

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

Management Report

June 30, 2013

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

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

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

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

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

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

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

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

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

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

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

1. Highlights of the financial year

Remuneration of the Preferred Capital Securities during the period 2013 until the 30th June 2013 has been as follows:

<u>Start of the period</u>	<u>End of the period</u>	<u>Nominal interest rate</u>
20 November 2012	20 February 2013	4.184%
20 February 2013	20 May 2013	4.184%
20 May 2013	20 August 2013	4.143%

2. Business risks

As the preference issues have the guarantee of Gas Natural SDG, S.A., the business risk is linked to that of the Gas Natural Fenosa Group, which we refer to and which is described in its consolidated annual accounts. The Gas Natural Fenosa Group's 2012 and June 2013 consolidated annual accounts are available in the CNMV website (www.cnmv.es) and in the Company's website (www.gasnaturalfenosa.com).

3. Analysis of the results for the year

The Company's net profit during the first half of 2013 was EUR 13,660,232, an increase of around 1% compared to the same period of 2012.

A total amount of EUR 48,672,289 was distributed as a dividend. This amount included a cash dividend to its Common Capital Security holder paid as an interim dividend for year 2013.

4. Investments

The Company on lends the proceedings from the issuance of Preferred Capital Securities to Gas Natural Fenosa Finance B.V, (formerly Unión Fenosa Finance, B.V.) a 100% subsidiary of the Gas Natural Fenosa Group. As a consequence, the Company's investments are mainly a loan granted to Gas Natural Fenosa Finance B.V.

In order to assure that the Company had sufficient funds to be able to cover the obligations on the purchase of the Preferred Capital Securities, the loan was early repayed partially, in proportion to the number of Preferred Capital Securities finally acquired.

5. Technological research, development and innovation

During the first half of 2013, the Company did not carry out any activity related to research, development and innovation:

6. Environment

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

7. Foreseeable development

As at June 30, 2013, the Company had no plans to issue new Preferred Capital Securities.

In accordance with the terms of the LLC Agreement and the prospectus registered in the Spanish National Securities Commission, the Company is considering to repurchase Preferred Capital Securities to the security holders up to a maximum amount of 10% of the outstanding issuance.

8. Corporate Governance Report

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

For the purposes of Rule 5 of Circular 1/2004, of 17 March, of the CNMV, we refer you to Gas Natural S.D.G, S.A.'s Annual Corporate Governance Report corresponding to the 2012 financial year, which appears in the CNMV's website and the Company's website (www.gasnaturalfenosa.com).

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

9. Events subsequent to the balance sheet

No events following 30 June 2013 have taken place which could alter the accounts closed on that date.

10. Treasury stock

During the first half of 2013, the Company has had treasury stock as a result of the purchase of the Preferred Capital Securities, which has been on lent to its Parent.

In accordance with current legislation, the directors sign the management report of Unión Fenosa Financial Services USA, LLC relating to the Financial Statements as at 30 June 2013.

Madrid/Delaware, 29th July 2013

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

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

Alfonso Serrano (Director)
In Spain

Eloy Prieto (Director)
In Spain

Juan José ~~Rivéro~~ Aranda (Director)
In Spain