 |
| Income from discontinued operations | - | 5 |
| Non-controlling interests | -68 | -71 |
| PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY | 298 | 329 |

Breakdown by business area

EBITDA

| (€ Mn) | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 2017 |
|---------------------------------|--------------|------|------|------|------|
| GAS DISTRIBUTION | 412 | | | | |
| Spain | 225 | | | | |
| Italy | 14 | | | | |
| Latin America | 173 | | | | |
| ELECTRICITY DISTRIBUTION | 270 | | | | |
| Spain | 143 | | | | |
| Moldova | 12 | | | | |
| Latin America | 115 | | | | |
| GAS | 232 | | | | |
| Infrastructure | 81 | | | | |
| Supply | 151 | | | | |
| ELECTRICITY | 197 | | | | |
| Spain | 126 | | | | |
| Global Power Generation | 71 | | | | |
| REST | -7 | | | | |
| TOTAL EBITDA | 1,104 | | | | |

| (€ Mn) | 1Q16 | 2Q16 | 3Q16 | 4Q16 | 2016 |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| GAS DISTRIBUTION | 388 | 442 | 440 | 460 | 1,730 |
| Spain | 215 | 209 | 229 | 236 | 889 |
| Italy | 14 | 15 | 15 | 18 | 62 |
| Latin America | 159 | 218 | 196 | 206 | 779 |
| ELECTRICITY DISTRIBUTION | 319 | 349 | 343 | 323 | 1,334 |
| Spain | 152 | 151 | 154 | 146 | 603 |
| Moldova | 13 | 12 | 10 | 7 | 42 |
| Latin America | 154 | 186 | 179 | 170 | 689 |
| GAS | 226 | 197 | 196 | 226 | 845 |
| Infrastructure | 75 | 71 | 75 | 77 | 298 |
| Supply | 151 | 126 | 121 | 149 | 547 |
| ELECTRICITY | 267 | 233 | 243 | 229 | 972 |
| Spain | 205 | 171 | 177 | 162 | 715 |
| Global Power Generation | 62 | 62 | 66 | 67 | 257 |
| REST | 16 | 20 | -39 | 92 | 89 |
| TOTAL EBITDA | 1,216 | 1,241 | 1,183 | 1,330 | 4,970 |

Investment in property, plant and equipment and intangible assets

| (€ Mn) | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 2017 |
|---------------------------------|------------|------|------|------|------|
| GAS DISTRIBUTION | 114 | | | | |
| Spain | 42 | | | | |
| Italy | 4 | | | | |
| Latin America | 68 | | | | |
| ELECTRICITY DISTRIBUTION | 129 | | | | |
| Spain | 42 | | | | |
| Moldova | 1 | | | | |
| Latin America | 86 | | | | |
| GAS | 9 | | | | |
| Infrastructure | 2 | | | | |
| Supply | 7 | | | | |
| ELECTRICITY | 62 | | | | |
| Spain | 23 | | | | |
| Global Power Generation | 39 | | | | |
| REST | 6 | | | | |
| TOTAL | 320 | | | | |

| (€ Mn) | 1Q16 | 2Q16 | 3Q16 | 4Q16 | 2016 |
|---------------------------------|------------|------------|------------|--------------|--------------|
| GAS DISTRIBUTION | 119 | 138 | 216 | 555 | 1,028 |
| Spain | 66 | 66 | 132 | 429 | 693 |
| Italy | 5 | 8 | 7 | 11 | 31 |
| Latin America | 48 | 64 | 77 | 115 | 304 |
| ELECTRICITY DISTRIBUTION | 106 | 146 | 163 | 251 | 666 |
| Spain | 45 | 61 | 61 | 98 | 265 |
| Moldova | - | 2 | 3 | 8 | 13 |
| Latin America | 61 | 83 | 99 | 145 | 388 |
| GAS | 7 | 7 | 216 | 244 | 474 |
| Infrastructure | 1 | 1 | 4 | 7 | 13 |
| Supply | 6 | 6 | 212 | 237 | 461 |
| ELECTRICITY | 30 | 46 | 39 | 78 | 193 |
| Spain | 17 | 22 | 23 | 43 | 105 |
| Global Power Generation | 13 | 24 | 16 | 35 | 88 |
| REST | 4 | 26 | 31 | 95 | 156 |
| TOTAL | 266 | 363 | 665 | 1,223 | 2,517 |

Consolidated balance sheet

| (€ Mn) | 31/03/17 | 31/03/16 |
|---------------------------------------|---------------|---------------|
| Non-current assets | 38,804 | 38,060 |
| Intangible assets | 10,911 | 10,488 |
| Property, plant and equipment | 23,552 | 23,430 |
| Equity-accounted affiliates | 1,547 | 1,683 |
| Non-current financial assets | 1,866 | 1,306 |
| Deferred tax assets | 928 | 1,153 |
| Current assets | 9,104 | 9,328 |
| Non-current assets available for sale | - | 945 |
| Inventories | 743 | 654 |
| Trade and other accounts receivable | 5,371 | 5,325 |
| Other current financial assets | 337 | 342 |
| Cash and cash equivalents | 2,653 | 2,062 |
| TOTAL ASSETS | 47,908 | 47,388 |

| (€ Mn) | 31/03/17 | 31/03/16 |
|---|---------------|---------------|
| Equity | 19,328 | 18,671 |
| Equity attributed to equity holders of the parent company | 15,511 | 14,542 |
| Non-controlling interests | 3,817 | 4,129 |
| Non-current liabilities | 20,277 | 20,599 |
| Deferred revenues | 840 | 841 |
| Non-current provisions | 1,250 | 1,434 |
| Non-current financial liabilities | 14,362 | 14,774 |
| Deferred tax liabilities | 2,518 | 2,627 |
| Other non-current liabilities | 1,307 | 923 |
| Current liabilities | 8,303 | 8,118 |
| Liabilities linked to non-current assets available for sale | - | 590 |
| Current provisions | 174 | 201 |
| Current financial liabilities | 3,853 | 3,278 |
| Trade and other accounts payable | 3,876 | 3,680 |
| Other current liabilities | 400 | 369 |
| TOTAL NET EQUITY AND LIABILITIES | 47,908 | 47,388 |

Consolidated cash flow statement

| (€ Mn) | 1Q17 | 1Q16 |
|--|--------------|--------------|
| Cash flow from ordinary activities | 561 | 666 |
| Income before taxes | 478 | 516 |
| Adjustment to result | 589 | 619 |
| Other operating cash flows | -272 | -298 |
| Cash flow from operations | 795 | 837 |
| Changes in current capital | -234 | -171 |
| Investing cash flow | -626 | -525 |
| Investment payments | -639 | -567 |
| Divestment receipts | 2 | 31 |
| Other investing cash flow | 11 | 11 |
| Financing cash flow | 669 | -422 |
| Receipts/(payments) for equity instruments | -1 | - |
| Receipts/(payments) for financial liability instruments | 721 | 13 |
| Dividends paid and remuneration of other equity instruments | -26 | -410 |
| Other financing cash flow | -25 | -25 |
| Effect of exchange rates on cash and cash equivalents | -18 | -47 |
| Net variation in cash and cash equivalents | 586 | -328 |
| Beginning cash and cash equivalents | 2,067 | 2,390 |
| Ending cash and cash equivalents | 2,653 | 2,062 |

Glossary of terms

Gas Natural Fenosa's financial disclosures contain magnitudes and metrics drafted in accordance with International Financial Reporting Standards (IFRS) and others that are based on the Group's disclosure model, referred to as Alternative Performance Metrics (APM), which are viewed as adjusted figures with respect to those presented in accordance with IFRS. Below is a glossary of terms with the definition of the APMs.

| Alternative performance metrics | Definition |
|---------------------------------|--|
| EBITDA | EBIT - Depreciation and amortisation + Period provisions - Other income |
| Market capitalisation | No. of shares at end of period X Market price at end of period |
| Earnings per share | Net income for the period / No. of shares at end of period |
| Gross financial debt | Non-current financial liabilities + Current financial liabilities |
| Net financial debt | Gross financial debt - Cash and cash equivalents - Derivative financial assets |
| Leverage | Net financial debt/(Net financial debt + Net equity) |
| Cost of net financial debt | Cost of financial debt - Interest revenues |
| P/E | Closing share price / Earnings per share in the last four quarters |
| EV | Enterprise value, calculated as: Market capitalisation + Net financial debt |
| Net capital expenditure | Investment in property, plant and equipment, intangible assets and financial assets - Receipts for divestment of property, plant and equipment and intangible assets - Other investing receipts/payments |
| CFO | Cash flow from operations before changes in current capital |
| Personnel expenses, net | Personnel expenses - Capitalised personnel expenses |
| Other revenues and expenses | Other operating revenues, Other operating expenses and Release of fixed assets grants to income and others |

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