

Gas Natural **SDG**  
2011 Annual Report

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## Gas Natural SDG, S.A. 2011 Annual Report

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# annual accounts

**Gas Natural SDG, S.A.** 2011 Annual Report

# Audit Report



*This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation*

## AUDITOR'S REPORT ON THE ANNUAL ACCOUNTS

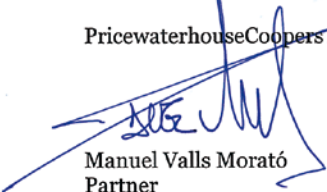
To the Shareholders of Gas Natural SDG, S.A.

We have audited the annual accounts of Gas Natural SDG, S.A., consisting of the balance sheet at 31 December 2011, the income statement, the statement of changes in net equity, the cash flow statement and related notes to the annual accounts for the year then ended. The Company's Directors are responsible for the preparation of these annual accounts in accordance with the financial reporting framework applicable to the entity (as identified in Note 3 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria included therein. Our responsibility is to express an opinion on the annual accounts taken as a whole, based on the work performed in accordance with the legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying annual accounts for 2011 present fairly, in all material respects, the financial position of Gas Natural SDG, S.A. at 31 December 2011, and the results of its operations and cash flows for the year then ended in accordance with the applicable financial reporting framework and, in particular, with the accounting principles and criteria included therein.

The accompanying Directors' report for 2011 contains the explanations which the Directors consider appropriate regarding the Company's situation, the development of its business and other matters and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the Directors' report is in agreement with that of the annual accounts for 2011. Our work as auditors is limited to checking the Directors' report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the company's accounting records.

PricewaterhouseCoopers Auditores, S.L.



Manuel Valls Morató  
Partner

14 February 2012

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## Balance sheet of Gas Natural SDG, S.A.

(million euros)

	31.12.11	31.12.10
<b>Non-current assets</b>	<b>29,192</b>	<b>28,119</b>
Intangible assets ( <i>Note 5</i> )	4,413	4,403
Goodwill	3,574	3,574
Other Intangible assets	839	829
Property, plant and equipment ( <i>Note 6</i> )	7,668	8,244
Lands and buildings	223	213
Technical installations and other property, plant and equipment	7,238	7,809
Property, plant and equipment under construction	207	222
Long-term investments in group companies and associates ( <i>Note 7</i> )	16,782	15,129
Equity instruments	10,808	10,982
Loans to companies	5,974	4,147
Long-term investments ( <i>Note 8</i> )	24	30
Equity instruments	6	5
Derivatives	2	3
Other financial assets	16	22
Deferred income tax assets ( <i>Note 19</i> )	305	313
<b>Current assets</b>	<b>5,175</b>	<b>4,386</b>
Non-current assets held for sale ( <i>Note 9</i> )	–	174
Inventories ( <i>Note 10</i> )	264	255
Raw materials and other supplies	264	255
Trade and other receivables ( <i>Note 11</i> )	511	610
Trade receivables	102	133
Group companies and associates	330	300
Sundry receivables	30	15
Current income tax assets	35	154
Public Administrations	14	8
Short-term investments in group companies and associates ( <i>Note 7</i> )	718	808
Loans to companies	677	698
Other financial assets	41	110
Short-term investments ( <i>Note 8</i> )	1,248	1,755
Other financial assets	1,248	1,755
Short term prepayments and accrued expense	19	33
Cash and cash equivalents ( <i>Note 12</i> )	2,415	751
Cash in banks and at hand	630	576
Other cash equivalents	1,785	175
<b>Total assets</b>	<b>34,367</b>	<b>32,505</b>

# Balance sheet of Gas Natural SDG, S.A.

(million euros)

	31.12.11	31.12.10
<b>Net equity (Note 13)</b>	<b>11,751</b>	<b>10,274</b>
<b>Shareholders' equity</b>	<b>11,764</b>	<b>10,305</b>
Capital	992	922
Authorized capital	992	922
Share premium	3,808	3,331
Reserves	5,641	5,355
Legal and statutory	276	274
Other reserves	5,365	5,081
Profit for the year	1,317	1,021
Profit/(loss) brought forward	366	–
Retained earnings	366	–
Interim dividend	(360)	(324)
<b>Adjustments for changes in value</b>	<b>(17)</b>	<b>(45)</b>
Hedging operations	(17)	(45)
<b>Grants, donations and bequests received</b>	<b>4</b>	<b>14</b>
<b>Non-current liabilities</b>	<b>18,275</b>	<b>19,068</b>
Long-term provisions (Note 14)	823	950
Long-term post-employment obligations	286	294
Other provisions	537	656
Long-term borrowings (Note 15)	7,144	7,913
Bonds and other negotiable securities	–	51
Borrowings from financial institutions	6,744	7,399
Finance lease payables	291	359
Derivatives	32	31
Other financial liabilities	77	73
Amounts owing to group companies and associates falling due in more than one year (Note 17)	8,687	8,604
Deferred income tax liabilities (Note 19)	1,608	1,599
Long term accruals	13	2
<b>Current liabilities</b>	<b>4,341</b>	<b>3,163</b>
Short-term provisions (Note 14)	175	126
Short-term borrowings (Note 15)	1,256	697
Bonds and other negotiable securities	69	67
Borrowings from financial institutions	734	161
Finance lease payables	72	73
Derivatives	7	53
Other financial liabilities	374	343
Amounts owing to group companies and associates falling due in less than one year (Note 17)	2,007	1,540
Trade and other payables (Note 18)	894	800
Trade payables	645	530
Payables with Group companies and associates	163	168
Sundry payables	14	25
Personnel (outstanding remuneration)	33	27
Other taxes payable	39	50
Short-term accruals and deferred income	9	–
<b>Total net equity and liabilities</b>	<b>34,367</b>	<b>32,505</b>

Notes 1 to 33 form an integral part of these Annual accounts.

## Income statement of Gas Natural SDG, S.A.

(million euros)

	2011	2010
Net turnover ( <i>Note 20</i> )	5,266	4,438
Sales	5,241	4,422
Services	25	16
Own work capitalized	2	3
Supplies ( <i>Note 21</i> )	(4,174)	(3,629)
Consumption of goods	(2,934)	(2,618)
Raw materials and other consumables	(1,176)	(971)
Work carried out for other companies	(64)	(40)
Other operating income ( <i>Note 24</i> )	314	281
Supplementary income and other operating income	313	277
Operating grants released to the income statement	1	4
Personnel costs ( <i>Note 22</i> )	(282)	(242)
Wages, salaries and related expenses	(226)	(187)
Social Security	(40)	(38)
Provisions	(16)	(17)
Other operating expenses ( <i>Note 23</i> )	(718)	(583)
External services	(428)	(391)
Local taxes	(63)	(55)
Impairment loss and variation in trade provisions	(1)	(2)
Other current operating expenses	(226)	(135)
Amortization expense ( <i>Note 5 and 6</i> )	(494)	(509)
Release of fixed assets grants and others ( <i>Note 13</i> )	161	126
<b>Operating profit</b>	<b>75</b>	<b>(115)</b>
Financial income	1,581	1,588
Shareholdings in equity instruments	1,376	1,443
Group companies and associates	1,376	1,443
Negotiable securities and other financial instruments	205	145
Group companies and associates	153	91
Third parties	52	54
Financial expenses	(798)	(873)
Borrowings from Group companies and associates	(481)	(451)
Borrowings from third parties	(317)	(422)
Variation in fair value of financial instruments	3	10
Investments	2	6
Release to income statement of available-for-sale financial assets	1	4
Net exchange gains / losses	(2)	(114)
Impairment and gains on disposals of financial instruments	273	355
Impairment and loss	(26)	(19)
Results of disposals and others	299	374
<b>Net financial income (<i>Note 25</i>)</b>	<b>1,057</b>	<b>966</b>
<b>Profit before tax</b>	<b>1,132</b>	<b>851</b>
Income tax ( <i>Note 19</i> )	185	170
<b>Profit for the year</b>	<b>1,317</b>	<b>1,021</b>
Basic and diluted earnings per share in Euros	1.38	1.11

Notes 1 to 33 form an integral part of these Annual accounts.



# Statement of changes in net equity of Gas Natural SDG S.A.

## A) Statement of income and expense recognized

(million euros)

	2011	2010
<b>Profit for the year</b>	<b>1,317</b>	<b>1,021</b>
<b>Income and expense recognized directly in net equity</b>	<b>95</b>	<b>73</b>
Valuation of available-for-sale financial assets	1	(13)
Cash flow hedges	(15)	(28)
Grants, donations and bequests received	146	140
Actuarial gains and losses and other adjustments	3	8
Tax effect	(40)	(34)
<b>Releases to income statement</b>	<b>(75)</b>	<b>(22)</b>
Valuation of available-for-sale financial assets	(1)	(4)
Cash flow hedges	55	99
Grants, donations and bequests received	(161)	(126)
Tax effect	32	9
<b>Total income and expense recognized in net equity</b>	<b>1,337</b>	<b>1,072</b>

## B) Statement of total changes in net equity of Gas Natural SDG, S.A.

(million euros)

	Share capital	Share premium	Reserves	Profit or loss brought forward	Profit for the year	Interim dividend	Adjustments for changes in value	Grants, donations and bequests received	Total
<b>Balance at 31.12.2009</b>	<b>922</b>	<b>3,331</b>	<b>5,002</b>	<b>-</b>	<b>1,077</b>	<b>(324)</b>	<b>(83)</b>	<b>7</b>	<b>9,932</b>
Total income and expense recognized	-	-	6	-	1,021	-	38	7	1,072
Operations with partners or owners									
- Distribution of dividends	-	-	-	(406)	-	(324)	-	-	(730)
Other variations in net equity	-	-	347	406	(1,077)	324	-	-	-
<b>Balance at 31.12.2010</b>	<b>922</b>	<b>3,331</b>	<b>5,355</b>	<b>-</b>	<b>1,021</b>	<b>(324)</b>	<b>(45)</b>	<b>14</b>	<b>10,274</b>
Total income and expense recognized	-	-	2	-	1,317	-	28	(10)	1,337
Operations with partners or owners									
Capital Increase	70	477	-	(32)	-	-	-	-	515
Distribution of dividends	-	-	-	-	-	(360)	-	-	(360)
Acquisition of free allocation rights	-	-	-	(15)	-	-	-	-	(15)
Other variations in net equity	-	-	284	413	(1,021)	324	-	-	-
<b>Balance at 31.12.2011</b>	<b>992</b>	<b>3,808</b>	<b>5,641</b>	<b>366</b>	<b>1,317</b>	<b>(360)</b>	<b>(17)</b>	<b>4</b>	<b>11,751</b>

## Statement of cash flows of Gas Natural SDG, S.A.

(million euros)

	2011	2010
<b>Profit for the year before tax</b>	<b>1,132</b>	<b>851</b>
<b>Adjustments to income statement</b>	<b>(685)</b>	<b>(674)</b>
Amortization ( <i>Notes 5 and 6</i> )	494	509
Impairment provisions	26	69
Variation in provisions	(51)	23
Release of grants to income statement	(161)	(126)
Results of disposals and sales of financial instruments	(299)	(374)
Financial income	(1,581)	(1,588)
Financial expense	798	873
Exchange differences	4	114
Variation in fair value of financial instruments	(3)	(10)
Other income and expenses	88	(164)
<b>Changes in working capital</b>	<b>64</b>	<b>46</b>
Inventories	(9)	22
Trade and other receivables	42	(8)
Other current assets	14	(1)
Trade and other payables	(3)	76
Other current liabilities	20	(43)
<b>Other operating cash flows</b>	<b>849</b>	<b>1,242</b>
Interest paid	(690)	(584)
Dividends received	1,384	1,540
Interest received	190	87
Income tax refunded (paid)	(35)	199
<b>Cash flow from operating activities</b>	<b>1,360</b>	<b>1,465</b>

# Statement of cash flows of Gas Natural SDG, S.A.

(million euros)

	2011	2010
<b>Payments for investments</b>	<b>(3,131)</b>	<b>(1,867)</b>
Group companies and associates - long-term	(2,080)	(1,044)
Intangible assets	(32)	(8)
Property, plant and equipment	(220)	(324)
Other financial assets	(799)	(491)
<b>Divestitures received</b>	<b>2,650</b>	<b>2,678</b>
Group companies and associates	824	2,518
Property, plant and equipment	513	13
Other financial assets	1,313	147
<b>Cash flows from investment activities</b>	<b>(481)</b>	<b>811</b>
<b>Receipts and payments for equity instruments</b>	<b>500</b>	<b>-</b>
Issues	515	-
Acquisition	(15)	-
<b>Collections and payments for financial liability instruments</b>	<b>609</b>	<b>(1,037)</b>
Issues	5,311	9,778
Bonds and other negotiable securities	35	538
Borrowings from financial entities	1,404	7,039
Borrowings from group companies and associates	3,872	2,194
Other borrowings	-	7
Repayment and redemption of	(4,702)	(10,815)
Bonds and other negotiable securities	(83)	(1,064)
Borrowings from financial entities	(1,459)	(9,155)
Borrowings from group companies and associates	(3,130)	(589)
Other borrowings	(30)	(7)
<b>Dividend payments</b>	<b>(324)</b>	<b>(730)</b>
<b>Cash flows from financing activities</b>	<b>785</b>	<b>(1,767)</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>1,664</b>	<b>509</b>
Cash and cash equivalents at the beginning of the year	751	242
Cash and cash equivalents at the year end	2,415	751

Notes 1 to 33 form an integral part of these Annual accounts.

# Notes to Annual Accounts of Gas Natural SDG, S.A. for the year ended 31 december 2011

## Note 1. General Information

Gas Natural SDG, S.A. (hereon, the Company) parent company of Gas Natural Fenosa Group (hereon, GAS NATURAL FENOSA) was incorporated as a public limited company in 1843 and its registered office for corporate purposes is in Plaça del Gas, number 1, Barcelona.

The company's corporate purposes, as per its articles of association, comprise the following activities:

- a) All types of activities related to the gas and electricity business and any other type of existing energy source, the production and commercialization of electrical, electro-mechanical and electronic equipment and components, management of architectural projects, civil engineering works, public services and gas and hydro-carbon distribution in general; management of communications and telecommunications networks and maintenance of electro- and gas-related appliances; as well as consulting, business and energy planning services and the rationalisation of energy use, research, development and exploitation of new technologies, communications, computer and industrial security systems; training and selection of human resources and real estate management and development.
- b) The activity as a holding company, incorporating companies or holding shares as a stakeholder or shareholder in other companies no matter what their corporate purposes or nature, by subscribing, acquiring or holding shares, stakes or any other securities deriving from the same, subject to compliance with the legal requirements in each and every case.

Gas Natural SDG, S.A. is the company resulting from the takeover merger of Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. as companies merged by Gas Natural SDG, S.A., the merging company, conducted in 2009. The acquisition and merger of Unión Fenosa, S.A. in 2009 meant a significant advance in the development of GAS NATURAL FENOSA and its strategy of becoming a leading integrated gas and electricity group.

The shares of Gas Natural SDG, S.A. are listed on the four Spanish stock exchanges, the "mercado continuo" and form part of the Ibex 35 stock index.

## Note 2. Regulatory framework

### a) Regulation of gas industry in Spain

#### Main characteristics of natural gas industry in Spain

The regulation of natural gas industry in Spain is set down in the Hydrocarbons Act, Law 34/1998/October 7, by Law 12/2007/2 July, and by the detailed regulations pursuant to the same, amongst which of special note are Royal Decree 1434/2002/27 December and Royal Decree 949/2001/3 August.

The Ministry of Industry, Energy and Tourism is the competent body in the regulation of the gas and electricity industries, while the National Energy Commission (CNE) is the regulatory authority in charge of maintaining and ensuring effective competition and transparent functioning of the Spanish energy industries. The Ministries belonging to the Regional Governments have competencies in legislative enactment and regulatory powers.

Furthermore, the Technical Manager of the System, Enagás, S.A., is responsible for the appropriate functioning and coordination of the gas system. It is necessary to take into account that Law 12/2007 limits the shareholding in Enagás, S.A. to a maximum of 5% of its share capital, and general voting rights to 3%, in general and the voting rights of participants in gas activities to 1%, and, in any case, the sum of the interest of the shareholders undertaking activities in the gas sector cannot exceed 40%.

In general, the Spanish gas sector has the following main characteristics:

- It is an industry in which regulated and de-regulated activities coexist. The regulated activities consist of transport (including regasification, storage and transport in the strict sense) and natural gas distribution. The non-regulated activities comprise production, storage and the supply of natural gas through commercialisers.
- The natural gas sector is practically entirely dependent on foreign supplies of natural gas, which represent almost 99.9% of the natural gas supply in Spain.
- Following the directives set out in EU legislation (Directives 2003/55/CE/26 June, and 98/30/CE/22 June), the supply of natural gas in Spain is totally de-regulated, and all Spanish consumers can freely choose their natural gas provider as from 1 January 2003. The deregulation procedure for the industry has been reinforced substantially by the disappearance as from July 1, 2008 of the bundled tariff of distribution companies and the subsequent obligation of consumers to participate in the deregulated market (although as indicated further below a tariff of last resort has been maintained for consumers of lower consumption).

## Regulation of natural gas activity in Spain

The natural gas activities are divided into: 1) regulated activity: transport (which includes storage, regasification and transport in the strict sense of the word) and natural gas distribution; and 2) non-regulated activities: production, supply and commercialization of natural gas.

### 1. Regulated activities

Regulated activities are characterised by:

- Need for prior government authorization: The undertaking of regulated activities requires prior regulated administrative authorization. In order to obtain this authorization the applicant must basically demonstrate his legal, technical and economic capacity to exercise this activity. The abovementioned authorization concedes a legal monopoly in a given territory.
- Remuneration established by legislation: The general directives that set the remuneration for these activities are governed by Royal Decree 949/2001, while the specific remuneration to be received is updated annually by Ministerial Order.

Thus, the economic framework of these activities tries to incentivise grid development and allow the companies that undertake them to ensure the recovery of the investments made and the operating cost incurred.

The regulatory framework for the natural gas industry in Spain has a procedure for settlement compensation amongst companies in the sector for net invoicing of gas acquisition and other costs, so that each company receives the appropriate remuneration for their regulated activities.

- Subjection to specific obligations: The carrying out of the regulated activities is subject to specific obligations to ensure the development of competition in commercialisation. The two main obligations in this sense consist of permitting access by third parties to the transport and distribution pipelines (including regasification and storage) and the obligation to keep the regulated and non-regulated activities.

Royal Decree 949/2001 regulates access by third parties to the pipeline network, determining which persons will have access rights, how the application has to be made, the deadlines for the same, the grounds for rejection of access, as well as the rights and obligations of each person involved in the system. The owners of the transport and distribution pipelines have the right to receive tolls and levies in consideration for this access, which are revised annually under Ministerial Order.

The legislation establishes the duty of functional separation, which means not only accounting separation – in order to avoid cross-subsidisation and to increase the transparency of the calculation of rates, tolls and levies – and legal separation – through separate companies -, but also the requirement operation of the regulated subsidiary company in relation to the other companies in the group.

### 1.1. Transport

The transport activity includes regasification, storage and transport of gas in the strict sense through the basic high pressure gas pipeline network:

- Regasification: natural gas is imported to Spain through a pipeline network (in gas form) and by gas tankers (in liquid form, hereon, LNG). The regasification is the activity that involves the conversion of liquid natural gas, stored in cryogenic tanks generally at regasification plants, into a gaseous state, and then pumped into the national gas pipeline network.
- Transport: once the natural gas is imported or produced and, if necessary, regasified, it is injected in gas form into the high pressure gas pipeline transport network. The transport network crosses most regions in Spain and transports the natural gas to the major consumers, such as electricity plants and industrial customers and local distributors.

The transport network is owned mainly by Enagás, S.A., although other companies in the Gas Natural Group own a small proportion of it.

- Storage: the storage facilities are made up basically of underground storage tanks required to ensure the constant supply of natural gas and that supply will not be affected by seasonal changes and other demand peaks. These facilities are also used to comply with the obligation laid down in Royal Decree 1766/2007/28 December, to maintain certain minimum security stocks. Part of the underground storage facilities are exempt from the obligation to allow access of third parties.

### 1.2. Distribution

Natural gas is transported from the high pressure transport pipeline network to the final consumer through the medium and lower pressure transport pipeline network.

Until 1 July 2008 the distributor had the obligation to supply gas to consumers that availed themselves of the bundled tariff, and, accordingly, were in the retail supply markets. However, since that date, distribution activity is restricted to the management of distribution networks, and, as the case may be, the commercialisers of each group are in charge of the last resort supply, which is mentioned in section 2.2.

Under Royal Decree Law 5/2005/11 March, distribution activity is based on a system of administrative authorizations that confer exclusivity on the distributor in his area. Moreover, with the coming into force of Law 12/2007 the distributor in a specific zone is given preference in obtaining the authorizations for the zones bordering on his own.

Ministerial Order ITC/3587/2011, of 31 December established the remuneration for regulated business in the gas sector for 2012. Specifically, the initial remuneration for GAS NATURAL FENOSA for 2012 totals Euros 1,077 million for distribution and Euros 42 million for transport activities.

In November, the Ministry of Industry, Energy and Tourism sent to the CNE and to the Consultative Council for Hydrocarbons the Draft Royal Decree which revises, as a result of the arbitral award issued in August 2010, remuneration for the natural gas supplied to the tariff market deriving from the Algeria contract referred to in Article 15 of Royal Decree 6/2000, proposing a surcharge to finance the cost incurred as a result of the arbitral award.

## 2. Unregulated activities

### 2.1. Supplies (import of natural gas)

Taking into account the small volume of natural gas production in Spain, this section will centre on the international supply of natural gas.

The supply of natural gas in Spain is carried out mostly through gas operators such as GAS NATURAL FENOSA through long-term contracts with gas producers. This supply, although it is an unregulated activity, is subject to two types of limitations, the purpose of which consist basically of ensuring the diversification of supply and the introduction of competition into the market: 1) no country can supply more than 60% of the gas imported into Spain, and 2) since January 1, 2003 no business person or group can contribute as a whole natural gas for consumption in Spain that is greater than 70% of national consumption.

### 2.2. Commercialisation

Since July 2, 2008, as per Law 12/2007 and the regulations pursuant thereto, of special note amongst which are Royal Decree 1068/2007/27 July, and Order 2309/2007/30 July, natural gas has come to be exclusively supplied by commercialisers, and the bundled tariff has disappeared, which up to such date was carried out by distribution companies, and the right has been given to under 4 bar consumers, who do not exceed a certain consumption threshold (3 GWh, which will fall to 2 GWh in July 2009 and 1 GWh in July 2010), to be supplied at a maximum rate that is called the last resort tariff.

In order to oversee that consumers do not have practical problems in changing their commercialiser, Law 12/2007 ordered the creation of the Supplier Change Bureau, the Spanish «Oficina de Cambios de Suministrador, S.A. (OCSUM)», which is owned by the major gas and electric operators.

Under legislation, for the calculation of this last resort tariff, which is updated quarterly, the cost of raw materials, the respective access tolls, the commercialisation costs and the supply security costs are all taken into account.

The Ministry of Industry, Energy and Tourism issued Order ITC/1506/2010/8 June, which modifies Order ITC/1660/2009/22 June, under which the last resort tariff for gas natural will be carried out under the ruling of the General Directorate of Energy Policy and Mines. The fixed and variable terms of the tariffs will be reviewed when there is a modification of the fixed and variables terms of the tolls and levies for access to the system or in the waste coefficients in force. The variable term will be reviewed quarterly, as from the first day of the months of January, April, July and October of each year, provided that the cost of raw materials varies upward to downward by 2%.

## **b) Regulation of the electricity industry in Spain**

### **Main characteristics of the electricity sector in Spain**

The regulation of the electrical industry in Spain is established under the Electrical Industry Act, Law 54/1997/November 27, which was recently amended by Law 17/2007/4 July and by the detailed regulations pursuant to the same, Royal Decree 1955/2001 December, which regulates the transport, distribution, commercialisation and supply and the government authorizations, Royal Decree 2019/1997/26 November, which regulates the production market and Royal Decree 661/2007/25 May, which regulates the special regime.

Domestically, the Ministry of Industry, Energy and Tourism is the competent body in the regulation of the gas and electricity industries, while the CNE is the regulatory authority in charge of maintaining and ensuring effective competition and transparent functioning of the Spanish energy industries. The Ministries belonging to the Regional Governments have competencies in legislative enactment and regulatory powers. The Nuclear Safety Council has specific powers over the facilities using this technology.

Furthermore, the Technical Manager of the System, Red Eléctrica de España, S.A. (REE) has the main function of guaranteeing the continuity and safety of the electricity supply and the proper coordination of the production and transport system. It is necessary to take into account that Law 17/2007 generally limits the shareholding in REE to a maximum of 3% of share capital or voting rights and to 1% of share capital if the subjects exercise activities in the electricity industry. Moreover, in any case, the sum of the interest of the shareholders undertaking activities in the electricity industry cannot exceed 40%.

Generally, the electricity industry has the following main features:

- It is an industry in which regulated and de-regulated activities coexist. The regulated activities consist of transport and electricity distribution. The non-regulated activities comprise generation and commercialisation of electricity.

Following the directives of EU legislation (Directives 2003/54/CE/26 June, and 96/30/CE/22 June), all Spanish consumers can freely choose their electricity provider as from January 1, 2003. Under Law 17/2007, and, as in the case in the gas sector, as from January 1, 2009, the bundled tariff market would have disappeared for distribution companies and all consumers would have been obligated to participate in the deregulated market (although, as indicated further below, a last resort bundled tariff market remains for minor volume consumers). However, this reform has been delayed until 1 July 2009.

- The electricity consumed in Spain is mostly generated domestically, since the international connections with France and Portugal have a very small capacity.
- Since July 1, 2007 the Iberian Electricity Market (MIBEL) has begun to operate effectively between Spain and Portugal, which has involved the integration of the electricity systems of both countries (although this integration is still not perfect).
- The electricity system is not self-sufficient and its maintenance generates an annual deficit that has had to be financed by the electricity companies.

## Regulation of activity of the electricity industry in Spain

Electricity activities are divided into: 1) regulated activities: the transport and distribution of electricity; and 2) unregulated activities: the generation and commercialisation of electricity.

### 1. Regulated activities

The regulated activities are characterised by the fact that access to them is subject to government authorization, and remuneration for them is established by law, and undertaking these activities is subject to a series of specific obligations:

- Need for prior government authorization: the undertaking of regulated activities requires prior regulated administrative authorization. In order to obtain this authorization the applicant must basically demonstrate his legal, technical and economic capacity to exercise this activity. The abovementioned authorization grants a legal monopoly in a given territory.
- Remuneration established by legislation: the general directives that set the remuneration for these activities are governed by Royal Decree 2819/1998/23 December, for transport, and by Royal Decree 222/2008/15 February, for distribution, and are designed to ensure proper remuneration for these activities. The remuneration to be received is updated annually by ministerial order.

The regulatory framework for the electricity industry in Spain has a procedure for settlement compensation amongst companies in the sector for net invoicing of electricity acquisition and other costs, so that each company receives the appropriate remuneration for their regulated activities.



- Subjection to specific obligations: the carrying out of the regulated activities is subject to specific obligations to ensure the development of competition in commercialisation phase. The two main obligations in this sense consist of permitting access by third parties to transport and distribution and the obligation to keep the regulated and unregulated activities separated.

Royal Decree 1955/2000 regulates access by third parties to the grid, determining which persons will have access rights, how the application is made, the deadlines for the same, the grounds for rejection of access, as well as the rights and obligations of each person involved in the system. The owners of the transport and distribution grids have the right to receive tolls and levies in consideration for this access, which are revised annually under ministerial order.

The legislation establishes the duty of functional separation, which means not only accounting separation – in order to avoid cross-subsidisation and to increase the transparency in the calculation of rates, tolls and levies – and a legal separation – through separate companies -, but also the requirement of independent operation of the regulated subsidiary company to operate independently from the other companies in the group.

### 1.1. Transport

Electricity transport links the plants with the distribution networks and specific final customers. The network is owned mainly by REE, although other companies, including GAS NATURAL FENOSA's company Unión Fenosa Distribución, S.A., own a small part of secondary transport network.

The remuneration of electricity transport is regulated, and an amount is set for each player that takes into account the accredited costs of investment, operations and maintenance of the facilities of each company, plus an availability incentive in secondary electricity network.

### 1.2. Distribution

The distribution of electricity includes all activities that bring electricity from the high tension grid to the final consumer. Up to 1 July distributors are also the owners of the distribution facilities, managers of the low tension grid and the final customer bundled tariff electricity suppliers.

However, as from 1 July 2009 the distributors have been restricted to the management of the distribution networks, and, as the case may be, the commercial companies in each group are in charge of the last resort supplies, as mentioned in section 2.2.

Ministerial Order ITC/3586/2011/30 December set the remuneration of the regulated activities for the electricity industry for 2012. Specifically, the initial remuneration recognized for GAS NATURAL FENOSA for 2012 total Euros 862 million for distribution activity and Euros 41 million for transport activities.

## 2. Unregulated activities

### 2.1. Electricity generation

Electricity generation includes the ordinary and special electricity production regimes. The latter regime is designed to give an incentive to electricity generation based on co-generation and renewable energy sources by offering more attractive remuneration.

The special regime is reserved for plants up to 50 MW of installed capacity that use renewable energy sources, waste by-product and co-generation. The other electricity plants are under the ordinary regime, those that have more than 50 MW installed capacity and/or use a primary energy sources other than those mentioned above, such as nuclear plants or coal-burning plants.

The remuneration of the ordinary plants is based on electricity market prices. Royal Decree 661/2007 provides for a specific economic system for electricity plants under the special regime, which includes rates, premiums and specific incentives for each type of technology (except for solar energy plants after 29 September, 2008).

The electricity generated in the system is sold to the wholesale electricity generation market, regulated by Royal Decree 2019/1997, either in the organised spot market or electricity pool or through bilateral, physical and financial agreements, and forward contracts.

Since 2006 until 1 July 2009, legislation stipulated the obligation of generators to deduct from energy generation revenue an amount equal to the value of the greenhouse gas emission rights assigned previously and free of charge.

Royal Decree Law 6/2009/30 April laid down a series of measures to resolve the tariff deficit by creating a Securitisation Fund for the tariff deficit that can resort to the use of a Government guarantee, as well as the implementation of the "social voucher" (electricity voucher for domestic consumers who meet certain means tests in terms of consumption and purchasing power, which will be financed by the electricity producers). This Royal Decree Law also stipulates that the costs of management of radioactive waste and spent fuel generated by nuclear energy plants would be financed through the creation of ENRESA, a public business entity, by collecting a tax directly proportional to the energy generated from the companies that own the plants.

On April 21, 2010 Royal Decree 437/2010 was published in the Official State Gazette, setting forth the regulations for the securitisation of the electricity system deficit that was established under Royal Decree Law 6/2009, the main features of which are as follows:

- The following can be assigned to the system's Deficit Securitisation Fund:
  - The debt claims generated in 2006 and 2008 and not assigned to third parties, up to Euros 10,000 million.
  - The deficit debt claims for 2009, up to Euros 3,500 million.
  - The deficit debt claims for 2010 to 2012 recognized each year in the Ministerial Order, which sets the access tariffs for the following year, as from which time the rights can be assigned to the Securitisation Fund. The differences between the estimated tariff deficits and the actual deficits will be settled during the current year.
- The Fund must acquire the debt claims whose assignment commitment has been filed by the initial owners, within a maximum period of one year as from said filing, provided that there are no exception circumstances affecting the markets.
- The restatement interest on the outstanding debt claims will accrue the following amounts:
  - Debt claims for 2006 and 2008: Euribor at 3 months.
  - Debt claims 2009: Euribor at 3 months plus a spread of 0.20 percentage points.

On 2 October 2010 Royal Decree 1221/2010 was promulgated which modified Royal Decree 134/2010, which had created a mechanism of restrictions for guaranteeing supplies of autochthonous coal, contemplating a regulated price for remunerating this energy.

On 24 December 2010 Royal Decree-Law 14/2010/23 December was published in the Official State Gazette and established emergency measures for the correction of the tariff deficit in the electricity industry, the main features of which are as follows:

- Companies will finance a social debenture until 2013 and will bear the cost of the energy saving and efficiency policies in the period 2011-2013.
- All electricity producing companies, both under the ordinary regime and the renewable energy and cogeneration regime, will pay a toll of Euros 0.5/MWh.
- The hours having the right to a premium of the solar energy plants are limited to three years, which is what happened to other sectors, such as wind and thermo-solar energy.
- The maximum limits of the tariff deficit in 2010, 2011 and 2012 have been modified in order to adjustment it to the deviations, while the point at which tariff adequacy is reached has been maintained for 2013.

On 10 February 2011, the Ruling from the Secretary of State for Energy was published in the Official State Gazette, establishing coal volumes, the maximum production volume and remuneration prices for 2012 to be applied in the supply guarantee restriction resolution process. The ruling provides energy remuneration prices for the Power Plants referred to in Exhibit II to Royal Decree 134/2010 that consume autochthonous coal, and includes a breakdown of parameters employed, the maximum production volume that may be scheduled in the supply guarantee restriction process and coal-equivalent consumption. The ruling states provisional prices that are used by the System Operator to settle with the power plants during 2011.

On 28 May 2011, Law 12/2011 (27 May) on third-party liability for nuclear damage or damage caused by radioactive materials was published in the Official State Gazette, regulating nuclear third-party liability in accordance with the Paris and Brussels international treaties, supplemented by a specific third-party liability regime for damage that may be caused by accidents involving radioactive materials that are not nuclear substances. It also redefines the concept of owner or operator of an authorization and brings in new criteria affecting the power plant ownership regime.

Order ITC/3127/2011 (17 November 2011) regulates remuneration in respect of capacity payments, including the incentive for investment in long-term capacity and the medium-term availability service, modifying remuneration for the capacity investment incentive stipulated in Order ITC/2794/2007 (27 September) and regulating the medium-term availability service applicable to marginal technologies in the daily market, fuel oil plants, combined cycle plants and coal plants, also applicable to pure-pumping, mixed-pumping and reservoir hydraulic plants.

Finally, on 27 January 2012 a Royal Decree-Law was introduced temporarily suspending premiums for new special-regime plants. This Royal Decree temporarily suspends economic incentives for new electricity plants using the following technologies: wind, photovoltaic solar, thermosolar, cogeneration, biomass, biogas, mini-hydraulic and waste. This measure will not affect operational plants or plants already pre-registered.

## 2.2. The commercialisation of electricity

The commercialisation is based on the principles of de-regulated contracting and the customer's choice of provider. The commercialisation, as a de-regulated activity, is remunerated at a price freely agreed by the parties.

As mentioned above, as from 1 July 2009 consumers purchasing more than 10 Kw must be supplied by a free market commercialiser, while those consuming power equal to or lower than 10 Kw have the option to continue buying electricity under the regulated price (tariff of last resort).

In order to oversee that consumers do not have practical problems in changing their commercialiser, Law 12/2007 ordered the creation of the Supplier Change Bureau, the Spanish «Oficina de Cambios de Suministrador, S.A. (OCSUM)», which is owned by the major gas and electric operators.

The criteria for the establishment of the last resort supply tariff will be regulated by means of successive Ministerial Orders. As per legislation, the tariff of last resort must include all the added supply costs, including the costs of production of the electricity, the access tolls and commercialisation costs. The cost of production is determined half-yearly based on forward market prices and other costs.

## Note 3. Basis of presentation

The Annual accounts of Gas Natural SDG, S.A. for 2010 were adopted by the General Meeting of Shareholders of 14 April 2011.

The accompanying Annual accounts have been obtained from the accounting records of the Company and are presented in accordance with current mercantile legislation in force and the standards of the Chart of Accounts adopted under Royal Decree 1514/2007/16 November and the modifications made thereto under Royal Decree 1159/2010, in order to fairly present the equity and financial position at 31 December 2011 and the results of operations of the Company, the changes in net equity and the cash flows of Gas Natural SDG, S.A. during the year then ended.

The changes made to the Chart of Accounts (Royal Decree 1514/2007/16 November) under Royal Decree 1159/2010/17 September are applicable to the year beginning 1 January 2010. Under the Fifth Temporary Provision of Royal Decree 1159/2010, Gas Natural SDG, S.A. has elected the transition date of 1 January 2010.

The Annual accounts for 2011, which were formulated by the Board of Directors on 27 January 2012, will be submitted to the approval of the General Meeting of Shareholders. It is expected that they will be adopted without modification.

The aggregates in these Annual accounts are stated in Million Euros, unless where indicated otherwise.

The Consolidated Annual accounts of GAS NATURAL FENOSA for 2011 have been prepared on the basis of International Financial Reporting Standards adopted by the European Union (hereon "IFRS-UE"), as per (EC) Regulation n° 1606/2002 of the European Parliament and Council. The main aggregates of the audited Consolidated annual accounts are as follows:

Total assets	46,502
Net equity attributed to the parent Company	12,792
Minority interest	1,649
Net turnover	21,076
Profit after tax attributed to the parent Company	1,325

## Note 4. Accounting policies

The main accounting policies used by the Company in the preparation of its 2011 Annual accounts, in accordance with the Chart of Accounts adopted under Royal Decree 1514/2007/16 November and the modifications to the same under Royal Decree 1159/2010, have been as follows:

### 4.1 Intangible assets

Intangible assets are stated at acquisition or cost price minus accumulated amortization, and, as the case may be, the accumulated amount of the losses recognized in order to cover possible impairment.

#### a) Goodwill

Goodwill represents the excess, on the date of acquisition, of the cost of a business combination over the fair value of the net identifiable assets acquired in the operation. Consequently, goodwill is only recognized when it has been acquired for valuable consideration and relates to the future economic profits from assets that have not been identified individually and recognized separately.

Goodwill is not amortized but tested annually for impairment and carried at cost less accumulated impairment losses.

The impairment of goodwill cannot be reversed.

#### b) Other intangible assets

Research expenses are expensed when they are incurred.

Costs associated with the production of computer software programs that are likely to generate economic profits greater than the costs related to their production are recognized as intangible assets. The direct costs include the cost of the staff that has written the computer programs.

Computer software development costs are amortized on a straight-line basis over their useful lives (four years) as from the time the assets are brought into use.

The CO<sub>2</sub> emission rights that have been granted under the National Assignment Plan, by virtue of the provisions of Law 1/2005/9 March, which regulates the trade in green-house gas emission rights, are recorded as intangible assets against net equity. The emission rights purchased are also stated under intangible assets.

These rights are stated at their market value when granted to the Company or at their acquisition cost and are not amortized. The necessary provisions are set up in order to attribute to them their year end market value, provided that their carrying value is not recoverable through the generation of sufficient income to cover all the costs and expenses of the production of energy.

The expenses and income are charged to the income statement as the greenhouse gasses are emitted.

The gas supply contracts and other contractual rights acquired as part of a business combination, which are stated at fair value, are amortized on a straight-line basis over their terms, which do not differ from the expected consumption patterns of these contracts.

The Company does not owe intangible assets with undefined useful life different from goodwill.

## 4.2 Property, plant and equipment

All property, plant and equipment are presented at cost of acquisition or production minus accumulated depreciation, and, as the case may be, the accumulated losses recognized, except for the restatement made as a result of the 1996 revaluation of balance sheets and the 1991 takeover merger and partial de-merger of Catalana of Gas, S.A., Gas Madrid, S.A. and Repsol Butano, S.A. and the takeover merger by Gas Natural SDG, S.A. of Unión Fenosa, S.A. and Unión Fenosa Generación, S.A., whose fixed assets are stated at fair value.

The financial cost for the technical installation projects, until the asset is ready to be brought into use, form part of property, plant and equipment.

Costs of improvements are capitalized only when they represent an increase in capacity, productivity or an extension of their useful life.

Major maintenance expenditures (overhauls) are capitalized and depreciated over the estimated useful life of the asset (generally 2 to 6 years) while minor maintenance is expensed as incurred.

Own work capitalised under Property, plant and equipment relates to the direct cost of production.

Expenses arising from actions designed to protect and improve the environment are expensed in the year they are incurred.

They are capitalised when they represent asset additions to Property, plant and equipment, and when allocated to minimise environmental impact and protect and improve the environment.

Future costs that must be borne by Gas Natural SDG, S.A. in connection with the closure of certain facilities are included in the asset's value at their discounted value, recognizing the relevant provision.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

Assets are depreciated using the straight-line method, over their estimated useful life. Estimated useful lives are as follows:

	<b>Estimated useful life years</b>
Constructions	33–50
Technical installations (Combined cycle plants)	25
Technical installations (Hydro-electric plants)	14–100
Technical installations (Power plants)	25–40
Technical installations (Nuclear power plants)	40
Tooling and tools	3
Furniture and fixtures	10
Computer hardware	4
Vehicles	6

The hydro-electric plants are subject to the temporary administrative concession regime. Upon termination of the terms established for the administrative concessions, the plants revert to the Government in proper condition, which is achieved by stringent maintenance programs.

The calculation of the depreciation charge for the hydro-electric plants differentiates between the different types of assets they have, distinguishing between the investments in civil works (which are depreciated on the basis of the concession period, or 100 years if there is no concession), electro-mechanical equipment (40 years) and the other fixed assets (14 years), taking into account, in any case, the use of the plant and the maximum term of the concessions (expiring between 2012 and 2060).

Gas Natural SDG, S.A. depreciates its nuclear energy plants over a useful life of 40 years. However, the license to operate these plants usually covers a period of 30 years as from their start up, while a renewal cannot be applied for until termination. However, taking into account the optimal performance of these plants, and their maintenance programs, it is considered that the renewal of these permits could be obtained at least until their 40 year useful life period has been reached.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

When the carrying value of an asset is greater than its estimated recoverable amount or when it is no longer useful, its value is written down immediately to its recoverable amount (Note 4.3).

### **4.3 Impairment of assets**

Assets are tested for impairment, provided that an event or change in circumstances indicates that their net carrying value cannot be recovered. Additionally, the goodwill and intangible assets are tested at least once a year to ascertain that they are either not being used or do not have an undefined useful life. Thus, the goodwills are grouped separately at the lowest level for which there are identifiable cash flows or Cash Generating Units (CGUs).

When the recoverable amount is less than the asset's carrying amount, an impairment loss is recognized through profit and loss for the amount by the difference between both. The recoverable amount is calculated as the higher of an asset's fair value less costs to sell and value in use calculated by applying the discount cash flow method. In general, Gas Natural SDG, S.A. recoverable amount is considered as value in use, for which calculation, is used the methodology described below.

In order to evaluate the impairment of investments in Group companies, except for those investments whose recoverable amount is determined in accordance with the net equity of the investee company (Note 4.4) and the goodwills have used cash flows based on the four-year strategic plan approved by Gas Natural SDG, S.A., extended to a fifth year on the basis of the expectations of the market developments according to available sector forecasts and the historical experience of the evolution of prices and volumes.

The cash flows after the five-year period are extrapolated using the growth rates estimated for each CGU or Group of CGUs, and in no case exceed the average long-term growth rate for the business in which they operate. In all cases, they are lower than the growth rates stated in the strategic plan. Additionally, in order to estimate future cash flows in the calculation of residual values, all maintenance investments have been considered and, if applicable, renewal investments necessary to maintain the CGUs' production capacity.

The cash flows have been discounted using the average costs of funds before tax. For the CGU and financial assets in Spain this costs fluctuates between 9.2% and 10.0%. In the particular case of Unión Fenosa Gas, S.A. the discount rate has been 12.5%. For the businesses in which Gas Natural Internacional SDG, S.A. and Unión Fenosa Internacional, S.A. have invested, the average discount rate has been between 6.8% and 24.1%.

The parameters used in the breakdown of the above discount rates have been:

- Risk free bond: 10 year bond.
- Market risk premium: Estimate of the variable income in Spain at 10 years.
- Deleveraged Beta: According to average of each sector in each case.
- Local current interest rate swaps: 10 year swap.
- Equity-debt ratio: Sector average.

Most of the goodwill of Gas Natural SDG, S.A. relates to CGU Electricity Spain. Apart from the discount rate, the key assumptions that are included in the projections of this CGU are as follows:

- Electricity produced and sold to the market, which is conditioned by market demand and market share.
- Price of electricity in the Iberian market.
- Cost of fuel and of the CO<sub>2</sub> emissions rights.

As a result of the process, in 2011 and 2010, the recoverable values of the assets of the CGUs, calculated in line with the above-mentioned model are, in any case, greater than the net carrying values recorded in these Consolidated annual accounts, and, accordingly, no impairment has been booked. Furthermore, Gas Natural SDG, S.A. estimates that the reasonably possible negative variations that could affect the the aforementioned assumptions on which the determination of the recoverable amounts of the different CGUs has been based would not vary the conclusions regarding the fact that the recoverable amount is higher than the net carrying values. This sensitivity analysis was prepared taking into account an increase of 50 basis points in the discount rates used in the base case.



## 4.4 Financial assets and liabilities

### Investments in the equity of group and multi-group companies and associates

These are stated at the lower of cost of acquisition or fair value, if the investments are acquired through a business combination, and the recoverable value. The recoverable value is determined as the larger of fair value minus cost of sale and the current value of the cash flows generated by the investment. If there is no better evidence of recoverable value, recoverable value will be the net equity of the investee company adjusted by any tacit capital gains subsisting at the valuation date. The provision, and as the case may be, its reversal, is carried on the income statement in the year in which it takes place.

### Investments

Purchases and sales of investments are recognized on trade-date, which is the date on which Gas Natural SDG, S.A. commits to purchase or sell the asset, and are classified under the following categories:

#### a) Loans and financial receivables

These are non-derivative financial assets, with fixed or determinable pay outs, that are not listed on an active market, and for which there is no plan to trade in the short-term. They include current assets, except those maturing after twelve months as from the balance sheet date that are classified as non-current assets.

They are initially recorded at their fair value and then at their amortized cost using the effective interest rate method.

A provision is set up for impairment of receivables when there is objective proof that all the outstanding amounts will not be paid. The provision is the difference between the book value of the asset and the present value of the estimated future cash flows discounted at the effective interest rate.

#### b) Held-to-maturity financial assets

These are assets representing debt with fixed or determinable pay outs and fixed maturity which Gas Natural SDG, S.A. plans to and can hold until maturity. The valuation criteria for these investments are the same as those for loans and financial receivables.

#### c) Financial assets held for disposal and other financial assets at fair value through profit or loss

These are assets acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges. These financial assets are stated, both initially and in later valuations, at their fair value, and the changes in their value are taken to the income statement for the year.

#### d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative debt or equity instruments that are not designated in either category.

They are recognized at fair value, and the changes are recorded directly in net equity until the asset is sold or impaired, at which time the accumulated gains and losses in net equity are taken to the income statement.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, it is established fair value by using valuation techniques. These techniques include the use of recent arm's length transactions between well informed related parties, referring to other instruments that are substantially the same and discounted cash flow. In cases in which none of the techniques mentioned above can be used to set the fair value, the investments are recorded at cost less impairment, as the case may be.

Financial assets are written off when the contractual rights to the cash flows from the assets have matured or have been transferred; it is also necessary that the risk and rewards inherent in their ownership have been substantially transferred. The financial assets in assignments of assets in which income and profit inherent in the same have been withheld are not written off and a liability is recognized in an amount equal to the consideration received.

### Cash and cash equivalents

Cash and cash equivalents include cash at hand, time deposits with financial entities and other short-term investments noted for their great liquidity with an original maturity no longer than three months as from the acquisition date.

### Borrowings

Borrowings are initially recognized at their fair value, net of the transaction costs that they may have incurred. Any difference between the amount received and the repayment value is recognized in the income statement during the period of repayment using the effective interest rate method.

Borrowings are classified as current liabilities unless they mature in more than twelve months as from the balance sheet date, or include tacit one-year prorogation clauses that can be exercised by Gas Natural SDG, S.A..

### Trade and other payables

Trade and other current payables are financial liabilities that fall due in less than twelve months that are stated at their fair value and do not accrue explicit interest. They are accounted for at their nominal value. Those maturing in more than 12 months are considered non-current payables.

## 4.5 Financial derivatives and hedge accounting

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the asset being hedged.

For each hedging transaction, Gas Natural SDG, S.A. documents at the inception of the transaction and periodically, the relationship between hedging instruments and hedged items, as well as its risk management objective. Additionally, risk management aims and hedging strategy are reviewed periodically.

A hedge is considered to be highly effective when the changes in the fair value or the cash flows of the assets hedged are offset by the change in the fair value or cash flows of the hedging instrument, with an effectiveness ranging from 80% to 125%.

The market value of the different financial instruments is calculated using the following procedures:

- Derivatives listed on an official market are calculated on the basis of their year end quotation.
- Derivatives that are not traded on official markets are calculated on the basis of the discounting of cash flows based on year end market conditions.

The embedded derivatives in other non-financial instruments are booked separately as derivatives only when their economic characteristics and tacit risks are not closely related to the instruments in which they are embedded and when the whole is not being booked at fair value through profit and loss.

For accounting purposes, the operations are classified as follows:

### 1. Derivatives eligible for hedge accounting

#### a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

#### b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts accumulated in net equity are reclassified to the income statement in the periods when the hedged item will affect profit or loss.

#### c) Hedges of net foreign investments

Fair value hedge accounting is applied to the differences arising from the exchange rates on loans in foreign currency for financing foreign investments in Group and multi-group companies and associates made in the same functional currency.

### 2. Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified as at fair value through profit or loss, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

### 3. Energy purchase and sale agreements

During the normal course of its business Gas Natural SDG, S.A. enters into energy purchase and sale agreements which in most cases include "take or pay" clauses, by virtue of which the buyer takes on the obligation to pay the value of the energy contracted irrespective of whether he receives it or not. These agreements are executed and maintained in order to meet the needs of receipt of physical delivery of energy projected by Gas Natural SDG, S.A. in accordance with the energy purchase and sale estimates made periodically, which are monitored systematically and adjusted as the case may be by physical delivery. Consequently, these are negotiated contracts for "own use", and, accordingly, lie beyond the standards on valuation of financial instruments.

## 4.6 Non-current assets held for sale

Gas Natural SDG, S.A. classifies as held-for-sale assets those assets for which at the year end active initiatives have been initiated for their sale, which is estimated to take place within the next twelve months. These assets are stated at the lower of their carrying value and fair value minus the costs necessary for their sale and are not subject to depreciation, since the date they are classified as non-current assets held for sale.

## 4.7 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted average cost.

Costs of inventories include the cost of raw materials and those that are directly attributable to the acquisition and/or production, including the costs of transporting inventories to the current location.

The nuclear fuel is valued on the basis of the costs actually incurred in its acquisition and preparation. The consumption of nuclear fuel is charged to the income statement on the basis of the energy capacity consumed.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. For raw materials, it is evaluated whether or not the net realizable value of finished goods is greater to their production cost.

## 4.8 Share capital

Share capital is made up of ordinary shares.

Incremental costs directly attributable to the issue of new shares or options, net of tax, are deducted from equity as a deduction from Reserves or share premium in the case of issues of capital with premiums.

Dividends on ordinary shares are recognized as a deduction from equity in the year they are approved.

## 4.9 Earnings per share

Basic earnings per share are calculated as a quotient between profit or loss for the year and the average weighted number of ordinary shares in circulation during this period.

Diluted earnings per share are calculated as a quotient between profit or loss for the year attributable to the ordinary shareholders adjusted by the effect attributable to the potential ordinary shares having a dilutive effect and the average weighted number of ordinary shares in circulation during this period, adjusted by the average weighted number of ordinary shares that would be issued if all the potential ordinary shares were converted into ordinary shares of the Company. Accordingly, the conversion is considered to take place at the beginning of the period or at the time of issue of the potential ordinary shares, if these have been placed in circulation during the period itself.

## 4.10 Grants

Refundable grants are recorded as liabilities until the conditions are met for their classification as non-refundable, while non-refundable grants are recorded as income directly in net equity and are recognized as income over the depreciation period of the fixed asset they finance or when they are written off the balance sheet.

Thus, a grant is considered non-refundable when there is an individual agreement on the grant, and all the conditions for it have been met and there are no reasonable doubts that it will be received.

Monetary grants are stated at the amount at which they are granted while non-monetary grants are stated at the fair value of the asset received, both amounts referring to the time when they are recognized.

The CO<sub>2</sub> emission rights received free of charge are recorded as Other grants at their market value at the time they are received, and charged to the income statement, as the emissions that they are to cover are made.

## 4.11 Provisions for employee obligations

### a) Post-employment pension obligations and the like

#### - Defined contribution plans

Gas Natural SDG, S.A., together with other Group companies, is the promoter of a joint occupational pension plan, which is defined contribution plan for retirement and a defined benefit plan for the so-called risk contingencies.

As a result of the merger by absorption of Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. and in order to comply with the Regulations on Pension Plans and Funds, on 29 September 2011 these employment system joint promotion pension plans were integrated into Gas Natural SDG, S.A.'s plan.

Additionally, there is a defined contribution plan for a group of executives, for which Gas Natural SDG, S.A. undertakes to make certain contributions to an insurance policy. Gas Natural SDG, S.A. guarantees this group a yield of 125% of the CPI of the contributions made to the insurance policy. All the risks have been transferred to the insurance company, since it insures the guarantee indicated above.

The annual contributions to cover the commitments accrued by the entity for these schemes are recorded against profit and loss each year.

#### - Defined benefit plans

For certain groups of employees there are commitments for defined benefit schemes in relation to the payment of supplements on retirement, death and disability pensions, in accordance with the benefits agreed by the entity, which have been transferred out of the company in the form of single premium insurance policies under Royal Decree 1588/1999/15 October, which adopted the Regulations on the instrumentation of pension commitments.

The liability recognized on the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Gas Natural SDG, S.A. has availed itself of the possibility of fully recognizing the actuarial gains and losses arising from changes in actuarial assumptions or from differences between the assumptions and the reality in the period in which they occur, directly in equity under "Reserves".

Past-service costs are recognized immediately in income (personnel cost), unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period. The interest cost of updating the obligations with personnel and the forecast yield on the plan's assets are recorded as financial expenses.

#### b) Other post-employment benefit obligations

Gas Natural SDG, S.A. provides for post-employment benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans. Actuarial gains and losses arising from changes in actuarial assumptions, are charged or credited to income "Reserves".

#### c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. Gas Natural SDG, S.A. recognizes a liability when terminates the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits. In the event that mutual agreement is required, the provision is only recorded in those situations in which Gas Natural SDG, S.A. has decided to give its consent to voluntary redundancies once they have been requested by the employees.

## 4.12 Provisions

Provisions are recognized when Gas Natural SDG, S.A. has a present legal or implicit obligation as a result of past events; it is more likely than an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the Company's best estimate of expenditure required to settle the present obligation at the balance sheet date.

When it is expected that part of the disbursement needed to settle the provision is paid by a third party, the payment is recognized as a separate asset, provided that its receipt is practically assured.

The estimated greenhouse gas emission expenses require a corresponding short-term provision for liabilities and charges because of the obligation to return the respective emissions rights. The emissions covered by the assigned emission rights have been stated at the same price at which the income has been recorded against net equity. If Gas Natural SDG, S.A. does not have all necessary emission rights to cover emission expenses, it will be registered the corresponding short-term provision at the costs of acquisition of the rights purchased and the market value at the year end of the emissions pending purchase.

Gas Natural SDG, S.A. has the obligation to dismantle certain facilities at the end of their useful life, such as those related to nuclear power plants and mines, as well as carry out environmental restoration where these are located. To do so, it recorded under Property, plant and equipment the current value of the cost that these tasks would incur, which, in the case of nuclear plants, includes the time until ENRESA, the public entity, takes charge of the dismantling and management of radioactive waste, with a counter-entry under provisions for liabilities and charges. This estimate is reviewed annually so that the provision reflects the current value of the future costs by increasing or decreasing the value of the asset. The variation in the provision arising from its financial restatement is recorded under "Financial expenses".

In the contracts in which the obligations borne include inevitable costs greater than the economic profit expected to be received from them, the expenses and respective provisions are recognized in the amount of the current value of the existing difference.

In the framework of a business combination the fair value of bearing the contingent liabilities of the acquired company is recognized as a liability only when said fair value can be sufficiently and reliably measured.

#### **4.13 Leases**

##### a) Finance leases

Leases of property, plant and equipment where the lessee substantially bears all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the lease payments, including the purchase option. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term liabilities except for those falling due more than twelve months. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life.

##### b) Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

#### **4.14 Income tax**

Corporate income tax expense includes the deferred tax expense and the current tax expense, which is the amount payable (or refundable) on the tax profit for the year.

Deferred taxes are recorded by comparing the temporary differences that arise between the taxable income on assets and liabilities and their respective accounting figures in the Consolidated annual accounts used the tax rates that are expected to be in force when the assets and liabilities are realized.

Deferred tax arising from direct charges or credits to equity accounts are also charged or credited to equity.

Deferred income tax assets are recorded only when there are no doubts as to their future recoverability through the future tax profits that can be used to offset timing differences.

## 4.15 Revenue recognition and payments for regulated activities

### a) General

Sales are recognized when products are delivered to the customer and have been accepted by the customer, even if they have not been invoiced, or if applicable, services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity. Net turnover for the year includes the estimate of the energy supplied that has not yet been invoiced.

The expenses are recognized on an accruals basis, immediately in the case of disbursements that are not going to generate future economic profits or when the requirements for recording them as assets are not met.

Sales are stated net of tax and discounts.

### b) Income from the gas business

Note 2 describes the basic aspects of the applicable regulations to the gas sector.

The regulatory framework of the natural gas sector in Spain regulates a payment procedure for the redistribution amongst companies in the sector of the net turnover obtained for the costs of acquisition of gas and other costs, so that each company receives the remuneration recognized for its regulated activities.

Revenues from the gas business related to the sale of gas acquired through long-term supply contracts.

Gas swaps that do not have a different value and do not include costs that generate value differences are not considered to be transactions that generate ordinary revenue and are not included, therefore, in net turnover.

### c) Income from electricity activity and payments for regulated business

Note 2 describes the basic aspects of the applicable regulations to the electricity sector.

The regulatory framework of the electricity sector in Spain regulates a payment procedure for the redistribution amongst companies in the sector of the net turnover obtained for the costs of acquisition of gas and other costs, so that each company receives the remuneration recognized for its regulated activities.

The remuneration of power generated at autochthonous coal plants mechanism subject to security of supply restrictions are recorded as revenue considering the price established in Royal Decree 134/2010.

In the years 2006 to 2011, given that the income collected by the companies in the Spanish electricity industry have not been sufficient to remunerate the different activities and costs of the system, the companies themselves, including Gas Natural SDG, S.A., were forced to finance this income deficit, with the right to receive a reimbursement a posteriori, under current legislation.

In 2008 the entire deficit for 2007 was auctioned, the financed principal and the interest for the period were received. As for the deficit for the years 2006, 2008, 2009, 2010 and 2011, under current legislation (Note 2) the recouping of the contributions that were not assigned to third parties will be made through the assignment to the securitisation fund of the debt claims. Given the forecast that the assignments will occur in a period of less than one year, the estimated amount recoverable has been recorded under "Other current financial assets" on the balance sheet.



#### d) Other income and expenses

In accounting for revenues from the service provision agreements the percentage realization method is used in which, when the income can be reliably estimated, it is recorded on the basis of the degree of progress in the completion of the contract at the year end, calculated as a proportion of the costs incurred at that date of the estimated costs required to fulfil the contract.

If the income from the contract cannot be estimated reliably, the costs (and respective income) are recorded in the period in which they are incurred, provided that the former can be recovered. The contract margin is not recorded until there is certainty of its materialisation, based on cost and income planning.

In the event that the total costs exceed the contract revenues, this loss is recognized immediately in the Income Statement for the year.

The interest income and expense is recognized using the effective interest rate method.

Dividend income is recognized when the right to receive the dividend is established.

### **4.16 Transactions in foreign currency**

The translation to Euros of creditor and debtor foreign currency accounts are made at the exchange rate in effect at the time of the operation and then revaluated at the year end in accordance with the exchange rate in effect at that time.

The exchange differences arising as a result of the valuation at the year end of the debtor and creditor balances in foreign currency are classified on the basis of the year in which they mature and type of currency. The currencies that can be officially translated are then grouped for these purposes. The differences of each group are taken to the income statement.

### **4.17 Transactions between related parties**

In general, transactions between related parties are recorded initially at their fair value. If the agreed price differs from its fair value, the difference is recorded taking into account the economic reality of the operation. The later valuation is made in accordance with the provisions of the respective legislation.

Notwithstanding the above, in merger, de-merger or non-cash contribution operations of a business, the assets that make up the acquired business are stated at the amount corresponding to the same once the operation takes place in the Consolidated annual accounts of GAS NATURAL FENOSA.

In these cases, the difference that could arise between the net value of the assets and liabilities of the acquired company, adjusted by the balance of the groupings of grants, donations and bequests received, or any value adjustments or capital or share premiums, as the case may be, issued by the merging company, is recorded under reserves.

## 4.18 Joint ventures

Joint ventures are understood as combinations in which there are contractual agreements by virtue of which two or more companies hold an interest in companies that undertake operations or hold assets in such a way that any financial or operating decision is subject to the unanimous consent of the venturers.

The assets and liabilities assigned to joint ventures and the assets that are controlled jointly are recorded on the balance sheet in accordance with the percentage of the interest and classified according to their nature. Likewise, the income and expenses from joint ventures are reflected in the income statement in accordance with their nature. In both cases, according to the percentage held by each venturer.

The Company records its interest in economic interest groups under "Long-term investments in group companies and associates" on the balance sheet.

The economic interest groups, joint ownerships and temporary business unions of investee companies of Gas Natural SDG, S.A. have used generally accepted accounting principles as their accounting policies.

## 4.19 Business combinations

Business combinations are recorded using the acquisition method. The cost of an acquisition is calculated using the fair value of the assets given, the equity instruments issued and the liabilities incurred or borne on the transaction date plus the costs directly attributable to the acquisition. The valuation process required in order to use the acquisition method is completed with the period of one year as from the acquisition date.

The identifiable assets acquired and the liabilities or contingent liabilities incurred or borne as a result of the transaction, are initially stated at their fair value at the date of acquisition, provided that this can be reliably measured.

The surplus cost of the acquisition in relation to the fair value of the shareholding of Gas Natural SDG, S.A. in the net identifiable assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognized directly in the income statement.

## 4.20 Cash flows Statements

The cash flows statements have been prepared using the indirect method and contain the use of the following expressions and their respective meanings:

- a) operating activities: activities that constitute ordinary Gas Natural SDG, S.A. revenues, as well as other activities that cannot be qualified as investment or financing.
- b) investment activities: acquisition, sale or disposal and other means of assets in the long-term and other investments not included in cash and cash equivalents.
- c) financing activities: activities that generate changes in the size and composition of net equity and liabilities that do not form part of operating activities.

## 4.21 Significant accounting estimates and judgments

The preparation of Annual accounts requires the formulation of estimates and judgements. The valuation standards that require a large number of estimates are set out below:

### a) Property, plant and equipment (Note 4.2)

The determination of useful life requires estimates of their degree of use, as well as expected technological evolution. The assumptions regarding the degree of use, technological framework and future development involve a significant degree of judgement, insofar as the timing and nature of future events are difficult to foresee.

### b) Impairment of assets (Note 4.3)

The estimated recoverable value of the CGU applied to the impairment tests has been determined using the discounted cash flows based on the budgets approved by Gas Natural SDG, S.A..

### c) Derivatives or other financial instruments (Note 4.5)

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Gas Natural SDG, S.A. uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date. The fair value of commodity derivatives is calculated by using forward prices curves. The recoverable value of the investments in the equity of group and multi-group companies and associates is determined as the greater of their fair value less costs of sale and the current value of the cash flows from the investment.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Gas Natural SDG, S.A. for similar financial instruments.

### d) Provisions for employee benefits (Note 4.11)

A number of assumptions must be used to calculate pension costs, other costs of post-retirement benefits and other post-retirement liabilities. Gas Natural SDG, S.A. estimates at the year end the provision required to cover pension commitments and similar obligations, based on advice from independent actuaries. The changes affecting such assumptions may result in the recording of different amounts and liabilities. The most significant assumptions for the measurement of pension or post-retirement benefit liabilities are energy consumption by beneficiaries during retirement, retirement age, inflation and the discount rate employed. Social security coverage assumptions are also essential to determine other post-retirement benefits. Future changes to these assumptions will have an impact on future pension costs and liabilities.

e) Provisions (Note 4.12)

Gas Natural SDG, S.A. evaluates and makes an estimate of the amounts to be settled in the future, including additional amounts relating to income tax, contractual obligations, the settlement of outstanding litigation, and other liabilities. These estimates are subject to the interpretation of current events and circumstances, projections of future events and estimates of their financial effects.

f) Income tax (Note 4.14)

The calculation of the income tax expense requires interpretations of tax legislation in the jurisdictions in which Gas Natural SDG, S.A. operates. The determination of expected outcomes of outstanding disputes and litigation requires the preparation of significant estimates and judgements. Gas Natural SDG, S.A. evaluates the recoverability of the deferred income tax assets based on estimates of future taxable income. The recoverability of the deferred tax assets depends ultimately on the capacity of Gas Natural SDG, S.A. to generate sufficient tax profits during the periods in which these deferred taxes are deductible. Deferred tax liabilities are recognized based on estimates of the net assets that will not be tax deductible in the future.

g) Recognition of revenue and settlements for regulated activities (Note 4.15)

Revenue from energy sales is recognized when the goods are delivered to the customer based on periodical meter readings and include the estimated accrual of the value of the goods consumed as from the date of the meter reading until the close of the period. Estimated daily consumption is based on historical customer profiles taking into account seasonal adjustments and other factors than can be measured and may affect consumption. Historically, no material adjustments have been made relating to the amounts booked as unbilled income and none are expected in future.

Certain aggregates for the electricity system, including those relating to other companies which allow for the estimate of the overall settlement of the electricity system that must materialize in the respective final payments, could affect the calculation of the deficit in the payments for the regulated electricity business in Spain.

## Note 5. Intangible assets

The breakdown and movement in the accounts under intangible assets is as follows:

	Development	Computer software	Emission rights	Other intangible assets	Subtotal	Goodwill	Total
Cost	56	31	202	695	984	3,574	4,558
Accumulated amortization	(54)	(21)	–	(24)	(99)	–	(99)
<b>Net carrying value at 1.1.2010</b>	<b>2</b>	<b>10</b>	<b>202</b>	<b>671</b>	<b>885</b>	<b>3,574</b>	<b>4,459</b>
Investment	4	3	151	1	159	–	159
Divestment	–	–	(174)	–	(174)	–	(174)
Amortization	(2)	(4)	–	(35)	(41)	–	(41)
<b>Net carrying value at 31.12.2010</b>	<b>4</b>	<b>9</b>	<b>179</b>	<b>637</b>	<b>829</b>	<b>3,574</b>	<b>4,403</b>
Cost	60	34	179	696	969	3,574	4,543
Accumulated amortization	(56)	(25)	–	(59)	(140)	–	(140)
<b>Net carrying value at 1.1.2011</b>	<b>4</b>	<b>9</b>	<b>179</b>	<b>637</b>	<b>829</b>	<b>3,574</b>	<b>4,403</b>
Investment	3	1	173	1	178	–	178
Divestment	–	–	(123)	–	(123)	–	(123)
Amortization	(6)	(4)	–	(35)	(45)	–	(45)
<b>Net carrying value at 31.12.2011</b>	<b>1</b>	<b>6</b>	<b>229</b>	<b>603</b>	<b>839</b>	<b>3,574</b>	<b>4,413</b>
Cost	63	27	229	697	1,016	3,574	4,590
Accumulated amortization	(62)	(21)	–	(94)	(177)	–	(177)
<b>Net carrying value at 31.12.2011</b>	<b>1</b>	<b>6</b>	<b>229</b>	<b>603</b>	<b>839</b>	<b>3,574</b>	<b>4,413</b>

“Emission rights” include the CO<sub>2</sub> emission rights assigned for 2011, according to the 2008-2012 National Assignments Plan (Note 32).

In 2011 additional acquisitions were made in relation to the CO<sub>2</sub> emission rights allocated, in the amount of Euros 27 million (Euros 0 million at 31 December 2010).

“Other intangible assets,” as a result of the merger, include gas supply contracts and other contractual rights with a net carrying value of Euros 596 million at 31 December 2011 (Euros 630 million at 31 December 2010).

Goodwill arises from the takeover merger of Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. in 2009.

Intangible assets include, at 31 December 2011, fully amortized assets still in use totalling Euros 76 million.

## Note 6. Property, plant and equipment

The amounts and variation in 2011 and 2010 in the accounts under Property, plant and equipment are as follows:

	Land and buildings	Plant and other property, plant and equipment	Fixed assets under construction	Total
Cost	241	11,603	1,009	12,853
Accumulated amortization	(44)	(4,253)	–	(4,297)
<b>Net carrying value at 1.1.2010</b>	<b>197</b>	<b>7,350</b>	<b>1,009</b>	<b>8,556</b>
Investment	15	21	241	277
Divestment	(2)	(12)	–	(14)
Amortization	(6)	(462)	–	(468)
Reclassifications and transfers	9	912	(1,028)	(107)
<b>Net carrying value at 31.12.2010</b>	<b>213</b>	<b>7,809</b>	<b>222</b>	<b>8,244</b>
Cost	266	12,073	222	12,561
Accumulated amortization	(53)	(4,264)	–	(4,317)
<b>Net carrying value at 1.01.2011</b>	<b>213</b>	<b>7,809</b>	<b>222</b>	<b>8,244</b>
Investment	18	56	112	186
Divestment	–	(1)	–	(1)
Amortization	(9)	(440)	–	(449)
Reclassifications and transfers	1	(186)	(127)	(312)
<b>Net carrying value at 31.12.2011</b>	<b>223</b>	<b>7,238</b>	<b>207</b>	<b>7,668</b>
Cost	281	11,783	207	12,271
Accumulated amortization	(58)	(4,545)	–	(4,603)
<b>Net carrying value at 31.12.2011</b>	<b>223</b>	<b>7,238</b>	<b>207</b>	<b>7,668</b>

Plant and other Property, plant and equipment basically include the electricity generation plants. The generation technologies of the Company include the combined cycle, hydro-electric, nuclear and thermal plants (coal and fuel oil).

In 2011 there were disposals of fully depreciated assets totalling Euros 31 million (Euros 386 million at 31 December 2010).

In 2011, reclassifications and transfers include the Arrúbal combined cycle plant (La Rioja), with an installed capacity of 800MW, under the agreement concluded with a company of the ContourGlobal Group, a US firm specialised in energy asset development and management, transferred to the item "Current assets held for sale" (Note 9).

In the year 2010, reclassifications and transfers include the transfer of non-current Assets held for sale of the Plana del Vent combined cycle generator, as a result of the agreement with the Alpiq energy Group (Note 9).

In 2010 the combined cycle plants in Málaga and the Puerto de Barcelona were started up.

The financial expenses capitalised in 2011 for fixed asset projects during their construction total Euros 1 million (Euros 19 million at 31 December 2010). The financial expenses capitalised in 2011 represent 0.1% of the financing costs for net borrowings (2.7% for 2010).

“Plant, and other property, plant and equipment” include the finance leases for the power islands at the combined cycle plant in Palos de la Frontera, entered into by the Company in 2005 for a 10 year term for Euros 368 million, and for the power islands at the combined cycle plant in Sagunto, entered into by the Company in 2007 for 10 years for Euros 344 million.

In 2011 Property, Plant and equipment has been acquired from a group companies and associates totalling Euros 29 million (Euros 46 million in 2010).

Property, plant and equipment includes fully depreciated assets still in use totalling Euros 467 million.

It is the policy of Gas Natural SDG, S.A. to take out all the insurance policies deemed necessary to cover the possible risks that could affect its Property, plant and equipment.

Gas Natural SDG, S.A. at 31 December 2010 has no investment commitments as it brought the gas combined cycle plants on line in 2010 that had been under construction.

## Note 7. Investments in group companies and associates

The breakdown of the investments in group companies and associates is as follows:

	At 31.12.11	At 31.12.10
Equity instruments	10,808	10,982
Loans	5,974	4,147
<b>Non-current</b>	<b>16,782</b>	<b>15,129</b>
Loans	677	698
Other financial assets	41	110
<b>Current</b>	<b>718</b>	<b>808</b>

The variations during the year in the accounts under non-current investments in group companies and associates have been as follows:

	Shareholdings in group companies	Loans to Group companies	Shareholdings in associates	Total
<b>Balance at 1.01.2010</b>	<b>11,045</b>	<b>4,756</b>	<b>18</b>	<b>15,819</b>
Additions	214	250	–	464
Divestments ( <i>Note 25</i> )	(225)	(253)	–	(478)
Reclassification	–	(592)	(3)	(595)
Charge/reversal provisions	(67)	–	–	(67)
Exchange differences	–	(14)	–	(14)
<b>Balance at 31.12.2010</b>	<b>10,967</b>	<b>4,147</b>	<b>15</b>	<b>15,129</b>
Additions	96	655	–	751
Divestments ( <i>Note 25</i> )	(238)	(18)	(2)	(258)
Reclassification	–	1,165	–	1,165
Charge/reversal provisions	(31)	–	1	(30)
Exchange differences	–	25	–	25
<b>Balance at 31.12.2011</b>	<b>10,794</b>	<b>5,974</b>	<b>14</b>	<b>16,782</b>

The increases in “Shareholdings in group companies” and “Shareholdings in associates” in 2011, relate basically to:

- Subscription of shares for the capital increase of Gas Natural Sao Paulo Sul, S.A., through the capitalization of dividends totalling Euros 13 million.
- Contribution to Gas Natural Servicios SDG, S.A. to offset losses in the amount of Euros 10 million.
- Capital increase of Euros 10 million in La Propagadora del Gas, S.A. due to an increase in the par value of the shares.
- Capital contribution totalling Euros 7 million to Unión Fenosa International B.V.
- Contribution to Gas Natural Exploración, S.A. to offset losses in the amount of Euros 27 million.
- Contribution to Gas Natural Electricidad SDG, S.A. to offset losses in the amount of Euros 7 million.
- Assignment of the shareholding in Natural Re, S.A. in the amount of Euros 7 million in the Gas Natural International, Ltd liquidation process.

The decreases in “Shareholdings in group companies” and “Shareholdings in associates” in 2011, relate basically to:

- Reimbursement of a capital contribution of Euros 148 million to Clover Financial and Treasury Services Ltd.



The following corporate operations have taken place:

- Capital increase in the company Holding Gasinmex, S.A. de C.V., which holds an 86.75% interest in the company Gas Natural México, S.A. de C.V. and an 87% interest in Sistemas de Administración y Servicios S.A. de C.V. Gas Natural SDG, S.A. contributed a 20.75% interest in Gas Natural México, S.A. de C.V. and a 21% interest in Sistemas de Administración y Servicios, S.A. de C.V., the resulting holding in Holding Gasinmex, S.A. de C.V. standing at 24%.
- Assignment through a capital reduction to Gas Natural Fenosa Renovables, S.L.U. of assets and liabilities representing 50% of the shares in Enel Unión Fenosa Renovables, S.L.U. (EUFER) due to the termination of the renewable energy collaboration agreement with Enel Green Power.
- In the corporate reorganization process affecting the renewable energies business, the companies Gas Natural Fenosa Renovables, S.L.U. (acquiring company) and Aplicaciones y Proyectos Energéticos, S.A., Molinos de Valdebezana, S.A., Generación Peninsular, S.L., Eufer Renovables Ibéricas 2004, S.A., Eólica de Cordal de Montouto, S.L., Energías Especiales Espina, S.L.U., Eólica Galaicoasturiana, S.A.U., Vientos del Noroeste, S.A., Parque Eólico Cabo Vilano, S.L.U., Punta Lents Eólica Marina, S.L., Punta Olas Eólica Marina, S.L. and Prius Enerólica, S.L.U. (merged companies) have been merged.
- Spin-off of Gas Natural Distribución SDG, S.A. to Bis Distribución SDG, S.A. due to the contribution of the assets to be sold in the Madrid zone (Note 25).

The increases in "Shareholdings in group companies" and "Shareholdings in associates" in 2010, relate basically to:

- Subscription of shares for the capital increase of Gas Natural Sao Paulo Sul, S.A., through the capitalization of dividends totalling Euros 11 million.
- In order to restore the equity balance of Gas Natural Exploración, S.L. the following operations have been carried out:
  - Contribution to offset losses totalling Euros 92 million
  - Contribution of Euros 8 million for the accordion operation in 2010 (capital reduction of Euros 35,500,000 and a capital increase of Euros 7,896,000).
- Capital contribution totalling Euros 5 million to Unión Fenosa International B.V.
- Capital contribution totalling Euros 98 million to Clover Financial and Treasury Services, Ltd.
- Capital increase of 84,400 shareholding stakes in Gas Natural Fenosa Renovables S.L.U. (formerly Gas Natural Corporación Eólica, S.L.) through a non-cash contribution consisting of 50.00% of the shares of Enel Unión Fenosa Renovables, S.A. and Euros 74 million recorded under Short-term loans to group companies.

The decreases in "Shareholdings in group companies" and "Shareholdings in associates" in 2010, relate basically to:

- Capital reduction in Gas Natural International Ltd., totalling Euros 20 million, relating to a 37,310,003 shareholding stakes.

In the year 2010, the following corporate operations took place:

- Takeover merger of Unión Fenosa Distribución, S.A.U. and Hidroeléctrica Nuestra Señora de la Soledad de Tendilla y Lupiana, S.L.U. (merged companies) by Gas Natural Distribución Eléctrica, S.A. (merging company). In this transaction the merging company Gas Natural Distribución Eléctrica, S.A. changed its registered name to its current one, Unión Fenosa Distribución, S.A.
- Takeover merger of Unión Fenosa Redes de Telecomunicaciones, S.L.U. (merged company) by Gas Natural Fenosa Telecomunicaciones, S.A. (formerly Desarrollo del Cable, S.A.).

The accumulated provision for impairment of shareholdings in group companies and associates totals Euros 267 million at 31 December 2011 (Euros 237 million at 31 December 2010) and relates basically to the following companies:

- Gas Natural Sao Paulo Sul, S.A.: The recoverable value has been determined through the translation to Euros of the current value of the cash flows from this investment based on budgets approved by Management for 4 years and using a growth rate of 1% (1% in 2010) for cash flows subsequent to that period and a discount rate of 18% (16% in 2010). During 2011 an impairment of Euros 19 million was recognized (Euros 47 million was reversed in 2010) due to the exchange rate applied to cash flows. The provision at 31 December 2011 totals Euros 82 million (Euros 63 million at 31 December 2010).
- Gas Natural Exploración, S.L.: The recoverable value has been determined through its net equity. During 2011 an impairment has been recorded of Euros 8 million (Euros 99 million at 31 December 2010). The provision at 31 December 2011 totals Euros 159 million (Euros 151 million at 31 December 2010).
- Gas Natural Servicios SDG, S.A.: The recoverable value was determined based on equity and therefore impairment of Euros 6 million was recorded in 2011 (Euros 20 million in 2010). The provision at 31 December 2011 totalled Euros 26 million (Euros 20 million at 31 December 2010).

The dividends received during 2011 and 2010 relate to the following Companies:

	<b>2011</b>	<b>2010</b>
Gas Natural Distribución SDG, S.A.	299	215
Unión Fenosa Internacional, S.A.	293	232
Unión Fenosa Distribución, S.A.	221	351
Unión Fenosa Gas, S.A.	148	126
Gas Natural Comercializadora, S.A.	57	6
Gas Natural Internacional SDG, S.A.	51	100
Gas Natural Aprovisionamientos SDG, S.A.	48	31
Unión Fenosa Comercial, S.L.	40	150
Gas Natural Cegas, S.A.	30	26
Clover Financial And Treasury Services, Ltd.	30	26
Gas Natural Castilla y León, S.A.	23	21
Gas Natural Andalucía, S.A.	19	5
Gas Natural Sao Paulo Sul, S.A.	15	2
Gas Natural Comercial SDG, S.L.	14	3
Gas Natural Fenosa Telecomunicaciones, S.A.	13	11
Gas Natural Transporte SDG, S.L.	10	-
Unión Fenosa Minería, S.A.	9	-
Gas Natural Castilla - La Mancha, S.A.	9	7
Gas Navarra, S.A.	8	7
La Energia, S. A.	8	-
Gas Natural Capital Markets, S.A.	7	2
Gas Natural Rioja, S.A.	4	4
Gas Natural Fenosa Engineering, S.L.U.	4	-
Companhia Distribuidora de Gás do Rio de Janeiro, S.A.	3	7
General de Edificios y Solares, S.L.	3	-
Gas Galicia SDG, S.A.	3	1
Gas Natural S.U.R. SDG, S.A.	1	6
Gas Natural Servicios SDG, S.A.	-	11
Sagane, S.A.	-	4
Gas Natural Electricidad SDG, S.A.	-	31
Gas Natural Fenosa Renovables, S.L.U.	-	7
Unión Fenosa Financiación S.A.	-	31
Others	6	20
<b>Total</b>	<b>1,376</b>	<b>1,443</b>

The breakdown of the relevant direct and indirect shareholdings at 31 December 2011 is as follow:

Company	Registered Office	Activity	Net carrying value	Shareholding %			Net equity			
				Direct	Indirect	Total	Capital	Reserves and grants	Profit(loss)	Interim dividend
<b>Shareholdings in Group companies and jointly-controlled entities</b>										
Gas Natural Aprovevisionamientos SDG, S.A.	Madrid	Gas supply	18	100.0	–	100.0	1	21	(4)	–
Sagane, S.A.	Madrid	Gas supply	42	100.0	–	100.0	95	(11)	165	–
Repsol - Gas Natural LNG, S.L.	Madrid	Supply and maritime transport of LNG	1	50.0	–	50.0	2	–	1	–
Gas Natural Europe, S.A.S.	France	Commercialisation gas	–	–	100.0	100.0	–	6	(12)	–
Natural Energy, S.A.	Argentina	Commercialisation gas	–	–	100.0	100.0	–	–	2	–
Gas Natural Vendita Italia, S.p.A.	Italy	Commercialisation gas	–	–	100.0	100.0	2	9	4	–
Gas Natural Comercial SDG, S.L.	Barcelona	Commercialisation gas and electricity	9	100.0	–	100.0	4	5	(1)	–
Gas Natural Comercializadora, S.A.	Barcelona	Commercialisation gas and electricity	1	100.0	–	100.0	2	30	(10)	–
Gas Natural S.U.R. SDG, S.A.	Barcelona	Commercialisation gas and electricity	2	100.0	–	100.0	2	6	11	–
Gas Natural Servicios SDG, S.A.	Barcelona	Commercialisation gas and electricity	4	100.0	–	100.0	2	(1)	2	–
Unión Fenosa Comercial, S.L.	Madrid	Commercialisation gas and electricity	78	100.0	–	100.0	10	101	(25)	–
Distribuidora de Electricidad del Norte, S.A	Nicaragua	Distribution of electricity	–	–	72.3	72.3	80	(40)	(4)	–
Electrificadora del Caribe, S.A. E.S.P.	Colombia	Distribution of electricity	–	–	85.4	85.4	964	(164)	(13)	–
Red Unión Fenosa, S.A.	Moldova	Distribution of electricity	–	–	100.0	100.0	7	144	22	–
Ceg-Rio, S.A.	Brazil	Distribution of gas	43	22.3	37.3	59.6	41	97	37	(41)
Companhia Distribuidora de Gás do Rio de Janeiro, S.A.	Brazil	Distribution of gas	132	18.9	35.3	54.2	212	276	100	(104)
Gas Galicia Sociedad para el Desarrollo del Gas, S.A.	Santiago de Compostela	Distribution of gas	26	61.6	–	61.6	33	10	5	–
Gas Natural Andalucía, S.A.	Seville	Distribution of gas	27	100.0	–	100.0	12	41	18	–
Gas Natural BAN, S.A.	Argentina	Distribution of gas	–	–	70.0	70.0	215	(127)	7	(13)
Gas Natural Castilla y León, S.A.	Valladolid	Distribution of gas	6	90.1	–	90.1	6	79	26	–
Gas Natural Castilla-La Mancha, S.A.	Toledo	Distribution of gas	25	95.0	–	95.0	27	20	11	–
Gas Natural Cegás, S.A.	Valencia	Distribution of gas	53	99.7	–	99.7	25	68	28	–
Gas Natural Distribución SDG, S.A.	Barcelona	Distribution of gas	849	100.0	–	100.0	81	794	277	(175)
Gas Natural Distribuzione S.p.A.	Italy	Distribution of gas	–	–	100.0	100.0	33	177	18	–
Gas Natural México, S.A. de C.V.	Mexico	Distribution of gas	–	–	86.8	86.8	471	(137)	33	–

Company	Registered Office	Activity	Net carrying value	Shareholding %			Net equity			
				Direct	Indirect	Total	Capital	Reserves and grants	Profit(loss)	Interim dividend
<b>Shareholdings in Group companies and jointly-controlled entities</b>										
Gas Natural Rioja, S.A.	Logroño	Distribution of gas	3	87.5	–	87.5	3	9	5	–
Gas Natural S.A. ESP	Colombia	Distribution of gas	–	–	59.1	59.1	11	136	100	–
Gas Natural Sao Paulo Sul, S.A.	Brazil	Distribution of gas	299	100.0	–	100.0	383	(104)	32	(1)
Gas Natural Transporte SDG, S.L.	Barcelona	Distribution of gas	57	100.0	–	100.0	15	46	10	–
Gas Navarra, S.A.	Pamplona	Distribution of gas	16	90.0	–	90.0	4	27	10	–
Unión Fenosa Distribución, S.A.	Madrid	Distribution of electricity	2,730	100.0	–	100.0	833	1,773	315	(200)
Gas Natural Exploración, S.L.	Barcelona	Exploration and production of hydrocarbons	19	100.0	–	100.0	9	22	(21)	–
Petroleum Oil & Gas España, S.A.	Madrid	Exploration and production of hydrocarbons	41	100.0	–	100.0	4	43	(3)	–
Clover Financial and Treasury Services, Ltd.	Ireland	Finance company	547	100.0	–	100.0	–	613	30	(73)
Gas Natural Capital Markets, S.A.	Barcelona	Finance company	–	100.0	–	100.0	–	–	8	–
Gas Natural International, Ltd.	Ireland	Finance company	6	100.0	–	100.0	6	8	–	(7)
Unión Fenosa Finance, B.V.	Netherlands	Finance company	7	100.0	–	100.0	–	–	–	–
Unión Fenosa Financiación, S.A.	Madrid	Finance company	13	100.0	–	100.0	1	2	(1)	–
Unión Fenosa Gas, S.A.	Madrid	Gas	2,441	50.0	–	50.0	33	455	272	(235)
Bóreas Eólica 2, S.A.	Pamplona	Generation of electricity	–	–	89.6	89.6	3	5	2	–
Corporación Eólica de Zaragoza, S.L.	Zaragoza	Generation of electricity	–	–	68.0	68.0	3	1	1	–
Energías Ambientales Easa, S.A.	La Coruña	Generation of electricity	–	–	100.0	100.0	16	3	3	–
Gas Natural Electricidad SDG, S.A.	Barcelona	Generation of electricity	40	100.0	–	100.0	4	7	(7)	–
Gas Natural Fenosa Renovables, S.L.	Madrid	Generation of electricity	397	100.0	–	100.0	90	343	31	–
Nueva Generadora del Sur, S.A.	Madrid	Generation of electricity	269	50.0	–	50.0	96	48	(11)	–
Sociedad de Tratamientos Hornillos, S.L.	Madrid	Generation of electricity	–	–	94.4	94.4	1	2	1	–
Sociedad de Tratamientos La Andaya, S.L.	Madrid	Generation of electricity	–	–	60.0	60.0	1	3	1	–
Tratamiento Integral de Almazán, S.L.	Madrid	Generation of electricity	–	–	90.0	90.0	3	3	2	–
Tratamientos Cinca Medio, S.L.	Madrid	Generation of electricity	–	–	80.0	80.0	2	1	1	–
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Generation of electricity	–	–	65.0	65.0	25	–	4	–
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Generation of electricity	–	–	65.0	65.0	–	5	–	–
Controladora del Golfo S.A. de C.V.	Mexico	Generation of electricity	–	–	100.0	100.0	32	(84)	–	–
Unión Fenosa Minería, S.A.	Madrid	Mining	316	100.0	–	100.0	11	169	15	–
Gas Natural Rigassificazione Italia, S.p.A.	Italy	Gas regasification	–	–	100.0	100.0	17	(1)	(1)	–
Natural Re, S.A.	Luxemburg	Insurance	7	100.0	–	100.0	4	28	2	–
Gas Natural Servicios Integrales, S.A.S.	Colombia	Services	–	–	100.0	100.0	1	–	–	–
General de Edificios y Solares, S.L.	Madrid	Services	76	100.0	–	100.0	34	54	9	–
Natural Servicios, S.A.	Argentina	Services	–	–	100.0	100.0	2	(1)	–	–

Company	Registered Office	Activity	Net carrying value	Shareholding %			Net equity			
				Direct	Indirect	Total	Capital	Reserves and grants	Profit(loss)	Interim dividend
<b>Shareholdings in Group companies and jointly-controlled entities</b>										
Gas Natural Fenosa Engineering, S.L.U.	Madrid	Professional services	38	100.0	–	100.0	1	39	2	–
Gas Natural Informática, S.A.	Barcelona	Professional services	20	100.0	–	100.0	20	7	4	–
Distribuidora Eléctrica de Caribe, S.A.	Panama	Holding company	–	–	100.0	100.0	110	9	21	(13)
Gas Natural Internacional SDG, S.A.	Barcelona	Holding company	374	100.0	–	100.0	350	166	17	–
Gas Natural Italia, S.P.A.	Italy	Holding company	–	–	100.0	100.0	–	1	1	–
Gas Natural Puerto Rico Inc.	Puerto Rico	Holding company	–	–	100.0	100.0	2	(1)	–	–
Gas Natural SDG Argentina, S.A.	Argentina	Holding company	–	–	100.0	100.0	104	(24)	1	–
Holding Gasinmex, S.A. de C.V. <sup>(1)</sup>	Mexico	Holding company	127	23.9	58.8	82.7	302	–	–	–
Invergas, S.A.	Argentina	Holding company	–	–	100.0	100.0	61	46	2	–
La Energía, S.A.	Barcelona	Holding company	11	100.0	–	100.0	11	4	2	–
La Propagadora del Gas, S.A.	Barcelona	Holding company	10	100.0	–	100.0	10	2	–	–
Unión Fenosa Internacional, S.A.	Madrid	Holding company	1,585	100.0	–	100.0	174	212	209	(175)
Unión Fenosa Internacional, B.V.	Netherlands	Holding company	25	100.0	–	100.0	5	19	–	–
Unión Fenosa México, B.V.	Netherlands	Holding company	–	–	100.0	100.0	128	306	–	(1)
Gas Natural Fenosa Telecomunicaciones, S.A.	Barcelona	Telecommunications	21	100.0	–	100.0	21	28	24	–
Europe Maghreb Pipeline, Ltd.	United Kingdom	Transport of gas	–	–	72.6	72.6	–	193	159	(75)

(1) The shareholding percentage relates to the shares under legal title and to the buy-back commitment at the percentages indicated in Note 15.

The non-current loans to group companies which at 31 December 2011 total Euros 5,974 million mature in 2013 (at 31 December 2010, Euros 4,147 million matured in 2012).

The variations during 2011 and 2010 in the accounts under loans to Group companies and Other financial assets are:

	Créditos a empresas del grupo	Otros activos financieros	Total
<b>Balance at 1.1.2010</b>	<b>1,236</b>	<b>139</b>	<b>1,375</b>
Additions	382	87	<b>469</b>
Divestments	(1,512)	(116)	<b>(1,628)</b>
Reclassifications	592	–	<b>592</b>
<b>Balance at 31.12.2010</b>	<b>698</b>	<b>110</b>	<b>808</b>
Additions	1,267	2	<b>1,269</b>
Divestments	(123)	(71)	<b>(194)</b>
Reclassifications	(1,165)	–	<b>(1,165)</b>
<b>Balance at 31.12.2011</b>	<b>677</b>	<b>41</b>	<b>718</b>

There are no significant differences between carrying values and fair values in the balances under Loans to group companies and other receivables.

“Other current financial assets” include interest accrued pending receipt of Euros 15 million (Euros 7 million in 2010).

The loans to group companies and associates have accrued at 31 December 2011 an interest rate of 2.55% (1.74% in 2010).

## Note 8. Investments

The breakdown of investments by category is:

At 31 December 2011	Available for sale	Loans and other receivables	Hedge Derivatives	Total
Equity instruments	6	–	–	<b>6</b>
Derivatives (Note 16)	–	–	2	<b>2</b>
Other financial assets	–	16	–	<b>16</b>
<b>Non-current investments</b>	<b>6</b>	<b>16</b>	<b>2</b>	<b>24</b>
Other financial assets	–	1,248	–	<b>1,248</b>
<b>Current investments</b>	<b>–</b>	<b>1,248</b>	<b>–</b>	<b>1,248</b>
<b>Total</b>	<b>6</b>	<b>1,264</b>	<b>2</b>	<b>1,272</b>

<b>At 31 December 2010</b>	<b>Available for sale</b>	<b>Loans and other receivables</b>	<b>Hedge Derivatives</b>	<b>Total</b>
Equity instruments	5	–	–	5
Derivatives (Note 16)	–	–	3	3
Other financial assets	–	22	–	22
<b>Non-current investments</b>	<b>5</b>	<b>22</b>	<b>3</b>	<b>30</b>
Other financial assets	–	1,755	–	1,755
<b>Current investments</b>	<b>–</b>	<b>1,755</b>	<b>–</b>	<b>1,755</b>
<b>Total</b>	<b>5</b>	<b>1,777</b>	<b>3</b>	<b>1,785</b>

## Available-for-sale financial assets

The main variations in available-for-sale financial assets are as follows:

	<b>2011</b>	<b>2010</b>
<b>At 1 January</b>	<b>5</b>	<b>146</b>
Increases	2	–
Divestments	(2)	(127)
Adjustment at fair value	1	(14)
<b>At 31 December</b>	<b>6</b>	<b>5</b>

All available-for-sale financial assets relate to unlisted shareholdings in 2011 and 2010.

In 2011 the main variations are as follows:

- Subscription of 179,780 shares through a capital increase of Euros 1 million in Neotec Capital Riesgo, Sociedad de Fondos S.A. S.C.R.
- Sale of 5.14% of the shares in Operador del Mercado Ibérico de Energía-Polo Español, S.A. for Euros 2 million, generating a pre-tax profit of Euros 1 million (Note 25) and reducing the interest to 5%.
- Purchase of a 5% interest in Operador do Mercado Ibérico (Portugal), SGPS, S.A. for Euros 1 million.

In 2010 the main variations were as follows:

- Sale in April 2010 of the 5% shareholding in Indra Sistemas, S.A., totalling Euros 127 million, which generated a profit before tax of Euros 4 million, thus reducing the Value adjustment reserves (Note 25).



## Loans and other receivables

The breakdown of Loans and other receivables is as follows:

	At 31.12.11	At 31.12.10
Loans to companies	6	6
Deposits and guarantee deposits	8	8
Other long-term receivables	2	8
<b>Non-current</b>	<b>16</b>	<b>22</b>
Loans to companies	1	1
Tariff deficit	1,231	1,747
Deposits and guarantee deposits	16	7
<b>Current</b>	<b>1,248</b>	<b>1,755</b>
<b>Total</b>	<b>1,264</b>	<b>1,777</b>

The financing of the deficit of the payments for the regulated electricity business is included under "Other current financial assets," in accordance with the fact that, under current legislation, there is a right to receive reimbursement without subjection to future contingencies and whereby recovery is expected in the following year. At 31 December 2011, Gas Natural SDG, S.A. records a debt claim of Euros 1,231 million in respect of the deficit relating to 2006 (Euros 192 million), 2008 (Euros 194 million), 2010 (Euros 317 million) and 2011 (Euros 528 million). These assets accrue interest at market rates (Note 2).

During 2011, in addition to the collections received from settlements, eleven Electricity System Deficit Securitisation Fund issues were completed, Gas Natural SDG, S.A. having collected Euros 1,102 million as a result of these issues. Debt claims arising from the deficit in settlements for regulated electricity activities have been assigned irrevocably to the Electricity System Deficit Securitisation Fund (FADE).

## Note 9. Non-current assets held for sale

The breakdown of Non-current assets held for sale is as follows:

	At 31.12.11	At 31.12.10
Property, plant and equipment	–	174
<b>Total</b>	<b>–</b>	<b>174</b>

On 14 April 2011, Gas Natural SDG, S.A. agreed to sell the Arrúbal combined cycle plant (La Rioja), with an installed capacity of 800 MW, to a company of the ContourGlobal Group. This transactions formed part of the commitments acquired with the National Anti-Trust Commission in relation to the acquisition of Unión Fenosa, S.A. Once the relevant authorization were obtained, the sale was completed on 28 July 2011, transferring plant ownership for Euros 313 million without any impact on the income statement.

On 12 July 2010, Gas Natural SDG, S.A. and the Alpiq Group reached an agreement on the sale of a for the sale of 400MW generator at the combined cycle plant in Plana del Vent totalling Euros 200 million. Moreover, Alpiq will have the exclusive right of use and operation of the other 400 MW generator for a period of two years, over which it can exercise, at the end of these periods, a purchase right totalling Euros 195 million (representing market value). This transaction is part of the compliance with the commitments acquired by Gas Natural SDG, S.A. before the Spanish National Anti-Trust Authorities for the purchase of Unión Fenosa, S.A.. Since 30 June 2010 the assets of the group agreed under the same have been classified as non-current assets held for sale. Once the relevant authorizations were obtained, the sale was completed on 1 April 2011 without any impact on the income statement.

## Note 10. Inventories

The breakdown of inventories is as follows:

	At 31.12.11	At 31.12.10
Coal and fuel oil	205	198
Nuclear fuel	52	52
Materials and other inventories	7	5
<b>Total</b>	<b>264</b>	<b>255</b>

## Note 11. Trade and other receivables

The breakdown of this account is as follows:

	At 31.12.11	At 31.12.10
Trade receivables	102	140
Group companies and associates	330	300
Sundry receivables	34	9
Provision	(9)	(14)
Derivatives (Note 16)	5	13
Current income tax asset (Note 19)	35	154
Other tax refundable	14	8
<b>Total</b>	<b>511</b>	<b>610</b>

The movement in the bad debts provision is as follows:

	2011	2010
<b>Balance at 1 January</b>	<b>(14)</b>	<b>(28)</b>
Net charge for the year (Note 23)	(1)	(2)
Disposals	6	16
<b>Balance at 31 December</b>	<b>(9)</b>	<b>(14)</b>

In general, the invoices pending payment do not accrue interest, and fall due in an average period of 25 days.

## Note 12. Cash and cash equivalents

This account includes:

	At 31.12.11	At 31.12.10
Cash at banks and in hand	630	576
Other cash equivalents	1,785	175
<b>Total</b>	<b>2,415</b>	<b>751</b>

Investments in Cash equivalents mature within less than three months a weighted effective interest rate of 2.31% at 31 December 2011 (2.09% at 31 December 2010).

## Note 13. Net equity

### Share capital and share premium

The variations during the years 2011 and 2010 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares (in Th)	Share capital	Share premium	Total
At 1 January 2010	921,757	922	3,331	4,253
At 31 December 2010	921,757	922	3,331	4,253
Capital increase	69,915	70	477	547
Capital increase in cash	38,184	38	477	515
Capital increase - swap	31,731	32	–	32
<b>At 31 December 2011</b>	<b>991,672</b>	<b>992</b>	<b>3,808</b>	<b>4,800</b>

At 31 December 2011 and at 31 December 2010 the total authorized number of ordinary shares was, respectively, 991,672,139 shares and 921,756,951 shares represented by accounting entries with a par value of Euro 1 each. All the shares issued are fully paid and have the same economic and voting rights.

The proposed application of 2010 results approved by the Annual General Meeting on 14 April 2011 included the payment of a dividend of Euros 324 million (equal to the amount paid out as an interim dividend for 2010) and a fully-paid capital increase through the issue of new ordinary shares, providing mechanisms to guarantee that shareholders could receive the amount in cash if they wished.

On 14 June 2011, the period for negotiating the free allocation rights pertaining to the fully-paid capital increase ended and the holders of 3.6% of the free allocation rights accepted the irrevocable commitment to purchase assumed by the Company, entailing the acquisition of 33,272,473 rights for a total gross amount of Euros 15 million. The owners of the remaining 96.4% opted to receive new shares. Accordingly, 31,731,588 ordinary shares were issued, with a par value of one euro each and no share premium. The capital increase was fully paid and entered in the Mercantile Register on 23 June 2011. The shares issued have been traded on the stock exchange since 29 June 2011.

In the context of the agreements concluded between the Algerian company La Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures s.p.a (Sonatrach) and GAS NATURAL FENOSA (Note 30) on 17 June 2011, the Board of Directors of Gas Natural SDG, S.A. approved a capital increase, excluding the pre-emptive subscription right, through the issue of 38,183,600 new shares at a price of 13.4806 Euros per share, to be fully subscribed by Sonatrach for a total cash sum of Euros 515 million, resulting in a 3.9% shareholding owned by Sonatrach in Gas Natural SDG, S.A. According to the special report on the exclusion of the pre-emptive subscription right issued by the independent expert pursuant to the revised Spanish Companies Act 2010, the agreed issue price reflects the fair value of the Company's shares. This increase and the resulting entry of Sonatrach as a minority shareholder of the Company was executed on 9 August 2011, once approval had been obtained from the Algerian authorities.

The Spanish Capital Companies Act expressly permits the use of the share premium balance to increase capital and does not establish a specific restriction on the availability of this balance.

In 2011 and 2010 no transfers of treasury shares took place.

According to the information available publicly, the most relevant interests in the capital of Gas Natural SDG, S.A. at 31 December 2011 are as follows:

	Shareholding %
"la Caixa" Group (Criteria CaixaHolding, S.A.U.)	35.3
Repsol YPF Group	30.0
Sonatrach	3.9

All the shares of Gas Natural SDG, S.A. are traded on the four official Spanish Stock Exchanges, the "Mercado continuo" and form part of Spain's Ibex 35 stock index.

The share price at the end of 2011 of Gas Natural SDG, S.A. is Euros 13.27 (Euros 11.49 at 31 December 2010).

## Reserves

Reserves includes the following:

	2011	2010
Legal Reserves	185	185
Statutory Reserves	91	89
RD 7/96 revaluation reserve	225	225
Goodwill Reserves	357	179
Voluntary Reserves	4,491	4,388
Other Reserves	292	289
	<b>5,641</b>	<b>5,355</b>

## a) Legal Reserve

Appropriations to the legal reserve are made in compliance with the Spanish Capital Companies Act, which stipulates that 10% of the profits must be transferred to this reserve until it represents at least 20% of share capital. The legal reserve can be used to increase capital in the part that exceeds 10% of the capital increased.

Except for the use mentioned above, and as long as it does not exceed 20% of share capital, the legal reserve can only be used to offset losses in the event of no other reserves being available.

## b) Statutory Reserve

Under the articles of association of Gas Natural SDG, S.A., 2% of net profit for the year must be allocated to the statutory reserves until it reaches at least 10% of share capital.

## c) Revaluation reserve

The revaluation reserve can be used to offset accounting losses, increase share capital, or can be allocated to freely distributable reserves, provided that that the monetary gain has been realised. The part of the gain that will be considered realised is the part relating to the amortization recorded or when the revaluated assets have been transferred or written off the books of account.

## d) Goodwill reserve

Under article 273 of the Spanish Capital Companies Act, the Company must appropriate a non-distributable reserve equivalent to the goodwill carried on the the balance sheet asset, allocating annually an amount that represents at least 5% of goodwill. If there are no profits, or the profits are insufficient, to do so, the Share Premium or Freely Available Reserves can be used.

## e) Voluntary and other reserves

Relates basically to voluntary reserves for undistributed profits.

## Earnings per share

Basic earnings per share are calculated by dividing profit by the weighted average number of ordinary shares in issue during the year.

	At 31.12.11	At 31.12.10
Profit for the year	1,317	1,021
Weighted average number of ordinary shares in issue (million)	953	922
Earning per share (in Euros):		
Basic	1.38	1.11
Diluted	1.38	1.11

In order to calculate the average weighted number of ordinary shares in circulation in 2011, the shares issued in the capital increases mentioned in the "Share capital and Share premium" section of this Note have been taken into consideration. Fully-paid capital increases are treated as an issue of shares at market value and therefore the shares issued are included in the calculation of the weighted average number of ordinary shares in circulation as from the date on which the shares are paid up. The calculation is as follows:

	Number of shares (in thousands)	Days	Days per number of shares
Shares at 1 January 2011	921,757	365	336,441,287
Capital increase through exchange	31,731	191	6,061,733
Capital increase in cash	38,184	144	5,498,438
<b>Total</b>	<b>991,672</b>		<b>348,000,458</b>
Weighted average number of shares for the period			953,426

The Company has no financial instruments that could dilute the earnings per share.

## Dividends

We set out below the payments of dividends made in 2011 and 2010:

	31.12.11			31.12.10		
	% of Nominal	Euros per share	Amount <sup>(1)</sup>	% of Nominal	Euros per share	Amount <sup>(2)</sup>
Ordinary shares	35	0.35	324	79	0.79	730
Other shares (without voting rights, redeemable, etc.)	–	–	–	–	–	–
<b>Total dividends paid</b>	<b>35</b>	<b>0.35</b>	<b>324</b>	<b>79</b>	<b>0.79</b>	<b>730</b>
a) Dividends charged to income statement	35	0.35	324	79	0.79	730
b) Dividends charged to reserves or share premium account	–	–	–	–	–	–
c) Dividends-in-kind	–	–	–	–	–	–

(1) Includes the payment of the interim dividend of Euros 0.35 per share, totalling Euros 324 million, agreed on 26 November 2010 and paid on 7 January 2011.

(2) Includes the payment of the interim dividend of Euros 0.35 per share, totalling Euros 324 million, agreed on 27 November 2009 and paid on 8 January 2010 and the supplementary dividend 2009 of Euros 0.44 per share, totalling Euros 406 million, agreed on 20 April 2010 and paid on 1 July 2010.

The Board of Directors of Gas Natural SDG, S.A. agreed at its meeting on November 25, 2011 to distribute an interim dividend against 2011 net income of Euros 0.363 per share, for a total of Euros 360 million, payable as from January 9, 2012.

The Company had the necessary liquidity at the date of approval of the interim dividend to make the payment in accordance with the requirements of the Spanish Capital Companies Act. The provisional statement formulated by the Directors at November 25, 2011 is as follows:

Profit after tax	852
Reserves to be replenished	(200)
Maximum amount available for distribution	652
Forecast dividend payment on account	360
Liquidity	2,046
Undrawn credit facilities	3,283
Total liquidity	5,329

On January 27, 2012 the Board of Directors adopted a proposal to submit to the General Meeting of Shareholders a resolution to distribute net profit of Gas Natural SDG, S.A. for the year 2011 and 2010 retained earnings, as follows:

<b>Basis for distribution</b>	
Retained earnings	366
Profit and (loss)	1,317
<b>Distribution</b>	
To legal reserve	14
To statutory reserve	7
To goodwill reserve	179
To voluntary reserve	662
To dividend	360
To retained earnings	461

The proposed application of results prepared by the Board of Directors for approval by the Annual General Meeting includes the payment of a dividend of Euros 360 million due as from 9 January 2012 and a fully-paid capital increase through the issue of new ordinary shares having a maximum reference market value of Euros 461 million. This capital increase will allow shareholders to receive ordinary shares in Gas Natural SDG, S.A. instead of a payment, in July 2011, of the supplementary dividend for 2011, and includes the establishment by Gas Natural SDG, S.A. of mechanisms to guarantee that the shareholders may receive the dividend in cash if they wish.

## Grants

The movement in this account in 2011 and 2010 is as follows:

	<b>Capital grants</b>
At 1.01.2010	7
Amount received	97
Release to the income statement	(88)
Transfers and others	(2)
<b>At 31.12.2010</b>	<b>14</b>
Amount received	102
Release to the income statement	(112)
<b>At 31.12.2011</b>	<b>4</b>

The movements in the preceding table are stated net of tax.

The capital grants received in 2011 and 2010 basically relate to the emissions rights received.

## Note 14. Provisions

The breakdown of provisions at 31 December 2011 and 2010 is as follows:

	<b>At 31.12.11</b>	<b>At 31.12.10</b>
Provisions for post-employment obligations	286	294
Other provisions	537	656
<b>Non-current provisions</b>	<b>823</b>	<b>950</b>
Other provisions	175	126
<b>Current provisions</b>	<b>175</b>	<b>126</b>
<b>Total</b>	<b>998</b>	<b>1,076</b>

## Provisions for employee benefits

Provisions for employee benefits relate entirely to pensions and other similar commitments at 31 December 2011 and 2010.



## Pensions and other similar liabilities

Most of the post-employment obligations of Gas Natural SDG, S.A. consist of the contribution of defined amounts to occupational pension plan systems. Nevertheless, at 31 December 2011 and 31 December 2010, Gas Natural SDG, S.A. held the following defined benefit obligations for certain groups of workers:

- Pensioners to retired workers, the disabled, widows and orphans and other related groups.
- Defined benefit supplement obligations with retired personnel of the legacy Unión Fenosa Group who retired before November 2002 and a residual part of current personnel.
- Coverage of retirement and death for certain employees.
- Gas subsidy for current and retired personnel.
- Electricity for current and retired personnel.
- Obligations with employees that took early retirement until they reach official retirement age and early retirement plans.
- Salary supplements and contributions to social security for a group of employees taking early retirement until they can access ordinary retirement.
- Health care and other benefits.

The amounts recognized in the balance sheet for pensions and similar obligations, as well as the movement in the current value of the obligations and the fair value of the plan assets are determined as follows:

<b>Present value of funded obligations</b>	<b>2011</b>	<b>2010</b>
<b>At 1 January</b>	<b>1,101</b>	<b>1,092</b>
Service cost for the year	2	3
Interest cost	44	50
Actuarial gains and losses	(41)	(2)
Benefits paid	(82)	(87)
Others	3	45
<b>At 31 December</b>	<b>1,027</b>	<b>1,101</b>
<b>Fair value of plan assets</b>		
<b>At 1 January</b>	<b>807</b>	<b>783</b>
Expected yield	31	37
Contributions	8	22
Actuarial gains and losses	(38)	6
Benefits paid	(66)	(86)
Others	(1)	45
<b>At 31 December</b>	<b>741</b>	<b>807</b>
<b>Post-employment benefit provisions</b>	<b>286</b>	<b>294</b>

The real yield on plan assets during 2011 has totalled Euros 31 million (Euros 37 million during 2010).

The amounts recognized in the Income Statement for all the defined benefit pension plans mentioned above are as follows:

	2011	2010
Service cost for the year	2	3
Interest cost	44	50
Expected yield on plan assets	(31)	(37)
<b>Total charge to the income statement</b>	<b>15</b>	<b>16</b>

The movement in liabilities recognized on the balance sheet is as follows:

	2011	2010
<b>At 1 January</b>	<b>294</b>	<b>309</b>
Charge to the income statement	15	16
Contributions paid	(24)	(23)
Variations recognized directly in net equity	(3)	(8)
Other utilisations	4	–
<b>At 31 December</b>	<b>286</b>	<b>294</b>

The plan assets expressed as a percentage of total assets are as follows:

% of total	2011	2010
Bonds	100	100

Pension plan assets are insurance policies whose cash flows relate to the insured benefits both in terms of amount and the schedule of payments (Matching policies) with the guaranteed yield of the plan.

The accumulated actuarial gains and losses recognized directly in net equity is positive in Euros 14 million for year 2011 (positive in Euros 11 million for 2010).

The actuarial assumptions used were as follows:

	At 31.12.11	A 31.12.10
Discount rate (p.a.) (%)	3.1-4.9	2.5-5.0
Expected return on plan assets (p.a.) (%)	3.1-4.9	2.5-5.0
Future salary increases (p.a.) (%)	3.0	3.0
Future pension increases (p.a.) (%)	2.5	2.5
Inflation rate (annual) (%)	2.5	2.5
Mortality table	PERMF2000	PERMF 2000

These assumptions are applicable to all the obligations homogeneously irrespective of the origin of their collective bargaining agreements.

The costs of health care have been valued on the basis of the expected costs of the premiums of the different medical care policies taken out. A 1% variation in the increase in the cost of these premiums would not have a significant impact on the liability booked at 31 December 2011 and 31 December 2010, nor would it cause a relevant variation in the normal, financial costs for future years in relation to that booked in 2011 and 2010.

## Other current and non-current provisions

The movement in current and non-current provisions is as follows:

	2011			2010		
	Non-current provisions	Current provisions	Total	Non-current provisions	Current provisions	Total
<b>At 1 January</b>	<b>656</b>	<b>126</b>	<b>782</b>	<b>629</b>	<b>167</b>	<b>796</b>
Provisions / reversals charged to income statement:						
Allowances	44	175	219	78	126	204
Reversals	(110)	–	(110)	(71)	–	(71)
Amounts paid during the year	(5)	–	(5)	(2)	–	(2)
Reclassifications and others	(48)	(126)	(174)	22	(167)	(145)
<b>At 31 December</b>	<b>537</b>	<b>175</b>	<b>712</b>	<b>656</b>	<b>126</b>	<b>782</b>

This account includes the provisions recorded to meet obligations arising mainly from tax claims, as well as litigation and arbitration underway. The information on the nature of the disputes with third parties and the position of the entity in relation to them is set out in the section on “Litigation and Arbitration” in Note 30.

Additionally, provisions are included to meet the liabilities from dismantling, restoration and other costs related to the electricity generation plants totalling Euros 257 million at 31 December 2011 (Euros 233 million at 31 December 2010).

Current provisions include the expenses for estimated CO<sub>2</sub> emissions due to the delivery obligation of the respective emissions rights totalling Euros 175 million at 31 December 2011 (Euros 126 million at 31 December 2010).

The estimated payment periods for these commitments refer to Euros 301 million in between one and five years, Euros 42 million in between five and 10 years, and Euros 194 million after more than ten years.

## Note 15. Borrowings

The breakdown of borrowings at 31 December 2011 and 2010 is as follows:

	At 31.12.11	At 31.12.10
Issue of bonds and other negotiable securities	–	51
Borrowings from financial institutions	6,744	7,399
Finance lease payables	291	359
Derivatives ( <i>Note 16</i> )	32	31
Other financial liabilities	77	73
<b>Non-current borrowings</b>	<b>7,144</b>	<b>7,913</b>
Issue of bonds and other negotiable securities	69	67
Borrowings from financial institutions	734	161
Finance lease payables	72	73
Derivatives ( <i>Note 16</i> )	7	53
Other financial liabilities	374	343
<b>Current borrowings</b>	<b>1,256</b>	<b>697</b>
<b>Total</b>	<b>8,400</b>	<b>8,610</b>

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying value		Fair value	
	At 31.12.11	At 31.12.10	At 31.12.11	At 31.12.10
Issue of bonds and other negotiable securities	–	51	–	51
Borrowings from financial institutions and other financial liabilities	7,144	7,862	7,191	7,900

The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 2011 and 31 December 2010 on borrowings with similar credit and maturity characteristics.

The movement in borrowings is as follows:

	2011	2010
At 1 January	8,610	11,356
Increase/(decrease) of financial debt	(210)	(2,746)
At 31 December	8,400	8,610

The following tables describe our borrowings at 31 December 2011 and 31 December 2010 and their maturity profile, taking into account the impact of the derivative hedges.

	2012	2013	2014	2015	2016	2017 and beyond	Total
At 31 December 2011							
Fixed	411	737	193	193	199	328	2,061
Floating	845	1,574	45	3,183	325	367	6,339
<b>Total</b>	<b>1,256</b>	<b>2,311</b>	<b>238</b>	<b>3,376</b>	<b>524</b>	<b>695</b>	<b>8,400</b>

	2011	2012	2013	2014	2015	2016 and beyond	Total
At 31 December 2010							
Fixed	161	345	1,094	94	1,425	445	3,564
Floating	536	634	1,351	137	2,027	361	5,046
<b>Total</b>	<b>697</b>	<b>979</b>	<b>2,445</b>	<b>231</b>	<b>3,452</b>	<b>806</b>	<b>8,610</b>

Setting aside the impact of derivatives on borrowings, fixed-rate debt would amount to Euros 532 million of the total borrowings at 31 December 2011.

The following tables describe the gross borrowings denominated in foreign currencies at 31 December 2011 and at 31 December 2010 and their maturities, taking into account the impact of the derivative hedges:

	2012	2013	2014	2015	2016	2017 and beyond	Total
At 31 December 2011							
Euro debt	1,065	1,994	211	3,198	497	405	7,370
USD debt	191	317	27	178	27	290	1,030
<b>Total</b>	<b>1,256</b>	<b>2,311</b>	<b>238</b>	<b>3,376</b>	<b>524</b>	<b>695</b>	<b>8,400</b>

	2011	2012	2013	2014	2015	2016 and beyond	Total
At 31 December 2010							
Euro debt	671	916	2,152	205	3,278	498	7,720
USD debt	26	63	293	26	174	308	890
<b>Total</b>	<b>697</b>	<b>979</b>	<b>2,445</b>	<b>231</b>	<b>3,452</b>	<b>806</b>	<b>8,610</b>

Borrowings bore an average effective interest rate in 2011 of 3.16% (3.14% in 2010) including the derivatives assigned to each transaction

Bank borrowings totalling Euros 638 million are subject to the fulfilment of certain financial ratios relating mainly to debts incurred by the former Unión Fenosa group.

At the preparation date of these Annual accounts, Gas Natural SDG, S.A. is not in breach of its financial obligations or of any type of obligation that could give rise to the early maturity of its financial commitments.

We set out below the most relevant financial instruments:

### **Promissory notes program**

In July 2009 Gas Natural SDG, S.A. subscribed a Promissory Note Programme by virtue of which it could issue a total principal up to Euros 2,000 million, although in July 2010 this maximum amount was reduced to Euros 1,000 million. The programme was renewed in July 2011 for the same amount. At 31 December 2011 the outstanding issues under this program totalled Euros 69 million (Euros 118 million at 31 December 2010).

### **Amounts owing to credit institutions**

On 24 March 2010 a loan agreement was signed totalling Euros 4,000 million under a "Club Deal" with a total of 18 banks. The total amount of the loan was divided as: Euros 1,000 million maturing in 3 years and Euros 3,000 million maturing in 5 years.

At 31 December 2011, borrowings from banks include other bilateral bank loans totalling Euros 2,261 million (Euros 1,956 million at 31 December 2010) and credit facilities drawn down totalling Euros 239 million (Euros 707 million at 31 December 2010).

### **Institutional financing**

The Company records debts incurred with the Instituto de Crédito Oficial (ICO) through different instruments such as short-term credit lines and loans maturing in 2018 at the latest.

The European Investment Bank (EIB) has granted financing of Euros 800 million to Gas Natural SDG, S.A., which includes a new Euros 350 million line of financing granted in December 2011 and utilised in the amount of Euros 150 million at 31 December 2011. The remaining amount of Euros 200 million has yet to be disposed.

### **Finance lease payables**

Other financial liabilities basically include all the updated payments committed under the leases with a maturity of 10 years for power islands at the combined cycle plants in Palos de la Frontera and Sagunto, entered into by Unión Fenosa Generación, S.A., respectively, in 2005 and 2007.

The breakdown of the minimum payments for the finance leases is as follows:

	At 31.12.11			At 31.12.10		
	Nominal value	Discount	Current value	Nominal value	Discount	Current value
Less than 1 year	77	(5)	72	77	(4)	73
Between 1 and 5 years	284	(33)	251	335	(43)	292
More than 5 years	51	(11)	40	88	(21)	67
<b>Total</b>	<b>412</b>	<b>(49)</b>	<b>363</b>	<b>500</b>	<b>(68)</b>	<b>432</b>

## Other financial liabilities

Also included in this account is the purchase commitment without premium granted to Sinca Inbursa, S.A. de C.V. (Inbursa). On September 22, 2008 15% of Gas Natural Mexico, S.A. de C.V. and Sistemas de Administración, S.A. de C.V. was sold to Inbursa for MXN 761 million (Euros 49 million), and a commitment was made to repurchase these shares. Until May 22, 2013 Inbursa can offer all the shares it holds at that time to Gas Natural SDG, S.A., who will be obligated to acquire them. The acquisition price will be set at the greater of the market valuation of each share, based on the results of the investee company, or the capital invested adjusted for financial interest. During 2011 the above-mentioned shareholdings were transferred to the company Holding Gasinmex, S.A. de C.V. Consequently, Gas Natural SDG, S.A.'s purchase commitment was transferred to Sinca Inbursa about 17.29% of its shares. The liability booked at 31 December 2011 totals MXN 988 million and equals the current value of the amount payable (MXN 917 million at 31 December 2010).

## Note 16. Risk management and derivative financial instruments

### Risk management

GAS NATURAL FENOSA has a series of standards, procedures and systems for identifying, measuring and managing different types of risk which are made up of the following basic action principles:

- Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.
- Segregation at the operating level of the risk management functions.
- Assuring that the level of its risk exposure of GAS NATURAL FENOSA in its business is in line with the objective risk profile and achievement of its annual, strategic objectives.
- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

### Interest rate risk

The fluctuations in interest rates modify the fair value of the assets and liabilities that accrue a fixed interest rate and the cash flows from assets and liabilities pegged to a floating interest rate, and, accordingly, affect equity and profit, respectively.

The purpose of interest rate risk management is to balance floating and fixed borrowings in order to reduce borrowing costs within the established risk parameters.

Gas Natural SDG, S.A uses financial swaps to manage its exposure to fluctuations in interest rates by exchanging debt at a floating rate for fixed interest rates. Additionally, please bear in mind the financial swaps contracted to mitigate the risk of a specific financing operation in Yen that does not qualify for hedge accounting.

The financial debt structure at 31 December 2011 and 2010 (Note 15), after taking into account the hedges arranged through derivatives, is as follows:

	At 31.12.11	At 31.12.10
Fixed interest rate	2,061	3,564
Floating interest rate	6,339	5,046
<b>Total</b>	<b>8,400</b>	<b>8,610</b>

The floating interest rate is mainly subject to the fluctuations of the EURIBOR and the LIBOR.

The sensitivity of profit and equity (Value adjustments) to the fluctuation in interest rates is as follows:

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
2011	+50	(50)	13
	-50	48	(13)
2010	+50	(25)	11
	-50	25	(11)

## Exchange rate risk

The variations in the exchange rates can affect the fair value of:

- Counter value of cash flows related to the purchase-sale of raw materials denominated in currencies other than local or functional currencies.
- Debt denominated in currencies other than local or functional currencies.
- Operations and investments in non-Euro currencies, and, accordingly, the counter value of equity contributed and results.

In order to mitigate these risks Gas Natural SDG, S.A finances, to the extent possible, its investments in local currency. Furthermore, it tries to match, whenever possible, costs and revenues indexed in the same currency, as well as amounts and maturities of assets and liabilities arising from operations denominated in non-Euro currencies.

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange fluctuation insurance when its marginal contribution to the risk is relevant and can exceed the risk limits established.



The non-Euro currency with which Gas Natural SDG, S.A operates the most is the US Dollar. The sensitivity of results and consolidated equity ("Adjustments for changes in value") of GAS NATURAL to a 5% variation (increase or decrease) in the US Dollar / Euro exchange rate is as follows:

	%	2011	2010
Effect on net income before tax	+5	-	1
	- 5	-	(1)
Effect on equity before tax	+5	1	-
	- 5	(1)	-

## Commodity price exchange risk

A major portion of its operating expenses are linked to the purchase of gas for supplies or for the energy production of its combined cycle plants. Therefore, Gas Natural SDG, S.A. is exposed to the variation in commodity prices whose determination is basically subject to crude oil prices and those of its by-products. Additionally, because of the significant presence of the electricity generation business GAS NATURAL FENOSA is exposed to CO<sub>2</sub> emission rights fluctuation risk and electricity prices variations.

The exposure to these risks is managed and mitigated through the monitoring of its position regarding these commodities, trying to balance purchase and supply obligations and diversification and management of supply contracts. When it is not possible to achieve a natural hedge the position is managed, within reasonable risk parameters, through derivatives to reduce exposure to price risk, generally through hedging instruments.

The risk involved in the trading operations carried out by Gas Natural SDG, S.A is not significant, due to the low volume of these operations and the limits established, both in terms of amount and maturity.

The sensitivity of results and net equity to the variation in both the fair value of derivatives to hedge commodity prices such as for trading operations, is as follows:

	Increase/decrease in the purchase price of electricity (%)	Effect on profit before tax	Effect on equity before tax
2011	+10	(7)	-
	-10	7	-
2010	+10	-	-
	-10	-	-

	Increase/decrease in the purchase price of gas (%)	Effect on profit before tax	Effect on equity before tax
2011	+10	-	-
	-10	-	-
2010	+10	-	(12)
	-10	-	12

	Increase/decrease in the price of CO <sub>2</sub> emissions (%)	Effect on profit before tax	Effect on equity before tax
2011	+10	-	1
	-10	-	(1)
2010	+10	1	1
	-10	(1)	(1)

## Credit risk

The credit risk arising from the default of a counterparty is controlled through policies that assure that wholesale sales of products are made to customers with an appropriate credit history, for which the respective solvency studies are established and based on which the respective credit limits are assigned.

To do so, various credit quality measuring models have been designed. Based on these models, the probability of customer default on payment can be measured, and the expected commercial loss can be kept under control.

The main guarantees negotiated are bank guarantees, guarantees and deposits.

Furthermore, the outstanding trade receivables are stated on the balance sheet net of provisions for bad debts (Note 11), estimated by Gas Natural SDG, S.A on the basis of ageing of the debt the experience in previous years in line with the prior segregation of customer portfolios and the current economic environment.

At 31 December 2011 and 2010 Gas Natural SDG, S.A. does not have significant concentrations of credit risk.

In order to mitigate credit risk arising from financial positions, Gas Natural SDG, S.A. contracts derivatives and places treasury surpluses in banks and financial entities that are highly solvent and rated by Moody's and S&P.

Likewise, most of the accounts receivable not due nor provided for have a high credit rating, according to the valuations of Gas Natural SDG, S.A. based on the solvency analysis and payment habits of each customer.

The breakdown of the age of financial receivables overdue but not considered bad debts at 31 December 2011 and 2010 is as follows:

	At 31.12.11	At 31.12.10
Less than 90 days	5	8
90– 180 days	–	2
More than 180 days	1	2
<b>Total</b>	<b>6</b>	<b>12</b>

The impaired financial assets are broken down in Note 11.

## Liquidity risk

Gas Natural SDG, S.A. has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. A prudent management of the liquidity risk includes maintaining sufficient cash and realizable assets and the availability of funds sufficient to cover credit obligations.

At 31 December 2011, available liquidity totals Euros 6,925 million (Euros 4,697 million in 2010), taking into account cash and other cash equivalents totalling Euros 2,415 million (Euros 751 million in 2010), bank financing and undrawn credit facilities of Euros 3,579 million and undrawn debt issues of Euros 931 million (Euros 3,064 million and Euros 882 million in 2010).

## Capital management

The main purpose of capital management of Gas Natural SDG, S.A. is to ensure a financial structure that can optimize capital cost and maintain a solid financial position, in order to combine value creation for the shareholder with the access to the financial markets at a competitive cost to cover financing needs.

The long-term credit rating of Gas Natural SDG, S.A. is as follows:

	2011	2010
Moody's	Baa2	Baa2
Standard & Poor's	BBB	BBB
Fitch	A-	A-

Gas Natural SDG, S.A. considers the following to be indicators of the objectives set for capital management: maintaining, a long-term leverage ratio of approximately 50%, and a minimum BBB credit rating.

## Derivative financial instruments

The breakdown of derivative financial instruments by category and maturity is as follows:

	At 31.12.11		At 31.12.10	
	Assets	Liabilities	Assets	Liabilities
<b>Derivatives qualifying for hedge accounting</b>	<b>2</b>	<b>18</b>	<b>3</b>	<b>12</b>
Fair value hedge	2	–	3	–
Exchange rate	2	–	3	–
Cash flow hedges	–	18	–	12
Interest rate	–	18	–	12
<b>Other financial instruments</b>	<b>–</b>	<b>14</b>	<b>–</b>	<b>19</b>
Interest rate and exchange rate	–	14	–	19
<b>Derivative financial instruments–non current</b>	<b>2</b>	<b>32</b>	<b>3</b>	<b>31</b>
<b>Derivatives qualifying for hedge accounting</b>	<b>–</b>	<b>7</b>	<b>11</b>	<b>53</b>
Cash flow hedges	–	7	–	53
Interest rate	–	7	–	53
Fair value hedge	–	–	11	–
Exchange rate	–	–	11	–
<b>Other financial instruments</b>	<b>5</b>	<b>1</b>	<b>2</b>	<b>2</b>
Others (raw materials price)	5	1	2	2
<b>Derivative financial instruments current</b>	<b>5</b>	<b>8</b>	<b>13</b>	<b>55</b>
<b>Total</b>	<b>7</b>	<b>40</b>	<b>16</b>	<b>86</b>

Other financial instruments include the derivatives not qualifying for hedge accounting.

The impact on the income statement of derivative financial instruments is as follows:

	2011		2010	
	Operating Profit	Net financial Income/expense	Operating Profit	Net financial Income/expense
Cash flow hedges	2	(57)	–	(99)
Fair value hedges	–	(2)	–	(2)
Other	4	–	(2)	2
<b>Total</b>	<b>6</b>	<b>(59)</b>	<b>(2)</b>	<b>(99)</b>

The breakdown of derivatives at December 31, 2011 and 2010, their fair value and maturities of their notional values is as follows:

	Fair Value	31.12.11						Total
		Notional Value (in Euros million by currency indicated)						
		2012	2013	2014	2015	2016	Beyond	
<b>Interest rate hedges</b>								
Cash flow hedges								
Financial swaps (EUR)	(25)	843	43	643	–	–	–	1,529
<b>Exchange rate hedges</b>								
Cash flow hedges								
Foreign exchange fluctuation insurance (USD)	–	18	–	–	–	–	–	18
Foreign exchange fluctuation insurance (BRL)	–	15	–	–	–	–	–	15
Fair value hedge								
Exchange fluctuation insurance (BRL)	–	4	–	–	–	–	–	4
Exchange fluctuation insurance (USD)	2	–	97	–	–	–	–	97
<b>Commodity hedge</b>								
Derivative prices of commodities (EUR)	–	12	–	–	–	–	–	12
<b>Others</b>								
Derivative prices of commodities (EUR)	4	79	2	2	1	–	–	84
Financial swap (JPY)	(14)	–	–	–	–	–	220	220
	<b>(33)</b>	<b>971</b>	<b>142</b>	<b>645</b>	<b>1</b>	<b>–</b>	<b>220</b>	<b>1,979</b>

<b>31.12.10</b>								
<b>Notional Value</b> (in Euros million by currency indicated)								
<b>Fair Value</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Beyond</b>	<b>Total</b>	
<b>Interest rate hedges</b>								
Cash flow hedges								
Financial swaps (EUR)	(65)	2,575	200	–	–	–	–	2,775
<b>Exchange rate hedges</b>								
Cash flow hedges								
Foreign exchange fluctuation insurance (USD)	–	1	–	–	–	–	–	1
Fair value hedge								
Exchange fluctuation insurance (BRL)	–	12	–	–	–	–	–	12
Exchange fluctuation insurance (USD)	14	162	–	94	–	–	–	256
<b>Others</b>								
Derivative prices of commodities (USD)	–	2	–	–	–	–	–	2
Financial swap (JPY)	(19)	–	–	–	–	–	220	220
	<b>(70)</b>	<b>2,752</b>	<b>200</b>	<b>94</b>	<b>–</b>	<b>–</b>	<b>220</b>	<b>3,266</b>

## Note 17. Borrowings from group companies and associates

The breakdown by maturity of borrowings from group companies is as follows:

<b>Maturity</b>	<b>At 31.12.11</b>	<b>At 31.12.10</b>
2011	–	1,540
2012	2,007	767
2013	628	978
2014	2,061	2,009
2015	669	667
2016	1,081	1,078
2017	621	–
Years beyond	3,627	3,105
<b>Total</b>	<b>10,694</b>	<b>10,144</b>

Borrowings from group companies relate to the financing obtained by Gas Natural Capital Markets, S.A. denominated in Euros with a market interest rate that is co-related to the issuing of debt based on the Euro Medium Term Notes program, guaranteed by Gas Natural SDG, S.A. and to other borrowings.

Borrowings from group companies include interest accrued pending maturity of Euros 226 million (Euros 179 million in 2010).

Borrowings from group companies and associates accrued an average interest rate of 1.30% in 2011 (0.74% in 2010).

## Note 18. Trade and other payables

The breakdown at 31 December, 2011 and 2010 is as follows:

	At 31.12.11	At 31.12.10
Trade payables	645	530
Trade payables with related parties	163	168
Derivative financial instruments (Note 16)	1	2
Other payables	13	23
Amounts due to employees	33	27
Social security and other taxes	39	50
<b>Total</b>	<b>894</b>	<b>800</b>

### Disclosure of deferrals of payment to suppliers. D.A 3ª “Duty of disclosure” of Law 15/2010/5 July

The total amount of payments made to suppliers during the year, with details of payment terms, according to the legal tender deadlines established under Law 15/2010/5 July, which laid down measures against slow payers, is as follow:

<b>Payments made and pending</b>	<b>2011</b>	<b>%</b>	<b>2010</b>	<b>%</b>
Within legal maximum period	2,577	99.9	521	100.0
Other	1	0.1	–	–
<b>Total payments during the year</b>	<b>2,578</b>	<b>100.0</b>	<b>521</b>	<b>100.0</b>
Weighted average period of payments outside legal period (days)	12		1	
Deferrals exceeding legal maximum period at year end	–	–	1	–

The information of year 2010 includes payments to suppliers for commercial transactions effected within and outside the legal maximum period and balances that have been deferred for longer than the maximum period permitted by law, relating to contracts concluded after 7 July 2010.

## Note 19. Tax situation

Gas Natural SDG, S.A. as the parent company of the Consolidated Tax Group has been taxed in Spain since 1993 under the Consolidated Tax Regime in accordance with the Special Regime for Group Companies, regulated under Chapter VII of Title VII of the Spanish Corporate Income Tax Act, which involves the joint determination of taxable income of the Group and the deductions and allowances on the tax payable.

The Consolidated Tax Group for 2011 is set out in Appendix I.

Corporate income tax is calculated on the basis of economic or accounting profit obtained by application of generally accepted accounting principles, which do not necessarily coincide with tax profit, understood as taxable income for corporate income tax purposes.

The reconciliation of accounting profit for the years 2011 and 2010 to taxable income is as follows:

	At 31.12.11	At 31.12.10
Accounting profit before tax	1,132	851
Permanent differences	(1,442)	(1,162)
Temporary differences		
Arising during the year	(285)	(375)
Arising in prior years	(42)	(86)
<b>Taxable income</b>	<b>(637)</b>	<b>(772)</b>

The permanent differences relate basically to the application of the Consolidated Tax Return Regime, which involves negative permanent differences of Euros 1,247 million (Euros 1,117 million at 31 December 2010), as a result of the adjustments for dividends accrued during the year amounting to Euros 1,173 millions, intra-group gains and the adjustments for the elimination of depreciation provisions of companies in the tax group.

The amounts in the taxable income for corporate income tax purposes in the 2011 for provisions for shareholdings in group and multi-group companies and associates, under the provisions of article 12.3 of RDL 4/2004, which adopted the Corporate Income Tax Act, have been as follows:

Company	Variation in equity according to shareholding %	Variation accounted for	Integrated variation taxable income <sup>(1)</sup>	Taxable income – amounts to be integrated <sup>(1)</sup>
Gas Natural Sao Paulo Sul, S.A.	(7)	(20)	(9)	55
Ufacex UK Holdings, Ltd.	–	–	(1)	–
	<b>(7)</b>	<b>(20)</b>	<b>(10)</b>	<b>55</b>

(1) Taxable income.

According to the 2010 corporate income tax return filed in July 2011, the amounts included in the tax base in respect of adjustments to the value of shareholdings in group companies, jointly-controlled entities and associates, pursuant to Article 12.3 of Royal Decree-Law 4/2004, whereby the revised Corporate Income Tax Act was introduced, are as follows:

Company	Variation in equity according to shareholding %	Variation accounted for	Integrated variation taxable income <sup>(1)</sup>	Taxable income – amounts to be integrated <sup>(1)</sup>
Gas Natural Sao Paulo Sul, S.A.	71	47	66	46
Gas Natural México, S.A. de C.V.	24	–	26	8
	<b>95</b>	<b>47</b>	<b>92</b>	<b>54</b>

(1) Taxable income.

The income tax expense is as follows:

	2011	2010
Current tax	(291)	(308)
Deferred tax	106	138
<b>Total</b>	<b>(185)</b>	<b>(170)</b>

The current income tax is the result of applying the 30% tax rate to taxable income. The deductions to tax payable applied in 2011 total Euros 83 million (Euros 77 million in 2010). Also included are adjustments for tax differences for last year leading to an decrease in the expense of Euros 17 million (Euros 7 million in 2010). The deductions from tax payable in 2011 relate basically to double tax treaty deductions for dividends and the deductions for reinvestment of extraordinary profit from the sale of the gas distribution assets in the Region of Madrid, under the provisions of anti-trust legislation.

The income under the deduction for reinvestment of extraordinary profit as per article 42 of the Corporate Income Tax Act, and the investments in which they have materialized in prior years is disclosed in the Annual accounts for said years. The breakdown relating to the last 5 years, together with that for 2011, are as follows:

Year of sale	Amount generated from sale	Importe reinvertido
2005	1,695	1,695
2006	321	321
2007	676	676
2008	151	151
2009	155	155
2010	835	835
2011	848	848
<b>Total</b>	<b>4,681</b>	<b>4,681</b>

The reinvestment has been made in equity assets related to economic activities having been done by the Company and by the other companies in the tax group as per article 75 of the Spanish Corporate Income Tax Act.

The breakdown of the tax effect for each item on the Statement of Recognized Income and Expenses is as follows:

	At 31.12.11			At 31.12.10		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Valuation of available-for-sale financial assets	–	–	–	(17)	5	(12)
Cash flow hedges	40	(12)	28	71	(22)	49
Grants, donations and bequests	(15)	5	(10)	14	(5)	9
Actuarial gains and losses and other adjustments	3	(1)	2	8	(3)	5
	<b>28</b>	<b>(8)</b>	<b>20</b>	<b>76</b>	<b>(25)</b>	<b>51</b>



The breakdown of the deferred tax is as follows:

	At 31.12.11	At 31.12.10
<b>Deferred tax assets</b>	<b>305</b>	<b>313</b>
Non-current	211	290
Current	94	23
<b>Deferred tax liabilities</b>	<b>(1,608)</b>	<b>(1,599)</b>
Non-current	(1,591)	(1,591)
Current	(17)	(8)
<b>Net deferred tax</b>	<b>(1,303)</b>	<b>(1,286)</b>

The movement and breakdown of the deferred asset accounts are as follows:

<b>Deferred tax assets</b>	<b>Personnel liability provisions</b>	<b>Other provisions</b>	<b>Tax credits</b>	<b>Valuation of assets and financial instruments</b>	<b>Others</b>	<b>Total</b>
<b>At 1.1. 2010</b>	<b>167</b>	<b>80</b>	<b>13</b>	<b>41</b>	<b>22</b>	<b>323</b>
Creation (reversal)	(24)	(8)	–	–	38	6
Movements linked to equity adjustments	(2)	–	–	(21)	–	(23)
Reclassifications/transfers	1	(7)	26	–	(13)	7
<b>At 31.12.2010</b>	<b>142</b>	<b>65</b>	<b>39</b>	<b>20</b>	<b>47</b>	<b>313</b>
Creation (reversal)	(10)	(10)	(7)	–	(14)	(41)
Movements linked to equity adjustments	(1)	–	–	(12)	–	(13)
Reclassifications/transfers	2	(2)	54	–	(8)	46
<b>At 31.12.2011</b>	<b>133</b>	<b>53</b>	<b>86</b>	<b>8</b>	<b>25</b>	<b>305</b>

<b>Deferred tax liabilities</b>	<b>Amortization differences</b>	<b>Reinvestment capital gains</b>	<b>Business combinations</b>	<b>Valuation of assets and financial instruments</b>	<b>Others</b>	<b>Total</b>
<b>At 1.1.2010</b>	<b>125</b>	<b>135</b>	<b>1,182</b>	<b>6</b>	<b>19</b>	<b>1,467</b>
Creation (reversal)	5	68	4	–	67	144
Movements linked to equity adjustments	–	–	–	(5)	6	1
Reclassifications/transfers	(15)	–	–	(1)	3	(13)
<b>At 31.12.2010</b>	<b>115</b>	<b>203</b>	<b>1,186</b>	<b>–</b>	<b>95</b>	<b>1,599</b>
Creation (reversal)	7	53	(22)	–	27	65
Movements linked to equity adjustments	–	–	–	–	(4)	(4)
Reclassifications/transfers	–	(7)	(19)	–	(26)	(52)
<b>At 31.12.2011</b>	<b>122</b>	<b>249</b>	<b>1,145</b>	<b>–</b>	<b>92</b>	<b>1,608</b>

As a result of the merger by acquisition of Unión Fenosa, S.A. by Gas Natural, S.A. in 2009, a merger difference was arisen between the price of acquisition of the shareholding in Unión Fenosa, S.A. and its equity, determined at the time of the sale, which, as per article 89 of the Corporate Income Tax Act, was charged, first of all, to the acquired assets and rights, and, the part of the difference not charged is tax deductible, capped at an annual maximum of one-twentieth of its amount, provided that the conditions set down in letters a) and b) of the aforementioned provision are met. "Merger" under "Deferred tax liabilities" carries the tax effect of the part of the part of the merger difference assigned to net assets acquired that is estimated not to have a tax effect, as well as the tax deduction applied for the part of the merger difference not assigned to net assets acquired. Gas Natural SDG, S.A.'s 2009 Annual Report was the first to be approved following the merger and contains the final balance sheets closed by the target companies and information on the assets and liabilities contributed.

In 2011, tax inspections were initiated on Gas Natural SDG, S.A. for corporate income tax (2006 to 2008) and other taxes (2007 and 2008). These inspections are not expected to raise any relevant issues and the outcome will therefore not have a significant impact on these Annual accounts. Gas Natural SDG, S.A.'s Tax Group is open to inspection for 2009 and 2010 in respect of the taxes to which it is subject and the companies that formed part of Unión Fenosa's Tax Group are open to inspection for 2002 and subsequent years (corporate income tax) and 2006 and subsequent years (other applicable taxes).

The information on the main actions of the Tax Authorities and the position of the entity in each are discussed in the section on "Litigation and arbitration" in Note 30.

## Note 20. Sales

Sales are mainly made in the domestic market and break down as follows:

	2011	2010
Electricity sales	3,856	3,126
Natural gas sales	1,360	1,270
Other sales	25	26
Other income and services	25	16
<b>Total</b>	<b>5,266</b>	<b>4,438</b>

## Note 21. Procurements

This caption includes purchases of natural gas and other raw materials and consumables utilised at electricity generating facilities, natural gas purchases related to prevailing supply contracts.

## Note 22. Staff costs

The breakdown of this account in the income statement for the years 2011 and 2010 is as follows:

	2011	2010
Wages and salaries	226	187
Social security costs	31	11
Defined contribution plans	14	14
Defined benefit plans	2	3
Others	9	27
<b>Total</b>	<b>282</b>	<b>242</b>

The average number of employees of Gas Natural SDG, S.A. during 2011 has totalled 2,603 and 2,535 in 2010.

At 31 December 2011, Gas Natural SDG, S.A. had a total of 2,646 employees (2,512 at 31 December 2010).

Under the provisions of the Spanish Gender Equality Act, Law 3/2008/22 March published in the Official State Gazette on March 23, 2007, the number of employees of Gas Natural SDG, S.A. at the 2011 year end broken down by job and gender is as follows:

	Male	Female	Total
Executives	1,144	495	1,639
Technicians and Administrative personnel	720	287	1,007
	<b>1,864</b>	<b>782</b>	<b>2,646</b>

## Note 23. Other operating expenses

The breakdown of this account in the income statement for 2011 and 2010 is as follows:

	2011	2010
Repairs and maintenance	118	123
Commercial services & advertising	24	30
Professional services & insurance	85	91
Local taxes	63	55
Leases	60	63
Procurements	20	21
Bad debt provisions ( <i>Note 11</i> )	1	2
Energy efficiency	44	–
Others	303	198
<b>Total</b>	<b>718</b>	<b>583</b>

“Energy efficiency” includes the Company’s contribution to energy saving and efficiency policies pursuant to Royal Decree-Law 14/2011 (Note 2).

## Note 24. Other operating income

This account includes Euros 231 million in transactions with group companies and associates in 2011 (Euros 241 million in 2010).

## Note 25. Net finance income

The breakdown of this account in the income statement for 2011 and 2010 is as follows:

	2011	2010
Dividends	1,376	1,443
Interest on loans	146	91
Others income	59	54
<b>Total financial income</b>	<b>1,581</b>	<b>1,588</b>
Cost of borrowings	(740)	(722)
Interest expenses of pension plans and other post-employment benefits ( <i>Note 14</i> )	(12)	(13)
Other financial expenses	(46)	(138)
<b>Total financial expense</b>	<b>(798)</b>	<b>(873)</b>
Variation in fair value of financial instruments:	3	10
Trading portfolio	2	6
Release to income statement of available-for-sale financial assets	1	4
Net cumulative translation adjustments	(2)	(114)
Net gains/(losses) on financial instruments	273	355
Impairment and loss	(26)	(19)
Net gains/(losses) on disposals and others	299	374
<b>Net financial results</b>	<b>1,057</b>	<b>966</b>

“Other financial expenses” included, in 2010, Euros 103 million relating to the recognition in the Income Statement of the commissions on the loan for the acquisition of Unión Fenosa, S.A., which had yet to be charged to the Income Statement, as a result of the cancellation of this loan.

In 2011, the allocation to results from available-for-sale financial assets relates to the sale of 5.14% of the shares in Operador del Mercado Ibérico de Energía-Polo Español, S.A.

In 2010 the charge to the income statement for available-for-sale financial assets relates to the gain from the sale of the 5% stake in Indra, S.A. (Note 8).

In 2011 Results from sales and others include the profit from the sale of the shareholdings Bis Distribución de Gas, S.A. for Euros 296 million, and the profit from the sale of 1% of the shares in Gas Natural México S.A. de C.V. and Sistemas de Administración y Servicios, S.A. de C.V. and Gas Natural Internacional SDG, S.A. for Euros 2 million.

In 2010 Results from sales and others collected the profit from the sale of the shareholdings in Madrileña Red de Gas, S.A., Madrileña Suministro de Gas S.U.R. 2010, S.L., Madrileña Suministro de Gas 2010, S.L., Madrileña Servicios Comunes, S.L., totalling Euros 383 million, the profit from the sale of the 35% stake in Gas Natural Aragón, S.A. totalling Euros 71 million, and the loss for the non-cash contribution of the shareholding in Enel Unión Fenosa Renovables, S.A. for the capital increase of Gas Natural Fenosa Renovables, S.L.U. totalling Euros 80 million (Note 7).

## Note 26. Foreign currency transactions

The amounts of the transactions in foreign currency are as follows:

	2011	2010
Purchases	(867)	(716)
Sales	880	713
Services received	(12)	(13)
<b>Total</b>	<b>1</b>	<b>(16)</b>

## Note 27. Joint ventures

Gas Natural SDG, S.A. participates in different joint ventures that meet the conditions indicated in Note 4.18. The relevant shareholdings in joint ventures at 31 December 2011 and 2010 are as follows:

	2011 (%)	2010 (%)
Central térmica Anllares, Comunidad de bienes	66.7	66.7
Central térmica Aceca, Comunidad de bienes	50.0	50.0
Central nuclear Trillo (Grupo I), Comunidad de bienes	34.5	34.5
Central nuclear Almaraz (Grupo I y II), Comunidad de bienes	11.3	11.3
Centrales nucleares Almaraz-Trillo, A.I.E	19.3	19.3

The contribution of the shareholdings in joint ventures in terms of the assets, liabilities, income and net income Gas Natural SDG, S.A. is as follows:

	2011	2010
Non-current assets	643	668
Current assets	133	132
<b>Assets</b>	<b>776</b>	<b>800</b>
Non-current liabilities	24	24
Current liabilities	52	48
<b>Liabilities</b>	<b>76</b>	<b>72</b>
<b>Net assets</b>	<b>700</b>	<b>728</b>
Income	296	178
Expenses	247	179
<b>Net income after tax</b>	<b>49</b>	<b>(1)</b>

There are no contingent liabilities for the shareholdings in joint ventures. The disclosures on contractual commitments in Note 30 include the commitments for the purchase of nuclear fuel totalling Euros 59 million (Euros 49 million at 31 December 2010).

## Note 28. Information on operations with related parties

Related parties are the following:

- The significant shareholders of Gas Natural SDG, S.A., are understood as those who directly or indirectly hold an interest equal to or greater than 5%, as well as the shareholders who, without being significant, have exercised the power to put forward appointments of a member of the Board of Directors.

Under this definition, the significant shareholders of Gas Natural SDG, S.A. are Criteria Caixaholding, S.A.U., and, consequently, the Caixa d'Estalvis i Pensions de Barcelona Group ("la Caixa" Group), the Repsol YPF Group and Catalunya Caixa (up to 28 November 2011, when the Board director designated by this company handed in his resignation).

Moreover, until 9 September 2010, the Gaz de France Suez Group (GDF Suez Group) was also considered a significant shareholder. On that date, the GDF Suez Group sold its 5.01% stake in Gas Natural SDG, S.A. through a private placement.

- The Directors and executives of the Company and their immediate families. The term "director" means a member of the Board of Directors; "executive" means a member of the Management Committee of Gas Natural SDG, S.A. The operations undertaken with directors and executives are set out in Note 29.
- The Group companies or entities.

The aggregated amounts of operations with significant shareholders are as follows:

### 2011

Income and expense (thousand Euros)	"la Caixa" Group	Repsol YPF Group	Catalunya Caixa <sup>(*)</sup>
Financial expense	10,493	–	1,850
Leases <sup>(1)</sup>	590	–	–
Goods received	–	3,661	–
Purchase of goods (finished or in progress)	–	454,993	–
Other expenses <sup>(2)</sup>	14,663	–	170
<b>Total expenses</b>	<b>25,746</b>	<b>458,654</b>	<b>2,020</b>
Financial income	15,433	–	433
Leases	–	353	–
Services provided	–	866	–
Sale of goods (finished or in progress)	–	590	–
Other income	15	–	–
<b>Total income</b>	<b>15,448</b>	<b>1,809</b>	<b>433</b>

### 2011

Other transactions (thousand Euros)	"la Caixa" Group	Repsol YPF Group	Catalunya Caixa <sup>(*)</sup>
Financing agreements: loans and contributions of capital (lender) <sup>(3)</sup>	1,016,551	–	–
Financing agreements: loans and contributions of capital (borrower) <sup>(4)</sup>	514,068	9,918	–
Guarantees received	112,500	–	–
Dividends and other profit distribute	118,885	97,755	11,992
Other transactions <sup>(5)</sup>	392,776	–	–

(\*) Until 28 November 2011.

## 2010

Income and expense (thousand Euros)	"la Caixa" Group	Repsol YPF Group	GDF-Suez Group <sup>(*)</sup>	Catalunya Caixa
Financial expense	9,413	–	–	126
Leases <sup>(1)</sup>	2,499	–	–	–
Goods received	–	6,298	954	–
Purchase of goods (finished or in progress)	–	372,830	–	–
Other expenses <sup>(2)</sup>	9,850	–	–	100
<b>Total expenses</b>	<b>21,762</b>	<b>379,128</b>	<b>954</b>	<b>226</b>
Financial income	333	–	–	33
Leases	–	349	–	–
Services provided	–	726	–	–
Sale of goods (finished or in progress)	–	102	280	–
Other income	17	–	–	–
<b>Total income</b>	<b>350</b>	<b>1,177</b>	<b>280</b>	<b>33</b>

## 2010

Other transactions (thousand Euros)	"la Caixa" Group	Repsol YPF Group	GDF-Suez Group <sup>(*)</sup>	Catalunya Caixa
Financing agreements: loans and contributions of capital (lender) <sup>(3)</sup>	431,298	–	–	40,208
Financing agreements: loans and contributions of capital (borrower) <sup>(4)</sup>	526,316	–	–	50,000
Guarantees received	112,500	–	–	70,000
Dividends and other profit distribute	261,528	219,092	36,670	11,799
Other transactions <sup>(5)</sup>	375,000	–	–	–

(\*) Until 9 September 2010.

(1) The operations with the "la Caixa" Group relate mainly to the vehicle leasing services and their maintenance, recorded as operating leases in line with the characteristics of each lease, provided by a company of the "la Caixa" Group to April 2011.

(2) Includes the contributions to post-employment benefit plans, life insurance, collective insurance policies and others.

(3) Includes treasury and financial investments.

(4) At 31 December 2011 the credit facilities extended by the "la Caixa" Group totalled Euros 444,000 thousand (Euros 444,000 thousand at 31 December 2010), of which no amount had been drawn down (Euros 26,316 at 31 December 2010). Additionally, the "la Caixa" Group has stakes in syndicated loans of Euros 300,000 thousand (Euros 300,000 thousand at 31 December 2010) and other loans totalling Euros 202,006 thousand (Euros 200,000 thousand at 31 December 2010). At 31 December 2010 the credit facilities extended by Catalunya Caixa totalled Euros 100,000 thousand of which no amount has been drawn down and other loans totalling Euros 50,000 thousand. Additionally, this item includes the fully-paid capital increase in which the "la Caixa" Group and the Repsol YPF Group opted to receive new shares in Gas Natural SDG, S.A.

(5) At 31 December 2011 "Other operations" with the "la Caixa" Group included Euros 375,000 thousand for interest rate hedges (Euros 375,000 thousand at 31 December 2010) and exchange rate hedges totalling Euros 17,776 thousand.

The aggregated amounts of operations with group companies and associates are as follows in million Euros:

Expenses, income and other transactions	2011		2010	
	Group companies	Multi-group companies and associates	Group companies	Multi-group companies and associates
Financial expenses	(480)	(1)	(489)	–
Lease expenses	(36)	(6)	(37)	(6)
Services received	(38)	(4)	(88)	–
Purchases of goods	(447)	(683)	(999)	–
<b>Total expenses</b>	<b>(1,001)</b>	<b>(694)</b>	<b>(1,613)</b>	<b>(6)</b>
Financial income	152	1	91	–
Dividends received	1,228	148	1,443	–
Services provided	1	–	2	–
Sale of goods	2,817	–	2,443	–
Other income	231	3	240	1
<b>Total incomes</b>	<b>4,429</b>	<b>152</b>	<b>4,219</b>	<b>1</b>
Purchase of Property, plant and equipment	(29)	–	(46)	–
<b>Other transactions</b>	<b>(29)</b>	<b>–</b>	<b>(46)</b>	<b>–</b>

Purchases of goods relates the gas purchases for electricity generation.

Sale of goods relates to the sales of natural gas and electricity.

Other operating income includes the income from services provided, depending on their nature and scope.

The costs shared by the Company and other Group companies are distributed and assigned on the basis of criteria using activity or cost generating parameters.

Detailed definitions of the services to be provided and the activities or tasks they involve are prepared along with the measurement indicators used to calculate the assignments. Intercompany operations are objective, transparent and non-discriminatory and are always undertaken at arm's length.



## Note 29. Information regarding members of the Board of Directors and Management Committee

### Remuneration of the members of the Board of Directors

In accordance with the provisions of the Articles of Association, the Company can allocate each year, for all items, an amount of 4% of liquid profits to remuneration of the members of the Board of Directors, which can only be drawn once the legal reserve and any other obligatory reserves have been covered, and if the shareholders have recognized a dividend of at least 4% of its nominal value.

The amounts received for the performance of functions other than supervision and decision-taking as a body for the Company, in respect of fixed remuneration, variable remuneration and other items, totalled Euros 1,012 thousand, Euros 966 thousand and Euros 3 thousand, respectively in 2011 (Euros 1,012 thousand, Euros 1,423 thousand and Euros 3 thousand in 2010). Furthermore, in 2011 the sum of Euros 1,725 thousand was received on an extraordinary, one-off basis as an incentive to reward the acquisition and integration of UNION FENOSA in progress since 2008.

The amount accrued by the members the Board of Directors of Gas Natural SDG, S.A., for belonging to the Board of Directors, Executive Committee, Audit and Control Committee (CA&C) and Appointments and Remuneration Committee (CN&R), totalled Euros 4,074 thousand (Euros 4,085 thousand in 2010), broken down as follows:

	Office	Board	EC	CAandC	CNandR	Total
Mr Salvador Gabarró Serra	Chairman	550,000	550,000	–	–	1,100,000
Mr Antonio Brufau Niubó	Vice-Chairman	126,500	126,500	–	12,650	265,650
Mr Rafael Villaseca Marco	CEO	126,500	126,500	–	–	253,000
Mr Enrique Alcántara-García Irazoqui	Director	126,500	–	–	–	126,500
Mr Carlos Kinder Espinosa	Director	126,500	126,500	12,650	–	265,650
Mr Juan María Nin Génova	Director	126,500	126,500	–	–	253,000
Mr Juan Rosell Lastortras	Director	126,500	–	–	–	126,500
Mr Demetrio Carceller Arce	Director	126,500	126,500	–	–	253,000
Mr Luis Suárez de Lezo Mantilla	Director	126,500	–	12,650	–	139,150
Mr Narcís Serra Serra <sup>(1)</sup>	Director	115,000	–	–	–	115,000
Mr Ramon Adell Ramon	Director	126,500	–	–	–	126,500
Mr Santiago Cobo Cobo	Director	126,500	–	–	12,650	139,150
Mr Felipe González Márquez	Director	126,500	–	–	–	126,500
Mr Emiliano López Achurra	Director	126,500	126,500	–	–	253,000
Mr Carlos Losada Marrodán	Director	126,500	126,500	12,650	–	265,650
Mr Miguel Valls Maseda	Director	126,500	–	–	12,650	139,150
Mr Nemesio Fernández-Cuesta Luca de Tena	Director	126,500	–	–	–	126,500
		<b>2,562,500</b>	<b>1,435,500</b>	<b>37,950</b>	<b>37,950</b>	<b>4,073,900</b>

(1) Mr Narcís Serra Serra formed part of the Board of Directors up to 28 November 2011.

In 2010, an additional amount of Euros 78 thousand was also received relating to the Boards of other investee companies, no amount having been received in this respect in 2011.

Contributions to pension plans and group insurance policies totalled Euros 263 thousand in 2011 (Euros 262 thousand in 2010).

The Members of the Board of Directors of the Company have not received any remuneration in profit sharing or premiums and have not been granted any loans or advances. Neither have they received shares or share options during the year, nor have they exercised any options or hold any options pending execution.

The contract with the Chief Executive Officer contains a clause that establishes a severance indemnity that trebles his annual compensation in the event of certain cases of termination of the labour relationship and an indemnity of one year's remuneration in consideration for the one-year post-contractual non-compete clause.

## Operations with Directors

In accordance with Article 229 of the Spanish Companies Act 2010, it is disclosed below the holdings and offices of the Directors in the share capital of companies with the same, analogous or complementary activity as that which constitutes the corporate purposes of Gas Natural SDG, S.A.

		Number of shares and % shareholding:				
Directors and offices in other companies with similar or complementary activities		Gas Natural Fenosa	Enagás	Repsol YPF	Endesa	Red Eléctrica Iberdrola
Mr Salvador Gabarró Serra	Chairman	3,107 (0.000)	14,371 (0.006)			10,502 (0.008) 78,434 (0.001)
1st Vice-Chairman "La Caixa" Director de Caixabank, S.A.						
Mr Antonio Brufau Niubó	Vice-Chairman	77,276 (0.008)		237,602 (0.019)		
Chairman Repsol YPF, S.A. Chairman YPF, S.A.		1,035 (0.000) <sup>(1)</sup>		1,650 (0.000) <sup>(1)</sup>		
Mr Rafael Villaseca Marco	CEO	12,434 (0.001)	356 (0.000)	646 (0.000)	859 (0.000)	2,614 (0.000)
Chairman Repsol-Gas Natural LNG, S.L. Director Gas Natural Aprovisionamientos SDG, S.A.						
Mr Enrique Alcántara-García Irazoqui	Director	7,942 (0.001)				7,459 (0.000)
		20,714 (0.002) <sup>(1)</sup>				
Mr Carlos Kinder Espinosa	Director	5,391 (0.001)				
Mr Juan María Nin Génova	Director	149 (0.000)		242 (0.000)		
General Manager "La Caixa" Vice-Chairman & Director Caixabank, S.A. Vice-Chairman Criteria Caixaholding, S.A.U. Director Repsol-YPF, S.A. Director Grupo financiero INBURSA						
Mr Juan Rosell Lastortras	Director	2,000 (0.000) (1)				
Director Caixabank, S.A.						
Mr Demetrio Carceller Arce	Director	2,692 (0.000)				
Chairman Disa Corporación Petrolífera, S.A. Chairman Disa Peninsular, S.L.U.						

## Number of shares and % shareholding:

Directors and offices in other companies with similar or complementary activities		Gas Natural		Repsol YPF	Endesa	Red	
		Fenosa	Enagás			Eléctrica	Iberdrola
Mr Luis Suárez de Lezo Mantilla	Director	18,156 (0.002)		8,038 (0.001)			333 (0.000) <sup>(1)</sup>
General Secretary & Director Repsol YPF, S.A.		998 (0.000) <sup>(1)</sup>		368 (0.000) <sup>(1)</sup>			
Director YPF, S.A.							
Director Repsol – Gas Natural LNG, S.L.							
Vice-Chairman Fundación Repsol							
Member of Environment & Energy Commission of International Chamber of Commerce (ICC)							
Mr Ramon Adell Ramon	Director	1,000 (0.000)					
Mr Santiago Cobo Cobo	Director	652 (0.000)					
Mr Felipe González Márquez	Director	1,812 (0.000)					
Mr Emiliano López Atxurra	Director	1,046 (0.000)					
Director Petróleos del Norte, S.A.							
Mr Carlos Losada Marrodán	Director	1,924 (0.000)					
Board member Innoenergy		12,541 (0.001) <sup>(1)</sup>					
Mr Miguel Valls Maseda	Director	6,530 (0.001)					
Mr Nemesio Fernández-Cuesta Luca de Tena	Director	1 (0.000)		21,353 (0.002)			
Chairman Repsol Exploración, S.A.							
Chairman Repsol Sinopec Brasil, S.A.							
Joint & Several Administrator Repsol Exploración Argelia, S.A.							
Joint & Several Administrator Repsol Exploración Guinea, S.A.							
Joint & Several Administrator Exploración Murzuq, S.A.							
Joint & Several Administrator Repsol Investigaciones Petrolíferas, S.A.							
Joint & Several Administrator Repsol YPF Oriente Medio, S.A.							
Joint & Several Administrator Repsol Exploración Sierra Leona, S.L.							
General Manager UPSTREAM Repsol YPF, S.A.							
Sole Administrator Repsol Exploración Perú, S.A.							
Sole Administrator Repsol Exploración Colombia, S.A.							
Sole Administrator Repsol Exploración Atlas, S.A.							
Sole Administrator Repsol Exploración Tobago, S.A.							
Sole Administrator Repsol Exploración Kazakhstan, S.A.							
Sole Administrator Repsol YPF Ecuador, S.A.							
Sole Administrator Repsol YPF OCP de Ecuador, S.A.							
Sole Administrator Repsol Exploración Suriname, S.L.							
Sole Administrator Exploración Irlanda, S.A.							

(1) Number of shares held by related persons.

In the operations with related parties (significant shareholders) that have been submitted for approval by the Board, subject to a favourable report of the Appointments and Remuneration Committee, the Directors representing the related party involved have abstained from voting.

## Remuneration of Management Committee

The amounts received by the members of the Management Committee in respect of fixed remuneration, variable remuneration and other items, totalled Euros 4,177 thousand, Euros 2,405 thousand and Euros 72 thousand, respectively in 2011 (Euros 4,210 thousand, Euros 3,441 thousand and Euros 64 thousand in 2010).

Additionally, in 2011 the sum of Euros 3,919 thousand was received on an extraordinary, one-off basis as an incentive to reward the acquisition and integration of UNION FENOSA in progress since 2008.

Contributions to pension plans and group insurance policies totalled Euros 1,811 thousand in 2011 (Euros 1,745 thousand in 2010).

The members of the Executive Committee of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised. In 2010, the indemnities received for severance and other items has totalled Euros 1,853 thousand.

The contracts of the members of the Executive Committee contain a clause that stipulates a minimum indemnity of two years pay in certain cases of termination of contract and an indemnity equivalent to one year's fixed remuneration for the post-employment non-compete clause for a period of two years.

## Operations with Directors and Executives

The Directors and Executives have not carried out any operations outside ordinary trade in 2011 and 2010 or any operations that have not been undertaken under normal market conditions with the Company or Group companies.

## Note 30. Contingent liabilities and commitments

### Guarantees

At 31 December 2011 Gas Natural SDG, S.A. has been given guarantees before third parties related to their activities totalling Euros 41 million (Euros 429 million at 31 December 2010).

On the other hand, financial guarantees have also been given totalling Euros 518 million (Euros 447 million at 31 December 2010), Euros 150 million of which relate to the guarantee compliance with the obligations for the loans received by investee companies (Euros 149 million at 31 December 2010).

Gas Natural SDG, S.A. estimates that the unforeseeable liabilities at December 31, 2011, if any, that could arise from the guarantees given would not be significant.

### Contractual commitments

At 31 December 2011, the Company is party to several gas supply contracts with take or pay clauses negotiated for "own use" (Note 4.5), by virtue of which it has gas purchase rights for the period 2011-2030 in the amount of Euros 22,762 million, calculated on the basis of natural gas prices at 31 December 2011.

Operating lease obligations break down as follows:

Período	2011		2010	
	Operating leases	Purchases of nuclear fuel	Operating leases	Purchases of nuclear fuel
Up to 1 year	6	26	6	23
Between 1 and 5 years	21	33	26	26
	<b>27</b>	<b>59</b>	<b>32</b>	<b>49</b>

They basically reflect the operating lease without purchase option on the "Torre del Gas" building with Torre Marenostrum, S.L. for a period of 10 years as from March 2006, which can be extended at market value for successive periods of three years, at the discretion of GAS NATURAL but obligatory for Torre Marenostrum, S.L.

### Litigation and arbitration

At the date of formulation of these Annual accounts the main litigation or arbitration to which Gas Natural SDG, S.A. is a party are as follows:

#### Tax claims in Spain

As a result of the different tax audits on the fiscal years from 1998 to 2005, the Inspectors have questioned the applicability of the export deduction used by GAS NATURAL FENOSA, and assessments were signed in disagreement, which are now being appealed before the Central Economic and Treasury Court, the National High Court and the Supreme Court. The total amount, including interest, at 31 December 2011 involved in these assessments totals Euros 265 million, which is fully provided for.

The company believes that the provisions recorded in these Annual accounts adequately cover the risks described in this Note, and, accordingly, no additional liabilities other than those recorded are expected.

## Other matters

On 14 June 2011, GAS NATURAL FENOSA and Sonatrach agreed to resolve their differences in relation to the price applicable to the gas supply contracts of Sagane S.A. (subsidiary of GAS NATURAL FENOSA) in respect of which an arbitral award was issued in 2010, determining both the price applicable to the period 2007-2009 and the price applicable from 1 January 2010 to 31 May 2011, both parties having abandoned all proceedings in progress.

The end of the price dispute has allowed the two companies to analyse partnership opportunities, resulting specifically in Sonatrach's acquisition of a minority interest in Gas Natural SDG, S.A. (Note 13).

## Note 31. Auditors' fees

The fees accrued in thousand Euros by the different companies using the PricewaterhouseCoopers mark are:

(thousand of Euros)	2011	2010
Auditing and related services	785	701
Other services	784	1.727
<b>Total fees</b>	<b>1,569</b>	<b>2,428</b>

## Note 32. Environment

### Environmental actions

The main actions of the Company in 2011 formed part of its corporate environmental values. These actions have been aimed basically at ensuring compliance with legislation, and a tight environmental control of activities and facilities.

Measures continue to be adopted to combine the indispensable development of energy and the protection of the environment and, in particular combating climate change and efficient use of resources. We have controlled the environmental impact of our activities, has preserved the biodiversity of the environment and we have boosted continuous improvements by updating and reviewing environmental management, involving suppliers and fostering the responsible use of energy by our customers.

The Company has certified, under environmental Standard UNE-EN ISO 14001, 10,554 MW of electricity generation, 100% of its installed capacity it manages. This is the certification of all its coal, nuclear, hydro-electric plants and gas combined cycle generators, as well as the main work centres. All these facilities are audited annually both internal and externally.

Furthermore, the coal-fired thermal energy plants, the combined cycle plants in Palos de la Frontera and Sabón and the Sector Hidráulico de Tambre-Ulla in Galicia. This involves leading energy companies in number of sites verified, according to the demanding European regulations for environmental management.

The atmospheric emissions of the Spanish plants total 12.6 kt of sulphur oxide, 18.2 kt of nitrogen oxide and 0.7 kt of particles. These emissions have increased compared with the previous year due to the obligations imposed by Royal Decree 134/2010 (12 February), which established the supply guarantee restriction resolution procedure, entailing the need to use autochthonous coal to generate electricity.

With respect to waste, the Prever Plan has been implemented to establish and ensure the consistency of waste management criteria and guidelines. The Company's current situation has been diagnosed and the forecast for waste generation and management during the term of the Plan (2010-2014) has been evaluated. The Plan also analyses potential options for minimising waste, identifying possible reductions, depending on the activity and/or process that generates waste, and establishes basic strategies and objectives, as well as specific measures to achieve them.

The main investments made in 2011 focused on energy efficiency improvement at hydraulic plants and activities to offset NOx emissions. Energy and water consumption saving and efficiency measures have also been implemented at the Company's main work centres, and the use of video-conferencing has been encouraged to reduce emissions caused by employee transportation.

All these environmental actions carried out in 2011 have cost a total of Euros 61 million, of which Euros 31 million related to investments and the rest, Euros 30 million, to expenses incurred in environmental management. The amount of Euros 16 million has accrued in eco-taxes, mainly for the hydro-electric stations in Galicia and the Trillo and Almaraz nuclear power plants. The Company has not received any grants or revenues as a result environment-related activities.

The possible contingencies, indemnities and other environment-related risk in which the Company could incur are adequately covered by civil liability insurance policies that it has taken out.

## Emissions

The Council of Ministers adopted the individual assigned of green-house gas emissions rights on November 14, 2007 for the 2008-2012 period. Gas Natural SDG, S.A. was assigned 45.6 million tonnes of CO<sub>2</sub>, in accordance with the following table:

(mtCO <sub>2</sub> )	2008	2009	2010	2011	2012
Emission rights assigned	2,884	11,138	10,838	10,644	10,137

As from 2009 includes the rights assigned to Unión Fenosa Generación, S.A.

The change in emission rights allocated reflects the start-up of the combined cycle plants in Málaga and the Port of Barcelona, as well as the sale of the Arrúbal and Plana del Vent facilities (Note 9).

In 2011 the CO<sub>2</sub> emissions from the coal, fuel-oil and natural gas thermal energy plants have totalled 12.8 million tonnes (9.9 million tonnes of CO<sub>2</sub> in 2010).

GAS NATURAL FENOSA manages its CO<sub>2</sub> emission rights coverage portfolio in an integrated manner for the period 2008-2012 and post Kyoto, acquiring the necessary emission rights and credits through active participation in both the secondary market and in primary projects and carbon funds, in which an investment of approximately Euros 60 million has been committed.

GAS NATURAL FENOSA has also registered 10 MDL projects with the United Nations and two credit periods have been renewed in two projects. Additionally, the Group has other MDL projects for validation in different phase, based on generation using renewable sources, implementation of cogeneration systems, reduction of gas network emissions and replacement of fuels for other less carbon-intensive alternatives.

### **Note 33. Subsequent events**

Following the year end, three issues have been approved by the Electricity System Deficit Securitisation Fund for a total amount of Euros 787 million, payment being due at the beginning of February. The estimated amount pertaining to Gas Natural SDG, S.A. is Euros 94 million.



**Appendix I. Companies in the Gas Natural tax group**  
**The companies in the Gas Natural Tax Group at 31 December 2011 are as follows:**

Gas Natural SDG, S.A.	Gas Natural Fenosa Telecomunicaciones, S.A.
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Gas Natural Informática, S.A.
Aplicaciones y Proyectos Energéticos, S.A.	Gas Natural Internacional SDG, S.A.
Bis Suministro de Gas SUR, S.L.	Gas Natural Rioja S.A.
Bis Suministro de Gas, S.L.	Gas Natural S.U.R., SDG, S.A.
Bóreas Eólica 2, S.A.	Gas Natural Servicios SDG, S.A.
Cedifil Cored Wire, S.L.	Gas Natural Transporte SDG, S.L.
Compañía Auxiliar de Industrias Varias, S.A.	Gas Natural Wind 4, S.L.
Compañía Española de Industrias Electroquímicas, S.A.	Gas Natural Wind Canarias, S.L.
Distribuidora Eléctrica Navasfrías, S.L.	Gas Navarra, S.A.
Electra de Abusejo, S.L.	Gem Suministro de Gas 3, S.L.
Electra del Jallas, S.A.	Gem Suministro de Gas Sur 3, S.L.
Eólica de Cordales BIS, S.L.U.	Generación Peninsular, S.L.U.
Eólica de Cordales, S.L.U.	General de Edificios y Solares, S.L.
Fenosa Wind, S.L.	Hispanogalaica de Extracciones, S.L.
Fenosa, S.L.U.	La Energía, S.A.
Gas Natural Almacenamiento Andalucía, S.A.	La Propagadora del Gas, S.A.
Gas Natural Andalucía, S.A.	Lignitos de Meirama, S.A.
Gas Natural Aprovisionamientos SDG, S.A.	M&D Energy Market, S.L.
Gas Natural Capital Markets, S.A.	M&D Generación1, S.L.
Gas Natural Castilla y León, S.A.	Molinos de Valdebezana S.A.
Gas Natural Castilla-La Mancha, S.A.	Operación y Mantenimiento Energy, S.A.
Gas Natural Cegas, S.A.	Pizarras Mahide, S.L.
Gas Natural Comercial SDG, S.L.	Sagane, S.A.
Gas Natural Comercializadora, S.A.	Sociedad de Tratamiento Almazán, S.L.
Gas Natural Distribución SDG, S.A.	Sociedad de Tratamiento Hornillos, S.L.
Gas Natural Electricidad SDG, S.A.	Tratamiento Cinca Medio, S.L.
Gas Natural Exploración, S.L.	Unión Fenosa Comercial, S.L.
Gas Natural Fenosa Engineering, S.L.U.	Unión Fenosa Distribución, S.A.U.
Gas Natural Fenosa Renovables Andalucía, S.L.	Unión Fenosa Financiación, S.A.
Gas Natural Fenosa Renovables Castilla La Mancha, S.L.	Unión Fenosa Internacional, S.A.
Gas Natural Fenosa Renovables Ruralía, S.L.	Unión Fenosa Minería, S.A.
Gas Natural Fenosa Renovables, S.L.U.	Unión Fenosa Preferentes, S.A.U.

# directors' report

**Gas Natural SDG, S.A. annual** report 2011

## 1. Business performance

The main financial aggregates of Gas Natural SDG, S.A. and their performance are as follows:

	2011	2010	%
Net sales	5,266	4,438	18.7
Net profit for the year	1,317	1,021	29.0
Equity	11,764	10,305	14.2

Gas Natural SDG, S.A. is a company that develops electricity generation and gas business activity, and, consequently, its profits come from these activities and from dividends from its subsidiaries, so the following information refers to GAS NATURAL FENOSA.

Net profit attributable to parent Company amounted to Euros 1,325 million in 2011, an increase of 10.3% with respect to last year.

Consolidated EBITDA in the period amounted to Euros 4,645 million, a 3.8% increase with respect to 2010, supported by GAS NATURAL FENOSA's excellent operating performance and balanced business profile, which offset the impact of divestments.

Despite lower gains booked on asset sales with respect to 2010, net profit in 2011 was Euros 1,325 million, up 10.3% with respect to 2010. This growth was driven not only by debt reduction and financial cost containment, but also by good business performance.

The results obtained in this context highlight the fundamental value of GAS NATURAL FENOSA's business model, which is based on an appropriate balance of regulated and liberalised gas and electricity business, including a growing, diversified international presence.

GAS NATURAL FENOSA signed a contract with the US company Cheniere to purchase close to 5 bcm of GNL per year, with free destination.

GAS NATURAL FENOSA completed the purchase of a wind farm in Lugo and signed a purchase agreement for a wind farm in Tarragona from Gamesa, with a total installed capacity of 42 MW.

Additionally, on 13 September 2011, GAS NATURAL FENOSA acquired direct and indirect shareholdings from ACS in wind farms having a generation capacity of 95,5 MW.

GAS NATURAL FENOSA increased the total interim dividend charged to 2011 income by 10.9%, and distributed Euros 0.363 per share on 9 January 2012.

Divestments, the company's sound, balanced business profile, and strict investment discipline in finances and capital expenditure are enabling the company to steadily reduce leverage, to 54.5% at 31 December 2011, which is particularly efficient since the debt structure, cost and maturities are in line with GAS NATURAL FENOSA's business profile.

## Main financial aggregates

	2011	2010	%
Net sales	21,076	19,630	7.4
EBITDA	4,645	4,477	3.8
Operating income	2,947	2,893	1.9
Net income attributable to parent Company	1,325	1,201	10.3
Investments	1,514	1,553	(2.5)
Net financial debt (at 31/12)	17,294	19,102	(9.5)

## Main physical aggregates

### Gas and electricity distribution

	2011	2010	%
<b>Gas distribution (GWh)</b>	<b>395,840</b>	<b>411,556</b>	<b>(3.8)</b>
Europe	204,809	210,561	(2.7)
Tariff gas sales	2,730	2,741	(0.4)
TPA (third part access)	202,079	207,820	(2.8)
Latin America	191,031	200,995	(5.0)
Tariff gas sales	114,559	128,141	(10.6)
TPA	76,472	72,854	5.0
<b>Electricity distribution (GWh)</b>	<b>54,067</b>	<b>54,833</b>	<b>(1.4)</b>
Europe	36,361	36,831	(1.3)
Tariff gas sales	2,445	2,372	3.1
TPA	33,916	34,459	(1.6)
Latin America	17,706	18,002	(1.6)
Tariff gas sales	16,789	16,979	(1.1)
TPA	917	1,023	(10.4)
<b>Gas distribution connections, ('000) (at 31/12)</b>	<b>11,372</b>	<b>11,361</b>	<b>0.1</b>
Europe	5,490	5,696	(3.6)
Latin America	5,882	5,665	3.8
<b>Electricity distribution connections ('000) (at 31/12)</b>	<b>8,133</b>	<b>9,436</b>	<b>(13.8)</b>
Europe	4,568	4,535	0.7
Latin America	3,565	4,901	(27.3)
ICEIT (installed capacity equivalent interrupted time) (minutes)	42	61	(31.1)

**Energy business**

	<b>2011</b>	<b>2010</b>	<b>%</b>
<b>Electricity generated (GWH)</b>	<b>56,354</b>	<b>58,130</b>	<b>(3.1)</b>
Spain	38,081	38,338	(0.7)
Hydroelectric	2,892	4,752	(39.1)
Nuclear	4,378	4,325	1.2
Coal	4,464	772	478.2
Oil/gas	-	32	-
CCGT (Combined cycle gas turbine)	23,967	25,928	(7.6)
Renewables	2,380	2,529	(5.9)
International	18,273	19,792	(7.7)
Hydroelectric	118	116	1.7
CCGT	16,362	17,985	(9.0)
Oil-fired	1,793	1,691	6.0
<b>Installed capacity (MW)</b>	<b>15,392</b>	<b>17,254</b>	<b>(10.8)</b>
Spain	12,760	14,637	(12.8)
Hydroelectric	1,901	1,860	2.2
Nuclear	595	589	1.0
Coal	2,048	2,048	-
Oil/gas	157	617	(74.6)
CCGT	6,998	8,565	(18.3)
Renewables	1,061	958	10.8
International	2,632	2,617	0.2
Hydroelectric	22	22	-
CCGT	2,289	2,274	0.7
Oil-fired	321	321	-
<b>Gas supply (GWh)</b>	<b>308,725</b>	<b>305,704</b>	<b>1.0</b>
Spain	236,992	250,885	(5.6)
Rest	71,733	54,819	30.9
<b>Unión Fenosa Gas<sup>(1)</sup></b>			
Gas supply in Spain (GWh)	56,937	59,518	(4.3)
Rest (GWh)	26,503	27,774	(4.6)
Gas transportation – EMPL (GWh)	111,855	109,792	1.9

(1) Aggregates at 100%.

## 2. Risk factors related to the activity of Gas Natural Fenosa

### a) Uncertainty of the macro-economic environment

In the last few months the international economy and financial system have gone through a period of considerable turbulence and uncertainty, especially in the financial markets, which began in August 2007 and which has deteriorated substantially since September 2008. This uncertainty has severely impacted the general levels of liquidity and credit available, as well as the terms and conditions for the same, which has contributed to an increase in the financial burden of homes and industrial customers of GAS NATURAL FENOSA, thus reducing their purchasing power and affecting demand adversely.

GAS NATURAL FENOSA cannot predict the trend in the economic cycle in the next few years nor whether there the current recession in the international economic cycle will take a turn for the worse.

### b) Development of business strategy

Given the risks to which it is exposed and the uncertainties inherent in its business, GAS NATURAL FENOSA cannot ensure that it will be able to successfully implement its business strategy. The scope of and compliance with its strategic objectives are subject, amongst others risk factors, to:

- The lack of an increase in the number of supply points in Europe and Latin America, due to the fact that GAS NATURAL FENOSA cannot expand the distribution network;
- A failure to increase in the number of customers due to the lack of success of the marketing campaigns for deregulated market consumers;
- The enabling of take or pay clauses in supply contracts, which would involve the obligation to pay for a volume of gas exceeding the needs of GAS NATURAL FENOSA;
- The lack of success in the consolidation of the electricity production business in Spain conditioned by subsidised technology incentives;
- The incapacity to consolidate the multi-service business strategy or to increase the number of multi-product contracts per customer.

### c) Regulatory risk

GAS NATURAL FENOSA and its subsidiaries are obligated to comply with the legislation in the natural gas and electricity sectors. Especially, the gas and electricity distribution business is regulated in most of the countries in which GAS NATURAL FENOSA carries out this business.

The applicable legislation to the natural gas and electricity sectors in the countries in which the GAS NATURAL FENOSA Group operates is typically subject to periodical revision by the competent authorities. The introduction of modifications could impact the remuneration of the regulated activity, adversely affecting the business, profits, grants and the financial position of GAS NATURAL FENOSA.

In the event that public or private entities interpret or apply criteria other than those of GAS NATURAL FENOSA, its compliance would be questioned or challenged, and, if any non-compliance were proven, this could adversely affect the business, outlook, profits, grants and financial position of GAS NATURAL FENOSA.

## d) Operational risk

GAS NATURAL FENOSA activities are exposed to different operational risks, such as breakdowns in the distribution network, electricity generation facilities and the gas tankers, explosions, polluting emissions, toxic spills, fire, adverse meteorological conditions, contractual breaches, sabotage or accidents affecting the gas distribution network or electricity generation assets, as well as defects and force majeure that could result in personal and/or material damages, impairment of facilities or property of GAS NATURAL FENOSA or their destruction. Events such as these, or the like, are unpredictable and can cause interruptions in the supply of gas and the production of electricity. In situations of this type, in spite of the existence of the pertinent coverage through risk insurance policies, insurance on potential loss of profit and damages, the financial position and results of GAS NATURAL FENOSA may be affected to the extent that these losses are not insured, or coverage can be insufficient, or economic losses are generated as a result of the limitation of coverage or deductibles borne, as well as for potential increases of the prices of the premiums paid in the insurance market.

We should also mention that GAS NATURAL FENOSA could be subject to civil liability claims for personal and/or other damages caused during the ordinary course of its business. The filing of these claims could lead to the payment of indemnities under applicable legislation in those countries in which GAS NATURAL FENOSA operates, which could give rise, to the extent that these civil liability insurance policies do not cover the indemnities, to an adverse material effect on the business, outlook, financial position and results.

## e) Gas and electricity price risks

GAS NATURAL FENOSA is exposed to variations in crude oil, natural gas and electricity prices.

A major part of the operating expenses of GAS NATURAL FENOSA is linked to the purchase of natural gas and liquefied natural gas (LNG) for commercialisation on the deregulated market and to supply regulated markets. Likewise, its combined cycle plants use natural gas as fuel.

Although the prices that GAS NATURAL FENOSA applies to the sale of gas to its customers correspond generally to market prices, in very volatile environments, the fluctuations in sale prices may not reflect the proportional fluctuations in the cost of raw materials. In addition to the costs related to the gas business, the rises in the prices of natural gas could lead to an increase in the costs of electricity production, given that the combined cycle plants of GAS NATURAL FENOSA use natural gas as fuel.

The GAS NATURAL FENOSA business includes, amongst other activities, the wholesale commercialisation of natural gas to electricity generators and other customers. With respect to these operations, the income and results of GAS NATURAL FENOSA usually depend to a great extent on the market prices in the regional markets in which it operates and in other competitive markets. As a result, the wholesale commercialisation of natural gas is exposed to the risk of fluctuation in raw material prices and the price of electricity.

The variations in the price of raw materials could adversely affect the results of GAS NATURAL FENOSA if the increase in generation costs is not recouped through sale prices of electricity, or in general, in the gas area, if we cannot attain a degree of efficiency in the management of the customer portfolio to permit a recovery through the commercialisation of the fluctuations in the energy scene.

## f) Gas Volume risk

Most of the purchase of natural gas and liquefied natural gas (LNG) are made through long-term contracts that include clauses under which GAS NATURAL FENOSA has the obligation to make annual purchases for certain volumes of gas (known as "take or pay" clauses). Under these contracts, in spite of the fact that GAS NATURAL FENOSA does not need to acquire the gas volume agreed at a specific time, it will be contractually obligated to pay the minimum amount agreed under these "take-or-pay" clauses.

The aforementioned contracts contain certain gas volumes that relate to the estimated needs of GAS NATURAL FENOSA. However, the real needs may be lower than those forecasts at the time the contracts were signed. If there are significant variations in these estimates, GAS NATURAL FENOSA will be obligated to acquire a greater volume of gas than it actually needs, or failing this, to pay for a minimum amount of gas agreed, irrespective of whether it acquires the surplus over its needs, which could have an adverse, significant impact on the operating costs of GAS NATURAL FENOSA.

## g) Environmental requirements

The activities of GAS NATURAL FENOSA are subject to compliance with extensive legislation on environmental protection.

GAS NATURAL FENOSA and its subsidiaries are subject to strict compliance with extensive legislation on environmental protection that requires, amongst other points, the preparation of environmental impact evaluation studies, obtaining the pertinent authorizations, licences and permits, as well as compliance with certain requirements, including, amongst others, the fact that:

- The environmental authorizations and licenses may not be granted or may be revoked due to non-compliance with the conditions that are imposed there under.
- The regulatory framework or its interpretation by the authorities could be modified or changed, which could lead to an increase in costs or deadlines in order to comply with the new regulatory framework.

## h) Interest and exchanges rate risk

Variations in interest rates modify the fair value of the financial assets and liabilities that accrue a fixed interest rate, as well as the cash flows from financial assets and liabilities indexed to a floating interest rate, and, accordingly, they affect both equity and net incomes, respectively.

On the other hand, GAS NATURAL FENOSA is exposed to the risk related to the variation in currency exchange rates. These variations could affect, amongst other things, the debt of GAS NATURAL FENOSA denominated in non-euro currencies, to the operations that GAS NATURAL FENOSA carries out in other currencies that generate income denominated in another currency, as well as the counter-value of the cash flows related to the purchase and sale of raw materials denominated in non-euro currencies. The fluctuations in the exchange rate between the Euro and the US Dollar, the currency in which gas purchases are made by GAS NATURAL FENOSA are denominated in or pegged to, could also affect the results and financial position of GAS NATURAL FENOSA.

In spite of the fact that GAS NATURAL FENOSA has proactive management policies for the risks mentioned above in order to minimize their impact on its net income, in some cases these policies may be ineffective in mitigating the adverse effects inherent in the fluctuation in interest rates and exchange rates, and could adversely and significantly affect net income and the financial position of GAS NATURAL FENOSA.



## **i) Impact of meteorological conditions**

Electricity and natural gas demand is linked to climate. A major part of gas consumption during the winter depends on the production of electricity and its use for heating, while during the summer months consumption depends basically on the production of electricity for air conditioning. The income and net income of GAS NATURAL FENOSA from the distribution and commercialisation of natural gas could be affected adversely by warm falls or mild winters. Likewise, the demand for electricity could decline if summers are not hot, due to less demand for air conditioning. Furthermore, the occupancy degree of hydro-electric plants depends on the level of precipitation where these installations are located, which can be affected by periods of drought.

## **j) Evolution of electricity sector activities**

The development of the electricity business of GAS NATURAL FENOSA is subject to different factors beyond the control of GAS NATURAL FENOSA, which are the following:

- Increases in the cost of generation, including the increases in the fuel price;
- Loss of competitiveness with other technologies, due to the increase in the cost of generation using natural gas;
- A possible decrease in the growth rate of electricity consumption due to different factors, such as economic conditions or the implementation of energy savings programs;
- Inherent risks in the operation and maintenance of electricity plants;
- The growing volatility in price due to the deregulation of the sector and changes in the market;
- A overcapacity situation of electricity production or in the markets in which GAS NATURAL FENOSA is the owner of generation plants or has an interest in them;
- Appearance of alternative energy sources due to the new technologies and growing interest in renewable energy and cogeneration.

## **k) Exposure in Latin America**

A major portion of operating income of GAS NATURAL FENOSA is generated by its Latin American subsidiaries. The operations in Latin America are exposed to different risks inherent in investment in that region. Amongst the risks factors linked to the investment and business in Latin America are:

- Major influence on the economy by local governments;
- Significant fluctuation in the economic growth rate;
- High inflation rates;
- Devaluation, depreciation or overvaluation of local currencies;
- Controls or restrictions on the repatriation of profits;

- Changing environment for interest rates;
- Changes in financial economic and tax policies;
- Unexpected changes in regulatory frameworks;
- Social tensions;
- Political and macro-economic instability.

GAS NATURAL FENOSA cannot predict the way in which any future worsening of the political and economic situation in Latin American could take place or any other changes in legislation in the countries in which it operates.

### 3. Environment and technological innovation

Information on the environment is set out in Note 32 to the Annual Accounts.

### 4. Outlook

On 27 July 2010 GAS NATURAL FENOSA issued its new 2010-2014 Strategic Plan, which replaced the 2008-2012 Strategic Plan of GAS NATURAL and the Bigger Plan of UNIÓN FENOSA.

Under the heading 'grow by integrating markets', the four basic axes on which the new Strategic Plan is based are to consolidate the current position of GAS NATURAL FENOSA in Spain and Latin America, vertically integrating up and midstream, entering new markets by replicating its business model in Spain, especially in markets in the Atlantic and Mediterranean basins, and, finally, opting decisively for continued emphasis on efficiency.

This Strategic Plan will allow GAS NATURAL FENOSA to position itself as a leading world company in gas distribution, a leader in efficiency in the Iberian Peninsula and Latin America, the third largest utility company in the Iberian Peninsula, the third largest LGN operator in the work and the third largest combined cycle operator in the world.

The acquisition of Unión Fenosa, S.A. by Gas Natural SDG, S.A. was adopted by the Spanish National Competition Commission (CNC) on 11 February 2009, subject to various commitments. Since then, GAS NATURAL FENOSA has carried out different transactions and agreements thanks to which it will meet most of the commitments imposed by the CNC:

- On 31 December 2009, the low-pressure gas distribution assets in the Cantabria and Murcia regions were sold.
- On 30 April 2010 GAS NATURAL FENOSA sold different natural gas commercialisation and distribution assets in the Region of Madrid.
- On 12 July 2010 GAS NATURAL FENOSA reached an agreement on the sale of the combined cycle plant in Plana del Vent to a Spanish company in the Swiss Alpiq energy group.
- On 17 December 2010 GAS NATURAL FENOSA sold its 35% interest in Gas Aragón, S.A. to Endesa Gas, S.A.U.

- On 30 June 2011, GAS NATURAL FENOSA sold approximately 300,000 additional gas supply points in the Madrid region to a company of the Madrileña Red de Gas Group.
- On 28 July 2011, GAS NATURAL FENOSA sold the Arrúbal CCGT plant (La Rioja), with an installed capacity of 800 MW, to a company of the Contour Global Group.
- On 30 June 2011, GAS NATURAL FENOSA sold approximately 245,000 additional gas customers and other related contracts in the Madrid region to the Endesa Group. This transaction completes the company's fulfilment of the new commitments acquired with the National Competition Commission for the UNIÓN FENOSA acquisition and is subject to the obtainment of the relevant permits.

In addition to the divestments required to meet the obligations imposed by the CNC, throughout 2010 and 2011 different agreements were reached on the sale of other assets:

- On 14 April 2010 GAS NATURAL FENOSA announced the completion of the private placement of its 5% stake in Indra Sistemas, S.A. (INDRA) and its final sale.
- On 3 June 2010 GAS NATURAL FENOSA completed the divestment of part of its electricity generation business in Mexico.
- On 30 November 2010 GAS NATURAL FENOSA sold certain assets that make up the electricity transport network to Red Eléctrica de España for Euros 46.9 million.
- On 19 May 2011, GAS NATURAL FENOSA sold its stake in the Guatemala electricity distribution companies to companies owned by the fund Actis.
- On 2 August 2010, GAS NATURAL FENOSA and Enel Green Power agreed to terminate collaboration on renewable energies which until that date were carried out through Enel Unión Fenosa Renovables, S.A. (EUFER), the company in which company held a 50% stake. Once authorized, the transaction was completed on 27 May 2011. After the operation, each shareholder received approximately half the assets of EUFER.

The combination of GAS NATURAL and UNIÓN FENOSA permitted the identification of major operating and tax synergies. On 31 July 2008 operating synergies of Euros 300 million/year as from 2011 were announced.

Throughout 2009 these initial estimates and the final forecasts announced in November 2009 improved with the following synergies:

- Euros 350 million in annual operating synergies, of which Euros 260 million will be cost savings and Euros 90 million in income from synergies.
- Euros 200 million in CAPEX synergies.

Throughout 2010 these estimates have improved and the latest projections issued in November 2010 contemplate the following synergies:

- Euros 475 million in annual operating synergies, of which Euros 343 million would be cost savings and Euros 132 million revenues from synergies.
- Euros 275 million in CAPEX synergies.

Detailed action plans have been prepared and put into motion in order to reach the 2011 synergy target.

The organic growth and integration and use of operating synergies based on the integration of the assets of GAS NATURAL and UNIÓN FENOSA, a balanced, moderate risk management, optimisation of the joint investment plan, and a decrease in the risk of execution of the growth strategy of the resulting group, should generate value for the shareholders of both companies.

As far as financial discipline is concerned, GAS NATURAL FENOSA has the intention of optimizing its financial structure and maintaining a solid balance. GAS NATURAL FENOSA is reducing its debt thanks to divestments and cash generation from the business and expects that the leveraging will continue to diminish. In order to maximize the financial structure various bonds were issued from 2009 to 2011 totalling Euros 8,050 million. GAS NATURAL FENOSA will continue to seek to optimize its financial structure in the financial markets.

## 5. Annual Corporate Governance Report

Attached hereto as an Appendix to this Directors' Report, and forming an integral part of the same, is the Annual Corporate Governance Report for 2011, as required under article 526 of the Spanish Capital Companies Act.

## A. Capital Structure

### A.1 Complete the following table on the company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
09-08-2011	991,672,139	991,672,139	991,672,139

Please indicate whether or not there are different types of shares with different rights associated:

Yes  No

### A.2 Provide details of the direct and indirect owners of significant stakes in your company at year end, excluding Directors:

Name or company name of shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Caja de Ahorros y Pensiones de Barcelona	0	349,806,340	35.274
Repsol YPF, S.A.	236,226,786	61,376,057	30.010
Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures, S.p.A. (Sonatrach)	38,183,600	0	3.850

(\*)Through:

Name or company name of the indirect holder of the stake	Name or company name of the direct holder of the stake	Number of direct voting rights	% of total voting rights
Caja de Ahorros y Pensiones de Barcelona	Criteria CaixaHolding, S.A.U.	349,806,340	35.274
Repsol YPF, S.A.	Repsol Exploración, S.A.	15,675,352	1.581
Repsol YPF, S.A.	Repsol Petróleo, S.A.	45,700,706	4.608

Indicate the most significant changes in the shareholder structure occurred during the year:

Name or company name of shareholder	Date of the transaction	Description of the transaction
Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures, S.p.A. (Sonatrach)	09-08-2011	Equity over 3% of share capital.

**A.3** Complete the following tables regarding the members of the company's Board of Directors who hold voting rights over the company shares:

Name or company name of Director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Mr Salvador Gabarró Serra	3,107	0	0.000
Mr Antonio Brufau Niubó	77,276	0	0.008
Mr Rafael Villaseca Marco	12,434	0	0.001
Mr Carlos Kinder Espinosa	5,391	0	0.001
Mr Carlos Losada Morradán	1,924	12,541	0.001
Mr Demetrio Carceller Arce	2,692	0	0.000
Mr Emiliano López Achurra	1,046	0	0.000
Mr Enrique Alcántara-García Irazoqui	7,942	20,714	0.003
Mr Felipe González Márquez	1,812	0	0.000
Mr Juan María Nin Génova	149	0	0.000
Mr Juan Rosell Lastortras	0	2,000	0.000
Mr Luis Suárez de Lezo Mantilla	18,156	0	0.002
Mr Miguel Valls Maseda	6,530	0	0.001
Mr Nemesio Fernández-Cuesta Luca de Tena	1	0	0.000
Mr Ramon Adell Ramon	1,000	0	0.000
Mr Santiago Cobo Cobo	652	0	0.000

Name or company name of the indirect holder of the stake	Through: name or company name of the direct holder of the stake	Number of direct voting rights	% of total voting rights
Mr Enrique Alcántara-García Irazoqui	Bufete Alcántara S.L.P.	20,714	0.002
Mr Carlos Losada Morradán	Mrs Mercedes Cavestany de Dalmasés	12,541	0.001
Mr Juan Rosell Lastortras	Mr Juan Rosell Codinachs	2,000	0.000
<b>% total voting rights in possession of the Board of Directors</b>			<b>0.018</b>

Fill in the following tables regarding the members of the company's Board of Directors who own stock options in the company:

**A.4** Indicate, where applicable, the family, commercial, contractual or corporate relations which could exist between the owners of significant stakes, provided they are known by the company, unless they are irrelevant or arise from normal trading activities:

**Relationship type:**

COM CON COR

**Brief outline:**

Details of commercial, contractual or corporate relations between "la Caixa" and Repsol YPF, S.A. are provided in the information prepared by said groups. See also parallel shareholders agreements, section A.6.

**Name or company name of related parties**

Repsol YPF, S.A.

Caja de Ahorros y Pensiones de Barcelona

**A.5** Indicate, where applicable, the commercial, contractual or corporate relations which could exist between the holders of significant shares and the company and/or its group, unless they are irrelevant or arise from normal trading activities:

**A.6** Specify whether any shareholders' agreements have been notified to the company that affect it in accordance with the provisions set forth in Article 112 of the Securities Market Act. Where applicable, give a brief description and list the shareholders associated with the agreement:

Yes  No

**% of share capital affected:**

65.284

**Brief outline of agreement:**

Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003. (i) Repsol YPF and "la Caixa" shall preserve at all times the principles of transparency, independence and professionalism in the management of Gas Natural through maintaining full control of said company. (ii) The Board shall comprise seventeen (17) members, five (5) appointed by Repsol YPF, five (5) appointed by "la Caixa"; one (1) Director representing Caixa Catalunya and six (6) Independent Directors jointly nominated by "la Caixa" and Repsol YPF. Repsol YPF and "la Caixa" shall vote in favour of the appointments put forward by the other party. (iii) Among the Directors nominated by each of the parties, "la Caixa" shall propose who should hold the position of Chairman of the Board and Repsol YPF to the CEO. The Repsol YPF and "la Caixa" Directors shall vote in favour of the proposed appointments for each of the positions. (iv) The Executive Committee shall be comprised by eight (8) members, of which three (3) shall be elected from among the Directors nominated by Repsol YPF, including the CEO, three (3) from among those proposed by "la Caixa"; including the Chairman, and two (2) from among the Independent Directors. (v) In accordance with the principles outlined in section (i) above, the parties in good faith and in the sole interest of Gas Natural, shall reach a consensus on the Gas Natural Strategic Plan, prior to its submission to the Board of Directors, which shall include all decisions affecting the basic outlines of the company's strategy: its organisational structure, annual budget, operations of concentration, transfer and the acquisition of assets that are essential in the strategic development of Gas Natural.

**Parties to parallel shareholders agreements**

Repsol YPF, S.A.

Caja de Ahorros y Pensiones de Barcelona

Indicate whether or not the company is aware of the existence of concerted actions among its shareholders. If so, briefly describe them:

Yes No **% of share capital affected:**

35.274

**Brief description of the concerted action:**

Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003. By virtue of the agreements referred to in the previous section, "la Caixa" and Repsol YPF, which separately each have a controlling interest in accordance with the rules of takeover bids, have joint control of Gas Natural owing to regulatory requirements and for competition purposes. They jointly have a share in the company of over 50% and have appointed more than half of the governing body. In accordance with current regulations, said pacts give rise to a concerted action between "la Caixa" and Repsol in Gas Natural. Significant facts: No. 20320 dated 12-01-2000, No. 35389 dated 22-05-2002 and No. 42788 – 42785 – 42790 and 42784 dated 20-06-2003.

**Parties to concerted action**

Caja de Ahorros y Pensiones de Barcelona

**% of share capital affected:**

30.010

**Brief description of the concerted action:**

Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003. By virtue of the agreements referred to in the previous section, "la Caixa" and Repsol YPF, which separately each have a controlling interest in accordance with the rules of takeover bids, have joint control of Gas Natural owing to regulatory requirements and for competition purposes. They jointly have a share in the company of over 50% and have appointed more than half of the governing body. In accordance with current regulations, said pacts give rise to a concerted action between "la Caixa" and Repsol in Gas Natural. Significant facts: No. 20320 dated 12-01-2000, No. 35389 dated 22-05-2002 and No. 42788 – 42785 – 42790 and 42784 dated 20-06-2003.

**Parties to concerted action**

Repsol YPF, S.A.

If any modification or cancellation of said agreements or concerted actions has taken place during the year, please make express mention of this:

-



**A.7** Indicate if there is any individual person or legal entity that exercises or who might exercise control of the company pursuant to Article 4 of the Securities Market Act. Respond, where applicable:

Yes  No

**A.8** Complete the following tables concerning the company's treasury stock:

At year end:

Number of direct shares	Number of indirect shares (*)	% of share capital
0	0	0.000

(\*) Through:

<b>Total</b>		0
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Provide details of the significant changes occurring during the year pursuant to Royal Decree 1362/2007:

<b>Unrealised gains/(Losses) of treasury stock disposed of over the period (thousands of euros)</b>	0
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**A.9** Give details of the terms and conditions corresponding to the General Meeting of Shareholders' current mandate to the Board of Directors for acquiring or assigning own shares.

Point eight of the agenda of the General Meeting of Shareholders of 20 April 2010 agreed the following:

Eight. Authorisation to the Board of Directors for the derivative acquisition of own shares, either directly or through group companies of Gas Natural SDG, S.A., in the terms agreed by the General Meeting and with the legally established restrictions, thus cancelling the authorisation agreed by the Ordinary General Meeting of 26 June 2009.

Eight one. To cancel the authorisation granted to the Board of Directors by the General Meeting held on 26 June 2009 to acquire company shares for good and valuable consideration.

Eight two. To authorise the Board of Directors to acquire, on a payment basis, and in a term of no longer than five years, on one or more occasions, up to a maximum of 10% of share capital, or the maximum figure that is the result of the application in accordance with the legislation in force at the time of acquisition, company shares which are completely paid in provided that the aforesaid percentage between the shares acquired by the company and those held by the subsidiaries is never exceeded. The minimum and maximum acquisition price shall be the share price on the Continuous Market of the Spanish Stock Exchange, with an upward or downward variation of 5%. If the shares are not listed, the maximum and minimum acquisition price shall be established at between one and a half times and twice the book value of the shares, as per the latest audited consolidated balance sheet. The Board of Directors is authorised to delegate this authorisation to the person or persons it deems pertinent. This authorisation is understood to apply also to the acquisition of company shares by subsidiaries.

Likewise, point nine of the agenda of the General Meeting of Shareholders of 20 April 2010 agreed the following:

Nine. Authorisation for the Board of Directors, in accordance with the provisions laid down in Article 153.1.b) of the Public Limited Companies Act, so that, within the maximum term of five (5) years, if it considers it appropriate, it can increase the share capital, to the maximum quantity corresponding to 50% of the social capital of the company, with the possibility of incomplete subscription, on the date of the authorisation issuing shares with or without the right to vote, with or without a premium, up to half the share capital, in one or more times and on the occasions and to the amount it considers appropriate, rewriting the Transitory Article of the Articles of Association, thus cancelling the authorisation agreed by the Ordinary General Meeting of 26 June 2009.

Nine 1. Taking into consideration the current share capital figure, to authorise the Board of Directors to increase the share capital by four hundred and sixty million eight hundred and seventy eight thousand four hundred and seventy five euros (460,878,475 euros) within five years from today's date, through a cash contribution, in one or more payments and as appropriate for the amount decided, duly issuing ordinary, privileged and redeemable shares, with or without the right to vote, with or without a premium, without the need for fresh authorisation from the General Meeting, as well as to amend the Articles of Association required for the share capital increase(s) carried out by virtue of the foregoing authorisation, not fully subscribed. All the foregoing is in accordance with the provisions laid down in article 153.1.b) of the Public Limited Companies Act, rendering null and void the authorisation agreed by the Ordinary General Meeting of 26 June 2009.

Nine 2. Pursuant to the provisions laid down in article 159.2 of the Public Limited Companies Act, the Board of Directors is expressly empowered to fully or partially exclude the preferential subscription right with regard to all or any of the issuances agreed in accordance with the provisions of this authorisation.

Nine 3. As a consequence of the foregoing agreement, to amend the Transitory Article of the Articles of Association, which will henceforth be drafted as follows:

“Transitory Article - Delegation to the Board of Directors.

Through an agreement of the Ordinary General Meeting of Shareholders held on 20 April 2010, the company's Board of Directors has been authorised to increase the share capital by four hundred and sixty million eight hundred and seventy eight thousand four hundred and seventy five euros (460,878,475 euros) within five years, from today's date, through a cash contribution, in one or more payments and as appropriate for the amount decided, duly issuing ordinary, privileged and redeemable shares, with or without the right to vote, with or without a premium, without the need for new authorisation from the General Meeting, as well as to amend the Articles of Association required for the share capital increase(s) carried out by virtue of the foregoing authorisation, not fully subscribed. All the foregoing is in accordance with the provisions laid down in article 153.1.b) of the Public Limited Companies Act.”

Last amendment of the Transitory Article, June 2011.

The authorisation was partly employed by the Board of Directors of the company at its session of 17 June 2011, increasing the share capital by 38,183,600 euros, whereby the current authorisation is for 422,694,875 euros and the wording of the Transitory Article is as follows:

“Transitory Article - Delegation to the Board of Directors.

Through an agreement of the Ordinary General Meeting of Shareholders held on 20 April 2010 and valid for five years from adoption thereof, the company's Board of Directors was authorised to increase the share capital by four hundred and sixty million eight hundred and seventy eight thousand four hundred and seventy five euros (460,878,475 euros). By virtue of a resolution of the Board of Directors dated 17 June 2011, the amount of 38,183,600 euros was exercised, whereby the delegation, which remains in force, means that the company's Board of Directors, by virtue of the resolution taken by the Ordinary General Meeting of Shareholders on 20 April 2010, is empowered to increase the share capital by the amount not exercised up to the maximum authorised limit, viz., by four hundred and twenty two million six hundred and ninety four thousand eight hundred and seventy five euros (422,694,875 euros), within five years, from 20 April 2010, through a cash contribution, in one or more payments and as appropriate for the amount decided, issuing ordinary,

privileged and redeemable shares, with or without the right to vote, with or without a premium, without the need for fresh authorisation from the General Meeting, as well as to amend the Articles of Association required for the share capital increase(s) carried out by virtue of the foregoing authorisation, not fully subscribed. All the foregoing is in accordance with the provisions laid down in article 297.1.b) of the Capital Companies Act."

**A.10** Indicate, where applicable, the legal and statutory requirements in the Articles of Association regarding the use of voting rights, and legal restrictions on the acquisition or sale of holdings in the share capital. Indicate whether or not there are legal restrictions to exercising voting rights:

Yes  No

**Maximum percentage of voting rights that can be exercised by a shareholder in accordance with legal restrictions** 0

Indicate whether or not there are statutory restrictions to exercising voting rights:

Yes  No

**Maximum percentage of voting rights that can be exercised by a shareholder in accordance with statutory restrictions** 0

Indicate whether or not there are legal restrictions to the acquisition or assignment of shares in the company's capital:

Yes  No

**Description of the legal restrictions to the acquisition or assignment of shares in the company's share capital:**

As a company that incorporates certain regulated and quasi-regulated assets and activities into its group, the acquisition of Gas Natural SDG, S.A. may be subject to the provisions laid down in Additional Provision 11.3.1.14 of Law 34/1998, governing the Hydrocarbons Sector.

Given its nature as a major operator in the gas and electricity markets, the holding of its shares is subject to the restrictions laid down in Article 34 of Decree-Law 6/2000, governing Urgent Measures to intensify competition in the goods and services markets.

**A.11** Specify whether the General Meeting has agreed to take up measures of neutralisation against a takeover bid by virtue of provisions set forth in Law 6/2007.

Yes  No

If appropriate, explain the measures approved and the terms under which the restrictions would not be enforceable:

–

## B. Structure of the Management of the Company

### B.1 Board of Directors

#### B.1.1 Describe the maximum and minimum number of Directors set forth in the Articles of Association:

<b>Maximum number of Directors</b>	20
<b>Minimum number of Directors</b>	10

#### B.1.2 Complete the following table with the members of the Board:

<b>Name or company name of Director</b>	<b>Representative</b>	<b>Position on Board</b>	<b>Date first appointment</b>	<b>Date last appointment</b>	<b>Election procedure</b>
Mr Salvador Gabarró Serra	–	Chairman	23-06-2003	26-06-2009	Vote at General Meeting
Mr Antonio Brufau Niubó	–	Deputy Chairman	16-06-1989	20-04-2010	Vote at General Meeting
Mr Rafael Villaseca Marco	–	Chief Executive Officer	20-04-2005	21-05-2008	Vote at General Meeting
Mr Carlos Kinder Espinosa	–	Director	20-04-2005	21-05-2008	Vote at General Meeting
Mr Carlos Losada Marrodán	–	Director	16-12-2002	21-05-2008	Vote at General Meeting
Mr Demetrio Carceller Arce	–	Director	21-05-2008	21-05-2008	Vote at General Meeting
Mr Emiliano López Achurra	–	Director	23-06-2003	26-06-2009	Vote at General Meeting
Mr Enrique Alcántara-García Irazoqui	–	Director	27-06-1991	20-04-2010	Vote at General Meeting
Mr Felipe González Márquez	–	Director	17-12-2010	14-04-2011	Vote at General Meeting
Mr Juan María Nin Génova	–	Director	21-05-2008	21-05-2008	Vote at General Meeting
Mr Juan Rosell Lastortras	–	Director	26-06-2009	26-06-2009	Vote at General Meeting
Mr Luis Suárez de Lezo Mantilla	–	Director	20-04-2010	20-04-2010	Vote at General Meeting
Mr Miguel Valls Maseda	–	Director	20-04-2005	21-05-2008	Vote at General Meeting
Mr Nemesio Fernández-Cuesta Luca de Tena	–	Director	28-01-2011	14-04-2011	Vote at General Meeting
Mr Ramon Adell Ramon	–	Director	18-06-2010	14-04-2011	Vote at General Meeting
Mr Santiago Cobo Cobo	–	Director	16-12-2002	21-05-2008	Vote at General Meeting
<b>Total number of Directors</b>					<b>16</b>

Indicate the replacements occurring in the Board of Directors during the period:

<b>Name or company name of Director</b>	<b>Condition member of the Board at the time of replacement</b>	<b>Replacement date</b>
Mr Narcís Serra Serra	Proprietary Director	28-11-11

**B.1.3** Complete the following tables regarding the members of the Board of Directors and their different status:**Executive Directors**

<b>Name or company name of Director</b>	<b>Committee which proposed appointment</b>	<b>Position in the company's management structure</b>
Mr Salvador Gabarró Serra	Appointments and Remuneration Committee	Chairman
Mr Rafael Villaseca Marco	Appointments and Remuneration Committee	Chief Executive Officer
<b>Total number of Executive Directors</b>		<b>2</b>
<b>% total of the Board</b>		<b>12.5</b>

**External Proprietary Directors**

<b>Name or company name of Director</b>	<b>Committee which proposed appointment</b>	<b>Name or title of significant shareholder he/she represents or who proposed appointment</b>
Mr Antonio Brufau Niubó	Appointments and Remuneration Committee	Repsol YPF, S.A.
Mr Carlos Kinder Espinosa	Appointments and Remuneration Committee	Criteria CaixaHolding, S.A.U.
Mr Demetrio Carceller Arce	Appointments and Remuneration Committee	Repsol YPF, S.A.
Mr Enrique Alcántara-García Irazoqui	Appointments and Remuneration Committee	Criteria CaixaHolding, S.A.U.
Mr Juan María Nin Génova	Appointments and Remuneration Committee	Criteria CaixaHolding, S.A.U.
Mr Juan Rosell Lastortras	Appointments and Remuneration Committee	Criteria CaixaHolding, S.A.U.
Mr Luis Suárez de Lezo Mantilla	Appointments and Remuneration Committee	Repsol YPF, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Appointments and Remuneration Committee	Repsol YPF, S.A.
<b>Total number of Proprietary Directors</b>		<b>8</b>
<b>% total of the Board</b>		<b>50.0</b>

**External Independent Directors**

<b>Name or company name of Director</b>	<b>Profile</b>
Mr Carlos Losada Marrodán	Lecturer of ESADE. Academic. Law Graduate and Doctorate in Business Administration
Mr Emiliano López Achurra	Lawyer. Diploma in International Studies (I.E.P). Diploma in European Community Law (Colegio de Europa)
Mr Felipe González Márquez	Lawyer. President of the Government of Spain 1982-1996
Mr Miguel Valls Maseda	Business Studies Graduate, Master's Degree from EADA and Business Administration Diploma from IESE
Mr Ramon Adell Ramon	Professor of Financial Economics and Accounting at the University of Barcelona
Mr Santiago Cobo Cobo	Entrepreneur. Business Administration Graduate
<b>Total number of Independent Directors</b>	<b>6</b>
<b>% total of the Board</b>	<b>37.5</b>

**Other External Directors**

Detail the reasons why they cannot be considered as proprietary or independent and their relationships, either with the company or its executives or with its shareholders.

Indicate the changes, if any, in the type of Director during the period:

**B.1.4** Explain, if appropriate, the reasons why Proprietary Directors have been appointed at the request of shareholders whose shareholding is less than 5% of the share capital:

Indicate whether or not formal requests have been accepted for presence on the Board from shareholders whose holding is equal to or higher than that of others for whom Proprietary Directors have been appointed. If appropriate, explain the reasons why these have not been dealt with:

Yes      No

**B.1.5** Indicate whether or not a Director has resigned from his/her post before the conclusion of his/her term of office, whether or not he/she has provided the Board with reasons and through which medium and, if he/she has done so in writing to the entire Board, explain at least the reasons given:

Yes       No

Director's name	Reason for resignation
Mr Narcís Serra Serra	Professional reasons explained in a letter dated 28-11-2011

**B.1.6** Indicate, where applicable, the powers delegated to the Managing Director(s):

Name or company name of Director	Brief outline
Mr Rafael Villaseca Marco	He has delegated extensive powers of representation and administration in accordance with the nature and requirements of the Chief Executive Officer

**B.1.7** Indicate, where applicable, the Board members holding positions of administrators or executives in other companies forming part of the group of the listed company:

Name or company name of Director	Corporate name of the listed company	Position
Mr Rafael Villaseca Marco	Gas Natural Aprovisionamientos SDG, S.A.	Director
Mr Rafael Villaseca Marco	Repsol-Gas Natural LNG, S.L.	Chairman
Mr Luis Suárez de Lezo Mantilla	Repsol-Gas Natural LNG, S.L.	Director
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol-Gas Natural LNG, S.L.	Deputy Chairman

**B.1.8** Identify, if applicable, the Directors of your company who are members of the Board of Directors of other companies listed on official stock exchanges in Spain other than those of your group, that have been reported to the company:

Name or company name of Director	Corporate name of the listed company	Position
Mr Salvador Gabarró Serra	Caixabank, S.A.	Director
Mr Antonio Brufau Niubó	Repsol YPF, S.A.	Chairman
Mr Demetrio Carceller Arce	Deoleo, S.A.	Director
Mr Demetrio Carceller Arce	Sacyr-Vallehermoso, S.A.	Director
Mr Demetrio Carceller Arce	Sociedad Anónima Damm	Chairman
Mr Juan María Nin Génova	Repsol YPF, S.A.	Director
Mr Juan María Nin Génova	Caixabank, S.A.	Deputy Chairman and CEO
Mr Juan Rosell Lastortras	Caixabank, S.A.	Director
Mr Luis Suárez de Lezo Mantilla	Repsol YPF, S.A.	Secretary Director

**B.1.9** Indicate and, where applicable, explain whether or not the company has laid down rules on the number of Boards on which its Directors can sit:

Yes  No

**B.1.10** With regard to Recommendation No. 8 of the Unified Code, indicate the general policies and strategies of the company that the plenary Board has reserved the right to approve:

The investment and finance policy	Yes
The definition of the structure of the group of companies	Yes
The corporate governance policy	Yes
The corporate social responsibility policy	Yes
Strategic or Business Plan, as well as the management aims and annual budgets	Yes

The remuneration policy and appraisal of senior management performance	Yes
Control of risk management policy, as well as periodic monitoring of the internal information control system	Yes
The dividend policy, as well as the treasury stock policy and, in particular, its limits	Yes

**B.1.11** Fill in the following tables regarding the total remuneration of the Directors earned over the year:

a) In the company which is the object of this report:

Remuneration concept	Data in thousands of euros
Fixed remuneration	1,012
Variable remuneration	966
Expenses	4,074
Established in Articles of Association	0
Stock options and other financial instruments	0
Others	1,728
<b>Total</b>	<b>7,780</b>

Other benefits	Data in thousands of euros
Advances	0
Credits granted	0
Pension plans and funds: contributions	263
Pension plans and funds: obligations	0
Life insurance premiums	0
Guarantees made by the company to Directors	0

b) Through company Directors belonging to other Boards of Directors and/or the senior management of group companies:

Remuneration concept	Data in thousands of euros
Fixed remuneration	0
Variable remuneration	0
Expenses	0
Established in Articles of Association	0
Stock options and/or other financial instruments	0
Others	0
<b>Total</b>	<b>0</b>



<b>Other benefits</b>	<b>Data in thousands of euros</b>
Advances	0
Credits granted	0
Pension plans and funds: contributions	0
Pension plans and funds: obligations	0
Life insurance premiums	0
Guarantees made by the company to Directors	0

**c) Total remuneration by type of Director:**

<b>Director type by company</b>	<b>By company</b>	<b>By group</b>
Executives	5,059	0
External Proprietary	1,671	0
External Independent	1,050	0
Other External	0	0
<b>Total</b>	<b>7,780</b>	<b>0</b>

**d) As a percentage of the profits attributable to the controlling company:**

<b>Total remuneration of Directors (in thousands of euros)</b>	<b>7,780</b>
<b>Directors' total remuneration profit attributed to the parent company (%)</b>	<b>0.6</b>

**B.1.12 Identify members of senior management who are not also Executive Directors, and indicate the total remuneration they earned during the year:**

<b>Name or company name</b>	<b>Position</b>
Mr Manuel Fernández Álvarez	Head of Wholesale Energy Business
Mr José María Egea Krauel	Head of Energy Planning
Mr José Antonio Couso López	Head of Regulated Electricity Business
Mr José Javier Fernández Martínez	Head of Power Generation
Mr Antoni Peris Mingot	Head of Regulated Gas Business
Mr Daniel López Jordà	Head of Retail Energy Business
Mr Sergio Aranda Moreno	General Manager of Latin America
Mr Antonio Basolas Tena	Head of Strategy and Development
Mr Antonio Gallart Gabás	Chief Corporate Officer
Mr Jordi Garcia Tabernero	Head of Communications and the Chairman's Office
Mr Carlos Javier Álvarez Fernández	Chief Financial Officer
Mr Manuel García Cobeleda	Head of Legal Services
<b>Total remuneration of senior management (in thousands of euros)</b>	<b>10,573</b>

**B.1.13** Indicate if there are guarantee or ironclad clauses for cases of dismissal or control changes in favour of members of senior management, including Executive Directors of the company or its group. Indicate if these contracts must be notified and/or approved by the bodies of the company or its group:

<b>Number of beneficiaries</b>			13
	<b>Board of Directors</b>	<b>General Meeting</b>	
<b>Body that authorises the clauses</b>	No	No	
<b>Is the General Meeting informed of the clauses?</b>			Yes

**B.1.14** Indicate the process for establishing the remuneration of the members of the Board of Directors and the relevant clauses of the Articles of Association in that respect:

**Process for establishing payment for the members of the Board of Directors and the statutory clauses**

Article 22 of the Regulations of the Board of Directors states the following:

“1. The position of Director of Gas Natural SDG, S.A. shall be remunerated in the form set out in the Articles of Association, in the light of the report issued by the Appointments and Remuneration Committee, pursuant to Article 31 of these regulations.

The Appointments and Remuneration Committee shall propose to the General Meeting of Shareholders the criteria it deems appropriate to assure compliance with the purposes of this article, and the Board shall be responsible for its approval and the final distribution of the total sum, within the limits set out in the Articles of Association for that purpose. Each year, whenever it deems appropriate, the Board of Directors shall be entitled to approve payments of the amounts pertaining to each Director for the activities performed during that period.

2. The Board shall define the payment policy for its Directors, determining (i) the amounts corresponding to the fixed components, with a breakdown of those that correspond to the participation in the Board and its Committees and (ii) the variable concepts, where applicable, specifying their relative importance with regard to the fixed components. Except for just cause, remuneration through the delivery of shares, stock options or instruments referenced to the share value shall be limited to Executive Directors.

3. Remuneration of the Directors shall be transparent. The Annual Report, which is an essential part of the Annual Accounts, shall contain any information deemed appropriate concerning the remuneration received by the members of the Board of Directors.”

Complementing the foregoing, section 2 of Article 31 expressly states: “The Committee (Appointments and Remuneration Committee) has powers to examine and submit the following matters: putting forward criteria for the remuneration of the company’s Directors and to assure transparency in remunerations...”

Furthermore, Article 44 of the revised text of the Articles of Association, in accordance with the agreements adopted in the General Meeting of Shareholders of 14 April 2011, specifically states:

“The Board of Directors will receive remuneration of 4% of the resulting profit, having deducted overheads, interest, taxes and other amounts that have to be allocated to write-down and repayment, unless the Board agrees to reduce the amount receivable in those years in which it deems such action appropriate. The resulting amount will be for distribution to the Board of Directors and its delegated committees, as well

as to members of the Board that perform executive functions. It will be distributed in a manner deemed most opportune by the Board, both with regard to distribution among members, particularly the Chairman, in accordance with the duties and the time each member dedicates, as well as the form of expenses, statutory remuneration, compensation for executive duties, etc.

Administrators with executive duties in the company, regardless of their legal relationship with the company, will have the right to receive remuneration in exchange for these functions, which may be a fixed amount or a bonus, as well as incentive systems and another part that could include pension plans or insurance schemes and, if appropriate, the national social security scheme. Compensation may be payable in the event of termination not due to a breach of their functions.

The amount receivable by the Board, pursuant to the foregoing, may only be allocated once shareholders have been paid a minimum dividend of 4% of the share capital paid-up, pursuant to the provisions laid down in Article 218 of the Capital Companies Act.

By the same token, within the limits of the previous sections, all members may be remunerated with corporate shares or shares of another listed company of the group to which it belongs, options over the shares or instruments associated to the share price. This remuneration must be agreed by the General Meeting of Shareholders. If appropriate, the agreement will specify the number of shares to be handed over, the price of exercising the option right, the reference share price value and the duration of this method of remuneration".

Indicate whether or not the Board in its plenary session has reserved the right to adopt the following decisions:

<b>At the proposal of the chief executive of the company, the appointment and possible resignation of senior executives, as well as their compensation clauses</b>	Yes
<b>The remuneration of Directors, as well as, in the case of executives, the additional remuneration through their executive duties and other conditions that their contracts must include</b>	Yes

**B.1.15** Indicate whether or not the Board of Directors adopts a detailed payments policy and specify the matters on which it pronounces:

Yes  No

<b>Amount of the fixed elements, with a breakdown if applicable of the allowances for participation on the Board and its Committees, and an estimate of the annual fixed remuneration to which they are entitled</b>	Yes
<b>Variable payment concepts</b>	Yes
<b>Main characteristics of the social benefits systems, with an estimate of the equivalent annual cost or amount</b>	Yes
<b>Conditions to be observed in the contracts of those who exercise senior management functions as Executive Directors</b>	Yes

**B.1.16** Specify whether the Board submits a report on the remuneration policy for Directors to voting at the General Meeting as a separate, consultative matter on the agenda. Where applicable, explain the aspects of the report regarding the salary policy adopted by the Board for future years, the most significant changes in the said policies with regard to that applied during the year, and the global summary of how the remuneration policy was applied during the year. Give details of the role played by the Remuneration Committee and, if external consultancy services have been used, the identity of the external consultants that have provided the service:

Yes  No

#### Matters covered by the remuneration policy:

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The Report on Remuneration of Directors for 2010 was approved as a separate, consultative matter on the agenda, at the General Meeting held on 14 April 2011.

Remuneration of Directors in 2011 was set in accordance with criteria concerning the amount of time they spend, qualifications and responsibility, and in no case does the amount compromise their independence in the performance of their functions.

It was deemed particularly appropriate to keep the values the same as the previous year which, in turn, had not changed since 2007.

Consequently, the Board of Directors received the following remuneration in 2011:

- Chairman of the Board of Directors: 550,000.00 euros/year.
- Director: 126,500.00 euros/year.
- Chairman of the Executive Committee: 550,000.00 euros/year.
- Member of the Executive Committee: 126,500.00 euros/year.
- Member of the Appointments and Remuneration Committee: 12,650.00 euros/year.
- Member of the Audit and Control Committee: 12,650.00 euros/year.

Remuneration for sitting on the company's governing bodies involves a fixed annual amount. The Directors have not received attendance allowances.

The remunerations policy with regard to Executive Directors for the performance of their executive duties, other than collegiate supervision and decision-taking, inherent to their post on the governing body are based on the following premises:

- Having a competitive global remuneration level with regard to comparable companies in the energy sector.
- Maintaining an annual bonus tied to measurable targets aligned with shareholders' interests, with control and measurement systems, that determine the bonus received based on assessments that measure individual performance, performance of the business units and the company as a whole.
- Including medium/long-term multi-year bonus systems that encourage targets sustained over time to be achieved and holding on to critical persons associated to these targets.

We should point out that in 2011 there were no significant changes to the remuneration policy with regard to the policy applied in 2010.

The criteria pursued to establish the remuneration policy has been moderation, compensation for the time spent and a focus on the evolution of earnings.

#### Role played by the Remuneration Committee:

For future years, the Appointments and Remuneration Committee has provided a favourable report to the Board of Directors concerning maintenance of the remunerations policy pursued to date, based on the principles of moderation, compensation for the amount of time spent and in line with earnings.

In exercise of the terms of reference given by the Regulations of the Board to the Appointments and Remunerations Committee, the latter proposed the remuneration criteria of company directors, which were adopted by the Board of Directors at its session held on 25 February 2011.

Have external consultancy services been used? –

Identity of the external consultants –

**B.1.17** Indicate, where applicable, the identity of Board members who are also members of the Boards of Directors, Directors or employees of companies that hold significant stakes in the listed company and/or companies of your group:

Name or company name of Director	Company name of significant shareholder	Position
Mr Salvador Gabarró Serra	Caja de Ahorro y Pensiones de Barcelona	First Deputy Chairman
Mr Antonio Brufau Niubó	Repsol YPF, S.A.	Chairman
Mr Juan María Nin Génova	Caja de Ahorro y Pensiones de Barcelona	General Director
Mr Juan María Nin Génova	Repsol YPF, S.A.	Director
Mr Juan María Nin Génova	Criteria CaixaHolding, S.A.U.	Deputy Chairman
Mr Luis Suárez de Lezo Mantilla	Repsol YPF, S.A.	Voting Secretary
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Head of Upstream

Provide details, if appropriate, of the relevant relationships other than those included in the previous heading, of the members of the Board of Directors with the significant shareholders and/or in entities of its group:

Name or company name of associated Director	Name or company name of significant linked shareholder	Description of relationship
Mr Salvador Gabarró Serra	Caja de Ahorros y Pensiones de Barcelona	Director of Caixabank, S.A.
Mr Antonio Brufau Niubo	Repsol YPF, S.A.	Chairman of YPF, S.A.
Mr Juan María Nin Génova	Caja de Ahorros y Pensiones de Barcelona	Vice-president and CEO of Caixabank, S.A.
Mr Juan María Nin Génova	Caja de Ahorros y Pensiones de Barcelona	Director of Vidacaixa Grupo, S.A.U.
Mr Juan Rosell Lastortras	Caja de Ahorros y Pensiones de Barcelona	Director of Caixabank, S.A.
Mr Luis Suárez de Lezo Mantilla	Repsol YPF, S.A.	Director of YPF, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Chairman of Repsol Exploración, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Joint and several administrator of Repsol Investigaciones Petrolíferas, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Joint and several administrator of Repsol Exploración Argelia, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Joint and several administrator of Repsol Exploración Argelia, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Joint and several administrator of Repsol Exploración Murzuq, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Natural person representing Repsol Exploración, S.A., sole Administrator of Repsol Exploración Irlanda, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Natural person representing Repsol Exploración, S.A., sole Administrator of Repsol Exploración Suriname, S.L.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Natural person representing Repsol Exploración, S.A., sole Administrator of Repsol OCP de Ecuador, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Natural person representing Repsol Exploración, S.A., sole Administrator of Repsol Exploración Ecuador, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Joint and several administrator of Repsol YPF Oriente Medio, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Chairman of Repsol Sinopec Brasil, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Joint and several administrator of Repsol Exploración Sierra Leona, S.L.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Natural person representing Repsol Exploración, S.A., Sole administrator of Repsol Exploración Perú, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Natural person representing Repsol Exploración, S.A., sole Administrator of Repsol Exploración Colombia, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Natural person representing Repsol Exploración, S.A., sole Administrator of Repsol Exploración Atlas, S.A.

Name or company name of associated Director	Name or company name of significant linked shareholder	Description of relationship
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Natural person representing Repsol Exploración, S.A., sole Administrator of Repsol Exploración Kazakhstan, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Natural person representing Repsol Exploración, S.A., sole Administrator of Repsol Exploración Tobago, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	Natural person representing Repsol Exploración, S.A., sole Administrator of Repsol OCP de Ecuador, S.A.

**B.1.18** Indicate whether or not there has been any modification to the regulations of the Board during the year:

Yes  No

**Description of modifications**

In 2011, the Regulations of the Board of Directors were amended twice, through agreements dated 25 February and 30 September.

**25 February 2011:**

Harmonisation and adaptation of the Regulations of the Board to the amendments introduced by Law 12/2010, which amends Law 19/1988 of 12 July, governing Accounts Auditing, Law 24/1988 of 28 July, governing the Securities Market, and the consolidated text of the Public Limited Companies Act, approved through Royal Legislative Decree 1564/1989 of 22 December, as well as Royal Legislative Decree 1/2010 of 2 July, which approves the consolidated text of the Capital Companies Act.

**30 September 2011:**

Setting an economic ceiling above which any guarantee granted in favour of entities that do not belong to the group or which belong to it but which have external shareholders with a stake in excess of 25% must be previously approved by the Board of Directors or the Executive Committee.

**B.1.19** Indicate the procedures for the appointment, re-election, assessment and removal of Directors. Provide details of the competent bodies, the procedures to be followed and the criteria applicable in each procedure.

1. Appointment:

The General Meeting of Shareholders is competent for appointing Directors and establishing the number thereof, subject to the limits stipulated in Article 41 of the Articles of Association.

If vacancies were to arise during the term for which the Directors were appointed, the Board shall be entitled to designate, using the co-option system, among the shareholders, the persons to occupy these vacancies until the next General Meeting of Shareholders is held.

A person does not have to be a shareholder to be appointed as a Director, except in the event of the aforementioned appointment by co-option.

Persons subject to prohibition or professional incompatibility as established by law cannot be appointed as Administrator.

It will be necessary to appoint persons who not only satisfy legal provisions and those laid down in the Articles of Association for the position, but who have a prestigious position and are equipped with the professional skills and expertise required to perform their duties.

Directors are appointed and re-elected in accordance with a formal and transparent procedure, following a report from the Appointments and Remuneration Committee.

All the proposals for the appointment of Directors submitted by the Board of Directors to the General Meeting of Shareholders and the approved appointment decisions by co-option shall have to be notified previously by the Appointments and Remuneration Committee. When the Board does not follow the recommendations of said Committee, it will have to explain the reasons and record the said reasons in the minutes. Directors affected by appointment, re-election or replacement proposals shall refrain from attending or taking part in the deliberations and votes of the Board of Directors or of the Committee dealing with said proposals.

Pursuant to the Regulations of the Board of Directors, the following persons cannot be proposed or designated as External Independent Directors:

- a) Those who have been employees or Executive Directors of companies in the group unless 3 or 5 years, respectively, have lapsed since the said relationship.
- b) Those who receive from the company or the group whatsoever amount or benefit for a concept other than the Director's remuneration, unless it is not significant.

For the intents and purposes of the provisions laid down in this section, consideration shall not be given to the dividends or pension complements received by the Director as a result of his/her previous professional or labour relationship, as long as the said complements are unconditional and, consequently, the company paying them cannot suspend, modify or revoke their accrual at its discretion without a breach of obligations.

- c) Those who are or have been during the last 3 years a partner of the external auditor or the party responsible for the auditors' report for the audit during the said period of the company or any other company of the group.
- d) Those who are Executive Directors or senior executives of another company in which any Executive Director or senior executive of Gas Natural SDG, S.A. is an External Director.



e) Those who maintain or have maintained during the last year an important business relationship with the company or with any company of the group either on their own behalf or as a majority shareholder, Director or senior executive of an institution that maintains or would have maintained the said relationship.

The consideration of business relation shall apply to that of goods or services supplier, including financial, advisory or consultancy services.

f) Those who are majority shareholders, Executive Directors or senior executives of an institution that receives or has received during the last three (3) years significant donations from any of the companies of the group.

This shall not include those who are mere patrons of a foundation that receives donations.

g) Those who are spouses, individuals bound by a similar kinship or second-degree relatives of an Executive Director or senior executive of the company.

h) Those who have not been proposed for either appointment or renovation by the Appointments and Remuneration Committee.

i) Those who are in any of the cases indicated in paragraphs a), e), f) or g) of this section with regard to any majority shareholder or shareholder represented on the Board. In the case of kinship as per paragraph g), the limitation shall apply not only to the shareholder but also to its Proprietary Directors in the investee company.

Proprietary Directors who lose such status due to the sale of their holding by the shareholder who they represent may only be reappointed as Independent Directors when the shareholder he/she represented until then has sold all of his/her shares in the company.

A Director who has a shareholding in the company may have an independent status, provided he/she satisfies all conditions set forth in this article and also his/her holding is not significant.

## 2. Re-election:

Directors shall be appointed to their position for a term of three (3) years, although outgoing Directors can be re-elected once or several times. Under no circumstances shall the Independent Directors remain in their post as such for a period of more than 12 years.

## 3. Assessment:

In accordance with Article 4.5 of the Board Regulations, every year the quality and performance of the Board will be assessed, along with that of its Committees, following a report from the same.

## 4. Replacement or removal:

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, Directors shall be replaced in all other circumstances where applicable pursuant to the law, the Articles of Association and Regulations of the Board of Directors.

According to Article 15.4 of the Regulations of the Board of Directors, when an Independent Director resigns from his/her post prior to the termination of his/her term of office, he/she shall explain the reasons in a letter addressed to the other Directors. The resignation shall be notified as relevant information.

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**B.1.20** Indicate cases in which Directors are compelled to resign.

Besides the cases of professional incompatibility or prohibition applicable by law, Article 15 of the Regulations of the Board of Directors states:

"... 2. Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

- a) When Internal Directors leave the executive positions outside the Board and which were associated with their appointment as Director.
- b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these regulations.
- c) When they commit a serious breach of their obligations as Directors, jeopardising the interests of the company.
- d) When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

3. Once a Director has been relieved of his/her duties, he/she shall not be permitted to offer his/her services in a rival company for two years, unless the Board of Directors exempts him/her from this obligation or shortens the duration thereof."

**B.1.21** Explain whether the duties of the chief executive of the company correspond to the position of Chairman of the Board. If this is the case, indicate the measures, which have been taken to limit the risks of accumulation of powers in a single person:

Yes  No

Indicate and, where applicable, explain whether or not rules have been laid down to empower one of the Independent Directors to request the call of a Board meeting or the inclusion of new matters on the agenda to coordinate and report the concerns of the External Directors and direct the assessment by the Board of Directors.

Yes  No

**B.1.22** Are reinforced majorities other than those applicable by law required for any type of decision?

Yes  No

Indicate how decisions are taken in the Board of Directors, specifying at least the minimum quorum and the type of majorities for approving decisions:

Description of decision	Quorum	%	Type of majority	%
Various corporate decisions.	Article 47 of Articles of Association and Article 10 of Board Regulations. Half plus one of the members in attendance or represented.	52.94	Articles 49 and 50 of the Articles of Association and 10 of the Board Regulations. Absolute majority of those in attendance or represented. Two-thirds majority for the delegation of powers.	52.94

**B.1.23** Indicate if there are specific requirements other than those relating to Directors in order to be appointed as Chairman.

Yes  No

**B.1.24** Indicate whether the Chairman has a casting vote:

Yes  No

**B.1.25** Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

Yes  No

Age limit for Chairman	Age limit for CEO	Age limit for Directors
0	0	0

**B.1.26** Indicate whether the Articles of Association or the Board Regulations establish a limited mandate for Independent Directors:

Yes  No

Maximum number of years of mandate	12
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**B.1.27** If there are few or no female Directors, explain the reasons or the initiatives adopted to correct this situation.

Explanation of the reasons and the initiatives	Cf. Section F. Recommendation 15.
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In particular, indicate whether or not the Appointments and Remuneration Committee has laid down procedures to ensure that the selection processes are not subject to implicit bias that prevents the selection of female Directors and deliberately look for female candidates with the required profile:

Yes  No

#### Indicate the main procedures

Article 31.2 of the Regulations of the Board of Directors lays down the Appointments and Remuneration Committee obligation to ensure that "[...] when covering new vacancies, selection processes shall apply that are not subject to implicit bias that prevents the selection of female Directors, where the potential candidates shall include, under the same conditions, women that meet the professional profile being sought."

**B.1.28** Indicate if there are formal processes for delegation of votes in the Board of Directors. If so, describe them briefly.

According to Article 47 of the Articles of Association: "[...]The Directors who are unable to attend shall be entitled to confer their representation to another Director, there being no limit on the number of representations that each Director can have. The representation shall have to be granted by means of any written document, and also by telegram, telex or telefax."

Furthermore, Article 10.3 of the Regulations of the Board of Directors states: "Each Director shall be entitled to confer his/her representation to another Director, there being no limit on the number of representations held by each member for attending the Board meeting. Absent Directors' representations can be conferred by means of any written document, and by telegram, email, telex or telefax addressed to the Chairman's Office or the Board Secretary sufficiently in advance."

**B.1.29** Indicate the number of meetings that the Board of Directors has held over the year. Also indicate, where applicable, how many times the Board has met without the Chairman being present:

Number of meetings of the Board	13
Number of Board meetings without the Chairman attending	0

Indicate the number of meetings held by the different Board committees over the year:

Number of meetings of the Executive or Delegated Committee	9
Number of meetings of the Audit Committee	5
Number of meetings of the Appointments and Remuneration Committee	8
Number of meetings of the Appointments Committee	0
Number of meetings of the Remuneration Committee	0

**B.1.30** Indicate the number of meetings held by the Board of Directors during the year without the attendance of all its members. When calculating the number, representations made without specific instructions shall be considered as non-attendance:

Number of non-attendances of Directors during the year	12
% of non-attendances over the total number of votes during the year	5.454

**B.1.31** Indicate if the Individual and Consolidated Annual Accounts submitted for approval by the Board are certified previously:

Yes  No

Identify, where applicable, the person(s) who has/have certified the company's individual and consolidated annual accounts in order to be drawn up by the Board:

Name	Position
Mr Carlos Javier Álvarez Fernández	Chief Financial Officer

**B.1.32** Explain, where applicable, the mechanisms established by the Board of Directors to prevent the individual and consolidated annual accounts it draws up from being submitted to the General Meeting of Shareholders with qualifications in the auditor's report.

In accordance with Article 7 of the Regulations of the Board:

"1. Once it has received the reports issued by the Financial-Economic Department and by the Audit and Control Committee, and following pertinent clarifications, the Board of Directors shall draw up the individual and consolidated Annual Accounts and the Management Report, in clear and precise terms which render their content easily intelligible. The Board of Directors shall ensure that said accounts provide a true and fair view of the assets, financial position and the results of the company, pursuant to laws applicable.

2. Unless expressly stated otherwise in the minutes, it will be understood that before signing the formulation of the Annual Accounts required by law, the Board of Directors and each one of its members has been provided with the information necessary to perform this deed, and may record the exceptions it deems pertinent, where applicable.

3. The Board of Directors shall endeavour to prepare the accounts in such a way that the auditor of the company's accounts shall be unable to record qualifications. Nevertheless, if the Board of Directors considers that its criterion must be maintained, it will publicly explain the content and extent of the discrepancy."

Article 32 of the Regulations of the Board of Directors regulates the duties of the Audit and Control Committee, and certain powers and functions it assigns to said Committee pertain to the auditing process.

**B.1.33** Is the Secretary of the Board a Director?

Yes  No

**B.1.34** Explain the procedures for appointing and dismissing the Secretary of the Board, indicating whether or not his/her appointment and dismissal have been reported by the Appointments Committee and adopted by the Board in its plenary session.

#### Appointments and dismissal procedure

Article 26 of the Regulations of the Board of Directors states the following:

"The Secretary of the Board shall be appointed and dismissed by the latter after a report issued by the Appointments and Remuneration Committee and shall not necessarily have to be Director. He/She shall be responsible for exercising the functions attributed to his/her status by mercantile legislation and these regulations."

Does the Appointments Committee report the appointment?	Yes
Does the Appointments Committee report the dismissal?	Yes
Does the plenary session of the Board adopt the appointment?	Yes
Does the plenary session of the Board adopt the dismissal?	Yes

Is the Secretary of the Board commissioned with the duty of especially supervising the good governance recommendations?

Yes  No

**Observations**

Article 26 of the Regulations of the Board of Directors states in its point three the following:

“The Secretary of the Board shall be responsible for the formal and material legality of the Board’s actions at all times, ensuring that their procedures and governing rules are regularly reviewed.”

**B.1.35** Indicate, where applicable, the mechanisms established by the company to safeguard the independence of the auditor, financial analysts, investment banks and rating agencies.

According to Article 32.2 of the Board Regulations, the Audit and Control Committee is responsible for maintaining relations with the external auditors to receive information on any questions which could jeopardise their independence, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and auditing standards.

Furthermore, the Board of Directors is compelled by its own Regulations (Article 6.4) to maintain a direct relationship with members of the company’s top-tier management and the auditors. The objective, professional and continuous nature of this relationship shall respect the independence of the auditors to the utmost.

The company’s relations with financial analysts and investment banks are based on the principles of transparency, simultaneity and non-discrimination, as well as the existence of specific and different agents for each collective.

In addition, the company shall take special care not to compromise or interfere with the independence of the financial analysts in respect of the services offered by investment banks, in accordance with the internal codes of conduct established by them and designed to separate their analysis and assessment services.

**B.1.36** Specify whether the company has changed of external auditor over the year. If appropriate, identify the incoming and outgoing auditors:

Yes  No

**Outgoing auditor**

**Incoming auditor**

–

In the case of disagreements with the outgoing auditor, explain the content of the said disagreements:

Yes  No

**B.1.37** Indicate if the audit company performs other tasks for the company and/or its group other than auditing activities, and if so, state the amount of the fees received for said activities and the percentage of the fees billed to the company and/or its group:

Yes  No

	Society	Group	Total
<b>Amount of tasks other than auditing activities (in thousands of euros)</b>	784	415	1,199
<b>Amount of tasks other than auditing/Total amount billed by the audit company (%)</b>	49.970	10.880	22.270

**B.1.38** Specify whether the Auditor's Report on the Annual Accounts from the previous year includes any reservations or exceptions. Where applicable, indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of the said reservations or exceptions.

Yes  No

**B.1.39** Indicate how many years the current audit company has been auditing, without interruption, the annual accounts of the company and/or its group. Also indicate the percentage of the number of years audited by the current audit company over the total number of years that the annual accounts have been audited:

	Society	Group
<b>Number of years without interruption</b>	21	21
<b>No. of years audited by the current audit company / No. of years the company has been audited (%)</b>	100.0	100.0

**B.1.40** Indicate the holdings of the members of the Board of Directors in the capital of companies which have the same, similar or complementary type of activity that constitutes the business purpose of the company and of its group, and of which the company has been informed. Also indicate the positions or duties that they perform in these companies:

Name or company name of Director	Name of object company	% holding	Position or duties
Mr Salvador Gabarró Serra	Iberdrola, S.A.	0.001	–
Mr Salvador Gabarró Serra	Enagás, S.A.	0.006	–
Mr Salvador Gabarró Serra	Red Eléctrica Corporación, S.A.	0.008	–
Mr Antonio Brufau Niubó	Repsol YPF, S.A.	0.019	Chairman
Mr Rafael Villaseca Marco	Repsol YPF, S.A.	0.000	–
Mr Rafael Villaseca Marco	Iberdrola, S.A.	0.000	–

Name or company name of Director	Name of object company	% holding	Position or duties
Mr Rafael Villaseca Marco	Enagás, S.A.	0.000	–
Mr Rafael Villaseca Marco	Endesa, S.A.	0.000	–
Mr Enrique Alcántara-García Irazoqui	Iberdrola, S.A.	0.000	–
Mr Juan María Nin Génova	Repsol YPF, S.A.	0.000	Director
Mr Luis Suárez de Lezo Mantilla	Repsol YPF, S.A.	0.001	Voting Secretary
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol YPF, S.A.	0.002	Head of Upstream

**B.1.41** Indicate and, where applicable, provide details of whether there is a procedure whereby Directors can have external assessment:

Yes  No

**Details of the procedure**

In accordance with internal regulations, Directors are entitled to propose to the Board, via the Secretary and by means of a notification directed to the Chairman, that external advisors be hired at the company's expense (legal, accounting, technical, financial, commercial advisors or of any other kind), advisors they consider necessary for the company's interests, to provide assistance in their duties when faced with specific problems of some relevance and complexity associated with their duties. (Article 21.2 of the Regulations of the Board and first paragraph of Article 21.3).

The Board of Directors shall be entitled to veto the approval of the proposal if considered unnecessary, in view of the amount involved, or if it considers that the said assessment can be provided by the company's own specialists and technicians (Article 21.3 of the Regulations of the Board).

**B.1.42** Indicate and, where applicable, provide details of whether there is a procedure whereby Directors can have the information necessary to prepare the meetings of the Boards of Directors with sufficient time:

Yes  No

**Details of the procedure**

Article 9.2 of the Regulations of the Board of Directors states:

"2. Ordinary meetings shall be convened by the Chairman, or by the Secretary or Assistant Secretary following the order of the Chairman, through any of the channels set out in the Articles of Association, including by email, provided the recipient Director has given his/her address in said mail. The notification shall include the place and the agenda of said meeting and shall be issued, barring exceptional cases, at least 48 hours before the meeting is to be held. Prior to each meeting, the Directors shall be furnished with the information and documentation considered to be pertinent or relevant regarding the subjects to be addressed in the Board meeting. Directors shall also be furnished with the minutes of the previous meeting, regardless of whether said minutes have been approved or not...

The Board meeting shall have a quorum, without being previously convoked, if all the Directors are present or represented and unanimously accept that the Board meeting be held."

However, according to Article 2.3 of the Regulations of the Board, when the agreement to be adopted is the modification of the Regulations of the Board of Directors, the Chairman of the Board, the Audit and Control Committee or at least four Directors may propose the said modifications to the Board when circumstances arise which, in their opinion, make it appropriate or necessary, attaching a report explaining the reasons and scope of the modification being proposed, where applicable. The Board shall be called by means of individual notice sent to each of the members with more than 15 days' notice of the date of the meeting."

Articles 21.1 and 3 of the aforementioned regulations state the following concerning the right of information of Directors:



"1. Directors shall have access, through the Chairman, and, as the case may be, through the Secretary, to all the company's services, and shall be entitled to collect, with unlimited powers, any information or assessment they may require regarding any aspect of the company. The right of information also applies to the subsidiaries and shall be channelled through the Chairman or the Secretary of the Board of Directors or of the pertinent Committees of the Board, furnishing him/her with the information directly, offering him/her the appropriate agents or taking any measures required for the requested analysis.

[...]

3. The Chairman of the company shall have to be notified of the request for access and the proposal referred to in numbers 1 and 2 of this Article through the Secretary of the Board of Directors."

It is usual practice to send the members of the Board of Directors, together with the call to the meeting, all the information that may be useful for learning the matters on the agenda for the Board meeting. In our opinion, the information given is considered complete and sufficient for the members of the Board of Directors to reach an opinion and form criteria.

Likewise, during and following the meeting, Directors shall be furnished with any information or clarifications they deem appropriate in respect of the points included in the agenda, or points which were not included but which were addressed in the same meeting.

**B.1.43** Indicate and, where applicable, give details of whether or not the company has laid down rules that oblige the Directors to report and, if necessary, resign in cases that damage the company's credit and reputation:

Yes  No

#### Explain the rules

Article 15.2 of the Regulations of the Board of Directors states the following:

"Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

- a) When Internal Directors leave the executive positions outside the Board and which were associated with their appointment as Directors.
- b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these regulations.
- c) When they commit a serious breach of their obligations as Directors, jeopardising the interests of the company.
- d) When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable."

**B.1.44** Indicate whether or not any member of the Board of Directors has informed the company that he/she has been prosecuted or hearings against him/her have been opened for any of the offences laid down in Article 124 of the Public Limited Companies Act:

Yes  No

Indicate whether or not the Board of Directors has analysed the case. If the answer is affirmative, give a reasoned explanation of the decision taken as to whether or not the Director remains in his/her post.

Yes  No

Decision taken

Reasoned explanation

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## B.2 Committees of the Board of Directors

### B.2.1 Provide details of all the committees of the Board of Directors and their members:

#### Executive Committee

Name	Position	Type
Mr Salvador Gabarró Serra	Chairman	Executive
Mr Antonio Brufau Niubó	Deputy Chairman	Proprietary member
Mr Carlos Kinder Espinosa	member	Proprietary member
Mr Carlos Losada Morradán	member	Independent
Mr Demetrio Carceller Arce	member	Proprietary member
Mr Emiliano López Achurra	member	Independent
Mr Juan María Nin Génova	member	Proprietary member
Mr Rafael Villaseca Marco	member	Executive

#### Audit and Control Committee

Name	Position	Type
Mr Carlos Losada Morradán	Chairman	Independent
Mr Carlos Kinder Espinosa	Board member	Proprietary member
Mr Luis Suárez de Lezo Mantilla	Board member	Proprietary member

#### Appointments and Remuneration committee

Name	Position	Type
Mr Miguel Valls Maseda	Chairman	Independent
Mr Antonio Brufau Niubó	Board member	Proprietary member
Mr Santiago Cobo Cobo	Board member	Independent

### B.2.2 Specify whether the Audit Committee is responsible for the following:

Supervising the preparation process and integrity of the financial information related to the company and, where applicable, the group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of the bookkeeping criteria	Yes
Regularly reviewing the internal control and risk management systems so that the main risks can be identified, processed and appropriately publicised	Yes

<b>Ensuring the independence and effectiveness of the internal audit duty; propose the selection, appointment, re-election and dismissal of the person in charge of the internal audit service; forward the budget for this service; receive periodic information on its activities, and verify that senior management considers the conclusions and recommendations in its reports</b>	Yes
<b>Setting up and supervising a mechanism that enables employees to communicate any significant irregularities, especially those related to finance and bookkeeping, and to do so in a confidential manner and, if considered suitable, anonymous</b>	Yes
<b>Raising the selection, appointment, re-election and substitution proposals concerning the external auditor to the Board, as well as the terms and conditions of his/her contract</b>	Yes
<b>Receiving information from the external auditor on the audit plan and the results of carrying it out and checking that senior management take its recommendations into account</b>	Yes
<b>Guaranteeing the independence of the external auditor</b>	Yes
<b>In the case of groups, it should favour the group's auditor assuming the responsibility for the audits of the companies in the group</b>	Yes

### **B.2.3 Describe the organisational and operational rules and the responsibilities attributable to each of the Board's committees.**

<b>Committee name</b>	<b>Brief outline</b>
Appointments and Remuneration Committee	<p>Appointments and Remuneration Committee (Article 31 of the Regulations of the Board of Directors).</p> <p><b>Duties:</b></p> <p>The Committee carries out research and makes proposals to the Board for the following issues:</p> <ul style="list-style-type: none"> <li>• Putting forward criteria for the remuneration of the company's Directors and to assure transparency in remunerations.</li> <li>• Putting forward the general policy for remuneration of the executives of the group.</li> <li>• Putting forward the guidelines for appointments, selection, careers, promotion and dismissal of top-tier management, in order to ensure that the group always has highly qualified personnel, suitable for the management of its activities.</li> <li>• Reviewing the structure and composition of the Board of Directors, the criteria that should be applied to the statutory renewal of the Directors, the aptitudes required of the candidates to cover each vacancy, the fulfilment of the requirements for each category of Director and the process for the incorporation of new members, raising the corresponding reports to the Board as applicable. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought.</li> </ul>

- Issuing a report on the transactions that involve or may involve conflicts of interests and, in particular, transactions with associated parties submitted to the Board.
- Issuing a report on the appointments and dismissals of the members of top-tier management.

**Organisation and operation:**

The Appointments and Remuneration Committee shall comprise a minimum of three and a maximum of five Directors, designated by the Board of Directors from among the External Directors, bearing in mind their experience and aptitudes. Its members shall leave their post when they do so in their capacity as Directors, when agreed by the Board of Directors, or after a period of three years from their appointment. They can be re-elected.

The Board of Directors shall elect the Chairman from among the members of the Committee; the Chairman shall not have the casting vote. The Secretary of the Committee shall be the same as the Secretary of Board of Directors.

The committee shall hold meetings whenever necessary to issue its reports, when considered necessary by the Chairman or upon request from two of its members. At least four meetings per year must be held. They shall be called by the Chairman with prior notice of at least two days before the meeting date, except in certain defined circumstances. Notification for the meeting shall include the agenda together with the pertinent documents to aid proceedings. The meetings shall normally take place at the registered office.

Committee name	Brief outline
Executive or Delegated Committee	<p data-bbox="493 1254 1648 1279">Executive Committee (Articles 50 and 51 of the Articles of Association and Article 30 of the Board Regulations):</p> <p data-bbox="493 1322 624 1347"><b>1.1. Powers.</b></p> <p data-bbox="493 1390 1648 1515">The Board of Directors may designate one or more Executive Committees and appoint one or more Chief Executive Officers and delegate them, temporarily or permanently, any or all of the functions, except those that legally or by agreement of the General Meeting, were within the exclusive jurisdiction thereof, or that may not be delegated by the Board.</p> <p data-bbox="493 1558 1594 1614">By agreement of the Board of Directors on 20 February 1992, the following powers were delegated to the Executive Committee:</p> <ul data-bbox="493 1657 1667 2077" style="list-style-type: none"> <li>• Organising, directing and inspecting all services and facilities of the company.</li> <li>• Appointing, suspending and dismissing employees and workers of the company and establishing salaries, as well as providing guarantees to those employees with whom the company has an agreement to provide.</li> <li>• Establishing the salary that should be paid for extra services.</li> <li>• Auditing the company’s funds.</li> <li>• Receiving, directing and answering private requests and advocating the drawing up of minutes of all kinds.</li> <li>• Issuing, endorsing, accepting, collecting and discounting bills of exchange and other draft documents, drawing up re-accounts and summoning protests for non-acceptance or non-payment.</li> </ul>

- Monitoring, opening, cancelling in the Banco de España, in any locality, or any other bank, savings bank or establishment, current and credit accounts signing, for this purpose, cheques, orders, policies and other documents; and requesting, agreeing to or rejecting statements and account balances.
- Making payments and collections for any security and quantity and even making payment orders for the State, autonomous regions, provinces or municipalities, signing receipts and official receipts.
- Collecting letters, certificates, dispatches, parcels, money orders and goods with declared monetary value from Post Offices, rail and shipping companies and in general all transport companies, customs and agencies, as well as sent merchandise and stock, and making objections and complaints, and the refusal and abandonment of goods.
- Opening, replying to and signing correspondence and updating the accounting books in accordance with the law.
- Contracting insurance of all kinds, signing policies and related documents and receiving indemnities where appropriate.
- Representing the company in acquaintances and grace intervals, insolvencies, defaults, bankruptcy of debtors, attending General Meetings, appointing trustees and administrators, accepting or rejecting the proposals of the debtor and carrying out all the paperwork until the end of the procedure.
- Buying, selling, leasing, reducing, or conditionally or simply exchanging, with the declared price, deferred or paid in cash, all kinds of movable and immovable assets, in rem and personal rights, carrying out planting and building declarations, surveys and marking of boundaries, consolidations and severances and granting contracts of all kinds.
- Establishing, accepting, modifying, acquiring, disposing of, postponing and cancelling, wholly or partially before or after maturity, whether or not the insured security has been fulfilled, mortgages, liens, prohibitions, conditions and all kinds of limitations or guarantees, as well as easements and other *in rem* rights.
- Establishing, merging, transforming, dissolving and liquidating all types of companies, associations, economic interest groups, European economic interest groups and joint ventures, assisting or intervening in all types of Boards, providing companies all kinds of goods, receiving in return holdings, fees, rights and actions that may apply and, in case of dissolution, the appropriate assets.
- Participating in tenders and auctions, submitting proposals and accepting awards.
- Buying, selling, trading and pledging securities and receiving interest, dividend and amortisation payments from them.
- Modifying, transferring, cancelling, withdrawing and establishing interim or definite deposits of cash and/or securities.
- Coordinating and arranging bank loans with personal guarantees or pledged securities, with banks, savings banks and credit institutions, including the Banco de España, signing policies and related documents.
- Advocating all kinds of notarial deeds, organising and keeping records of the ownership and release of liens, requesting entries in the mercantile and property registers.

- Appearing in name and representation of the company before centres and organisations of the State; autonomous regions, provinces and municipalities of Spain; judges, courts and judiciary, attorneys, unions, delegations, committees, Boards, juries and commissions and, in general, any individual person or legal entity or public or private entity. And before these parties, requesting, monitoring and terminating as the plaintiff, defendant or for any other concept, all manner of processes, procedures, hearings and actions and administrative and of a tax nature; trials and civil and commercial procedures; criminal trials and hearings; contentious-administrative trials; governmental; labour hearings of all levels, jurisdictions and ranks; lodging petitions, carrying out actions and exceptions at whatsoever procedures, formalities and appeals; including annulments and reviews and other extraordinary appeals acquiescing under decisory or non-decisory oath.
- Appointing trustees and granting them the pertinent powers, both generally and for a specific occasion or event, as well as revoking the powers granted at any time.

Similarly, Article 5 of the Regulations of the Board states that the agreements laid down in points five to eight, ten to 13 and 16 can be adopted, without distinction, by the Board of Directors or the Executive Committee. See Article 5 of the Board Regulations.

Likewise, Article 30.4 of the Regulations of the Board states that the continued monitoring of management by the company's top-tier level is a specific responsibility of the Executive Committee, as is any other of its functions pursuant to the Articles of Association or these regulations or assigned to it by the Board of Directors.

#### 1.2 Organisation and operation:

- The Executive Committee shall be comprised by the Chairman of the Board of Directors and a maximum of another seven Directors, belonging to the groups envisaged in Article 3 of the Regulations and in the same proportion as exists in the Board of Directors. The appointment of the members of the Executive Committee shall require an affirmative vote from at least two thirds of the Board members with existing appointments.
- The Chairman of the Board of Directors will act as Chairman of the Executive Committee and the Secretary of the Board of Directors will undertake the secretariat and may be assisted by the Assistant Secretary.
- The Executive Committee shall be understood to be validly constituted when more than half of its members attend the meeting in person or by representative.
- The members of the Executive Committee shall leave their post when they do so in their capacity as Directors or as agreed by the Board. The positions that become available shall be covered promptly by the Board of Directors.
- The Executive Committee shall hold its ordinary meetings at least once a month. The Secretary will take the minutes of the agreements adopted in the meeting and these will be outlined in the following plenary meeting of the Board of Directors.
- For cases in which, in the view of the Chairman or of the majority of members of the Executive Committee, the importance of the issue so requires, the agreements adopted by the Committee shall be submitted for ratification from the plenary Board meeting.

The same shall be applicable in relation to issues the Board has submitted for examination to the Executive Committee and the Board has the final decision.

In any other case, the agreements adopted by the Executive Committee shall be valid and binding, without the need for subsequent ratification from the full Board meeting.

- The provisions in the regulations for the operation of the Board of Directors shall be applicable to the Executive Committee to the full extent possible.

Committee name	Brief outline
Audit Committee	<p data-bbox="493 789 1561 845">Audit and Control Committee (Article 51 bis of the Articles of Association and Article 32 of the Board Regulations).</p> <p data-bbox="493 891 571 914"><b>Duties:</b></p> <p data-bbox="493 959 911 982">Article 51 bis of Articles of Association:</p> <ol data-bbox="493 1027 1670 1911" style="list-style-type: none"> <li data-bbox="493 1027 1621 1084">"1. Reporting to the General Meeting of Shareholders on questions raised by shareholders with respect to matters within their competence.</li> <li data-bbox="493 1129 1554 1186">2. Proposing to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment of external auditors, pursuant to Article 264 of the Capital Companies Act.</li> <li data-bbox="493 1231 1670 1310">3. Supervising the efficiency of the company's internal control, internal audit services, if appropriate, and the risk management systems, as well as discussing any significant weaknesses of the internal control system detected during the audit with accounts auditors or with audit firms.</li> <li data-bbox="493 1356 1434 1378">4. Supervising the process of compiling and presenting the regulated financial reporting.</li> <li data-bbox="493 1424 1670 1719">5. Establishing the appropriate relations with accounts auditors or audit firms to receive information on any issues which could jeopardise their independence, to be examined by the Committee, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and auditing standards. Under all circumstances, every year they must receive written confirmation from the accounts auditors or audit firms reporting their independence with regard to the entity or entities related to the company, directly or indirectly, as well as information on the additional services of any kind provided to these entities by the foregoing auditors or companies, or by persons or entities related to the auditors, in accordance with the provisions laid down in the Accounts Auditing Act, Law 19/1988 of 12 July.</li> <li data-bbox="493 1764 1645 1843">6. Every year, before issuing the Audit Report, to provide a report that gives an opinion on the independence of the accounts auditors or audit firm. This report shall, in any case, refer to the provision of additional services referred to in the previous section.</li> <li data-bbox="493 1889 1306 1911">7. Any other general or specific function delegated by the Board of Directors.</li> </ol>

The committee will hold meetings as often as decided or whenever called by the Chairman or requested by two of its members. The majority of votes will be used in adopting decisions or recommendations.

The performance of the Audit Committee will be subject to direct application of the rules laid down in the Regulations of the Board of Directors. The provisions in the regulations for the operation of the Board of Directors will apply to the extent possible.

**Organisation and operation:**

The Audit and Control Committee shall comprise a minimum of three and a maximum of five Directors appointed by the Board of Directors from among the External Directors, taking into account their knowledge and experience in issues of accountancy, audit and risk management. Its members shall leave their post when they do so in their capacity as Directors, when agreed by the Board of Directors, or after a period of three years from their appointment. They can be re-elected.

At least one of the Committee members will be an Independent Director.

The Board of Directors shall elect the Chairman of the Committee, who shall not have a casting vote and shall be replaced in accordance with the Articles of Association (Article 51 bis) and legislation. He/she may be re-elected following the term of one year after his/her dismissal. The Secretary of the Committee shall be the same as the Secretary of Board of Directors.

The committee shall hold meetings whenever necessary in order to issue its reports, and will be convened by its Chairman on his own initiative or upon request of two of its members. At least four meetings per year must be held. The notification for the meeting shall include the agenda together with the relevant documents to facilitate proceedings, and must be made at least two days in advance, except in certain defined circumstances, in writing. The meetings shall normally take place at the registered office. The committee may invite to its meetings any executive or employee it deems appropriate."

Article 32 of the Regulations of the Board:

"2. The Committee is competent on the following issues:

- Reporting to the General Meeting of Shareholders on questions raised by shareholders with respect to matters within their competence.
- Proposing to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment of external auditors, pursuant to Article 264 of the Capital Companies Act.
- Supervising the internal audit services, guaranteeing their independence and proposing the appointment, re-election and dismissal of the person responsible. Accordingly, the person responsible for the internal audit function shall present an annual work plan, report on the relevant incidents occurring during its development and submit a report on its activities at the end of the year.
- Monitoring and supervising the preparation and presentation of regulated financial information, guaranteeing the correct application of the accounting principles and the inclusion of all the companies that are to be included in the consolidation perimeter.
- Monitoring and supervising the company's risk management and internal control systems and their effectiveness, guaranteeing that they identify the types of risk the company faces and the measures considered for reducing them and dealing with them in the event of effective damage. Speaking to the accounts auditors about significant weaknesses of the internal control system detected during the audit.
- Raising the selection, appointment, re-election and substitution proposals concerning the external auditor to the Board, as well as the terms and conditions of his/her contract.



- Liaising with external auditors to receive information on any questions which could jeopardise their independence and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and auditing standards.
- Monitoring the development of the annual auditing.
- Acting as a communication channel between the Board of Directors and the external auditors and assessing the results of each audit. Under all circumstances, every year they must receive written confirmation from the company's accounts auditors reporting their independence with regard to the entity or entities related to the company, directly or indirectly, as well as information on the additional services of any kind provided to these entities by the foregoing auditors or by persons or entities related to the auditors, in accordance with the provisions laid down in the Accounts Auditing Act.
- Every year, before issuing the Audit Report, providing a report that gives an opinion on the independence of the accounts auditors. This report shall, in any case, refer to the provision of additional services referred to in the previous section.
- Reviewing the information on the company's activities and results which is compiled periodically in compliance with current stock market regulations, making sure that it is prepared in accordance with the same accounting criteria as the Annual Accounts and ensuring the transparency and accuracy of this information.
- Adopting the measures it considers appropriate in the auditing activity, internal financial control system and compliance with legal regulations in matters of provision of information to markets and the transparency and accuracy thereof.
- Checking compliance with the Internal Code of Conduct for Securities Markets current at any time, with these regulations and in general with the rules governing the company, and making any necessary proposals for their improvement.
- Providing information during the first quarter of the year and whenever the Board of Directors so requests, on compliance with these regulations.
- Setting up and supervising a mechanism that enables employees to communicate any significant irregularities, especially those related to finance and bookkeeping, and to do so in a confidential manner."

#### **B.2.4** Indicate the faculties for advising, consultancy and, if relevant, appointments, for each of the committees:

<b>Committee name</b>	<b>Brief outline</b>
Appointments and Remuneration Committee	Already detailed in section B.2.3 in this report
Executive or Delegated Committee	Already detailed in section B.2.3 in this report
Audit Committee	Already detailed in section B.2.3 in this report

**B.2.5** Indicate, where applicable, the existence of committee regulations, the location at which they are available for consultation and the modifications that have been made during the financial year. Also indicate whether any annual report on each committee’s activities has been voluntarily drafted.

Committee name	Brief outline
Appointments and Remuneration Committee	<p>No regulations corresponding to the Board Committees have been approved. They are regulated by the Organisation and Operation Regulations of the Board of Directors and its committees, which are available on the company’s website. These regulations were modified in 2011.</p> <p>This committee has approved a report on the quality and efficiency of its performance in 2011.</p> <p>Mention must be made of the fact that the Regulations of the Board of Directors are duly registered in the Mercantile Register of Barcelona.</p>

Committee name	Brief outline
Executive or Delegated Committee	<p>No regulations corresponding to the Board Committees have been approved. They are regulated by the Organisation and Operation Regulations of the Board of Directors and its committees, which are available on the company’s website. These regulations were modified in 2011.</p> <p>This committee has approved a report on the quality and efficiency of its performance in 2011.</p> <p>Mention must be made of the fact that the Regulations of the Board of Directors are duly registered in the Mercantile Register of Barcelona.</p>

Committee name	Brief outline
Audit Committee	<p>No regulations corresponding to the Board Committees have been approved. They are regulated by the Organisation and Operation Regulations of the Board of Directors and its committees, which are available on the company’s website. These regulations were modified in 2011.</p> <p>This committee has approved a report on the quality and efficiency of its performance in 2011.</p> <p>Mention must be made of the fact that the Regulations of the Board of Directors are duly registered in the Mercantile Register of Barcelona.</p> <p>Furthermore, the Audit and Control Committee drafts an annual report on its own activities, which is placed at the disposal of the shareholders before the Ordinary General Meeting and published on the company website.</p>

**B.2.6** Indicate whether the makeup of the Executive Committee reflects the participation in the Board by the various Directors depending on status:

Yes  No

## C. Related-party Transactions

**C.1** Indicate whether the plenary Board has reserved the power to approve the operations that the company carries out with Directors, with major shareholders or shareholders represented on the Board, or with individuals related to these, following a favourable report from the Audit Committee or any other committee commissioned with this duty:

Yes  No

**C.2** Detail the significant operations that imply a transferral of resources or obligations between the company and entities within its group and the significant shareholders of the company:

Name or company name of significant shareholder	Name or company name of the company or entity of the group	Nature of the relationship	Type of operation	Amount (thousands of euros)
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Leases	353
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	97,755
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Sales of goods (manufactured or not)	687,624
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (borrower)	9,918
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Reception of services	69,586
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Purchase of goods (manufactured or not)	884,397
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Purchase of tangible assets, intangible assets and other assets	3,340
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Sale of tangible assets, intangible assets and other assets	518
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Provision of services	31,159
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Other costs	24,950
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Other income	760
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financial income	15,617
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Guarantees received	112,500
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	118,885
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Collaboration or management contracts	1,010,004
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financial expenses	12,601
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (lender)	1,040,631
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (borrower)	550,088
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Sale of tangible assets, intangible assets and other assets	623,570
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Leases	590

**C.3** Detail the significant operations that imply a transferral of resources or obligations between the company or entities within its group and the administrators or executives of the company:

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**C.4** Detail the important operations carried out by the company with other companies belonging to the same group, provided that they are not eliminated in the process of drafting the Consolidated Financial Statements and are not part of the company's usual trading in terms of its purpose and conditions:

–

**C.5** Indicate whether the members of the Board of Directors have been affected by any conflicts of interest over the year, in accordance with the provisions set forth in Article 127 ter of the Public Limited Companies Act.

Yes  No

**Name or company  
name of Director**

**Description of the conflict of interest**

Mr Antonio Brufau Niubó Mr Carlos Kinder Espinosa Mr Demetrio Carceller Arce Mr Enrique Alcántara-García Irazoqui Mr Juan Rosell Lastortras Mr Juan María Nin Génova Mr Luis Suárez de Lezo Mantilla Mr Nemesio Fernández-Cuesta Luca de Tena	In related-party transactions that have been submitted for approval by the Board, following a favourable report from the Appointments and Remuneration Committee, those Directors representing the involved related party have abstained from voting. See section C.2.
Mr Narcís Serra Serra	In related-party transactions that have been submitted for approval by the Board, following a favourable report from the Appointments and Remuneration Committee, those Directors representing the involved related party have abstained from voting. See section C.2. and C.6.

**C.6** Detail the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/or its group, and its Directors, Executives or significant shareholders.

1. Directors:

The conflicts of interest are regulated by Article 16 of the Regulations of the Board of Directors, which states the following:

- The Director must abstain from intervening in deliberations and voting on issues in which he/she has a direct or indirect interest and would give rise to a conflict of interests.
- The Director shall be considered to have an interest when the issue affects a member of his/her family, or a company, entity or their respective groups, not belonging to the group, in which the Director acts as representative, manager or adviser, or has a majority holding in their capital or has been put forward by those entities as a Proprietary Director in Gas Natural Fenosa.

- Directors must report their personal situations to the Board, as well as those of their closest family members and also the companies controlled by them. Specifically, Directors must report aspects relating to holdings, positions held and activities, syndication agreements and, in general, any fact, situation or link that may influence their loyal conduct as administrators of the company. Likewise, Proprietary Directors must inform the Board of any conflict of interest between the company and the shareholder that proposed their appointment, or which could compromise their duty to be loyal.
- The Director cannot carry out direct or indirect professional or commercial transactions with the company or companies in its group, unless he/she has previously reported the situation of conflict of interests, and the Board, subject to a report from the Appointments and Remuneration Committee, has approved the transaction. For ordinary operations, the generic authorisation for the operation type and its implementation procedure shall be sufficient. In all cases, any conflicts of interest of the company's administrators shall be reported in the Annual Corporate Governance Report.
- In his/her capacity as loyal representative of the company, the Director must inform the company of shares in the company he/she holds, directly or through companies in which he/she has a majority holding, following the procedure and other processes that are established for investment in Gas Natural SDG, S.A. and investee companies.
- Votes on proposals for appointments, re-election or dismissal of Directors shall be secret, and the affected Directors must abstain from taking part in these votes and their deliberations.
- The Director must notify the company of significant changes to their professional circumstances and changes which affect the nature or capacity by virtue of which he/she was appointed as Director.
- The Director shall inform the company of any kind of legal or administrative claim or any claim of any nature in which they are involved which, due to its significance, could have a serious bearing on the reputation of the company. The Board shall examine the matter and adopt the appropriate measures in the company's interest and with the required urgency.
- The Board of Directors shall endeavour, at all times, to prevent Proprietary Directors from using their position to obtain asset benefits without adequate compensation, to the advantage of the shareholder that put them forward for the position.

## 2. Directors and executives:

Section 6 of the Internal Code of Conduct, for issues relating to the Securities Markets of Gas Natural SDG, S.A., contains the information that the Directors and executives of the entity must provide concerning conflicts of interest:

"6.1. The persons included in the subjective scope of this Internal Code of Conduct shall be obliged to inform the Secretary of the Board of Directors of Gas Natural SDG, S.A. of any possible conflicts of interest that may emerge with the corporate relationships in which they hold an interest or with the ownership of their personal or family assets or any other cause that may interfere in the fulfilment of activities which are the object of these regulations.

In the case of there being a doubt over the existence of a conflict of interest, the obliged persons must consult the Secretary of the Board of Directors of Gas Natural SDG, S.A. who shall resolve the issue in writing. The Secretary may take the matter to the Appointments and Remuneration Committee if he/she considers it to be of particular significance.

The persons affected by potential conflicts of interest must keep the information up to date, reporting any modification or closure of the previously communicated situations.

6.2. The affected persons must abstain from participating in the adoption of any kind of decision that could be affected by the conflict of interests with the company..."

### 3. Significant shareholders:

With regard to this section Article 16, *in fine*, of the Board Regulations establishes:

“Accordingly, any direct or indirect transaction between the company and a significant shareholder must be submitted for approval by the Board of Directors, subject to a ruling from the Appointments and Remuneration Committee of the Board. The committee must assess the transaction in terms of equal treatment and fair market conditions. The affected Proprietary Directors must abstain from taking part in the Board deliberations and voting. Where the transactions in question are ordinary ones, across-the-board authorisation may be granted for the line of transactions and the conditions for their execution.”

Article 31 of the Board Regulations envisages, among the functions entrusted to the Appointments and Remuneration Committee, the task of informing the Board of transactions that imply or may imply conflicts of interest and, in particular, transactions with associated parties submitted to the Board.

Finally, Article 6.5 of the aforementioned regulations obliges the Board of Directors to include, in the Annual Report and the Annual Corporate Governance Report, information on the transactions completed with significant shareholders (overall volume of the transactions and the nature of the most significant), so that other shareholders may be informed of their scope and importance.

Until 28 November 2011, Caixa d’Estalvis de Catalunya, Tarragona i Manresa was still considered a significant shareholder, as it proposed one of the members of the Board of Directors. On that date, the Director designated by the savings bank tendered his resignation, which was ratified by the Board of Directors of Gas Natural SDG, S.A. on 16 December 2011.

The operations carried out (in thousands of euros) with Catalunya Banc, S.A., a subsidiary of Caixa D’Estalvis de Catalunya, Tarragona i Manresa, are:

Catalunya Banc, S.A.	Gas Natural SDG, S.A.	Commercial	Financial expenses	1,850
Catalunya Banc, S.A.	Gas Natural SDG, S.A.	Commercial	Other costs	274
Catalunya Banc, S.A.	Gas Natural SDG, S.A.	Commercial	Financial income	433
Catalunya Banc, S.A.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	11,992

### C.7 Is there more than one listed company in the group in Spain?

Sí  No

Identify the subsidiary companies that are listed:

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## D. Risk Control Systems

### **D.1 General description of the risk policies of the company and/or its group, detailing and assessing the risks covered by the system, together with justification for the adaptation of the system to the profile of each risk type.**

Gas Natural Fenosa strategy is based on the basic principles of growth, integration, profitability and quality, which are transmitted repeatedly to its interest groups in the reports issued. These include annual reports, quarterly earnings reports and various reports of a strategic nature.

The said strategy basically covers the exploration and production of gas reserves, the gas supply and transportation, the wholesale and retail commercialisation of gas and electricity, the generation of electricity and the distribution of gas and electricity.

All with presence in both Spain and in other countries of Europe, Africa and America. This places Gas Natural Fenosa in a context which is subject to several types of risk factors that are inherent to its activity.

The general risk policy is aimed at safeguarding Gas Natural Fenosa's assets and is consolidated by the following aspects:

- Controlled expansion of activities ensuring the fulfilment of quality standards.
- Profitable growth risk guidelines established by the governing bodies.
- Quick response to changes in the environment.
- High level of professionalism of members of the Board of Directors and other members of the organisation.
- Dynamic decision-making processes.
- Flexibility, objective-based organisational structure.
- Standard structure aimed at ensuring proper operation of critical processes and sub-processes for Gas Natural Fenosa, guaranteeing their efficiency and effectiveness and the appropriate control of transactional risks.

Gas Natural Fenosa takes the view that the risks that require a greater degree of proactive management are those that, given the severity of the risk occurring, could have a negative bearing on the fulfilment of the Strategic Plan and/or on the company's financial soundness in the short, medium and long-term. Although Gas Natural Fenosa administrates its business with prudence and diligence, many of the risks are inherent to the management of its activities, and are therefore beyond its control and/or certain occasions, and foreseeing or avoiding their consequences is unfeasible.

Gas Natural Fenosa's broad experience in understanding and controlling risks can be seen in their integrated management. The main aim of global risk management is to guarantee the correct identification, assessment and management of the most important risks by the various business units. All with the aim of guaranteeing that the level of exposure to the risk assumed by Gas Natural Fenosa in the development of its business is consistent with its global target risk profile. The said risk profile responds to the level of uncertainty that must be assumed to achieve the strategic annual targets set by its governing bodies. The target risk profile is laid down in the different levels of uncertainty in accordance with the relevant risk category, as approved by the corresponding governing bodies.

Monitoring and assessing risk exposure in an integrated approach, and controlling overall exposure to it, allows efficiency in decision-making to be underpinned, making it possible to optimise the risk-return binomial and guaranteeing that the achievement of the credit rating levels is always in line with the strategic positioning of Gas Natural Fenosa and committed to its stakeholders.

## Corporate Risk Map of Gas Natural Fenosa

The process of identifying and assessing Gas Natural Fenosa's risks is governed by the Corporate Risk Map. The preparation and updating of the said map is the responsibility of the Financial Area in close collaboration with the Internal Audit Area and the business units.

It is an instrument which is designed to identify and assess the main risk categories that affect Gas Natural Fenosa. In a schematic form these are:

a) Business risks:

a.1) Price

a.2) Volume

a.3) Regulatory

a.4) Strategic

b) Financial risk:

b.1) Exchange rate

b.2) Interest rate

b.3) Liquidity

c) Credit risk:

c.1) Retail

c.2) Wholesale

d) Operational risk:

d.1) Legal/Contractual

d.2) Human resources

d.3) Fraud

d.4) Processes

d.5) Information systems



The aim of the preparation of the Risk Map is to analyse the effects of the various risk categories on each of Gas Natural Fenosa's basic processes/activities. Accordingly, the following is taken into account:

- a) Risk position: definition and characteristics.
- b) Impact variables.
- c) Qualitative and quantitative severity of the risk occurring.
- d) Probability of risk occurring.
- e) Defined mitigation controls and mechanisms, and their effectiveness.

The conclusions drawn from the map are conveyed to the Risk Committee, the Chief Executive Officer and the Audit and Control Committee; basic guidelines for action concerning risks are established regularly with the aim of reducing exposure in activities that have a residual risk of greater impact for Gas Natural Fenosa.

### **Comprehensive Risk Control and Management System**

Gas Natural Fenosa has established a Comprehensive Risk Control and Management System that identifies, assesses and controls the risks to which the company is exposed. The foundations for this system are:

- a) Definition of the general risk policy and profile.
- b) Provision of organisational resources.
- c) Internal policies, procedures and regulations of various types.
- d) Adequate controls and measurement methodologies.
- e) Technological infrastructure and information systems.

These foundations are set up through a process of continuous improvement, and their implementation is permanently regulated in cooperation among the various committees, governing bodies and departments of Gas Natural Fenosa, as well as by the Internal Audit Area.

With regard to regulations, special mention must be made of the General Risk Standard, whose main aim is to lay down the general principles and behaviour guidelines to guarantee the appropriate identification, information, assessment and management of Gas Natural Fenosa's exposure to risk. The aim of the General Risk Standard is to guarantee that the entire organisation understands and accepts its responsibility in identifying, appraising and managing the most significant risks. Accordingly, it establishes various managers for the management, measurement, control and laying-down of limits for each of the typified risk categories.

The main principle on which Gas Natural Fenosa is based in order to assess, mitigate and reduce the principal existing risks is that of reasoned business prudence in all of its actions, with strict and faithful compliance of the legislation in force.

As an integral part of the Comprehensive Control and Management System, particular mention must be made of the Risk Measurement System. The purpose of the system is to quantify the risk assumed globally and by each of the relevant businesses on a recurring base of probability, regarding risk factors related to variations in market prices.

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**D.2** Indicate whether or not any of the various types of risk (operative, technological, financial, legal, reputational, fiscal, etc.) that affect the company and/or its group have arisen during the year:

Yes  No

If the answer is affirmative, indicate the circumstances that caused them and whether or not the established control systems worked.

Risks occurred during the year	Causes of risks	Operation of control systems
The risks have evolved without significant impact on the Consolidated Annual Accounts.	All the causes of the risks are external and inherent to the activities carried out by Gas Natural Fenosa.	The internal control systems have worked appropriately.

**D.3** Indicate whether there is a committee or governing body that is responsible for establishing and supervising these control devices:

Yes  No

If the answer is affirmative, describe its functions.

Name of the committee or body	Description of duties
Internal Audit Area	<p>The main purpose of the Internal Audit Area is to ensure the supervision and continuous assessment of the effectiveness of the Internal Control System in all fields of the group, providing a systematic and stringent approach for process monitoring and improvement, and for the assessment of operational risks and controls relating thereto. All of the foregoing is designed to achieve compliance with the strategic objectives of the group and to assist the Audit and Control Committee and the top-tier management of the group in the fields of management, control and corporate governance. In order to achieve these aims, the Internal Audit Area, which answers to the Audit and Control Committee and which in turn reports to the Chairman and Chief Executive Officer of Gas Natural Fenosa, draws up and executes a Strategic Audit Plan and Annual Internal Audit Plans, in accordance with a method of assessment of operational risks in keeping with best practices in corporate governance, based on the conceptual framework of the COSO Report (the Committee of Sponsoring Organisations of the Treadway Commission) and taking as a basis the type of risks defined in the Corporate Risk Map of Gas Natural Fenosa.</p> <p>In accordance with the aforementioned methodology, the operational risks associated with the processes are prioritised by assessing their impact, relative importance and degree of control. Based on the results obtained in the aforementioned assessment, an action plan is designed with a view to implementing corrective measures which shall mitigate residual risks identified as having greater potential impact than the established tolerable or accepted risks.</p> <p>Finally, it should be pointed out that the functions and activities of the Internal Audit Area are provided in the Annual Report on the Activities of the Audit and Control Committee.</p>

Name of the committee or body	Description of duties
Resources Area	<p>This area is responsible for the overall management of the common services in fields such as information, purchases, engineering and technology, quality, health &amp; safety and environment systems. The role played by these units is fundamental for the management and mitigation of risks of an operational nature. Specifically:</p> <p>The Information Systems Unit is responsible for the integrated management of the group's information system, defining the technological strategy and planning, ensuring the quality of services, cost and safety required by the group. Of particular note is the information systems management unit, in charge of definition and monitoring of the governing parameters of the Information Systems, as well as the launch, set-up and monitoring of the normalisation of the group's Information Systems model.</p> <p>The Purchasing Unit is responsible for the definition, planning and implementation of the policies for purchases of goods and services. This unit is also responsible for the management, bidding, awarding and contracting of suppliers, and the standardisation and certification of equipment and material.</p> <p>The Engineering and Technology Unit is responsible for the development and introduction of technological solutions that improve the efficiency, quality and safety of the group's processes.</p> <p>The Quality, Health &amp; Safety, environment and General Services Unit is responsible for the planning and management of the quality, safety, protection of the health and the environment. Likewise, this unit manages the personal, patrimonial and industrial safety.</p>

Name of the committee or body	Description of duties
Financial Area	<p>The Financial Area assumes the global responsibility on risks, finance, fiscal, accounting and administration policies, as well as controlling the management and the relationships with investors. The Risk Unit is responsible for the conceptual determination of inherent risk for the group's businesses as well as the assessment of the group's global risk profile and its monitoring. This unit develops the regulations, policies and tools for the management and monitoring of risk as well as the proposal of levels of authorisation, responsibilities and operational limits. It is also responsible for assessing the potential risks of material damage, civil liability and loss of profit, as well as contracting and administering industrial and vehicle insurance policies. Additionally, it administers incident management.</p> <p>The Finance Unit is responsible for conducting the group's short, medium and long-term financial management as well as proposing the group's financial policy in terms of distribution of results, levels of leverage, financial criteria on interest rates and the financial structure of companies.</p>

**Name of the committee  
or body**
**Description of duties**


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Energy Planning Area	The Balance Unit is responsible for the consolidation of the group's integrated energy balance and proposes indicators to improve the allocation of energy.
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**Name of the committee  
or body**
**Description of duties**


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Legal Services Area	The Legal Services Area is responsible for giving advice on the legal issues and manages the civil, penal and administrative matters in the different areas of the group. In particular, importance must be given to the compliance unit as responsible for monitoring the legislation that is applicable to the group and for fostering good corporate governance. Accordingly, the corporate governance matters unit, attached to Compliance, is responsible for defining the basic issues of corporate governance on a group scale, as well as for collaborating on the preparation of internal regulations that reflect said issues and for ensuring the fulfilment of the corporate governance principles.
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**Name of the committee  
or body**
**Description of duties**


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Audit and Control Committee	<p>The responsibilities of the Audit and Control Committee are established in the Articles of Association and the Regulations of the Board of Directors. Among these are the functions of researching, reporting, supporting and making proposals to the Board of Directors in relation to their monitoring tasks, by means of a periodic review of compliance with the procedure for drafting business and financial information, the procedure for the identification and assessment of the risks included in the corporate risk map, the internal control system of the company (regulations, laws, policies, codes, accounting and internal control procedures, etc.) of the accounts auditing procedure and independence of the external auditor, and compliance with established policies in matters of corporate governance. The committee has also been assigned with the responsibilities of setting up and supervising a mechanism that enables employees to communicate any irregularities of importance, especially those of a financial and bookkeeping nature, and to do so in a confidential manner and, if considered suitable, anonymous.</p>
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The main activities of the committee in 2011 concerning the review of the internal control and risk management systems of Gas Natural Fenosa are set forth, *inter alia*, in the Annual Report on the Activities of the Audit and Control Committee.

The functions and activities performed by the Audit and Control Committee of Gas Natural SDG, S.A. duly comply with the legal requirements introduced through Law 12/2010, which amends Law 19/1988 of 12 July, governing Accounts Auditing, Law 24/1988 of 28 July, governing the Securities Market, and the consolidated text of the Public Limited Companies Act, approved through Royal Legislative Decree 1564/1989 of 22 December, as well as the legal requirements introduced through Royal Legislative Decree 1/2010 of 2 July, which approves the consolidated text of the Capital Companies Act.

By the same token, the functions and activities of the committee duly comply with the good corporate governance recommendations published by the National Securities Market Commission (CNMV), included in the Unified Code on Good Corporate Governance of Listed Companies of 19 May 2006, approved on 22 May 2006 (Conthe Code) and the document published in June 2010 on Internal Financial Reporting Control Systems (SCIIF) at listed companies.

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Name of the committee or body	Description of duties
Executive Committee	<p>The Executive Committee, in its capacity as appointed body of the Board of Directors, likewise gathers the necessary reports and advice for each case; it examines and authorises all significant operations which, due to their habitual occurrence in the company or their financial magnitude, are not authorised by the Board. The Executive Committee usually informs the Board of the decisions taken and requests, where appropriate, their ratification or approval from the highest governing body.</p> <p>The Executive Committee is also responsible for proposing the Strategic Plan, the group's objectives and the annual budget to the Board of Directors.</p>

Name of the committee or body	Description of duties
Quality Committee	<p>Its main objectives are to submit the Strategic Quality Plan for approval from the senior management but it is also responsible for coordinating and driving the introduction of the provisions in the plan in each of the affected organisational units, these units being ultimately responsible for their introduction. Likewise, through the quality, health &amp; safety, environment and general services unit, it reports on the development of the measurements taken recurrently and systematically of Gas Natural Fenosa's customer satisfaction and the alignment between the quality objectives and intrinsic business risks.</p>

Name of the committee or body	Description of duties
Management Committee	<p>The Management Committee, comprising senior executives (specifically the Chief Executive Officer, the General Managers and the remaining Directors, as shown in the table of foregoing section B.1.9), is the body that coordinates the business and corporate departments. Its principal functions include researching and proposing the objectives, the strategic plan and the annual budget, as well as escalating the proposals for actions that may affect the securing of the company's strategic plan to the highest authorities.</p> <p>All of the members of the Management Committee also participate in the drafting of the Corporate Risk Map through technical meetings at which they contribute their views on the principal uncertainties and possible effects on the business.</p>

Name of the committee or body	Description of duties
Data Protection Committee	<p>Its objective is to instigate, coordinate and drive the introduction of organisational and technical measures in all of the group's companies, which ensure the security and confidentiality of the personal data provided by customers, suppliers or employees, fulfilling, in turn, the provisions set forth in the Personal Data Protection Act and its Security Regulations. It must ensure coverage for the risks that are inherent to its scope of operation.</p>

**Name of the committee  
or body**
**Description of duties**


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Regulation Committee	Its objective is the definition of the carrying out of Gas Natural Fenosa's integrated regulation strategy, ensuring that the uncertainty associated with the regulatory sphere is properly managed.
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**Name of the committee  
or body**
**Description of duties**


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Risk Committee	<p>This committee is responsible for guaranteeing the correct determination and review of Gas Natural Fenosa target risk profile, ensuring that the entire organisation understands and accepts its responsibility in the identification, assessment and management of the most relevant risks.</p> <p>The permanent members of the said committee include the Financial Area, the Energy Planning Area, the Wholesale Energy Business Area, the Retail Energy Business Area and the Internal Audit Area. In addition, the other members of the Management Committee can take part in the committee as non-permanent members for dealing with specific cases. The risk management strategy designed by the committee is applied by the Risk Subcommittee.</p>
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**Name of the committee  
or body**
**Description of duties**


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Chief Executive Officer	<p>The Chief Executive Officer authorises those operations that, due to their financial cost or nature, are directly submitted to the his/her jurisdiction and have been proposed by the company's Executive Directors in the necessary reports. In the event that the operations exceed the pre-established limits, they are submitted by the Chief Executive Officer to the Executive Committee or the Board of Directors, as appropriate.</p> <p>As a fundamental and principal function, the Chief Executive Officer is responsible for the execution and implementation of the agreements adopted by the Board of Directors and the Executive Committee, and can give authority to the company executives which are most suitable in each case, in accordance with the nature and significance of the matter.</p> <p>The participation of the Chief Executive Officer in the discussion of the most pertinent conclusions of the Corporate Risk Map is also significant. The conclusions complement and contextualise the decision-making process in terms of the risks assumed by Gas Natural Fenosa.</p>
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**Name of the committee  
or body**
**Description of duties**


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Board of Directors	Gas Natural Fenosa practises a business policy in which the analysis and management of risks plays a key role in decision-making processes. The established risk management control systems are configured at the following levels:
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**Board of Directors:**

The Board of Directors is responsible for carrying out whatsoever action that may be necessary for the fulfilment of the corporate purpose laid down in the Articles of Association. At any given time, the governing criterion is the sustained maximisation of the company's value. Accordingly, it shall be competent to determine Gas Natural Fenosa strategic focuses and economic targets, the supervision and verification of the fulfilment of the said strategy and targets by top-tier management in accordance with the company's purpose and interests. All guaranteeing the future viability of Gas Natural Fenosa and its competitiveness in the development of the business activity expressly under its control.

When carrying out its functions, the Board of Directors shall establish as many supervision systems as required to guarantee control over its members' decisions.

In order to carry out the aforementioned functions, the Board of Directors has the following powers, particularly relevant in the area of risk management and control.

Adoption of Gas Natural Fenosa Strategic Plan, the annual budgets, the Annual Financial Plan and the investments and finance policy.

Adoption of the risk management and control policy and regular monitoring of the indicators and internal control systems.

Adoption of the corporate governance and corporate social responsibility policies.

Adoption of the policy on dividends and treasury stocks.

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**Name of the Committee  
or body**
**Description of duties**

Secretary of the Board  
of Directors

In accordance with Article 26 of the Regulations of the Board of Directors, the Secretary of the Board, via the Secretary or, where applicable, via the Assistant Secretary, is responsible for assisting the Chairman in his/her tasks, and especially for providing the Board members with advice and information required, looking after the company documentation, as well as keeping the minutes of the sessions and attesting to the agreements of the company's governing bodies.

The Secretary of the Board shall be responsible for the formal and material legality of the Board's actions at all times, as well as those of other committees, ensuring that their procedures and governing rules are regularly reviewed, thus minimising the existing company risks.

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#### **D.4 Identification and description of the procedures for compliance with the different regulations affecting the company and/or its group.**

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Gas Natural Fenosa activities are significantly conditioned by the application of various relevant regulations related to gas, electricity and environmental activities in all the countries in which it operates Gas Natural Fenosa. In order to guarantee compliance with the said regulations, there is an appropriate allocation of responsibilities in each of the business units, aimed at guaranteeing observance of and compliance with relevant legislative issues. In addition, as laid down in section D3, the Regulation Committee, especially with regard to environmental issues and in collaboration with the Resources Area through the quality, health & safety, environment and general services unit, is responsible for implementing a global and integrated control of compliance with legislative requirements in order to avoid risks in the said area. Finally, it is important to reiterate the function of the Legal Services Area, especially through the compliance unit, as responsible for and supervisor of compliance with the legislation applicable to the group.

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## E. General Meeting

**E.1** Indicate and, where applicable, give details of whether or not there are differences between the quorum system laid down in the Public Limited Companies Act (LSA) and the quorum for constituting the General Meeting of Shareholders.

Yes  No

	% of quorum different to the provisions set forth in Article 193 LSA for general cases	% of quorum different to the provisions set forth in Article 194 LSA for these special cases set forth in Article 194
Quorum required for the first call	0	0
Quorum required for the second call	0	0

**E.2** Indicate and, where applicable, give details of whether or not there are differences between the system laid down in the Public Limited Companies Act (LSA) and the system for adopting corporate agreements:

Yes  No

Describe how the system differs from that of the LSA.

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**E.3** List the shareholders' rights in relation to General Meetings which differ from those of the LSA.

Shareholders' rights in respect of General Meetings are those established by the Capital Companies Act (LSC) and other applicable legal regulations:

- Right to information.
- Right of attendance.
- Right of representation.
- Right to vote.

In accordance with the right to attendance, the General Meeting may be attended by those shareholders who, either individually or grouped with others, hold a minimum of 100 shares, provided that they are recorded in the corresponding accounting register five days prior to the meeting, and that they possess, as indicated in the meeting announcement, the corresponding attendance card attesting to compliance with the aforementioned requirements, which shall be issued in the name of the entities to whom it legally corresponds (Article 33 of the Articles of Association).

#### **E.4 Indicate, where applicable, the measures adopted to encourage participation of the shareholders in General Meetings.**

The most notable measure is the Meeting's approval of its regulations since, as indicated in its introduction, the regulations constitute an obligatory reference for improving the information provided to shareholders on the content of the decisions to be taken and in achieving their active participation in the General Meetings.

The regulations were approved by the Ordinary General Meeting held on 14 April 2004, modified in June 2006 and later in April 2011.

Special mention must be made of the fact that, in 2007 and 2008, the option for electronic votes was implemented on the company's website with a view to reaching the highest possible level of compliance with the proposals on corporate governance. However, owing to the notable lack of proportion between the effective use of the tool (5 shareholders in 2007 and 7 shareholders in 2008) and the economic cost of its implementation, it was not implemented in 2009, 2010 and 2011. As a conclusion, the limited use of the electronic vote does not justify the economic cost of its introduction at the present time.

If circumstances change in the future, its reinstatement will be analysed.

From the date of publication of the announcement of the General Meeting, the company shall place on its website all the proposals for decisions formulated by the Board of Directors in respect to the items on the agenda, unless since the proposals are not legally or statutorily required to be made available to the shareholders from the date of the meeting announcement, the Board deems that there is a justifiable reason for not doing so.

In addition, from the date of the announcement of the meeting, any other information which is considered appropriate for facilitating the attendance of the shareholders at the Meeting and their active participation therein shall be published on the company website including:

- Information on the meeting venue, indicating, where applicable, access to the room designated for this purpose.
- Sample of an attendance card and the document for vote delegation indicating the procedure for obtaining the originals.
- If available, a description of the delegation or electronic voting systems which may be used.
- Information, where applicable, on the systems and procedures which facilitate monitoring of the Meeting (simultaneous translation or diffusion via audiovisual media).

By the same token, from the date of publishing the call to the General Meeting, shareholders will have an electronic forum accessible both by individual shareholders as well as voluntary associations that may be set up, to facilitate communication between them prior to the General Meeting. The following may be published on the foregoing forum:

- Proposals to supplement the agenda announced in the call to meeting.
- Applications to adhere to these proposals.
- Initiatives to reach the percentage required to exercise a minority right as provided for in law.
- Offers and requests concerning voluntary representation.

Likewise, shareholders may, prior to the General Meeting, request in writing from the Board of Directors any reports or clarifications they deem appropriate regarding matters included in the agenda. The Board of Directors, except in specific cases (detrimental to company interests, matters not included in the agenda or irrelevant information) is obliged to provide that information.

When the Meeting is held, the Chairman shall invite the shareholders who wish to intervene to identify themselves to the Meeting Secretary. Having given the reports that the Chair deems appropriate, and prior to voting having addressed all the items in the agenda, the shareholders may take the floor. During this part of the Meeting, shareholders may verbally request any reports or clarifications deemed appropriate regarding items in the agenda. Except for the cases provided in the foregoing paragraph or when the requested information is not available at the Meeting, the administrators are responsible for providing the requested information. This information shall be provided by the Chairman or, where applicable, as he/she indicates, by the Chairman of the Audit and Control Committee, or any other Board Committee competent in the matter in question, the Secretary, an Administrator, or if advisable, any employee or expert in the matter in hand.

**E.5 Indicate whether the position of Chairman of the General Meeting coincides with that of Chairman of the Board of Directors. Indicate, where applicable, the measures adopted to encourage independence and effective operation of the General Meeting:**

Yes  No

**Details of measures**

The General Meeting Regulations, which contain full details of the measures for ensuring independence and effective operation of the meeting, may be consulted on the company website.

The most significant measures adopted are as follows:

- More announcements for the General Meetings are published (ordinary and extraordinary) than those legally required.
- Attendance cards are issued to make the voting process for shareholder easier.
- The General Meeting may be attended by those shareholders who either individually or in a group with others hold a minimum of 100 shares, provided that they are recorded in the corresponding accounting register five days prior to the meeting, and that they possess, as indicated in the meeting announcement, the corresponding attendance card attesting to compliance with the aforementioned requirements, which shall be issued in the name of the entities to whom it legally corresponds.
- As a general rule, the media is allowed access to the Meeting in order to make public the progress of the meeting and the decisions taken.
- In addition, a video of the meeting is available for subsequent dissemination.
- In order to ensure the security of those attending and the good order and progress of the General Meeting, sufficient surveillance, protective measures as well as access control are adopted.
- As a general rule, the necessary requirements for simultaneous translation of the speakers at the Meeting shall be made available.

- Prior to the Meeting and following publication of the call to meeting, the shareholders that represent the least 5% of the share capital may request that a complement to the call to meeting be published, including one or more points of the agenda. The exercise of this right must be carried out through notification requiring acknowledgement of receipt received at the company's registered office within five days following publication of the call to Meeting.
- Shareholders have the right to intervene in the General Meeting and to request the information and clarifications they deem appropriate, and the Chairman of the Meeting in the exercise of his/her powers and without prejudice to any other actions may:
  - I) Request that speakers clarify questions which have not been understood or which have not been sufficiently explained.
  - II) Call the other shareholders to order so that they confine their comments to matters relating to the Meeting and refrain from making inappropriate statements or exercising their rights in an abusive or obstructive manner.
  - III) Announce to those wishing to speak that the time allotted to them is coming to an end and that they should adjust their speech accordingly, and if they persist in the conduct described in the preceding paragraph, their right to speak shall be withdrawn; and
  - IV) If it is considered that their contribution disrupts or may disrupt the normal course of the meeting, they may be required to leave the premises and, where applicable, the necessary measures may be taken to ensure that they are ejected.
- It should be pointed out that, without prejudice to the possibility of formulating a supplement to the call to meeting pursuant to Article 176 of the Capital Companies Act and proposals for resolutions under the aegis of Article 168 of the Capital Companies Act, prior to the announcement of the General Meeting, when the floor is open to speakers, the shareholders may formulate proposals for decisions to the General Meeting on matters on the agenda which do not legally need to be made available to the shareholders when the meeting is announced, and on those issues on which the Meeting may deliberate without being included on the agenda.

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## **E.6 Indicate, where applicable, the amendments made during the financial year to the General Meeting Regulations.**

In 2011, the following articles of the Regulations of the General Meeting were modified:

"Article 2. Section V Powers of the General Meeting of Shareholders.

V. To authorise the Board of Directors to increase the share capital, pursuant to the provisions laid down in Article 297.1.b) of the Capital Companies Act.

Section 1 of Article 12. Holding the General Meeting.

The General Meeting will be validly at the first session providing shareholders that own a minimum percentage of capital subscribed with voting rights is present or represented, in each case, as required pursuant to the Capital Companies Act or the Articles of Association. If there is an insufficient number, the General Meeting will be held at a second session.

Article 19. Proposals.

Without prejudice to the possibility of proposing resolutions under the aegis of the provisions set forth in Article 168 of the Capital Companies Act prior to the call to the General Meeting and the provisions laid down in Article 172 of the aforementioned legal text, it should be pointed

out that, when the floor is open, shareholders may formulate proposals for decisions to the General Meeting on matters in the agenda which do not legally need to be made available to the shareholders when the meeting is announced, and on those questions on which the Meeting may deliberate without being included in the agenda.

Article 4.1. Paragraph 2 - Convening the General Meeting.

Similarly, the Board of Directors will call an Extraordinary General Meeting whenever it deems such action appropriate for corporate interests. An extraordinary general meeting must be convened when this is requested by shareholders that hold at least 5% of the share capital. The items of the agenda to be addressed at the Meeting must be expressed in the application. In this event, the Extraordinary General Meeting of Shareholders must be convened to be held within the legal deadline. The Administrators will draw up the agenda, and must include the items requested in the application.

Article 6. Information available from the date of the call to meeting.

1. From the date of publication of the announcement of the General Meeting, the company shall place on its website all the proposals for decisions formulated by the Board of Directors in respect of the items on the agenda, unless when the proposals are not legally or statutorily required to be made available to the shareholders from the date of the meeting announcement, the Board deems that there is a justifiable reason for not doing so.
2. From the date of the announcement of the meeting, any other information which is considered appropriate for facilitating the attendance of the shareholders at the Meeting and their active participation therein shall be published on the company website including:
  - I) Information on the Meeting venue, indicating, where applicable, access to the room designated for this purpose.
  - II) Sample of an attendance card and the document for vote delegation indicating the procedure for obtaining the originals.
  - III) If available, a description of the delegation or electronic voting systems which may be used.
  - IV) Information, where applicable, on the systems and procedures which facilitate monitoring of the Meeting (simultaneous translation or diffusion via audiovisual media).
3. Likewise, from the date of publishing the call to the General Meeting, shareholders will have an Electronic Forum accessible both by individual shareholders as well as voluntary associations that may be set up, to facilitate communication between them prior to the General Meeting. The following may be published on the forum:
  - I) Proposals to supplement the agenda announced in the call to meeting.
  - II) Applications to adhere to these proposals.
  - III) Initiatives to reach the percentage required to exercise a minority right as provided for in law.
  - IV) Offers and requests concerning voluntary representation.

The Shareholders' Electronic Forum will be governed by the rules of the Electronic Shareholder Forum of Gas Natural SDG, S.A., duly approved by the Board of Directors."

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**E.7** Indicate the attendance data of the General Meetings held during the financial year to which this report refers:

Date of General Meeting	Attendance data					Total
	% physical presence	% represented	% remote voting			
			Electronic vote	Others		
14/04/2011	68.700	8.000	0.000	0.000	76.700	

**E.8** Indicate briefly any decisions taken in the General Meetings held during the financial year to which this report refers, and the percentage of votes in the case of each decision.

During 2011, Gas Natural SDG, S.A. held one Ordinary General Meeting on 14 April 2011. The decisions adopted and the percentage of votes accorded to each are indicated below, as well as the share capital present and represented.

Ordinary General Meeting of Gas Natural SDG, S.A. held on 14 April 2011.

**One.** Analysis and approval, where applicable, of the Annual Accounts and of the Management Report for Gas Natural SDG, S.A. pertaining to the year ended on 31 December 2010.

Votes against: 0.0015%

Abstentions: 0.0030%

Votes in favour: 99.9955%

**Two.** Analysis and approval, where applicable, of the Consolidated Annual Accounts and of the Consolidated Management Report for Gas Natural SDG, S.A. pertaining to the year ended on 31 December 2010.

Votes against: 0.0015%

Abstentions: 0.0030%

Votes in favour: 99.9955%

**Three.** Examination and approval, where applicable, of the proposed application of the results of the 2010 financial year.

Votes against: 0.0022%

Abstentions: 0.0020%

Votes in favour: 99.9958%

**Four.** Approval, for the free allocation of ordinary shares to company shareholders, of a share capital increase for a determinable amount and with the market reference value of four hundred and twelve million nine hundred and forty seven thousand one hundred and fourteen euros and five eurocents (412,947,114.05 euros). Acceptance of an undertaking to shareholders to acquire their free allocation rights at a guaranteed price. Express provision of incomplete allocation. Express provision of incomplete allocation. Delegation of execution of the share capital increase to the Board of Directors, with express powers to replace and redraft Articles 5 and 6 of the Articles of Association. Requesting admission to trading of issued shares in the stock exchanges of Barcelona, Madrid, Bilbao and Valencia as well as their transaction through the Spanish Stock Exchange Interconnection System.

Votes against: 0.9172%

Abstentions: 0.0028%

Votes in favour: 99.9800%

**Five.** Examination and approval, where applicable, of the Board of Directors' actions during the 2010 financial year.

Votes against: 0.0024%

Abstentions: 0.0124%

Votes in favour: 99.9852%

**Six.** Re-election of the accounts auditors of the company and its consolidated group for the year 2011.

Votes against: 0.3198%

Abstentions: 0.0665%

Votes in favour: 99.6137%

**Seven.** Re-election, ratification and, where applicable, appointment of members of the Board of Directors.

7.1. Ratification and, where applicable, appointment of Mr Ramon Adell Ramon.

Votes against: 0.0684%

Abstentions: 0.0040%

Votes in favour: 99.9276%

7.2. Ratification and, where applicable, appointment of Mr Nemesio Fernández-Cuesta Luca de Tena.

Votes against: 0.5381%

Abstentions: 0.0040%

Votes in favour: 99.4579%

7.3. Ratification and, where applicable, appointment of Mr Felipe González Márquez.

Votes against: 0.0731%

Abstentions: 0.0042%

Votes in favour: 99.9227%

**Eight.** Modification of certain articles of the Articles of Association and adaptation in one context of its content, incorporating the modification agreed by the General Meeting.

8.1. Article 28. Call to the General Meeting, Article 29.- Power and obligation to convene the meeting, Article 51 bis. Audit Committee, Article 57. Management Report and Article 66. Deposit of the Annual Accounts.

Votes against: 0.0128%

Abstentions: 0.0676%

Votes in favour: 99.9196%

8.2. Article 18. Issue of bonds and Article 44. Remuneration.

Votes against: 0.0128%

Abstentions: 0.1160%

Votes in favour: 99.8712%

8.3. Article 12.- Joint ownership and rights in rem over the shares, Article 34. -Representation, Article 37.- Deliberation and adoption of resolutions, Article 39. Minutes of the Meeting, Article 41. Board of Directors, Article 51. Composition of the Executive Committee, Article 62. Legal reserve, Article 71. Liquidation of the company, Additional Provision and Transitory Article.

Votes against: 0.0128%

Abstentions: 0.0676%

Votes in favour: 99.9196%

8.4. Adaptation of Articles of Association.

Votes against: 0.0128%  
 Abstentions: 0.1199%  
 Votes in favour: 99.8673%

**Nine.** Amendment of certain articles of the General Meeting Regulations.

9.1. Article 2. Powers of the General Meeting of Shareholders, Article 12. Holding the General Meeting, and Article 19. Proposals.

Votes against: 0.0023%  
 Abstentions: 0.0591%  
 Votes in favour: 99.9386%

9.2. Article 4. Calling the General Meeting of Shareholders, and Article 6. The information available from the date of calling the meeting.

Votes against: 0.0022%  
 Abstentions: 0.0592%  
 Votes in favour: 99.9386%

**Ten.** Consultative vote concerning the Annual Report on remuneration of members of the Board of Directors.

Votes against: 1.1569%  
 Abstentions: 0.0718%  
 Votes in favour: 98.7713%

**Eleven.** Delegation of powers of attorney to supplement, develop, execute, remedy and formalise the decisions taken by the General Meeting.

Votes against: 0.0021%  
 Abstentions: 0.0027%  
 Votes in favour: 99.9952%

**E.9** Indicate whether or not there is a statutory restriction to the minimum number of shares required to attend the General Meeting:

Yes  No

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**Number of shares required to attend the General Meeting**

100

**E.10** Indicate and justify the company's policies with regard to delegation of votes at the General Meeting.

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Pursuant to Article 34 of the Articles of Association, any shareholder with right of attendance may be represented at the General Meeting by another person who must be a shareholder, with the equal right of attendance, informing the company of the representation at least three days before the meeting is held.

The representation must be conferred in writing for each General Meeting, except the provisions set forth in Article 187 of the Capital Companies Act. Representation may be revoked at any time. Personal attendance at the General Meeting of the person represented may be revoked.



Likewise, Article 8 of the Regulations of the General Meeting indicates that the right to attend the General Meeting may be delegated in favour of another shareholder who also has the right of attendance.

The representation should be stated in writing or by any means of remote communication such as postal correspondence, telephone, email, sms or any other electronic means of communication supported by the company for this purpose.

The company will report on the corporate website and in any other media it deems appropriate on the representation system by remote media and on the guarantees that it requires with regard to the identity and authenticity of the shareholder granting the representation and the security and integrity of the content of the remote communication. Accordingly, the company may require the use of a recognised electronic signature or any other system that, in the sole judgement of the Board of Directors or the body or persons who the Board delegates this power of attorney, is deemed to satisfy the sufficient security guarantees.

Natural persons who are shareholders and who are not in full possession of their civil rights and artificial persons who are shareholders may be represented by duly accredited legal agents.

Representation which cannot be demonstrated according to law shall not be deemed valid or effective. Representation may be revoked at any time. Personal attendance at the General Meeting of the person represented may be revoked.

In cases where the administrators of the company represent any shareholder, the document authorising that delegation should contain the agenda of the Meeting as well as instructions for exercising the right to vote. If there are no such instructions, a favourable vote shall be assumed in respect of the proposals of the Board of Directors.

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**E.11** Indicate whether the company is aware of the institutional investors' policy of participating or not in the company decisions:

Yes  No

**E.12** Indicate the address and means of access to corporate governance information on the website.

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All the information required may be found on the website [www.gasnaturalfenosa.com](http://www.gasnaturalfenosa.com). The corporate governance information can be accessed through the section Information for Shareholders and Investors.

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## F. Degree of Compliance with Corporate Governance Recommendations

Indicate the company's degree of compliance with the recommendations given in the Unified Code of Good Governance. In the event of failure to comply with any such recommendations, explain the recommendation, standards, practices or criteria in question applied by the company.

- 1.** The Articles of Association of listed companies should not limit the maximum number of votes that can be issued by the same shareholder or contain other restrictions that prevent the company from being taken over through the purchase of its shares on the market.

See epigraphs: A.9, B.1.22, B.1.23 and E.1, E.2.

Complies

- 2.** When the parent company and the subsidiary are listed, they must both publicly define the following in detail:

- a) The respective areas of activity and possible business relationships between them, as well as those of the dependent listed company with the remaining group companies;
- b) The mechanisms in place to solve possible conflicts of interest that may occur.

See epigraphs: C.4 and C.7

Not applicable

- 3.** Although it is not expressly required in mercantile legislation, they should submit the transactions that involve a modification to the company's structure for approval by the General Meeting of Shareholders, especially the following:

- a) The transformation of listed companies into holding companies through the creation of subsidiaries or the incorporation of essential activities into dependent enterprises that hitherto had been carried out by the company itself, even though this party holds full domain over the former;
- b) The acquisition or disposal of essential operating assets, when this involves an effective modification of the corporate purpose;
- c) Operations that have the same affect as liquidation of the company.

Complies

- 4.** The detailed proposals of the agreements to be adopted by the General Meeting of Shareholders, including the information referred to in Recommendation 28, should be published with the publication of the announcement of the call to the meeting.

Complies

- 5.** In the General Meeting of Shareholders, the matters that are substantially independent must be voted separately so that shareholders can exercise their voting preferences separately. And the said rule should be applied, in particular:

- a) To the appointment or ratification of Directors, which must be voted on separately;
- b) In the event of amendments to the Articles of Association, to each article or group of articles that are substantially independent.

See epigraph: E.8

Complies

- 6.** The companies should allow the division of the vote so that the financial brokers legitimated as shareholders but acting on behalf of different customers can issue their votes in accordance with the instructions given by the said customers.

See epigraph: E.4

Complies

- 7.** The Board should carry out its functions on the basis of a unified purpose and independence, giving the same treatment to all the shareholders and following the company's interest, understood as maximising the company's economic value in a sustained manner.

It should also ensure that, in its relations with the stakeholders, the company observes legislation and regulations; fulfils its duties and contracts in good faith; observes the uses and good practices of the sectors and territories in which it operates; and observes the additional principles of social responsibility it has voluntarily accepted.

Complies

- 8.** As the core of its mission, the Board should adopt the company's strategy and the organisation required for its implementation, as well as supervising and controlling the management's fulfilment of targets and observance of the company's corporate interest and purpose. Accordingly, in its plenary session, the Board reserves the competency for adopting the following:

a) The general policies and strategies of the company, and more specifically:

- I) The Strategic or Business Plan, as well as the management aims and annual budgets;
- II) The investment and finance policy;
- III) The definition of the group companies structure;
- IV) The corporate governance policy;
- V) The corporate social responsibility policy;
- VI) The remuneration policies and assessment of performance of senior management;
- VII) The policy for control and management of risks, as well as periodic monitoring of the internal information and control systems;
- VIII) The dividend policy, as well as the treasury stock policy, with special focus on their limits.

See epigraphs: B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions:

- I) At the proposal of the chief executive of the company, the appointment and possible resignation of senior executives, as well as their compensation clauses.

See epigraph: B.1.14.

- II) The remuneration of Directors, as well as, in the case of executives, the additional remuneration through their executive duties and other conditions that their contracts must include.

See epigraph: B.1.14.

- III) The financial information that must be published periodically, given its status as a listed company.

- IV) All kinds of investment or operations which, due to the amount or special characteristics, are of a strategic nature, unless approval falls to the General Meeting.

- V) The creation or acquisition of shareholdings in special purpose enterprises or enterprises with registered offices in countries or territories considered as tax havens, as well as any other transactions or operations of a similar nature which, due to their complexity, could hamper the group's transparency.

c) The operations that the company carries out with Directors, with major shareholders or shareholders represented on the Board, or with related parties ("related-party transactions").

However, this authorisation by the Board should not be considered necessary for the related-party transactions that meet the following three conditions:

1. They are carried out by virtue of contracts whose terms and conditions are standardised and applied generally to many customers;;
2. They are carried out at prices or rates generally established by the person acting as the supplier of the good or service in question;
3. Their amount does not exceed 1% of the company's annual revenue.

It is recommended that the Board should approve the associated transactions after a favourable report has been issued by the Audit Committee or, where applicable, any other party to which that function has been commissioned; and, besides not exercising or delegating their right to vote, the members of the Board who are affected should leave the meeting room while the Board deliberates and votes on the matter.

It is recommended that the competencies attributed to the Board here should be non-delegable, with the exception of those mentioned in paragraphs b) and c), which may be adopted in emergencies by the Executive Committee and subsequently ratified by the Board in its plenary session.

See epigraphs: C.1 and C.6

Complies partially

The degree of fulfilment is very high as a result of the following:

In accordance with Article 4 of the Regulations of the Board of Directors:

"1. The Board of Directors is responsible for carrying out whatsoever action that may be necessary for the fulfilment of the corporate purpose laid down in the Articles of Association. At any given time, the criterion governing the actions taken by the Board of Directors is the sustained maximisation of the company's value. In particular, it shall be competent for the following:

- Determining the company's strategic orientation and financial objectives and agreeing, at the proposal of top-tier management, the appropriate measures for their achievement.
- Supervising and verifying that the members of top-tier management comply with the strategy and meet the targets set and observe the corporate purpose and interest.
- Ensuring the company's future viability and its competitiveness, as well as the existence of appropriate leadership and management, where the company's activity is expressly submitted to its control.
- Adopting the company's codes of conduct and exercising the powers laid down in Article 5 of these regulations.

When carrying out its functions, the Board of Directors shall establish all the supervision systems required to guarantee the control of its members' decisions, in accordance with its corporate interest and the interests of the minority shareholders.

2. The Board of Directors shall be responsible for whatsoever management, representation and control activities necessary or appropriate for achieving the corporate purpose as laid down in the Articles of Association. It shall respond for this obligation to the General Meeting. The bestowing of powers in favour of one or more members of the Board does not deprive the latter of the organic competency laid down in the Public Limited Companies Act and Articles of Association.

3. The Board of Directors is authorised, within the legal and statutory limits or those expressly laid down in these regulations, for the following:

- Appointing one or more Directors, in the case of vacancies, by means of the co-option system until the first General Meeting is held.
- Accepting Directors' resignations, where applicable.
- Appointing and dismissing the Chairman, Deputy Chairman, Chief Executive Officers, Secretary and Assistant Secretary of the Board of Directors.
- Delegating functions to any of its members under the terms and conditions laid down in law and the Articles of Association, as well as their revocation.
- Appointing the Directors to the various committees laid down in these regulations and revoking their mandates.
- Preparing the Annual Accounts and the Management Report.
- Presenting the reports and agreement proposals which, in accordance with the provisions laid down in law and the Articles of Association, are to be prepared by the Board of Directors to be heard and adopted, where applicable, by the General Meeting, including the Annual Corporate Governance Report.

- Establishing the company's economic targets and adopting, when so proposed by senior management, the strategies, plans and policies aimed at achieving the said targets, where the fulfilment of the said activities is subject to its control.
  - Adopting the acquisitions and transfers of the company's assets or those of its subsidiary companies which, as a result of whatsoever circumstance, are of particular significance.
  - Establishing its own organisation and operation, and as well as that of the company's senior management, and, in particular, modifying these regulations.
  - Exercising the powers awarded to the Board of Directors by the General Meeting, which may only be delegated if so laid down expressly by agreement of the General Meeting, as well as the other powers bestowed by virtue of these regulations.
4. The Board of Directors is also the company's organic representative under the legal terms and conditions laid down in the Articles of Association. The delegation or bestowing of such a power of representation in favour of one or more Directors implies an obligation for the latter to notify the Board of whatsoever documents they sign in the exercise of the said power and which go beyond ordinary administrative requirements.
5. The Board of Directors shall regularly assess its own operations and that of its committees."

Similarly, Article 5 of the said regulations on the powers reserved expressly for the Board of Directors lays down the following:

"Notwithstanding the powers of representation and execution awarded by the Articles of Association to the Chairman and the Chief Executive Officers, as well as the effects of the powers or delegations bestowed to third parties directly by the company, with regard to the legal independence of the governing bodies of the companies in the group, a prior decision by the Board of Directors of Gas Natural SDG, S.A. shall be required in the following cases:

1. Presentation to the Ordinary General Meeting of the Annual Accounts and the Management Report of Gas Natural SDG, S.A. and the consolidated accounts, as well as any other proposals legally required of the administrators of the company.
2. Adoption of the group's Strategic Plan, the Annual Budgets, the Annual Financial Plan and the investments and finance policy.
3. Definition of the capital ownership structure and the structure for delegations and powers.
4. Adoption of the corporate governance and corporate social responsibility policies.
5. The incorporation of new companies or entities, or participation in already existing companies when this presupposes an investment exceeding ten million euros of a stable nature for the group, or is removed from the main company activity.
6. Adoption of merger, absorption, spin-off, concentration and dissolution transactions with or without liquidation, in which any of the companies in the group is involved and which are relevant for it. Whatever the case, the transactions involving companies with shareholders external to the group shall be understood as transactions of relevance.
7. Transfer of shares in the capital of companies or other fixed assets by any company in the group which, owing to their quantum or nature, are relevant for it. Whatever the case, the transactions involving quanta of more than ten million euros shall be understood as relevant.

8. Adoption of investment projects to be carried out by any company in the group which, owing to their quantum or nature, are relevant for it. Whatever the case, the transactions involving quanta of more than 15 million euros shall be understood as relevant.
9. Adoption of programmes for the issue and renewal of serial commercial papers, debentures or similar securities by Gas Natural SDG, S.A. or its major investee or controlled holdings.
10. Adoption of financial transactions to be carried out by any company in the group which, owing to their quantum or nature, are of relevance for it and are not included in the Annual Financial Plan. Whatever the case, whatsoever positioning of surpluses for a term of more than one year or financing at any term for quanta of over ten million euros shall be considered relevant.
11. Awarding of guarantees by companies belonging to the group to guarantee the obligations of entities that do not belong to it or which, belonging, have external shareholders.
12. Transfer of rights over the trade name and brands as well as patents, technology and any other type of industrial property belonging to Gas Natural SDG, S.A. or group companies, and which have financial relevance.
13. Adoption or ratification of the appointment and dismissal of members of senior management and the administrators of the various companies in the group.
14. Adoption of the appointment and dismissal of the patrons and posts held in the Gas Natural Foundation, of the individual representatives of Gas Natural SDG, S.A. in the cases in which the said company holds the post of administrator in another company, and administrators of part-owned companies that do not belong to Gas Natural Fenosa when the company has the power for proposing the said appointment.
15. Creation, investment and supervision of the management of personnel pension plans and any other undertakings involving personnel which imply long-term financial liabilities for the company.
16. The signing of commercial, industrial or financial agreements of relevant or strategic importance for the group that represent a modification, change or review of the current Strategic Plan or Annual Budget.
- 17- Approval of any company transaction with a significant shareholder pursuant to the terms of Article 19.
18. Adoption of the financial information that corresponds according to legislation.
19. Adoption of the risk management and control policy and regular monitoring of the indicators and internal control systems.
20. Adoption of the policy on dividends and treasury stocks.

The agreements laid down in paragraphs five to eight, ten to 13 and 16 can be adopted without distinction by the Board of Directors or the Executive Committee.

The Chairman, the Chief Executive Officers or the Secretary shall execute the decisions taken by the Board of Directors pursuant to this Article and shall notify the authorisation or approval in the appropriate manner, or shall issue instructions to act as required."

Consequently, there are certain competencies which, owing to urgency, effectiveness and operability, have been awarded without distinction to the Board of Directors and to the Executive Committee.

**9. The Board should have the necessary size for effective, participatory operation, which means that it should not have fewer than five or more than 15 members.**

See epigraph: B.1.1

Explain

At present, the Board of Directors of Gas Natural SDG, S.A., within the minimum number of 10 members and a maximum of 20 members laid down in Article 41 of the Articles of Association, by virtue of the agreement adopted by the General Meeting of Shareholders held on 23 June 2003, comprises 17 members. The said number exceeds by two that of Recommendation 9 of the Unified Code of Good Governance; however, the company believes that the current size of the Board is appropriate and necessary for the correct management and supervision of the company, where the said number does not prevent, limit or restrict in whatsoever way the effective and participatory operation of the said governing body.

**10. The External Proprietary and Independent Directors should represent a broad majority of the Board and the number of Executive Directors should be the required minimum, taking into account the complexity of the corporate group and the percentage of participation of the Executive Directors in the company's capital.**

See epigraphs: A.2 , A.3, B.1.3 and B.1.14.

Complies

**11. If there is an External Director who cannot be considered as either a Proprietary or Independent, the company should explain the said circumstance and his/her association either with the company or its executives, as well as with its shareholders.**

See epigraph: B.1.3

Not applicable

**12. Among the External Directors, the ratio between the number of Proprietary Directors and the Independent Directors should reflect the proportion between the company's share capital represented by the Proprietary Directors and the rest of the share capital.**

This criterion of strict proportionality could be reduced as the weight of the Proprietary Directors is greater than that which would correspond to the total percentage of the share capital they represent:

1. In companies with high capitalisation in which the shareholdings legally considered as majority are very few or non-existent, but there are shareholders with stock that has an absolute high value.
2. When these are companies that do not have a plurality of shareholders represented on the Board, and there are no related-parties between the shareholders.

See epigraphs: B.1.3, A.2 and A.3

Complies



**13.** The number of Independent Directors should represent at least one third of the total number of Directors.

See epigraph: B.1.3

Complies

**14.** The character of each Director must be declared by the Board before the General Meeting of Shareholders, which shall effect or ratify their appointment, an appointment that shall be confirmed or reviewed annually, as appropriate, in the Annual Corporate Governance Report, with prior confirmation by the Appointments Committee. The said report should also explain the reasons why Proprietary Directors have been appointed at the request of shareholders whose holding is less than 5% of the share capital; and reasons should be given for the rejection, where applicable, of formal requests for presence on the Board from shareholders whose holding is equal to or higher than that of others at whose request Proprietary Directors have been appointed.

See epigraphs: B.1.3 and B.1.4

Complies

**15.** When the number of female Directors is very low or non-existent, the Board should explain the reasons and the initiatives adopted to correct this situation; and, more specifically, the Appointments Committee should ensure that when new seats on the Board are available:

a) The selection procedures are not affected by an implicit bias that prevents female Directors from being selected.

b) The company purposefully seeks women that satisfy the professional profile, including among potential candidates.

See epigraphs: B.1.2, B.1.27 and B.2.3

Complies partially

Article 31 of the Regulations for the Organisation and Operation of the Board of Directors and its committees lays down that the Appointments and Remuneration Committee shall review the necessary aptitudes in the candidates that are to cover each vacancy, the fulfilment of the requirements for each category of Director and the process for incorporating new members, raising the corresponding reports to the Board as required. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought.

At present, the number of female Directors on the Board is zero, although Gas Natural SDG, S.A. has had female Directors in the past. On no occasion has the company limited, vetoed or restricted the possible appointment of a Director on the basis of gender, a circumstance which has never been taken into account.

**16.** That the Chairman, as the person responsible for the effective performance of the Board, ensures that the Directors receive sufficient information beforehand; stimulates the debate and active participation of Directors during the Board sessions, safeguarding their right to take their own position and express their own opinion; and organises and coordinates the periodic assessment of the Board together with the chairmen of the relevant Committees as well as, if appropriate, that of the CEO or chief senior executive.

See epigraph: B.1. 42

Complies

**17.** When the Chairman of the Board is also the company's chief executive, one of the Independent Directors should be empowered to request the call to meeting of the Board or the inclusion of new matters on the agenda; coordinate and echo the concerns of the External Directors; and direct the Board's assessment of its Chairman.

See epigraph: B.1.21

Not applicable

**18.** The Secretary of the Board should make particularly sure that the Board's actions:

- a) Comply with the content and spirit of the laws and their regulations, including those approved by the regulating bodies;
- b) Are in accordance with the Articles of Association of the company and with the Meeting rules and regulations, those of the Board and any others that the company has;
- c) Take into consideration recommendations concerning good governance set forth in this Unified Code, which the company has accepted.

And, in order to safeguard the Secretary's independence, impartiality and professionalism, his/her appointment and dismissal must be reported by the Appointments Committee and approved by the Board in its plenary session; and the said appointment and dismissal procedure must be laid down in the Board Regulations.

See epigraph: B.1.34

Complies

**19.** The Board should meet as regularly as necessary to carry out its functions effectively, following the schedule of dates and business laid down at the beginning of the year, where each Director may propose other business for the agenda not considered initially.

See epigraph: B.1.29

Complies

**20.** The non-attendance of the Directors should be reduced to essential cases and quantified in the Annual Corporate Governance Report. And if representation is essential, it must be designated with instructions.

See epigraphs: B.1.28 and B.1.30

Complies

**21.** When the Directors or the Secretary express concern for any proposal or, in the case of the Directors, for the company's progress and the said concern is not resolved by the Board, it should be recorded in the minutes of the meeting at the request of the person expressing the said concern.

Complies

**22.** In its plenary session, the Board should assess the following once a year:

- a) The quality and effectiveness of the Board's performance;
- b) Based on the report prepared by the Appointments Committee, the performance of the Chairman of the Board and the chief executive of the company;
- c) The operation of its committees, based on the report prepared by these.

See epigraph: B.1.19

Complies

**23.** All the Directors should be able to exercise the right to gather the additional information they consider necessary on business that falls within the competency of the Board. And, unless the Articles of Association or the Regulations of the Board lay down otherwise, they should address their requirement to the Chairman or Secretary of the Board.

See epigraph: B.1.42

Complies

**24.** All the Directors should have the right to obtain the advice they need for the fulfilment of their functions from the company. The company should lay down the appropriate ways of exercising this right, which, under special circumstances, could include external advisory services on the company's account.

See epigraph: B.1.41

Complies

**25.** The companies should establish a guidance programme to provide new Directors with rapid and sufficient knowledge of the company, as well as its rules on corporate governance. And they should also offer Directors updated awareness programmes whenever circumstances deem such action advisable.

Complies

**26.** The companies should require the Directors to devote the time and effort necessary for carrying out their function effectively and, consequently:

- a) The Directors should notify the Appointments Committee of the other professional obligations in case these could interfere with the dedication required;
- b) The companies should establish rules on the number of Boards of which their Directors can form part.

See epigraphs: B.1.8, B.1.9 and B.1.17

Complies partially

Owing to the high level of participation and attendance at the sessions of the governing bodies by the members of the Board, to date the company has not established any rules on the number of Boards on which the said Directors can sit; however, Article 18 of the Regulations of the Board expressly lays down the duty to non-competition.

Article 18 of the Regulations of the Board states:

“Directors may not hold, themselves or by means of a representative, posts of whatsoever kind in companies or enterprises that compete with Gas Natural SDG S.A. or any company in its group, or provide the same services of representation or consultancy in favour thereof. A company shall be considered as a competitor of Gas Natural SDG, S.A. when, directly or indirectly, or through companies in its group, it is devoted to any of the activities included in the corporate purpose of Gas Natural SDG, S.A.

The Board of Directors, on the basis of report from the Appointments and Remuneration Committee, may excuse the fulfilment of this obligation when there is justified cause and it does not have a negative effect on the company’s interests.”

**27.** The proposal for the appointment or re-election of Directors raised by the Board to the General Meeting of Shareholders, as well as their provisional appointment by co-option, should be approved by the Board:

- a) At the proposal of the Appointments Committee, in the event of Independent Directors.
- b) Following a report from the Appointments Committee, in the event of remaining Directors.

See epigraph: B.1.2

Complies

**28.** The companies should publish the following information about their Directors on their website and keep the said information up-to-date:

- a) Professional and biographical profile;
- b) Other Boards of Directors to which they belong, whether or not these are listed companies;
- c) An indication of the classification of Director to which they belong, specifying, in the event of Proprietary Directors, the shareholder they represent or with whom they are linked.
- d) Date of the first appointment as Director of the company, as well as subsequent appointments; and
- e) Company shares and stock options of which they are the holder.

Complies

**29.** The Independent Directors should not remain as such for a continued term of more than 12 years.

See epigraph: B.1.2

Complies

**30.** The Proprietary Directors should present their resignation when the shareholder they represent sells all his/her shares in the company. They should also present their resignation, in the corresponding number, when the said shareholder lowers his/her shares in the company to a level that requires a reduction in the number of his/her Proprietary Directors.

See epigraphs: A.2 , A.3 and B.1.2

Complies

- 31.** The Board of Directors should not propose the dismissal of any Independent Director before the fulfilment of the statutory term for which he/she has been appointed, except when there is just cause, understood as such by the Board after a report issued by the Appointments Committee. More specifically, justified reason shall be understood to exist when the Director has breached the duties that are inherent to their post or incurs any of the circumstances described in heading 5 of section III of definitions of this code.

The dismissal of Independent Directors resulting from takeover bids, mergers or other similar corporate transactions that represent a change to the company's share capital structure could be proposed when the said changes to the structure of the Board are brought about by the criterion of proportionality indicated in Recommendation 12.

See epigraphs: B.1.2, B.1.5 and B.1.26

Complies

- 32.** The companies should establish rules that oblige the Directors to report and, where applicable, resign in cases that could damage the company's reputation and credit and, in particular, oblige them to inform the Board of the criminal cases in which they appear as an accused party, as well as their subsequent procedural events.

If a Director is tried or a sentence is issued against him/her for the commencement of a hearing for any of the crimes laid down in Article 124 of the Public Limited Companies Act, the Board should examine the case as soon as possible and, in view of the specific circumstances, decide whether or not it is fitting for the Director to continue in his/her post. The Board should give a reasoned account of all the events in the Annual Corporate Governance Report.

See epigraphs: B.1.43, B.1.44

Complies

- 33.** All the Directors should clearly express their opposition when they consider that any proposed decision submitted to the Board may be contrary to the company's interests. And this should apply especially to the Independent Directors and other Directors not affected by the potential conflict of interest in the case of decisions that may damage the shareholders not represented on the Board.

When the Board adopts significant or reiterated decisions on which the Director has formulated serious reservations, the said Director should draw the corresponding conclusions and, if he/she decides to resign, explain the reasons in the letter referred to in the following recommendation.

The scope of this recommendation also includes the Secretary of the Board, even though he/she does not have the status of Director.

Complies

- 34.** When, either due to resignation or any other reason, a Director abandons his/her post before the end of his/her mandate, he/she should explain the reasons in a letter sent to all the members of the Board. And, without prejudice to the said resignation being notified as a relevant event, the reason for the resignation should be accounted for in the Annual Corporate Governance Report.

See epigraph: B.1.5

Complies partially

The recommendation does not apply to the Proprietary Directors or Executive Directors insofar as they access the Board in a different manner from the Independent Directors. The former are appointed by means of a proposal put forward by a holder of significant stable shares in the company's share capital; the latter access the Board of Directors by virtue of their executive skills or senior management functions and the Independent Directors are appointed by virtue of their personal and professional conditions, since they exercise their functions without being conditioned by relations with the company, its majority shareholders or executives. Accordingly, only these Directors are asked to explain the reasons for their resignation to the other Directors when, for whatsoever reason, they leave their post before the completion of their mandate. Please see clarification of section B.1.4.

**35. The remuneration policy approved by the Board should indicate at least the following:**

- a) Amount of the fixed elements, with a breakdown if applicable of the allowances for participation on the Board and its Committees and an estimate of the annual fixed remuneration to which they are entitled;
- b) Variable payment, specifically including:
  - I) Classification of Directors that apply, as well as an explanation of the relative importance of the variable items with regard to the fixed items;
  - II) Criteria for assessing results on which any rights to payment through shares, stock options or any variable component are based;
  - III) Fundamental parameters and basis of any annual premium system (bonus) or other benefits not paid in cash; and
  - IV) An estimate of the total amount of variable payments to which the proposed remuneration plan shall lead, in accordance with the degree of compliance with the targets or hypotheses on which it is based.
- c) Key features of the complementary pensions, life-assurance policies and similar, with an estimate of the annual equivalent amount or cost.
- d) Conditions to be observed in the contracts of those who exercise senior management functions as Executive Directors including:
  - I) Duration;
  - II) Periods of notice; and
  - III) Any other clauses concerning joining bonuses, as well as compensation or golden parachute clauses through early termination or termination of the contractual relationship between the company and the Executive Director.

See epigraph: B.1.15

Complies

- 36.** The remuneration made through shares in the company or companies in the group, options over shares or instruments referenced to the value of the share, variable remuneration associated with the company's performance or social security systems should be limited to the Executive Directors.

This recommendation will not cover the provision of shares when it is conditioned to the Directors maintaining them until their resignation as a Director.

See epigraphs: A.3, B.1.3

Complies

- 37.** The remuneration of the External Directors should be the amount necessary for compensating the devotion, qualification and responsibility required by the post; but not so high as to compromise their independence.

Complies

- 38.** The remuneration related to the company's results should take into account the possible exceptions included in the external auditor's report, which may reduce the said results.

Not applicable

- 39.** In the case of variable remuneration, the remuneration policies should incorporate the necessary technical precautionary measures to ensure that the said remuneration is related to the professional devotion of the beneficiaries and do not result simply from the general evolution of the markets or the company's activity sector or other similar circumstances.

Complies

- 40.** The Board should submit a report on the Directors' remuneration policy to vote at the General Meeting of Shareholders, as a separate, consultative matter on the agenda. The said report should be made available to the shareholders either separately or in any other way the company considers appropriate.

The said report should focus particularly on the remuneration policy approved by the Board for the present year, as well as, where applicable, the policies anticipated for future years. It shall include all the matters referred to in Recommendation 35, except for circumstances that may suppose the revelation of sensitive commercial information. It shall underline the most significant changes in the said policies with regard to that applied during the past year to which the General Meeting refers. It shall also include an overall summary of how the remuneration policy was applied during the past year.

The Board should also report on the role played by the Remuneration Committee in the preparation of the remuneration policy and, if external consultancy services are used, on the identity of the external consultants providing the service.

See epigraph: B.1.16

Complies

**41.** The report should give details of the individual remuneration paid to Directors during the year, and include:

a) The individualised breakdown of payment to each Director, which shall include, if appropriate:

- I) The attendance allowances and other fixed remuneration as Director;
- II) Additional payments as chairman or member of any of the Board's Committees;
- III) Any payment as profit share or bonuses, and the reason why these were given;
- IV) Defined contributions to pension schemes in favour of the Director; for the increase of the Director's consolidated rights, when these are contributions to defined payment plans;
- V) Any agreed or paid compensation in the event of termination of their duties;
- VI) Remuneration received as Director of other group companies;
- VII) Payments for the performance of senior management duties carried out by Executive Directors;
- VIII) Any other payment item other than the foregoing, regardless of their nature or the group company that pays them, especially when it is considered as a related-party operation or leaving it out would distort the true image of total payments received by the Director.

b) The individualised breakdown of any shares of stock options given to Directors, or any other instrument pegged to the share value, with a breakdown of::

- I) Number of shares or options granted over the year and the conditions for the exercise of these;
- II) Number of options exercised over the year with an indication of the number of shares affected and the price;
- III) Number of options pending exercise at the year-end, an indication of their price, date and other requirements to exercise these;
- IV) Any modification over the year of the terms for exercising the options already granted.

c) Information on the ratio, the previous year, between the remuneration obtained by Executive Directors and the profits or other performance indicators of the company.

Complies partially

The report on the Annual Accounts individualises the amounts received by the members of the Board of Directors for belonging to said body of governance, the Executive Committee, the Audit and Control Committee and the Appointments and Remuneration Committee of the company, where the other remunerations are given in aggregate format with a breakdown of the various payment concepts.



**42.** When there is a Delegated or Executive Committee (hereinafter called "Executive Committee"), the participation structure of the various categories of Directors should be similar to that of the Board itself and its Secretary should be the Secretary of the Board.

See epigraphs: B.2.1 and B.2.6

Complies

**43.** The Board should always be aware of the matters dealt with and the decisions adopted by the Executive Committee and all the members of the Board should receive a copy of the minutes of the sessions of the Executive Committee.

Explain

The Chairman of the Board, also Chairman of the Executive Committee of the company, informs the members of the Board of Directors of the matters dealt with in the committee that are not recurrent, ordinary or usual. In addition, when the Executive Committee, in the full exercise of its competencies, considers that a certain matter submitted to its consideration as a result of its strategic, quantitative or qualitative importance must be reported to the Board of Directors or known thereby, it raises the said matter to the Board for the corresponding decision to be taken.

**44.** In addition to the Audit Committee required through the Securities Market Act, the Board of Directors should also constitute one committee, or two separate committees, for Appointments and Remuneration.

The rules governing the make-up and operation of the Audit committee and the Appointments and Remuneration Committee or Committees should be given in the Regulations of the Board and include the following:

- a) The Board should designate the members of these committees in accordance with the knowledge, skills and experience of the Directors and the duties of each Committee; deliberate on the proposals and reports; and report on the activity and the work carried out at the first plenary Board meeting following the committee meetings;
- b) These committees should be made up exclusively of External Directors, with a minimum of three. The above is understood as without prejudice to the attendance of Executive Directors or senior executives when so agreed expressly by the members of the committee.
- c) Their chairmen should be Independent Directors.
- d) Outsourced consultancy should be used whenever deemed necessary for the performance of their duties.
- e) Minutes of their meetings should be taken, with a copy sent to all Board members.

See epigraphs: B.2.1 and B.2.3

Complies partially

The chairmen and members of the various committees form part of the Board of Directors and, in turn and in the exercise of their competencies, they make various proposals and submit reports which are then submitted to the Board, which, together with the aim of avoiding the sending of duplicated documentation, is why the minutes of the committees are not sent.

**45.** The supervision of compliance with the internal codes of conduct and the rules of corporate governance should be attributed to the Audit Committee, to the Appointments Committee or, if these are separate, to the Compliance or Corporate Governance Committee.

Complies

**46.** The members of the Audit Committee and, in particular, its Chairman should be appointed on the basis of their know-how and experience in bookkeeping, audits and risk management.

Complies

**47.** The listed companies should have an internal audit function which, under the supervision of the Audit Committee, should monitor the correct functioning of the internal control and information systems.

Complies

**48.** The person responsible for the internal audit function should present his/her annual work plan to the Audit Committee; he/she should inform it directly of the incidents occurring during its development; and, at the end of each year, submit an activities report.

Complies

**49.** The risk control and management policies should identify at least:

- a) The different kinds of risk (operational, technological, financial, legal, those affecting the corporate reputation, etc.) which are faced by the company and which include, as part of the financial or economic risks, contingent liabilities and other off-balance sheet risks;
- b) The setting of the risk level that the company believes is acceptable;
- c) The mechanisms to mitigate the impact of the risks identified, in the event that they materialise;
- d) Internal control and information systems, which shall be used to control and manage the foregoing risks, including the contingent liabilities or off-balance sheet risks.

See epigraph: D

Complies

**50.** The Audit Committee should be responsible for the following:

1. In relation to the internal control and information systems:

- a) Supervising the preparation and completeness of the financial information concerning the company and, if appropriate, the group, checking due compliance with the governing regulations, the proper delimitation of the consolidation criteria and the correct application of accounting criteria.
- b) Periodically checking the internal control systems and risk management, to identify, manage and notify the key risks properly.

- c) Ensuring the independence and effectiveness of the internal audit function; proposing the selection, appointment, re-election and dismissal of the person in charge of the internal audit service; forwarding the budget for this service; receiving periodic information on its activities, and verifying that senior management considers the conclusions and recommendations in its reports.
- d) Setting up and supervising a mechanism that enables employees to communicate any irregularities of importance, especially those of a financial and bookkeeping nature, and to do so in a confidential manner and, if considered suitable, anonymous.

2. In relation to the external auditor:

- a) Presenting the Board with proposals for selection, appointment, re-election and replacement of the external auditor, as well as their contractual terms.
- b) Receiving regular information from the external auditor on the audit plan and the results of carrying it out, and checking that senior management take its recommendations into account.
- c) Ensuring the independence of the external auditor and, to this end:
  - I) The company should notify the change of auditor to the CNMV as a relevant event and attach a declaration on the possible existence of disagreements with the outgoing auditor and, if there are any disagreement, the content thereof.
  - II) The company and the auditor should be seen to respect the current rules governing the provision of services other than audit services, the limits on business concentration of the auditor and, in general, the other norms established to ensure independence of auditors.
  - III) In the case of the resignation of the external auditor, it should examine the circumstances leading to the said resignation.
- d) In the event of groups, to favour that the group auditor accepts liability for the audits of the companies that make up the group.

See epigraphs: B.1.35, B.2.2, B.2.3 and D.3

Complies

**51.** The Audit Committee should be able to call any of the company's employee or manager, and also have them appear without the presence of any other executive.

Complies

**52.** The Audit Committee should report to the Board before the Board adopts the corresponding decisions on the following matters indicated in Recommendation 8:

- a) The financial information that must be published periodically, given its status as a listed company. The committee should ensure that the intermediate accounts are prepared under the same bookkeeping criteria as the annual accounts and, accordingly, consider the appropriateness of a limited review by the external auditor.

b) The creation or acquisition of shareholdings in special purpose enterprises or enterprises with registered offices in countries or territories considered as tax havens, as well as any other transactions or operations of a similar nature which, due to their complexity, could hamper the group's transparency.

c) The related-party transactions, unless that preliminary report function has been attributed to another of the supervision and control committees.

See epigraphs: B.2.2 and B.2.3

Complies

**53.** The Board of Directors should seek to present the accounts to the General Meeting without reservation or exception in the auditors' report and, in whatsoever exceptional case, both the Chairman of the Audit Committee and the auditors should clearly explain to shareholders the content and scope of the said reservations or exceptions.

See epigraph: B.1.38

Complies

**54.** Most of the members of the Appointments Committee (or the Appointments and Remuneration Committee, if there is only one committee) should be Independent Directors.

See epigraph: B.2.1

Complies

**55.** Besides the functions indicated in the above recommendations, the following responsibilities should correspond to the Appointments committee:

a) Assessing the skills, knowledge and experience required on the Board, subsequently defining the duties and aptitudes required by the candidates to cover each vacancy, and assessing the time and dedication required to correctly perform their duties.

b) Properly examining and organising the succession of the Chairman and chief executive and, if appropriate, making proposals to the Board to enable the foregoing succession to occur in an organised and well planned manner.

c) Reporting the appointments and resignations of senior executives proposed to the Board by the chief executive.

d) Notifying the Board on the gender diversity issues shown in Recommendation 14 of this code.

See epigraph: B.2.3

Complies partially

The only matter to be considered under this epigraph would be gender diversity, for which the Appointments and Remuneration Committee is responsible for reviewing the necessary aptitudes in the candidates that are to cover each vacancy, the fulfilment of the requirements for each category of Director and the process for incorporating new members, raising the corresponding

reports to the Board as required. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought. The said obligation is laid down in Article 31.2 of the Regulations of the Board of Directors.

**56.** The Appointments Committee should consult the company's Chairman and chief executive, especially with regard to business concerning the Executive Directors.

Any Director should be able to request the Appointments Committee to consider potential candidates it deems ideal to cover vacancies.

Complies

**57.** Besides the functions indicated in the above Recommendations, the following responsibilities should correspond to the Remuneration Committee:

a) Proposing to the Board of Directors:

- I) The remuneration policy for Directors and senior executives;
- II) Individual remuneration of Executive Directors and the other conditions of their contracts.
- III) The basic contractual conditions of senior executives.

b) Ensuring the observance of the remuneration policy laid down by the company.

See epigraphs: B.1.14 and B.2.3

Complies

**58.** The Remuneration Committee should consult the company's Chairman and chief executive, especially with regard to business concerning the Executive Directors and senior executives.

Complies

## G. Other Information of Interest

If you consider that there is any important principle or aspect regarding the corporate governance practices applied by your company, which have not been covered in this report, please explain below.

Clarification of section B.1.2

In a letter dated 28 November 2011, Mr Narcís Serra Serra tendered his resignation as Director of the Board of Directors

Clarification of section B.1.4

Mr Narcís Serra Serra, proposed by Caixa D'Estalvis de Catalunya, Tarragona i Manresa, a bank of renown prestige, has held the position of Director until the date of his resignation, tendered in a letter dated 28 November 2011, which was notified as a relevant fact on 2 December 2011

Clarification of section B.1.30

Number 12 in the above table indicates the number of times Directors did not attend the 13 sessions held by the Board of Directors in 2011, in accordance with the definition given in the final paragraph of this section.

Clarification of section B.1.40

The % of stake includes both direct and indirect shares held by each Director in entities that have the same, similar or complementary type of activity.

Note on the Code of Good Tax Practices

At its meeting on 17 September 2010, the Board of Directors agreed that Gas Natural Fenosa would adhere to the Code of Good Tax Practices.

In accordance with the provisions laid down in the Code of Good Tax Practices, it is expressly placed on record that Gas Natural Fenosa has effectively complied with the content of this code and, more specifically, at the meeting held on 27 January 2012 the Board of Directors of Gas Natural Fenosa was notified about the tax policies adhered to by the group in 2011.

**In this section, you may include any information or clarification with regard to the previous sections of this report to the extent that they are relevant and non-repetitive.**

**More specifically, indicate whether your company is subject to any corporate governance legislation other than Spanish law, and if so, include any information that is mandatory and different from that requested herein.**

**Binding definition of Independent Director:**

Indicate whether or not any of the Independent Directors has or has had any relationship with the company, its significant shareholders or executives which, if sufficiently significant or important, would have meant that the Director could not be considered as independent in accordance with the definition laid down in section 5 of the Unified Code of Good Governance:

Yes  No

**Date and signature:**

This Annual Corporate Governance Report has been adopted by the Board of Directors of the company in its session held on  
27-01-2012

Indicate whether or not there have been Directors who voted against or abstained from voting on the adoption of this report.

Yes  No

## Appendix. Document Complementing the Annual Corporate Governance Report of Gas Natural SDG, S.A. Corresponding to the 2011 Financial Period in Relation to Article 61 bis of the Securities Market

Information on securities which are not traded on a regulated community market, indicating, where appropriate, the different classes of shares, and for each class, the rights and obligations conferred, and the percentage of capital corresponding to treasury stock held by the company and significant variations to it (Art. 61 bis 4. a. 3. of the Securities Market Act).

The company has no securities which are not traded on a regulated community market.

The company has no treasury stock.

### Information on the rules applicable regarding amendments to the company's articles of association (Art. 61 bis 4. a. 4. of the SML).

The amendment of the Articles of Association is regulated by Articles 24, 32 and 68 of the Articles of Association and Article 2 of the General Shareholders' Meeting Regulations.

General Meeting of Shareholders.

- The shareholders convened in a duly called General Meeting of Shareholders, will decide by a majority vote the issues that fall within the jurisdiction of the General Meeting of Shareholders.
- All the shareholders, including the opponents and those who have not participated in the meeting, are subject to the resolutions of the General Meeting of Shareholders (art. 24 Articles of Association).

Special resolutions and majorities. Constitution.

- In order for the Ordinary or Extraordinary General Meeting of Shareholders to legally agree to the issue of bonds, increase or decrease of share capital, suppress or limit preferred subscription rights to new shares or convertible bonds, or adopt a resolution in favour of the transformation, merger, demerger or total assignment of assets and liabilities, the transfer of registered office abroad, and, in general, make any modifications to the Articles of Association, the presence of shareholders or their proxies holding at least fifty percent (50%) of the share capital with voting rights will be required on first call. On second call, the attendance of twenty-five percent (25%) of said capital will be sufficient. (art. 32 of the Articles of Association).

Modification of the Articles of association.

- The modification of the Articles of Association must be adopted at the General Meeting of Shareholders and requires the concurrence of the following requirements:
  - 1) The Board of Directors or, as the case may be, the shareholders proposing the resolution must present a written report justifying the modification.
  - 2) They must clearly explain at the meeting the points they wish to modify and the right of all the shareholders to examine, at the registered office, the full text of the modification proposed and the report on the same and to request that said documents be delivered to them free of charge.
  - 3) The resolution must be adopted by the General Meeting of Shareholders, in accordance with the provisions of the Articles of Association.
  - 4) In any case, the resolution will be recorded in a public deed, which will be inscribed in the Mercantile Register and published in its Official Gazette (art. 68 Articles of Association).



Powers of the General Meeting of Shareholders.

- The General Meeting of Shareholders, as the maximum decision-making body of the Company, has the power to adopt all types of resolutions regarding the Company, and, in particular:
  - I. Approve, as the case may be, the annual accounts of the Company and decide on the application of results, and approve, as the case may be, the consolidated annual accounts.
  - II. Appoint and remove the member of the Board of Directors, and, ratify or revoke the appointments made by co-option by the Board and approve their management.
  - III. Appoint, as the case may be, or re-appointment, the Accounts Auditors.
  - IV. Agree on the issue of bonds, the increase or reduction in capital, the transformation, merger, demerger or winding up of the Company, and, in general, any modifications to the Articles of Association.
  - V. Authorise the Board of Directors to increase share capital, in accordance with the provisions of article 153.1b) of the Spanish Capital Corporations Act.
  - VI. Authorise the derivative acquisition of treasury shares of the Company under the legal terms in force.
  - VII. Confer upon the Board of Directors the powers which, for cases not foreseen, it deems necessary.
  - VIII. Decide on the affairs that will be submitted to resolution by the Board of Directors.
  - IX. Decide on the application of the remuneration systems consisting of the payment of shares or share options, and any other remuneration system that the value of the shares is indexed to, irrespective of who the beneficiary of said remuneration systems is.
  - X. Decide on what is licit, especially in relation to the issues that are not especially regulated by the Articles of Association and are not exclusively the competence of the Board of Directors (art. 2 of the Regulations of the General Meeting of Shareholders).

**Any restriction on the transferability of securities and any restriction on voting rights (Article 61 bis 4 b of the SML).**

There are no restrictions on the transfer of securities. According to article 11 of the Articles of Association of Gas Natural SDG, S.A. the shares are transferable in the manner set down by current provisions in force. Notwithstanding the application of certain norms, which are set out below.

As a listed company, the acquisition of significant shareholdings is subject to notification to the issuer and the Spanish Securities Exchange Commission (Comisión Nacional del Mercado de Valores – CNMV) under article 53 of the Securities Exchange Act, Law 24/1988, article 23.1 of Royal Decree 1362/2007/19 October and Circular 2/2007/19 December of the CNMV, which sets the first notification threshold at 3% of share capital or voting rights.

Furthermore, as a listed company, and except of the exemption under the First Additional Provision of Royal Decree 1066/2007 the acquisition of 30% or more of share capital or voting rights of the Company requires the filing of a takeover bid under the terms set down in article 60 of the Securities Exchange Act, Law 24/1988.

There are also relevant sectorial rules applicable in respect of the Group's energy company in Spain:

- As a Company whose Group comprises certain regulated and quasi-regulated assets and activities, the acquisition of its shares may be subject to the stipulations of Additional Provision 11. 3. 1. 14. of the Mineral Oils Sector Law (Law 34/1998).
- As a principle operator in the gas and electricity markets, ownership of its shares is subject to the restrictions laid down in Article 34 of Decree-Law 6/2000 on Urgent Measures for the intensification of competition in goods and services markets.

#### **Information on the powers of board members and, in particular, those relating to the possibility of issuing or repurchasing shares (Article 61 bis 4. c. 3. of the SML).**

The Company has conferred on the Chairman of the Board of Directors and the Chief Executive Officer broad powers of representation and management, which allows them to deal with the ordinary matters faced by the company, except those that cannot be delegated by Law, or by Articles of Association or Regulations that pertain to the General Meeting of Shareholders, the Board of Directors or its Committees.

In order to execute certain resolutions which, for various issues, require a specific mandate, the Board of Directors or the Executive Committee has conferred special powers upon the Chairman or the Chief Executive Officer, which expire after they are executed, in one single act.

The General Shareholders' Meeting of 20 April 2010, as point eight of its Agenda, resolved as follows:

Eight. Authorisation to the Board of Directors for the derivative acquisition of own shares, either directly or through companies of Gas Natural group, in the terms agreed by the General Meeting and with the legally established restrictions, thus cancelling the authorisation agreed by the Ordinary General Meeting of 26 June 2009.

Eight 1. To cancel the authorisation granted to the Board of Directors by the General Meeting held on 26 June 2009 to acquire company shares by onerous title.

Eight 2. To authorise the Board of Directors to acquire in a term of no longer than five years fully paid-up company shares to a maximum of 10% of share capital by onerous title, on one or more occasions, or the maximum applicable figure the in accordance with the legislation in force at the time of acquisition, provided that the aforesaid percentage between the shares acquired by the company directly or indirectly and those already held by the company and its subsidiaries should never exceed 10% of share capital or any other legally prescribed percentage of capital. The minimum and maximum acquisition price shall be the share price on the Continuous Market of the Spanish Stock Exchange, with an upward or downward variation of 5%. If the shares are not listed, the maximum and minimum acquisition price shall be established at between one and a half times and twice the book value of the shares, as per the latest audited consolidated balance sheet. The Board of Directors is authorised to delegate this authorisation in the person or persons it deems appropriate. This authorisation is understood to apply to the acquisition of the company's shares by owned companies.

Similarly, the General Meeting of 20 April 2010, as point nine on its Agenda, passed the following resolution:

Nine. Authorisation for the Board of Directors, in accordance with the provisions laid down in Article 153.1.b) of the Public Limited Companies Act, so that, within the maximum term of five (5) years, if it considers it appropriate, it can increase the share capital to the maximum quantity, corresponding to 50% of the total share capital of the company, with the possibility of incomplete subscription, on the date of the authorisation, by issuing ordinary, preference or redeemable shares, with or without the right to vote, with or without a share premium, in one or more times and on the occasions and to the amount it deems appropriate, including the authority to cancel preferential subscription rights, where applicable, and rewriting the Transitory Article of the Articles of Association, thus cancelling the authorisation agreed by the Ordinary General Meeting of 26 June 2009.

Nine 1. Taking into consideration the current share capital figure, to authorize the Board of Directors to increase share capital by four hundred sixty million eight hundred seventy-eight thousand four hundred seventy-five euros (460,878,475 Euros) within a period of five years counted as from this date, by means of a monetary disbursement, in a single operation or in various operations, and at the time and for the amount which on the board itself decides, issuing ordinary, privilege or redeemable shares, carrying or not carrying voting rights, with or without a share premium, without the need for further authorization by the General Meeting, and to amend the Articles of Association as required in view of the increase or increases of capital made by virtue of the said authorization, envisaging incomplete subscription, all in accordance with the provisions of article 153.1.b) of the Spanish Companies Act, derogating the authorization resolved upon by the Ordinary General Meeting of 26 June 2009.

Nine 2. In accordance with the provisions of Article 159.2 of the Spanish Companies Act, the Board of Directors is expressly authorized to exclude preferential subscription rights, either wholly or in part, in relation to all or any of the issues resolved upon by virtue of this authorization.

Nine 3.- As a result of the preceding resolution, to amend the Transitional Article of the Articles of Association, which would be worded as follows:

“Transitional Article.- Delegation of Powers to the Board of Directors.

The Company's Board of Directors, in a resolution of the Ordinary General Shareholders' Meeting held on 20 April 2001, has been authorized to increase share capital by four hundred sixty million eight hundred seventy-eight thousand four hundred seventy-five euros (460,878,475 Euros), within a period of five years, by means of a monetary disbursement, in a single operation or in various operations, and at the time and for the amount on which the board itself decides, issuing ordinary, privilege or redeemable shares, carrying or not carrying voting rights, with or without a share premium, without the need for further authorization by the General Meeting, and to amend the Articles of Association as required in view of the increase or increases of capital made by virtue of the said authorization, envisaging incomplete subscription, all in accordance with the provisions of Article 153.1.b) of the Spanish Companies Act.”

Last amendment of the Transitional Article.

The said authorization was partly used up by the Company's Board of Directors in its meeting of 17 June 2011, in a share capital increase of 38,183,600 euros; the remaining amount for which the authorization is valid is therefore 422,694,875 euros, with the Transitional Article being worded as follows:

“Transitional Article - Delegation of Powers to the Board of Directors.

The Company's Board of Directors, in a resolution of the Ordinary General Shareholders' Meeting of 20 April 2010, which is valid for a period of five years as from the date on which it was passed, was authorized to increase share capital by four hundred sixty million eight hundred seventy-eight thousand four hundred seventy-five euros (460,878,475 euros); of this sum, the power granted was exercised by an amount of 38,183,600 euros by means of a resolution of the Board of Directors dated 17 June 2011; therefore, by virtue of the delegation of powers which remains valid, the Company's Board of Directors is authorized, by the aforementioned resolution of the Ordinary General Meeting of Shareholders held on 20 April 2010, to increase share capital by the unexercised amount up to the maximum limit authorised, i.e. by four hundred twenty-two million six hundred ninety-four thousand eight hundred seventy-five euros (422,694,875 euros), within a period of five years counted as from 20 April 2010, by means of a monetary disbursement, in a single operation or in various operations, and at the time and for the amount on which the board itself decides, issuing ordinary, privilege or redeemable shares, carrying or not carrying voting rights, with or without a share premium, without the need for further authorization by the General Meeting, with the possibility of resolving where appropriate upon the total or partial exclusion of preferential subscription rights, and to amend the Articles of Association as required in view of the increase or increases of capital made by virtue of the said authorisation, envisaging incomplete subscription, all in accordance with the provisions of Article 297.1.b) of the Capital Corporations Law.”

**Information on significant agreements entered into by the company and which come into force or are amended or terminated in the event of a change in the control of the company resulting from a public takeover bid, and the effects thereof, except when disclosure of this information could be seriously damaging to the company. This exception shall not apply when the company is obliged by law to make this information public (Article 61 bis 4. c. 4. of the SML).**

The Industrial Operations Agreement between Repsol YPF S.A. and Gas Natural SDG, S.A., which was communicated as a relevant event through the National Securities Market Commission on 29 April 2005, and the Shareholders' Agreement between Repsol YPF S.A. and Gas Natural SDG, S.A. in respect of Repsol-Gas Natural LNG, S.L., envisage a change in the control structure of either of the parties as grounds for termination.

More than half the outstanding debt of the group is subject to a change-of-control clause, whether due to the acquisition of more than 50% of voting shares or to the obtaining of the right to appoint a majority of members of the Gas Natural SDG, S.A. Board; most of these clauses, however, are subject to additional conditions such as: a major reduction in credit rating caused by the change of control, material damage to the creditor, or a substantial adverse change in solvency or in capacity to perform the contract.

Most of these clauses imply repayment of the debt in a period longer than that allowed in cases of early termination; in some cases, the formalization of guarantees as an alternative to reimbursement is envisaged.

**Information on agreements existing between the company and its directors and senior managers or employees which envisage the payment of indemnities when these persons resign or are unlawfully dismissed, or when the employment relationship comes to an end owing to a public takeover bid (art. 61 bis 4.c.5. of the SML).**

The contract with the Managing Director contains a clause envisaging an indemnity which is three times the annual compensation envisaged, for termination of the relationship in certain situations, and an indemnity equivalent to one year's remuneration in respect of a one-year post-contractual non-competition agreement.

The contracts subscribed with members of the Management Committee contain a clause establishing a minimum indemnity of two years' remuneration for termination of the relationship in certain cases, and an indemnity equivalent to one year's fixed remuneration in respect of a two-year post-contractual non-competition agreement.

There are also indemnification agreements with 21 Senior Managers, the terms of which entitle such Senior Managers to a minimum indemnity of one year's remuneration for termination of the relationship in certain cases. Also envisaged is an indemnity equivalent to one year's fixed remuneration in respect of a two-year post-contractual non-competition agreement.

**Description of the main characteristics of the internal control and risk management systems in relation to the process for the reporting of financial information (Article 61 bis 4.h. SML).**

## 1. The Entity's Internal Control Environment

**1.1. The bodies and/or functions which are responsible for: (I) devising and maintaining an appropriate and effective SICFR; (II) its implementation; and (III) its supervision.**

Gas Natural Fenosa has defined its System of Internal Control over Financial Reporting (hereinafter SICFR) in the "General Standard for the System of Internal Control over Financial Reporting (SICFR) of Gas Natural Fenosa".

As part of its SICFR, Gas Natural Fenosa has defined, in the aforementioned General Standard, its model with respect to responsibilities in this area. This model is based on the following five areas of responsibility:

- **The Board of Directors:** The Board is responsible for seeing that there is an adequate and efficient SICFR in place, the supervision of which is delegated to the Audit and Control Committee.

The Board of Directors' Regulations, in Article 5 of Section 19, stipulate that the approval of the control and risk management policy and periodic monitoring of internal control indicators and systems are one of the powers which is reserved exclusively for the Board.

- **The Audit and Control Committee:** This Committee is responsible, among other matters, for the supervision of the SICFR. According to Article 32 Section 2 of the Board of Directors' Regulations, the competences of this Committee include the following:
  - Being apprised of and supervising the process of drawing up and presenting the regulated financial information, ensuring the correct application of the accounting principles and the inclusion within the consolidation scope of all the companies that must be included.
  - Being apprised of and supervising the effectiveness of the Company's internal control and risk management systems, ensuring that they identify the various types of risk faced by the company and the measures taken to mitigate them and to address them if they materialize as actual damage. Discussing with the auditors any significant weakness in the internal control system detected during the audit.
  - Reviewing the information about the Company's activities and results that is drawn up periodically in compliance with the current regulations on the securities market, ensuring that it is drawn up in accordance with the same accounting principles as the annual accounts, and ensuring that the information is transparent and accurate.
  - Adopting the measures that it considers advisable with regard to auditing, the internal financial control system and compliance with the legislation on providing information to the markets and on its transparency and accuracy.

The Audit and Control Committee has an Internal Audit Unit which performs a part of these functions.

- **Economic-Financial General Management:** responsible for the design, implementation and operation of the SICFR. There is an Internal Control Unit which performs this function.
- **Internal Audit Unit:** responsible generally for supporting the Audit and Control Committee in the supervision and on-going assessment of the efficacy of the Internal Control System in all areas of Gas Natural Fenosa, adopting a thorough and systematic approach in the monitoring and improvement of processes and for the assessment of associated operational risks and controls, including those corresponding to SICFR.
- **Business and corporate units involved in the process for the preparation of financial information.** These units are responsible for executing processes and for maintaining daily operational functioning, ensuring that the control activities established are implanted.

#### **1.2. Whether the following elements exist, especially in relation to the process of presentation of financial information:**

- **Departments and/or mechanisms responsible for:** (i) designing and reviewing the organisational structure, (ii) clearly defining lines of responsibility and the assigning of tasks and functions; and (iii) ensuring that there is proper authority, with sufficient procedures in place for this information to be correctly transmitted within the entity.

The design and review of the organizational structure of top-level management and the defining of lines of responsibility are undertaken by the Board of Directors, acting through the Chief Executive Officer and the Appointments and Remuneration Committee.

To ensure that the group's economic-financial information is adequately managed, the Economic-Financial General Management has developed, as part of the SICFR, a technical instruction consisting of an interrelations map (information flows) for the process of

preparation of financial information, which documents communications between the Economic-Financial General Management, the different persons responsible for processes, and those persons responsible who constitute the source or are the intended recipients of financial information. This is called the "Interrelations map with regard to financial information of Gas Natural Fenosa".

There are six main areas taken into consideration by Gas Natural Fenosa when drawing up the interrelations map for the processes of preparation of financial information:

- (I) the information necessary in order to prepare the financial information;
- (II) the persons responsible who constitute the source or are the intended recipients of financial information;
- (III) the distribution of tasks among the different organizational units;
- (IV) the scope of such distribution to all the group companies;
- (V) the periodicity of the transfer of information;
- (VI) the information systems which are involved in the process for the preparation and presentation of financial information.

The Gas Natural Fenosa interrelations map therefore defines clearly the processes which have an impact on the preparation of financial information, covering both the operational processes with a significant impact on financial information and processes linked to the administrative and accounting area, and the persons responsible who are involved.

- **Code of conduct, approval body, level of distribution and instruction, principles and values included (indicating any specific mention of the recording of transactions and preparation of financial information), and body responsible for analysing breaches and proposing corrective measures and penalties.**

The commitments assumed by the Senior Management of Gas Natural Fenosa include its focus on ensuring that operations are performed in an environment of ethical professional practice. It does this by implementing mechanisms designed to prevent and detect fraud by employees or inappropriate practices which may result in penalties, fines or damage to the reputation of Gas Natural Fenosa, and also by stressing to its employees the importance of ethical values and integrity.

Gas Natural Fenosa has in place a Code of Conduct (hereinafter the Code of Ethics) which was approved by the Board of Directors in its meeting of 31 March 2005. Compliance with this Code is obligatory for all employees of Gas Natural SDG, S.A. and all investee companies whose management is controlled by Gas Natural Fenosa. The updating and amendment of the Code of Ethics are undertaken by the Gas Natural SDG, S.A. Board of Directors.

This Code has been amended on three occasions since its approval. The last of these amendments was effected on 19 May 2009, its purpose being to update the Code and incorporate in it new commitments assumed by Gas Natural Fenosa in relation to Good Governance and Corporate Responsibility, to incorporate best international practice in relation to ethical and social issues, and to comply with regulatory requirements resulting from the merger of Gas Natural Group and Unión Fenosa.

The Code of Ethics sets out the general ethical principles applicable in Gas Natural Fenosa as a whole, specifying the values to be adhered to in practice throughout the organization. These include: (I) the scope of application (applicability to all members of Gas Natural Fenosa); (II) the criteria to which conduct in Gas Natural Fenosa must adhere (declaration of the Group's style of governance); (III) conduct guidelines (a declaration of the key values of Gas Natural Fenosa); (IV) acceptance of and compliance with the Code; (IV) the Committee and (V) validity.

The general criteria governing conduct in Gas Natural Fenosa according to the Code of Ethics are integrity and professional responsibility. Specifically, the Code establishes a series of guidelines which relate, to a greater or lesser extent, to the reliability of financial information and compliance with applicable legislation, specifically:

- Respect for law (Section 4.1):

“Gas Natural Fenosa is committed to acting at all times in accordance with applicable legislation and internationally accepted ethical practices, with total respect for Human Rights and public liberties (...).”

- Treatment of information and knowledge (Section 4.11):

“All employees that enter information of any type into the group’s computer systems must ensure its rigor and reliability.

This is of particular importance with regard to the group’s financial transactions, which must be reflected with clarity and precision in the corresponding records. All the Accounts, operations, income and expenditure must be correctly reflected in the records.

Gas Natural Fenosa employees will refrain from any practices that contravene the commitment to clearly and precisely reflect all the group’s financial transactions in the group’s Accounts.”

Gas Natural Fenosa also has an Internal Code of Conduct with regard to the Stocks Markets, which is also approved by the Company’s Board of Directors.

The Gas Natural Fenosa Committee was formed in July 2005, its main purpose is to promote the dissemination and application of the Code throughout the entire group and provide a communications channel available to all employees for any consultations and the notification of breaches of its rules.

In order to ensure that the Committee is able to perform its functions objectively and independently, it is presided over by the Internal Audit Unit and is made up of representatives of the different Units involved in the monitoring of compliance with the Code of Ethics.

The Committee reports regularly to Senior Management and reports quarterly to the Audit and Control Committee. Its purpose is to inform and make recommendations, proposing corrective measures to the units responsible for solving problems which arise in the practical application of the Code of Ethics and acting in turn as a link between such units and employees. The penalties regime, when necessary, is established by the Human Resources Unit. Similarly, the Committee is able to propose – as it has done on several occasions – updates to be made to the content of the Code. These updates are initially approved by the Audit and Control Committee and are subsequently ratified by the Board of Directors.

Local Code of Ethics Committees have also been established, their purpose being to promote the dissemination and application of the Code in some of the countries in which Gas Natural Fenosa has a presence: namely, Argentina, Brazil, Mexico, Colombia, Panama, Nicaragua, Italy and Moldavia.

To promote both responsible conduct and knowledge and dissemination of the Code of Ethics, it is available in 9 languages:

- Externally: via the Gas Natural Fenosa corporate web site.

- Internally, via the Group’s “Our Energy” platform and Naturalnet.

On-line training courses have also been developed through the Gas Natural Fenosa Corporate University. These courses are obligatory for all Gas Natural Fenosa employees.

Towards the end of 2010, Gas Natural Fenosa initiated, through the Committee, a campaign for the Declaration of Compliance with the Code of Ethics, the objective being to increase awareness of the standards of conduct which all employees are expected to adhere to, increase awareness of the mechanisms in place for consultation and notification purposes, and to formalize regularly the commitment to ethics and integrity assumed by all group employees. During the initial phase, the Declaration of Compliance has been sent out to approximately 7,400 employees of the companies of Gas Natural Fenosa in Spain. In subsequent phases, the plan is to send out this Declaration to all other employees of the companies at international level. This Declaration will be required periodically.

Finally, to promote awareness of the Code of Ethics among suppliers and collaborating companies, Gas Natural Fenosa includes in the General Terms of Orders a clause which indicates where they can consult the Group's Code of Ethics.

- **Whistle-blowing hotline, which allows the Audit Committee to be notified of any financial or accounting irregularities, as well as any breaches of the code of conduct and irregular activities in the organisation, any issues which are confidential being identified as such.**

Professional ethics in Gas Natural Fenosa are based on integrity and professional responsibility; integrity is understood to refer to ethical and honest conduct based on good faith, and professional responsibility is understood to refer to pro-active, efficient actions focusing on excellence, quality and good service.

As is established in Article 32.2 of the Regulations of the Board of Directors and its Committees, the competences of the Audit Control Committee are: "Establishing and supervising a mechanism whereby staff can report, confidentially and, if appropriate, anonymously, any irregularities with potentially serious implications that they detect in the course of their duties, in particular financial or accounting irregularities."

Similarly, the Board of Directors, in its meeting of 31 March 2006, resolved that notifications received through the procedure for the notification of breaches of the Gas Natural Fenosa Code of Ethics relating to fraud, auditing, or accounting and internal control flaws, are to be referred directly to the Audit and Control Committee.

As has been mentioned above, in July 2005, the Committee of Gas Natural Fenosa was formed as a means of enhancing internal control over compliance with the principles set out in the Code of Ethics. One of its main functions is to provide and oversee a communication channel open to all employees which can be used to receive consultations and notifications of any breaches of the Code, thus facilitating the resolution of conflicts related to the application of the Code of Ethics, and to report to the Governing Bodies of Gas Natural Fenosa on the dissemination of, and compliance with, the Code of Ethics and on the activities of the Committee itself.

This channel provides an easily accessible means of communication (by e-mail, fax, ordinary mail or internal mail) between the Committee and all employees of Gas Natural Fenosa for addressing matters related to the Code. It enables all group employees, suppliers and collaborating companies, to receive and provide information on any matter relating to the Code of Ethics. These persons may also contact the Committee to inform it confidentially and in good faith of any conduct which breaches the Code. This mechanism functions independently of the hierarchy in place in the employees' ordinary operations.

All communications between the Committee and the employees of Gas Natural Fenosa are totally confidential, the constraints imposed by the Organic Law on the Protection of Personal Data (Law 15/1999 of 13 December) being duly observed. In this sense, the chairman of the Committee (the Internal Audit Director) is the only member who, in the first instance, is allowed access globally to all information on all consultations and notifications received from the group through the consultation and notification procedure. Similarly, notifications relating to fraud, audit matters, or flaws in accounting or internal control processes are reported directly to the Audit and Control Committee.



These consultations and notifications are dealt and resolved by the Code of Ethics Committee.

The 2011 Corporate Responsibility Report of Gas Natural Fenosa provides more detailed information on the Code of Ethics, the activities of the Code of Ethics Committee, and the use of this communication channel.

- **Training programmes and regular refresher courses for personnel involved in the preparation and review of financial information, and the assessment of SICFR, which cover, as a minimum, accounting standards, audit, internal control and risk management.**

To ensure that all personnel involved in the preparation and review of financial information and in the assessment of the SICFR are sufficiently qualified in this field and, above all, have an up-to-date understanding of it, it is essential that there should be a suitable training plan in place, to guarantee that the persons responsible for each area have at their disposal the knowledge required to be able to perform the various different functions included in the process for the preparation and review of financial information.

For this reason, Gas Natural Fenosa has a Corporate University which is responsible for the design of the training strategy and of the annual plan for the training of all group personnel. The Corporate University has been awarded the ISO 9001-2008 certification.

For 2011, 794,000 hours of training have been programmed; this time is distributed among the sixteen countries in which Gas Natural Fenosa is present.

The goals of the Corporate University are the following: (I) to ensure that there is proper management of knowledge within what is a multi-national and multi-cultural organization; (II) to establish the organization as a reference with respect to training in the energy sector; (III) to ensure cultural integration within the new Group.

The training plans in place pertain to the following categories:

- Training of senior management personnel: leadership, individual training plans, skills.
- Crossover training: the knowledge required for the different business areas to be able to fulfil their function (on-going recycling).
- Specialised training: focusing on technical aspects of high value for the company.
- School of leadership: aimed at the whole of Gas Natural Fenosa irrespective of the business area (accounting, languages, systems, skills).

Crossover training includes the "Ecofin School" the main objectives of which are:

- To standardise economic-financial processes following the merger; it is aimed at professionals from the group's economic-financial units as well as interested professionals from other areas.
- To update knowledge of accounting matters and international legislation.
- To update technical knowledge in the area of taxation.
- To impart knowledge on the valuation of companies, financial derivatives, and the analysis of financial statements.

Since November 2010 and throughout 2011, the course in economic-financial expertise has been held in collaboration with the Pompeu Fabra University. This course has been attended by 396 participants and provided 25,000 hours of training.

Throughout 2011 there have also been various programmes and refresher courses aimed at staff involved in the preparation and review of financial information. The following table provides a breakdown of these programmes, indicating the number of employees from the economic-financial area who attended them and the number of hours' training provided:

Training programmes	No. of employees attending	No. of hours' training provided
Accounting	190	40
Finance	192	24
Tax	219	20
Risks	214	16
<b>Total hours</b>		<b>100</b>

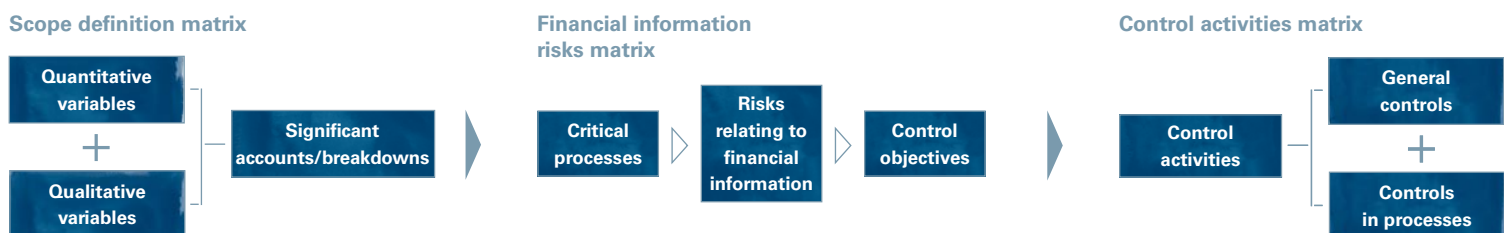
In response to needs in the Internal Audit Unit, personnel from this area, in 2011, attended courses (lasting 16-21 hours) and participated in other training activities organized by the Institute of Internal Auditors.

## 2. Assessment of financial information risks

2.1. What are the main features of the process to identify risks (including the risk of misstatement or fraud), considering the following:

- Whether the process exists and is documented.;
- Whether the process covers all financial reporting objectives (existence and occurrence, completeness, measurement, presentation, analysis and comparability, and rights and obligations), whether it is updated, and with what frequency.
- The existence of a process to identify the scope of consolidation, considering aspects such as the possibility of complex corporate structures, or special purpose vehicles or entities.
- Whether the process considers the impact of other risk types (operating, technological, financial, legal, reputational, environmental etc.) insofar as these affect the financial statements.
- Which of the entity's governing bodies supervises the process.

The approach adopted by Gas Natural Fenosa in the process of identification and analysis of financial information risks is reflected in the following diagram:



The purpose of the financial information scope definition matrix is to identify those accounts and breakdowns for which there is a significant related risk, the potential impact of which on financial information is material and therefore requires particular attention. In this sense, in the process for the identification of significant accounts and breakdowns, consideration is given to a series of quantitative variables (balance of and changes in the account) and qualitative variables (complexity of transactions; changes in and complexity of legislation; need to use estimates or projections; the application of judgement and the qualitative importance of the information). The methodology to be used in producing the scope matrix is described in a technical instruction entitled "Gas Natural Fenosa financial information scope definition matrix".

For each of the significant accounts/breakdowns, critical processes and subprocesses associated with the significant accounts/breakdowns included in the scope definition matrix have been defined, and risks which may generate errors in financial information have been identified, covering control objectives in respect of existence and occurrence, completeness, measurement, presentation, analysis and comparability, and rights and obligations, in the "Gas Natural Fenosa financial information risks matrix."

Finally, the control activities consisting of the policies and procedures which are incorporated in all stages of the financial information process, and which guarantee its reliability, are set out in the "Gas Natural Fenosa financial information control activities matrix".

The Scope definition matrix, the Risks matrix, and the Control activities matrix, are all updated annually.

Similarly, the risks Matrix identifies risks associated with the achievement of financial information objectives, consideration being given in this identification to the effects of other risk types (e.g.: operational, technological, financial, reputational, etc.) which form part of the Gas Natural Fenosa Corporate Risks Map.

The process of identification of the scope of consolidation of Gas Natural Fenosa forms part of the critical processes identified and is described in a technical instruction entitled "Gas Natural Fenosa consolidated close cycle."

In the process for the identification of risks defined by Gas Natural Fenosa in its SICFR, consideration has been given to the issue of fraud, which is regarded as a very relevant aspect. In this sense, the fraud risk control policy of Gas Natural Fenosa focuses on three main areas:

- The prevention of fraud.
- The detection of fraud.
- Investigation and management of instances of fraud.

The defined preventative anti-fraud controls may be divided up into two categories. On the one hand, there are active controls, i.e. barriers to prevent or restrict access to valuable assets by persons who may attempt to commit acts of fraud. On the other hand, there are passive controls, the purpose of which is to stop fraud by means of deterrent measures.

The Audit and Control Committee is responsible for supervising the efficacy of the SICFR. In its performance of this function, the Audit and Control Committee has at its disposal the Internal Audit Unit and the External Audit unit (see section F.5).

### 3. Control activities

**3.1. Procedures for the review and authorisation of financial information and the description of the SICFR to be made public through securities markets, indicating the persons responsible, and documentation describing activity and control flows (including those relating to fraud risks) for the different types of transactions that may have a material impact on the financial statements, including the procedure used for the accounting close and the specific review of relevant judgments, estimates, measurements and projections.**

Gas Natural Fenosa conducts regular reviews of the financial information prepared and of the description in the SCIIF according to the different levels of responsibility, guaranteeing the quality of this description.

The first-level review is that performed by those responsible for the accounting close in each Gas Natural Fenosa company, who review the financial information prepared to ensure that it is reliable.

The financial information of Gas Natural Fenosa is also reviewed periodically by the head of the Economic-Financial General Management, who identifies any possible variances. The Economic-Financial General Management reports regulated financial information to the Audit and Control Committee, ensuring that such information is transparent and accurate, and indicating the internal control systems and accounting criteria which have been applied. It also reports the main accounting procedures, judgements, estimates, measurements and processes used in the preparation of economic-financial information and the financial statements, the main risks and contingencies and the provisions set up to cover them, and the Risk Management and Control Policies and Systems in place in Gas Natural Fenosa.

Ultimately, the Economic-Financial General Director certifies the individual and consolidated annual accounts which are presented to the Board of Directors for approval.

As is reflected in the "General Standard for the Systems of Internal Control over Financial Reporting (SICFR) of Gas Natural Fenosa," the control activities defined by the group in its SICFR meet the fundamental objective of ensuring that the financial information of Gas Natural Fenosa gives a true and fair view of the group.

The control activities defined in the SICFR include both general controls and controls in critical processes.

While they do not allow a sufficient degree of control to be achieved over the group's processes, general controls are mechanisms that enable a series of key targets to be obtained for the achievement of an effective SCIIF; in other words, they describe the policies and guidelines designed to protect Gas Natural Fenosa's SCIIF for in its entirety.

On the other hand, all the critical processes identified have been documented through the control activities matrix and the corresponding technical instructions which describe processes. In this sense, Gas Natural Fenosa has identified all the processes required for the preparation of financial information in which use has been made of significant judgements, estimates, measurements and projections, all of which are regarded as critical. The Audit and Control Committee is informed periodically of the main assumptions used in estimating financial information which depends on significant judgements, measurements and projections.

The documentation of critical processes and control activities includes the following information:

A description of the process.

- A diagram indicating the flow of information in the process.
- A map indicating the systems which interact in the process.
- A description of the financial information risks associated with the different control processes and objectives.
- A definition of control activities for the mitigation of risks identified and their characteristics.

- A description of the persons responsible for control processes and activities.

Similarly, the definition of control activities identifies the following control activity classifications based on the five criteria indicated:

- Scope: based on the scope of control activities, they can be divided up into:
  - General control activities
  - Activities for the control of processes
- Implementation: control activities are classed as implemented or not implemented.
- Level of automation: based on the level of automation of control activities, they can be classed as either automatic or manual.
- Nature of the activity: based on the nature of control activities, they can be classed as either preventative or detective.
- Frequency: based on the temporal recurrence of the activity, e.g.: annual, weekly, monthly, daily, etc.

Lastly, the Gas Natural Fenosa SICFR defines the model for the annual internal certification of the controls identified in the critical processes to be carried out by the Business and corporate units involved in the process of preparation of financial information. The implementation and monitoring of this certification process is the responsibility of the Internal Control Unit. On the other hand, the Internal Audit Unit is responsible for reviewing and evaluating the conclusions regarding compliance and effectiveness which are reached through the annual process for the internal certification of the units responsible for controls, for the identification of weaknesses, and for plans of action.

### **3.2. Internal control policies and procedures for information systems (including access security, control over changes, implementation of changes, operating continuity and segregation of duties) which support the entity's significant processes with respect to the preparation and publication of financial information.**

For the critical processes relating to the preparation and presentation of the financial information of Gas Natural Fenosa which have been defined in the group SICFR, control activities which operate in information systems have been defined, both for those used directly in the preparation of financial information and those which are relevant to the process or control of the transactions reflected.

On a general level, the Gas Natural Fenosa information systems map defines and implements a series of policies designed to guarantee the following aspects:

- Security of access to both data and applications.
- Control over changes in applications.
- The correct operation of applications.
- The availability of data and continuity of applications.
- An adequate segregation of duties.

a) Access security:

A series of measures at different levels have been defined to prevent unauthorized access to both data and applications.

The servers are housed in two main DPCs (in Barcelona and Madrid) and only authorized personnel are allowed access to these rooms. In addition, all entries are recorded.

Communications with these systems always take place under encrypted protocols to prevent possible unauthorized access. IDS and antivirus systems are included to enhance internally the control of threats of these kinds.

Finally, at application, operating system and data base level, the user-password combination is used as a preventive control. At data level, profiles have been defined which restrict access to data but no duties segregation matrix which ensures that functions are not incompatible has been developed.

b) Control over changes:

A change management methodology which establishes the precautions and validations necessary to limit the risk in this process has been developed and implemented.

The main areas covered include the following:

- Approval by the business area
- Performance of tests prior to production
- Specific environments for development and testing tasks
- Procedures for reversal
- Segregation of duties since the development team does not have access to production.

c) Operation:

There is monitoring at three levels to ensure that operations are correctly executed:

- All interfaces between systems are analysed to ensure correct execution.
- At perimeter level, there are different availability indicators, to avoid cut-offs in communications.
- Automatic validations of data entered to ensure that they conform to those expected based on nature, rank, etc.

There is also an internal help-desk service which final users can contact in the event of detecting any type of incident.

d) Availability and continuity:

The Company has two replicated DPCs which guarantee the availability of information systems in the event of a contingency. This is further supported by a DRP indicating the tasks to be performed and steps to be taken to get the systems running again in such cases.

In addition, back-up copies of data are being made periodically; these are kept temporarily in a secure location. There is a specific procedure for the restoration of data although tests are not performed periodically.

e) Segregation of duties:

Access to Information Systems is defined based on a series of profiles which establish the functionalities to which a user should be allowed access. These profiles are used to restrict access by Information System users.

Similarly, Gas Natural Fenosa has developed a specific technical instruction which sets out the systems maps for critical cycles, and the interfaces between control systems and activities at application level which make it possible for information to be compiled fully and precisely.

### **3.3. Internal control policies and procedures for supervising the management of activities outsourced to third parties, as well as the assessment, calculation and measurement of activities entrusted to independent experts which may have a material impact on the financial statements.**

Gas Natural Fenosa has developed a series of policies and procedures designed to supervise the management of activities outsourced to third parties; all these are approved at the established levels within the group and they include, most notably, the existence of a "General Outsourcing Standard", a "General Supplier Quality Standard", and the procedures which elaborate upon these standards.

Gas Natural Fenosa sets out in its "General Outsourcing Standard" the general principles which are necessarily to be applied in all contract adjudications and outsourcing operations performed by the group in respect of works, goods and services, thus ensuring that the model for the management of the Purchasing process in Gas Natural Fenosa is both uniform and efficient.

This Standard also establishes in general terms the responsibilities of the various Units in relation to the contracting process; these include the Purchases area which is responsible for establishing requirements and ensuring that there is correct approval, where appropriate, and technical assessment of suppliers, and verifying the quality of the goods and services acquired, in collaboration with the business Units.

Similarly, Gas Natural Fenosa has developed, in its "General Supplier Quality Standard", and the procedure which elaborates upon this standard, the basic principles to be adhered to in the process for assessing the quality of group suppliers; these principles include, most notably, the establishing of procedures and controls which guarantee compliance with specifications by contracted suppliers and, on the other hand, the need to measure the result of the supplier quality process in relation to the functioning of business processes, establishing where necessary the appropriate corrective measures at any stage of the process.

The Purchases area defines the indicators for the control and monitoring of the process of approval and assessment of the quality of the products and services acquired by Gas Natural Fenosa.

Similarly, the Business Units supervise and monitor the quality of their suppliers to determine whether they offer the required quality levels. When this is not the case, they send proposals for the withdrawal of approval/certification from suppliers/products/persons as a result of deficiencies in the delivery of the services or products in question.

In addition, suppliers who perform activities or supply products for which approval is required, must undergo this process prior to commencement of their activity or supply.

Three main approval types are defined (A, B, and C). In the case of the first category (A), the supplier must meet the requirements imposed by Gas Natural Fenosa for the activity to be performed and hold, in respect of such activity, a currently valid ISO 9001 Company Registration Certificate issued by an accredited certifying body. In category B, the supplier meets the requirements imposed by Gas Natural Fenosa for the activity to be performed but has no certified quality management system. Category (C) is a provisional category corresponding to suppliers which are not compliant with aspects of the approval process but have presented a Corrective Measures Plan which has been accepted by Gas Natural Fenosa. Once the one-year period allowed for the implementation of this Plan has elapsed, these suppliers are categorized as appropriate.

The main areas affecting critical financial information processes which Gas Natural Fenosa has outsourced to third parties are

- Certain processes pertaining to the Systems area
- Reading and measurement processes
- Certain Customer Service processes
- Logistics operator
- Certain processes pertaining to the Cash and banks area
- Management of Works and maintenance of the Distribution business.

The decision as to which of the approval categories should be required is based on quantitative or qualitative importance in relation to the service provided.

Gas Natural Fenosa uses the services of experts in tasks performed to support accounting measurements, judgements or calculations only when such experts are registered with the corresponding Professional Associations or are similarly certified, declare that they are independent, and are companies of acknowledged prestige in the market.

#### 4. Information and Communication

**4.1. A specific function to define and update accounting policies (the accounting policies area or department), as well as to resolve any queries or conflicts arising from their interpretation, ensuring that there is fluent communication with the persons in charge of operations within the organisation, and an updated accounting policies manual which has been communicated to the units through which the entity operates.**

The Economic-Financial General Management, through the Accounting Planning and Control Unit, is responsible, among other functions, for ensuring that accounting policies applicable to the group are kept up to date; in this sense, it is responsible for the updating of the "Gas Natural Fenosa Accounting Plan", which includes accounting Standards and the group's Accounting Plan, and also for analysing any accounting changes which may have an impact on Gas Natural Fenosa's financial information.

The "Gas Natural Fenosa' Accounting Plan" is updated annually, the last such update taking place in December 2011. As part of these updates, a review is made of accounting standards based on changes in the IFRS-EU rules applicable and of the group's accounting structure, verifying traceability between the individual accounting plans of the group subsidiaries and the Accounting plan of Gas Natural Fenosa, which is used as a basis for the preparation of the various financial reports required to be submitted to external bodies, and for Management Control information.

Once the Accounting Plan has been updated, it is distributed to all personnel in the organization through the Gas Natural Fenosa intranet. In addition, once the updated accounting plan has been published on the intranet, an on-line alert is sent to users who access the intranet, thus informing all personnel of the update.

On the other hand, the Accounting Planning and Control Unit is responsible for analysing the EU-IFRS regulations that might have a significant impact on financial statements and for reporting to the Gas Natural Fenosa management affected by any such regulatory changes. It is also entrusted with the task of resolving questions regarding the account entry of specific transactions that may be considered by those responsible for Gas Natural Fenosa financial reporting.



#### **4.2. Mechanisms for gathering and preparing financial information using standard formats, which are applied and used by all the entity/group units and which support the main financial statements and the notes thereto, as well as the information on SICFR indicated.**

The integral economic-financial management model of Gas Natural Fenosa ensures that there is uniformity in administrative and accounting processes by centralizing accounting and economic administration in Shared Services Centres (SSCs) and through the use of SAP as a support system in most of the group companies. Those companies which do not use SAP are under the obligation to adhere to certain standards established by the group in order to ensure that there is uniformity in these processes.

The main characteristics of this model are described below:

- there is one single model for all countries and all business activities;
- it incorporates the legal, tax, commercial law and regulatory requirements of each of the countries;
- it incorporates internal control requirements;
- it serves as basis for the obtaining of the information which is presented to Senior Management and official bodies;
- It is based on a particular organizational model and economic-financial processes and computer systems which are the same for all countries and business activities.

The IFRS-EU financial statements for each country are obtained directly through the local account-group account assignation and the registering of IFRS-EU adjustments in the SAP application itself.

As part of the Group's SICFR, an interrelations map for the process of preparation of the financial information of Gas Natural Fenosa has been defined. This map indicates, among other aspects, the information systems which are involved in the process for the preparation and presentation of financial information, from the points of view of both the individual accounting close and the consolidated accounting close.

The EC-CS application is used in the process of preparation of the financial information - and breakdowns thereof - of Gas Natural Fenosa; this is a SAP tool for the management of the consolidation process. The SAP SEM application is also used to provide support in the preparation of consolidation reports.

Information is loaded into this consolidation system directly and automatically, once accounts for the month have been closed.

These two tools help in the management of the consolidation process, in tasks such as:

- the standardisation of information
- the validation of information.

Similarly, Gas Natural Fenosa has local accounting plans in place to ensure compliance with the accounting, tax, commercial law and regulatory requirements established in the different legislations of the countries in which it is present. These local accounting plans come together in a unified and standardized group accounting plan for consolidation purposes and for the reporting of financial information.

On the other hand, all SICFR documentation is compiled and documented by a corporate application which is managed by the Internal Control unit.

## 5. Supervision of functioning of the SICFR

5.1. The activities performed for the supervision of the SICFR which are undertaken by the Audit Committee, and whether the entity has an internal audit function whose competences include supporting the committee in its supervision of the internal control system, including the SICFR. Similarly, report as to the scope of the SICFR assessment performed during the year and the procedure whereby the person responsible for this assessment reports his/her results, whether the entity has an action plan which details possible corrective measures to be taken, and whether the impact on financial information has been considered.

The functions of the Audit and Control Committee are set out in Article 32 section 2 of the Regulations of the Board of Directors and its Committees; its competences include the following:

- Being apprised of and supervising the process of drawing up the regulated financial information, ensuring the correct application of the accounting principles and the inclusion within the consolidation scope of all the companies that must be included.
- Being apprised of and supervising the effectiveness of the Company's internal control and risk management systems, ensuring that they identify the various types of risk faced by the company and the measures taken to mitigate them and to address them if they materialise as actual damage. Discussing with the auditors any significant weaknesses in the internal control system detected during the audit.
- Reviewing the information about the Company's activities and results that is drawn up periodically in compliance with the current regulations on the securities market, ensuring that it is drawn up in accordance with the same accounting principles as the annual accounts, and ensuring that the information is transparent and accurate.
- Informing the General Meeting of Shareholders on the questions raised by shareholders which fall within its scope of authority.
- Making proposals to the Board of Directors, for submission to the Shareholders' Meeting, regarding the appointment of the external auditors as referred to in article 264 of the Capital Corporations Law.
- Making recommendations to the Board for the selection, appointment, reappointment and removal of the external auditor, and the terms and conditions of such auditor's engagement.
- Liaising with the external auditors in order to receive information about matters that might jeopardise their independence and any other matters related to the audit process as well as other communications envisaged in the audit legislation and technical audit standards.
- Issuing a statement on the independence of the auditors each year prior to the issuance of the auditors' report.
- Supervising the internal audit units, ensuring their independence and proposing the appointment, reappointment and removal of the head of internal audit. To that end, the head of internal audit must present an annual work programme to the Committee, inform it directly of any incidents arising during the programme's implementation, and submit a report on activities at the end of each year.
- Overseeing the annual audit process.
- Liaising between the Board of Directors and the external auditors, and assessing the results of each audit. At all events, it must receive annually from the company's auditors written confirmation of their independence with respect to the company and to entities directly or indirectly related to the company, as well as information on any additional services provided to those entities by the auditors or by persons or entities related to the auditors, as provided for in the Audit Law.

- Adopting the measures that it considers advisable with regard to auditing, the internal financial control system and compliance with the legislation on providing information to the markets and on its transparency and accuracy.

The Audit and Control Committee, for the performance of its functions, has at its disposal the information and documentation provided by the Internal Audit and Economic-Financial Units.

The Internal Audit function has been established in Gas Natural Fenosa as an independent and objective valuation activity; for this reason, the Internal Audit Area reports in turn to the Audit and Control Committee and to the Chairman and Managing Director of Gas Natural SDG, S.A.

The Strategic Processes Audit Plan (with a 5-year time horizon) and the Annual Internal Audit Plans are designed to guarantee the supervision and on-going assessment of the efficacy of the Internal Control System (including SICFR) in all areas of Gas Natural Fenosa, adopting a rigorous and systematic approach in the monitoring and improvement of processes and for the assessment of associated operational risks and controls. All this is aimed at achieving the Strategic Objectives of Gas Natural Fenosa and at assisting the Audit and Control Committee and Top-level Group Management in compliance with their management, control and corporate governance functions.

In drawing up the Strategic Processes Audit Plan and the Annual Internal Audit Plans, consideration is given primarily to the Group's Strategic Plan, the risk areas included in the Corporate Risks Map of Gas Natural Fenosa, the SICFR scope matrix, the assessment of operational risks corresponding to each of the Processes (Operational Risks Maps), the results of audits performed in prior years and proposals made by the Audit and Control Committee and Top-level Management.

The Internal Audit Area has established a methodology for the measurement of operational risks based on the Conceptual Framework of the COSO Report, and taking as its starting point the risk types defined in the Gas Natural Fenosa Corporate Risks Map.

Under this methodology, operational risks associated with processes are prioritised based on an assessment of their incidence, relative importance and level of control. Based on the results obtained from this assessment, a plan of action is designed which is geared towards the implementation of corrective measures which make it possible to mitigate the residual risks identified which have a potential impact that exceeds the established tolerable or accepted risk.

The internal audit function is developed in turn in accordance with the International Standards for the Practice of Internal Auditing; it has internal auditors who have obtained or are in the process of obtaining the Certified Internal Auditor (CIA) qualification which is awarded for excellence in the provision of internal audit services.

In performing its activity, the Internal Audit Area verifies on a recurrent basis compliance with all policies, standards and controls of processes established in the SICFR with a view to overseeing their proper functioning and preventing and identifying incidents of fraud, corruption or bribery. For this, all the work programmes for the review of each of the Processes of Gas Natural Fenosa include a specific section for verification of the correct design and functioning of these policies, standards and controls. According to the Strategic Processes Audit Plan, the SICFR is to be fully supervised by Internal Audit for a period of 5 years.

Specifically, and in relation of the System of Internal Control over Financial Reporting (SICFR), the Internal Audit Area is responsible for supervising:

- The correct design of the SICFR and compliance with regulatory requirements
- The adequacy of the control policies and procedures implemented
- The adequacy of the definition of the scope of consolidation
- The correct application of accounting standards.

The main processes reviewed by the Internal Audit Area during 2011 were those relating to:

- Business processes:
  - Gas distribution: the construction of distribution networks, start-up, reading and measurement, on-site calls and emergencies.
  - Electricity distribution: development of medium and low voltage, development of high voltage, cut-off and reconnection operations.
  - Wholesale and retail trade: industrial default management, capture and contracting.
  - Generation: generation billing and collections cycles, operation and maintenance of generation assets, monitoring of assets.
  - Prospecting and production: Angola and Casablanca-Montanazo joint ventures.
  - Energy management: gas balance sheet, electricity balance sheet, energy trading.
  - Supplies: technical management of gasoducts.
- Support processes:
  - Customer service: retail and wholesale collections, default management.
  - Management of information systems: customer care, management of evolutive maintenance, migration of wholesale commercial systems and management of operations.
  - Management of financial and physical resources: management of purchases and contracting of services, accounting, juridical/legal management.
  - Management of human resources: management of processes and human resources service.

47% of the processes reviewed correspond to Spain; the remaining 53% are of international scope.

The above process controls relating to Financial Information were reviewed in accordance with the work methodology described above.

**5.2. Whether there is a discussion process whereby the auditor (in accordance with the technical standards governing the audit field), the internal audit function and other experts can inform senior management and the Audit Committee or the entity's directors of significant internal control weaknesses detected during the processes for the review of the annual accounts, or any other processes entrusted to them. Also, report as to whether there is an action plan to correct or mitigate risks identified.**

As is established in Article 6.4 of the Regulations of the Board of Directors and its Committees:

"The Board of Directors will maintain a direct relationship with the top-level management of the Company and with its Auditors. The objective, professional and continuous nature of this relationship must provide the utmost respect for the Auditors' independence."

Similarly, Article 9 of these Regulations stipulates as follows:

"The Board shall meet once every two months and, on the Chairman's initiative, as many times as he/she considers it appropriate for the smooth running of the company. The Ordinary Board sessions shall deal with general matters related to group operation, economic results,

the balance sheet, cash flow status and its comparison with the approved budget, matters mentioned in Article 5, where applicable, and, in any case, the points included on the agenda prepared in accordance with the provisions of these regulations. These regular meetings shall also be occasion for the Board to receive specific information regarding achievements and the most significant operational problems, and foreseeable situations that may be critical for company affairs and the actions that management may propose in order to deal with them, as the case may be [...]."

In this sense, the Members of the Board of Directors, to obtain the information necessary for the performance of their functions, have at their disposal the Executive Committee, whose specific area of competence is the on-going monitoring of the top-level management of the Group, and the Audit and Control Committee, whose functions include knowledge and supervision of the process for the preparation of regulated financial information, and the efficacy of the internal control system.

The area of competence of the Executive Committee is the on-going monitoring of the top-level management of the Company, as well as any other function corresponding to it pursuant to the Articles of Association or the Regulations of the Board of Directors and its Committees, or which may be assigned to it by the Board of Directors. Ordinary meetings of this Committee are to be held at least once a month

According to the Company's Articles of Association and the Regulations of the Board of Directors and its Committees, the Audit and Control Committee is to be made up of a minimum of three and a maximum of five Directors, appointed by the Board of Directors from among the External Directors, with consideration being given to their knowledge and experience in the fields of accounting, audit and risks management. The members of this Committee shall cease to hold office as such when they cease to hold office as Board Members, when a resolution to this effect is passed by the Board of Directors, or when a period of three years has elapsed as from their appointment; they may be re-elected. At least one of the Committee members must be an Independent Director. At 31 December 2011, the Committee is made up of three Directors, two of which are dominical, the other being independent. The Committee is chaired, in turn, by the independent director.

The Chairman of the Committee is to be elected by the Board of Directors. The Chairman shall not have a casting voting and shall be required to be replaced in accordance with the provisions of the Articles of Association (Article 51 bis) and the Law. He/she may be re-elected once one year has elapsed as from the date on which he/she ceased to hold office. The Secretary of the Committee shall be the person who is Secretary of the Board of Directors.

The Commission is to meet, having been duly convened by its Chairman, whenever necessary for the issue of the reports falling within the scope of its competence or whenever a meeting is deemed advisable by its Chairman or is requested by two of its members; it is to meet at least four times a year. The Committee may invite to its meetings any senior manager or employee whose presence it considers advisable.

The functions and activities performed by the Audit and Control Committee of Gas Natural SDG, S.A. meet the legal requirements established by Law 12/2010 which amends Law 19/1988 of 12 July on the Auditing of Accounts, Law 24/1988 of 28 July on the Securities Market and the revised text of the Companies Law approved by Royal Legislative Decree 1564/1989 of 22 December, and Royal Legislative Decree 1/2010 of 2 July in which approval is given to the revised text of the Capital Corporations Law.

Similarly, the Committee's functions and activities are concordant with the good corporate government recommendations established by current legislation and by the Unified Code of Good Governance for Listed Companies, dated 19 May 2006 and which was approved on 22 May 2006 and published by the National Securities Market Commission (the Conthe Code).

The scope of the work performed by the Audit and Control Committee extends to:

- Gas Natural SDG, S.A.
- Companies in which Gas Natural SDG, S.A. has a majority shareholding.
- Other entities and investee companies over which Gas Natural SDG, S.A. has – by any means – effective control or responsibility for their management or operation.

Between 1 January 2011 and 27 January 2012 (the date on which the Consolidated and Individual Annual Accounts of Gas Natural Fenosa for the 2011 financial period were drawn up), 6 meetings of the Audit and Control Committee have been held, the attendance rate being 94%.

The Internal Audit Unit reports to the Audit and Control Committee on a recurrent basis, informing it of the steps taken to ensure that Gas Natural Fenosa adheres to all policies, standards and process controls established by the group's top-level Management. It also presents:

- The Annual Internal Audit Plan for approval by the Committee.
- The extent to which such plan has been executed, and the main conclusions and recommendations included in the Internal Audit Reports.
- An assessment of the efficacy of the Control System and assessment of operational and Internal Control risks affecting Gas Natural Fenosa (including those corresponding to SICFR); this includes the corresponding Plans of Action to improve the level of internal control.
- The extent to which the units audited have implemented the corrective measures referred to in the Audit Reports, especially those measures proposed by the Audit and Control Committee.

Similarly, the Economic-Financial General Management reports regulated accounting or financial information to the Audit and Control Committee, verifying the transparency and accuracy of such information and indicating the internal control systems and accounting standards applied. It also reports on the main accounting procedures and processes used in the preparation of economic-financial information and the financial statements, on the main risks and contingencies and their coverage by provisions, and on Risk Management and Control Policies and Systems in Gas Natural Fenosa, and on relevant matters relating to the preparation, definition and conclusions of the Gas Natural Fenosa Corporate Risks Map.

Finally, the external auditor communicates to the Audit and Control Committee the internal control weaknesses detected during the performance of the audit. In addition, the external auditors report the main conclusions reached in the review of internal control, on the evaluation of risks and on plans of action.

## 6. Other relevant information

As is mentioned in section F.3.1. above, the execution of an annual internal certification process - whereby the business and corporate Units involved in the process of preparation of financial information guarantee that their processes involve the controls identified and that such controls are valid and adequate – has been defined as part of the model for the evaluation of the System of Internal Control over Financial Reporting of Gas Natural Fenosa. These Units also report to the Internal Control Unit any weaknesses and/or deficiencies which they have detected, and any changes made to their processes, so that it can be decided whether such changes imply the need to develop new controls or to modify existing controls.

During 2011, Gas Natural Fenosa has executed the first of these annual internal certification procedures, as a result of which changes have been identified in a limited number of processes. It is to be noted that these changes have not required the modification of the previously-identified control activities. For this reason, the risks associated with the preparation and reporting of financial information in the critical processes affected are considered covered. The main figures relating to this process are reflected in the following table:

	Spain	International	Total
Business or corporate units	79	72	151
Processes identified	54	88	142
Controls certified	968	2,117	3,085

Similarly, 139 plans of action have been drawn up in respect of weaknesses detected in control evidence; 34 of these correspond to Spain. In any event, the sub-processes affected by these plans of action do not have a significant effect on the quality of financial information.

## **7. External audit report**

**7.1. Whether the SICFR information submitted to the markets has been reviewed by the external auditor, in which case the entity should include the corresponding report as an Appendix. If not, the reason for this should be reported.**

Gas Natural Fenosa has considered it appropriate to ask the External Auditor to issue a report on information related to the System of Internal Control over Financial Reporting (SICFR).

Barcelona, 27 January 2012

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**Published by:**

Communications Department  
and the Chairman's Office

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

**Graphic Design:**

Global Diseña S.L.

[www.globaldis.com](http://www.globaldis.com)

**Pdf Accessibility:**

Global Diseña S.L.





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