



# First Quarter Results 2014

6<sup>th</sup> May 2014

## NET PROFIT IN THE FIRST QUARTER OF 2014 AMOUNTS TO €402 MILLION

- From 1 January 2014, the obligatory application of IFRS 11 "Joint Arrangements" led to a change in the method of recognition basically of Unión Fenosa Gas, Ecoeléctrica (CCGT in Puerto Rico) and Nueva Generadora del Sur (CCGT in Spain) and several joint ventures which operate special regime power generation facilities in Spain. Data from the same period last year has been re-stated in accordance with IFRS 11 for comparison purposes.
- Net profit in the first quarter of 2014 declined by 2.3% with respect to the same period last year, to €402 million, due to the impact of Royal Decree Law 9/2013 and of currency depreciation, mainly in Latin America, when translating to euro for accounting purposes during the consolidation process, and to the lack of capital gains from asset divestments (vs. €8 million in 1Q13).
- Consolidated EBITDA in the first quarter of 2014 amounted to €1,224 million, a 4.7% decline with respect to 1Q13, despite notable cost containment, in a very demanding macroeconomic, energy and regulatory context, due to the impacts of Royal Decree Law 9/2013 on the electricity business in Spain and of depreciation by other currencies against the euro.
- The regulatory measures under Royal Decree Law 9/2013, which entered into force on 14 July 2013 (and, therefore, did not have an impact in 1Q13) had an impact on EBITDA amounting to €76 million and affected the electricity distribution and generation activities in Spain.
- The impact on EBITDA of foreign currency depreciation against the euro is €44 million more than in the first quarter of 2013, due mainly to depreciation by the Brazilian real and the Colombian peso.
- Excluding these two impacts, EBITDA in the first quarter of 2014 would have been €1,344 million euro, i.e. 4.6% more than in the first quarter of 2013.
- The company continues to deleverage: net interest-bearing debt totalled €14,172 million at 31 March 2014, the leverage ratio was 48.0% and the net interest-bearing debt/EBITDA ratio was 3.0. Progressive restructuring of financial debt allows for optimal adaptation to the profile of the businesses, and is now a key element in sustained value creation.
- These results were achieved due to the company's sound, diversified business model, supported by a growing contribution from the international business and the enhanced financial position as a result of deleveraging and greater efficiency.
- An interim dividend in cash out of 2013 earnings amounting to €0.393 per share was paid on 8 January 2014.
- The Ordinary Shareholders' Meeting of Gas Natural SDG, held on 11 April 2014, approved shareholder remuneration of €898 million in cash, 0.3% higher than the previous year, in line with the increase in net profit in 2013, resulting in a 62.1% payout. The supplementary dividend of €0.504 per share will be paid in cash on 1 July 2014.

## 1.- MAIN AGGREGATES

### 1.1.- Main financial aggregates

(unaudited)

(€Mn)	1Q14	1Q13	%
Net sales	6,284	6,649	-5.5
EBITDA	1,224	1,285	-4.7
Operating income	790	841	-6.1
Net profit	402	411	-2.3
Cash flow from ordinary activities	827	753	9.8
Average number of shares (million)	1,001	1,001	-
Price at 31/12 (euros)	20.41	13.81	47.8
Market capitalisation at 31/12	20,424	13,820	47.8
Net profit per share (€)	0.40	0.41	-2.3
Investments	367	257	42.8
Equity	15,349	15,356	-
Net financial debt (at 31/12)	14,172	15,440	-8.2

### 1.2.- Ratios

(unaudited)

	1Q14	1Q13
Leverage <sup>1</sup>	48.0%	50.1%
EBITDA/ Financial result	6.6x	6.7x
Net interest-bearing debt /EBITDA	3.0x	3.1x
P/E	14.2x	9.6x
EV/EBITDA	7.2x	5.8x

Share performance and balance sheet at 31 March.

### 1.3.- Main physical aggregates

<sup>1</sup> Net interest-bearing debt/(Net interest-bearing debt+Net equity).

## Distribution in Europe:

	1Q14	1Q13	%
Gas distribution (GWh):			
TPA sales (GWh)	52,969	59,032	-10.3
Connection points ('000) (at 31/03)	5,639	5,581	1.0
Electricity distribution (GWh):			
TPA sales (GWh)	9,105	9,560	-4.8
Connection points ('000) (at 31/03)	4,517	4,509	0.2
ICEIT in Spain (minutes)	19	14	35.7

## Gas business:

	1Q14	1Q13	%
Gas supply (GWh):			
Supply in Spain	86,114	89,179	-3.4
Retail sales in Italy	54,728	61,611	-11.2
Rest	1,232	1,560	-21.0
	30,154	26,008	15.9
Gas transportation - EMPL (GWh)	33,287	35,011	-4.9

## Electricity business:

	1Q14	1Q13	%
Electricity generated (GWh):	7,342	8,367	-12.3
Spain:	7,198	8,224	-12.5
Ordinary Regime	6,448	7,498	-14.0
Hydroelectric	2,205	1,903	15.9
Nuclear	1,164	1,120	3.9
Coal	271	730	-62.9
CCGT	2,808	3,745	-25.0
Special Regime	750	726	3.3
International (Kenya):	144	143	0.7
Installed capacity (MW):	12,202	12,138	0.5
Spain	12,090	12,026	0.5
Ordinary Regime	11,188	11,162	0.2
Hydroelectric	1,916	1,907	0.5
Nuclear	604	604	-
Coal	2,065	2,048	0.8
CCGT	6,603	6,603	-
Special Regime	902	864	4.4
International (Kenya)	112	112	-

## Business in Latin America:

	1Q14	1Q13	%
Distribution, TPA sales (GWh)	60,937	59,714	2.0
Gas	56,863	55,641	2.2
Electricity	4,074	4,073	-
Connection points ('000) (at 31/03)	9,319	8,980	3.8
Gas	6,379	6,138	3.9
Electricity	2,940	2,842	3.4
Installed capacity (MW):	2,317	2,317	-
Mexico (CCGT)	2,035	2,035	-
Costa Rica (hydroelectric)	51	51	-
Panama (hydroelectric)	22	22	-
Panama (oil-fired)	11	11	-
Dominican Republic (oil-fired)	198	198	-
Electricity generated (GWh)	4,013	4,512	-11.1
Mexico (CCGT)	3,831	4,137	-7.4
Costa Rica (hydroelectric)	26	42	-38.1
Panama (hydroelectric)	14	15	-6.7
Panama (oil-fired)	12	3	-
Dominican Republic (oil-fired)	130	315	-58.7

## 2.- ANALYSIS OF CONSOLIDATED RESULTS

### 2.1.- Changes in group size

The main changes in consolidated group size in 2014 with respect to 2013 are as follows:

- In February 2013, Gas Natural Fenosa sold its stakes in Nicaraguan electricity distribution companies Distribuidora de Electricidad del Norte, S.A. (83.7%) and Distribuidora de Electricidad del Sur, S.A. (83.7%).
- Gas Natural Fenosa Perú, S.A., created in August 2013, is fully consolidated.

IFRS 11 "Joint Arrangements" is mandatory as from 1 January 2014, with the result that joint ventures (where the parties have rights solely over the net assets of the arrangement) are now recognised by the equity method instead of the proportionate consolidation method.

As a result of applying that standard, the balance sheet as of 1 January 2013 and 31 March 2013 and P&L for the first quarter of 2013 have been re-stated for comparison purposes.

The impact on key figures in 1Q13 is as follows:

(€Mn)	1Q13	IFRS 11 1Q13	Variation
Net interest-bearing debt	15,944	15,440	-504
Property, plant and equipment and intangible assets	206	194	-12
EBITDA	1,329	1,285	-44

These impacts are basically attributable to the change in the method of recognising the stakes in Unión Fenosa Gas, Ecoeléctrica (CCGT in Puerto Rico) and Nueva Generadora del Sur (CCGT in Cádiz, Spain) and in several joint ventures which operate special regime power generation facilities.

### 2.2.- Analysis of results

#### 2.2.1.- Net sales

Net sales in the first quarter of 2014 amounted to €6,284 million, i.e. 5.5% less than in 1Q13, broadly due to the negative currency effect resulting from the devaluation of Latin America currencies and to the decline in revenues from power generation in Spain.

#### 2.2.2.- EBITDA and operating income

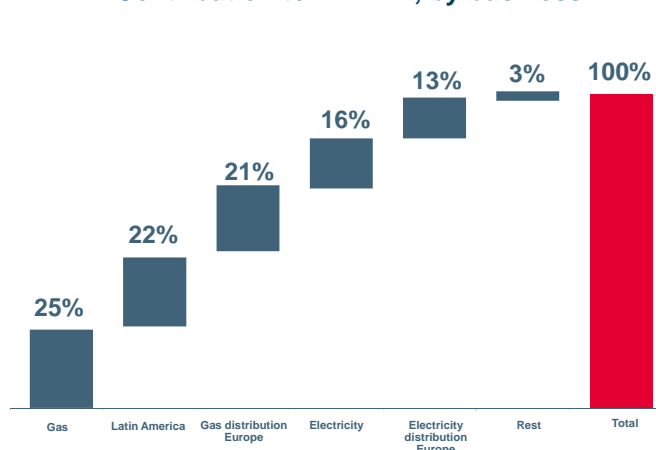
Consolidated EBITDA in 1Q14 totalled €1,224 million, a decline of 4.7% with respect to 1Q13, despite considerable cost containment, in a very tough macroeconomic, energy and regulatory context due to the impacts of Royal Decree Law 9/2013 on the electricity business in Spain and to the depreciation of foreign currencies against the euro.

The regulatory measures under Royal Decree Law 9/2013, which entered into force on 14 July 2013 (and, therefore, did not have an impact in 1Q13) had an impact on EBITDA amounting to €76 million and affected the electricity distribution and generation activities in Spain.

The impact on EBITDA of foreign currency depreciation against the euro is €44 million more than in the first quarter of 2013, due mainly to depreciation by the Brazilian real and the Colombian peso.

Excluding these two effects, EBITDA in the first quarter of 2014 would have been €1,344 million euro, i.e. 4.6% more than in the first quarter of 2013.

#### Contribution to EBITDA, by business

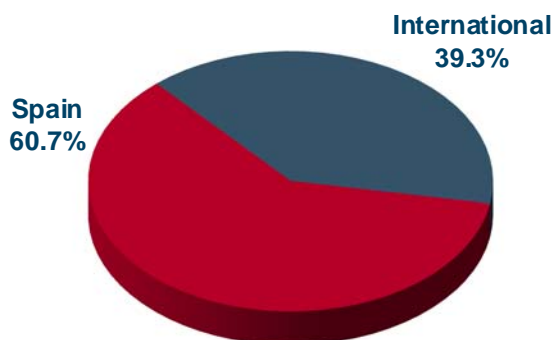


The chart illustrates the business lines' contributions to EBITDA, including a notable contribution by Gas (25.3%). Latin America accounts for 22.4% of the consolidated total, mainly from regulated gas and electricity distribution and from power generation (under power purchase agreements).

Regulated gas and electricity activities in Europe accounted for 33.2% of the total. Power generation, mainly in Spain, accounted for 16.3%.

EBITDA in Gas Natural Fenosa's international activities, which declined by 10.9% due to translation losses, accounted for 39.3% of the consolidated total, compared with 42.0% in the same period of 2013. In contrast, EBITDA from operations in Spain fell by 0.3%, but increased as a share of the consolidated total to 60.7%.

#### Contribution to EBITDA, by geographic area



Depreciation charges in the first quarter declined by 2.5% to €387 million. Provisions for bad debts totalled €47 million, compared with €55 million in 1Q13, and the absence of gains from asset disposals (€8 million in 1Q13) resulted in operating income amounting to €790 million, i.e. 6.1% lower than the previous year.

### 2.2.3.- Financial results

The breakdown of financial results is as follows:

(unaudited)

(€Mn)	1Q14	1Q13
Cost of net interest-bearing debt	-185	-192
Other financial expenses/revenues	-15	-14
<b>Financial result</b>	<b>-200</b>	<b>-206</b>

The cost of net interest-bearing debt in 1Q14 was €185 million, i.e. lower than in 1Q13 due to the decline in gross debt (albeit slightly more expensive) together with a smaller volume of cash remunerated at lower interest rates.

#### 2.2.4.- Equity-accounted affiliates

From 1 January 2014, the obligatory application of IFRS 11 "Joint Arrangements" led to a change in the method of recognition basically of Unión Fenosa Gas, Ecoeléctrica (CCGT in Puerto Rico) and Nueva Generadora del Sur (CCGT in Spain) and several joint ventures which operate special regime power generation facilities in Spain.

The result is -€1 million in 1Q14, compared with -€10 million in 1Q13. Ecoeléctrica provided a positive contribution of €11 million (in line with the previous year), the Unión Fenosa Gas sub-group contributed -€6 million (-€25 million in 1Q13), and special regime power generation facilities also had a negative contribution, of -€4 million, affected by Royal Decree Law 9/2013 (+€6 million in 1Q13).

Output and availability at the Ecoeléctrica CCGT in Puerto Rico were both lower than in 1Q13 because the scheduled shutdown for the annual overhaul of generator unit 2 took longer than expected.

Gas supply in Spain by Unión Fenosa Gas amounted to 10,854 GWh in 1Q14, compared with 13,351 GWh in 1Q13. The industrial segment experienced the sharpest decline: -31.7%. The decline in demand from power generators was more moderate (-12.4%) as a result of a power generation mix that included more renewable sources and the use of coal to fill the thermal gap. A total of 5,877 GWh of energy was traded in international markets, an increase of 20.4% with respect to the same period last year.

#### 2.2.4.- Corporate income tax

Gas Natural Fenosa is taxed in Spain under the consolidated taxation system, in which the tax group is viewed as the taxpayer and its tax base is determined by aggregating the tax bases of its component companies. The other Spanish-resident companies that are not part of the tax group file individual returns, and those not resident in Spain are taxed in their respective countries; the rate for corporate income tax (or the equivalent tax) applicable to income for the period is applied.

The effective tax rate in 1Q14, based on the best estimate of the effective rate for the year as a whole, is 24.5%, i.e. lower than in 1Q13 (25.8%).

#### 2.2.5.- Minority interest

The main items in this account are the minority shareholders of: EMPL; gas distribution companies in Brazil, Colombia and Mexico; and electricity generation and distribution companies in Panama and Colombia.

Income attributed to minority interest amounted to €43 million in 2014, i.e. €10 million less than in 1Q13.



### 3. BALANCE SHEET

#### 3.1.- Investments

The breakdown of financial results is as follows:

(unaudited)

(€Mn)	1Q14	1Q13	%
Capital expenditure and intangible assets	357	194	84.0
Financial investments	10	63	-84.1
<b>Total investments</b>	<b>367</b>	<b>257</b>	<b>42.8</b>

Investments in property, plant & equipment and intangible assets amounted to €357 million in the quarter, an increase of 84.0% year-on-year. This growth is mainly due to the finance lease of the Ribera del Duero LNG carrier ship (170,000 m<sup>3</sup> capacity) arranged in March 2014.

Financial investments added in 2014 correspond to capital expenditure in Costa Rica, in accordance with the service concession model established under IFRIC 12.

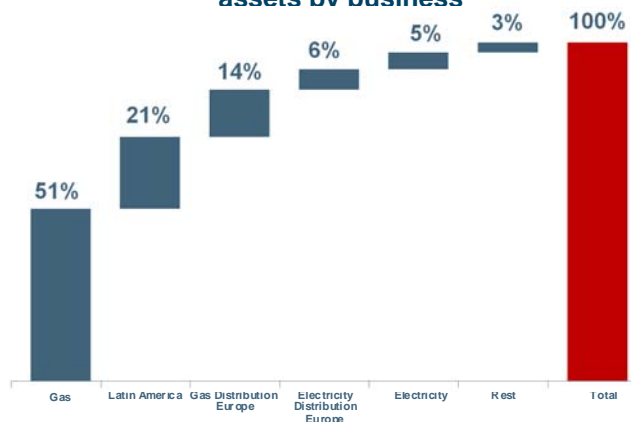
Financial investments in 2013 are mainly attributable to the acquisition of 10.0% of Medgaz for €62 million.

The breakdown of investment in property, plant and equipment and intangible assets by line of business is as follows:

(unaudited)

(€Mn)	1Q14	1Q13	%
Gas distribution in Europe:	51	47	8.5
Spain	48	44	9.1
Italy	3	3	-
Electricity distribution in Europe:	22	20	10.0
Spain	20	19	5.3
Moldova	2	1	-
Gas:	183	5	-
Infrastructures	178	2	-
Procurement and Supply	5	3	66.7
Electricity:	16	36	-55.6
Spain	16	36	-55.6
International	-	-	-
Latin America:	75	61	23.0
Gas distribution	31	32	-3.1
Electricity distribution	22	20	10.0
Electricity	22	9	-
Rest	10	25	-60.0
<b>Total capital expenditure and intangible assets</b>	<b>357</b>	<b>194</b>	<b>84.0</b>

**Total capital expenditure and intangible assets by business**



A total of 51.3% of capital expenditure in the quarter was allocated to gas infrastructure, mainly in connection with the above-mentioned lease of a new LNG tanker ship for Gas Natural Fenosa's fleet. Regulated gas and electricity distribution in Spain increased, by 9.1% and 5.3%, respectively.

Excluding the LNG carrier, capital expenditure declined in Spain by 18.8%, and increased outside Spain by 10.4%.

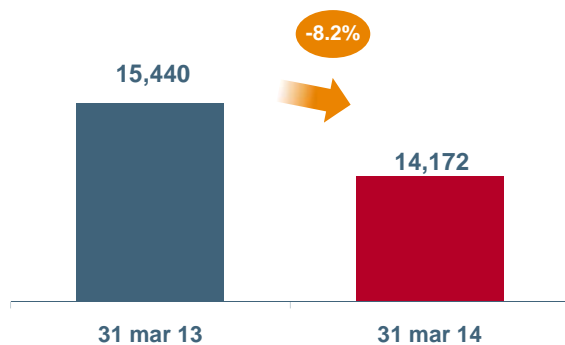
In Latin America, capex is concentrated in Mexico for the construction of the 234 MW Bií Hioxo wind farm.

**3.2.- Debt**

At 31 March 2014, net interest-bearing debt amounted to €14,172 million and leverage was 48.0%.

Excluding the outstanding tariff deficit (€496 million) and withholdings by the Spanish National Competition Commission (€70 million) due to temporary deviations between revenues and expenses, net debt amounted to €13,606 million, i.e. 47.0% leverage.

**Evolution of net interest-bearing (€Mn)**

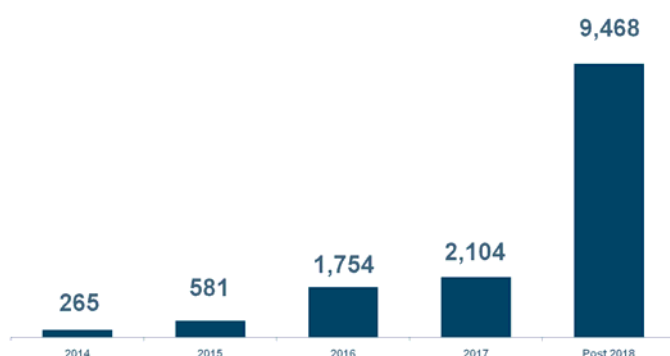


The net debt/EBITDA ratio was 3.0 (2.9 if the tariff deficit is excluded from net debt) and the EBITDA/interest ratio was 6.6 at 31 March 2014.

Since the Fondo de Amortización del Déficit Eléctrico (FADE) launched an inaugural bond issue backed by rights assigned by Spain's electricity system on 11 January 2011, new issues and taps under previous issues have totalled €25,301 million. Gas Natural Fenosa has received a total of €2,873 million.

The figure shows Gas Natural Fenosa's net debt maturity calendar at 31 March 2014.

**Net interest-bearing debt maturity (€Mn)**



A total of 94.0% of the net interest-bearing debt matures in or after 2016. The average term of net debt is around 5 years.

Having consideration for the impact of financial hedges, a total of 82.3% of the net interest-bearing debt is at fixed interest rates and the other 17.7% is at floating rates. Of the net interest-bearing debt, 3.9% is short term and 96.1% is long term.

At 31 March 2014, cash and cash equivalents together with available bank

finance totalled over €11,794 million, providing the company with sufficient liquidity to cover its debt maturities for more than 24 months, with the following breakdown:

(unaudited)

Liquidity (€Mn)	Available in 03/2014
Committed credit lines	7,000
Uncommitted credit lines	86
Loans not drawn	225
Cash and cash equivalents	4,483
<b>Total</b>	<b>11,794</b>

Additionally, at 31 March 2014, the company had €2,351 million available in the form of shelf registrations for financial instruments, including €1,445 million in the Euro Medium Term Notes (EMTN) programme following its expansion by €2,000 million to €14,000 million on 30 May 2013; €492 million in the Euro Commercial Paper (ECP) programme; and a total of €414 million in the stock market certificates programmes on the Mexico Stock Exchange, the commercial paper programme on the Panama Exchange, and the Straight Bonds programme in Colombia.

The company placed a 10-year €500 million bond issue with an annual coupon of 2.875% in March 2014.

The total amount issued under the EMTN programme is €12,450 million, with an average coupon of 4.62% and an average maturity of around 7.4 years.

Additional bank credit lines were arranged during the first quarter of the year, which allowed the company to maintain available liquidity.

On 9 July 2013, Gas Natural Fenosa signed the first tranche of a loan totalling €475 million from the European Investment Bank (EIB), to finance part of the investment plan in Unión Fenosa Distribución's business of electricity transmission and distribution to regulated tariff customers between 2012 and 2015. The loan is distributed in two tranches: €250 million for 8 years, guaranteed by Unión Fenosa Distribución and which was drawn down in July, and €225 million, which is still undrawn.

The European Investment Bank's loan is a reflection of the soundness of Gas Natural Fenosa's project, which meets the Bank's standards on viability, quality and the environment.

The breakdown of the net interest-bearing debt by currency at 31 March 2014, in absolute and relative terms, is as follows:

(unaudited)

(€Mn)	31/03/14	%
EUR	12,324	87.0
US\$	1,025	7.2
COP	440	3.1
MXN	255	1.8
BRL	128	0.9
<b>Total net interest-bearing debt</b>	<b>14,172</b>	<b>100.0</b>

The credit ratings of Gas Natural Fenosa's short- and long-term debt are as follows:

Agency	l/t	s/t
Fitch	BBB+	F2
Moody's	Baa2	P-2
Standard & Poor's	BBB	A-2

### 3.3.- Shareholders' equity

The allocation of 2013 income approved by the Ordinary Shareholders' Meeting on 11 April 2014 includes the payment of a dividend amounting to €898 million. That represents a payout of 62.1% and a dividend yield of more than 4.8% based on the share price at 31 December 2013 (€18.695). The meeting also approved the payment of a supplementary dividend in cash.

Consequently, and having consideration for the number of outstanding shares (1,000,689,341), the total dividend amounts to €0.897 gross per share. On 8 January 2014, an interim dividend of €393 million was paid in cash, amounting to €0.393 per share.

The General Shareholders' Meeting decided that the supplementary 2013 dividend of €0.504 per share will be paid from 1 July 2014.

At 31 March 2014, Gas Natural Fenosa's shareholders' equity totalled €15,349 million. Of that figure, €13,827 million is attributable to Gas Natural Fenosa, i.e. an increase of 0.5% with respect to 31 March 2013.

## 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 IN EUROPE

#### 4.1.1.- Spain

This area includes gas distribution, third-party access (TPA) and secondary transportation, as well as the distribution activities that are charged for outside the regulated remuneration (meter rentals, customer connections, etc.) in Spain.

#### 4.1.1.1.- Results

(unaudited)

(€Mn)	1Q14	1Q13	%
Net sales	314	314	-
Purchases	-6	-8	-25.0
Personnel costs, net	-20	-19	5.3
Other revenues and expenses	-61	-62	-1.6
<b>EBITDA</b>	<b>227</b>	<b>225</b>	<b>0.9</b>
Depreciation & amortization, and impairment losses	-74	-71	4.2
Change in operating provisions	0	1	-
<b>Operating profit</b>	<b>153</b>	<b>155</b>	<b>-1.3</b>

Net sales in the gas distribution business totalled €314 million, in line with the same period last year and with the increase in remuneration, because of slack demand for gas. EBITDA amounted to €277 million, up +0.9%.

#### 4.1.1.2.- Main aggregates

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

	1Q14	1Q13	%
Gas TPA sales (GWh):	51,394	57,090	-10.0
Distribution network (km)	47,966	46,863	2.4
Change in connection points ('000)	13	8	62.5
Connection points ('000) (at 31/03)	5,184	5,132	1.0

Gas Natural Fenosa's regulated gas sales in Spain declined by 10.0% overall (-5,696 GWh).

Demand for gas which is covered by remuneration for the distribution activity (less than 60 bar) decreased by 8% in the first quarter due to adverse weather in the residential market, since it was the warmest first quarter in the last fifteen years, with a differential of 102 degree-days, and also due to the decline in demand in the cogeneration industrial market, affected by new regulatory measures.

Secondary transportation sales declined by 69.1% due to the notable decline in consumption by CCGTs and greater renewable energy output.

Gas Natural Fenosa continues to expand its distribution network and to increase the number of supply connections despite scant activity in the new building market.

The distribution network expanded by 288 km in 1Q14, connecting 9 new municipalities to reach a total of 1,109 municipalities.

Order IET/2446/2013, published on 30 December 2013, established the tolls and fees for third-party access to gas installations and remuneration for regulated gas activities for 2014. The remuneration recognised for Gas Natural Fenosa from distribution and transportation activities in 2014 is €1,108 million.

#### 4.1.2.- Italy

This area refers to regulated distribution and retail supply of gas in Italy.

##### 4.1.2.1.- Results

(unaudited)

(€Mn)	1Q14	1Q13	%
Net sales	85	115	-26.1
Purchases	-46	-73	-37.0
Personnel costs, net	-4	-4	-
Other revenues and expenses	-9	-7	28.6
<b>EBITDA</b>	<b>26</b>	<b>31</b>	<b>-16.1</b>
Depreciation & amortisation, and impairment losses	-6	-6	-
Change in operating provisions	-1	-2	-50.0
<b>Operating profit</b>	<b>19</b>	<b>23</b>	<b>-17.4</b>

EBITDA amounted to €26 million in 1Q14, i.e. a decline of 16.1% compared with the same period last year.

This decline is mainly attributable to two factors: new regulatory models for remuneration in 2014-2019 which reduce remuneration for distribution and supply, leading to a lower sales margin during periods of greatest consumption, and lower sales in the residential market, due to exceptionally warm weather in the period.

##### 4.1.2.2.- Main aggregates

	1Q14	1Q13	%
Gas TPA sales (GWh)	1,575	1,942	-18.9
Distribution network (km)	6,975	6,887	1.3
Connection points ('000) (at 31/03)	455	449	1.3
Retail gas supply (GWh)	1,232	1,560	-21.0

A total of 1,575 GWh of gas were distributed, i.e. 18.9% less than in 2013, and sales to the retail market declined by 21% to 1,232 GWh, mainly due to weather conditions.

The distribution grid expanded by 88 km in the last 12 months, to 6,975 km.

Gas Natural Fenosa has 455,104 gas connection points in Italy, a 1.3% increase with respect to 31 March 2013.

Gas Natural Fenosa has 512,636 active retail gas, electricity and services contracts in Italy.

## 4.2.- ELECTRICITY DISTRIBUTION IN EUROPE

### 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

(unaudited)

(€Mn)	1Q14	1Q13	%
Net sales	201	209	-3.8
Purchases	-	-	-
Personnel costs, net	-29	-31	-6.5
Other revenues and expenses	-31	-31	-
<b>EBITDA</b>	<b>141</b>	<b>147</b>	<b>-4.1</b>
Depreciation & amortization, and impairment losses	-51	-54	-5.6
Change in operating provisions	0	0	-
<b>Operating profit</b>	<b>90</b>	<b>93</b>	<b>-3.2</b>

Order IET/107221/2014, of 1 February, established the remuneration for electricity transmission, distribution and customer management for the electricity distribution company owned by Gas Natural Fenosa and the other industry players. This remuneration reflects modifications established in Act 24/2013, of 26 December, on the Electricity Sector, to recognise investments undertaken in 2012.

As a result of applying IFRS 11 in 2014, the companies Begasa and Conquense were recognised by the equity method, and the 1Q13 data has been re-stated accordingly.

EBITDA amounted to €141 million in 1Q14, i.e. a decline of 4.1% with respect to the same period last year. Net sales declined by 3.8% as a result of the new regulation. This sales performance was partly offset by the decline in net personnel costs, reflecting the efficiency measures implemented in previous years.

#### 4.2.1.2.- Main aggregates

	1Q14	1Q13	%
Electric TPA sales (GWh)	8,394	8,866	-5.3
Connection ('000) (at 31/03)	3,668	3,670	-0.1
ICEIT (minutes)	19	14	35.7

Electricity supplied fell by 5.3%, i.e. by more than the decline in demand in the Spanish distribution network as a whole, which amounted to 243,126 GWh in 1Q14 (248,903 GWh in 1Q13), i.e. a 2.3% reduction, according to Red Eléctrica de España (REE).

The number of distribution connections remained stable with respect to the previous year, at 3,668,000.

As for supply quality, the ICEIT (installed capacity equivalent interrupt time) index was higher than in 2013 because of adverse weather conditions, but was in line with the average of recent years because of good performance by the facilities due to the ongoing capital expenditure plans, the grid architecture, and the systematic operation and maintenance plans.

#### 4.2.2.- Moldovia

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

(unaudited)

(€Mn)	1Q14	1Q13	%
Net sales	68	74	-8.1
Purchases	-52	-57	-8.8
Personal costs, net	-2	-2	-
Other revenues and expenses	-2	-3	-33.3
<b>EBITDA</b>	<b>12</b>	<b>12</b>	<b>-</b>
Depreciation & amortisation, and impairment losses	-1	-1	-
Other in operating provisions	-	-	-
<b>Operating profit</b>	<b>11</b>	<b>11</b>	<b>-</b>

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

Excluding the currency effect, EBITDA expanded by 8% due to the improvement in grid loss ratio and in efficiency and to cost containment.

##### 4.2.2.2.- Main aggregates

	1Q14	1Q13	%
Electric Activity Sales (GWh)	711	694	2.4
Connection points ('000) (a 31/03)	849	839	1.2
Network loss ratio (%)	9	11	-18.2

Gas Natural Fenosa continues 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; the plan is achieving its objectives and providing an ongoing improvement in basic operating indicators:

- electricity supply increased slightly, by 2.4%, since the positive effect of loss reduction campaigns was offset by lower consumption due to the milder weather in 2014 compared with 2013.



- Supply connections totalled 849,333, i.e. up 1.2% with respect to 31 March 2013, due primarily to growth in the real estate sector.
- The network loss indicator performed favourably, enabling the company to maximise regulated revenues.

## 4.3.- GAS

### 4.3.1.- Infrastructure

This area includes operation of the Maghreb-Europe gas pipeline, maritime transportation, the development of integrated liquefied natural gas (LNG) projects, and hydrocarbon exploration, development, production and storage.

#### 4.3.1.1.- Results

(unaudited)

(€Mn)	1Q14	1Q13	%
Net sales	78	82	-4.9
Purchases	-4	-10	-60.0
Personnel costs, net	-1	-1	-
Other revenues and expenses	-2	-4	-50.0
<b>EBITDA</b>	<b>71</b>	<b>67</b>	<b>6.0</b>
Depreciation & amortisation, and impairment losses	-19	-24	-20.8
Change in operating provisions	-	-	-
<b>Operating profit</b>	<b>52</b>	<b>43</b>	<b>20.9</b>

Net sales in the Infrastructure business totalled €78 million in 1Q14, a 4.9% decline.

EBITDA in 2014 amounted to €71 million, i.e. 6.0% more than in 1Q13, due mainly to the 3.0% increase in fees for international shipping via the Maghreb-Europe gas pipeline in 2014, and to the logistical optimisation of the fleet.

#### 4.3.1.2.- Main aggregates

The main aggregates in international gas transportation are as follows:

	1Q14	1Q13	%
Gas transportation-EMPL (GWh):	33,287	35,011	-4.9
Portugal-Morocco	9,813	10,265	-4.4
Spain-Morocco (Gas Natural Fenosa)	23,474	24,746	-5.1

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz represented a total volume of 33,287 GWh, 4.9% less than in the previous year as a result of the lower volume of gas shipped to Spain due to lower deliveries by Algeria. Of that figure, 23,474 GWh were shipped for Gas Natural Fenosa through Sagane and 9,813 GWh for Portugal and Morocco.

Gas Natural Fenosa acquired 14.95% of Medgaz, S.A. in 2013. Medgaz operates the Algeria-Europe subsea gas pipeline connecting Beni Saf with the Almería coast (capacity: 8 bcm/year). The corresponding capacity is attributable to a new supply contract amounting to 0.8 bcm/year. A total of 2,377 GWh were shipped via the Medgaz pipeline for Gas Natural Fenosa in 1Q14.

The company continues to advance the paperwork for the five exploration, production and storage projects planned for the coming years in the Guadalquivir Valley (Marismas, Aznalcázar and Romeral areas). In January 2013, the Secretary of State for the Environment granted the Environmental Impact Assessments (EIA) for the Saladillo, Eastern Marismas and Aznalcázar projects; the company had previously obtained an EIA for the Western Marismas project. The Government of Andalucía suspended processing of a Combined Environmental Authorisation for the Eastern Marismas and Aznalcázar projects, expressing doubts as to whether the synergistic effects between the projects had been evaluated and requesting that the Ministry of the Environment complete that evaluation prior to issuing the remaining EIAs.

### 4.3.2.- Procurement and Supply

This area includes gas procurement and supply (wholesale and retail) in Spain and other countries, the supply in Spain of products and services related to retail supply, and supply of gas at the last-resort tariff in Spain.

#### 4.3.2.1.- Results

(unaudited)

(€Mn)	1Q14	1Q13	%
Net sales	3,306	3,366	-1.8
Purchases	-3,001	-3,059	-1.9
Personnel costs, net	-14	-13	7.7
Other revenues and expenses	-50	-44	13.6
<b>EBITDA</b>	<b>241</b>	<b>250</b>	<b>-3.6</b>
Depreciation & amortisation, and impairment losses	-5	-4	25.0
Change in operating provisions	-13	-8	62.5
<b>Operating profit</b>	<b>223</b>	<b>238</b>	<b>-6.3</b>

Net revenues amounted to €3,306 million, i.e. 1.8% less than in the same period last year. EBITDA declined by 3.6% to €241 million, mainly due to the decline in sales in Spain (weather) and to the different timing of sales outside Spain.

Diversification of the portfolio of commodities and combined management of the commodity and dollar risks helped maintain EBITDA at levels in line with the same period last year in a context of significant volatility in the energy and currency markets.

### 4.3.2.2.- Main aggregates

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

	1Q14	1Q13	%
Gas supply (GWh):	84,882	87,619	-3.1
Spain:	54,728	61,611	-11.2
Gas Natural Fenosa supply <sup>2</sup>	41,422	45,059	-8.1
Supply to third parties	13,306	16,552	-19.6
International:	30,154	26,008	15.9
Supply in Europe	13,196	8,902	48.2
Other	16,958	17,106	-0.9
Multiutility contracts (at 31/03)	2,318	1,913	21.2
Contracts per customer (at 31/03)	1.49	1.41	5.7

Gas demand in Spain totalled 87,194 GWh in 1Q14, a decline of 11.5% with respect to 1Q13 (98,564 GWh); Gas Natural Fenosa experienced a decline of 8.1% in the same period. Conventional gas demand declined by 9.1% overall, to 76,884 GWh; Gas Natural Fenosa experienced a 10.8% decline. Gas demand for power generation in Spain fell by 26.5%, to 10,310 GWh, and by 31.8% for Gas Natural Fenosa.

In a situation of weak demand, the company supplied 54,728 GWh in the Spanish gas market, an 11.2% decline with respect to 1Q13, due to lower sales to final customers of Gas Natural Fenosa (-8.1%), mainly as a result of a decline in gas consumption by CCGT plants and in supply to third parties (-19.6%).

Gas sales outside Spain maintained the trend from previous quarters and increased by 15.9% with respect to the same period last year, to 30,154 GWh.

Gas Natural Fenosa, through its subsidiary Gas Natural Comercializadora, attained a 13% share of the gas market in Portugal, according to data from ERSE, the Portuguese regulator, making it that country's second-largest operator. Its activities are focused in the industrial market, where it has an estimated market share of over 20%. This strengthens its leading position in the Iberian Peninsula as the official creation of the Iberian Gas Market (MIBGAS) approaches.

The company is also the leading foreign operator in Portugal, with industrial contracts amounting to 6.2 TWh/year.

Gas Natural Fenosa arranged 13.7 TWh of underground storage for the period between April 2014 and March 2015, i.e. over 52% of the storage capacity available to the market. This contract highlights Gas Natural Fenosa's commitment to clients and the Spanish gas system.

Gas Natural Europe (the French subsidiary for supply in Europe) currently has 2,655 distribution connections in a range of sectors in France, from industrial companies (chemicals, paper mills, etc.) to local governments and the public sector, accounting for a total portfolio of 15.1 TWh per year.

The French subsidiary strengthened its position in Belgium and Luxembourg with 432 supply points, representing a contracted portfolio of 6.3 TWh per year. In The Netherlands, the company has 274 supply points and a portfolio of 5.2 TWh. The company began operations in Germany at the end of 2012 and already has 100 supply points and a portfolio of 1.2 TWh.

<sup>2</sup> Does not include exchange transactions.

Gas Natural Fenosa is also considering an entry into other central European markets in the short term by offering a combination of customised energy consulting with the advantage of a diversified, secure supply.

Gas Natural Vendita had a portfolio under contract in the Italian wholesale market amounting to 4.4 TWh/year at 31 March 2014.

The company continues to diversify into international markets, having sold gas in the Americas (Caribbean and South America) and Asia (Japan, India and South Korea). This strengthens our presence in the main international LNG markets, providing us with a medium-term position in countries with growth potential and large consumers of LNG. At the end of last year, Gas Natural Fenosa was awarded a contract to supply 1.8 bcm/year of LNG to Argentina in 2014 and 2015.

Gas Natural Fenosa has over 11.3 million active retail gas, electricity and services contracts. More than 1.3 million residential customers have both electricity and gas supply contracts with Gas Natural Fenosa.

Products and services were marketed in all areas of Spain and the group signed 397,000 contracts in the residential market. The company continues to expand into the small and medium-sized enterprise market, and had a portfolio of 351,000 gas, electricity and services contracts at the end of 1Q14, of which 19,000 were electricity contracts in Portugal, where Gas Natural Fenosa continues to grow and strengthen its position.

Gas Natural Fenosa expanded its residential maintenance contract portfolio to include new services. That portfolio contains more than 2.3 million active contracts, managed with the group's own operating platform consisting of 164 associated firms connected via an online system, which has enabled it to improve service performance and quality.

These efforts increased retail contract numbers by 6% in like-for-like terms with respect to 31 March 2013.

Gas Natural Fenosa continues to add features and users to its online customer management system, enabling customers to acquire products and services.

In 1Q14, the company continued to develop public service stations for compressed natural gas and LNG. It opened an LNG service station in Alovera (Guadalajara) as part of the Garnet project, which was co-financed by the EU. The Group also participated in the presentation to the Spanish Senate on LNG use as a marine fuel, and is helping several Spanish ports in connection with this issue.

## **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 last-resort tariff.

#### 4.4.1.1.- Results

(unaudited)

(€Mn)	1Q14	1Q13	%
Net sales	1,454	1,505	-3.4
Purchases	-1,039	-1,060	-2.0
Personnel costs, net	-35	-39	-10.3
Other revenues and expenses	-183	-176	4.0
<b>EBITDA</b>	<b>197</b>	<b>230</b>	<b>-14.3</b>
Depreciation & amortisation, and impairment losses	-124	-123	0.8
Change in operating provisions	-8	-13	-38.5
<b>Operating profit</b>	<b>65</b>	<b>94</b>	<b>-30.9</b>

Net sales in the electricity business amounted to €1,454 million in the first quarter of 2014, 3.4% less than in the same period of 2013.

EBITDA amounted to €197 million in 1Q14, a 14.3% decline year-on-year.

This decline is attributable mainly to the adverse performance by fuel prices, lower wholesale electricity prices as a result of the change in the electricity production mix (greater hydroelectric output) and the impact on power generation of fiscal and regulatory measures approved under Act 15/2012 and RD 9/2013.

Electricity demand in mainland Spain amounted to 63,162 GWh in the first quarter of 2014, a decline of 1.8% with respect to the same period last year, in line with the trend of quarter-on-quarter declines which began in 2010, broken only in the last quarter of 2013. Demand declined in January and March by more than 2%, and in February by around 1%. Adjusting for the different number of working days and for temperatures, demand actually declined by -0.6% in the quarter.

Peak capacity usage in one hour in 1Q14 was 38,666 MW, on 4 February, i.e. considerably lower than the 39,963 MW attained in the same period of last year (27 February 2013).

The balance of international power flows was a net export of 0.7 TWh in 1Q14, i.e. practically half of the figure exported in the same period of 2013.

Consumption for pumped storage amounted to 2,081 GWh in 1Q14, i.e. 10.0% less than in 1Q13.

Net electricity output in Spain declined by 3.1% due to lower exports and lower consumption for pumped storage in 2014.

Ordinary regime output fell by -0.8% in the quarter, compared with a record quarterly decline in special regime output of -5.8% in the same period.

Wind output in 1Q14 was 1.0% higher than in 1Q13 and covered an average of 27.8% of demand in the quarter. Wind output reached a new record high on mainland Spain at 352,087 MWh on 25 March, 2.1% more than the previous high of 345,011 MWh on 16 January 2013. Output by other Special Regime energies fell by -14.2% in the quarter, due to the decline in renewable thermal output (-15.9%) and, mainly, by cogeneration (-23.4%). Special regime output as a whole covered 46.8% of total demand in 1Q14, i.e. almost 2 percentage points less than in the same period of 2013.

Ordinary regime output declined by -0.8% in the quarter with respect to 1Q13, maintaining the negative trend observed since 2011 (apart from a hiatus in the first quarter of 2012), and mainly associated with coal-fired output and CCGTs.

Hydroelectric output increased by 39.3% in the quarter with respect to the first quarter of 2013 due to higher precipitation, especially in February. In terms of hydroelectric energy capability, 2014 was a wet year, with an exceedance probability of 17% when compared with the historical average: i.e. statistically, only 17 out of every 100 years would be wetter than 2014.

Nuclear output increased by 2.1% in the quarter, affected by changes in the dates of scheduled shut-downs.

The thermal gap declined by slightly more than 4.5 TWh in the quarter, accounting for 12.8% of demand, compared with 19.7% in the first quarter of 2013.

Coal-fired output declined by 39.4% in 1Q14, covering 6.3% of demand, four points less than in the same period of 2013.

CCGT output in 1Q14 declined by 33.1% year-on-year, covering 6.5% of demand, compared with 9.5% in the first quarter of 2013.

The weighted average price in the daily power generation market was €24.88/MWh in the first quarter of 2014, i.e. notably lower than in 1Q13 (€40.75/MWh) and less than half of the figure registered in 4Q13 (€53.81/MWh). Average daily prices during the quarter ranged from €0.55/MWh (9 February) to €59.38/MWh (10 January).

Brent crude declined from an average of \$109.3/bbl in the fourth quarter of 2013 to \$108.2/bbl (-1.0%) in the first quarter of 2014, as monthly averages declined throughout the quarter. API 2, Europe's main coal price indicator, declined by 6.9%, from an average of \$84.4/tonne in the fourth quarter of 2013 to \$78.5/tonne in the first quarter of 2014, continuing the downward trend that began over two years ago following the hiatus in the previous quarter. The price of CO<sub>2</sub> emission rights (EUAs on Bluenext) averaged €5.9/tonne (maturing in 2014), i.e. higher than the 4Q13 average (€4.7/tonne).

#### 4.4.1.2.- Main aggregates

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

Power generation capacity:

	1Q14	1Q13	%
Installed capacity (MW):	12,090	12,026	0.5
Ordinary Regime	11,188	11,162	0.2
Hydroelectric	1,916	1,907	0.5
Nuclear	604	604	-
Coal	2,065	2,048	0.8
Oil/gas	6,603	6,603	-
CCGT	902	864	4.4
Special Regime	738	738	-
Wind	107	69	55.1
Small hydroelectric	57	57	-

The change in ordinary regime installed capacity with respect to the previous year is due to a number of factors:

- A 9 MW increase as a result of re-rating several hydroelectric plants.
- A 17 MW increase in gross capacity of the Meirama power plant, recognised in August 2013.

## Electricity generated and sold:

	1Q14	1Q13	%
Electricity generated (GWh):	7,198	8,224	-12.5
Ordinary Regime	6,448	7,498	-14.0
Hydroelectric	2,205	1,903	15.9
Nuclear	1,164	1,120	3.9
Coal	271	730	-62.9
Oil/gas	2,808	3,745	-25.0
CCGT	750	726	3.3
Special Regimen	558	529	5.5
Wind	143	113	26.5
Small hydroelectric	49	84	-41.7
Electricity sales (GWh):	8,742	8,872	-1.5
Liberalised market	6,799	6,682	1.8
Last resort tariff	1,943	2,190	-11.3
Market share of ordinary regime output (%)	17.5	20.2	-13.4

Gas Natural Fenosa generated 7,198 GWh of electricity in mainland Spain in the first quarter of 2014, i.e. 12.5% less than in 1Q13. Of that figure, 6,448 GWh were ordinary regime (a 14.0% decline year-on-year), due to lower output by CCGTs and coal-fired power plants.

Special regime power generation increased notably, by 3.3% in the quarter, to 750 GWh.

Hydroelectric output amounted to 2,205 GWh in 1Q14, i.e. +15.9% higher than in 1Q13 (1,903 GWh), due to abundant precipitation in the quarter.

The year started out wet and that condition persisted throughout the first three months even though precipitation declined as the quarter advanced. The quarter had a 26% exceedance probability (i.e. the probability that the period's energy capability will be exceeded, based on the historical record of average energy capability). Reservoirs in the Gas Natural Fenosa watersheds were at 58.5% of capacity, compared with 62.2% at the end of 1Q13.

Nuclear output increased by 3.9% in the quarter compared with 1Q13, affected by change in the dates of scheduled shut-downs.

Gas Natural Fenosa's output using Spanish coal amounted to 112 GWh in 1Q14, evidencing the impact of the Royal Decree on Security of Supply. Total coal-fired output in the first quarter of 2014 amounted to 271 GWh, i.e. 62.9% lower than in the same quarter of 2013.

The company's CCGT output in the first quarter of 2013 totalled 2,808 GWh, a 25.0% decline compared with 1Q13.

The company attained a 17.5% share of the ordinary regime power generation market in 1Q14, i.e. less than the 20.2% registered in 1Q13.

The electricity supply area sold 8,742 GWh in 1Q14, including supply to the liberalised market and under the social last-resort tariff. 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.



Emissions of CO<sub>2</sub> in the first quarter of 2014 from Gas Natural Fenosa's thermal power plants and CCGTs that are affected by the regulation governing greenhouse gas emission trading totalled 1.4 million tonnes (0.7 million tons less than in the same period of 2013).

Gas Natural Fenosa applies a comprehensive approach to its portfolio of CO<sub>2</sub> emission rights for the post-Kyoto (2013-2020) period, acquiring the emission rights and credits needed through active participation in the secondary market as well as through primary projects and carbon funds.

### GNF Renovables

At 31 March 2014, Gas Natural Fenosa Renovables (GNF Renovables) had 902 MW of consolidable total operational installed capacity, of which 738 MW are wind, 107 MW are small hydroelectric and 57 MW are cogeneration, applying IFRS 11 on joint arrangements.

Output was +3.3% higher than in 2013 (750 GWh vs. 726 GWh). This is primarily attributable to the 5.5% increase in wind output due to stronger winds in 2014 compared with the previous year. Small hydroelectric output increased because the Belesar II and Peares II power plants became operational and provided 39 GWh in the first quarter of 2014. Cogeneration output declined notably compared with 1Q13 because of the temporary shutdown of cogeneration plants associated with slurry treatment, resulting from the publication of a draft Ministerial Order determining the new remuneration parameters for exported electricity. This also had an impact on EBITDA, which amounted to €12 million in 1Q14, i.e. considerably lower than in the first quarter of 2013.

### 4.4.2.- Electricity International (Kenya)

This area refers to power generation in Kenya. The energy conditions in the country (additional capacity became operational) in the first quarter of 2014 include a decline in the use of this thermal power plant, with the result that electricity output declined.

#### 4.4.2.1.- Results

(unaudited)

(€Mn)	1Q14	1Q13	%
Net sales	25	27	-7.4
Purchases	-22	-20	10.0
Personnel cost, net	-1	-1	-
Other revenues and expenses	-	-3	-
<b>EBITDA</b>	<b>2</b>	<b>3</b>	<b>-33.3</b>
Depreciation & amortisation, and impairment losses	-1	-1	-
Change in operating provisions	-	-	-
<b>Operating profit</b>	<b>1</b>	<b>2</b>	<b>-50.0</b>

EBITDA amounted to €2 million in the first quarter of 2014. The decline is due to lower output (-5.8%), currency fluctuations, and a temporary decline in availability (the factor determining capacity revenues) to 83.4%, due to maintenance. The decline in international fuel prices mitigated the decline in EBITDA.



#### 4.4.2.2.- Main aggregates

	1Q14	1Q13	%
Electric generation capacity (MW)	112	112	-
Electric energy production (GWh/year)	144	143	0.7

Diesel-fired output in Kenya increased moderately, by 0.7% in 1Q14, to 144 GWh, due to lower dispatching of the plant as a result of additional capacity that became operational there in the period.

### 4.5.- LATIN AMERICA

#### 4.5.1- Gas distribution

This division involves gas distribution in Argentina, Brazil, Colombia, Mexico and Peru.

On 25 July 2013, the government of Peru awarded Gas Natural Fenosa a contract to extend natural gas service to four cities in south-west Peru. This is the company's first project in Peru and expands its presence in Latin America.

As a result of the adjudication, Gas Natural Fenosa will supply energy to an area that is not yet connected to the gas grid and expects to supply natural gas to over 60,000 households. There are four large cities in the area: Arequipa (Peru's second-largest city), Moquegua, Tacna and Ilo.

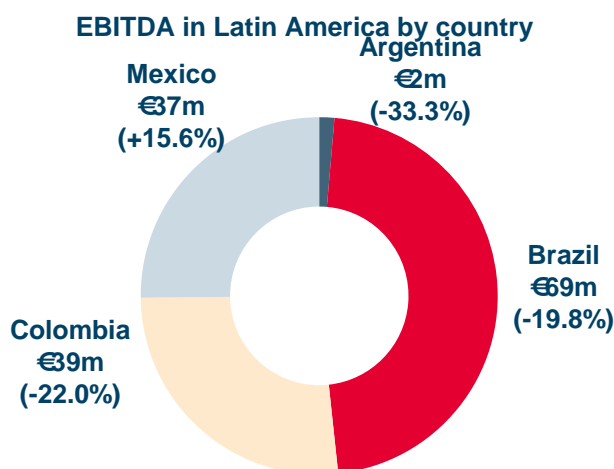
The concession period is 20 years, with the possibility of an extension, to develop the gas grid in the southeast part of the country, including the transportation system and local gas distribution in four cities.

#### 4.5.1.1.- Results

(unaudited)

(€Mn)	1Q14	1Q13	%
Net sales	730	816	-10.5
Purchases	-511	-565	-9.6
Personnel costs, net	-21	-26	-19.2
Other revenues and expenses	-51	-53	-3.8
<b>EBITDA</b>	<b>147</b>	<b>172</b>	<b>-14.5</b>
Depreciation & amortisation, and impairment losses	-24	-28	-14.3
Change in operating provisions	-4	-4	-
<b>Operating profit</b>	<b>119</b>	<b>140</b>	<b>-15.0</b>

Revenues declined by 10.5% to €730 million, on 2.2% growth in volume year-on-year.



EBITDA amounted to €147 million, 14.5% lower than in 1Q13, due largely to the negative impact of depreciation of local currencies in Brazil (-11.9%), Argentina (-30.8%), Colombia (-9.4%), and Mexico (-6.3%).

The figure shows gas distribution EBITDA in Latin America, by country, and the variation with respect to 1Q13.

Brazil contributed 46.9% of EBITDA, and revenues increased slightly with respect to the previous year.

Colombia accounted for 26.5% of EBITDA and increased sales by 26.5%, due

primarily to growth in the industrial market.

EBITDA in Mexico accounted for 25.2% of the total, up 15.6% with respect to 1Q13, and the energy margin increased by 15.9% due to higher margins in the residential/commercial, industrial and automotive natural gas markets.

#### 4.5.1.2.- Main aggregates

The main physical aggregates in gas distribution in Latin America are as follows:

	1Q14	1Q13	%
Gas activity sales (GWh)	56,863	55,641	2.2
Tariff gas sales	34,723	33,398	4.0
TPA	22,140	22,243	-0.5
Distribution network (km)	69,411	67,702	2.5
Change in connection points ('000)	58	48	20.8
Connection points ('000) (at 31/03)	6,379	6,138	3.9

The key physical aggregates by country in 2014 are as follows:

	Argentina	Brazil	Colombia	Mexico	Total
Gas activity sales (GWh)	16,475	23,238	5,594	11,556	56,863
Change vs. 2013 (%)	1.3	0.1	26.5	-1.6	2.2
Distribution network (km)	24,131	6,512	20,398	18,370	69,411
Change vs. 31/03/2013 (km)	395	168	481	665	1,709
Connection points ('000) (at 31/03)	1,562	906	2,545	1,366	6,379
Change vs. 31/03/2013 ('000)	33	31	117	60	241

There were a total of 6,379,000 gas distribution connections in 2014. Year-on-year growth remains high, as the company added 241,000 distribution connections (of which 117,000 in Colombia alone).

Sales in the gas activity in Latin America, which include both gas sales and TPA (third-party access) services, totalled 56,863 GWh, a 2.2% increase with respect to 2013.

The distribution grid expanded by 1,709 km (+2.5%) in the last 12 months, to 69,411 km at the end of March 2014. Mexico made a notable contribution, adding 665 km.

Highlights in Latin America:

- In Argentina, the energy margin increased by 12.6% with respect to 1Q13, due mainly to the higher margin on sales to industrial clients and to the penalties applied to transportation and distribution clients with interruptible contracts for consumption during cut-off periods. The company continued to contain expenditure in a complex economic situation with high inflation (around 30%). On 7 April, the national gas regulator, ENARGAS, published new tariff sheets, whose impact will be visible as from the second quarter.
- The business continued to perform well in Brazil, with an 11.2% net increase in residential/commercial customer numbers and an increase in sales particularly in the industrial and TPA markets in 1Q14. Sales in the power generation market remained in line with 1Q13 levels due to ongoing scant precipitation and low reservoir levels. Reservoir levels in March 2014 stood at 36.3%, i.e. 42.5 percentage points below the historical average (78.8% on average over 8 years) in the southeast/west-central region, which holds 70% of the country's water reserves. The new tariff associated with the 3rd Five-Year Tariff Revision for CEG and CEG Río entered into force on 1 January 2014, with a recognised WACC of 9.76%. These new tariffs will have a positive impact on the company's earnings.
- In Colombia, gas and TPA sales expanded by a notable 26.5% in 1Q14 compared with 1Q13, due primarily to the greater industrial volume (+79.9%) after signing a new sales contract with major industrial clients and to the larger customer base. Net growth in residential/commercial customer numbers increased by 4.7%, to around 26,848 customers; this pace is expected to continue in the years to come despite the current high degree of penetration. As for non-regulated businesses, sales of appliances expanded by 100% (particularly space heaters, +119.5%, and water heaters, +106.1%).
- In Mexico, the acceleration plan continues, focusing primarily on Mexico City and the Bajíos area with a view to maintaining sustained growth. The net increase in customer numbers expanded by a notable 63.7% in 1Q14, while new installations increased with respect to the same period last year, due mainly to greater penetration in the Bajíos area. As for gas and TPA sales, there was a 17.3% increase due to growth in residential/commercial customer numbers as a result of higher residential unit consumption and the larger customer base, and a 9.8% increase in the industrial sector due to greater consumption by large industrial companies in the northern Bajío area, Monterrey and Mexico City.

#### **4.5.2- Electricity distribution**

This division involves electricity distribution in Colombia and Panama.

The sale of the electricity distribution business in Nicaragua led to its deconsolidation on 1 February 2013.

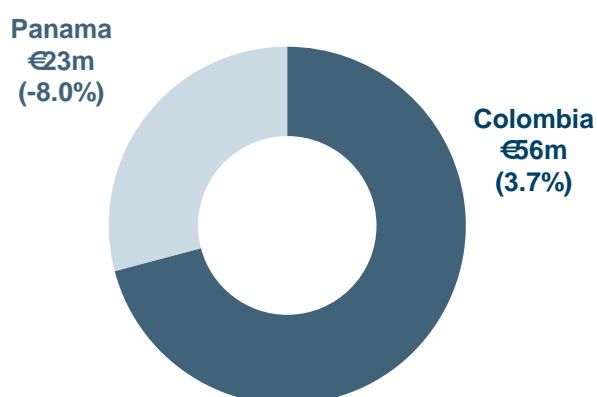
Gas Natural Fenosa will continue to operate its two electricity distribution companies in Panama (Edemet and Edechi) for the next 15 years. On 14 August 2013, Panama's Autoridad Nacional de los Servicios Públicos (ASEP) awarded Gas Natural Fenosa 51% of Edemet and Edechi as it was the sole bidder for the two companies. The Panama government owns 48%, and minority shareholders the remainder.

#### 4.5.2.1.- Results

(unaudited)

(€Mn)	1Q14	1Q13	%
Net Sales	502	558	-10.0
Purchases	-371	-416	-10.8
Personnel costs, net	-12	-16	-25.0
Other revenues and expenses	-40	-44	-9.1
<b>EBITDA</b>	<b>79</b>	<b>82</b>	<b>-3.7</b>
Depreciation & amortisation, and impairment losses	-15	-16	-6.3
Change in operating provisions	-19	-30	-36.7
<b>Operating profit</b>	<b>45</b>	<b>36</b>	<b>25.0</b>

#### EBITDA in en Latin America by country



EBITDA from electricity distribution in Latin America totalled €79 million, a 3.7% decline compared with 1Q13.

Excluding the effect of currency fluctuations and of the divestment in Nicaragua, EBITDA would have expanded by 12%.

The distribution business in Colombia contributed €56 million to EBITDA, i.e. a 20.4% increase excluding the currency effect. This increase is mainly due to growth in demand and the decline in energy losses.

Distribution companies in Panama contributed €23 million to EBITDA in 1Q14.

#### 4.5.2.2.- Main aggregates

	1Q14	1Q13	%
Electric activity sales (GWh):	4,074	4,073	-
Tariff electricity sales:	3,819	3,833	-0.4
TPA	255	240	6.3
Connection points ('000) (at 31/03)	2,940	2,842	3.4

Electricity sales totalled 4,074 GWh, in line with the same period last year, since the first quarter of 2013 includes sales by the distribution companies in Nicaragua (239 GWh; 1 month). Excluding operations in Nicaragua in that period, sales increased by 6.3% due to growth in demand in Colombia and Panama.

In line with the positive performance of demand, customer numbers increased in both countries for total growth of 3.4%.

The key physical aggregates by country in 2014 are as follows:

	Colombia	Panamá	Total
Electric activity sales (GWh)	2,972	1,102	4,074
Change vs. 2013 (%)	6.7	5.1	-
Connection points ('000) (at 31/03)	2,405	535	2,940
Change vs. 31/03/2013 ('000)	78	20	98
Network loss ratio (%)	16.7	9.9	-

The performance of basic operating indicators reflects good business management and growth, as envisioned in the plan to reduce grid losses and bad debts.

Power loss indicators in Colombia and Panama continue to improve compared with previous quarters.

### 4.5.3.- Electricity

This section includes electricity generation in Mexico, Costa Rica,<sup>3</sup> Panama and the Dominican Republic.

#### 4.5.3.1.- Results

(unaudited)

(€Mn)	1Q14	1Q13	%
Net Sales	213	195	9.2
Purchases	-151	-129	17.1
Personnel costs, net	-3	-3	-
Other revenues and expenses	-11	-12	-8.3
<b>EBITDA</b>	<b>48</b>	<b>51</b>	<b>-5.9</b>
Depreciation & amortisation, and impairment losses	-23	-25	-8.0
Change in operating provisions	-	-	-
<b>Operating profit</b>	<b>25</b>	<b>26</b>	<b>-3.8</b>

EBITDA in the Electricity business amounted to €48 million, i.e. down 5.9% with respect to the same period last year. Excluding the effect of currency fluctuations, EBITDA would have declined by 2.4%.

EBITDA fell by 3.6% in Mexico, due primarily to the currency effect.

EBITDA in the Dominican Republic declined by 13.0% year-on-year as a result of the extraordinary increase in production in 1Q13, due to more efficient plants dropping out of the system.

Panama's EBITDA declined by 36.7% due to lower hydroelectric output because of scant precipitation in the areas where the plants are located. As a result, the cost of energy increased due to purchases in the market and to the higher cost of fuel as a result of increased thermal output to fulfil contractual capacity commitments.

<sup>3</sup> The results from power generation in Costa Rica are booked under financial income in accordance with IFRIC 12 "Service Concession Arrangements".

#### 4.5.3.2.- Main aggregates

	1Q14	1Q13	%
Installed capacity (MW):	2,317	2,317	-
Mexico (CCGT)	2,035	2,035	-
Costa Rica (hydroelectric)	51	51	-
Panama (hydroelectric)	22	22	-
Panama (oil-fired)	11	11	-
Dominican Republic (oil-fired)	198	198	-
Electricity generated (GWh):	4,013	4,512	-11.1
Mexico (CCGT)	3,831	4,137	-7.4
Costa Rica (hydroelectric)	26	42	-38.1
Panama (hydroelectric)	14	15	-6.7
Panama (oil-fired)	12	3	-
Dominican Republic (oil-fired)	130	315	-58.7
Availability factor (%):	96.1	98.3	-2.2
Mexico (CCGT)	100.0	100.0	-
Panama (hydro and oil-fired)	88.4	96.8	-8.7
Dominican Republic (oil-fired)	88.6	89.6	-1.1

Output in Mexico was lower than in 1Q13 due to lower dispatching of the Hermosillo and Tuxpan plants, attributable to greater hydro output and to maintenance performed in 2014, mainly at Hermosillo, where a gas turbine underwent maintenance and the diesel system was upgraded. The latter plant also had a lower level of availability.

Hydroelectric output in Costa Rica was impacted by the scant precipitation early in the year and to low dispatching.

The increase in output in Panama compared with 1Q13 is due to greater output by thermal plants, which were dispatched to compensate for lower hydro output as a result of scant precipitation. Greater utilisation of thermal plants resulted in lower availability due to increased maintenance work on those plants.

Output in the Dominican Republic declined by 58.7% due to the extraordinary increase in output in 1Q13.

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Summarised below are the regulatory disclosures to the Comisión Nacional del Mercado de Valores (CNMV) since 1 January 2014:

- Gas Natural Fenosa announces the payment of a dividend on 8 January 2014 (disclosed 3 January 2014, registration number 198312).
- Fitch Ratings withdraws Rating Watch Negative (RWN) on Gas Natural Fenosa and assigns it a stable outlook (disclosed 10 January 2014, registration number 198544).
- Gas Natural Fenosa publishes the invitation to the conference call to discuss its 4Q13 earnings (disclosed 24 January 2014, registration number 198978).
- Gas Natural Fenosa announces the reorganisation of its power generation business in Spain (disclosed 31 January 2014, registration number 199325).
- Gas Natural Fenosa publishes its 4Q13 results (disclosed 18 February 2014, registration number 200558).
- Gas Natural Fenosa files the presentation of earnings for the fourth quarter of 2013 (disclosed 18 February 2014, registration number 200561).
- Gas Natural Fenosa announces implementation of the employee stock ownership plan for 2014 (disclosed 19 February 2014, registration number 200643).
- Gas Natural Fenosa discloses information on earnings for the second half of 2013 (disclosed 21 February 2014, registration number 200729).
- Gas Natural Fenosa publishes its Annual Corporate Governance Report for 2013 (disclosed 21 February 2014, registration number 200739).
- Gas Natural Fenosa completes a bond issue amounting to €500 million (disclosed 27 February 2014, registration number 201064).
- Gas Natural Fenosa calls an Ordinary Shareholders' Meeting for 11 April 2014 (disclosed 7 March 2014, registration number 201670).
- Gas Natural Fenosa publishes its Annual Director Remuneration Report for 2013 (disclosed 7 March 2014, registration number 201671).
- Gas Natural Fenosa files the presentation used at the press conference before the Ordinary Shareholders' Meeting (disclosed 11 April 2014, registration number 203328).
- Gas Natural Fenosa discloses that the Ordinary Shareholders' Meeting has approved all proposals submitted by the Board of Directors that were on the Agenda (disclosed 11 April 2014, registration number 203403).
- Gas Natural Fenosa publishes the invitation to the conference call to discuss its 1Q14 earnings (disclosed 16 April 2014, registration number 203767).

- GAS NATURAL FENOSA: CONSOLIDATED PROFIT & LOSS ACCOUNT
- GAS NATURAL FENOSA ANALYSIS OF RESULTS BY ACTIVITY
- GAS NATURAL FENOSA CONSOLIDATED BALANCE SHEET
- GAS NATURAL FENOSA CONSOLIDATE CASH FLOW STATEMENT



(unaudited)

(€ Mn)	1Q14	1Q13(*)
Net sales	6,284	6,649
Other operating revenues	48	59
Purchases	-4,460	-4,712
Personnel costs	-211	-227
Other operating costs	-437	-484
<b>EBITDA</b>	<b>1,224</b>	<b>1,285</b>
Other results	-	8
Depreciation & amortisation, and impairment losses	-387	-397
Change in operating provisions	-47	-55
<b>OPERATING PROFIT</b>	<b>790</b>	<b>841</b>
Finance income	-200	-206
Income from disposal of financial instruments	-	-
Income from associates	-1	-10
<b>CONSOLIDATED PRE-TAX PROFIT</b>	<b>589</b>	<b>625</b>
Income tax expense	-144	-161
Minority interest	-43	-53
<b>PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>	<b>402</b>	<b>411</b>

(\*) Restated under IFRS 11

**EBITDA**

(unaudited)

(€Mn)	1Q14	2Q14	3Q14	4Q14	2014
GAS DISTRIBUTION EUROPE	<b>253</b>				
Spain	227				
Italy	26				
ELECTRICITY DISTRIBUTION EUROPE	<b>153</b>				
Spain	141				
Moldova	12				
GAS	<b>312</b>				
Infrastructures	71				
Procurement and Supply	241				
ELECTRICITY	<b>199</b>				
Spain	197				
International	2				
LATIN AMERICA	<b>274</b>				
Gas distribution	147				
Electricity distribution	79				
Electricity	48				
REST	<b>33</b>				
<b>TOTAL EBITDA</b>	<b>1,224</b>				

(unaudited)

(€Mn)	1Q13	2Q13	3Q13	4Q13	2013(*)
GAS DISTRIBUTION EUROPE	<b>256</b>	<b>247</b>	<b>268</b>	<b>238</b>	<b>1,009</b>
Spain	225	227	249	216	917
Italy	31	20	19	22	92
ELECTRICITY DISTRIBUTION EUROPE	<b>159</b>	<b>158</b>	<b>153</b>	<b>141</b>	<b>611</b>
Spain	147	150	146	133	576
Moldova	12	8	7	8	35
GAS	<b>317</b>	<b>263</b>	<b>265</b>	<b>276</b>	<b>1,121</b>
Infrastructures	67	68	57	66	258
Procurement and Supply	250	195	208	210	863
ELECTRICITY	<b>233</b>	<b>199</b>	<b>158</b>	<b>184</b>	<b>774</b>
Spain	230	195	155	182	762
International	3	4	3	2	12
LATIN AMERICA	<b>305</b>	<b>316</b>	<b>311</b>	<b>297</b>	<b>1,229</b>
Gas distribution	172	184	172	156	684
Electricity distribution	82	83	87	88	340
Electricity	51	49	52	53	205
REST	<b>15</b>	<b>35</b>	<b>32</b>	<b>23</b>	<b>105</b>
<b>TOTAL EBITDA</b>	<b>1,285</b>	<b>1,218</b>	<b>1,187</b>	<b>1,159</b>	<b>4,849</b>

(\*) Restated under IFRS 11

**Investments (tangible and intangible)**

(unaudited)

(€Mn)	1Q14	2Q14	3Q14	4Q14	2014
GAS DISTRIBUTION EUROPE	<b>51</b>				
Spain	48				
Italy	3				
ELECTRICITY DISTRIBUTION EUROPE	<b>22</b>				
Spain	20				
Moldova	2				
GAS	<b>183</b>				
Infrastructures	178				
Procurement and Supply	5				
ELECTRICITY	<b>16</b>				
Spain	16				
International	-				
LATIN AMERICA	<b>75</b>				
Gas distribution	31				
Electricity distribution	22				
Electricity	22				
REST	<b>10</b>				
<b>TOTAL EBITDA</b>	<b>357</b>				

(unaudited)

(€Mn)	1Q13	2Q13	3Q13	4Q13	2013(*)
GAS DISTRIBUTION EUROPE	<b>47</b>	<b>72</b>	<b>64</b>	<b>126</b>	<b>309</b>
Spain	44	66	59	110	279
Italy	3	6	5	16	30
ELECTRICITY DISTRIBUTION EUROPE	<b>20</b>	<b>65</b>	<b>66</b>	<b>78</b>	<b>229</b>
Spain	19	63	62	71	215
Moldova	1	2	4	7	14
GAS	<b>5</b>	<b>7</b>	<b>7</b>	<b>18</b>	<b>37</b>
Infrastructures	2	3	1	6	12
Procurement and Supply	3	4	6	12	25
ELECTRICITY	<b>36</b>	<b>47</b>	<b>32</b>	<b>60</b>	<b>175</b>
Spain	36	47	32	60	175
International	-	-	-	-	-
LATIN AMERICA	<b>61</b>	<b>157</b>	<b>131</b>	<b>200</b>	<b>549</b>
Gas distribution	32	42	44	63	181
Electricity distribution	20	33	36	39	128
Electricity	9	82	51	98	240
REST	<b>25</b>	<b>34</b>	<b>4</b>	<b>93</b>	<b>156</b>
<b>TOTAL EBITDA</b>	<b>194</b>	<b>382</b>	<b>304</b>	<b>575</b>	<b>1,455</b>

(\*) Restated under IFRS 11

(unaudited)

(€ Mn)	31/03/14	31/03/13(*)
<b>Non-Current Assets</b>	<b>33,137</b>	<b>33,800</b>
Intangible assets	7,946	8,307
Tangible assets	20,282	20,889
Investment in associates	2,415	2,567
Non-current financial assets	1,437	998
Deferred tax assets	1,057	1,039
<b>Current Assets</b>	<b>10,739</b>	<b>11,310</b>
Inventories	779	676
Trade and other receivables	5,183	5,119
Other current financial assets	294	1,091
Cash and cash equivalents	4,483	4,424
<b>TOTAL ASSETS</b>	<b>43,876</b>	<b>45,110</b>

(unaudited)

(€ Mn)	31/03/14	31/03/13(*)
<b>Equity-</b>	<b>15,349</b>	<b>15,356</b>
Net equity of Parent Company	13,827	13,764
Minority interest	1,522	1,592
<b>Non-current Liabilities-</b>	<b>19,566</b>	<b>23,485</b>
Deferred revenues	923	868
Non-current provisions	1,467	1,563
Non-current financial liabilities	14,332	18,332
Deferred tax liabilities	1,982	2,044
Other no-current liabilities	862	678
<b>Current Liabilities-</b>	<b>8,961</b>	<b>6,269</b>
Current provisions	139	132
Current financial liabilities	4,329	1,533
Trade and other payables	4,039	4,183
Other current liabilities	454	421
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>43,876</b>	<b>45,110</b>

(\*) Restated under IFRS 11

(unaudited)

(€ Mn)	1Q14	1Q13(*)
<b>Cash flow from ordinary activities</b>	<b>827</b>	<b>753</b>
Income before taxes	589	625
Adjustments	571	584
<i>Operating Cash flow</i>	<b>1,160</b>	1,209
Changes in working capital	61	-167
Other cash flows from operating activities	-394	-289
Interest	-293	-251
Income tax expenses	-101	-38
<b>Investment cash flow</b>	<b>-413</b>	<b>-287</b>
Investments	-485	-762
Disposals	69	469
Other cash flows from investing activities	3	6
<b>Financing cash flow</b>	<b>-91</b>	<b>-373</b>
Increase of capital	-	-
Net proceeds from instruments representing financial liabilities	320	38
Dividends paid	-395	-393
Other cash flows from financing activities	-16	-18
<b>Effect of Exchange rate variations</b>	<b>-12</b>	<b>9</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>311</b>	<b>101</b>
<b>Beginning cash and cash equivalents</b>	<b>4,172</b>	<b>4,323</b>
<b>Ending cash and cash equivalents</b>	<b>4,483</b>	<b>4,424</b>

(\*) Restated under IFRS 11

Investor Relations  
Pl. del Gas, 1  
08003 Barcelona  
SPAIN

Tel. +34 934 025 897  
Fax +34 934 025 896

e-mail:  
[relinversor@gasnaturalfenosa.com](mailto:relinversor@gasnaturalfenosa.com)

Web:  
[www.gasnaturalfenosa.com](http://www.gasnaturalfenosa.com)