

2011 **annual** report

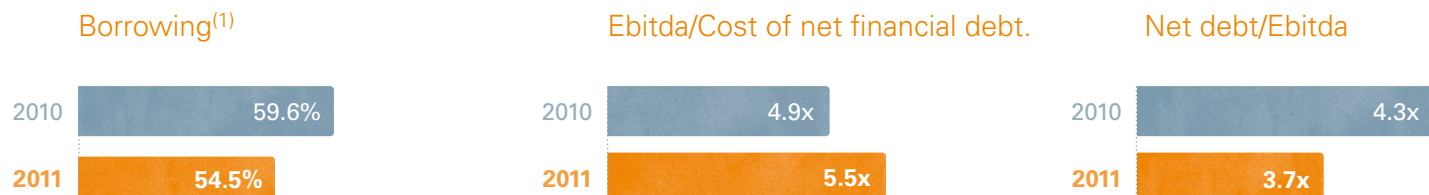
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Basic Figures

Financial ratios



(1) Net financial debt/Net financial debt+Net worth+Minority interests.

Operation

	2011	2010	%
Gas distribution (GWh)	395,840	411,556	(3.8)
Electricity distribution (GWh)	54,067	54,833	(1.4)
Gas supply points (in thousands) as at 31/12	11,372	11,361	0.1
Electricity supply points (in thousands) as at 31/12	8,133	9,436	(13.8)

	2011	2010	%
Electricity generated (GWh)	56,616	58,389	(3.0)
Spain	38,081	38,338	(0.7)
International	18,535	20,051	(7.6)
Power generation capacity (MW)	15,443	17,305	(10.8)
Spain	12,760	14,637	(12.8)
International	2,683	2,668	0.6
Gas supply (GWh)	308,635	305,704	1.0
Spain	236,902	250,885	(5.6)
Others	71,733	54,819	30.9
Unión Fenosa Gas⁽¹⁾			
Gas commercialisation in Spain (GWh)	56,937	59,518	(4.3)
Other gas sales (GWh)	26,503	27,774	(4.6)
Gas transportation–Empl (GWh)	111,855	109,792	1.9

(1) Magnitudes al 100%.



Personnel

	2011	2010	(%)
No. of employees	17,769	18,778	(5.4)

Financial (millions of euros)

	2011	2010
Net turnover	21,076	19,630
Gross operating profit. Ebitda	4,645	4,477
Total investments	1,514	1,553
Net profit	1,325	1,201
Dividend ⁽¹⁾	821	742

(1) Equivalent total amount.

Shares

	2011	2010
Share prices at 31/12 (euros)	13.27	11.49
Profit per share (euros)	1.39	1.30
Capitalisation-profit ratio ⁽¹⁾	9.9	8.80
Share capital (No. of shares as at 31/12)	991,672,139	921,756,951
Stock market capitalisation (millions of euros)	13,155	10,591

(1) Considering the average number of shares for the year.

Letter from the Chairman



Dear shareholders,

After successfully completing its integration, Gas Natural Fenosa made headway in 2011 in the implementation of the 2010-2014 Strategic Plan and concluded its divestment plan and synergies programme to which it committed after the merger a year early. At the same time, the financial structure of the company was strengthened and the debt restructured through two successful debt issues on the Eurobond market.

Net profit rose by 10.3% to 1.325 billion euros as a result of the growth in the international gas commercialisation business, development of activity in Latin America and the capture of synergies.

Ebitda reached 4.645 billion euros, an increase of 3.8%, buoyed by operating excellence and a business profile based on the appropriate balance between liberalised and regulated activities, with a growing international contribution. For yet another year, this model was a guarantee for the company's growth strategy, with results that continued with the upward tendency.

As a consequence, the total amount set aside for shareholder remuneration will be 821 million euros, representing a payout of 62%. Remuneration will be 10.7% greater than that of 2010, in line with the commitment the company has with all of you.

If anything, these results take on a special importance when we consider the current context, which is characterised by weakness in demand in Spain, increasing difficulties in the world energy sector and a very demanding macro-economic and financial situation.

Gas Natural Fenosa has maintained its solid position of leadership, with momentum gained from new business areas such as offshore wind farms, a clear strategy based on mature renewable energies and entry into new markets, such as Europe. All the while, the company continues to look to innovation, through the development of smart grids and electric vehicles.

With our sights set on the future, the company closed a contract with the US company Cheniere in order to continue to diversify our supply, and an agreement was reached with Sonatrach that settles

the arbitration process lodged by the Algerian company. Through these actions, Gas Natural Fenosa strengthened its relationship with its main supplier, which has taken a stake in our company, and paved the way for our joint actions in other business areas.

In the area of corporate reputation, I would like to highlight the approval of the new Policy for the Respect and Promotion of Human Rights, which is our way of responding to the demands of our operating environment. The company continues to feature in the DJSI World, DJSI Europe and FTS4Good indices and was also the most highly rated company in the Carbon Disclosure Project Iberia 125 report. The company is positioned in 372nd place on the world according to the Fortune Global 500 ranking.

Therefore, I would like to express my confidence that we will be able to continue along the path we have taken, prepared to face this complex environment which will require the praiseworthy efforts made by all the people that make up this great company every day. ■



Salvador Gabarró Serra
Chairman of the
Board of Directors

Milestones 2011

Consolidation of a leading gas and electricity company

Company Chairman, Salvador Gabarró, and Chief Executive Officer, Rafael Villaseca, took advantage of the 2011 Annual General Meeting to present shareholders with the 2010-2014 Strategic Plan.

The shareholders approved the company's results for 2010, the first year of the plan, in which Gas Natural Fenosa's Ebitda rose by 14.1% to 4.447 billion euros and net profit increased to 1.201 billion euros.

The results of the first year of the plan's implementation confirmed the consolidation of Gas Natural Fenosa as a leading integrated gas and electricity company.

This prime position was strengthened throughout the year by two strategic long-term agreements.

The first of these was a series of accords with Sonatrach that brought about a resolution to all the legal proceedings that were underway as regards the price applicable to gas supply contracts, in addition to opening the door to collaboration between both companies in different areas.

As a result of this agreement, the Board of Directors approved the acquisition by the Algerian company of a 3.85% stake in Gas Natural Fenosa.

The second of these was its largest liquefied natural gas (LNG) supply contract with unrestricted destination markets signed with the US company Cheniere. According to this agreement, Cheniere will supply the Spanish multinational with close to 5 bcm a year of LNG, without restriction. This contract is a milestone in the history of Gas Natural Fenosa, as this is the first time the company will receive natural gas from the United States.

Completion of integration with Unión Fenosa

Last year was also when the integration process with Unión Fenosa was completed. As part of the commitments acquired with the National Competition Commission for the authorisation of the operation, the company agreed the sale of approximately 300,000 gas distribution points in the Madrid area to the Madrileña Red de Gas Group for 450 million euros. This sale produced an estimated gross capital gain of 250 million euros.

In Spain, in the electricity generation area, the sales were agreed of the combined-cycle power station at Plana del Vent, Tarragona, to the Swiss group Alpiq for 200 million euros and the 800 MW combined-cycle power station in Arrúbal, La Rioja, to a subsidiary of ContourGlobal, the US operator and specialist in the setting up and operation of energy generation projects. The total value of this sale came to 313 million euros.

Finally, Gas Natural Fenosa agreed the sale of a portfolio of 245,000 gas customers in Madrid to Endesa for the sum of 38 million euros. The estimated gross capital gain from this operation was 15 million euros.

Other operations

In 2011, the company agreed the sale of stakes in its Guatemalan subsidiaries, the electricity companies Deorsa and Deocsa to the Actis investment fund, in addition to its stakes in other companies with energy-related activities in the country. This total value of this sale came to 345 million dollars.

The company's gas distribution business in Spain was boosted by the purchase of distribution assets in the provinces of



Toledo and Granada from Corporación Llorente for 26.9 million euros. The assets acquired included 100 kilometres of secondary transport and distribution network, allowing the movement of 900 GWh a year.

International acknowledgements

Natural Gas Fenosa received numerous awards and public acknowledgements in 2011 that highlight the company's actions in the fields of social responsibility, sustainability and environmental protection, in addition to its strict financial control.

For yet another year, Gas Natural Fenosa's sustainability strategy earned it a place on the Dow Jones Sustainability Index and DJSI Europe. Likewise, for the tenth year running, it was included in the FTSE4Good sustainability indices following a new half yearly assessment of this tool geared towards socially responsible investors.

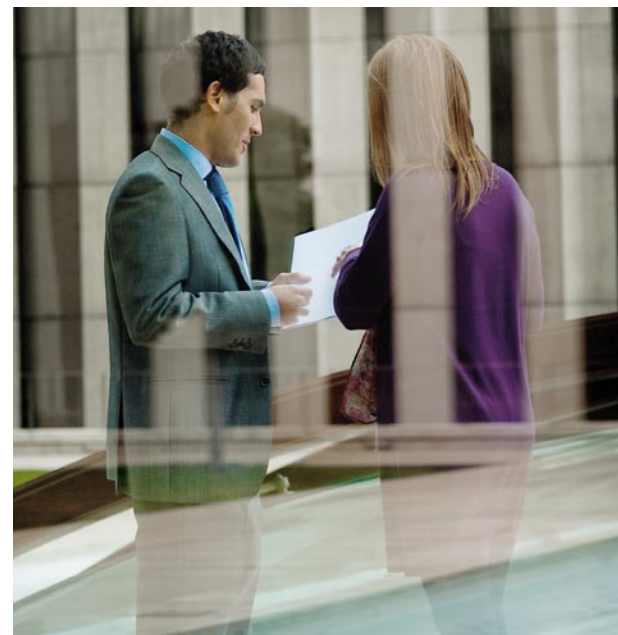
Gas Natural Fenosa was also the highest rating Spanish company in the utilities and energy industry sectors on the Green Rankings Global List, a yearly index produced by the American magazine *Newsweek*. This ranking studies the environmental footprint, environmental management and transparency in the reporting practices of each company. Special mention should be made of the score obtained by Gas Natural Fenosa in the category of environmental disclosure.

The company was also recognised as being that with the best climate change strategy on the Iberian Peninsula owing to its environmental activity. The prestigious Carbon Disclosure Project Iberia report, which analyses the largest companies in Iberia, highlighted Gas Natural Fenosa's transparency and climate change

management. The Spanish multinational was also the highest rating European energy company in the study that analyses the 300 leading European companies.

Finally, Gas Natural Fenosa received the 2011 Platts Global Energy Award in New York for the most outstanding community development programme for its Cuartel V gasification project located in Buenos Aires, Argentina. The award-winning initiative works to improve access to public services for the neediest groups and to contribute in this way to reducing poverty in local communities where the company operates.

The company also was classified as the leading worldwide company in the gas sector on the Platts Top 250 ranking of energy companies for the third year running. Platts Top 250 highlights the financial profits of the main energy companies worldwide. ■



Deployment of smart electricity grids

2011 saw Gas Natural Fenosa continue its work of transforming its electricity distribution grids into smart grids.

The company ended 2011 with 200,000 smart meters installed and an overall investment of 50 million euros for the year.

This ambitious rollout programme started in Alcalá de Henares and Aranjuez, in the Community of Madrid, Spain, and was extended to the three other autonomous regions where Gas Natural Fenosa has electricity distribution grids: Galicia, Castilla-La Mancha and Castilla y León. In addition to changing meters, the company adapted and automated more than 400 electrical substations in 2011.

Commitment to renewables

Gas Natural Fenosa finalised the purchase of the ACS Group stake in five wind farms in the autonomous regions of Catalonia, Galicia and Andalusia. The operation was concluded at a price of 72.4 million euros.

Likewise, a deal was reached with Gamesa for the purchase of two of their wind farms with installed power of 42 MW. The final cost of the transaction was 64 million euros.

These acquisitions strengthened the energy group's growth in the field of renewable energy, in the wake of offering the winning bid in the most recent round of wind farm tenders held in several autonomous regions.

Finally, the company announced the creation of a Galician energy company specialising in renewable energy, with the name of Fenosa. The company was founded with a plan for investing 1 billion euros until 2016 which will create more than 2,000 jobs in Galicia and manage more than 3,000 MW of renewable energy generation.

International presence

On the international scene, Gas Natural Europe, commercialising company for natural gas in France and a subsidiary of Gas Natural Fenosa, performed its first discharge of LNG at the Montoir terminal in Brittany for the purpose of consolidating and strengthening its presence in the French market.

The group also expanded and strengthened its European presence through the opening of a new office in the Netherlands. With the opening of this office in order to attract customers, the company forecasts a short-term increase in its wholesale natural gas sales business through taking advantage of its position and experience as the leading retailer of natural gas on the Iberian Peninsula and the fact that it is a global player in the LNG business, with an important presence on the Atlantic and Mediterranean coasts.

The company continued to increase its business in all the Latin American countries where it operates. In the institutional field, the President of the Republic of Panama, Ricardo Martinelli, met with the Gas Natural Fenosa Chairman, Salvador Gabarró, and Chief Executive Officer, Rafael Villaseca, at the company's Madrid offices.





The 2011 Annual General Meeting of Shareholders saw the approval of shareholder remuneration for an amount equivalent to 0.80 euros per share

Appointments

The Board of Directors welcomed Nemesio Fernández-Cuesta as a Proprietary Director proposed by Repsol YPF to replace Fernando Ramírez Mazarredo. In turn, Narcís Serra Serra resigned from his position on the company's Board of Directors.

Commitment to shareholders

The 2011 Annual General Meeting of Shareholders saw the approval of shareholder remuneration for an amount equivalent to 0.80 euros per share charged against the profits of 2010. For the first time, shareholders could choose to receive this amount in shares or cash, or as a combination of both.

In December, the Board of Directors agreed to allocate 360 million euros for the payment of a dividend to be charged against the profits of 2011. ■

Corporate Governance

Management Committee

The Management Committee is the highest decision-making body in the executive sphere and is made up as follows:



Chief Executive Officer
Mr Rafael Villaseca Marco



Chief Financial Officer
Mr Carlos J. Álvarez Fernández



Managing Director of Latin America
Mr Sergio Aranda Moreno



Managing Director of Strategy and Development
Mr Antonio Basolas Tena



Managing Director of Regulated Electricity Business
Mr José Antonio Couso López



Managing Director of Energy Planning
Mr José M.º Egea Krauel



Managing Director of Wholesale Energy Business
Mr Manuel Fernández Álvarez



Managing Director of Power Generation
Mr José Javier Fernández Martínez



Chief Corporate Officer
Mr Antonio Gallart Gabás



General Counsel
Mr Manuel García Cobaleda



Managing Director of Communications and the Chairman's Office
Mr Jordi García Taberero



Managing Director of Retail Energy Business
Mr Daniel López Jordà



Managing Director of Regulated Gas Business
Mr Antoni Peris Mingot

The Gas Natural Fenosa's priorities include guaranteeing transparency and the effectiveness of the way in which its bodies of government operate and, therefore, it assumes advanced practices in the area of corporate governance.

After a series of amendments to the Organisation and Operation Regulations of the Board of Directors and its committees (the last of them in September 2011), the company can be said to fulfil most of the recommendations for the good corporate governance of listed companies.

The Gas Natural Fenosa's practices in corporate governance are described in detail in various annual reports, which are raised to the General Meeting of Shareholders for its knowledge or approval.

The documentation drawn up by the company in the area of corporate governance seeks to report on the most relevant information related to its standards and procedures, as well as the criteria on which the decisions that are taken are based. All the corporate information is available to the public on the group's website at www.gasnaturalfenosa.com.

The General Meeting of Shareholders, the highest decision-taking body in the company takes part in the development of corporate governance practices, as does the Board of Directors and its committees: the Executive Committee, the Appointments and Remuneration Committee and the Audit and Control Committee. The Management Committee also plays a relevant role from the viewpoint of management.

In 2011, the different bodies of government met as follows:

- Board of Directors: 13 meetings.
- Executive Committee: 9 meetings.
- Appointments and Remuneration Committee: 8 meetings.
- Audit and Control Committee: 5 meetings.
- Management Committee: monthly meetings.

The Board of Directors, its Committees and the Management Committee operated as expected during 2011, fully exercising their competencies without interference and in full observance of current legislation and the applicable standards for the operation of the Organisation and Operation Regulations of the Board of Directors and its committees.

As far as the diversity of the Board of Directors is concerned, 31.25% of the Directors are under 55 years of age, 25% are between 55 and 60 years of age, and the remaining 43.75% are over 60 years of age. ■

Composition of the Board of Directors and Committees (at 31 December 2011)

	Board of Directors	Executive Committee	Audit and Control Committee	Appointments and Remuneration Committee	Type of Director
Chairman	Mr Salvador Gabarró Serra	Chairman			Executive
Deputy Chairman	Mr Antonio Brufau Niubó	Deputy Chairman		Board Member	Proprietary member
Chief Executive Officer	Mr Rafael Villaseca Marco	Board member			Executive
Board member	Mr Ramon Adell Ramon				Independent
Board member	Mr Enrique Alcántara-García Irazoqui				Proprietary member
Board member	Mr Demetrio Carceller Arce	Board member			Proprietary member
Board member	Mr Santiago Cobo Cobo			Board member	Independent
Board member	Mr Felipe González Márquez				Independent
Board member	Mr Carlos Kinder Espinosa	Board member	Board member		Proprietary member
Board member	Mr Emiliano López Achurra	Board member			Independent
Board member	Mr Carlos Losada Marrodán	Board member	Chairman		Independent
Board member	Mr Juan María Nin Génova	Board member			Proprietary member
Board member	Mr Juan Rosell Lastortras				Proprietary member
Board member	Mr Nemesio Fernández-Cuesta Luca de Tena ⁽¹⁾				Proprietary member
Board member	Mr Luis Suárez de Lezo Mantilla ⁽²⁾		Board member		Proprietary member
Board member	Mr Miguel Valls Maseda			Chairman	Independent
Non-director Secretary	Mr Manuel García Cobeleda	Secretary	Secretary	Secretary	

(1) The Board of Directors appointed Mr Nemesio Fernández-Cuesta Luca de Tena as a Director by co-option on 28 January 2011. This appointment was ratified at the Ordinary General Meeting of 14 April 2011.

(2) Mr Luis Suárez de Lezo Mantilla became a member of the Audit and Control Committee on 28 January 2011.

corporate management

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Human Resources



Workforce demographics and composition

At the close of the 2011 financial year, Gas Natural Fenosa provided work for 17,769 employees in 22 different countries. This figure represents a 5.4% reduction on the 2010 figure, reflecting the actions taken to improve processes and efficiency after the integration process that was so successfully completed one year earlier than scheduled.

The distribution by gender shows that the number of female employees increased by 2% compared to the previous year and under the same conditions, resulting in a workforce comprising 29% women and 71% men.

The geographical distribution shows that 47% of employees carry out their activities outside Spain. This activity takes place in the following countries: Argentina, Australia, Brazil, Colombia, Costa Rica, Egypt, France, Guatemala, Ireland, Italy, Kenya, Madagascar, Morocco, Mexico, Moldova, Nicaragua, Panama, Puerto Rico, Dominican Republic, South Africa and Uganda.

The average age of the staff is 43; the average seniority in the group is around 15 years.

In 2011, 14,806 people were directly employed by Gas Natural Fenosa.



Talent management model

Talent management is one of the group's strategic priorities and a key tool for meeting business objectives in their different time frames, as it provides a sustainable competitive advantage for growth.

The talent management model plans actions for attraction, retention and development of the personnel required by Gas Natural Fenosa, with actions differentiated by the different job and employee segments, in order to guarantee the existence of qualified candidates for every job at all times.

Gas Natural Fenosa is currently immersed in a process to transform this model, which is based on three main pillars:

1. Proactive and transversal approach to talent management with significant involvement of senior management as key participants in the identification and development processes.
2. Segmented and structured talent management programme with differentiated development actions, defined in accordance with the group's short and long-term positioning needs.
3. Integration of the group's talent management processes and use of all available tools.

In order to respond to these aims, a plan of work was defined based on the job profiles that will define the careers of employees:

- General positions that give precedence to project and team management, required in order to strengthen the group's strategy in the making of key decisions and coordination with other divisions.
- Positions where the key component is found in specific knowledge and expertise and in external relations, which are difficult to find internally or externally and which are key for the group.

The company updated its talent appraisal in 2011 for a group of 3,507 people, making up 23% of the total workforce.

Additionally, succession plans were laid corresponding to structural management positions, with more than 2,000 potential successors identified, resulting in a rate of coverage that guarantees the continuity of business operations.

Moreover, more than one hundred development interviews were held, together with close to 150 high-impact programmes involving executive and managerial development and coaching.

Human and social development: a commitment to people

Providing an attractive and stimulating career while guaranteeing equal opportunities and fostering and respecting diversity form part of the Gas Natural Fenosa's commitment to its employees.

In accordance with the United Nations Development Programme, Gas Natural Fenosa promoted its human and social development plan in 2011, for the purpose of giving added impetus to its social, labour-related and business culture that is based on mutual respect and commitment, producing diversity in opinions, perspectives, culture, ages and gender in each of the countries where the company has a presence.

Gas Natural Fenosa complies with legal requirements related to equal opportunities and social integration, favouring recruitment of the disabled, at levels that even exceed minimum legal requirements.

A highlight of 2011 was the fact of obtaining two new acknowledgements in this regard:

- EFR human development certification endorsed by the Spanish Ministry of Health, Social Services and Equality.
- EDC certification for excellence in diversity with relation to the disabled.

These certifications are a benchmark for the homogenisation of corporate human resources policies and for consolidation of best practices in our industry and others.

The setting up of the Diversity Operating Committee marked an important turning point and a clear commitment to correct management, and to the incorporation of new employees with disabilities into the company, facilitating their integration in the workplace, and also diversity, through specific awareness actions.

In Spain, the group has a number of cooperation agreements with different legal entities and associations, such as "la Caixa" Foundation, Adecco Foundation, Prodis and Carriegos.

Likewise, actions aimed at the supporting community-based work are organised in all the group's subsidiaries, through the volunteering actions of their employees:

- Solidarity Day Association.
- Environmental awareness campaigns.
- Sport activities.
- Cooperation agreements with public and private foundations, institutions and research centres, such as the Mexican Red Cross, the Humanist Foundation for Assisting the Disabled (FHADI) and the Private Association for Integral Family Development (DIF).

- Support for sporting activities in Nicaragua, Colombia and Argentina, among others, and cultural activities in Colombia, Italy and Brazil.
- Educational activities such as the Argentine Programme.
- Environmental activities.

Gas Natural Fenosa believes that an individual's feeling of belonging and awareness of each area's characteristics are determining factors for the company's success. This is why the company encourages recruitment of employees and managers locally, giving precedence to them against other alternatives.

The company updated its talent appraisal in 2011 for a group of 3,507 people, making up 23% of the total workforce



Education, training and development

The Gas Natural Fenosa Corporate University consolidated the development of its model in 2011 by renewing its structure, launching the Virtual University and strengthening the Technical and Leadership Institutes, in line with its mission of contributing to the development of employees who make the vision and the aims of Gas Natural Fenosa a reality.

The Advisory Board and Management Committee, new governing bodies, ensure a permanent link between the company's strategy and its education and training programmes. Members include representatives of the company's senior management and external advisors from prestigious academic institutions.

The new university structure has its base in two institutions: the Leadership Institute and Technical Institute. They are organised, in turn, in eight schools and over 50 lecture rooms. The Leadership Institute develops and perfects managers through management and skills training and leadership enhancement programmes.

The Technical Institute ensures the acquisition of the necessary know how needed in order for Gas Natural Fenosa to grow. Focus is given to concepts and techniques of work for business divisions and corporate functions; transmission of knowledge from internal experts with relevant experience and the dissemination of experience and best practices.

Finally, the Virtual University was launched in the last quarter of the year to respond to the challenges of optimising knowledge management at Gas Natural Fenosa, to provide the group with a best in class programme education and training channel and to standardise education and training on an international level. This is an integrated education and training that increases transversality and strengthens standardisation of learning. It offers a collaborative environment, a friendly space designed to connect people and encourage their growth, where not only education is given, but also where knowledge is created and best practices are exchanged.

Education investment for 2011 was increased by 9.56% on the previous year, with an average investment per person of 569.2 euros.

Gas Natural Fenosa training indicators

	2011	2010
Training hours per employee	52.2	47.8
Users of online training schemes over total staff (%)	32.3	22.6

The Environment

Gas Natural Fenosa understands corporate responsibility as the set of actions developed to establish relations of trust with its concurrent stakeholders that are stable, sound and of mutual benefit. The appropriate relationship with the environment constitutes a priority strategic issue for the company, and it is essential for the generation of value and for guaranteeing its long-term sustainability.

In this regard, Gas Natural Fenosa has been incorporating environmental considerations in its business strategies and plans for many years as a key variable for the sustainable development of the environment where its activities are carried out. 2011 was characterised by the culmination of the company's environmental management, recognised by a number of different acknowledgements and environmental management certifications, which are particularly relevant given the areas in which the company operates. Consequently, activities that were commenced at the end of 2010 were included in this recognition, enabling Gas Natural Fenosa to be placed among the highest ranks in both the industry and countries where it operates.

In spite of the increase in emissions from Spanish coal-fired facilities as a result of the obligation to burn locally produced fuel, 2011 saw the achievement of eco-efficiency scores in line with the Gas Natural Fenosa Corporate Responsibility Policy, with special mention given to both electricity generation and installed power involving renewable energy sources.



Environmental management

Thanks to employees' commitment towards proceeding, at all times, in accordance with respect and sustainability criteria, and towards adopting habits and conducts relating to good environmental practices, a coordinated and homogenous response is provided for the development of activities, processes and procedures with environmental repercussions and the optimisation of environmental management. In their dealings with contractors, suppliers and collaborating companies, employees convey these principles.

At the close of 2011, Gas Natural Fenosa had certified 14,085 MW of electricity in Spain, Mexico, Puerto Rico, Kenya, Dominican Republic, Costa Rica and Panama, in accordance with the UNE-EN ISO 14001 environmental management standard. This amounts for 97% of the group's total installed power.

The company also has environmental certification for the supply of natural gas and electricity to major customers through access to third-party installations, and the commercial management thereof (Gas Natural Comercializadora and Unión Fenosa Comercial); the commercialisation, procurement and provision of the maintenance service for installations and gas equipment, customer service, billing, collection and sale of energy services (Gas Natural Servicios and Gas Natural Comercial), natural gas distribution and regasification, and project management, works and maintenance in electrical transmission and distribution in Spain, engineering services (Gas Natural Fenosa Engineering), Unión Fenosa Gas and the company's main work centres.



Internationally, the company has certification for natural gas distribution in Italy; natural gas distribution and commercialisation in Mexico (Gas Natural México and Metrogas); electricity distribution and commercialisation in Panama (Edemet-Edechi); electricity distribution and electricity supply at regulated rates in Moldova (Red Unión Fenosa); liquefied natural gas production in Damietta, Egypt (Unión Fenosa Gas); the regasification plant in Sagunto, Spain; the operation, maintenance and surveillance of the Moroccan stretch of the Maghreb-Europe gas pipeline (Metragez); and its professional services company (Gas Natural Fenosa Operations & Maintenance).

Furthermore, the coal-fired power plants and the combined-cycles plants of Sabón, Palos de la Frontera and Nueva Generadora del Sur and the hydroelectric sector of Tambre-Ulla in Galicia are still registered with the EMAS European system. This places Gas Natural Fenosa at the top of the ranking of energy companies with regard to the number of centres verified in accordance with this demanding European environmental standard.

In recent years, Gas Natural Fenosa has developed different IT tools for the purpose of improving quality and the operationality of the environmental management of its facilities. These tools provide information support for main areas such as the identification and assessment of legal environmental requirements (NorMA), environmental aspects (UMAS), environmental risk management (SERA), operational control of emissions, waste and effluent (OCEN-MA), environmental impact on birdlife (CRA) and key indicator reporting (SIA-Enabon) and environmental planning (SPA-Enablon).

Special mention should be given to the development of a tool to calculate the carbon footprint, a tool based on the application of life cycle analysis methodology that includes the inventory of emissions from all Gas Natural Fenosa activities in every country where it is present, and incorporates both direct emissions associated with activities controlled by the company and indirect emissions that are not produced by company-controlled sources but that are a consequence of the company's activities.

Gas Natural Fenosa continued to implement its policy of involving the supply chain in its good environmental practices. 84% of the main contractors on gas distribution projects and infrastructure in 2011 maintained their voluntary adoption to the *Buenas prácticas de actuación ambiental en obras para la construcción de redes de distribución* (Good Environmental Practices in Distribution Network Construction). Additionally, 100% of the main contractors on electricity distribution projects and infrastructure adopted the document *Buenas prácticas de actuación ambiental para proveedores homologados de redes de electricidad* (Good Environmental Practices for Electricity Network Authorised Suppliers).

The totality of environmental actions carried out in 2011 came to a total investment of 99.2 million euros, of which 57.6 million euros were for direct environmental investment and 41.6 million euros for expenses incurred in environmental management.

Environmental parameters

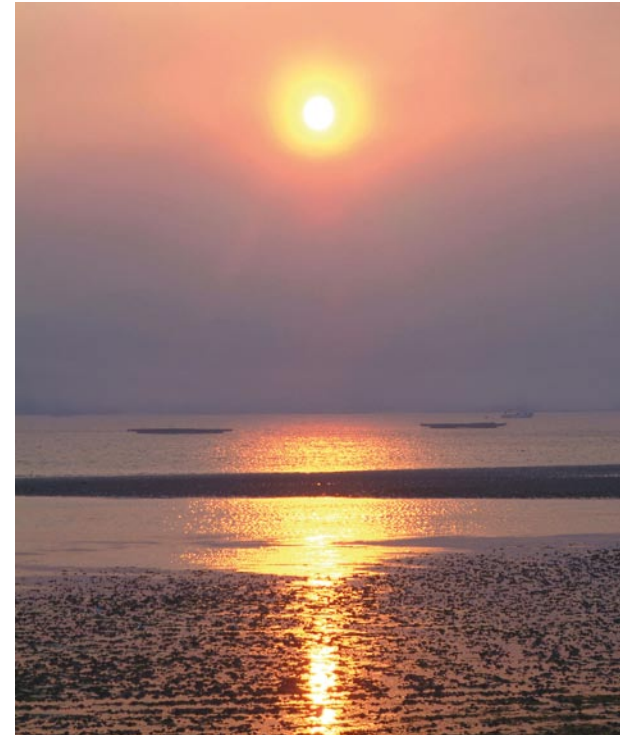
Most of the environmental targets set for 2011 were met during the year, although there was an increase in atmospheric emissions produced by power stations in Spain as a consequence of the obligations set out under Royal Decree 134/2010 of 12 February, governing the procedure for resolving restrictions imposed in order to guarantee supply, requiring the use of locally-produced coal for the production of electricity. These emissions reached levels of 12.9 kt of sulphur oxides, 19 kt of nitrogen oxides and 0.7 kt of particles.

Waste management benefited from the ongoing implementation of the Reuse, Reduction, Recycling and Energy Recovery of Waste Plan (Pre3ver) in the group, in an endeavour to establish and standardise waste management criteria and guidelines, taking into consideration the environmental principles set out in the Corporate Responsibility Policy. A diagnostic analysis was conducted on the current situation in the group and the forecasts for waste production and management were assessed for its term of validity (2010-2014). The plan also analyses potential options for minimisation, identifying those that offer room for reduction, depending on the activity and/or process producing the waste, and establishing the basic strategies and targets to be met, in addition to the specific measures required in order to meet them.

Work continued in 2011 on the elimination of PCB transformers with concentrations between 50 and 500 ppm, with a total of 53.2 t removed from Unión Fenosa Distribución facilities, in order to comply with Royal Decree 228/2006, which amends Royal Decree 1378/1999 of 27 August, governing measures for the elimination and management of PCBs and devices containing them. Also in the international area, inventories were drawn up for the appropriate removal and storage of dielectric oil, significantly reducing the risk of contamination at installations caused by the discharge of this waste.

For yet another year, we must highlight the excellent performance of the waste treatment plant equipment and systems, which enabled the installations to comply with permitted effluent discharge. Consumption of water and raw materials also fell, due to the lower use of thermal power stations and need for water evaporation in the cooling towers.

In order to ascertain the legal compliance of the installations in service, respond to complaints and claims and register new installations, sound emission were measured and controlled in power plants, substations and power transformation centres, and natural gas regulation and measurement stations, where each type of constructive element was redesigned and made uniform.





Positioning towards climate change

With the Less Greenhouse Gases initiative, Gas Natural Fenosa is committed towards:

- Maintaining energy strategies and policies in keeping with security of supply, competitiveness and environmental sustainability.
- Establishing quantifiable objectives for reducing greenhouse gas emissions.
- Levelling the balance of social, environmental and economic aspects to contribute to a low carbon economy.
- Optimising and promoting energy saving and efficiency in its installations and those of its customers, as the most efficient way of fighting against global warming.
- Being active in coal markets and supporting their globalisation so that energy production and consumption trends can be sustainable.
- Guiding the company's actions in order to raise awareness in society in general regarding the global solution for climate change.
- Establishing specific measures to ensure fair and sustainable commitments on reducing global emissions are met.
- Fostering the execution of projects to reduce greenhouse gas emissions on a global scale, paying special attention to developing countries.

Climate change

Gas Natural Fenosa's positioning with respect to climate change is based on reducing it through low carbon content power generation, by promoting renewable energies and energy saving and efficiency in transporting, generation, distribution and gas and electricity consumption.

The company views climate change as a new challenge, identifying potential business opportunities, options and solutions for identifying greenhouse gases and minimising risks arising from regulatory restrictions in this field. Natural gas is the fossil fuel with the lowest carbon content and lowest emissions of CO₂, making it one of the best solutions for reducing emissions, a decisive vector in the energy balance in coming years and the energy of reference in the transition to a low-carbon economy.

The group is now one of the leading combined-cycle operators worldwide, with 9,287 MW of installed power, and a pioneer in the introduction of natural gas as an automobile fuel in Spain.

Gas Natural Fenosa calculated the CO₂ footprint through the inventory, control and verification of greenhouse gas emissions (GHG) arising from all the company's activities in all the countries in which it operates. In 2011, the group's total emissions came to 23.2 MtCO₂e (direct emissions), 19.6% higher than the previous year, and the emission factor of the generation energy mix was 371 g CO₂/kWh.

Among others, we highlight eco-efficiency actions, such as improving performance at facilities, encouraging renewable energies with 3,035 MW installed, and combined-cycle facilities with 9,287 MW.

By using the best materials, renewing piping and connections in the group's gas distributors, the company was able to reduce its CH₄ emissions for each network length unit by 0.3% against 2010. Rationalising energy consumption is one of the group's priorities. The company supervises and submits all its processes to strict controls, consolidating its goal of seeking maximum efficiency.

In 2011, Gas Natural Fenosa prevented over 17.4 MtCO₂ from being emitted to the atmosphere, due to its low-carbon content energy generation activities, the use of renewable energies, its energy management, the conversion of coal and fuel oil industrial and residential installations into others based on natural gas, use of gas-propelled vehicles, the start-up of Clean Development Mechanism (CDM) projects and other reduction initiatives.

Gas Natural Fenosa is committed to reducing greenhouse gas emissions in developing countries through flexibility mechanisms. The company takes part in several carbon funds and registered ten CDM projects at the United Nations: the hydroelectric power plants of Los Algarrobos, Macho de Monte and Dolega in Panamá, that of La Joya in Costa Rica and that of Amaime, Bajo Tulúa and Alto Tulúa in Colombia; the use of biogas for energy at the Doña Juana Landfill in Bogotá (Colombia); the Sombrilla project, also in Bogotá, and the Quimvale project in Rio de Janeiro (Brazil), in both of which fuel oil was replaced with natural gas.

In the field of environmental sustainability, Gas Natural Fenosa raised its customers' awareness regarding efficient energy use. Through the Natural Commitment project, the company sponsors art galleries so that they can improve their lighting systems by replacing conventional equipment with others with a better energy class; it also holds seminars with customers, where environmental and energy questions are addressed. Gas Natural Fenosa also promotes rational and sustainable consumption of energy among its customers. The group's webpage offers the sections www.hogareficiente.com and www.empresaeiciente.com for use by its customers; these sites offer energy saving and efficiency recommendations in the home, enabling customers to carry out a complete self-diagnosis free of charge.

Besides, the company still participates in the Caring for Climate programme, the Business Leadership Platform, a platform of business leaders taking part in the UN Global Compact, whose goal is to fight against the effects of climate change by improving efficiency and reducing greenhouse gas emissions.



Commitment to biodiversity conservation

- Complying with nature protection laws and regulations.
- Promoting and cooperating in preserving biodiversity in the area surrounding its installations, paying special attention to protected spaces.
- Studying the environmental impact of its activities and projects, their effects on ecosystems and biological diversity, taking into account its stakeholders.
- Adopting measures to prevent and minimise possible adverse effects on biodiversity, restoring damaged areas and soils.
- Respecting the traditional ways of life of the indigenous communities to favour the preservation and sustainable use of the environment.

Sustainability and biodiversity

Gas Natural Fenosa has defined an environmental strategy as a guarantee of its commitment to preservation of natural heritage, implementing a large number of initiatives focusing on the acquisition of knowledge on the ecosystems and habitats where the company's facilities are located. It also drives restoration and compensation projects when the environmental impact cannot be completely avoided. Moreover, it collaborates with different social organisations to support their initiatives in the defence of nature.

The company continuously carries out studies on the land and aquatic ecosystems that surround the electricity production plants in order to characterise the natural environment and be able to study the impact of its installations. All studies performed in 2011 were satisfactory. A geographic information system (GIS) is being developed for the purpose of supporting georeferenced environmental information and providing capacity for advanced analysis of the environmental impact of power plants. This system will collect information obtained through studies carried out between 1999 and the present, which involves the processing of thousands of data references related to the quality of land, water and air environments. This database will be of use as a tool for objectively assessing the environment surrounding facilities within the framework of the Environmental Liability Directive and the Integrated Pollution Prevention and Control Directive.

Gas Natural Fenosa quantifies the global environmental impact over time of its different processes and facilities, applying assessment criteria based on

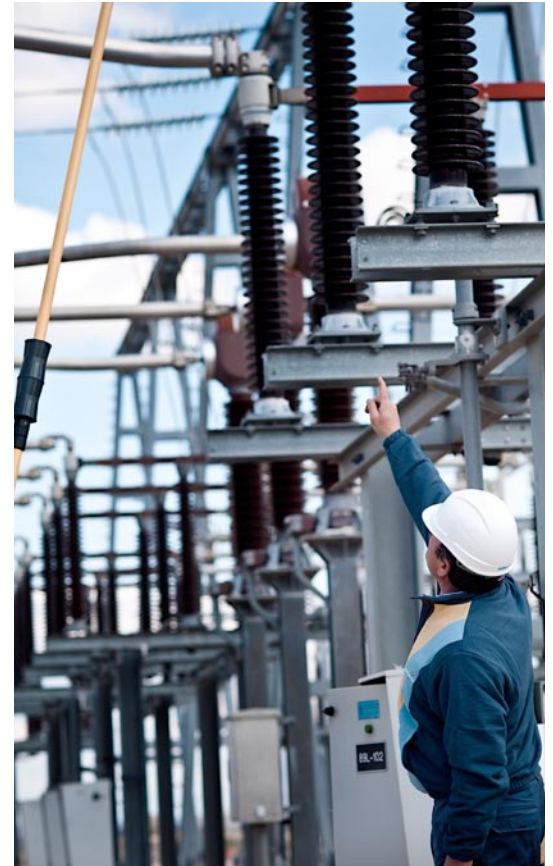
the life cycle analysis (LCA) methodology, pursuant to ISO 14040 international standards: classification, characterisation, normalisation and assessment. For this purpose, it developed its own application called UMAS (environmental units). In addition to quantifying the global environmental impact through the UMAS tool and the list of economic studies, Gas Natural Fenosa also calculates and measures changes over time of its sustainability in the form of the ecological footprint, a global indicator which converts the impacts generated on surface areas necessary to produce the resources consumed and to assimilate the waste generated.

19 soil quality studies were carried out in 2011, all of them complying with Royal Decree 9/2005 governing the list of potential activities which could contaminate the soil and criteria and standards for the polluted soil declaration. In accordance with the regulation, six preliminary reports on the soils of electrical substations were sent to different autonomous regions and 105 status reports. Soils at eight substations were adapted.

Gas Natural Fenosa sponsors different scientific and environmental conservation organisations to support their initiatives in the defence of nature. Among others, agreement are in place with the Oso Pardo Foundation in order to establish environmental education activities for the purpose of fostering changes in attitude and social support for the preservation of the brown bear in the north of Iberia. It also cooperates with the Spanish Ornithology Society in the Birds and Climate programme with the aim of raising awareness through birds of the effects of climate change and to obtain data on the phenology of birds as a method to see how climate change can alter their biological cycle, and to

assess the possible consequences. A cooperation agreement is also in place with the Spanish National Research Council for the sponsorship of the Gas Natural-CSIC Chair for the conservation of biodiversity against climate change.

For the seventh consecutive year, Gas Natural Fenosa remains on the DJSI World Index, which groups the 342 companies of the world with the best corporate responsibility practices. The company was chosen once again to be a part of its European offshoot DJSI Europe, one of only two gas sector companies to take part in it. Gas Natural Fenosa obtained a score of 85 points, placing it 24 points above the sector average. Gas Natural Fenosa obtained the best scores in the industry for biodiversity and environmental reporting, finishing close to the best scores in strategies related to climate change, environmental policy and management systems. The company was also ranked the second greenest utility in the prestigious Green Rankings Global List produced by *Newsweek* magazine. The aim of this ranking is to classify the real environmental impact, policies and reputation of the 500 largest global companies. This is the first time Gas Natural Fenosa took part, obtaining a score of 60.6, the second best score out of the 21 utilities and 37 energy companies appraised.



Innovation



The concept of smart cities has been taking on growing importance in all technological development portfolios

Innovation was consolidated in 2011 as one of the key levers for economic recovery. In general, the most innovative companies are responding best to this unfavourable climate. This is the reason for the ongoing general effort in 2011 in both public entities with responsibility in this field and private companies to continue with already initiated programmes and in order not to be left behind in the implementation and development of new ideas. The response to climate change by the energy sector continues to be the overriding source of motivation driving technological development. The goals of the Strategic Energy Technology Plan (SET Plan) in Europe were maintained. These were put into place for the purpose of bringing about the technological advances that will allow the energy objectives outlined for 2020 to be fulfilled. The role of energy efficiency in urban areas (where 80% of energy is consumed in Europe) has been particularly highlighted. Likewise, the concept of smart cities has been taking on growing importance in all technological development portfolios. Despite being adversely affected by the economic situation, Spain kept up the pace in this field while initiating an internal reflection in order to achieve

greater coordination between the different existing platforms and greater international recognition for locally developed technology.

Within this context, Gas Natural Fenosa has consolidated its strategy by strengthening its technological structure while initiating major projects and keeping a high-profile presence in key decision-making forums. Special mention should be made of its commitment to and participation in the InnoEnergy initiative, which has a mission entrusted to it by the European Institute of Innovation and Technology (EIT) of taking technological advances in the field of energy being produced in Europe to the real market. This initiative was consolidated in 2011 with the creation of KIC InnoEnergy SE in Europe. The subsidiary KIC Iberia S.L., with headquarters in Barcelona, operates in Spain and Portugal with Europe-wide responsibilities in the field of renewable energy. Gas Natural Fenosa is a partner of both entities and is present in their highest level governing bodies.

As part of the support activities, technological surveillance and transfer provide excellent knowledge on technological advances and enables good use to be made of them. 2011 saw continuance of the company's collaboration with the Institute of Electrical and Electronics Engineers (IEEE) and with the Electric Power Research Institute (EPRI) that is focused on the areas of operation and maintenance of combined-cycle power stations, emissions control, energy efficiency, smart grids, new coal-fired power stations and CO₂ capture and storage, in addition to actions in education and training and specific support roles. Surveillance and transfer tasks were completed, with the company performing a very active role in energy technological platforms and other decision-taking forums, both in Spain and in Europe, where the technological itineraries to be followed in this decade are being designed and agreed.

The group's promotion of innovative culture was materialised through the launch of Our Energy Awards for Innovation and Ongoing Improvement, which has the aim of fostering and acknowledging the contribution of group employees offered in the shape of ideas that help to improve activities inside the company. Specific innovation spaces were also created on the renewed corporate website, on the internal Naturalnet internal network and in the new Virtual University launched by the Corporate University.

Some of the most significant projects are outlined as follows, taking into account the line they cover.



In energy storage, we may highlight the conclusion of a thermal accumulation system to improve the harnessing of solar energy captured at the Fresnel solar thermal pilot plant situated in the Seville ETSII (Higher Technical School of Industrial Engineers). The completion of the Sotavento project has also been of relevance, with the analysis of the production management strategies at a wind farm with a hydrogen-based energy storage system.

Efforts involved with CO₂ treatment in 2011 were focused on experimentation with the new pilot CO₂ capture plant using carbonation and calcination combustion cycles with biomass fluidised bed. The plant, with installed power of 300 kW, is located at the La Robla thermal power station in the Spanish province of León. Gas Natural Fenosa also continues to take part in an industrial project coordinated by EPRI, consisting of the design, construction and experimentation of two pilot plants with different CO₂ post-combustion capture technologies and storage in geological formations. The Mountaineer capture plant involved in this project completed its operation in June after injecting over 35,000 tonnes of CO₂.

As regards smart metering infrastructure and solutions based on it, special mention should be made of the 'smart' concept as a modernising and catalytic element in gas and electricity distribution systems. This is because it forms the foundation for the development of projects that enable gas distribution network customers' consumption data to be available, that incorporate energy services through the meter and that model the gas distribution network in order to improve its safety and reduce its impact on citizens and construction costs. Examples of this activity are the remote electricity and gas metering and ME3Gas projects. In addition to the goals of integrating remote gas and electricity metering, the latter project involves the development of smart gas meters that comply with Italian legal specifications and that can be incorporated in the rollout plan that affects more than 500,000 supply points that the group has in the south of Italy.

There were continuing efforts made in the field of mobility and sustainable transport, which had been initiated in preceding years for the development of advanced systems for electric vehicle charging

The development of residential solutions continued with progress in the European 3e-Houses project, which was the framework for the installation of pilot projects in two countries in 2011 in order to study the effect on consumption of applying information technology to the management of user demand. Water, sanitary hot water, heating and electricity data processing and analysis software was also developed as an interface to show users their consumption and to offer them advice on how to improve their energy use.

Also in connection with end user energy efficiency were 2011 RD&I activities related to three main aspects. First of these was the development of high energy efficiency tools and solutions in the use of illumination technology, low voltage renewable energy generation management and home automation, aimed at saving energy. An outstanding example of this, incorporating most of these technologies is the total refurbishment of the Cuzco Complex that houses various government ministries in Madrid. Second, the road to improving energy efficiency in the industrial sector was begun through the InnoEnergy Lighthouse project for industrial energy efficiency. Finally, and complementary to these, was the boost given to the development of energy service companies through Energy Management Systems Certification according to the UNE-EN ISO 50001 standard and the use of the International Performance Measurement and Verification Protocol (IPMVP) for energy efficiency.

In the field of smart networks, 2011 saw the undertaking of the Cenit Ergos project for a new smart network architecture, and a start was made to the development of different tools to support the operation of this smart network, both from perspective

of managing the actual network and its assets (Cenit Ergos project) and that of acquiring and processing a large number of measurements that will be created in the smart network (Eureka Imponet project). Relevance was also given to research in the field of distributed intelligence for data processing (7°PM HyperDNO project) and specific network automation solutions (Innpacto Redna project).

After a number of years of smart network research and development, a number of solutions are now available with a sufficient degree of maturity enabling them to be tested in real environments, the essential first step to mass implementation. Two projects were launched in 2011 of a demonstrative nature in this regard. First of these is the Scala project. It is being carried out in the distribution networks of the towns of Alcalá de Henares and Aranjuez in the Community of Madrid for the purpose of the testing new smart meters featuring Prime technology developed expressly for this type of meter. This also incorporates monitoring of the distributed generation existing in the area and installation of electric charging points. Second, the Innpacto Price project highlights the development and demonstration of interoperable solutions that are common to distribution companies in a shared geographical location, with development and demonstration focusing on four areas: distribution network monitoring and automation, substation energy management, renewable energy integration and demand management, including electric vehicles.

As far as the search for advanced power plant and major facility technologies is concerned, particularly worthy of note is the continuation of the Capwa project, which concerns new systems for capturing water generated through combustion in power stations. Also relevant are the advances made in the improvement of existing facilities through collaboration projects and technology transfer programmes.

There were continuing efforts made in the field of mobility and sustainable transport, which had been initiated in preceding years for the development of advanced systems for electric vehicle charging, standard service stations for natural gas vehicles and a hybrid gas-electricity powered urban bus, in addition to the development and demonstration of full electric mobility systems. An indication of the level of activity involved can be seen in the Rirve project for the development of an smart network of electric vehicle charging stations, through which a charging station was built in A Coruña and a pilot operation was set up in order to appraise the feasibility of using electric vehicles in the company's own fleet.

Finally, work in the field of renewable energy and energy vector in 2011 was centred on numerous different developments for the purpose of lowering the cost of producing this energy and of extending its application, wherever possible, through a wider technology portfolio. Examples of these developments include the Tesconsol InnoEnergy project, with the goal of improving existing thermal storage systems (by means of sensible heat) and developing new feasible alternatives for thermal storage systems. Another project that is worthy of mention is the InnoEnergy Neptune project with the goal of measuring wind energy resources with



Light Detection and Ranging technique (LIDAR) located in floating objects, such as buoys, and feasibility analysis and simulation of offshore wind farms. Also of notable importance is the Biogas project, developed to verify the possibility of making use of biomethane, which is becoming a new and interesting energy vector for its association with natural gas and its renewable nature, through natural gas distribution systems. Lastly, the development of new technologies related to biomass and energy crops is included, with different projects underway aimed at obtaining this energy resource at lower prices than those currently given.

Quality



Customer satisfaction through service quality is one of the basic management pillars of Gas Natural Fenosa. To this end, the company performs ongoing monitoring of perceived quality and the most critical aspects of the service to improve the experience customers have with the company. This once again enabled us to lead the way in customer satisfaction in the residential segment.

In 2011, we implemented improvements in the method of measuring in order to obtain greater and better information to manage the processes in a way that focuses on customer satisfaction. This model comprises two complementary views: firstly, a general overview of the company's customers, which represents the global satisfaction index; secondly, a process view, where we interview customers that use a specific service and who have a recent memory of their experience. The improvements implemented included moving from a semantics scale to a numerical scale, increasing the number of competitors for comparison purposes. We reviewed the most critical aspects of the services to include them in the model, as well as incorporating intangible aspects such as image, recommendation or loyalty. This gave us a unique and uniform measurement model for all products and countries. Elsewhere, the model was completed with the inclusion of all the company's customer segments: residential, SMEs and major customers.

We should point out that the overall satisfaction index (customers that state that they are satisfied or very satisfied) of Gas Natural Fenosa reached 75.8% in 2011 in Spain in the residential segment, and 64.5% in the SMEs segment. The company is the leader of its sector, as the average of our rivals revealed satisfaction levels of 62.1% and 52.4% in the residential and SMEs segments, respectively. Elsewhere, 66% of customers from the wholesale segment, also from the gas and electricity businesses, are either satisfied or very satisfied.

In 2011, Gas Natural Fenosa carried out a number of initiatives to improve service quality for the customer, to optimise results in this area. In Spain, we can highlight the fact that Gas Natural Fenosa was awarded the Customer Service Award 2012 in the Energy Suppliers category. This competition is open to all companies that wish to assess their customer service level and is based on a study with real customers with whom the three main communications channels are assessed: telephone, Internet and post office mail. Also, as part of the services offered to major customers, we can point to the training initiatives in knowledge and use of the Virtual Office, launch of a 24-hour incident report platform and a new website for wholesalers.

In Italy, a range of improvement initiatives took place in 2011, particularly at Gas Natural Vendita. Chief among these were quicker refunds to customers and reducing claims caused by late bills.

In Moldova, the company launched a new web page, which will enable the customer to interact with this method as well as offer them useful information on services, procedures, etc.

Key improvements in Colombia include management, administration and resolution of written PQR (Problems, Questions and Requests), as well as the inclusion of electricity customers into the satisfaction measurement model. We also set up the Passion for Service project, which forms part of the customer service improvement initiatives and significantly reduced the number of claims.

In Brazil, the Excellence in Customer Service project was of particular note, and included the second edition of the VIP Campaign, to bring the company and customers closer together. We should also point out that Ceg, the group subsidiary in Rio de Janeiro, was awarded the Contact Centre Excellence Award, for the second consecutive time, in the Outsourced Call Centre category. The aim of the award is to recognise the best services in customer relations in the Brazilian market. Also for the second year running, Ceg received a prize at the 11th edition of the ABT Award in the Customer Service category.

In 2011, as a lever for the strategic plan, Gas Natural Fenosa continued ongoing improvement of processes to increase operational efficiency, always focusing on customers. The company's ongoing improvements model is supported by three pillars: methodology, communication and individuals. The methodology is based on Lean Six Sigma and training was strengthened with the development of a basic online course for improvement and specific training in tools such as value stream mapping. Moreover, training was undertaken by 21 persons with a Champion profile, 21 Yellow Belts and 52 Green Belts. In the communications arena, an ongoing improvement space was created on the



Intranet to encourage the dissemination of knowledge and good practices. We also launched Our Energy Awards, featuring two categories: Ongoing Improvement and Innovation. The award aims to encourage the generation of ideas at all corporate levels that can be turned into projects for improvement, and to recognise those that resulted in the best and most extensive results. With regard to individuals, those that successfully took part in projects for improvement were recognised, and given an award by senior management in the following countries: Colombia, Mexico, Argentina and Brazil. In 2011, 49 projects commenced with the common aim of improving efficiency and efficacy of the company's different business processes.

Of particular note in Spain is the spread of the methodology to all the organisation's businesses, carrying out projects not only in the sphere of gas distribution, but also in the sphere of electricity production and distribution, and corporate areas such as Purchasing or Customer Service. Key projects

included optimisation of the start and stop cycles for the Besòs and San Roque power stations; commencement of projects to improve inspection and service life management plans of the combined-cycle power stations; definition of criteria to verify data sent to the BDI to improve their quality; integrated management of grid and substation maintenance indicators; remote control project to supervise connection works; optimisation of the QA of processes such as inspection or commissioning; visual management of coils at the A Coruña warehouse; improvements to the flow of purchases for small amounts, and optimisation of claims management at the Guarantee Office.



The company's ongoing improvements model is supported by three pillars: methodology, communication and individuals

In Italy, apart from the projects already mentioned with regard to marketing, the initiatives conducted to reduce administration times of new supply points and increase efficiency in valve maintenance processes and network surveillance are also worthy of mention.

In Brazil, the company improved processes, optimising the putting into service of new customers, management of meter reading notifications and the processes for sending debit notes. Moreover, given that suppliers form a key part of service quality, a range of different campaigns were developed, such as Adding up to Multiply, to improve efficiency, or the creation of a quality stamp promoted by Ceg together with the Union of the Electricity, Gas, Water and Sanitary Facilities Industry of Rio de Janeiro for businesses that provide services to these companies.

In Colombia, the number of repetitive anomalies and complaints was reduced, and maintenance of the measuring centres was improved. As far as customer service is concerned, this improved, not only with regard to answering letters, but also to the effectiveness of customer reconnection; while in Argentina, the payment strategy was redesigned.

In Mexico, important projects were conducted to improve the recovery of meters, development of suppliers, reduction of Gas Natural Servicios claims and the Lean project for assignment, certification and payments to suppliers.

In Guatemala, the control and processing of meter reading and billing anomalies improved and the service provision process was optimised.

Gas Natural Fenosa proposed the set up of an integrated management system to cover quality, the environment and health and safety worldwide, in all processes, businesses and countries. This involved designing a master plan to achieve this goal during 2011 and 2012. In 2011, it saw planning move forward by integrating management criteria and setting up common tools such as the Regulations Browser, which enables the entire company to access internal documentation (procedures, regulations, etc.) and external documentation (UNE, ISO standards, etc.); or the NorMA tool, which provides access to all mandatory legal requirements in the spheres of quality, industrial safety, the environment, prevention of risks and civil protection; or Enablon, which facilitates the integrated management of targets.

In 2011, all certifications for the quality and environmental systems certified in accordance with the UNE-EN ISO 9001 and ISO 14001 standards in previous years, were renewed after the pertinent audits. In Spain, certification was extended to include OHSAS 18001 in the company's core businesses. Companies like Gas Natural SUR and the combined-cycle power plant in Durango (Mexico) were also included in the integrated management system. In Italy, we achieved certification of the integrated system for distribution processes.

In Brazil, Panama and Argentina, Gas Natural Fenosa maintained the substantiation of its respective laboratories in accordance with the ISO 17025 standard. In Nicaragua, works took place to set up the said certification in 2012.

By the same token, in Spain, Gas Natural Fenosa renewed the Madrid Excelente brand, by exceeding the requirements of excellence in management to obtain this.



We should point out that Gas Natural Fenosa belongs to the Spanish Association for Quality (AEC), where it actively takes part both on the Energy Industries Committee (CIE) as well as the Lean Six Sigma Committee and the CERPER Certification Committee, with which it organised the CERPER Forum for the fourth year running. Representatives of the company also form part of the Governing Board of Aenor, of the Governing Committee of Club Excelencia en la Gestión and the Executive Committee of Fundibeq: Latin American Quality Foundation.

Commitment to Society

The company develops initiatives geared towards promoting education, cultural diversity and inclusion of the most underprivileged groups



Gas Natural Fenosa is committed to the societies in which it operates, where it generates value through its condition as an energy company and through social investment.

The challenge facing companies in the energy sector does not only consist of satisfying growing demand for energy in a developing world, but also doing so in a way that is ever cleaner, safer and more reliable. Supplying energy according to sustainability, efficiency and safety criteria is Gas Natural Fenosa's main contribution in the quest for a balanced development that takes into account economic, social and environmental aspects.

Gas Natural Fenosa applies a global, strategic focus to its social investments, allocating resources to actions that strengthen the company's activity and provide structural improvements to the communities of which it forms a part.

Likewise, the company, within the framework of the UN Global Compact, develops initiatives geared towards promoting education, cultural diversity and inclusion of the most underprivileged groups.

Energy access programmes

Energy drives prosperity and there is no development in its absence. Gas Natural Fenosa operates in countries where there is often a lack of suitable infrastructure to satisfy the energy needs of local inhabitants. In those countries, there are certain geographical areas in which the energy cover does not reach all the population. Accordingly, the company works actively to serve all the individuals, families and organisations located in areas for which it has been awarded a distribution or service licence.

To adapt its operations to specific needs of low-income individuals in some countries and areas in which the company operates, Gas Natural Fenosa has several schemes to cater to the so-called underprivileged neighbourhoods. These neighbourhoods are characterised by specific socioeconomic conditions that make both the distribution of gas or electricity as well as management of the commercial cycle difficult, leading to problems in gaining access to energy and a high rate of payment default.

In Colombia, the company Energía Social, whose activity began in 2004, is responsible for the commercial management of those neighbourhoods without standardised electricity infrastructures. The infrastructure belongs to the neighbourhood, level of non-payment is high and the electricity supply customer is the neighbourhood itself. This means we have to offer new ways of measuring and consuming, given that individualised billing is not possible. In this context, Energía Social has developed a specific community billing system for these customers and manages the Social Energy Fund (FOES), a neighbourhood subsidy in the form of a discount on the bill.

Moreover, Energía Social plays an important educational role in the efficient and safe use of energy, and generates jobs in these communities through the collectors, who are paid for receiving payment and for providing customer service. Energía Social also performs an essential catalyst role in standardising these neighbourhoods, by encouraging their inclusion in the Electricity Standardisation Programme (PRONE).

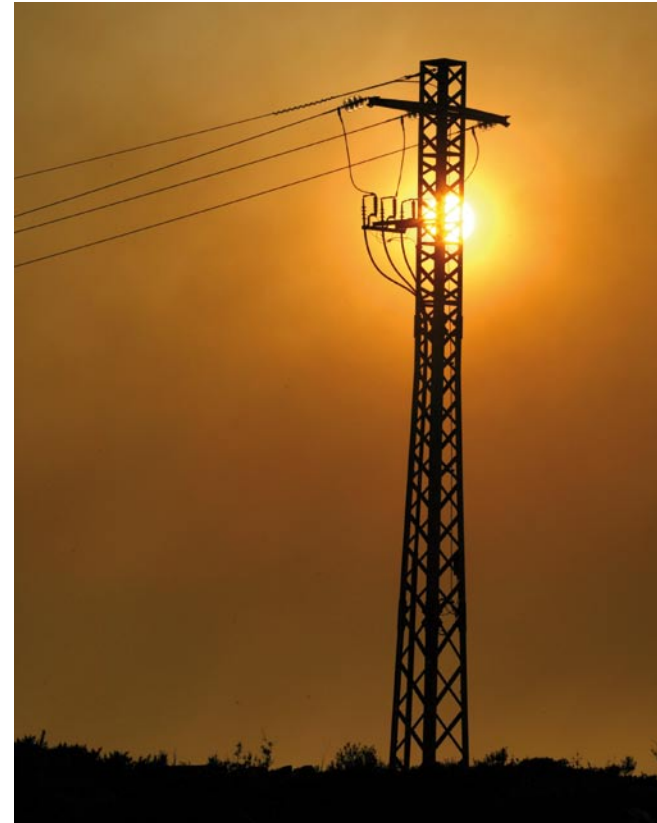
In collaboration with the Colombian government, a total of 21,707 families benefited through PRONE in 2011. Investment totalled more than 20 million euros.

Once they have standardised facilities, the neighbourhoods are then considered special zones because, although they have better facilities, they continue to be affected by social circumstances that require a different kind of management. The company's activity in the special areas benefited 23,202 families and an amount close to 9 million euros was invested in projects to improve the reliability and safety of services in electricity lines and substations.

In Nicaragua, a similar reality is taking place in the so-called informal settlements. The human groups that spontaneously form inside urban areas generate an uneven distribution of urban space and cause a shortfall of basic services. Together with the government, an inventory was drawn up to identify those zones considered settlements.

In Nicaragua, together with the Ministry of Energy and Mines, in 2011 Gas Natural Fenosa worked on standardising five settlements, which affected a total of 3,800 customers that had illegal connections. In addition, rules were established for execution of the National Sustainable Electrification and Renewable Energies Plan (PNESER). This scheme, driven by the distributor together with the government, aims to increase the electricity service coverage in rural areas where there are no electricity grids and in those illegally connected settlements. The programme will be rolled out from 2012 and is expected to last four years. Almost one and a half million people will benefit from this.

In Argentina, in 2011 the company continued to develop the model used to extend the gas network to impoverished neighbourhoods. Together with the Pro-Vivienda Social Foundation (FPVS), the gas network continued to extend in the neighbourhood of Cuartel V, Stage II. Over 2012 and 2013, more than 60 km of the gas network will be built, which will benefit over 4,000 families.





A company committed to communities

Gas Natural Fenosa envisages the social and environmental impacts or those that affect human rights, and which could occur as a consequence of its projects and investments.

In compliance with the provisions laid down in the Human Rights Policy of Gas Natural Fenosa, approved in 2011, the company will gradually implement a social impact assessment methodology and assess relationships with communities in the investment and divestiture projects it carries out.

In this regard, the company analyses the impact of its activity on some other projects in which it takes part. One of the major projects is the Torito hydroelectric project in Costa Rica. The direct area of influence of the project encompasses 11 neighbouring communities and a total of 68,000 individuals are directly or indirectly affected by the project. Before building the power plant, the company is performing fieldwork to analyse what actions have to be carried out in the communities. There are three strategic vectors: jobs, mending roads and making contributions to social, educational and health infrastructures. Before commencing construction work, an action plan will be drawn up that considers the social compensation measures to be put in place in the communities during the plant construction and operation period.

Strategic principles of social action

Gas Natural Fenosa believes that social investment has to address social problems identified with those countries in which it operates and, simultaneously, to be consistent with the company's activity.

In accordance with these principles, in 2011 the company created the Latin America Integrated Operational Centre for Managing Social Action Projects, a centre of operational excellence which has the following objectives:

- Designing model programmes, which are applicable in all Latin American countries, adapted to the culture, needs and strategic objectives of each subsidiary.
- Enhancing the reputation and recognition of the Gas Natural Fenosa brand in Latin America, by means of applying social action programmes.
- Being identified as synonymous with good corporate responsibility practices in Latin America.
- Promoting solutions to be applied regionally to the needs detected.
- Designing indicators which can help to measure the efficacy of the social action programmes and sponsorship and patronage initiatives.

Gas Natural Fenosa's social action is built around three model programmes, within the framework of which the company's social action projects in Latin America are carried out. The company plans to allocate approximately 80% of

the estimated social investment funds to these programmes. The three defined programmes are as follows:

- **Value for Suppliers:** technical and business training projects for suppliers, self-employed workers and micro-companies involved with the gas and electricity sector. Its objective is for them to be integrated into the company's value chain. It has two versions, one for technical training and the other for business training.
- **Responsible Use:** projects which are intended to promote safe and efficient use of energy by customers and society in general. It has one version designed for children and another for adults.
- **Staff Families:** projects which are intended to promote educational improvement and entry in the job market of children and relatives of the company's employees.

The company carries out other social action initiatives, adapted to the socioeconomic reality of each country, intended to promote sustainable development, reduce social inequalities and respond to specific needs.

One of the projects developed is "Impulse for your Business", a technical and business training programme for suppliers carried out in Mexico since 2008. In 2011, the programme began to offer training to collaborating companies in the internal processes which enabled them to grow. As part of this programme, 579 gas fitters were certified by the Mexican Natural Gas Association in 2011.



Educational initiatives

Education activities for young people are still one of Gas Natural Fenosa's main lines of activity within the framework of its commitment towards society. Particularly with regard to the good use of energy and sustainable development. In 2011, we may highlight the conferences given as part of the programme titled "Natural Gas and the Environment", which were attended by a total of 96,109 Spanish students. For its part, the online activity "Natural Gas, the 21st Century Energy" involved the participation of 815 school groups.

In Spain, the company continued to cooperate with the Príncipe de Girona Foundation and the Carolina Foundation, and renewed its participation with Esade via the Vicens Vives Leadership and Social Commitment Programme.

In Moldova, the company continued to collaborate with the Journalism and Communication Science Department in holding the "Creanga de Aur" annual awards.

In Latin America several projects were developed. In Latin America, we should highlight the support for the Empresarios por la Educación Foundation in Colombia and collaboration with the Maloka Interactive Centre, which focuses on creating learning areas for children in disadvantaged areas. In Panama, the group carried out collaborations with the Ministry of Education and the Parents' Association of Colegio San Agustín. And finally in Brazil, the company supported the Cidade Viva Institute in holding the Rio Socio Cultural Award and Riosolidário-Obra social do Rio de Janeiro.

Since it began, the Solidarity Day Association has collected over 3 million euros.



Social action focused on underprivileged groups

Gas Natural Fenosa drives and supports projects that help reduce social inequality and integrate the most vulnerable social groups.

In Spain, the company cooperates actively with humanitarian foundations. The Spanish Food Bank Federation (FESBAL), an institution which coordinates the activities of 50 food banks currently existing in Spain, was chosen to receive Gas Natural Fenosa's annual Christmas card donation.

In Moldova, the company cooperates with the East Europe Foundation in starting up social projects, and certain projects of the American Chamber of Commerce, where we may highlight the English school for visually impaired youngsters.

In Latin America, Gas Natural Fenosa cooperates with the Gregorio Mendel Civil Association. In Mexico, the company cooperated with La Bolsa de Vida, an initiative promoted by the Civil Protection Department of the Federal District and geared towards survival in earthquake situations. The company also continues to cooperate with the Mexican Red Cross.

Promotion of health and research

Gas Natural Fenosa supports programmes that promote the conservation and refurbishment of cultural heritage, improving the quality of people's lives, respect for the natural environment and the creation of new, more sustainable action models.

In Spain, Gas Natural Fenosa continued to cooperate with the Andalusia Technology Corporation (CTA), as one of its founding partners. This corporation manages the Advanced Technology Renewable Energies Centre (CTAER). The company also continued to support the Higher Council for Scientific Research (CSIC) through the Gas Natural Fenosa Chair in Biodiversity Conservation.

Gas Natural Fenosa also supports research aimed at improving the quality of life of people with diseases and their relatives. In 2011, its collaboration with the Down Syndrome Foundation led to the development of tools to allow those suffering from the syndrome to live a more independent life. Likewise, the support given to the ALEPH-TEA Association helped improve the quality of life of people affected by development disorders and problems related to autism, as well as those of their relatives.

In 2006, Gas Natural Fenosa took part in the incorporation of the ProCNIC Foundation, which carries out research on cardiovascular diseases, the leading cause of death worldwide. The company will stand by its commitment to cooperating with this organisation to 2020.

In Moldova, Gas Natural Fenosa cooperated with the Technical University of Moldova in setting up a laboratory for the advanced study of electrical distribution installations.

In Argentina, the company collaborated with the Natalí Flexer Foundation to help children suffering from cancer. In

Panama, Gas Natural Fenosa supported the National Ombudsman with the delivery of medications, and in Colombia, it cooperates with the Cardioinfantil Foundation to provide heart operations for economically disadvantaged children. Finally, in Nicaragua, the company continued to support the Teletón Organisation and the Pro Niños Quemados Association of Nicaragua, which provides medical care and free rehabilitation to children who have suffered burns.

Corporate volunteers and employee participation

The launch of initiatives that put the company's commitment to the societies and communities of which it forms a part into practice is largely possible thanks to the efforts made by its employees.

One of the actions Gas Natural Fenosa carries out with its employees' participation is the Solidarity Day. Through this initiative, created and managed by employees, participants donate a one-day fraction of their annual salary to social commitment programmes in the countries in which Gas Natural Fenosa operates. For the Solidarity Day event, Gas Natural Fenosa also donates an amount equal to the amount donated by employees and assumes all management costs, so that the total amount raised can be used for the chosen annual project.

The Solidarity Day Association began in 1997 and has successfully involved almost 2,000 people worldwide. It has collected over three million euros, which have been used to promote education and training for children and young people in the most disadvantaged geographical areas in which the company operates. Since it was created, projects have been carried out in Kenya, Bolivia, the Philippines,

Mozambique, Dominican Republic, Moldova, Guatemala, Nicaragua, Mexico, Colombia, Panama and Argentina. In 2011, it collected over 376,000 euros, which shall be used to execute two projects in Brazil.

Likewise, during 2011, the company continued to execute the projects carried out through Solidarity Day in previous years. This is the case of the Natural Energy, Exponential Growth project, which was launched in Argentina in 2010 to provide funds for the university education of 12 young students, nine for engineering and the other three for different degrees. At the end of the first year, 11 students had obtained satisfactory results.

Meanwhile, during that same year, 11 of the students who participated in the Promotion of Young Leaders in the Rural Environment project, which is the provision of 18 scholarships in order to contribute to local development in rural areas, continued their studies, which they combine with work experience on farms and in agricultural enterprises.

Likewise, the Conalep Scholarship-Solidarity Day project, launched in Mexico in 2009, consists of funding the technical education of 175 young students. It also provides additional assistance for school supplies, transportation and living expenses. Over the past year, 35 students who form part of the first group to complete the programme continued with their studies successfully.

Promotion of music, theatre and films

As in previous years, Gas Natural Fenosa sponsored musical seasons in various Spanish towns and cities. Particularly worthy of note are the collaboration with the Gran Teatre del Liceu of Barcelona, Teatro Real in Madrid and the Maestranza Theatre in Seville. The company also helped to sponsor the Granada International Festival of Music and Dance, and the Porta Ferrada International Festival (Girona). Also in 2011, as part of its sponsorships programme, the company took part in the Castell de Peralada International Music Festival and the exhibition of the 25th Anniversary of the Festival.

Furthermore, Gas Natural Fenosa continued its promotion of film culture with the sponsorship of 32 Cinesa 3-D cinemas, in collaboration with the Sitges Film Festival, support for the 15th Cartagena International Film Festival and the 2011 Malaga Free Film Festival.

In Italy, Gas Natural Fenosa cooperated with the activities carried out by the Lirico Sinfónica Petruzzelli e Teatri di Bar Foundation.

Likewise, in Latin America, we may highlight the support given to the Grants Fund of the Collegium Musicum and the concert cycles of the Spanish Chamber of Commerce in Argentina. In Colombia, the company cooperated with the Teatro Nacional Foundation and the Armonía Foundation in staging the 21st Ruitoqueño Colombian Music Festival. In Nicaragua, Gas Natural Fenosa collaborated with the National Artists Association in disseminating and organising its activities, while in Brazil, it took part in the Vale do café Festival 2011 and with the 4th International Paraty Cinema Festival.

Fostering cultural enrichment

An important part of the company's cultural investment is carried out through the Gas Natural Fenosa Contemporary Art Museum, an exhibition area in A Coruña which has been open for over 17 years. The museum puts on exhibitions and drama, and carries out educational and leisure activities. In 2011, it received over 37,721 visitors, which represented 2.48% increase over the previous year and it welcomed 7,196 students from 77 schools who took part in the activities for the dissemination of contemporary art organised by the museum. The museum website received 154,428 hits.

The museum not only engages in art-related activities, but also takes part in activities to promote healthy leisure and to favour the social integration of people with any form of disability. In 2011, these initiatives were carried out in 11 centres in A Coruña, helping 2,719 beneficiaries. The museum also presented two exhibitions with educational activity in Barcelona, Valencia and Almería, with a total of 3,938 visitors.

Gas Natural Fenosa collaborates and sponsors prizes awarded to foster and promote new ideas and knowledge. Noteworthy are the Duran Farell Prize of the Technical University of Catalonia (UPC) and the Prizes of the Promotion of Arts and Design Foundation (FAD), which are considered to be the most prestigious awards in Spain for graphic and industrial design, architecture, crafts and fashion.

More over, the company supports other cultural institutions, such as the National Art Museum of Catalonia (MNAC), the Contemporary Art Museum of Barcelona (MACBA), the Valladolid Science Museum and the Thyssen-Bornemisza Foundation, an organisation with which it has an agreement for improving its energy installations.

Gas Natural Fenosa also invested in the creation of knowledge in Latin America. Particularly important is the support given to the Hay Festival Foundation in Colombia, and the Association of Friends of National Museum of Colombia.

Institutional commitment

Gas Natural Fenosa is an active member of prestigious national and international sectorial and business institutions, in which it participates with its experience, know-how and resources.

These include the International Chamber of Commerce, The Conference Board and the business federations for the gas and electricity sectors, UNESA and SEDIGAS, respectively. The company also plays an active role in the Spanish Energy Club, the World Energy Council, Eurogas, the International Gas Union, the Technical Association of the European Natural Gas Industry, the Mediterranean Energy Observatory (OME) and the Florence School of Regulation. Likewise, Gas Natural Fenosa is a member of CEOE and of the Catalan employers' association Foment del Treball Nacional.

In the field of corporate responsibility, the company is a member of Forética, an ethical management association, and of the Spanish Association for the UN Global Compact, which promotes ten principles on human rights, labour rights, environmental improvement and the fight against corruption.

In 2011, Gas Natural Fenosa took part in setting up the Energy and Environmental Sustainability Foundation, a centre for the research and analysis of economic, environmental and social matters relating to energy.

The company also became a part of the Corporate Excellence-Centre for Reputation Leadership, a think tank dedicated to promoting brand management and corporate reputation as a strategic value for business excellence.

Sponsorship and social action

	2011	2010
No. of activities	439	388

Motivation for initiatives (%)(*)

	2011	2010
Social investment	68.3	63.7
Specific contribution	24.7	31.1
Business-related initiatives	7.0	5.2

(*) London Benchmarking Group methodology (LBG).

Area of action (%)(*)

	2011	2010
Humanitarian assistance	1.2	0.3
Health	1.3	3.8
Education and youth	2.8	3.8
Economic development	51.9	42.0
Social welfare	6.0	10.1
The environment	5.7	11.4
Art and culture	29.3	26.9
Sports	1.2	1.2
Research	0.6	0.5

(*) London Benchmarking Group methodology (LBG).

Total participation of students in the "Natural Gas and the Environment" educational programme (Spain)

	2011	2010
No. of students	96,109	100,059



Financial-economic Management



2011 saw continuance of the ongoing improvement project for the economic processes provided centrally from the European Financial-Economic Shared Services Centre and from the different Economic-Financial Services Centres in Latin America, to provide a simplified and more uniform process and thus improve efficiency. Of particular note this year was the unification, in Spain, of the e-billing and invoice digitalisation platforms, which means that 75% of all suppliers' invoices are now available in electronic format.

Over the year, different companies were integrated into the Economic-Financial IT System and the European Economic-Financial Shared Services Centre. These companies include renewable energy utility companies awarded contracts by Eufer once collaboration with another partner had finalised, and those recently acquired, which enabled the economic-financial management of these companies to be improved as well as optimising costs.

Throughout the year, business restructuring operations continued, for the purpose of simplifying and adapting the corporate structure of Gas Natural Fenosa to the businesses. More than 25 companies were removed, and their business was basically transferred to other existing companies that performed the same activity. Of particular note were the renewable energies subgroup merger actions, which were designed to enable them to apply the tax system provided in Chapter VIII of Title VII of Royal Legislative Decree 4/2004 of 5 March.

In the sphere of Internal Control, in 2011 the new Internal Financial Reporting Control System (SCIIF) was put in place, in accordance with the recommendations and good practices laid down by the National Securities Market Commission (CNMV). This required approval of the group's general regulations that support the aforementioned control model, as well as the documentation that lays down the methodology applied (scope matrix, risk matrix, control activities matrix and interrelations map), along with descriptions of the critical processes identified, identification of their financial reporting risks and associated control activities.

In the last months of 2011, the procedure to assess SCIIF controls through internal certification was conducted, and certification of 3,085 control activities was obtained, associated to 142 critical processes identified. This process involved a total of 151 corporate or business units, 79 in Spain and 72 in the international arena.

2011 also witnessed the updating of the Gas Natural Fenosa Accounting Plan, incorporating changes in the applicable EU-IFRS regulations and the accounting adaptation needs to all businesses, ensuring just a single accounting plan within the group and extending this to local accounting plans.

In the area of Taxation, 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 this code, Gas Natural Fenosa effectively complied with the content of this code and, more specifically, at the meeting held on 27 January 2012 the Board of Directors was notified about the tax policies adhered to by the group in 2011.

Within the sphere of the municipal tax agreement policy, in 2011 the collaboration agreements governing management of local taxes was extended to a range of councils, and there is now total of 284 municipalities. This will enable us to continue to reduce the administrative burden and improve efficiency in both management and offsetting of these taxes.

By the same token, in the Large Businesses Forum, created by the Spanish Tax Authorities, collaboration continued both with the tax authorities as well as the Ministry of Finance through the commission to reduce the indirect tax burden and, more specifically, in adaptation to the current regulatory framework of the gas and electricity sector, the Excise on Hydrocarbons and Electricity.

Also in 2011, Gas Natural Fenosa continued with its policy to diversify the group's sources of finance, avoiding bank intervention through the issue of debt on the money markets and an appeal to institutional and multilateral banking.

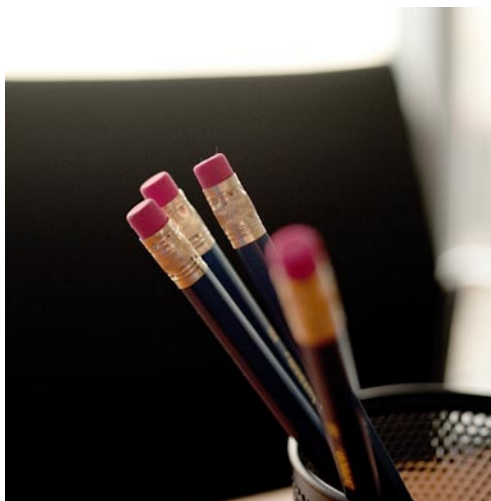
In Spain, Gas Natural Fenosa increased its EMTN scheme up to 12 billion euros. The scheme was used to carry out two note issues at six and eight years for an overall amount of 1.1 billion euros. A long-term loan was signed with the European Investment Bank (EIB) in December 2011 for 350 million euros. This loan forms part of an approved ceiling of 500 million euros, the remaining amount of which will be formalised in the first quarter of 2012. Moreover, active steps were taken to extend the term of the bilateral credit facilities with maturity at one year, renewing most of these to a term of three years.

With regard to funding group companies outside Spain, Gas Natural Fenosa increased its presence in the international money markets through the first issue of stock market certificates (bonds) in Mexico, through the subsidiary company Gas Natural México, for 4 billion pesos over four and seven years, as well as consolidating its position in Panama with a new issue of Negotiable Securities for 30 million dollars. In Mexico, the company also completed the refinancing process

of all its debt by formalising a club deal of 2.5 billion pesos with the country's main financial institutions. The depth of the financial markets in Latin America enabled the long-term debt refinancing process to continue under extremely competitive conditions. Also key on the international stage was the formalisation of borrowing drawdowns and transactions with the International Finance Corporation (IFC), part of the World Bank, in Moldova; the Banco Centroamericano de Integración Económica (BCIE) in Nicaragua, and the Brazilian Development Bank, Banco Nacional de Desenvolvimento Econômico e Social (BNDES).

In addition, with the debt markets in a state of tension, priority was given to managing liquidity in order to strengthen the financial position, both from the standpoint of availability as well as optimising funds targeted at hedging against working capital, with specific actions in the operations fund, both locally and internationally.

Furthermore, the process to set up the corporate SAP module for administration of financial operations and transfer of this to the economic-financial information systems was successfully carried out at subsidiaries of Gas Natural Fenosa in Mexico and Colombia. All this made it possible to improve and automate processes for obtaining management information about Gas Natural Fenosa's debts in an integrated environment.



Active steps were taken to extend the term of the bilateral credit facilities with maturity at one year, renewing most of these to a term of three years

With regard to cash management, in 2011 the centralised management of funds (for euro and dollars zones) was optimised, providing the company with liquidity and streamlining the banking structure. We should point out that during the same year all businesses and countries applied the corporate policy on exchange risk management, thus minimising exchange differences of Gas Natural Fenosa.

Elsewhere, 2011 was also an important year in the evolution of the renewables division where, *inter alia*, the Eufer split and a range of acquisitions concluded. This involved tight financial management to remove existing financial restrictions to finalise these business operations. In total, there was incorporation of over 30 companies that required simplification and uniformity of their financial products (funding, guarantees and cash management) to ensure proper internal management as part of the Gas Natural Fenosa's policies.

There was significant progress in 2011 in obtaining profits related to market risk management in the short and long-term. In the short-term, there was progress in designing risk limits of the financial position and the net profit. This required determining limits on the volatility of interest rates and a credit spread, to ensure the financial function was particularly efficient. In the long-term, there was progress in understanding how the market risk has an effect on the company's value.

With regard to credit risk, we can highlight the drive to bring in regulations targeted at ensuring appropriate internalisation of the credit exposure in granting trade financing. This required a procedure to be formalised that implements the General Risk Standard, systematising calculation of returns adapted to the risk in multi-year projects with the support of finance tools, simultaneously ensuring that this was in line with the General Investment Standard concerning levels of approval.

Moreover, the Credit Risk Admission System was successfully set up, enabling the credit quality of new contracts and renovations of these sales portfolio to be assessed in an automated way.

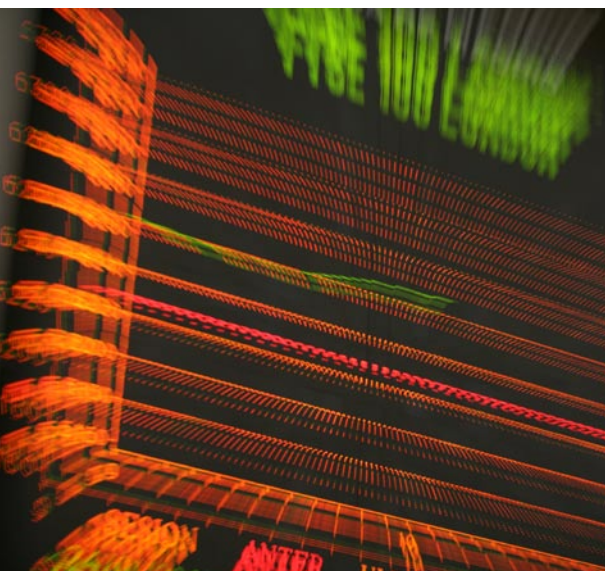
In the insurable operational risk sphere, we can point to the impetus to bring in regulations by issuing a procedure to manage the operational exposure. The procedure defines the exposure limit of Gas Natural Fenosa expressed in terms of the overall cost of the risk, as well as exposure to the operational risk stemming from the exploitation of assets and contracts, which can be mitigated by contracting hedges in the insurance market. Similarly, it also explains what to do in the event of a claim, from identification to payment in those cases in which it is subject to a hedge by the insurance market.

The project to set up a single and integrated tool for the management and monitoring of Gas Natural Fenosa's planning processes was launched in 2011, as part of management control. Having determined the requirements and necessary functionality, SAP BPC was chosen as the tool, and will start to be put in place during 2012.

In harmony with the policy implemented by other national and international companies, in 2011 Gas Natural SDG, S.A. provided shareholders with an alternative to a supplementary dividend. This, without in any way restricting their possibility of receiving all of their annual remuneration in cash if they so wish, enables them to receive company shares with the appropriate tax regulations of the shares released.

To put this system into practice, the Ordinary General Meeting of Shareholders of Gas Natural SDG, S.A. held on 14 April 2011, approved a paid-up capital increase, along with the mechanism through which the company accepted an irrevocable commitment to purchase, at a fixed price, the free allotment rights corresponding to the aforementioned increase of share capital. This enabled those shareholders who so wished to sell their rights and receive a cash amount equivalent to the sum of the 2010 supplementary dividend.

The trading period of free allotment rights ended on 14 June 2011, with the result that owners of 96.39% of company shares chose to receive new shares, and the remaining 3.61% accepted the company's irrevocable undertaking to purchase the rights. The definitive number of ordinary shares, with an individual face value of one euro, issued in the share capital increase, totalled 31,731,588 shares. The share capital increase was filed with the Mercantile Register on



23 June 2011. The shares representing the increase were accepted for trading on the Stock Exchange on 29 June 2011.

In addition, on 14 June 2011, Gas Natural Fenosa and the Algerian company Sonatrach signed a set of agreements that enabled them to resolve all of the procedures in progress regarding the price applicable to the gas supply contracts and to lay down the basis for future collaboration between both companies and their respective groups.

The end of the price conflict meant that both companies could also analyse opportunities for collaboration in a range of areas, including the acquisition by Sonatrach of a minority stake in Gas Natural Fenosa carried out in August 2011, and enabled Gas Natural Fenosa to take part in a range of Sonatrach projects and the joint development of other business opportunities.

In 2011, Gas Natural Fenosa continued its activity with analysts and investors, showing off the company to its best advantage and updating its assessment models.

Coinciding with publication of the third quarter figures, a road show took place in November, headed by the CEO together with the CFO, with meetings held in Madrid, Barcelona, London and the main financial hubs of the USA.

The company developed different channels targeted at providing uniform information to institutional and minority investors in accordance with the principles of equal treatment and simultaneous diffusion. This responded to the commitment of Gas Natural Fenosa, in its corporate responsibility policy, to pay special attention to minority shareholders.

Finally, Gas Natural Fenosa continued its communication programme with analysts and investors, strengthening and providing more transparent economic-financial information to enable them to monitor the company's business project. In 2011, representatives from the management team and the Investor Relations Unit held a total of 383 meetings with institutional investors, both with regard to fixed income as well as equity, in the leading financial locations of Europe and North America.

Gas Natural Fenosa continued its communication programme with analysts and investors, strengthening and providing more transparent economic-financial information to enable them to monitor the company's business project

Internal Audit



Gas Natural Fenosa carries out internal audit activities as a means of independent and objective assessment. The Internal Audit Area reports in turn to the Audit and Control Committee, the Chairman and the Chief Executive Officer of Gas Natural SDG.

It is responsible for guaranteeing the supervision and continuous assessment of the effectiveness of the Internal Control System (including the Internal Financial Reporting Control System, SCIIF) in every area of Gas Natural Fenosa, providing a methodical and rigorous 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 company's top-tier management, control and corporate governance.

In accordance with the terms recommended in the COSO Report (Committee of Sponsoring Organisations of the Treadway Commission), the Internal Control System in Gas Natural Fenosa was established as a procedure to be carried

out by the Board of Directors, top-tier management and the remainder of the organisation personnel, for the purpose of providing a reasonable degree of confidence in achieving objectives in the following sectors or categories:

- Effectiveness and efficiency in operations.
- Reliability of financial information.
- Compliance with applicable laws and regulations.

The Strategic Audit Plan (with broader time frame of five years) and the Annual Internal Audit Plans were mainly based on the group's Strategic Plan, the risk areas included in the group's Corporate Risk Map, assessment of the operational risks in each process (Operational Risk Map), the results of previous years' audits and the proposals from the Audit and Control Committee and from top-tier management.

The Internal Audit Area established a methodology for the assessment of operational risks in keeping with best corporate governance practices and based on the conceptual framework of the COSO Report, and on the basis of the types of risks defined in the Corporate Risk Map of Gas Natural Fenosa.

In accordance with the said methodology, the operational risks associated with the processes are prioritised by assessing their incidence, 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. The Annual Corporate Governance Report sets out the methodology for the identification and control of the group's risks.

More specifically and with regard to the SCIIF, the Internal Audit area is in charge of supervising the following:

- The proper design of the SCIIF, based on the basic principles of the model approved by the Audit and Control Committee.
- The efficacy and adaptation of control policies and procedures put in place (in full over five years).
- Review and assessment of conclusions on compliance and effectiveness of the SCIIF resulting from the internal certifications of the business and corporate units in charge of the controls (in full over five years).
- The appropriate delimitation of the consolidation perimeter.
- The proper application of accounting principles (in full over five years)

Internal audit projects are developed through the company's internal audit corporate Intranet. The aim of this IT application is to improve the effectiveness and efficiency of the



The Internal Audit Area established a methodology for the assessment of operational risks in keeping with best corporate governance practices and based on the conceptual framework of the COSO Report

development of the internal audit function in all geographic and business spheres of Gas Natural Fenosa. Furthermore, it should be pointed out that the function has been developed pursuant to International Standards for the Professional Practice of Internal Auditing, and that a number of the internal auditors are in the process of obtaining certification as Certified Internal Auditor (CIA), the only qualification recognised worldwide attesting to the excellence of the internal auditing services.

The development of the internal audit function within the group is designed to contribute to continuous improvement in the provision of auditing services, by applying policies based on the management and measurement of its quality, and in encouraging the creation of a qualified team of human resources, promoting internal rotation, training, continuous assessment and professional development within the group.

Furthermore, as a result of the integration of the Gas Natural Group and Unión Fenosa, the Internal Audit Area updated its organisational structure during 2009

and 2010 with the object of improving the contribution of internal audit to compliance with the new group's strategic objectives, of acquiring greater knowledge of businesses and processes by specialisation of the audit team and improving the efficiency and efficacy of the internal audit process.

The 2011 Internal Audit Plan for Gas Natural Fenosa was approved by the Audit and Control Committee in its meeting held on 26 January 2011.

Pursuant to the plan, during the period between 1 January 2011 and 27 January 2012 (date of drawing up of the 2011 Annual Accounts), internal audit directors took part in six meetings of the Audit and Control Committee to present the degree of execution of the Internal Audit Plan and the main conclusions, control and risk assessments and recommendations included in the internal audit reports.

In addition, these reports reported on the level of implementation by the units of the corrective measures arising from the Auditor's Reports, in particular those proposed by the Committee.

The functions of the Audit and Control Committee and its main activities during 2011 were included in the Annual Report on the Activities of the Audit and Control Committee, which is part of the documentation to be presented by the Board of Directors of Gas Natural SDG, S.A. at the General Meeting of Shareholders. It is also available on Gas Natural Fenosa website (www.gasnaturalfenosa.com).

The functions and activities performed by the Audit and Control Committee of Gas Natural SDG, S.A. and the Internal Audit area 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 Royal Legislative Decree 1/2010 of 2 July, which approves the consolidated text of the Capital Companies Act.

Likewise, the functions and activities carried out by the Internal Audit Committee and Area comply with the recommendations of good corporate governance set forth in current legislation and the Unified Code for the Good Corporate Governance of Listed Companies, dated 19 May 2006 and approved on 22 May 2006, published by the National Securities Market Commission (Conthe Code).

The year 2011 also saw the development of a project led by the Financial Area and the Internal Audit Area. The purpose of the project is to improve Gas Natural Fenosa's Internal Financial Reporting Control System (SCIIF) and its supervision by the Audit and Control Committee. It incorporates the recommendations for the SCIIF published by the National Securities Market Commission (CNMV) in June 2010, which were pending implementation or under development in the group. The aforementioned improvements are scheduled to be definitively put in place in 2012 (the 2011 Corporate Governance Report of Gas Natural SDG, S.A. provides greater detail on the Internal Control System on Financial Reporting and the model of supervision set up at Gas Natural Fenosa).

The main processes revised by the Internal Audit Area in 2011 were those concerning:

- Business processes:
 - Gas distribution: distribution network construction, start-up, reading and metering, domiciliary operations and emergencies.
 - Electricity distribution: development of medium- and low-voltage, development of high voltage, cut-off and reconnection operations.
 - Wholesale and retail commercialisation: arrears management, recruitment and contracting.
 - Generation: invoicing and payment of production cycles, operation and maintenance of assets, monitoring assets.

- Exploration and production: joint ventures in Angola and Casablanca-Montanazo.
- Energy management: gas balance sheet, electricity balance sheet and energy trading.
- Supplies: technical management of gas pipelines.
- Support processes:
 - Customer service: retail and wholesale payment, arrears management.
 - Management of information systems: customer service, management of evolutive maintenance, systems migration, wholesale sales agents and operations management.
 - Management of financial and physical resources: purchasing management and service procurement, juridical and legal management.
 - Human resources management: HR processes and service management.
 - Monitoring undertakings to improvements in process auditing.
 - Review of the group's regulatory system.
 - Review of 2010 Corporate Responsibility Report.
 - Review of the assessment and achievement of integration synergies.

What is more, given the organisational position of independence and the field of transversal action of the internal audit function, this area also led or took part in other cooperation, research or consulting projects. In this regard, the Internal Audit Area chairs the Code of Ethics Committee, which is responsible for promoting the dissemination, awareness and compliance with Gas Natural Fenosa's Code of Ethics on all levels, and for processing the communications received over the various communication channels created for all the group employees, suppliers and collaborating companies to query or report breaches of the said code. Notifications concerning fraud, auditing or faults in accounting or internal control processes are likewise sent directly to the Audit and Control Committee. ■

Gas Natural Fenosa carries out internal audit activities as a means of independent and objective assesment



economic analysis

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51 Consolidated Economic Analysis.

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Consolidated Economic Analysis



Changes to the consolidation perimeter

The main changes to the consolidation perimeter in 2011 in comparison with the previous year were as follows:

- In April 2010, the companies Madrileña Red de Gas, Madrileña Suministro Gas SUR 2010, Madrileña Suministro Gas 2010 and Madrileña Servicios Comunes were disposed of.
- In May 2010, Central de Anahuac, Central Lomas del Real, Central Vallhermoso, Central Saltillo, Electricidad Aguila de Altamira, Gasoducto del Rio and Compañía Mexicana de Gerencia y Operación were disposed of.
- In May 2011, the shares in those companies through which electricity distribution was performed in Guatemala were disposed of.
- In May 2011, the agreement for business separation and distribution of the Eufer assets was executed through an exchange of shares in different companies that own wind farms. With this operation, Gas Natural Fenosa Renovables received approximately half of the net assets of Eufer, representing over 500 MW of power installed on operating assets.
- On 30 June 2011, the company Bis Distribución de Gas, with 304,000 gas supply points in Madrid, was disposed of.
- In September 2011, the ACS Group acquired 66.66% of Energías Ambientales (EASA) and 25% of Explotaciones Eólicas Sierra de Utrera, taking a stake of 100% and 75%, respectively, which will now be consolidated using the full consolidation method.
- In December 2011, 100% of Sistemas Energéticos Alto de Seixal was acquired from Gamesa, which will be consolidated using the full consolidation method.
- In December 2011, 100% of Favellato Reti Gas (Italy) was acquired, which will be consolidated using the full consolidation method.



Analysis of results

In relation to the dispute Gas Natural Fenosa had with Sonatrach regarding the price review of the supply agreements for the gas received from Algeria through the Maghreb-Europe gas pipeline, the award that brought the arbitration proceedings to an end was notified in August 2010. The court of arbitration awarded Sonatrach the right to increase prices as from 2007. The maximum retroactive effects invoiced by Sonatrach would total 1.970 billion dollars for the period up to July 2010. The award was challenged by Gas Natural Fenosa in the Federal Court of Switzerland. Gas Natural Fenosa also applied for the opening of the price review process for said agreements to consider the significant changes that took place, as well as the current situation of the world markets and, in particular, the Spanish market, all as provided in the corresponding agreements.

In November 2010, the Federal Court of Switzerland granted a preliminary injunction with regard to the arbitration award, suspending it until said court decided on the challenge submitted by Gas Natural Fenosa.

On 14 June 2011, Gas Natural Fenosa and the Algerian company Sonatrach signed a set of agreements that enabled them to resolve all of the procedures in progress regarding the price applicable to the gas supply contracts and to lay down the basis for future collaboration between both companies and their respective groups.

Firstly, Sonatrach and Gas Natural Fenosa agreed to sort out the differences they had with regard to the price applicable to gas supply contracts for which an arbitration award was given in August 2010, to determine both the price applicable to the 2007-2009 period as well as the price applicable from 1 January 2010.

The end of the price conflict meant that both companies could also analyse opportunities for collaboration in a range of areas, including the acquisition by Sonatrach of a minority stake in Gas Natural Fenosa carried out in August 2011, and enabled Gas Natural Fenosa to take part in a range of Sonatrach projects, and the joint development of other business opportunities.

Net turnover

Until 31 December 2011, net turnover amounted to 21.076 billion euros, an increase of 7.4% in comparison with the previous year, mainly due to activity increase in Supply and Commercialisation.

Ebitda and operating profits

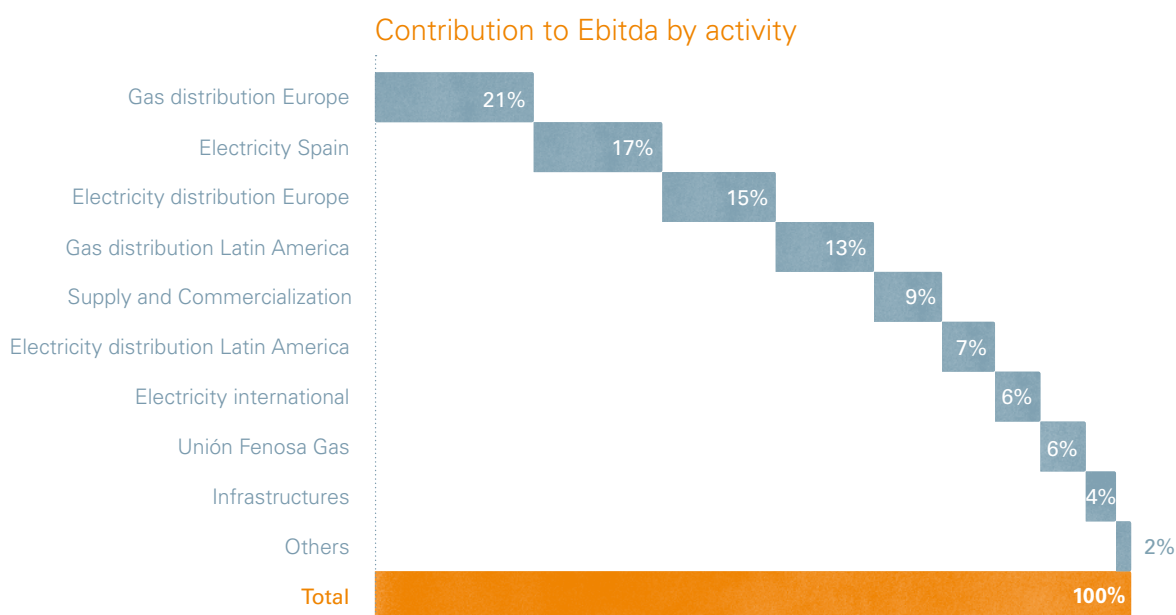
Consolidated Ebitda for 2011 totalled 4.645 billion euros, up 3.8% year-on-year, in an extremely demanding macroeconomic, energy and financial climate, thanks to the appropriate balance between the regulated and deregulated businesses in the gas and electricity markets, with growing and diversified contribution of the international market and which offset the contribution to the Ebitda of the divestiture carried out in 2010 and 2011.

Gas and electricity distribution activities in Spain (33.9%) and abroad (22.1%) accounted for a total of 56% of Gas Natural Fenosa's Ebitda.

Electricity activity in Spain accounted for 17.4% of consolidated Ebitda.

The allocations to amortisation increased by 2%, whereas the allocations to provisions decreased in 22 million euros to 216 million euros. Despite earnings from the disposal of fixed assets that were lower than the previous year, the operating profit was up 1.9% at 2.947 billion euros.

If we standardise this as a consequence of the divestiture, in 2010, which includes the sale of low pressure gas distribution assets corresponding to 507,726 supply points in Madrid, in April 2010, the sale of part of the generation assets (2,233 MW) in Mexico, in June 2010, and the sale of assets in Guatemala, in May 2011, the Ebitda would increase by 6,5%.



Financial profit/loss

The cost of net financial debt in 2011 was 849 million euros, lower than the previous year as a result of the average gross debt being somewhat lower (basically in the first half of the year) and through the remuneration obtained through holding a higher balance of cash and other cash equivalents. Both the reduction of gross debt as well as the increase of cash are the consequence of the divestiture process conducted in 2010 and 2011, as well as proceeds from the tariff deficit securitisation and the generation of cash from the company's own businesses.

Profit tax

Gas Natural Fenosa pays taxes in Spain under the fiscal consolidation system, where the fiscal group is considered as the taxpayer, and its taxable amount is determined by the aggregation of the taxable amounts corresponding to the companies in the group. The other resident companies in Spain, which do not form part of the special system, pay taxes independently and the non-resident companies pay taxes in each of the countries in which they operate, where the current corporate tax rate (or the equivalent tax) is applied to the profits for the period.

The corporate tax expenditure is recognised on the basis of the best estimate of the effective rate envisaged for the entire financial year. The effective rate for 2011 was 24.5%, versus 24.9% in 2010. The difference between the theoretical tax rate and the effective tax rate was basically due to the application of tax allowances, fundamentally through reinvestment of extraordinary profits from the transfers of assets carried out in compliance with the anti-trust regulations.

Minority interests

The main entries of this section correspond to earnings from a minority interest in Empl, to investee companies in Colombia, to gas distribution companies in Brazil and to electricity production and distribution companies in Panama.

Earnings attributed to minority interests in 2011 totalled 201 million euros, a figure that was 13 million euros below the result of the previous year, mainly due to earnings in Colombia from activities affected by the impact of the recent reform.

Financial result

(millions of euros)	2011	2010
Cost of net financial debt	(849)	(915)
Other financial expenses/income	(85)	(144)
Financial profit/loss	(934)	(1,059)

Balance sheet

Investments

The tangible and intangible assets for the year totalled 1.406 billion euros, down 8.9% on the previous year, fundamentally due to the termination of the programme for the construction of combined-cycle power plants. Elsewhere, we should

highlight the increased investments in regulated businesses, mainly gas distribution (+21.3%), which includes the purchase of secondary transportation and distribution assets from the company Distribuidora Sureuropea de Gas.

Financial investments in 2011 included the acquisition from ACS of its stakes in six wind farm companies, in order to hold a majority stake in these companies, and the acquisition from Gamesa of the Altos do Seixal wind farm, in Galicia.

Breakdown of investments by type

(millions of euros)	2011	2010	%
Tangible investment	1,230	1,394	(11.8)
Investments in intangible assets	176	149	18.1
Financial investment	108	10	–
Total investment	1,514	1,553	(2.5)

Breakdown by activity of tangible and intangible investments

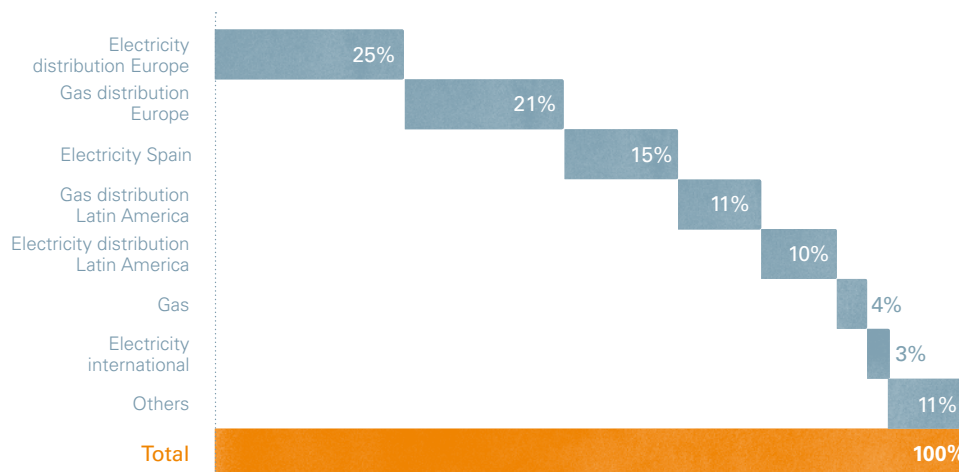
(millions of euros)	2011	2010	%
Gas distribution	445	367	21.3
Spain	260	221	17.6
Latin America	149	108	38.0
Italy	36	38	(5.3)
Electricity distribution	490	466	5.2
Spain	340	313	8.6
Latin America	133	137	(2.9)
Moldova	17	16	6.3
Electricity	258	512	(49.6)
Spain	211	361	(41.6)
International	47	151	(68.9)
Gas	62	67	(7.5)
Infrastructures	32	22	45.5
Supply and commercialisation	20	19	5.3
Unión Fenosa Gas	10	26	(61.5)
Others	151	131	15.3
Total tangible and intangible investments	1,406	1,543	(8.9)

Gas Natural Fenosa targeted 66.5% of its investments at the regulated gas and electricity distribution activities, which means that these activities contributed to the consolidated Ebitda.

In the geographic sphere, Spain continued to be the main area of investment, with 70% of consolidated investments.

In Latin America, Brazil, Mexico and Colombia continued to be the main focal points of investment in the region.

Tangible and intangible investments by activity



Debt

At 31 December 2011, net financial debt totalled 17.294 billion euros, meaning a debt ratio of 54.5%.

If the tariff deficit pending settlement (1.231 billion euros) is deducted, net debt would be 16.063 billion euros, giving a debt ratio of 52.7%.

The net debt/Ebitda and Ebitda/Cost of net financial debt ratios were 3.7x at 31 December 2011 (3.5x if we consider the net debt with the deduction of the rate deficit) and 5.5x, respectively.

Since 11 January 2011, when the Electricity Deficit Amortisation Fund (FADE) completed the opening issue of bonds, backed by the assigned rights of the electricity system, a total of five public bond issues have been carried out for an overall nominal amount of 8.5 billion euros, along with six private issues or increases of previous issues for 1.406 billion euros. The total therefore issued by FADE in 2011 was 9.906 billion euros, between two and 15 years, of which Gas Natural Fenosa received the corresponding part for an aggregate sum of 1.102 billion euros.

68.2% of the adjusted net financial debt became payable after 2015; the average life of the adjusted net debt was of 4.6 years.

70.1% of the net consolidated debt was at a fixed interest rate and the remaining 29.9% was at a floating rate. 9.1% of the financial debt matures in the short-term and the remaining 90.9% matures in the long-term.

At 31 December 2011, cash and other cash equivalents together with available bank financing totalled 7 billion euros, which gave a level of liquidity that covers maturities of more than 24 months.

In addition, the financial instruments available on the capitals market at 31 December 2011 totalled 5.963 billion euros and included the Euro Medium Term Notes programme (EMTN) for the amount of 3.950 billion euros, the Euro Commercial Paper Programme (ECP) for the amount of 734 million euros; the Commercial Promissory Notes listed on the AIAF Fixed Income Market

programme, for the amount of 932 million euros; and the Stock Market Certificates programme on the Mexican Securities Exchange and the Commercial Securities in Panama, which jointly accounted for 347 million euros.

Last January 2011, a bond issue was closed on the capital markets at six years for an amount of 600 million euros with an annual coupon of 5.625%, under the EMTN programme. In May 2011, a new bond issue was closed at eight years under the same programme for an amount of 500 million euros and an annual coupon of 5.375%.

The aggregate amount issued under the EMTN programme over the last two years totalled more than 8 billion euros with an average coupon of 4.77% and an average life of 7.1 years.

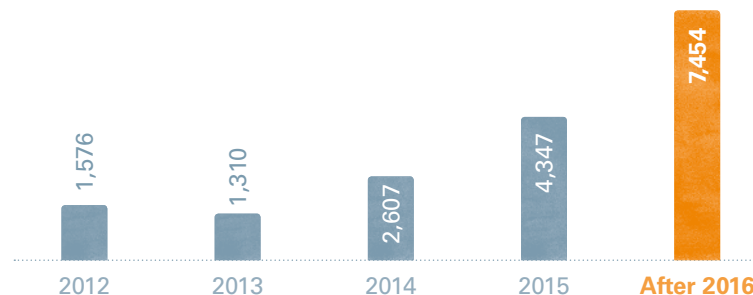
In the process of diversification of funding sources carried out over the year, Gas Natural Fenosa placed debt on new markets. Gas Natural México registered a Stock Market Certificates programme on the Mexican Securities Exchange for 10 billion Mexican pesos. Under this programme, on 20 May 2011 Gas Natural México successfully closed two issues for four and seven years, for an overall amount of 4 billion Mexican pesos. The four-year tranche was closed at a floating rate (TIIE) plus a spread of 65 basis points, while the cost of the seven-year tranche was an annual rate of 8.62%. For this issue, Gas Natural México received a local credit rating of AAA from Fitch Ratings and AA+ from Standard & Poor's (S&P).

Moreover, in May 2011, under the Commercial Securities negotiable for 50 million dollars programme, the company Edemet (Panama) placed a 30 million dollar issue on the local market at a rate of 2.9%.

In December 2011, Gas Natural Fenosa signed a financing facility with the EIB for 350 million euros over ten years (although there is authorisation for up to half a billion euros), of which only 150 million euros had been drawn down at the close of the financial year.

Consolidated Ebitda for 2011 totalled 4.645 billion euros, up 3.8% year-on-year

Maturity of the net debt (millions of euros)





Breakdown by currencies of the adjusted net financial debt at 31 December 2011 and its relative weight regarding the total:

(millones de euros)	31/12/11	2010
Euros	14,297	82.6
American dollars	1,820	10.5
Colombian pesos	430	2.5
Mexican pesos	322	1.9
Yens	235	1.4
Brazilian reals	168	1.0
Argentinian pesos	26	0.1
Others	(4)	–
Total net financial debt	17,294	100.0

In January 2012, the Electricity Deficit Amortisation Fund (FADE) placed six private issues for a cash amount of 1.363 billion euros, of which a total of 153 million euros corresponded to Gas Natural Fenosa.

On 30 January 2012, Gas Natural Fenosa finalised the new issue of bonds on the capitals market over six years for an amount of 750 million euros with an annual coupon of 5.000%. The issue rate was set at 99.413% of its nominal value. Payment for this issue was scheduled to take place on 13 February 2012.

Short and long-term credit rating of Gas Natural Fenosa

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

Net worth

The proposal for allocation of 2010 profits, approved by the General Meeting of Shareholders on 14 April 2011, was to target 324 million euros at dividends (an amount equivalent to the interim dividend for 2010, which was paid on 7 January 2011), as well as an increase of the paid-up share capital through the issue of new ordinary shares.

14 June 2011 was the last date for trading the free allotment rights corresponding to the paid-up share capital increase, which was used to instrument the method of paying the Gas Natural Fenosa shareholder for 2010. The result of this was that owners of 3.61% of the free allotment rights accepted Gas Natural Fenosa's irrevocable undertaking to purchase the rights, which entails the acquisition of 33,272,473 rights for an overall gross amount of 15 million euros. Holders of the remaining 96.39% chose to receive new shares. Therefore, the definitive number of ordinary shares, with an individual face value of one euro, issued in the share capital increase, totalled 31,731,588 shares. The share capital increase was filed with the Mercantile Register on 23 June 2011. The shares representing the increase were accepted for trading on the stock market on 29 June 2011.

By the same token, and as a continuation of the agreements signed with La Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (Sonatrach) having obtained the corresponding approval from the Algerian authorities and made the appropriate payment, the deed for the share capital increase of 38,183,600 new shares in Gas Natural SDG, owned by Sonatrach and which required payment of 515 million euros at an individual

share price of 13.4806 euros, was registered with the Mercantile Register of Barcelona.

As a consequence, on 31 December 2011, the overall number of ordinary shares totalled 991,672,139 shares, represented by book entries and with an individual face value of one euro. All of the shares issued are fully paid-up with the same voting and economic rights.

The proposal for the application of results made by the Board of Directors for approval at the General Meeting of Shareholders included the payment of a dividend of 360 million euros (equivalent to the amount paid out in dividends for 2011, made effective on 9 January 2012) and an increase in paid-up capital by means of the issuing of new ordinary shares to a maximum market value of 461 million euros.

This capital increase would offer shareholders the chance to receive ordinary shares in the company in lieu of what they would have received in July 2012 as the complementary dividend for 2011, and includes the establishment by the company of mechanisms to guarantee those shareholders so wishing to receive this amount in cash.

At 31 December 2011, the net worth of Gas Natural Fenosa was 14.441 billion euros. Of these assets, the figure of 12.792 billion euros can be attributed to Gas Natural Fenosa, with an increase of 12.4% on 31 December 2010.

At the close of 2011, according to the public information that was available, the main holdings in Gas Natural SDG's share capital were as follows:

	% holding
Criteria CaixaHolding	35.3
Repsol Group	30.0
Sonatrach	3.9

Stock Market Information



2011 was characterised by the instability of the macroeconomic setting, which led to across-the-board stock market falls. Uncertainty surrounding the capacity to consolidate growth that began in 2010, sovereign debt and the fiscal crisis in certain euro zone countries led to greater volatility and a drop in share prices.

The Ibex 35, the primary Spanish stock market index closed 2011 at 8,566.3 points and a fall of 13.1% year-on-year. It set an annual high of 11,165 and an annual low of 7,505.3, on 18 February and 13 September 2011, respectively.

In a context of generalised share losses, the Gas Natural Fenosa shares finished the year at 13.27 euros, up 15.4% with regard to the previous year, representing the sixth biggest rise on the Spanish index in 2011. The annual high of 15.00 euros was recorded on 22 July, and the annual low of 10.20 euros on 10 January.

The volume of shares traded over 2011 was 844 million shares, with a reduction of 20.6% on the previous year. Of the total number of shares traded, 99.8% corresponded to the continuous market, although 19.4% of this percentage was contracted through so-called block transactions. The remaining 0.2% was traded through special transactions. The daily average of shares traded stood at 3.3 million.

The effective volume traded amounted to 10.827 billion euros, down 18.34% on the previous year. The daily average of shares traded stood at 42 million euros.

In harmony with the policy implemented by other national and international companies, Gas Natural SDG, S.A. provided shareholders with an alternative that, without in any way restricting their possibility of receiving all of their annual remuneration in cash if they so wish, enabled them to receive company shares with the appropriate tax regulations of the shares released.

To put this system into practice, the Ordinary General Meeting of Shareholders of Gas Natural SDG, S.A., held on 14 April 2011, approved a paid-up share capital increase, along with the mechanism through which the company accepted an irrevocable commitment to purchase, at a fixed price, the free allotment rights corresponding to the aforementioned increase of paid-up share capital (the Purchase Undertaking). This enabled those shareholders who so wished to sell their rights and receive a cash amount equivalent to the sum they would have received as a supplementary dividend in 2010, which was paid during the first few days of July 2011.

Moreover, as a continuation of the agreements signed with Sonatrach to finalise the dispute on gas prices, the Algerian company acquired a 3.85% stake in Gas Natural Fenosa through a share capital increase of 38,183,600 shares, and payment of 515 million euros.

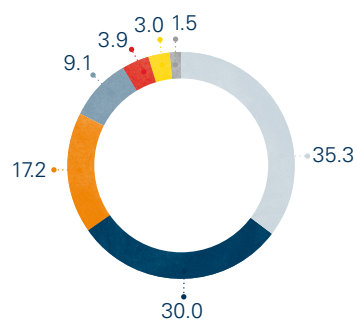
As a consequence, on 31 December 2011 the overall number of ordinary shares totalled 991,672,139 shares, represented by book entries. All of the shares issued are fully paid-up with the same voting and economic rights.

At 31 December 2011, the stock market capitalisation of Gas Natural Fenosa stood at 13.155 billion euros, moving up from fourteenth in the Ibex 35 in 2010 to seventh, with a weighting of 2.46%.

Furthermore, the shares of Gas Natural BAN, the distribution company for the group in Argentina, stood at 2.77 pesos at year-end, reporting a decrease of 13.6%. The annual high and low were 3.36 pesos and 2.50 pesos, respectively. 1.1 million shares were traded in 2011. The Merval Index of the Buenos Aires Stock Market closed the year with a loss of 31.2%.

At 31 December 2011, and taking the best available information into account, it is estimated that there are around 84,000 shareholders of Gas Natural SDG, S.A. ■

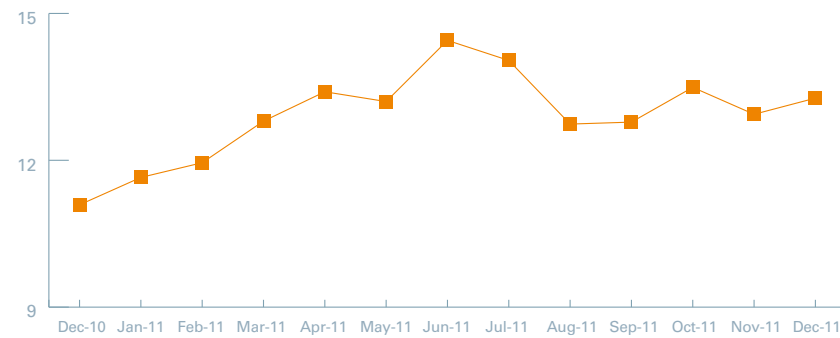
Shareholders and investors(*)



- Individual shareholders in Spain.
- Caixa d'Estalvis de Catalunya.
- Criteria CaixaHolding.
- Institutional in Spain.
- Institutional abroad.
- Repsol Group.
- Sonatrach.

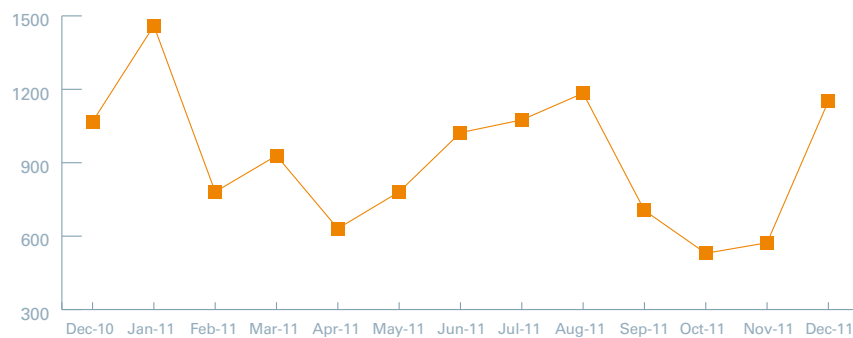
(*) At 31 December 2011.

Gas Natural Fenosa share prices



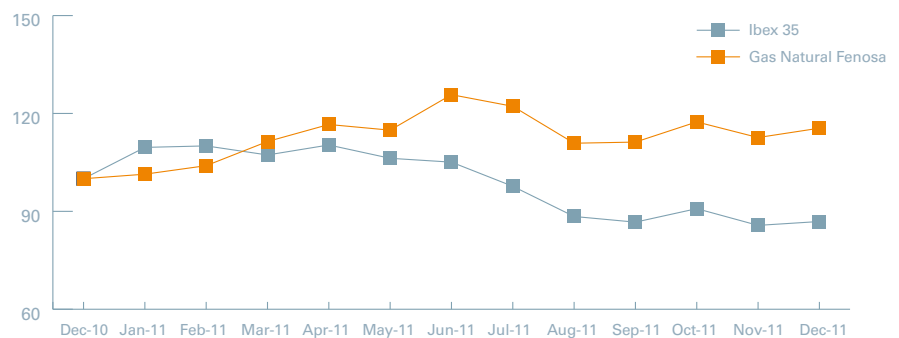
Total cash negotiation

Monthly data in millions €



Gas Natural Fenosa and Ibox 35 evolution

1 year



audit report,
consolidated annual accounts
and consolidated directors'
report of Gas Natural Fenosa

2011 **annual** report

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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 CONSOLIDATED ANNUAL ACCOUNTS

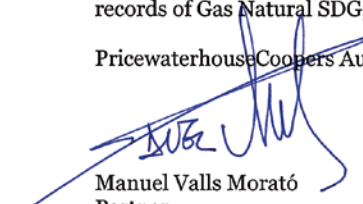
To the Shareholders of Gas Natural SDG, S.A.

We have audited the consolidated annual accounts of Gas Natural SDG, S.A. (parent Company) and its subsidiaries (the Group), consisting of the consolidated balance sheet at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated net equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As explained in Note 3.1 to the accompanying annual accounts, the Directors are responsible for the preparation of these consolidated annual accounts in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated 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 consolidated 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 consolidated annual accounts for 2011 present fairly, in all material respects, the consolidated financial position of Gas Natural SDG, S.A. and its subsidiaries at 31 December 2011, and the consolidated results of its operations and the consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

The accompanying consolidated Directors' report for 2011 contains the explanations which the Gas Natural SDG, S.A.'s Directors consider appropriate regarding the Group's situation, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated Directors' report is in agreement with that of the consolidated annual accounts for 2011. Our work as auditors is limited to checking the consolidated 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 accounting records of Gas Natural SDG, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.


Manuel Valls Morató
Partner

14 February 2012

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Consolidated Balance Sheet

(million euros)

	31.12.11	31.12.10
Assets		
Intangible assets (Note 5)	11,080	11,223
Goodwill	5,876	6,002
Other intangible assets	5,204	5,221
Property, plant and equipment (Note 6)	22,744	23,206
Investments recorded using the equity method (Note 7)	99	105
Non-current financial assets (Note 8)	1,024	694
Deferred income tax assets (Note 21)	975	957
Non-current assets	35,922	36,185
Non-current assets held for sale (Note 9)	23	707
Inventories (Note 10)	879	755
Trade and other receivables (Note 11)	5,192	4,592
Trade receivables	4,577	3,946
Other receivables	497	534
Current income tax assets	118	112
Other current financial assets (Note 8)	1,388	1,901
Cash and cash equivalents (Note 12)	3,098	1,203
Current assets	10,580	9,158
Total assets	46,502	45,343
Net equity and liabilities		
Share capital	992	922
Share premium	3,808	3,331
Reserves	6,900	6,106
Profit for the year attributed to the Equity holders of the Company	1,325	1,201
Interim dividend	(360)	(324)
Adjustments for changes in value	127	148
Hedging operations	(8)	(39)
Cumulative translation adjustments	135	187
Net equity attributable to the Company's equity holders	12,792	11,384
Minority interests	1,649	1,590
Total net equity (Note 13)	14,441	12,974
Grants (Note 14)	803	657
Non-current provisions (Note 15)	1,712	2,865
Non-current financial liabilities (Note 16)	17,539	18,176
Borrowings	17,209	17,805
Other financial liabilities	330	371
Deferred income tax liability (Note 21)	2,642	2,704
Other non-current liabilities (Note 18)	1,033	1,040
Non-current liabilities	23,729	25,442
Liabilities linked to non-current assets held for sale (Note 9)	–	350
Current provisions (Note 15)	133	127
Current financial liabilities (Note 16)	2,853	2,130
Borrowings	2,706	1,887
Other financial liabilities	147	243
Trade and other payables (Note 19)	4,671	3,658
Trade payables	3,900	3,005
Other payables	481	468
Current income tax liabilities	290	185
Other current liabilities (Note 20)	675	662
Current liabilities	8,332	6,927
Total net equity and liabilities	46,502	45,343

Notes 1 to 38 form an integral part of these Consolidated annual accounts

Consolidated Income Statement

(million euros)

	2011	2010
Sales (Note 22)	21,076	19,630
Procurements (Note 23)	(14,074)	(12,970)
Other operating income (Note 24)	263	258
Personnel cost (Note 25)	(858)	(798)
Other operating expenses (Note 26)	(2,013)	(1,912)
Depreciation and amortisation expenses (Notes 5 and 6)	(1,750)	(1,716)
Release of fixed assets grants to income and others (Note 14)	35	31
Other results (Note 27)	268	370
Operating income	2,947	2,893
Financial income	137	118
Finance expense	(1,073)	(1,165)
Variations in fair value of financial instruments	2	(6)
Net exchange gains/losses	–	(6)
Gain on sales of financial instruments	2	44
Net financial income (Note 28)	(932)	(1,015)
Profit of entities recorded by equity method (Note 7)	7	5
Income before taxes	2,022	1,883
Income tax expense (Note 21)	(496)	(468)
Net income for the year from continuing operations	1,526	1,415
Consolidated net income for the year	1,526	1,415
Attributable to		
Equity holders of the Company	1,325	1,201
Minority interests	201	214
Basic and diluted earnings per share in Euros from continuing activities attributable to the equity holders of the parent Company (Note 13)	1.39	1.30
Basic and diluted earnings per share in Euros attributable to the equity holders of the parent Company (Note 13)	1.39	1.30

Notes 1 to 38 form an integral part of these Consolidated annual accounts

Consolidated Statement of Comprehensive Income

(million euros)

	2011	2010
Consolidated income for the year	1,526	1,415
Other comprehensive income recognised directly in net equity	(146)	185
Valuation of available-for-sale financial assets	–	(20)
Cash flow hedges	(60)	(92)
Cumulate translation adjustment	(81)	310
Actuarial gains and losses and other adjustments	(46)	(45)
Tax effect	41	32
Releases to income statement	82	95
Valuation of available-for-sale financial assets	–	(4)
Cash flow hedges	103	166
Cumulate translation adjustment	9	(19)
Tax effect	(30)	(48)
Other comprehensive income for the year	(64)	280
Total comprehensive income for the year	1,462	1,695
Attributable to:		
Equity holders of the Company	1,281	1,444
Minority interests	181	251

Notes 1 to 38 form an integral part of these Consolidated annual accounts

Statement of changes in consolidated net equity

(million euros)

	Net equity attributable to the Company's equity holders						Net Equity
	Share Capital	Share premium and Reserves	Profit for the year	Adjustments for change in value	Subtotal	Minority interests	
Balance at 1.1.10	922	8,682	1,195	(118)	10,681	1,496	12,177
Total comprehensive income for the year	–	(23)	1,201	266	1,444	251	1,695
Dividends distribution	–	465	(1,195)	–	(730)	(157)	(887)
Other variations	–	(11)	–	–	(11)	–	(11)
Balance at 31.12.10	922	9,113	1,201	148	11,384	1,590	12,974
Total comprehensive income for the year	–	(23)	1,325	(21)	1,281	181	1,462
Dividends distribution	–	841	(1,201)	–	(360)	(124)	(484)
Acquisition of free allocation rights (Note 13)	–	(15)	–	–	(15)	–	(15)
Capital increase (Note 13)	70	445	–	–	515	–	515
Increase/decrease for business Combinations	–	–	–	–	–	16	16
Other variations	–	(13)	–	–	(13)	(14)	(27)
Balance at 31.12.11	992	10,348	1,325	127	12,792	1,649	14,441

Notes 1 to 38 form an integral part of these Consolidated annual accounts

Consolidated cash flow Statement

(million euros)

	2011	2010
Net income before tax	2,022	1,883
Adjustments to net income	2,510	2,857
Amortisation and depreciation of fixed assets	1,750	1,716
Other adjustments to net income	760	1,141
Changes in working capital	(1,298)	(729)
Other cash generated from operations	(1,097)	(1,265)
Interest paid	(845)	(798)
Interest collected	59	9
Income tax paid	(311)	(476)
Net cash generated from operating activities (Note 29)	2,137	2,746
Cash flows into investing activities	(2,750)	(2,333)
Group companies, associates and business units	(76)	–
Purchases of Property, plant and equipment and intangible assets	(1,456)	(1,545)
Other financial assets	(1,218)	(788)
Proceeds from divestitures	2,521	2,216
Group companies, associates and business units	685	1,868
Sales of Property, plant and equipment and intangible assets	539	84
Other financial assets	1,297	264
Other cash flows from investing activities	153	153
Proceeds from dividends	4	5
Other proceeds/(payments) from/(of) investing activities	149	148
Net cash received from investing activities	(76)	36
Receipts/(payments) for equity instruments	500	–
Issue	515	–
Acquisition	(15)	–
Cash flows from financing activities	(166)	(1,272)
Proceeds from borrowings	4,514	11,375
Repayment of borrowings	(4,680)	(12,647)
Dividends paid	(445)	(858)
Other cash flows from financing activities	(55)	(69)
Net cash received from financing activities	(166)	(2,199)
Effect of exchange rates on cash and cash equivalents	–	31
Variation in cash and cash equivalents	1,895	614
Cash and cash equivalents at beginning of the year	1,203	589
Cash and cash equivalents at year end	3,098	1,203

Notes 1 to 38 form an integral part of these Consolidated annual accounts.

Notes to the Consolidated Annual Accounts of Gas Natural Fenosa For 2011

Note 1. General information

Gas Natural SDG, S.A. is a public limited company that was incorporated in 1843. Its registered office is located at 1, Plaça del Gas, Barcelona.

Gas Natural SDG, S.A. and its subsidiary companies (hereon, GAS NATURAL FENOSA) form a group that is mainly engaged in the exploration and development, liquefaction, regasification, transport, storage, distribution and commercialisation of natural gas, as well as the generation, transport, distribution and commercialisation of electricity.

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 fully integrated gas and electricity Group.

GAS NATURAL FENOSA operates mainly in Spain and also outside of Spain, especially in Latin America, in the rest of Europe (France, Italy and Moldova) and Africa.

Note 4 includes financial segment reporting by business and geographic areas.

Appendix I lists the investee companies of GAS NATURAL FENOSA, as well as their activity, registered office, equity and results at the year end.

The shares of Gas Natural SDG, S.A. are listed on the four official Spanish stock exchanges, are traded simultaneously on all four ("mercado continuo"), and form part of the Ibex35. The shares of Gas Natural BAN, S.A. are listed on the Buenos Aires Stock Exchange (Argentina).

Note 2. Regulatory framework

a) Regulation of the natural gas industry in Spain

Main characteristics of the natural gas industry in Spain

The regulation of the natural gas industry in Spain is set out in the Hydrocarbons Act, Law 34/1998 of October 7, recently amended by Law 12/2007 of July 2, and by the detailed regulations pursuant to the same, amongst which of special note are Royal Decree 1434/2002 of December 27 and Royal Decree 949/2001 of 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. Thus, please bear in mind that Law 12/2007 limits the shareholding in Enagás, S.A. to a maximum of 5% of its share capital, and 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 made by 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 of June 26, and 98/30/CE of June 22), 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 1 July 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 activities in Spain

The natural gas activities are divided into: 1) regulated activities: transport (which includes storage, regasification and transport properly speaking) and natural gas distribution; and 2) non-regulated activities: production, supply and commercialisation of natural gas.

1. Regulated activities

Regulated activities are characterised by:

- Need for prior government authorisation: The undertaking of regulated activities requires prior regulated administrative authorisation. In order to obtain this authorisation the applicant must basically demonstrate its legal, technical and economic capacity to exercise this activity. The above mentioned authorisation 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 costs 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 separate.

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-subsidization and increase the transparency of the calculation of rates, tolls and levies, and legal separation, through separate companies, but also the requirement of independent 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, liquefied natural gas). 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 certain GAS NATURAL FENOSA companies 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 of December 28, to maintain certain minimum security stocks. Part of the underground storage facilities is 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 of March 11, distribution activity is based on a system of administrative authorisations that confer exclusivity on the distributor in its area. Moreover, with the coming into force of Law 12/2007 the distributor in a specific zone is given preference in obtaining the authorisations for the zones bordering on his own.

Ministerial Order IET/3587/2011/30 December established the remuneration of the regulated activities of the gas industry for 2012. Specifically, initial remuneration recognised for GAS NATURAL FENOSA for 2012 totals Euros 1,077 million for distribution activities 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 1 January 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, excluding self-consumption.

2.2. Commercialisation

Since 1 July 2008, as per Law 12/2007 and the regulations pursuant thereto, of special note amongst which are Royal Decree 1068/2007 of July 27, and Order 2309/2007 of July 30, 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, «Oficina de Cambios de Suministrador, S.A. (OCSUM)», which is owned by the major gas and electric operators.

According with legislation, for the calculation of 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 1st 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 natural gas industry in Latin America

In Brazil, Colombia and Mexico there are stable regulatory and pricing frameworks that set out the procedures and processes needed for periodical rate and distribution margin reviews. The rate review is carried out every five years through the filing of the respective rate reports with the regulators.

In Mexico, PEMEX is the dominant operator. On 23 February 2011, the new gas distribution tariff for all the zones in which GAS NATURAL FENOSA distributes gas in Mexico was officially published, entailing annual tariff rises of between 9% and 13.5%, except for the Los Bajios zone where the newly approved five-year tariff represents an increase of 26.8%.

In Brazil, Petrobras is the dominant operator.

In Colombia the authorities have decided that transport companies cannot directly undertake any production, commercialisation or distribution activity (and vice-versa). Likewise, it has set a limit for the commercialisation of natural gas to end users up to a maximum of 25% of the market (and vice-versa).

In Argentina, as a result of the 2001 economic crisis, there was a freezing and pesofication of rates. However, since 2007, the Argentine Government has been gradually introducing a stable distributor remuneration system based on a proper remuneration of assets. Thus, on 10 October 2008, the Argentine Government published a rate increase of between 10% and 30%, in force as from September 1 of this year to residential and industrial customers and for vehicular natural gas.

c) Regulation of the natural gas industry in Italy

In Italy, natural gas supply activity has been totally deregulated since 1 January 2003. However, residential customers (customers who do not exceed the threshold of 2 Gwh per year) that have not elected to use a new supplier, the price of the natural gas supplied is still set by the Autorità per Energia Elettrica e il Gas (the Italian National Energy Commission, AEEG). On the other hand, for residential customers that have opted for a new natural gas provider in the market, the AEEG has established, on the basis of effective service costs, reference tariffs that the supply companies, as part of their public service obligations, must include in their commercial offering.

In the region of Sicily, the liberalisation of the natural gas supply activities is being implemented, under different modalities and deadlines, and is expected to be completed by 1 January 2010, when all the consumers will be free to choose their distributor.

The supply of natural gas can only be made by companies that are not engaged in other activities in the natural gas sector, except import, export, production and wholesaling. There is also an obligatory legal separation of the operator from the distribution system, and limitations on the maximum percentages of supplies and commercialisation, in order to foster competition and the entry of new operators.

d) Regulation of the Electricity sector 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 of November 27, which was amended by Law 17/2007 of July 4 and by the detailed regulations pursuant to the same, Royal Decree 1955/2000 of December 1, which regulates the transport, distribution, commercialisation and supply and the government authorisations, Royal Decree 2019/1997 of December 26, which regulates the production market and Royal Decree 661/2007 of May 25, 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 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. 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. Thus, please bear in mind 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 carry out 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 sector 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 96/92/CE/22 June), all Spanish consumers can freely choose their electricity provider as from 1 January 2003. Under Law 17/2007 and, as in the case of the gas sector, as from 1 January 2009 the bundled tariff market would have disappeared for distribution companies and all consumers would have been obligated to participate in the de-regulated market (although, as indicated further below, a last resort bundled tariff market remains for minor volume consumers). However, this reform was 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.

The regulation of electricity activities in Spain

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

1. Regulated activities

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

- **Need for prior government authorisation:** The undertaking of regulated activities requires prior regulated administrative authorisation. In order to obtain this authorisation the applicant must basically demonstrate its legal, technical and economic capacity to exercise this activity. The abovementioned authorisation 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 of December 23, for transport, and by Royal Decree 222/2008 of 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. The two main obligations in this sense consist of permitting access by third parties to transport and distribution and the obligation to keep regulated and unregulated activities separate.

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-subsidization and increase the transparency of the calculation of rates, tolls and levies, and legal separation, through separate companies, but also the requirement of independent operation of the regulated subsidiary company in relation to 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 subsidiary Unión Fenosa Distribución, S.A., own a small interest.

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.

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 2009, the distributors were 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 IET/3586/2011/30 December set the remuneration of the regulated activities for the electricity industry for 2012. Specifically, the initial remuneration recognised for GAS NATURAL FENOSA for 2012 totals 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, i.e., 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 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, financial and non-financial agreements, and forward contracts.

Since 2006 and until July 1, 2009 legislation stipulated the obligation of generators to subtract 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 21 April 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 recognised 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 2011 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 authorisation 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, i.e. 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 deregulated contracting and the customer's choice of provider. The commercialisation, as a deregulated 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, «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.

e) Regulation of the international electricity sector

1. Generation

The main countries in which GAS NATURAL FENOSA is present as a generator are Mexico and Puerto Rico.

The electricity sector in Mexico is made up of two public companies that have a monopoly in the industry: Comisión Federal de Electricidad (CFE) and Luz y Fuerza del Centro. Both companies are vertically integrated in terms of generation, transport and distribution. The Electricity Public Service Act of 1992 permitted the participation of private investment in the electricity sector in Mexico under the figure of the independent producer or external energy producer, self-supplier, as well as co-generation, import and export. The independent producers, including various investee companies of GAS NATURAL FENOSA, sell their energy only to CFE, in accordance with longer term energy and capacity contracts.

The electricity sector in Puerto Rico is controlled by the Autoridad de Energía Eléctrica (AEE or Puerto Rico Electric Power Authority (PREPA)), a public corporation and governmental agency. Its mission is to provide electricity to customers more efficiently, economically and safely, in harmony with the environment. At this time it produces, transports and distributes practically all the electricity consumed in Puerto Rico and it is self-regulating in terms of tariffs and service quality standards. There are independent generators that sell their electricity to PREPA, including EcoEléctrica L.P., an investee company of GAS NATURAL FENOSA.

2. Distribution

In the countries in which GAS NATURAL FENOSA is present as a distributor, Colombia, Guatemala, Moldova, Nicaragua and Panama, the distribution activity is regulated. The distributors have the function of transporting electricity from the transport network to the customer hook up points and also the function of supplying electricity at regulated rates, to regulated customers, who, based on their consumption volumes, cannot choose their supplier. As for the unregulated customers that choose to purchase electricity from another supplier, they must pay the regulated distribution toll for the use of the networks.

The tariffs are revised periodically and automatically to reflect the variations in energy purchase prices and the transport tariffs, as well as the variation in economic indicators.

There are regulatory and tariff frameworks in these countries that lay down the procedures and paperwork necessary for the periodical revision of tariffs and distribution margins. The tariff revision is carried out between four and five years by filing tariff revision applications with the respective regulators.

On 15 June 2011, the Nicaraguan electricity system regulator (INE) approved a ruling to increase the tariff so as to absorb an increase in the average energy purchase price recognised at 41.88 %, without affecting the current tariff period (to 2013). This tariff rise comes into effect on 1 July.

Note 3. Basis of presentation and accounting policies

3.1 Basis of presentation

The Consolidated annual accounts of GAS NATURAL FENOSA for 2010 were adopted by the General Meeting of Shareholders of 14 April 2011.

The Consolidated annual accounts for 2011, which were formulated by the Board of Directors on 27 January 2012, will be submitted, along with those of the investee companies, to the approval of the respective General Meetings of Shareholders. It is expected that they will be adopted without modification.

The Consolidated annual accounts of GAS NATURAL FENOSA for 2011 have been prepared on the basis of the accounting records of Gas Natural SDG, S.A. and the other companies in the Group, in accordance with the provisions 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.

In the preparation of these Consolidated annual accounts the Company has used the historical cost method, although modified by the restatement of the financial instruments which under the standard for financial instruments are recorded at fair value while taking into account the criteria for recording business combinations.

These Consolidated annual accounts fairly present the consolidated equity and consolidated financial situation of GAS NATURAL FENOSA at 31 December 2011, and the consolidated results of its operations, the changes in the Consolidated statement of comprehensive income, the changes in consolidated net equity and the consolidated cash flows of GAS NATURAL FENOSA for the year then ended.

The aggregates set out in these Consolidated annual accounts are stated in million Euros, unless indicated otherwise.

3.2 New IFRS-EU and IFRIC

As a result of adoption, publication and coming into force on 1 January 2011 the following new IFRS and IFRIC have been applied:

- IFRS 1 (amendment) "First-time Adoption of IFRS": Limited exemption of the comparisons of IFRS 7.
- IAS 24 (Revised) "Related party disclosures".
- IAS 32 (amendment) "Financial Instruments Presentation".

- IFRIC 14 (amendment) "Prepayments of a Minimum funding Requirements"
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
- International Financial Reporting Standards Improvement Projects.

The application of the above standards, modifications and interpretations has not had a significant impact on the Consolidated annual accounts.

In 2011 the Official Gazette of the European Union published the following new IFRS and IFRIC coming into force for the years beginning 1 January 2012, which have not been adopted in advance:

- IFRS 7 (modification). "Financial instruments. Information to be Disclosed": Disclosures – Transfer of financial assets.

The following amendments to IFRS have been approved and are in force for financial years commencing 1 January 2012 but have not yet been adopted by the European Union:

- IAS 12 (amendment) "Deferred tax: Recovery of underlying assets"
- IFRS 1 (amendment), "Severe hyperinflation and removal of fixed dates for first-time adopters"

Following the analysis of these new accounting standards and interpretations applicable in financial years commencing as from 1 January 2012, GAS NATURAL FENOSA does not expect their application to have significant effects on the Consolidated annual accounts.

Additionally, during 2011 the IASB issued a number of standards that will come into force between 1 January 2013 and 2015 and are pending adoption by the European Union. These include the amendment of consolidation rules through IFRS 10 "Consolidation financial statements", IFRS 11 "Joint arrangements" and IFRS 12 "Disclosure of interests in other entities". GAS NATURAL FENOSA is assessing the impact of the application of these standards on the Consolidated annual accounts.

3.3 Accounting policies

The main accounting policies used in the preparation of these Consolidated annual accounts have been as follows:

3.3.1 Consolidation

a) Subsidiaries

Subsidiaries are all entities over which GAS NATURAL FENOSA has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

In order to account for the acquisition of subsidiaries the acquisition method is used. The cost of acquisition is the fair value of the assets delivered of the equity instruments issued and the liabilities incurred and borne on the date of the exchange, the fair value of any additional consideration that depends on future events (provided that they are likely to occur and can be reliably measured) plus the costs directly attributable to the acquisition.

The intangible assets acquired through a business combination must be recognised separately from goodwill if they met the criteria for asset recognition, whether they are separable or they arise from legal or contractual rights and when their fair value can be reliably measured.

The identifiable assets acquired and the liabilities or contingent liabilities incurred or borne as a result of the transactions, are initially stated at their fair value at the date of acquisition, irrespective of the percentage of the minority interest.

The surplus cost of the acquisition in relation to the fair value of the shareholding of GAS NATURAL FENOSA 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 of the subsidiary acquired, the difference is recognised directly in the Consolidated income statement.

In a business combination achieved in stages, GAS NATURAL FENOSA values its prior interest in the target's equity at the fair value on the control date, recognising resulting gains or losses in the Consolidated income statement.

Subsidiaries are fully consolidated from the date on which control is transferred to GAS NATURAL FENOSA.

Inter-company transactions, balances and unrealized gains on transactions between GAS NATURAL FENOSA companies are eliminated in the consolidation process. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The shareholding of the minority shareholders in the equity and profit or loss of the subsidiary companies is broken down under "Minority interest" in the Consolidated balance sheet and "Net income attributable to minority interest" in the Consolidated income statement.

In relation to the acquisitions of minority interests, the difference between the price paid and their net carrying value, or as the case may be, the result of their sale, is booked as equity transactions.

The sale options given to minority shareholders of subsidiary companies in relation to shareholdings in these companies, are stated at the current value of the reimbursement, i.e., their exercise price and are carried under "Other non-current liabilities".

b) 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 partners.

GAS NATURAL FENOSA's interests in jointly controlled entities are accounted for by proportionate consolidation, and, accordingly, the aggregation of balances and write offs thereafter are only made in proportion to the interest of GAS NATURAL FENOSA.

The assets and liabilities assigned to joint ventures and the assets that are controlled jointly are recorded on the consolidated balance sheet in accordance with their nature. The income and expenses from joint ventures are reflected in the Consolidated income statement in accordance with their nature.

c) Associates

Associates are all entities over which GAS NATURAL FENOSA has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

The investments in associates are recorded under the equity method. GAS NATURAL FENOSA's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in equity is recognized under reserves. Unrealised gains between GAS NATURAL FENOSA and its associates are eliminated in proportion to its interest in the latter.

d) Consolidation scope

Appendix I includes the investee companies directly and indirectly owned by GAS NATURAL FENOSA that have been included in the consolidation scope.

Appendix II lists the main variations in the consolidation scope in 2011 and 2010.

2011

In 2011 the main variations in the consolidation scope have been:

- Sale of shareholdings in the Guatemalan electricity distributors (Note 9).
- Additional sale of several gas distribution companies and assets in the Madrid area (Note 9).
- Swap of EUFER's renewable assets as a result of the completion of the collaboration with another partner that was arranged through this company (Note 9).
- Acquisition of shareholdings in a number of wind farms (Note 30).
- Acquisition of the Italian gas distribution company Favellato Reti, S.R.L. (Note 30).

2010

In 2010 the main variations in the consolidation scope have been:

- The sale of various combined cycle electricity companies in Mexico (Note 9).
- The sale of various companies and assets related to gas distribution and supply in Madrid (Note 9).

3.3.2 Foreign currency translation

Items included in the financial statements of each of GAS NATURAL FENOSA's entities are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Euros, which is the GAS NATURAL FENOSA presentational currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

The results and financial position of all GAS NATURAL FENOSA entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentational currency are translated into the presentational currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at monthly average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions.
- All the exchange differences are recognised in the Consolidated statement of comprehensive income, and the cumulate amount under the caption cumulative Translation Adjustments in Net Equity.

The adjustments to goodwill and the fair value arising from the acquisition of a foreign company are treated as its assets and liabilities and are translated at the closing exchange rate.

The exchange rates against the Euro (EUR) of the main currencies of the companies in GAS NATURAL FENOSA at December 31, 2011 and 2010 have been:

(million euros)	31 December 2011		31 December 2010	
	Closing Rate	Average Accumulated Rate	Closing Rate	Average Accumulated Rate
US Dollar (USD)	1.29	1.39	1.34	1.33
Argentinean Peso (ARS)	5.54	5.72	5.29	5.16
Brazilian Real (BRL)	2.43	2.33	2.22	2.33
Colombian Peso (COP)	2,514	2,569	2,557	2,516
Mexican Peso (MXN)	18.09	17.27	16.54	16.74
Nicaragua Córdoba (NIO)	29.72	31.21	29.24	28.32
Panama Balboa (PAB)	1.29	1.39	1.34	1.33
Moldovan Lei (MDL)	15.14	16.30	16.23	16.39

3.3.3 Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of GAS NATURAL FENOSA's share of the net identifiable assets of the acquired subsidiary, joint ventures or associates acquired, at the date of acquisition. Goodwill on acquisitions of subsidiaries or joint ventures is included in Intangible assets while goodwill related to acquisitions of associates is recorded under Investments using the equity method.

Goodwill derived from acquisitions carried out before 1 January 2004 is recorded at the amount recognized as such in the 31 December 2003 consolidated financial statements prepared using Spanish GAAP.

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

The impairment losses on goodwill cannot be reversed.

b) Concessions and the like

The concessions and the like relates to the cost of acquisition of concessions if they are acquired directly from a public entity or similar, or at the fair value attributed to the corresponding concession in the event of being acquired as part of a business combination. These amounts relate both to the concessions that are considered intangible assets, or construction and improvements of those infrastructures assigned to concessions in accordance with IFRIC 12 "Service concession Agreements".

The aforementioned assets related to the service concession agreements under IFRIC 12 are those that the licensor controls the services that GAS NATURAL FENOSA (operator) must provide and the significant residual stake in the infrastructure at the end of the agreement, are set forth in this section in accordance with the accounting model for intangible assets based on the nature of the economic profits to be received by the operator. The income and expenses on construction services or infrastructure improvements are recognized for their gross amount. Given that concession agreements do not specify remuneration for these concepts, it is assumed that fair value of income corresponds to incurred costs without margin.

The assets included in this accounts are amortised on a straight-line basis over the duration of each concession, except in the case of the Maghreb-Europe pipeline, which, in order to properly reflect the expected consumption scheme for the future economic profits, is based on the value of gas transported during the life of the right of use, which represents accumulated amortisation that is no less than what would be the result of using a straight-line amortisation method.

Furthermore, the concessions for the distribution of electricity in Spain, acquired as part of the business combination of UNIÓN FENOSA has no legal or any other type of limit. Accordingly, since we are dealing with intangible assets with an undefined life, they are not amortised, although they are tested for possible impairment annually as per that set out in Note 3.3.5.

c) Computer software applications

Cost 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 developed the computer programs.

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

d) Research costs

Research activities are expensed in the Consolidated income statement as incurred.

e) Other intangible assets

Other intangible assets mainly include the following:

- The cost of acquisition of the exclusive regasification rights at the installations of EcoEléctrica L.P., Ltd. in Puerto Rico, which are amortised on a straight-line basis until the end of their term (2025).
- The licence costs for new wind farms, mainly acquired as part of a business combination, which will be amortized on a straight-line basis over their useful lives (20 years), once they will start functioning.
- The CO₂ emission allowances received for no consideration are stated at no value while those acquired are stated at their acquisition cost. In the event that GAS NATURAL FENOSA does not have enough allowances to meet its emission quotas, the deficit is recorded under "Current provisions" and valued at the cost of acquisition for the allowances purchased and at fair value for the allowances pending to purchase on the date the Consolidated annual accounts are filed.
- Gas supply contracts and other contractual rights purchased as part of a business combination, which are valued at fair value and amortised over the contract term, that does not differ of expected consumption scheme.

There are no intangible assets with an undefined useful life apart from goodwill and the aforementioned concessions for electricity distribution in Spain.

3.3.4 Property, plant and equipment

a) Cost

All property, plant and equipment are presented at cost of acquisition or production, or the value attributed to the asset in the event that it were acquired as part of a business combination.

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.

The non-extractable gas necessary as a cushion for the exploitation of the underground storage units of natural gas is recorded as Property, plant and equipment ("cushion gas"), and depreciated over the useful life of the underground storage unit.

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.

The future costs to which GAS NATURAL FENOSA must meet in relation to the closure of certain facilities are included in the value of the assets at the restated value, including the respective provision (Note 3.3.15).

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

b) Depreciation

Assets are depreciated using the straight-line method, over their estimated useful life or, if lower, over the time of the concession agreement. Estimated useful lives are as follows:

	Years of estimated useful life
Buildings	33-50
Liquefied natural gas (LNG) transport gas tankers	25-30
Technical installations (pipeline network and transport)	20-40
Technical installations (hydro-electric plants)	14-100
Technical installations (thermal energy plants)	25-40
Technical installations (combined cycle gas turbine: CCGT)	25
Technical installations (nuclear energy plants)	40
Technical installations (wind farms)	20
Technical installations (electricity transport lines)	30-40
Technical installations (electricity distribution network)	18-40
Computer equipment	4
Vehicles	6
Other	3-20

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 FENOSA 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.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount, i.e., when the asset is no longer useful such as due to a rerouting of the distribution pipeline (Note 3.3.5).

c) Exploration operations and production of gas

GAS NATURAL FENOSA records exploration gas and coal operations using the successful-effort exploration method, which treatment is as follows:

- Explorations costs

Exploration costs (geology and geo-physical expenses, costs relating to the maintenance of unproven reserves and other costs related to exploration activity), excluding drilling costs, are expensed when incurred.

If proven reserves are not found, the drilling costs initially capitalised are expensed. However, if, as a result of the exploration probes proven reserves are found, the costs are transferred to Investments in areas with reserves.

- Investments in areas with reserves

The costs arising from the acquisition of new interests in areas with reserves, the cost of development incurred in order to extract the proven reserves and for the treatment and storage of gas, as well as the current estimated value of the shut down costs, are capitalised and depreciated throughout the estimated commercial life of the deposit based on the relationship between production for the year and the proven reserves at the beginning of the depreciation period.

At the year end, or at any time when there is an indication that there may be asset impairment, the recoverable value is compared to their carrying value.

3.3.5 Impairment of non financial assets

Assets are tested to analyze the possible impairment losses, provided that an event or change in circumstances indicates that their net carrying value cannot be recovered. Additionally, the goodwill and intangible assets which are not being used or have an undefined useful life, are tested at least once a year.

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 FENOSA recoverable amount is considered as value in use, for which calculation, is used the methodology described below.

In order to evaluate the impairment loss, the assets are grouped at the lowest level for which it is possible to identify independent cash flows. Both assets and goodwill are allocated to Cash Generating Units (CGU).

These units have been defined using the following criteria:

- Gas distribution:
 - Gas distribution Spain: The development, operations and maintenance of the gas distribution network is managed jointly.
 - Gas distribution Latin America: There is a CGU for each country in which it operates (Argentina, Brazil, Colombia and Mexico), as these are businesses subject to different regulatory frameworks.
 - Gas distribution Others: Relates to the gas distribution assets in Italy.
- Electricity distribution:
 - Electricity distribution Spain. The development, operations and maintenance of the gas distribution network is managed jointly.
 - Electricity distribution Latin America. There is a CGU for each country in which it operates (Colombia, Nicaragua, Panama), as these are businesses subject to different regulatory frameworks.
 - Electricity distribution Others. Relates to the electricity distribution assets in Moldova.
- Electricity:
 - Electricity Spain. Electricity production in Spain is managed jointly and in a centralised manner, depending on market conditions.
 - Electricity Latin America: there is a CGU for each country in which it operates (Costa Rica, Mexico, Puerto Rico, Panama and the Dominican Republic), since there is a generation capacity in each country that is similar to Spain's.
 - Electricity Others. Relates to Kenya.
- Gas. Includes the gas infrastructure, supplies and commercialisation CGUs and those of Unión Fenosa Gas.
- Other. Includes the coal field CGUs in South Africa and optic fibre.

The cash flows are based on the four-year strategic plan approved by GAS NATURAL FENOSA, extended to a five year on the basis of the regulation and the expectations of the market developments according to available sector forecasts and the historical experience of the evolution of prices and volumes.

Cash flow after forecast period are extrapolated considering the growth rates estimated by CGU that, in no event, exceed the long term average growth rate to the business and country in which are, in all cases, lower than the growth of strategic plan period. Furthermore, to estimate the future cash flows in the calculation of the residual values, all maintenance costs and, where applicable, replacement costs necessary to maintain the production capacity of the CGUs have been taken into account.

The nominal growth rates applied are as follows:

	Rates 2011	Rates 2010
Distribution of gas Latin America	1.0	1.0
Distribution of gas rest of Europe	1.0	1.0
Distribution of electricity Spain	0.8	0.8
Distribution of electricity Rest of Europe	1.8	1.8
Distribution of electricity Latin America	1.2-3.0	1.2-3.0
Generation of electricity in Spain	1.8	1.8
Generation of electricity – Latin America	1.9-4.9	1.9-4.9
Electricity Others	4.5	4.5
Unión Fenosa Gas	2.0	2.0

The discount rates before taxes used to calculate the recoverable value of each CGU or Group of CGUs are as follows:

	Rates 2011	Rates 2010
Distribution of gas Latin America	17-18	11-20
Distribution of gas rest of Europe	10.4	9.6
Distribution of electricity Spain	9.2	8.4
Distribution of electricity Rest of Europe	16.6	13.7
Distribution of electricity Latin America	10.7-24.1	9.4-23.0
Generation of electricity in Spain	10.0	8.9
Generation of electricity – Latin America	6.8-16.5	8.6-16.2
Electricity Others	12.6	7.7-12.1
Unión Fenosa Gas	12.5	11.0

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.

Apart from the discount rates, the most sensitive aspects that are included in the projections used and that are based on sector forecasts and historical experience are as follows:

- Gas and electricity distribution in Spain.
 - Amount and growth in remuneration approved by the regulator.
- Gas and electricity distribution in Latin America and Others
 - Evolution of the tariffs.
 - Cost of energy and fuel.
- Electricity Spain:
 - Electricity produced and sold to the market, which depended on market demand and market share.
 - Price of the electricity in the Iberian market.
 - Cost of fuel and CO₂ emission rights.
- Electricity Latin America and Others:
 - Electricity production in Latin America is protected by energy trading contracts that are determined by stable business models and are not subject to risks based on the fluctuation of market variables.

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 FENOSA 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.

3.3.6 Financial assets and liabilities

Financial investments

Purchases and sales of investments are recognized on trade-date, which is the date on which GAS NATURAL FENOSA commits to purchase or sell the asset, and are classified under the following categories:

a) Loans and other receivables

These are non-derivative financial assets, with fixed or determinable pay outs, which are not listed in 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 amortised 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 FENOSA plans to and can hold until maturity. The valuation criteria for these investments are the same as those for loans and financial receivables.

c) Fair value financial assets 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.

Unrealized gains and losses arising from changes in fair value are recognized in net equity. When these assets are sold or impaired, the accumulated adjustments to the reserves due to valuation adjustments are included in the Income statement as gains and losses.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, GAS NATURAL FENOSA establishes 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.

The valuations at fair value have been classified using a fair value ranking that reflects the relevance of the variables used to make these valuations. This ranking has three levels:

- Level 1: Valuations based on the quotation price of identical instruments in an official market.
- Level 2: Valuations based on variables that are observable for the asset or liability.
- Level 3: Valuations based on variables that are not based on observable market information.

The financial assets are written off when the contractual rights to the cash flows generated by the asset have matured or have been transferred, while the risks and rewards inherent in their ownership must be substantially transferred. The financial assets are not written off and a liability is recognised in an amount equal to the consideration received for the assignment of assets in which the income and profit inherent in them have been retained.

GAS NATURAL FENOSA has entered into debt claim assignment agreements in 2011 and 2010, which have been qualified as factoring without recourse since the risks and rewards inherent in ownership of the financial assets assigned have been transferred.

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 a maturity of no longer than three months.

Borrowings

Borrowings are initially recognised 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 recognised 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 FENOSA.

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.

3.3.7 Accounting for derivative financial instruments and hedging activities

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.

GAS NATURAL FENOSA 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, the aims of risk management and hedging strategies are periodically reviewed

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 qualifying 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 qualified 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 the Consolidated income statement.

c) Hedges of net foreign investments

The accounting treatment is similar to cash flow hedges. The variations in value of the effective part of the hedging instrument are carried on the Consolidated balance sheet under "Cumulative translation differences". The gain or loss from the non-effective part is recognised immediately under "Exchange differences" on the Consolidated income statement. The accumulated amount of the valuation recorded under "Cumulative translation differences" is released to the Consolidated income statement as the foreign investment that gave rise to it is sold.

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 FENOSA 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 FENOSA 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, are out of the scope of IAS 39.

3.3.8 Non-current assets held for sale and discontinued activities

GAS NATURAL FENOSA classifies as assets held for sale all the assets and related liabilities for which active measures have been taken in order to sell them and if it is estimated that the sale will take place within the following twelve months.

Additionally, GAS NATURAL FENOSA considers discontinued activities the components (cash generating units or groups of cash generating units) that make up a business line or geographic area of operations, which are significant and which can be considered separately from

the rest, and which have been sold or disposed by other means or which meet the conditions to be classified as held-for-sale. Furthermore, discontinued activities also include entities acquired exclusively for resale.

These assets are stated at the lower of their carrying value or fair value after deducting the costs required for their sale and are not subject to depreciation, as from the time in which they are classified as non-current assets held for sale.

The non-current assets held for sale are stated on the Consolidated balance sheet as follows: the assets are carried under a single account "Non-current assets held for sale" and the liabilities are also carried under a single account called "Liabilities linked to non-current assets held for sale". The profit or loss from discontinued activities is stated on a single line on the Consolidated income statement called "Net income for the year from discontinued operations net of tax".

3.3.9 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.

3.3.10 Share capital

Share capital is made up exclusively 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.

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

3.3.11 Earnings per share

Basic earnings per share are calculated as a quotient between Consolidated net income for the year attributable to equity holders of the company and the average weighted number of ordinary shares in circulation during this period, excluding the average number of shares of the parent Company held by the Group.

Diluted earnings per share are calculated as a quotient between Consolidated net income for the year attributable to the ordinary equity holders of the company 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.

3.3.12 Preference shares

The issues of preference shares are considered equity instruments if and only if:

- They do not include the contractual obligation for the issuer to repurchase them, under conditions involving certain amounts and at certain dates or determinable amounts and at determinable dates, or the right of the holder to demand their redemption, and
- The payment of interest is at the discretion of the issuer.

In the case of issues of preference shares made by a subsidiary of the Group, which comply with the above conditions, the amount received is classified on the Consolidated Balance Sheet under "Minority interest".

3.3.13 Capital grants and deferred Income

These amounts are recorded as "grants" and basically correspond to:

- Capital grants relating basically to Agreements with the Regional Governments for the gasification of municipalities and other investments in gas infrastructure, for which GAS NATURAL FENOSA has met all the conditions established, are stated at the amount granted.
- Income received for the construction of connection facilities for the gas or electricity distribution network, which are booked for the cash received, as well as assignments received for these facilities, which are booked, in accordance with IFRIC 18, at their fair value, since both the cash and the facilities are received in consideration for an ongoing service of providing access to the network during the life of the facilities.
- Income from the extension of the pipeline network that will be financed by third parties. .

Capital grants and deferred income is recognised in "Grants" in the Consolidated Income statement systematically on the basis of the useful life of the corresponding asset, thus offsetting the depreciation expense.

When the corresponding asset is replaced, the deferred income from the extension of the pipeline network financed by third parties is expensed at the carrying value of the assets replaced. The remaining amount of the deferred income is taken to profit and loss systematically over the useful life of the respective asset.

3.3.14 Provisions for employee obligations

a) Post-employment pension and similar obligations

- 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, which are secured.

As a result of the merger by absorption of Unión Fenosa, S.A. and Gas Natural SDG, 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 FENOSA undertakes to make certain contributions to an insurance policy. GAS NATURAL FENOSA 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 contributions made have been recorded under "Personnel costs" on the Consolidated income statement.

- Defined benefit plans

For certain groups there are defined benefit liabilities relating to the payment of retirement pension, death and disability supplements, in accordance with the benefits agreed by the entity and which have been transferred out in Spain through single premium insurance policies under Royal Decree 1588/1999/15 October, which adopted the Regulations on the arrangement of company pension liabilities.

The liability recognised for the defined benefit pensions plans is the current value of the liability at the balance sheet date less the fair value of the plan-related assets, together with adjustments for costs for past services. The defined benefit liabilities are calculated annually by independent actuaries using the projected credit unit method. The current value of the liability is determined by discounting the estimated future cash flows at bond interest rates denominated in the currency in which the benefits will be paid and using maturities similar to those of the respective liabilities.

GAS NATURAL FENOSA has availed itself of the possibility of fully recognising 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 Consolidated income statement (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 amortised 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 expense.

b) Other post-employment benefit obligations

Some of GAS NATURAL FENOSA's companies provide 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 FENOSA 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 FENOSA has decided to give its consent to voluntary redundancies once they have been requested by the employees.

3.3.15 Provisions

Provisions are recognized when GAS NATURAL FENOSA has a legal or implicit present 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 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 recognised as a separate asset, provided that its receipt is practically assured.

GAS NATURAL FENOSA 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 is recorded under Property, plant and equipment the current value of the cost that these tasks would amount, 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 provision are recognised in the amount of the current value of the existing difference.

In the event that GAS NATURAL FENOSA does not have sufficient emission allowances to meet its emission quotas, the deficit valued at the cost of acquisition for the allowances purchased and the fair value for the allowances pending purchase is recorded under provisions.

3.3.16 Leases

a) Finance leases

Leases of property, plant and equipment where GAS NATURAL FENOSA (as 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

GAS NATURAL FENOSA has contracts regulating commitments for the capacity to generate and buy and sell electricity for its combined cycle plants in Mexico and Puerto Rico. A portion of the income is obtained as a fixed capacity charge under which the availability of the Plant is assured. These contracts are classified as operating leases, and, accordingly, the fixed capacity charges are recognised on a straight-line basis in each year of the contract term, irrespective of the invoicing Schedule, since GAS NATURAL FENOSA retains all the risks and rewards inherent in the assets given that:

- At the end of the lease period the lessor (GAS NATURAL FENOSA) continues to retain ownership of the asset.
- The lessee has no right to claim an extension of the lease term.
- The lessee does not have a purchase option.
- The risk of the operation is borne by the lessor.
- The fixed capacity charge can reach nil in the periods in which the availability of the Plant is below the guaranteed level. If non-compliance continues, the contract can be cancelled.
- The current value of the capacity charges is lower than the cost of construction of the Plant.
- The lessor has the right to sell energy from the part of the installed capacity that exceeds the level guaranteed under contract to third parties.

3.3.17 Income tax

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 realised. No deferred tax liabilities are recognised for profits not distributed from the subsidiaries when GAS NATURAL FENOSA can control the reversal of the timing differences and it is likely that they will not reverse in the foreseeable future.

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

Deferred income tax assets and credit taxes 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 and make credit taxes effective.

3.3.18 Revenue and expenses recognition and payments for regulated activities

a) General

The sales of goods are recognised when they have been delivered to the customer and the customer has accepted them, even if they have not been billed, or, if applicable, the services have been rendered and the collectability of the respective accounts receivable is reasonably assured. The sales figure for the year includes the estimate of the energy supplied that has yet to be invoiced.

The expenses are recognised 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 and the transactions between companies in the GAS NATURAL FENOSA are eliminated.

b) Revenues from the gas business and payments for regulated activities

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 recognised for its regulated activities.

The remuneration of the regulated activity of gas distribution is calculated and recorded as income based on the actualisation of the remuneration for the prior year, of the average increase in consumers and the related energy according to the Ministerial Order that determines it each year and is adjusted by real data.

The remuneration of the regulated gas transport is recorded as income in the amount assigned under the Ministerial Order that sets this amount each year.

The Ministerial Order of 28 October 2002 which regulates the procedures for the payment of the regulated gas activity stipulates that the deviations that come to light from the application of the payment procedure between net payable final income and the accredited remuneration each year, will be taken into account in the calculation of the tolls and levies for the next two years. At the date of formulation of these Consolidated annual accounts the final payments for 2009 have not been published, although the provisional deviations for this year has been taken into account in order to calculate the tolls and levies for 2011. It is not expected that the final payments will lead to significant differences in relation to the estimates made.

The income aggregate includes the amount of both the sales of last resort and the sales made in the deregulated market, since both the seller of last resort and the de-regulated seller are considered to be the principal agent and not a commission agent for the supply delivered.

The exchanges of gas that do not have a different value and do not include costs that causes differences in value are not classified as transactions that generate revenues and are not included, therefore, in the income figure.

The best estimate of the gas and services provided that have yet to be invoiced is recognised as income.

c) Income from regulated electricity distribution activities

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 electricity and other costs, so that each company receives the remuneration recognised for its regulated activities.

The remuneration of the regulated electricity distribution is recorded as income in the amount assigned under the Ministerial Order that sets this amount each year.

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

At the date of formulation of these Consolidated annual accounts the final payments for the period 2007-2008 have not been published, although it is not expected that the final payments will generate significant differences in relation to the estimates made.

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 regulated activities and costs of the system, the companies themselves, including Gas Natural SDG, S.A., were forced to finance this income deficit, until its definitive funding through the electricity system securitisation fund.

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 and 2010, 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 Consolidated balance sheet.

The income aggregate includes the amount for the sale of electricity of last resort and the sales made in the deregulated market, since both the seller of last resort and the deregulated seller are considered to be the principal agent and not a commission agent of the delivered supply. Consequently, the sales and purchases of energy are recorded at their total amount. Nevertheless, the purchases and sales of energy to the pool made by these Group generation and commercialisation companies in the same hourly period are eliminated in the consolidation process.

The best estimate of the electricity and services provided that have yet to be billed is recognized as income.

d) Other income and expenses

In accounting for revenues from the service provision agreements the percentage realisation 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 recognised immediately in the Consolidated Income Statement for the year.

Interest income and expense are recognized using the effective interest method.

Dividends are recognized as income when GAS NATURAL FENOSA's right to receive payment is established.

3.3.19 Cash Flow Statements

The consolidated cash flow 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 Group revenues, as well as other activities that cannot be qualified as investing or financing.
- b) Investing activities: acquisition, sale or disposal by 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.

3.3.20 Significant accounting estimates and judgments

The preparation of the Consolidated annual accounts requires the use of estimates and assumptions. We set out below the measurement policies that require a greater use of estimates:

a) Property, plant and equipment (Note 3.3.4)

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 non-financial assets (Note 3.3.5)

The estimated recoverable value of the CGU applied to the impairment tests has been determined using the discounted cash flows based on the budgets by GAS NATURAL FENOSA.

c) Derivates or other financial instruments (Note 3.3.7)

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated 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 FENOSA 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 financial swaps is calculated as the present value of the estimated future cash flows. The fair value of commodity prices derivatives is determined using quoted forward price curves at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables is 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 FENOSA for similar financial instruments.

d) Provisions for employee benefits (Note 3.3.14)

The calculation of the pension expense, other post-employment benefit expenses or other post-employment liabilities, requires the application of various assumptions. GAS NATURAL FENOSA estimates at each year end the provision necessary to meet its pension liabilities and the like, in accordance with the advice from independent actuaries. The changes that affect these assumptions could give rise to different expenses and liabilities recorded. The main assumptions for the pension benefits or post-employment benefits include the long-term yield on the plan-related assets and the discount rate used. Moreover, the assumptions of social security coverage are essential in determining other post-employment benefits. The future changes in these assumptions will have an impact on the future pension expenses and liabilities.

e) Provisions (Note 3.3.15)

GAS NATURAL FENOSA makes an estimate of the amounts to be settled in the future, including amounts relating to, contractual obligations, outstanding litigation, future costs for dismantling and closure of certain facilities and restoration of land or 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 3.3.17)

The calculation of the income tax expense requires interpretations of tax legislation in the jurisdictions in which GAS NATURAL FENOSA operates. The determination of expected outcomes of outstanding disputes and litigation requires the preparation of significant estimates and judgment. GAS NATURAL FENOSA 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 FENOSA to generate sufficient tax profits during the periods in which these deferred taxes are deductible.

g) Revenue recognition and settlement of regulated activities (Note 3.3.18)

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 the 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 materialise in the respective final payments, could affect the calculation of the deficit in the payments for the regulated electricity business in Spain.

Note 4. Segment reporting

An operating segment is a component that carries on business activities from which it may obtain ordinary revenue and incur costs, the operating results of which are reviewed regularly by the entity's maximum operating decision-taking authority so as to determine the resources that must be allocated to the segment and to evaluate its performance, and in respect of which separate financial information is available.

a) Segment Information

The operating segments of GAS NATURAL FENOSA are:

- Gas distribution. Encompasses the regulated gas distribution business in Spain, Latin America and Others (Italy).

The gas distribution business in Spain includes the regulated gas distribution activity, the services for third-party access to the network, as well as the activities related to distribution.

Distribution in Latin America (Argentina, Brazil, Colombia and Mexico) includes the regulated gas distribution business and the sales to customers at regulated prices.

The gas distribution in Others (Italy) consists of the regulated distribution and commercialisation of gas.

- Electricity distribution. Covers the regulated electricity distribution business in Spain, Latin America and Rest of Europe (Moldova).

The electricity distribution business in Spain includes the regulated electricity distribution business and network services for customers, metering and other business related to third party access to the distribution network of GAS NATURAL FENOSA.

The electricity distribution business in Latin America relates to the regulated electricity distribution business and sales to customers at regulated prices in Colombia, Nicaragua and Panama.

Including the electricity distribution business in Guatemala, to the date of sale, 19 May 2011 (Note 9).

The electricity distribution business in Moldova consists of the regulated distribution of electricity and its bundled tariff sale in the capital and south and central areas of the country.

- Electricity generation. Includes the electricity generation in Spain, Latin America (the Dominican Republic, Mexico, Puerto Rico, Panama and Costa Rica) and Rest (Kenya).

The Electricity business in Spain includes electricity production activity through combined cycle, thermal, nuclear, hydro, co-generation and wind farm plants, and other special arrangements technologies, the supply of electricity to wholesale markets and the wholesale and retail commercialisation of electricity in the de-regulated Spanish market.

- Gas. Includes the activity arising from the gas infrastructure, and the supply and commercialisation activity of Unión Fenosa Gas.

The infrastructure business includes the exploration and production of gas from extraction to the liquefaction process. It also includes the value chain activities of Liquefied Natural Gas (LNG) from the exporting countries (liquefaction plants) to the entry points of final markets, including the sea transport of LNG and the regasification process. Also includes Maghreb-Europe pipeline operation.

The Supply and Commercialization business includes the supply and commercialisation of natural gas to wholesale and retail customers in the deregulated Spanish market, as well as the supply of products and services related to retail commercialisation. Furthermore, it includes the sales of natural gas to customers outside Spain.

The business of Unión Fenosa Gas includes the liquefaction activities in Damietta (Egypt), sea transport, regasification in Sagunto and supply and commercialisation of gas, managed jointly with another partner.

- Other: Includes the exploitation of the coal field belonging to Kangra Coal (Proprietary), Ltd in South Africa, the activities related to optic fibre and the other non-energy business.

The segment's results for the periods of reference are as follows:

Segmental financial information–Income Statement

2011	Gas Distribution				Electricity Distribution				Electricity				Gas					
	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infras-structure	Supp. and Com-merc.	Unión Fenosa Gas	Total	Other	Total
Sales segments	1,240	2,585	238	4,063	922	2,290	206	3,418	5,452	865	126	6,443	289	8,603	1,011	9,903	650	24,477
Sales inter segments	(108)	–	–	(108)	(30)	(2)	–	(32)	(1,182)	(9)	–	(1,191)	(192)	(1,220)	(495)	(1,907)	(163)	(3,401)
Sales consolidated	1,132	2,585	238	3,955	892	2,288	206	3,386	4,270	856	126	5,252	97	7,383	516	7,996	487	21,076
Ebitda	896	621	70	1,587	680	306	30	1,016	809	245	14	1,068	184	444	277	905	69	4,645
Other income	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	268	268
Depreciation and amortization expenses	(284)	(113)	(23)	(420)	(220)	(71)	(6)	(297)	(560)	(101)	(5)	(666)	(65)	(14)	(157)	(236)	(131)	(1,750)
Debtors provisions and others	–	(14)	(4)	(18)	(1)	(102)	–	(103)	(46)	–	–	(46)	–	(47)	–	(47)	(2)	(216)
Operating income	612	494	43	1,149	459	133	24	616	203	144	9	356	119	383	120	622	204	2,947
Net financial income	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(932)
Equity-method result	–	–	–	–	–	–	–	–	–	–	–	–	–	–	7	7	–	7
Income before taxes	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2,022
Income tax expense	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(496)
Net income for the period	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,526

2010	Gas Distribution				Electricity Distribution				Electricity				Gas					
	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infras-structure	Supp. and Com-merc.	Unión Fenosa Gas	Total	Other	Total
Sales segments	1,299	2,645	210	4,154	884	2,200	188	3,272	5,420	954	96	6,470	264	7,678	849	8,791	584	23,271
Sales inter segments	(127)	–	–	(127)	(55)	(2)	–	(57)	(1,144)	(8)	–	(1,152)	(179)	(1,525)	(365)	(2,069)	(236)	(3,641)
Sales consolidated	1,172	2,645	210	4,027	829	2,198	188	3,215	4,276	946	96	5,318	85	6,153	484	6,722	348	19,360
Ebitda	915	635	70	1,620	645	390	27	1,062	974	263	15	1,252	191	57	224	472	71	4,477
Other income	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	370	370
Depreciation and amortization expenses	(289)	(112)	(22)	(423)	(213)	(89)	(5)	(307)	(537)	(105)	(6)	(648)	(50)	(14)	(146)	(210)	(128)	(1,716)
Debtors provisions and others	–	(7)	(6)	(13)	(12)	(124)	(1)	(137)	(50)	(4)	–	(54)	–	(31)	–	(31)	(3)	(238)
Operating income	626	516	42	1,184	420	177	21	618	387	154	9	550	141	12	78	231	310	2,893
Net financial income	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,015)
Equity-method result	–	–	–	–	–	–	–	–	(1)	–	–	(1)	–	–	3	3	3	5
Income before taxes	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,883
Income tax expense	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(468)
INCN inter segments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,415

Sales relates to net revenue.

Ebitda is calculated as Operating profit excluding Other net income, plus depreciation and operating provisions.

The EBITDA for 2010 of the "Supply and Commercialisation" segment has decreased by Euros 305 million due to the net effect of various non-recurrent items, amongst which of special note are, amongst others, the additional to the already accounted for in 2009 provisions for risks arising from the litigation with Sonatrach (Note 15).

Segmental financial information—Assets, liabilities and investments

2011	Gas Distribution				Electricity Distribution				Electricity				Gas					
	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infras-structure	Supp. and Comm.	Unión Fenosa Gas	Total	Other	Total
Assets ⁽¹⁾	4,208	2,633	673	7,514	5,160	2,087	163	7,410	11,562	1,758	118	13,438	1,055	2,469	2,301	5,825	1,953	36,140
Investments under equity method	–	–	–	–	–	–	–	–	23	–	–	23	–	1	61	62	14	99
Liabilities ⁽²⁾	(786)	(488)	(104)	(1,378)	(696)	(893)	(33)	(1,622)	(1,326)	(192)	(26)	(1,544)	(65)	(2,560)	(159)	(2,784)	(1,085)	(8,413)
Investment in intangible assets ⁽³⁾	9	16	28	53	11	2	1	14	27	5	–	32	5	–	–	5	72	176
Investm. in property, plant & equipment ⁽⁴⁾	251	133	8	392	329	131	16	476	184	42	0	226	27	20	10	57	79	1,230
Business combinations ⁽⁵⁾	–	–	10	10	–	–	–	–	77	–	–	77	–	–	–	–	–	87

2010	Gas Distribution				Electricity Distribution				Electricity				Gas					
	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infras-structure	Supp. and Comm.	Unión Fenosa Gas	Total	Other	Total
Assets ⁽¹⁾	4,192	2,625	640	7,457	4,959	2,294	128	7,381	11,308	1,738	115	13,161	1,025	2,472	2,293	5,790	1,913	35,702
Investments under equity method	5	–	–	5	–	–	–	–	29	–	–	29	–	1	60	61	10	105
Liabilities ⁽²⁾	(765)	(532)	(72)	(1,369)	(560)	(815)	(21)	(1,396)	(929)	(201)	(20)	(1,150)	(66)	(2,696)	(115)	(2,877)	(1,571)	(8,363)
Investment in intangible assets ⁽³⁾	5	15	28	48	4	–	–	4	21	–	–	21	8	–	2	10	66	149
Investm. in property, plant & equipment ⁽⁴⁾	216	93	10	319	309	137	16	462	340	149	2	491	14	19	24	57	65	1,394
Business combinations ⁽⁵⁾	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

(1) Assets by segment consist of operating assets (including property, plant and equipment, intangible assets, inventories, derivatives designated to hedge future trading operations, trade receivables, trade payables and cash and other cash equivalents). They exclude the Tax refundable balances, the financial assets and derivatives for negotiating or hedging loans. The assets not included total Euros 10,362 million at 31 December 2011 (Euros 9,641 million at 31 December 2010).

(2) Liabilities by segment consist of operating liabilities (including derivatives designated as hedges of future operations). They exclude items such as Tax payable, borrowings and respective hedging derivatives. The excluded liabilities total Euros 23,648 million at December 2011 (Euros 24,006 million at December 2010).

(3) Includes the investment in intangible assets (Note 5), broken down by operating segment.

(4) Includes the investment in property, plant and equipment (Note 6), broken down by operating segment. The investment in property, plant and equipment shown in Gas Distribution Spain includes the purchase of gas distribution and secondary transportation assets in the regions of Andalusia and Castilla-La Mancha completed in February 2011, from the company Corporación Llorente Muñoz, S.L., for Euros 27 million.

(5) Includes business combinations (Note 30), broken down by operating segment.

b) Reporting by geographic area

The home-country of GAS NATURAL FENOSA - which is also the main operating company - is Spain. The areas of operation are principally Rest of Europe (Italy, France and Moldova), Latin America, and others.

GAS NATURAL FENOSA's sales, depending on country assignation, are as follows:

	2011	2010
Spain	12,224	11,772
Rest of Europe	1,203	1,192
Latin America	6,370	5,954
Others	1,279	712
Total	21,076	19,630

The assets of GAS NATURAL FENOSA, which include operating assets, as described above, and the investments booked using the equity method, are assigned based on their location:

	At 31.12.11	At 31.12.10
Spain	27,813	27,556
Rest of Europe	810	693
Latin America	6,582	6,508
Others	1,034	1,050
Total	36,239	35,807

The investments in property, plant and equipment and other intangible assets of GAS NATURAL FENOSA assigned according to location of the assets are as follows:

	At 31.12.11	At 31.12.10
Spain	975	1,047
Rest of Europe	54	57
Latin America	345	400
Others	32	39
Total	1,406	1,543

Note 5. Intangible assets

The movement in 2011 and 2010 in intangible assets is as follows:

	Concession and other rights to use	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Cost, gross	3,614	561	2,620	6,795	6,056	12,851
Accumulated depreciation	(1,023)	(371)	(71)	(1,465)	–	(1,465)
Net carrying value at 1.1.10	2,591	190	2,549	5,330	6,056	11,386
Investment	42	76	31	149	–	149
Divestitures	(1)	–	(56)	(57)	–	(57)
Depreciation charge	(112)	(70)	(139)	(321)	–	(321)
Translation adjustment	154	3	2	159	20	179
<i>Business combination (Note 30)</i>	–	–	–	–	–	–
Reclassifications and others ⁽¹⁾	57	4	(100)	(39)	(74)	(113)
Net carrying value at 31.12.10	2,731	203	2,287	5,221	6,002	11,223
Cost, gross	3,902	588	2,521	7,011	6,002	13,013
Accumulated depreciation	(1,171)	(385)	(234)	(1,790)	–	(1,790)
Net carrying value at 1.1.11	2,731	203	2,287	5,221	6,002	11,223
Investment	42	87	47	176	–	176
Divestitures	(1)	–	(8)	(9)	–	(9)
Depreciation charge	(111)	(76)	(166)	(353)	–	(353)
Translation adjustment	(90)	(1)	(2)	(93)	13	(80)
<i>Business combination (Note 30)</i>	43	–	238	281	4	285
Reclassifications and others ⁽²⁾	(19)	(1)	1	(19)	(143)	(162)
Net carrying value at 31.12.11	2,595	212	2,397	5,204	5,876	11,080
Cost, gross	3,865	590	2,814	7,269	5,876	13,145
Accumulated depreciation	(1,270)	(378)	(417)	(2,065)	–	(2,065)
Net carrying value at 31.12.11	2,595	212	2,397	5,204	5,876	11,080

(1) Mainly includes transfers of wind energy development projects to the item "Property, plant and equipment in course" in the amount of Euros 64 million and transfers to the item "Non-current assets held for sale" totalling Euros 71 million (Note 9).

(2) Includes transfers to the item "Non-current assets held for sale" of electricity distribution concessions in the amount of Euros 88 million and of the goodwill of Euros 69 million in the Guatemalan companies (Note 9), as well as goodwill of Euros 68 million in EUFER (Note 9), which were written off in 2011.

Note 4 includes a breakdown of investments in intangible assets by segment.

"Concessions and the like" includes the value of the concessions that are considered intangible assets in accordance with IFRIC 12 "Service Concession Agreements" (Note 32), amounting to Euros 1,535 million (Euros 1,592 in 2010).

Also includes the Maghreb-Europe pipeline concession amounting to Euros 315 million at 31 December 2011 (Euros 327 million at 31 December 2010).

Also includes the electricity distribution concessions acquired as a result of the business combination of UNIÓN FENOSA totalling Euros 708 million at 31 December 2011 (Euros 802 million at 31 December 2010), of which Euros 684 million relate to electricity distribution concessions in Spain that have an indefinite useful life (Note 32) and Other relates to electricity distribution concessions in Latin America.

“Other intangible assets” mainly includes:

- Licences to operate wind farms totalling Euros 303 million at 31 December 2011, including the amounts relating to the acquisition of several wind energy companies mentioned in Note 30 (Euros 34 million at 31 December 2010).
- The cost of acquisition of the exclusive regasification rights in Puerto Rico totalling Euros 49 million at 31 December 2011 (Euros 58 million at 31 December 2010).
- The CO₂ emission allowances acquired, including those acquired as a result of the business combination of UNIÓN FENOSA, for Euros 67 million (Euros 44 million at 31 December 2010).
- Other intangible assets acquired as a result of the business combination of UNIÓN FENOSA totalling Euros 1,947 million at 31 December 2011 (Euros 2,073 million at 31 December 2010) which mainly includes gas supply contracts and other contractual rights.

Set out below is a summary of goodwill assignment by segment:

	At 31.12.11					Total
	Gas Distribution	Electricity Distribution	Electricity	Unión Fenosa Gas	Other	
Spain	–	1,133	2,878	891	–	4,902
Latin America	75	136	552	–	–	763
Others	143	16	17	–	35	211
	218	1,285	3,447	891	35	5,876

	At 31.12.10					Total
	Gas Distribution	Electricity Distribution	Electricity	Unión Fenosa Gas	Other	
Spain	–	1,133	2,948	891	–	4,972
Latin America	81	206	534	–	–	821
Others	143	14	16	–	36	209
	224	1,353	3,498	891	36	6,002

The impairment tests have been carried out at 31 December 2011 and 2010. On the basis of the goodwill impairment analysis it cannot be deduced that impairment will probably arise in the future (Note 3.3.5).

The intangible assets include, at 31 December 2011, fully amortised assets still in use totalling Euros 176 million.

Note 6. Property, plant and equipment

The movements in the accounts in 2011 and 2010 under property, plant and equipment and their respective accumulated amortisation and provisions have been as follows:

	Land and buildings	Gas installations	Electricity generation plants	Plant for electricity transport and distribution	Gas transport tankers	Other Property, plant and equipment	Property, plant and equipment under construction	Total
Cost, gross	579	7,740	10,142	5,314	661	1,086	2,003	27,525
Accumulated amortisation	(66)	(3,330)	(395)	(19)	(86)	(259)	–	(4,155)
Carrying amount at 1.1.10	513	4,410	9,747	5,295	575	827	2,003	23,370
Investment	27	248	78	182	–	45	814	1,394
Divestitures	(4)	(5)	(14)	(9)	–	–	(36)	(68)
Amortisation	(18)	(355)	(670)	(253)	(24)	(75)	–	(1,395)
Translation adjustment	16	107	115	148	–	25	50	461
Business combinations (Note 30)	–	–	–	–	–	–	–	–
Reclassifications and others ⁽¹⁾	26	19	999	301	–	(7)	(1,894)	(556)
Carrying amount at 31.12.10	560	4,424	10,255	5,664	551	815	937	23,206
Cost, gross	671	8,229	11,412	6,101	662	1,171	937	29,183
Accumulated amortisation	(111)	(3,805)	(1,157)	(437)	(111)	(356)	–	(5,977)
Carrying amount at 1.1.11	560	4,424	10,255	5,664	551	815	937	23,206
Investment	38	308	43	289	–	58	494	1,230
Divestitures	(3)	–	–	–	–	(3)	(8)	(14)
Amortisation	(23)	(355)	(607)	(283)	(25)	(104)	–	(1,397)
Translation adjustment	(1)	(29)	42	24	–	4	(2)	38
Business combinations (Note 30)	2	–	592	–	–	1	143	738
Reclassifications and others ⁽²⁾	(5)	(47)	(412)	(129)	–	65	(529)	(1,057)
Carrying amount at 31.12.11	568	4,301	9,913	5,565	526	836	1,035	22,744
Cost, gross	688	8,198	11,721	6,259	662	1,315	1,035	29,878
Accumulated amortisation	(120)	(3,897)	(1,808)	(694)	(136)	(479)	–	(7,134)
Carrying amount at 31.12.11	568	4,301	9,913	5,565	526	836	1,035	22,744

(1) Includes transfers to “Non-current assets held for sale” totalling Euros 615 million (Note 9), of which Euros 28 million relate to assets sold in 2010 (Note 9).

(2) Includes transfers to “Non-current assets held for sale” totalling Euros 1,081 million, written off in 2011 (Note 9).

Note 4 includes a breakdown of investments in property, plant and equipment by segment.

The financial expenses capitalised in 2011 in fixed assets projects during their construction total Euros 17 million (Euros 47 million in 2010). The financial expenses capitalised in 2011 represent 1.8% of the total financial costs of net borrowings (4.5% for 2010). The average capitalisation rate in 2011 and 2010 totals 4.9% and 2.7%, respectively.

“Electricity generation plants” includes the power islands of the combined cycle plants in Palos de la Frontera and Sagunto acquired under finance leases (Note 16).

“Gas transport tankers” includes the current value, at the date of acquisition, of the payment commitments to the fleet of 6 methane tankers (2 of which have been contracted jointly with the Repsol YPF Group and 2 have been contracted for the joint venture Union Fenosa Gas) under finance leases (Note 18).

“Other Property, plant and equipment” includes at 31 December 2011 the net carrying value of investment in areas with reserves totalling Euros 411 million (Euros 417 million at 31 December 2010), including basically the investments in the coal field belonging to Kangra Coal (Proprietary), Ltd in South Africa acquired in the business combination of UNIÓN FENOSA and Exploration costs of Euros 64 million (Euros 73 million at 31 December 2010).

Fixed assets under construction at 31 December 2011 basically include investments in:

- The wind farms under construction totalling Euros 214 million.
- Recurrent investment in planning and development of gas and electricity distribution for Euros 130 million and electricity totalling 219 million.

In 2010 the combined cycle plants in Malaga, Puerto de Barcelona and Norte Durango (Mexico) began operating.

Property, plant and equipment includes, at 31 December 2011, fully depreciated assets in use totalling Euros 1,081 million.

It is the policy of GAS NATURAL FENOSA to take out all the insurance policies deemed necessary to cover the possible risks that could affect its tangible fixed assets.

GAS NATURAL FENOSA has investment commitments of Euros 244 million at 31 December 2011, basically for the construction of wind farms and gas infrastructure projects.

At 31 December 2011 GAS NATURAL FENOSA did not have any significant real estate investment.

Note 7. Investments recorded using the equity method

The movement in 2011 and 2010 in investments measured by equity accounting is as follows:

	2011	2010
At January 1	105	141
Investment	–	1
Share of loss/profit	7	5
Dividends received	(7)	(5)
Divestments and transfers	(6)	(37)
At December 31	99	105

2011

As a result of the swap of EUFER's renewable assets due to the agreement to end the collaboration with the other partner that was arranged through this company, shareholdings in several companies that were consolidated using the equity method have been written off in the amount of Euros 4 million (Note 9).

On 22 December 2011 the company Ensafeca Holding Empresarial S.L. was liquidated. GAS NATURAL FENOSA held an 18.5% interest in this company, generating a gain of Euros 1 million before tax (Note 28).

2010

On 17 December 2010 saw the sale of 35% de Gas Aragón, S.A. totalling Euros 75 million, generating a pre-tax capital gain of Euros 40 million (Note 28).

Appendix I includes a list of all GAS NATURAL FENOSA's associates.

The percentages of net income of the main associates, none which are listed in a stock exchange, and their assets (including goodwill of Euros 17 million as a result of the business combination of UNION FENOSA), and aggregate liabilities, are as follows:

	Country	Assets	Liabilities	Income	Net income	Shareholding
2011						
Bluemobility Systems, S.L.	Spain	1	–	–	–	20.0
Enervent, S.A.	Spain	4	2	1	–	26.0
Kromschroeder, S.A.	Spain	8	3	6	–	42.5
Sistemas Energéticos La Muela, S.A.	Spain	2	–	1	–	20.0
Sistemas Energéticos Mas Garullo, S.A. ⁽¹⁾	Spain	1	–	1	–	18.0
Sociedade Galega do Medio Ambiente,S.A.	Spain	113	95	45	(1)	49.0
Subgrupo Unión Fenosa Gas ^(1/2)	Spain/Oman	119	57	30	7	3.7-10.5
Torre Marenostum, S.L.	Spain	32	24	3	1	45.0
2010						
Bluemobility Systems, S.L.	Spain	1	–	–	–	20.0
Enervent, S.A.	Spain	5	2	1	–	26.0
Ensafeca Holding Empresarial, S.L. ⁽¹⁾	Spain	2	–	–	–	18.5
Gas Aragón, S.A. ⁽³⁾	Spain	–	–	9	3	–
Kromschroeder, S.A.	Spain	7	2	6	–	42.5
Sistemas Energéticos La Muela, S.A.	Spain	2	–	1	–	20.0
Sistemas Energéticos Mas Garullo, S.A. ⁽¹⁾	Spain	2	1	1	–	18.0
Sociedade Galega do Medio Ambiente,S.A.	Spain	116	97	41	(2)	49.0
Subgrupo Eufer ⁽¹⁾	Spain	9	4	–	1	9.0-22.5
Subgrupo Unión Fenosa Gas ^(1/2)	Spain/Oman	117	58	27	3	3.7-10.5
Torre Marenostum, S.L.	Spain	33	25	3	–	45.0

(1) Consolidated by equity accounting in spite of the fact that the shareholding percentage is below 20%, since GAS NATURAL FENOSA has a significant representation in its management.

(2) Includes the shareholdings in the associates Qalhat LNG S.A.O.C. and Regasificadora del Noroeste, S.A. managed through the Unión Fenosa Gas subgroup.

(3) Includes the results of Gas Aragón, S.A. until the date of its sale, 17 December 2010.

Note 8. Financial assets

The breakdown of financial assets, excluding those carried under "Trade and other receivables" (Note 11) and "Cash and other cash equivalents" (Note 12), at 31 December 2011 and 2010, classified according to their nature and account, is as follows:

At 31 December 2011	Available for sale	Loans and other receivables	Investments held to maturity	Total
Equity instruments	75	–	–	75
Other financial assets	–	948	1	949
Non-current financial assets	75	948	1	1,024
Other financial assets	–	1,388	–	1,388
Current financial assets	–	1,388	–	1,388
Total	75	2,336	1	2,412

At 31 December 2010	Available for sale	Loans and other receivables	Investments held to maturity	Total
Equity instruments	90	–	–	90
Other financial assets	–	603	1	604
Non-current financial assets	90	603	1	694
Other financial assets	–	1,901	–	1,901
Current financial assets	–	1,901	–	1,901
Total	90	2,504	1	2,595

Available-for-sale financial assets

The breakdown of fair value financial assets through profit and loss, at December 31, 2011 and 2010, according with the method applied for calculating their fair value is as follows:

	2011				2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
At 1 January	–	–	90	90	141	–	78	219
Increases	–	–	3	3	–	–	4	4
Divestments	–	–	(11)	(11)	(127)	–	–	(127)
Business combinations	–	–	–	–	–	–	–	–
Fair value adjustment	–	–	–	–	(14)	–	–	(14)
Translation adjustments	–	–	(6)	(6)	–	–	11	11
Transfers and others	–	–	(1)	(1)	–	–	(3)	(3)
At 31 December	–	–	75	75	–	–	90	90

2011

During 2011, changes in the item "Available-for-sale financial assets" were due basically to the sale of the shareholding in the Colombian company Proyecto TDO, S.A.S. for Euros 9 million, which had no impact on the consolidated income statement.

2010

In 2010 the main variation in "Available-for-sale financial assets" was the result of the sale in April 2010 of the 5% stake in Indra Sistemas, S.A. totalling Euros 127 million, which generated a pre-tax profit of Euros 4 million, thus decreasing reserves for Value adjustments (Note 28).

Loans and other receivables

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

	At 31.12.11	At 31.12.10
Commercial loans	118	182
Deposits and guarantee deposits	156	156
Debtors for levelling of capacity income	19	17
Other loans	655	248
Loans and other receivables non-current	948	603
Commercial loans	73	56
Tariff deficit	1,231	1,747
Dividend receivable	1	2
Other loans	83	96
Loan and other receivables current	1,388	1,901
Total	2,336	2,504

The breakdown by maturities at December 2011 and 2010 is as follows:

Maturities	At 31.12.11	At 31.12.10
No later than 1 year	1,388	1,901
Between 1 year and 5 years	444	313
Later than 5 years	504	290
Total	2,336	2,504

The fair value and carrying values of these assets do not differ significantly.

“Commercial loans” mainly include the credits for the heating sale and gas installations with long-term financing. The respective interest rates (between 7.75% and 9% for loans from 1 to 5 years) are adjusted to market interest rates for this type of loans and duration.

“Deposits and guarantee deposits” mainly include the amounts received from customers when they contract services as a guarantee for the supply of energy and which, under pertinent legislation, have been deposited with the public authorities.

Debtors for levelling of capacity income includes the income yet to be invoiced recognised through the levelling during the term of the generation capacity commitment contract in Puerto Rico.

“Other non-current loans” includes the financing of Euros 258 million granted to a company of the ContourGlobal Group for the sale of the Arrúbal combined cycle plant (La Rioja), which took place on 28 July 2011 (Note 9). The loan is secured by shares in this company and by other assets, bear annual interest at a market rate and matures in 2021.

“Other credits” includes the value of the concessions that are classified as financial assets in accordance with IFRIC 12 “Service Concession Agreements” (Note 32), in the amount of Euros 114 million (Euros 113 million at 31 December 2010).

“Other non-current loans” also includes the amount receivable resulting from the cost incurred due to the arbitral award issued in August 2010 (Note 15), quantified at Euros 157 million and recoverable over a five-year period, in accordance with Article 15 of Royal Decree-Law 6/2000 (23 June), which obligates the holder of the contract for the supply of natural gas from Algeria through the El Magreb gas pipeline to apply it preferably to tariff supplies. This amount has been estimated based on the calculation made by the Ministry of Industry, Energy and Tourism in the Draft Royal Decree sent in November to the CNE and to the Consultative Council on Hydrocarbons, which revises, as a consequence of the arbitral award, remuneration for the natural gas supplied to the tariff market deriving from the Algeria contract referred to in Royal Decree 6/2000, and proposes a surcharge to finance the cost incurred as a result of the arbitral award to be paid by the gas system to the company Sagane, S.A. (Note 2.1.2).

Other loans include the current and non-current value of the deferred amounts pending receipt for the sale of shareholdings mentioned in Note 18 to Chemo España, S.L. for USD 18 million maturing between 2011 and 2013.

The financing of the deficit for the settlement of the regulated electricity activities is included under “Other current financial assets,” in accordance with the fact that, base on current legislation, there is a right to receive payment without submission to future contingent factors, and recovery is expected in less than 12 months. At 31 December 2011 GAS NATURAL FENOSA has a debt claim for this deficit totalling Euros 1,231 million for 2006 (Euros 192 million), for 2008 (Euros 194 million), for 2010 (Euros 317 million) and for 2011 (Euros 528 million). These assets accrue market interest rate (Note 2).

During 2011, in addition to the collections received from settlements, eleven Electricity System Deficit Securitisation Fund issues were completed, GAS NATURAL FENOSA 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).

Nota 9. Non-current assets and disposable groups of assets held for sale and discontinued activities

The breakdown by nature of the assets classified as held for sale and the related liabilities, is as follows:

	At 31 December 2011			At 31 December 2010		
	Supp. and Com- merc. Spain ⁽¹⁾	Electricity Spain ⁽²⁾	Total	Supp. and Com- merc. Spain ⁽¹⁾	Electricity Spain ⁽²⁾	Total
Intangible assets	-	-	-	-	71	71
Property, plant and equipment	-	-	-	-	587	587
Non-current financial assets	-	-	-	-	7	7
Deferred tax asset	-	-	-	-	2	2
Non-current assets	-	-	-	-	667	667
Inventories	-	-	-	-	1	1
Trade and other receivables	23	-	23	-	22	22
Cash and cash equivalents	-	-	-	-	17	17
Current assets	23	-	23	-	40	40
Total assets	23	-	23	-	707	707
Non-current financial liabilities	-	-	-	-	12	12
Deferred tax liabilities	-	-	-	-	34	34
Other non-current liabilities	-	-	-	-	3	3
Non-current liabilities	-	-	-	-	49	49
Current financial liabilities	-	-	-	-	262	262
Trade and other payables	-	-	-	-	36	36
Other current liabilities	-	-	-	-	3	3
Current liabilities	-	-	-	-	301	301
Total liabilities	-	-	-	-	350	350

(1) Sundry assets in municipalities in the Region of Madrid.

(2) Includes Combined Cycle Group in Plana del Vent and wind far assets to be assigned to Enel Green Power.

The contribution to total consolidated comprehensive income of these assets is not significant.

We describe below the main variations in assets and liabilities held for sale:

Assets and liabilities classified held for sale in 2011

On 7 February 2011, GAS NATURAL FENOSA reached an agreement with a company of the Madrileña Red de Gas Group to sell approximately 300,000 additional gas distribution supply points in the Madrid area for Euros 450 million. This transaction was carried out as part of the action plan adopted by the National Anti-Trust Commission in relation to the acquisition of Unión Fenosa. Since the date of the agreement, these assets have been classified as non-current assets held for sale. After obtaining the respective authorisations the sale was made on 30 June 2011 generating a profit before tax of Euros 280 million (Note 27).

On 14 April 2011, GAS NATURAL FENOSA 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 transaction was carried out as part of the action plan adopted by the National Anti-Trust Commission in relation to the acquisition of Unión Fenosa. Since the date of the agreement, these assets have been classified as non-current assets held for sale. After obtaining the respective authorisations, the sale was made on 28 July 2011, ownership of the plant having been transferred for Euros 313 million without any impact on the Consolidated income statement. The agreement included a buyer financing operation in the amount of Euros 258 million that bears annual interest at a market rate (Note 8) and the signing with Gas Natural Comercializadora SDG, S.A. (subsidiary of GAS NATURAL FENOSA) of gas supply and electricity purchase and sale contracts for less than 50% of forecast production with a maximum term of 10 years for the Plant (Note 35).

On 19 May 2011, GAS NATURAL FENOSA agreed with companies owned by the investment fund Actis to sell its shares in the Guatemalan electricity distributors Distribuidora de Electricidad de Oriente, S.A. and Distribuidora de Electricidad de Occidente, S.A., and in other Guatemalan companies engaged in energy activities, for a total of Euros 239 million, generating a pre-tax loss of Euros 9 million (Note 27).

On 30 June 2011, GAS NATURAL FENOSA agreed to sell approximately 245,000 additional gas customers and other associated contracts in the Madrid area to the Endesa Group for Euros 38 million. This transaction is part of the compliance with the commitments acquired by GAS NATURAL FENOSA before the Spanish National Anti-Trust Authorities for the purchase of UNIÓN FENOSA and is subject to obtaining the pertinent authorizations. Since the date of the agreement, these assets have been classified as non-current assets held for sale.

Assets and liabilities classified held for sale in 2010

On 19 December 2009, GAS NATURAL FENOSA agreed with Morgan Stanley Infraestructura and Galp Energia SGPS and certain companies in their groups to the sale of the natural gas distribution branch in 38 municipalities of the Region of Madrid relating to approximately 500,000 supply points, the natural gas and electricity supply branch for domestic-commercial customers and small and medium sized companies and the shared services branch in those regions. This transaction was carried out as part of the action plan adopted by the National Anti-Trust Commission in relation to the acquisition of UNIÓN FENOSA and is subject to adoption by the regulatory and anti-trust authorities. Since the date of the agreement, these assets have been classified as non-current assets held for sale. After obtaining the respective authorisations the sale was made on 30 April 2010 in the amount of Euros 800 million, generating a profit before tax of Euros 380 million (Note 27).

On 24 December 2009, GAS NATURAL FENOSA entered into an agreement with Mitsui Group and Tokyo Gas Company for the divestment of the following combined cycle electricity companies: México Anahuac (Río Bravo II), Lomas del Real (Río Bravo III), Vallehermoso (Río Bravo IV), Electricidad Aguila Altamiras and Saltillo, with a total generation capacity of 2.233 MW, and the Gasoducto del Río. After obtaining authorisation from the Mexican authorities, the sale was completed on 3 June 2010. Under this agreement Mitsui Group and Tokyo Gas Company reached a 76% stake through a capital increase that diluted the shareholding of GAS NATURAL FENOSA and, afterwards, a 24% purchase option was exercised on the remaining capital. Since the date of this agreement these assets were considered non-current assets held for sale. After obtaining the respective authorisations, the transfer of control of all the companies took place on 3 June 2010 for the amount of Euros 1,012 million, generating a loss before tax of Euros 4 million, included under "Other results" in the Consolidated income statement (Note 27).

On 12 July 2010, GAS NATURAL FENOSA entered into an agreement with the Alpiq Group 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 which related to representing market value of this right. This transaction is part of the compliance with the commitments acquired by GAS NATURAL FENOSA before the Spanish National Anti-Trust Authorities for the purchase of UNIÓN FENOSA. Since 30 June 2010 the assets of the group agreed under the same have been classified as non-current assets held for sale. After obtaining the respective authorisations, the sale was made on 1 April 2011 without any impact on the Consolidated income statement.

In accordance with the provisions of the Ninth Temporary Provision of Law 17/2007/4 July, which modifies the Electricity Industry Act, Law 54/97, which requires that distribution companies sell their networks and electricity transport facilities, on 23 July 2010 Unión Fenosa Distribución, S.A.U and Red Eléctrica de España, S.A.U. reached an agreement on the sale electricity transport assets. Since that date these assets have been classified as non-current assets held for sale. After obtaining the respective authorisations, the sale was made on 30 November 2010 for an amount of Euros 47 million, generating a pre-tax gain of Euros 5 million (Note 27).

On 2 August 2010, GAS NATURAL FENOSA and Enel Green Power agreed to terminate their collaboration on renewable energy which until that time were channelled through Enel Unión Fenosa Renovables, S.A. (EUFER), a company in which each shareholder held a 50% stake. After this operation, each shareholder will receive approximately half of the assets of EUFER. The operation was approved on 10 November 2010 by the anti-trust authorities, pending regulatory and administrative authorization. As from that date, the part of the assets and liabilities that were reflected in the consolidated balance sheet of GAS NATURAL FENOSA that should have been assigned to Enel Green Power were treated as non-current assets and liabilities held for sale. After obtaining the respective authorisations, the sale was made on 27 de mayo de 2011. For accounting purposes, it has been treated as a swap of the assets and liabilities that are written off at their carrying amount in GAS NATURAL FENOSA's consolidated balance sheet for the acquired business that is recognised at fair value determined on the basis of independent third-party appraisals (Note 30), generating a loss before tax of Euros 4 million (Note 27).

Note 10. Inventories

The breakdown of Inventories is as follows:

	At 31.12.11	At 31.12.10
Natural gas and liquefied gas	513	414
Coal and fuel oil	260	234
Nuclear fuel	52	52
Raw materials and other inventories	54	55
Total	879	755

The inventories of gas basically include the inventories of gas deposited in underground storage units, sea transport, plants and pipelines.

Note 11. Trade and other receivables

The breakdown of this account is as follows:

	At 31.12.11	At 31.12.10
Trade receivables	5,150	4,267
Receivables with related companies (Note 33)	7	62
Provision for depreciation of receivables	(580)	(383)
Trade receivables for goods and services	4,577	3,946
Public Administrations	167	208
Prepayments	57	46
Derivative financial instruments (see Note 17)	46	93
Sundry receivables	227	187
Other receivables	497	534
Current deferred income tax assets	118	112
Total	5,192	4,592

In general, the outstanding invoices do not accrue interest as they fall due in an average period of twenty-five days.

The movement in the impairment of receivables is as follows:

	2011	2010
At 1 January	(383)	(208)
Net charge for the year	(216)	(238)
Disposals	42	98
Cumulative translation adjustments and others	(23)	(35)
At 31 December	(580)	(383)

Note 12. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31.12.11	At 31.12.10
Cash at bank and in hand	986	824
Short term investments (Spain and rest of Europe)	1,907	296
Short term investments (International)	205	83
Total	3,098	1,203

The short term investments in cash equivalents mature in less than three months and bear an average effective interest rate 3.0% at December 2011 (1.6% at December 2010).

Note 13. Equity

The main elements of Equity break down as follows:

Share capital and share premium

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

	Number of shares (in thousands)	Share capital	Share premium	Total
At 1 January 2010	921.757	922	3.331	4.253
Variation	–	–	–	–
At 31 December 2010	921.757	922	3.331	4.253
Capital increase				
in cash	38.184	38	477	515
in swap	31.731	32	–	32
At 31 December 2011	991.672	992	3.808	4.800

At 31 December 2011 and at 31 December 2010 the total number of authorised ordinary shares was, respectively, 991.672.139 and 921.756.951 shares, made 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 GAS NATURAL FENOSA, 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 15) 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 3.85% 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 Gas Natural SDG, S.A. 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:

	Interest in share capital (%)
"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 2010 of Gas Natural SDG, S.A. is Euros 13.27 (Euros 11.49 at 31 December 2010).

Reserves

Reserves includes the following reserves:

	2011	2010
Legal reserve	185	185
Statutory reserve	91	89
Revaluation reserve under RD 7/96	225	225
Goodwill reserve	357	179
Voluntary reserves	4,491	4,388
Other reserves	1,551	1,040
	6,900	6,106

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.

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.

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 the monetary gain has been realised. The part of the gain that will be considered realised is the part relating to the amortisation recorded or when the revaluated assets have been transferred or written off the books of account.

Goodwill reserve

According to 273 Article of the Spanish Capital Companies Act, Gas Natural SDG, S.A. must appropriate a non-distributable reserve equivalent to the goodwill carried on the asset side of the balance sheet in 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.

Earnings per share

The earnings per share are calculated by dividing the net income attributable to the equity holders of the parent Company by the average weighted number of ordinary shares in circulation during the year.

	At 31.12.11	At 31.12.10
Net income attributable to equity holders of the Company	1,325	1,201
Weighted average number of ordinary shares in issue (million)	953	922
Earnings per share from continuing activities (in Euros):		
Basic	1.39	1.30
Diluted	1.39	1.30
Earnings per share from discontinued activities (in Euros):		
Basic	-	-
Diluted	-	-

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, calculated as follows:

	Number of shares (in thousands)	Days	Days x Number of shares
Shares at 1 January 2011	921,757	365	336,441,287
Fully-paid capital increase	31,731	191	6,061,733
Capital increase in cash	38,184	144	5,498,438
Shares at 1 December 2011	991,672	365	348,001,458
Weighted average number of shares for the period			953,429

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

Dividends

We break down below the payments of dividends made in 2011 and 2010:

	31.12.11			31.12.10		
	% of par value	Euros per share	Amount ⁽¹⁾	% of par value	Euros per share	Amount ⁽²⁾
Ordinary shares	35	0.35	324	79	0.79	730
Remaining shares (no vote, redeemable, etc.)	–	–	–	–	–	–
Total dividends paid	35	0.35	324	79	0.79	730
a) Dividends charged to income statement	35	0.35	324	79	0.79	730
b) Dividends charged to reserves or share premium	–	–	–	–	–	–
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 2010 and paid on 8 January 2011 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 of 25 November 2011, to distribute an interim dividend against the income statement for 2011 of Euros 0.363 per share, totalling Euros 360 million, payable as from 9 January 2012.

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

Net income after tax	852
Reserves to be allocated	(200)
Maximum amount available for distribution	652
Forecast payment of interim dividend	360
Treasury liquidity	2,046
Undrawn credit facilities	3,283
Total liquidity	5,329

On 27 January 2012, the Board of Directors adopted the proposal to submit the following distribution of net profit of Gas Natural SDG, S.A. for FY 2011 to the General Meeting of Shareholders:

Basis for distribution	
Retained earnings	366
Profit and (loss)	1,317
Distribution	
To Legal reserve	14
To Statutory reserve	7
To the Goodwill reserve	179
To voluntary reserve	662
To dividend	360
To retained earnings	461

The proposed distribution of results prepared by the Board of Directors for approval by the General Meeting of Shareholders includes the payment of a dividend of Euros 360 million (equivalent to the amount allocated to the interim dividend for 2011 to be paid as from 9 January 2012), as well as an increase in the share bonus issue through the issue of new ordinary shares with a maximum quotation market value of Euros 461 million. This capital increase will offer the shareholders the possibility of receiving ordinary shares of Gas Natural SDG, S.A. instead of what they would have been paid, in July 2012, for the final dividend for 2011, and contemplates the creation by Gas Natural SDG, S.A. of mechanisms to guarantee that those shareholders who so desire can receive the amount in cash.

Minority Interest

In 2005 Unión Fenosa Preferentes, S.A. issued preference shares for a nominal amount of Euros 750 million, which was booked under "Minority interest". The main characteristics are:

- Dividend: variable non-accumulative; from the date of payment until 30 June 2015 it will be Euribor at three months plus a spread of 0.65%; as from that date, it will be Euribor at three months plus a spread of 1.65%.
- Dividend payment: will be paid by calendar quarters in arrears, depending on the existence of distributable profit of GAS NATURAL FENOSA, considering as such the lesser of the net profit declared by the GAS NATURAL FENOSA and the net profit of Gas Natural SDG, S.A. as guarantor.
- Term: perpetual, with the option for the issuer of reducing all or part of the shareholdings after 30 June 2015. Reduction will be made at nominal value.
- Remuneration: the dividend payment will be preferential and not accumulative and depends on whether distributable profit is reported by Gas Natural SDG, S.A. and the payment of a dividend to its ordinary shareholders. The issuer will have the option but not the obligation to pay the shareholders remuneration in kind by increasing the nominal value of the preference shares.
- Voting rights: none.

Note 14. Grants

The breakdown and the movements under capital grants and other deferred income in 2011 and 2010 have been as follows:

	Grants	Revenues from pipeline networks and branch lines	Income from extension of pipelines charged to third parties	Other revenues	Total
At 1.01.10	168	192	111	49	520
Financing received	37	108	16	11	172
Release to income	(6)	(13)	(11)	(1)	(31)
Cumulative translation adjustments	6	–	–	1	7
Transfers and others	(45)	60	1	(27)	(11)
At 31.12.10	160	347	117	33	657
Financing received	40	103	11	47	201
Release to income	(12)	(14)	(7)	(2)	(35)
Cumulative translation adjustments	1	–	(1)	1	1
Transfers and others	7	(30)	(4)	6	(21)
At 31.12.11	196	406	116	85	803

Note 15. Provisions

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

	At 31.12.11	At 31.12.10
Provisions for employee obligations	709	698
Other provisions	1,003	2,167
Non-current provisions	1,712	2,865
Current provisions	133	127
Total	1,845	2,992

Provisions for employee obligations

A breakdown of the provisions related to employee obligations is as follows:

	2011	2010
At 1 January	698	645
Provisions charged to the income statement	42	47
Amounts paid during the year	(77)	(75)
Cumulative translation adjustments	–	37
Variations recognised directly in equity	46	45
Transfers and others	–	(1)
A 31 December	709	698

The breakdown of the provisions for post-employment pension obligations by country is as follows:

Breakdown by country	At 31.12.11	At 31.12.10	At 01.1.10
Spain ⁽¹⁾	355	362	389
Colombia ⁽²⁾	284	268	222
Brazil ⁽³⁾	61	57	25
Rest	9	11	9
Total	709	698	645

1) Pension plans and other post-employment benefits in Spain.

Most of the post-employment obligations of GAS NATURAL FENOSA in Spain consist of the contribution of defined amount to occupational pension plan systems. Nevertheless, at 31 December 2011 and 31 December 2010, GAS NATURAL FENOSA held the following defined benefit obligations for certain groups of workers:

- Pensioners (retired workers, the disabled, widows and orphans).
- 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.
- Liabilities 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

2) Pension plans and Other post-employment benefits in Colombia.

At 31 December 2011 and 2010 there are following obligations with certain employees of the Colombian company Electricadora del Caribe, S.A. E.S.P:

- Pension liabilities for retired personnel.
- Post-retirement electricity for current and retired personnel.
- Healthcare and other post-retirement aid.

3) Pension Plans and Other post-employment benefits in Brazil.

At 31 December 2010 and at 31 December 2009, GAS NATURAL FENOSA has the following benefits for certain employees in Brazil:

- Defined post-employment benefits plan, covering retirement, death on the job and disability pensions and overall amounts.
- Post-employment healthcare plan.
- Other defined post employment benefit plans that guarantee temporary pensions, life-time pensions and overall amounts depending on seniority.

The breakdown of the provisions for pensions and liabilities, by country, recognised in the consolidated balance sheet and the fair value of the plan-related assets is as follows:

	2011			2010		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Current value of the obligations						
As at 1 January	1,200	268	171	1,204	222	117
Current service cost	4	–	–	4	–	2
Interest cost	48	20	17	54	21	19
Actuarial gains and losses	(43)	31	28	(4)	26	36
Benefits paid	(90)	(34)	(14)	(97)	(34)	(13)
Transfers	6	–	–	40	–	–
Cumulative translation adjustments	–	5	(16)	–	33	10
Others	–	(6)	–	(1)	–	–
As at 31 December	1,125	284	186	1,200	268	171
Fair value of plan assets						
As at 1 January	838	–	114	815	–	92
Expected yield	33	–	14	37	–	17
Contributions	9	–	5	36	–	1
Actuarial gains and losses	(42)	–	12	7	–	7
Benefits paid	(68)	–	(9)	(97)	–	(10)
Transfers	–	–	–	40	–	–
Cumulative translation adjustments	–	–	(11)	–	–	7
As at 31 December	770	–	125	838	–	114
Provisions for post-employment pension obligations	355	284	61	362	268	57

The amounts recognized in the income statement for the aforementioned pension plans are as follows:

	2011			2010		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Current service cost	4	–	–	4	–	2
Interest cost	48	20	17	54	21	19
Expected return on plan assets	(33)	–	(14)	(37)	–	(17)
Total income statement charge	19	20	3	21	21	4

The movement in the liability recognized in the balance sheet is as follows:

	2011			2010		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
As at January 1	362	268	57	389	222	25
Charge against the income statement	19	20	3	21	21	4
Contributions paid	(31)	(34)	(10)	(37)	(34)	(4)
Variations recognised directly in net equity	(1)	31	16	(10)	26	29
Transfers	6	(6)	–	–	–	–
Cumulative translation adjustments	–	5	(5)	–	33	3
Others	–	–	–	(1)	–	–
As at 31 December	355	284	61	362	268	57

The accumulated amount of the actuarial gains and losses recognised directly in equity is negative by Euros 95 million for 2011 (Spain: positive Euros 4 million, Colombia: negative Euros 66 million and Brazil: negative Euros 33 million).

The main categories of assets, expressed as a percentage of the total fair value of the assets are as:

% over total	2011 (%)			2010 (%)		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Shares	–	–	16	–	–	10.7
Bonds	100	–	76	100	–	84.0
Real estate and other assets	–	–	8	–	–	5.3

Real yields on the plan-related assets in 2011, relating basically to Spain and Brazil, have been Euros 47 million (Euros 54 million in 2010).

The main annual actuarial assumptions used were as follows:

	At 31.12.11			At 31.12.10		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Discount rate ⁽¹⁾ (%)	3.1 a 4.9	7.8	11.4	2.5 a 5	8	6.8
Expected return on plan assets ⁽¹⁾ (%)	3.1 a 4.9	7.8	12.8	2.5 a 5	8	6.8
Future salary increases ⁽¹⁾ (%)	3.0	2.75	7.6	3.0	2.7	6.6
Future pension increases ⁽¹⁾ (%)	2.5	2.75	5.5	2.5	2.7	0.0
Inflation rate ⁽¹⁾ (%)	2.5	2.75	5.5	2.5	2.7	4.5
Mortality table	PERMF 2000	RV08	AT-83	PERMF 2000	RV08	AT-83

(1) per annum.

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

The following table includes the effect of a 1% variation in the inflation rate, a 1% change in the discount rate and a 1% change in the cost of healthcare over the provisions and actuarial costs:

	Inflation +1%	Discount +1%	Healthcare +1%
Current value of the obligations	100	(136)	14
Fair value of plan-related assets	–	(61)	–
Provision for pensions	100	(75)	14
Cost of service for the year	1	(1)	–
Interest paid	7	6	1
Expected yield on plan-related assets	(1)	4	–

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
As at 1 January	2,167	127	2,294	1,236	128	1,364
Charged to / reversed in the income statement						
provisions	264	18	282	767	9	776
reversals	(29)	–	(29)	(38)	(4)	(42)
Amounts paid during the year	(53)	(5)	(58)	(66)	(42)	(108)
Business combinations	2	–	2	–	–	–
Cumulative translation adjustments	(3)	2	(1)	17	4	21
Transfer and others	(1,345)	(9)	(1,354)	251	32	283
As at 31 December	1,003	133	1,136	2,167	127	2,294

This account includes the provisions recorded to meet obligations arising mainly from tax claims, as well as litigation and arbitration proceedings 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 35.

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. This agreement had no impact on the Consolidated income statement, since the risks deriving from the dispute were already provisioned, having been transferred to the item "Trade and other payables" in the amount of Euros 1,356 million, Euros 1,182 million of which was paid in 2011.

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).

Additionally, this account includes the provisions to meet the liabilities arising from the dismantling, restoration and other costs related to the facilities, basically electricity generating facilities, totalling Euros 314 million at 31 December 2011 (Euros 318 million in 2010).

Current provisions also includes the excess of CO2 emissions above the rights assigned totalling Euros 18 million at 31 December 2011 (Euros 5 million at 31 December 2010).

The estimated payment periods for the commitments provisioned in this item refer to Euros 452 million in between one and five years, Euros 325 million in between five and 10 years, and Euros 226 million after more than 10 years.

Note 16. Borrowings

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

	At 31.12.11	At 31.12.10
Issuing of debentures and other negotiable obligations	8,276	7,488
Loans from financial institutions	8,847	10,242
Derivative financial instruments	86	75
Other financial liabilities	330	371
Non-current borrowings	17,539	18,176
Issuing of debentures and other negotiable obligations	1,076	631
Loans from financial institutions	1,621	1,195
Derivative financial instruments	9	61
Other financial liabilities	147	243
Current borrowings	2,853	2,130
Total	20,392	20,306

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

	Carrying amount		Fair value	
	At 31.12.11	At 31.12.10	At 31.12.11	At 31.12.10
Issuing of debentures and other negotiable obligations	8,276	7,488	8,207	7,199
Loans from financial institutions and others	9,177	10,613	9,282	10,705

The fair value of the listed bond issues is estimated on the basis of their market price (Level 1). 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. These valuations are based on the quotation price of similar financial instruments in an official market or on observable information in an official market (Level 2).

The movement in borrowings is as follows:

	2011	2010
As at 1 January	20,306	21,507
Business combinations	640	–
Increase in borrowings	4,514	11,375
Decrease in borrowings	(4,680)	(12,647)
Cumulative translation adjustment	9	302
Transfers and others ⁽¹⁾	(397)	(231)
As at 31 December	20,392	20,306

1) Mainly includes transfers to the item "Non-current assets held for sale" in the amount of Euros 399 million at 31 December 2011 (Euros 274 million at 31 December 2010), written off during 2011.

The following tables describe our consolidated gross borrowings by instrument 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 December 31, 2011							
Marketable Debt							
Fixed	742	600	1,977	790	987	3,922	9,018
Floating	334	–	–	–	–	–	334
Institutional Banks and other financial companies							
Fixed	133	127	181	177	175	638	1,431
Floating	165	33	32	46	25	112	413
Commercial Banks and other financial liabilities							
Fixed	799	723	154	110	99	349	2,234
Floating	680	1,648	263	3,224	356	791	6,962
Total Fixed	1,674	1,450	2,312	1,077	1,261	4,909	12,683
Total Floating	1,179	1,681	295	3,270	381	903	7,709
Total	2,853	3,131	2,607	4,347	1,642	5,812	20,392

	2011	2012	2013	2014	2015	2016 and beyond	Total
At December 31, 2010							
Marketable Debt							
Fixed	562	551	307	1,907	650	4,087	8,064
Floating	55	–	–	–	–	–	55
Institutional Banks and other financial companies							
Fixed	112	123	123	121	117	509	1,105
Floating	39	116	15	71	99	431	771
Commercial Banks and other financial liabilities							
Fixed	302	364	1,213	172	1,508	668	4,227
Floating	1,060	1,128	1,535	31	1,959	371	6,084
Total Fixed	976	1,038	1,643	2,200	2,275	5,264	13,396
Total Floating	1,154	1,244	1,550	102	2,058	802	6,910
Total	2,130	2,282	3,193	2,302	4,333	6,066	20,306

If the impact of the derivatives on borrowings is excluded, the classification between fixed and floating rates would be: fixed, Euros 10,918 million in 2011 (Euros 9,955 million in 2010) and floating, Euros 9,379 million in 2011 (10,215 million in 2010).

The following table describes our consolidated gross financial debt denominated by currency at 31 December 2011 and 31 December 2010 and its maturity profile, taking into account the impact of the derivative hedges.

	2012	2013	2014	2015	2016	2017 and beyond	Total
At 31 December 2011:							
Euro Debt	1,972	2,528	2,236	3,866	1,523	4,809	16,934
Foreign Currency Debt:							
US Dollar	507	428	116	276	119	600	2,046
Mexican peso	37	2	72	140	–	80	331
Brazilian real	116	77	30	21	–	12	256
Colombian peso	203	80	153	44	–	76	556
Argentinean peso	18	16	–	–	–	–	34
Rest	–	–	–	–	–	235	235
Total	2,853	3,131	2,607	4,347	1,642	5,812	20,392

	2011	2012	2013	2014	2015	2016 and beyond	Total
At 31 December 2010:							
Euro Debt	1,331	1,647	2,877	2,131	3,946	4,797	16,729
Foreign Currency Debt:							
US Dollar	249	305	381	109	297	677	2,018
Mexican peso	165	91	47	–	–	–	303
Brazilian real	173	56	28	9	43	58	367
Colombian peso	171	163	79	41	41	56	551
Argentinean peso	26	7	–	–	–	–	33
Rest	15	13	73	12	6	186	305
Total	2,130	2,282	3,485	2,302	4,333	5,774	20,306

Borrowings in Euros have borne an effective average interest rate of 4.14% at 31 December 2011 (3.99% at 31 December 2010) while borrowings in foreign currency have borne an effective average interest rate of 5.21% (5.29% at 31 December 2010), including derivative instruments assigned to each transaction.

At 31 December 2011, GAS NATURAL FENOSA has credit facilities totalling Euros 4,933 million (Euros 4,935 million at 31 December 2010), of which Euros 4,202 million have not been drawn down (Euros 3,573 million at 31 December 2010).

Bank borrowings totalling Euros 1,490 million are subject to the fulfilment of certain financial ratios relating mainly to debts incurred by the former UNIÓN FENOSA group and to the debts of Latin American companies in local market financing operations without recourse to the parent company.

At the preparation date of these Consolidated annual accounts, GAS NATURAL FENOSA 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.

Certain investment projects have been financed by means of specific structures (project finance) which include pledges on the shares in the project companies. At 31 December 2010, the outstanding balance of this type of financing totals Euros 812 million.

We describe below the most relevant financing instruments:

Issue of bonds and other negotiable securities

In 2011 and 2010 the evolution of the issues of debt securities has been as follows:

	At 01.01.11	Issues	Buy backs or reimbursements	Exchange rate adjustments and others	At 31.12.11
Issued in a member state of the European Union which required the filing of a prospectus	7,484	3,218	(2,259)	64	8,507
Issued in a member state of the European Union which did not require the filing of a prospectus	–	–	–	–	–
Issued outside a member state of the European Union	635	262	(35)	(17)	845
Total	8,119	3,480	(2,294)	47	9,352

	At 01.01.10	Issues	Buy backs or reimbursements	Exchange rate adjustments and others	At 31.12.10
Issued in a member state of the European Union which required the filing of a prospectus	6,439	3,660	(2,650)	35	7,484
Issued in a member state of the European Union which did not require the filing of a prospectus	5	–	(5)	–	–
Issued outside a member state of the European Union	653	15	(25)	(8)	635
Total	7,097	3,675	(2,680)	27	8,119

ECP Program

On 23 March 2010 a Euro Commercial Paper program (ECP) was contracted totalling Euros 1,000 million, the issuer being Unión Fenosa Finance BV. During 2011, further issues were completed under that Programme for a total amount of Euros 2,085 million. At 31 December 2011, the amount of Euros 266 million had been drawn down on the Programme (Euros 357 million at December 2010) and the sum of Euros 734 million was available (Euros 643 million at December 2010).

Promissory Notes Program

In July 2009 GAS NATURAL FENOSA subscribed a Promissory Note Program 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 aforementioned Program was renewed on July 2011 in the same amount. At 31 December 2011 the outstanding issues under this program totalled Euros 69 million (Euros 118 million at 31 December 2010), the available amount being Euros 932 million (Euros 882 million at 31 December 2010).

EMTN Program

GAS NATURAL FENOSA, through the subsidiary companies Gas Natural Capital Markets, S.A. and Unión Fenosa Finance, BV, maintains a European Medium Term Notes (EMTN) Program in the medium term. This Program was established in 1999 of which a total principal of up to Euro 2,000 million could be issued. Following a number of extensions, the latest in November 2011, the Programme limit is Euros 12,000 million (Euros 10,000 million at 31 December 2010). At 31 December 2011, principal drawn down totalled Euros 8,050 million (Euros 6,950 million at 31 December 2010) and the amount of Euros 3,950 million was available. The breakdown of the nominal issue balance is as follows:

Nominal	Issue	Maturity	Coupon (%)
500	July 2009	2019	6,37
2,000	July 2009	2014	5,25
1,000	November 2009	2016	4,37
500	November 2009	2012	3,12
750	November 2009	2021	5,12
850	January 2010	2020	4,50
650	January 2010	2015	3,37
700	January 2010	2018	4,12
600	February 2011	2017	5,63
500	May 2011	2019	5,38
Total	8,050		

Preference shares

In May 2003, Unión Fenosa Financial Services USA, LLC., issued preference shares for a nominal amount of Euros 609 million with the following characteristics:

- Dividend: variable, non-accumulative, until 20 May 2013, will be Euribor at three months plus a spread of 0.25% capped at 7% and a minimum of 4.25%; as from that date, Euribor at three months plus a spread of 4%.
- Term: perpetual, with the option for the issuer of reducing in advance all or part of the shareholding after 20 May 2013. Reduction will be made at par value.
- Remuneration: the dividend payment will be preferential and not accumulative and depends on whether distributable consolidation profit is reported or the payment of a dividend to its ordinary shareholders.
- Voting rights: none.

Negotiable bonds

The Group company, Empresa de Distribución Eléctrica Metro-Oeste, S.A, located in Panama, executed the issue in May 2010 of Negotiable Commercial Securities of up to USD 50 million (Euros 39 million). The amount drawn down at 31 December 2011 totalled Euros 23 million (Euros 15 million at 31 December 2010).

In turn, on 3 May 2011 GAS NATURAL FENOSA, through its subsidiary Gas Natural México S.A. de C.V., registered a Stock Market Certificate Programme in the Mexican Stock Exchange for the sum of MXN 10,000 million (Euros 544 million). Under this Programme, on 20 May 2011 debt was issued for periods of four and six years and a total amount of MXN 4,000 million (Euros 221 million), the available amount being Euros 323 million, secured by Gas Natural SDG, S.A.

Bank loans

European bank loans (commercial/institutional banks)

At 31 December 2011, bank borrowings include bank loans of Euros 6,595 million (Euros 6,437 million at 31 December 2010) and credit lines drawn in the amount of Euros 461 million (Euros 1,003 million at 31 December 2010). Additionally, debts incurred with Instituto de Crédito Oficial (ICO) total Euros 577 million, arranged through loans maturing in 2018 at maximum (Euros 593 million at 31 December 2010) and a credit line obtained in December 2005 with a limit of Euros 125 million, which was entirely drawn down at 31 December 2011 (Euros 100 million at 31 December 2010).

The European Investment Bank (EIB) has granted financing of Euros 853 million to GAS NATURAL FENOSA, which includes Euros 150 million drawn down on a new line of financing granted in December 2011 in the amount of Euros 350 million. The remaining amount of Euros 200 million has yet to be utilised.

Loans from Latin American banks (commercial/institutional banks)

At 31 December 2011 borrowings from various Latin American banks totalled Euros 1,263 million (Euros 1,617 million at 31 December 2010). The geographic breakdown of these loans is as follows: Mexico: Euros 312 million (Euros 522 million at 31 December 2010), Colombia: Euros 556 million (Euros 551 million at 31 December 2010), Brazil: Euros 256 million (Euros 367 million at 31 December 2010), Argentina: Euros 34 million (Euros 13 million at 31 December 2010), Panama: Euros 99 million (Euros 96 million at 31 December 2010), Nicaragua: Euros 6 million (Euros 5 million at 31 December 2010) and the Guatemalan debt of Euros 63 million was included at 31 December 2010 (Note 9).

Of total Latin American borrowings at 31 December 2011, 79% to commercial banks and the remaining 21% to institutional banks (BNDES, BEI, ICO, etc.).

At 31 December 2011, the debt related to the combined cycle plant and the regasification plant in Puerto Rico totals Euros 156 million (Euros 167 million at 31 December 2010), including Euros 12 million in credit facilities drawn down (Euros 11 million at 31 December 2010). The most of this debt matures on long term.

Wind farm operators (commercial banks)

At 31 December 2011, wind farm operating companies had Euros 66 million in outstanding loans, mainly for project financing (Euros 83 million at 31 December 2010). Most of this debt matures on long term.

At 31 December 2010, the companies owned by Enel Unión Fenosa Renovables (EUFER) recognised a total of Euros 274 million. If the borrowings associated with non-current assets held for sale (Note 9) are considered, the balance amounts to Euros 548 million. Due to the swap of EUFER's renewable assets on 27 May 2011, the carrying amount of this debt was written off the consolidated balance sheet and the borrowings were recognised at the fair value of the assets and liabilities acquired through the swap (Note 30); subsequently, the entire amount was eliminated.

Unión Fenosa Gas (commercial/institutional banks)

At 31 December 2011, the companies belonging to Unión Fenosa Gas had Euros 394 million in outstanding loans (Euros 389 million at 31 December 2010), mainly for financing in USD by Banco Europeo de Investments (BEI) to finance the natural gas liquefaction plant in Damietta (Egypt) totalling Euros 148 million (Euros 156 million at 31 December 2010), and for a loan in USD given by twenty-two lending entities totalling Euros 220 million (Euros 233 million at 31 December 2010). Most of this debt matures in 2016 and beyond.

Bank loans—other countries (commercial banks)

At 31 December 2011, bank loans from other countries total Euros 14 million (Euros 12 million at 31 December 2010) and pertain mainly to Moldova and Kenya.

Other financial liabilities

“Other financial liabilities” basically include the finance leases with banks for power islands at the combined cycle plants in Palos de la Frontera and Sagunto, with a maturity of 10 years, entered into respectively in 2005 and 2007.

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

	At 31.12.11			At 31.12.10		
	Nominal	Discount	Present value	Nominal	Discount	Present value
No later than 1 year	87	(4)	83	91	(4)	87
Between 1 and 5 years	274	(34)	240	321	(43)	278
Later than 5 years	51	(11)	40	88	(21)	67
Total	412	(49)	363	500	(68)	432

Note 17. 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 for 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 financial debt costs within the established risk parameters.

GAS NATURAL FENOSA 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 debt structure at 31 December 2011 and 2010, after taking into account the hedges structured through derivatives, is as follows:

	At 31.12.11	At 31.12.10
Fixed interest rate	12,683	13,396
Floating interest rate	7,709	6,910
Total	20,392	20,306

The floating interest rate is mainly subject to the fluctuations of the EURIBOR, the LIBOR and the indexed rates of Mexico, Brazil, Colombia and Argentina.

The sensitivity of profit and equity ("Adjustments for changes in value") 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	(45)	18
	-50	41	(18)
2010	+50	(35)	15
	-50	35	(15)

Exchange rate risk

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

- Counter value of cash flows related to the sale and purchase 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 FENOSA finances, to the extent possible, its investments in local currency. Furthermore, it tries to make, 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 within the limits approved for hedging instruments.

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

	%	2011	2010
Effect on profit before tax	+5	2	-
	-5	(2)	-
Effect on equity before tax	+5	13	11
	-5	(15)	(12)

Commodities price risk

A large portion of the operating expenses of GAS NATURAL FENOSA is linked to the purchase of gas in order to supply customers or for electricity generation at combined cycle plants. Therefore, GAS NATURAL FENOSA is exposed to gas price fluctuation risk, whose determination is basically subject to the prices of crude oil and its by-products. Additionally, in the electricity generation business GAS NATURAL FENOSA is exposed to CO₂ 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 electricity trading operations carried out by GAS NATURAL FENOSA 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 profit and equity (Value adjustments) to the variation in the fair value of derivative contracts to hedge commodity prices is as follows:

	Increase/decrease in the purchase price of gas	Effect on profit before tax	Effect on equity before tax
2011	+10	–	3
	-10	–	(3)
2010	+10	–	(12)
	-10	–	12

	Increase/decrease in the electricity sale price	Effect on profit before tax	Effect on equity before tax
2011	+10	(7)	(7)
	-10	7	7
2010	+10	–	4
	-10	–	(4)

	Increase/decrease in the price of CO ₂ emission rights	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.

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.

In order 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 that are negotiated are guarantees, guarantee deposits and deposits. At 31 December 2011, GAS NATURAL FENOSA had received guarantees totalling Euros 10 million to cover the risk of large industrial customers (Euros 14 million at 31 December 2010). In 2011, guarantees have been executed for amounts lower than Euros 1 million (lower than Euros 1 million at 31 December 2010)

Furthermore, the debt claims are stated on the consolidated balance sheet net of provisions for bad debts (Note 11), estimated by GAS NATURAL FENOSA on the basis of the ageing of the debt and past experience in accordance with the prior segregation of customer portfolios and the current economic environment.

At 31 December 2011 and 2010 GAS NATURAL FENOSA does not have significant concentrations of credit risk.

In order to mitigate credit risk arising from financial positions, GAS NATURAL FENOSA enters into 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 neither due nor provided for have a high credit rating, according to the valuations of GAS NATURAL FENOSA, 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	338	268
90–180 days	108	77
More than 180	26	6
Total	472	351

The impaired financial assets are broken down in Note 11.

Liquidity risk

GAS NATURAL FENOSA 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 realisable assets and the availability of funds sufficient to cover credit obligations.

At 31 December 2011, available liquidity totals Euros 13,263 million, taking into account cash and other cash equivalents totalling Euros 3,098 million (Note 12), bank financing and credit facilities available of Euros 4,202 million (Note 16) and the capacity to issue debt not utilised of Euros 5,963 million (Note 16).

The breakdown of the maturities of the financial liabilities at 31 December 2011 and 2010 is as follows:

	2012	2013	2014	2015	2016	2017 and beyond	Total
At 31 December 2011							
Trade and other payables	(4,671)	–	–	–	–	–	(4,671)
Loans and other financial payables	(3,642)	(3,793)	(3,216)	(4,774)	(1,985)	(7,019)	(24,429)
Financial derivatives	(30)	(19)	(7)	(5)	(5)	65	(1)
Other liabilities	(62)	(62)	(154)	(57)	(58)	(763)	(1,156)
Total⁽¹⁾	(8,405)	(3,874)	(3,377)	(4,836)	(2,048)	(7,717)	(30,257)

	2011	2012	2013	2014	2015	2016 and beyond	Total
At 31 December 2010							
Trade and other payables	(3,658)	–	–	–	–	–	(3,658)
Loans and other financial payables	(2,895)	(2,987)	(4,097)	(2,801)	(4,713)	(7,323)	(24,816)
Financial derivatives	(66)	(18)	(9)	(6)	(8)	65	(42)
Other liabilities	(67)	(61)	(157)	(57)	(56)	(820)	(1,218)
Total⁽¹⁾	(6,686)	(3,066)	(4,263)	(2,864)	(4,777)	(8,078)	(29,734)

(1) The amounts are undiscounted contractual cash flows, and, accordingly, differ from the amounts included on the balance sheet and in Note 16.

Capital management

The main purpose of capital management of GAS NATURAL FENOSA is to ensure a financial structure that can optimise 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.

GAS NATURAL FENOSA considers the following to be indicators of the objectives set for capital management: maintaining, after the acquisition of UNIÓN FENOSA, a long-term leverage ratio of approximately 50%, and an A rating.

After the acquisition of UNIÓN FENOSA the rating agencies completed their review with negative implications in their ratings, confirming the ratings in line with the objectives forecast in the acquisition process.

The long-term credit rating of GAS NATURAL FENOSA is as follows:

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

Its leverage rating is as follows:

	2011	2010
Net borrowings	17,294	19,102
Non-current borrowings (Note 16)	17,539	18,176
Current borrowings (Note 16)	2,853	2,130
Cash and cash equivalents (Note 12)	(3,098)	(1,203)
Derivatives (Note 17)	–	(1)
Net equity	14,441	12,974
Equity holders of the Company (Note 13)	12,792	11,384
Minority interests	1,649	1,590
Leverage (Net borrowings / (Net borrowings + Net equity))	54.5	59.6

Should the net borrowings related to the non-current assets held for sale (Note 9) be taken into account, the balance of net borrowings would total Euros 19,359 million at 31 December 2010.

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
Derivatives qualifying for hedge accounting	–	72	–	56
Cash flow hedges				
- Interest rate	–	71	–	56
Fair value hedge				
- Exchange rate	–	1	–	–
Other financial instruments	–	14	–	19
- Interest rate and exchange rate	–	14	–	19
Derivative financial instruments–non current	–	86	–	75
Derivatives qualifying for hedge accounting	43	16	91	71
Cash flow hedges				
- Interest rate	–	9	–	54
- Exchange rate	15	1	7	1
- Commodity prices	3	6	7	16
Fair value hedge				
- Exchange rate	25	–	77	–
Other financial instruments	3	–	2	11
- Commodity prices	3	–	2	4
- Interest rate	–	–	–	7
Derivative financial instruments–current	46	16	93	82
Total	46	102	93	157

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

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

	2011		2010	
	Operating Results	Financial Results	Operating Results	Financial Results
Cash flow hedges	(29)	(74)	(39)	(127)
Fair value hedges	(22)	(5)	32	(3)
Other	3	3	(2)	(11)
Total	(48)	(76)	(9)	(141)

The breakdown of the derivative financial instruments at 31 December 2011 and 2010, their fair value and the breakdown by maturity of their notional values are as follows:

	Fair Value	31.12.11 Notional value						Total
		2012	2013	2014	2015	2016	Beyond	
Interest rate swap contracts								
Cash flow hedges								
Financial swaps (EUR)	(27)	847	55	651	4	2	26	1,585
Financial swaps (USD)	(52)	203	28	29	29	31	151	471
Financial swaps (MXN)	–	14	14	67	–	–	–	95
Collars (EUR)	(1)	13	3	3	2	–	–	21
Exchange rate hedge								
Cash flow hedge								
Exchange fluctuation insurance (USD)	14	376	–	–	–	–	–	376
Exchange fluctuation insurance (BRL)	–	42	–	–	–	–	–	42
Fair value hedge								
Financial swaps (BRL)	–	2	–	–	–	–	–	2
Foreign exchange fluctuation insurance (BRL)	–	10	–	–	–	–	–	10
Foreign exchange fluctuation insurance (USD)	25	351	11	–	–	–	–	362
Foreign exchange fluctuation insurance (DHN)	–	6	–	–	–	–	–	6
Commodity hedge								
Cash flow hedge								
Commodity price derivatives (EUR)	(3)	246	3	1	–	–	–	250
Commodity price derivatives (USD)	(1)	36	–	–	–	–	–	36
Others								
Financial swaps (JPY)	(14)	–	–	–	–	–	220	220
Commodity price derivatives (EUR)	3	78	2	2	1	–	–	83
Total	(56)	2,224	116	753	36	33	397	3,559

	Fair Value	31.12.11 Notional value						Total
		2011	2012	2013	2014	2015	Beyond	
Interest rate swap contracts								
Cash flow hedges								
Financial swaps (EUR)	(66)	2,580	206	15	8	4	25	2,838
Financial swaps (USD)	(43)	20	193	24	25	24	162	448
Financial swaps (MXN)	–	16	16	16	–	–	–	48
Financial swaps (ARS)	–	9	–	–	–	–	–	9
Collars (EUR)	(1)	4	13	2	3	2	2	26
Exchange rate hedge								
Cash flow hedge								
Exchange fluctuation insurance (USD)	6	270	4	–	–	–	–	274
Fair value hedge								
Financial swaps (BRL)	–	5	2	–	–	–	–	7
Foreign exchange fluctuation insurance (BRL)	–	32	–	–	–	–	–	32
Foreign exchange fluctuation insurance (USD)	77	1,156	–	–	–	–	–	1,156
Foreign exchange fluctuation insurance (DHN)	–	7	–	–	–	–	–	7
Commodity hedge								
Cash flow hedge								
Commodity price derivatives (EUR)	(3)	175	–	–	–	–	–	175
Commodity price derivatives (USD)	(6)	85	–	–	–	–	–	85
Others								
Other commodities (USD)	(2)	2	–	–	–	–	–	2
Financial swaps (JPY)	(19)	–	–	–	–	–	220	220
Financial swaps (EUR)	(7)	105	–	–	–	–	–	105
Collars (EUR)	–	17	–	–	–	–	–	17
Commodity price derivatives (EUR)	–	2	–	–	–	–	–	2
Total	(64)	4,485	434	57	36	30	409	5,451

Note 18. Other non-current liabilities

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

	At 31.12.11	At 31.12.10
Finance lease liabilities ⁽¹⁾	571	582
Payables for levelling of capacity income ⁽²⁾	68	55
Deposits and guarantee deposits	198	212
Finance lease liabilities ⁽³⁾	196	191
Total	1,033	1,040

There are no significant differences between the carrying values and the fair values of the items in the account "Other non-current liabilities".

(1) Finance lease liabilities

In 2003 GAS NATURAL FENOSA acquired two gas transport tankers to transport liquefied natural gas with a capacity of 276,000 m³ through finance lease agreements. The duration of the contracts is 20 years, maturing in 2023.

In July 2004 Unión Fenosa Gas acquired two gas tankers for the transport of liquefied natural gas with capacities of 138,000 m³ and 140,500 m³ through 25-year time-charter contracts, extendible to 30 years.

In December 2007 a 138,000 m³ gas tanker was acquired through a 25-year time-charter lease maturing 2032, extendible for consecutive periods of 5 years, and which represents a joint investment of Euros 162 million relating to the current value of the payments to which Repsol YPF (50%) and GAS NATURAL FENOSA (50%) are committed.

In 2009 a 138,000 m³ capacity gas tanker was acquired through a 25-year time-charter contract, extendible for consecutive periods of 5 years, which involved a joint investment of Euros 142 million, corresponding to the current value of the payments committed by Repsol YPF (50%) and GAS NATURAL FENOSA (50%).

Minimum lease payments are as follows:

	At 31.12.11			At 31.12.10		
	Nominal	Discount	Present value	Nominal	Discount	Present value
No later than 1 year	57	(3)	54	57	(3)	54
Between 1 and 5 years	229	(43)	186	227	(42)	185
Later than 5 years	763	(378)	385	820	(423)	397
Total	1,049	(424)	625	1,104	(468)	636

The effective average interest rate on the liabilities for finance lease agreements at 31 December 2011 is 6.8% (6.7% at 31 December 2010).

2) Payable for levelling of capacity income

This account includes the revenues invoiced for the assignment of electricity generating capacity pending recognition as income, for the levelling of the revenues over the term of the contracts in Mexico

3) Other liabilities

These basically include the repurchase obligations of preference shares of Buenergia Gas & Power, Ltd. (company holding 47.5% of EcoEléctrica L.P.), which is 95% owned by GAS NATURAL FENOSA and 5% owned by another partner, which is, as well, the holder of the preference shares of Buenergía, which gives it a preference right over the dividends of this company, which must be repurchased by Buenergía as the company distributes profit, in line with the following schedule:

	US Dollars million
2012 ⁽¹⁾	6
2013	6
Total	12

(1) Includes the short-term part of Other current liabilities (Note 20).

Also included is the purchase commitment without premium granted to Sinca Inbursa, S.A. de C.V. (Inbursa). On 22 September 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 Mexican Pesos 761 million (Euros 49 million), and a commitment was made to repurchase these shares. Until 22 May 2013 Inbursa can offer all the shares it holds at that time to GAS NATURAL FENOSA, 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. As a result of this commitment, a deferred payment has been booked, and, accordingly, the aforementioned percentage of interest is still assigned to the parent Company. 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 Inbursa in respect of 17.29% of its shares. The liability booked at 31 December 2011 totals Mexican Pesos 988 million (Mexican Pesos 917 million at 31 December 2010) and equals the current value of the amount payable.

Also included is the purchase commitment without premium granted to Chemo España, S.L. On 16 December 2008 28% of Invergas, S.A. and Gas Natural SDG Argentina, S.A. which represents an interest of 19.6% of Gas Natural BAN, S.A., Natural Energy, S.A. and Natural Servicios, S.A., was sold to Chemo España, S.L. for USD 56 million (Euros 38 million) through an initial receipt of USD 28.5 million, with the rest of the receipts being deferred (see Note 8), and a commitment was made to repurchase these shares. Chemo España, S.L. will be able to offer during September 2013 all the shares it has at that time to GAS NATURAL FENOSA, who will be obligated to acquire them. The acquisition price will be set at the capital invested. As a result of this commitment, a deferred payment has been booked, and, accordingly, the aforementioned percentages of interest are still assigned to the parent Company. The liability booked at 31 December 2011 totals USD 55 million (USD 53 million at 31 December 2010) and equals the current value of the amount payable.

Note 19. 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	3,775	2,928
Trade payables with related parties (Note 33)	83	36
Amounts due to associates	42	41
Trade payables	3,900	3,005
Social security and other taxes	375	357
Derivative financial instruments (see Note 17)	7	22
Amounts due to employees	99	89
Other payables	481	468
Current tax liabilities	290	185
Total	4,671	3,658

Disclosure of deferrals of payment to suppliers. D.A 3^a "Duty of disclosure" of Law 15/2010/5 July

The outstanding trade payable balance with an accumulated deferral of payment at 31 December 2011 longer than the maximum legal limit under Law 15/2010/5 July, which laid down measures against slow payers, is as follow:

	2011		2010	
	Amount	%	Amount	%
Payments made during year within legal maximum period	7,210	99.8	1,706	99.7
Other payments made during year	11	0.2	5	0.3
Total payments during year	7,221	100	1,711	100
Weighted average period of payments outside legal period (days)	11		28	
Deferrals exceeding legal maximum period at year end	1		1	

The 2010 information 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 20. Other current liabilities

The breakdown of Other current liabilities at 31 December 2011 and 2010 is as follows:

	At 31.12.11	At 31.12.10
Dividend payable	392	351
Expenses accrued pending payment	159	154
<i>Finance lease liabilities (Note 18)</i>	54	54
Other liabilities	70	103
Total	675	662

Note 21. Tax situation

The Tax Group represented by Gas Natural SDG, S.A. as the parent company has been taxed 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 re-written Income tax Act which involves the joint determination of taxable income of GAS NATURAL FENOSA and the deductions and allowances on the tax payable. The Tax Consolidated Group for 2011 is indicated in Appendix III

The rest of the GAS NATURAL FENOSA companies file individual tax returns under their respective regimes, barring a number of Italian subsidiaries that form their own tax consolidated group.

The reconciliation of the applicable tax rate to the effective tax rate and the breakdown of the income tax expense for 2011 and 2010 are as follows:

	2011	%	2010	%
Profit before tax	2,022	–	1,883	–
Statutory tax	607	30.0	565	30.0
Tax rates for foreign companies	(42)	(2.1)	(39)	(2.1)
Reinvestment tax deductions	(39)	(1.9)	(53)	(2.8)
Other tax deductions	(25)	(1.2)	(8)	(0.4)
Effect of net profit under equity accounting	(2)	(0.1)	(1)	(0.1)
Tax differences against prior years and others	(3)	(0.2)	4	0.2
Income tax	496	24.5	468	24.9
Breakdown of current/deferred expense:				
Current tax	441	–	370	–
Deferred tax	55	–	98	–
Accrued Corporate income tax	496	–	468	–

The tax deductions for the reinvestment of extraordinary profit for 2011 relate basically to the sale of gas distribution assets in the Region of Madrid, which took place in compliance with the provision of anti-trust legislation (Note 9). The tax deductions for the reinvestment of extraordinary profit for 2010 relate basically to the sale of gas distribution assets in the Region of Madrid, which took place in compliance with the provision of anti-trust legislation (Note 9), and to the transfer of the 35% stake in Gas Aragón, S.A. (Note 7).

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 materialised in prior years is disclosed in the annual accounts for said years. The breakdown relating to the last five years, together with that for 2011, are as follows:

Year of sale	Amount generated from sale	Amount reinvested
2006	321	321
2007	780	780
2008	152	152
2009	485	485
2010	882	882
2011	849	849
Total	3,469	3,469

The reinvestment has been made in fixed assets related to economic activities, carried out by Gas Natural SDG. S.A. or any other company included in the Consolidated Tax Group, by virtue of the provisions of article 75 of the Corporate Income Tax Act.

The breakdown of the tax effect relating to each component of Other comprehensive income for the year is as follows:

	At 31.12.11			At 31.12.10		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Measurement of available-for-sale financial assets	–	–	–	(24)	7	(17)
Cash flow hedges	43	(12)	31	74	(21)	53
Cumulative translation adjustments	(72)	8	(64)	291	(14)	277
Actuarial gains and loss and other adjustments	(46)	15	(31)	(45)	12	(33)
Total	(75)	11	(64)	296	(16)	280

The breakdown and movement of deferred taxes is as follows:

Deferred tax assets	Provisions for employee benefit obligations	Other provisions	Tax losses carried forward	Amortization differences	Financial instruments valuation	Other	Total
A 01.01.10	240	292	51	93	51	229	956
Charged/(credited) to income statement	(38)	(49)	(5)	(33)	16	67	(42)
Business combinations	–	–	–	–	–	–	–
Charged to equity	12	–	–	–	(19)	–	(7)
Cumulative translation adjustments	5	20	4	19	1	3	52
Others	9	(4)	26	33	3	(69)	(2)
At 31.12.10	228	259	76	112	52	230	957
Charged/(credited) to income statement	(12)	(6)	49	5	–	(11)	25
Business combinations	–	–	–	–	–	–	–
Charged to equity	15	–	–	–	(9)	–	6
Cumulative translation adjustments	–	(2)	1	(3)	11	(2)	5
Others	(15)	(9)	41	–	(4)	(31)	(18)
At 31.12.11	216	242	167	114	50	186	975

Deferred tax liabilities	Amortization differences	Reinvestment capital gains	Fair value business combination	Financial instruments valuation	Other	Total
At 01.01.10	258	163	2,083	23	173	2,700
Charged/(credited) to income statement	5	68	(72)	(15)	70	56
Business combinations	–	–	–	–	–	–
Charged to equity	–	–	–	(5)	–	(5)
Cumulative translation adjustments	18	–	2	–	5	25
Others ⁽¹⁾	15	–	(35)	3	(55)	(72)
At 31.12.10	296	231	1,978	6	193	2,704
Charged/(credited) to income statement	37	50	(61)	–	54	80
Business combinations	–	–	5	–	–	5
Charged to equity	–	–	–	3	–	3
Cumulative translation adjustments	(1)	–	(2)	(1)	2	(2)
Others ⁽¹⁾	(7)	–	(127)	–	(14)	(148)
At 31.12.11	325	281	1,793	8	235	2,642

(1) The movement in 2010 and 2009 in "Others" basically includes the transfer to "Non-current assets held for sale" and "Liabilities linked to non-current assets held for sale" (Note 9).

As a result of the Gas Natural SDG, S.A. and Unión Fenosa, S.A. merger, a merger difference has 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, will be charged, first of all, to the acquired assets and rights, and, the part of the difference not charged will be 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. "Valuation of business combinations" under "Deferred tax liabilities" carries the tax effect of the part of the merges difference of the net assets acquired in the combination process of UNIÓN FENOSA, which is estimated not to have a tax effect, and the amount of the tax deduction applied of the part of the merger difference not assigned to net assets acquired.

At 31 December 2011 the tax credits that have not been recorded totalled Euros 31 million (Euros 25 million at 31 December 2010).

In 2011 tax inspections were initiated on Gas Natural SDG, Gas Natural Internacional SDG, S.A., Gas Natural Distribución SDG, S.A. and Gas Natural Informática, S.A. for Corporate Income Tax (2006 to 2008) and other taxes (2007 and 2008). These inspections are not expected to give rise to significant tax assessments for the Group. Tax Group of Gas Natural is open to inspection for the years from 2009 to 2011 for applicable taxes while the legacy companies of the Unión Fenosa Tax Group are open to inspection for the years 2002 and beyond for Corporate income tax and 2006 and beyond for the 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 35.

Note 22. Sales

The breakdown of this account for 2011 and 2010 is as follows:

	2011	2010
Sales of gas and connections to distribution networks	11,280	10,033
Sales of electricity and access to distribution networks	8,236	8,103
Rental of facilities, maintenance and other services	1,367	1,333
Other sales	193	161
Total	21,076	19,630

Note 23. Procurements

The breakdown of this account for 2011 and 2010 is as follows:

	2011	2010
Energy purchases	12,132	11,079
Access to transmission networks	1,433	1,448
Other purchases and Stock variation	509	443
Total	14,074	12,970

Note 24. Other operating income

The breakdown of this account for 2011 and 2010 is as follows:

	2011	2010
Other management income	261	251
Operating grants	2	7
Total	263	258

The item "Other management income" includes income from services relating to the construction or betterment of concession infrastructures under IFRIC 12 in the amount of Euros 95 million (Euros 71 million in 2010).

Note 25. Staff costs

The breakdown of this account for 2011 and 2010 is as follows:

	2011	2010
Wages and salaries	699	643
Social security costs	126	125
Defined contribution plans	32	33
Defined benefit plans	4	6
Own work capitalised	(82)	(82)
Others	79	73
Total	858	798

The average number of employees of GAS NATURAL FENOSA in 2011 has been 16,724 and 17,773 in 2010.

Under Law 3/2007/22 March, on gender equality, published in the Official State Gazette on 23 March 2007, the number of employees of GAS NATURAL FENOSA at the end of 2011 broken down by category and gender is as follows:

	2011		2010	
	Male	Female	Male	Female
Executives	862	249	821	224
Middle management	2,239	551	2,311	534
Specialized technicians	2,524	1,434	2,554	1,392
Workers	6,087	2,256	7,141	2,370
Total	11,712	4,490	12,827	4,520

	2011	2010
Spain	8,358	8,243
Rest of Europe	1,553	1,566
Latin American	5,475	6,406
Others	816	1,132
Total	16,202	17,347

Note 26. Other operating expenses

The breakdown of this account for 2011 and 2010 is as follows:

	2011	2010
Repairs and maintenance	439	438
Commercial services & advertising	339	316
Taxes	310	261
Bad debt provision (<i>Note 11</i>)	216	238
Professional services & insurance	170	184
Construction or improvement services (IFRIC 12)	95	71
Procurements	89	86
Leases	57	67
Energy efficiency	49	–
Others	249	251
Total	2,013	1,912

The increase in “Taxes” is due mainly to the recognition in 2011 of Euros 52 million in the Colombian subsidiaries in respect of Wealth Tax, introduced when Law 1370 was amended, taxing the value of assets at 1 January 2011, although the tax is payable in 12 instalments from 2011 to 2014.

“Energy efficiency” includes GAS NATURAL FENOSA’s contribution to energy saving and efficiency policies under Royal Decree-Law 14/2010 (Note 2).

Note 27. Other results

In 2011 this relates basically to the gain obtained on the disposal of additional distribution assets in Madrid for the sum of Euros 280 million (Note 9) and the gain obtained in the business combination through the acquisition of wind energy companies from ACS (Note 30) in the amount of Euros 3 million. It also includes the loss generated by the sale of the Guatemalan electricity distributors in the amount of Euros 9 million (Note 9) and the loss of Euros 4 million on the EUFER swap (Note 9).

In 2010 relates basically to the gain from the sale of different companies and gas distribution and supply assets in Madrid totalling Euros 380 million (Note 9) and the gain from the sale of electricity transport assets totalling Euros 5 million (Note 9). Also includes the loss from the sale of electricity generation assets in Mexico totalling Euros 4 million (Note 9).

Note 28. Net financial income

The breakdown of this account for 2011 and 2010 is as follows:

	2011	2010
Dividends	4	4
Interest income	71	54
Others	62	60
Total financial income	137	118
Financial expense from borrowings	(892)	(924)
Interest expenses of pension plans and other post-employment benefits	(39)	(40)
Other financial expenses	(142)	(201)
Total financial expenses	(1,073)	(1,165)
Variations in the fair value of derivate financial instruments (Note 17)	2	(6)
Net exchange gains/losses	–	(6)
Gain on sales of financial instruments	2	44
Net financial income	(932)	(1,015)

“Other financial expenses” includes, in 2010, Euros 103 million relating to the recognition in the Consolidated income statement of the commissions on the loan for the acquisition of UNIÓN FENOSA, which had yet to be charged to the Consolidated income statement, as a result of the cancellation of this loan.

Gains and losses on the sale of financial instruments in 2011 relate to the gain of Euros 1 million on the sale of the 15% shareholding in Ecoenergía de Navarra, S.A. and the gain of Euros 1 million on the liquidation of Ensafeca Holding Empresarial, S.L. (Note 7).

The results from the sale of financial instruments for 2010 relate to the gain for the sale of the 35% stake in Gas Aragón, S.A. (Note 7) totalling Euros 40 million and for the sale of the 5% stake in Indra Sistemas, S.A. for Euros 4 million (Note 8).

Note 29. Cash generated from operating activities

The breakdown of cash generated from operations in 2011 and 2010 is as follows

	2011	2010
Net income before tax	2,022	1,883
Adjustments to net income	2,510	2,857
Depreciation and amortisation of fixed assets <i>(Note 5 and 6)</i>	1,750	1,716
Other adjustments to net income	760	1,141
Net financial income <i>(Note 28)</i>	932	1,015
Profit of entities recorded by equity method <i>(Note 7)</i>	(7)	(5)
Release of fixed assets grants to income <i>(Note 14)</i>	(35)	(31)
Other results <i>(Note 27)</i>	(268)	(370)
Net variation in Provisions <i>(Note 15)</i>	138	532
Chances in working capital (excluding the effects on the consolidation scope and cumulative translation adjustments)	(1,298)	(729)
Inventories	(127)	(11)
Trade and other accounts receivable	(619)	(373)
Trade and other accounts payable	(552)	(345)
Other cash flows generated from operations	(1,097)	(1,265)
Interest received	(845)	(798)
Interest collected	59	9
Income tax payments	(311)	(476)
Cash flows generated from operating activities	2,137	2,746

Note 30. Business combinations

2011

During 2011 a number of wind energy companies and gas distribution companies were acquired in Italy, in line with GAS NATURAL FENOSA's strategic objectives.

Acquisition of EUFER's wind energy businesses

As indicated in Note 9, due to the agreement to end the collaboration with Enel Green Power through EUFER, GAS NATURAL FENOSA acquired approximately one half of EUFER's business and its assets and liabilities, the operation having included the transfer of the relevant human and other resources necessary to carry on the electricity generation activity under the special regime. The operation was therefore deemed to be a business combination and not an acquisition of assets.

The cost of the business combination, net of the debt assumed, is equal to the fair value calculated by independent third parties specifically for the operation. Set out below is a breakdown of the net assets acquired showing their carrying amount in EUFER and their fair values:

Cost of the business combination		286
Fair value of the net assets acquired		282
Goodwill (<i>Note 5</i>)		4
	Fair value	Carrying value
Other intangible assets	204	33
Property, plant and equipment	665	665
Non-current financial assets	3	3
Other current assets	39	39
Cash and other cash equivalents	21	21
Total assets	932	761
Minority interests	6	6
Non-current provisions	2	2
Non-current financial liabilities	546	546
Other non-current liabilities	5	1
Current financial liabilities	33	33
Other current liabilities	58	45
Total liabilities	650	633
Fair value of the net assets acquired	282	–

Had the transaction been completed on 1 January 2011, the impact on consolidated revenue and on consolidated results would not have been significant.

This business combination has been recognised provisionally, since the 12-month period following the acquisition has not elapsed, as per IFRS 3. As a result of the purchase price allocation process, the value of intangible assets has increased, relating basically to licences to operate the assets received (mainly wind farms). As the main shareholdings received by Gas Natural Fenosa Renovables, S.A. (subsidiary of GAS NATURAL FENOSA) have been merged, most of this value increase has a tax effect.

Acquisition of wind energy companies from ACS

On 30 June 2011 a purchase and sale agreement was concluded with the ACS Group encompassing the sale of ACS' direct and indirect holdings in five wind farms with a capacity of 95.5 MW located in several Autonomous Regions for a price of Euros 66 million, together with certain debt claims totalling Euros 6 million. Once the necessary regulatory and administrative authorisations had been obtained, the agreement was executed on 12 September 2011.

Through this acquisition, the shareholding in the company Explotaciones Eólicas Sierra de Utrera, S.L. was increased from 50% to 75% and the interest in the parent company Energías Ambientales Easa, S.A. rose from 33.33% to 100%. As this was an acquisition in stages, the prior interests held were restated to fair value on the acquisition date. The difference between the carrying amount of the prior interests and their fair value generated a gain of Euros 3 million that was recognised in the item "Other results" (Note 27).

Set out below is a breakdown of the net assets acquired showing their historical carrying amounts and fair values:

Cost of the business combination		66
Fair value of the net assets acquired		66
Change in fair value of assets acquired in first stage		3
Gain (Note 27)		(3)
	Fair value	Carrying value
Other intangible assets	56	–
Property, plant and equipment	37	37
Other non-current assets	5	4
Other current assets	10	10
Cash and cash equivalents	11	11
Total assets	119	62
Non-current financial liabilities	16	16
Other non-current liabilities	2	2
Current financial liabilities	6	6
Other current liabilities	19	19
Total liabilities	43	43
Fair value of net assets acquired	76	–
Minority interests	(10)	–
Fair value of net assets acquired	66	–

Had the transaction been completed on 1 January 2011, the impact on consolidated revenue and on consolidated results would have been an increase of Euros 13 million and Euros 2 million, respectively.

This business combination has been recognised provisionally, since the 12-month period following the acquisition has not elapsed, as per IFRS 3. As a result of the purchase price allocation process, the value of intangible assets has increased, relating basically to licences to operate the wind farms. As the main shareholdings received by Gas Natural Fenosa Renovables, S.A. (subsidiary of GAS NATURAL FENOSA) are being merged, most of this value increase has a tax effect.

Acquisition of wind energy companies from Gamesa

On 28 November 2011 a purchase and sale agreement was concluded with Gamesa Energía to acquire all the share capital of Sistemas Energéticos Alto de Seixal, S.A. Sociedad Unipersonal, which operates a 30 MW wind farm, for a price of Euros 11 million. Once the necessary regulatory and administrative authorisations had been obtained, the agreement was executed on 28 December 2011. Additionally, GAS NATURAL FENOSA and Gamesa Energía reached an agreement on the purchase and sale of Sistemas Energéticos

Passanant, S.A., which owns a 12 MW wind farm that is due to become operational in 2012. This agreement is subject to the fulfilment of certain suspensive conditions.

Set out below is a breakdown of the net assets acquired showing their carrying amounts in Sistemas Energéticos Alto de Seixal, S.A. and their fair values:

Cost of the business combination		11
Fair value of the net assets acquired		11
Goodwill (<i>Note 5</i>)		–
	Fair value	Carrying value
Other intangible assets	12	–
Property, plant and equipment	34	34
Other current assets	4	4
Total assets	50	38
Non-current financial liabilities	39	39
Total liabilities	39	39
Fair value of net assets acquired	11	–

Had the transaction been completed on 1 January 2011, the impact on consolidated revenue and on consolidated results would not have been significant.

This business combination has been recognised provisionally, since the 12-month period following the acquisition has not elapsed, as per IFRS 3. As a result of the purchase price allocation process, the value of intangible assets has increased, relating basically to licences to operate the wind farms. As the main shareholdings received by Gas Natural Fenosa Renovables, S.A. (subsidiary of GAS NATURAL FENOSA) are being merged, most of this value increase has a tax effect.

Acquisition of a gas distribution company in Italy

Finally, on 6 December 2011 a purchase and sale agreement was signed, and executed on 22 December 2011, for all the share capital of the Italian company Favellato Reti, S.R.L., which distributes natural gas in the Italian provinces of Foggia, Isernia and Benevento, for a price of Euros 10 million.

Set out below is a breakdown of the net assets acquired showing their carrying amounts in Favellato Reti, S.R.L. and their fair values:

Cost of the business combination		10
Fair value of the net assets acquired		10
Goodwill (<i>Note 5</i>)		–
	Fair value	Carrying value
Other intangible assets	9	9
Property, plant and equipment	2	2
Total assets	11	11
Current liabilities	1	1
Total liabilities	1	1
Fair value of net assets acquired	10	–

Had the transaction been completed on 1 January 2011, the impact on consolidated revenue and on consolidated results would not have been significant.

This business combination has been recognised provisionally, since the 12-month period following the acquisition has not elapsed, as per IFRS 3.

2010

In 2010, GAS NATURAL FENOSA did not carry out significant business combinations.

Note 31. Joint Ventures

GAS NATURAL FENOSA participates in different joint ventures that meet the conditions indicated in Note 3.3.1.b) and which are described in Appendix I. The relevant shareholdings in joint ventures at 31 December 2011 and 2010 are as follows:

	2011 (%)	2010 (%)		2011 (%)	2010 (%)
Barras Eléctricas Galaico Asturianas, S.A.	44.9	44.9	Eléctrica Conquense, S.A.	46.4	46.4
Barras Eléctricas Generación, S.L.	45.0	45.0	Eléctrica Conquense Distribución, S.A.	46.4	46.4
Centrales Nucleares Almaraz-Trillo, A.I.E	19.3	19.3	Gas Natural West Africa, S.L.	40.0	40.0
Comunidad de Bienes Central Nuclear de Almaraz	11.3	11.3	Nueva Generadora del Sur, S.A.	50.0	50.0
Comunidad de Bienes Central Nuclear de Trillo	34.5	34.5	Repsol-Gas Natural LNG, S.L.	50.0	50.0
Comunidad de Bienes Central Térmica de Aceca	50.0	50.0	Subgrupo Eufer	–	50.0
Comunidad de Bienes Central Térmica de Anllares	66.7	66.7	Subgrupo Unión Fenosa Gas	50.0	50.0
EcoEléctrica Holding Ltd y dependientes	50.0	50.0			

The following amounts represent GAS NATURAL FENOSA's interest share of assets and liabilities, and sales and results of the joint ventures :

	At 31.12.11	At 31.12.10
Non-current assets	3,729	4,810
Current assets	568	1,006
Assets	4,297	5,816
Non-current liabilities	1,166	1,655
Current liabilities	419	993
Liabilities	1,585	2,648
Net assets	2,712	3,168
	2011	2010
Income	1,222	1,159
Expenses	1,085	1,131
Profit after income tax	137	28

There are no contingent liabilities on the holdings in joint ventures. The disclosure on contractual commitments in Note 35 include the commitments for gas purchases of Unión Fenosa Gas and EcoEléctrica LP totalling Euros 12,052 million at 31 December 2011 (Euros 11,353 million at 31 December 2010), the commitments for the purchase of nuclear fuel totalling Euros 59 million at 31 December 2011 (Euros 49 million at 31 December 2010) and the commitments for operating lease payments for the gas transport vessels of Unión Fenosa Gas totalling Euros 133 million at 31 December 2011 (Euros 91 million at 31 December 2010).

Note 32. Service Concession Agreements

GAS NATURAL FENOSA manages various concessions that include provisions for the construction, operation and maintenance of facilities, as well as connection and energy supply obligations during the concession period, in accordance with applicable legislation (Note 2). Set out below please find a breakdown of the remainder of the period until expiry of the concessions that are no indefinite:

Company	Activity	Country	Concession period	Initial remaining period
Gas Natural BAN, S.A.	Gas distribution	Argentina	35 (extendible 10)	16
Companhia Distribuidora de Gás do Rio de Janeiro, S.A, Ceg Rio, S.A. y Gas Natural Sao Paulo Sul, S.A.	Gas distribution	Brazil	30 (extendible 20/30)	16-19
Gas Natural, S.A. ESP, Gas Natural del Oriente S.A. ESP, Gas Natural Cundiboyacense S.A. ESP y Gas Natural del Cesar S.A. ESP.	Gas distribution	Colombia	15-50 (extendible 20)	3-36
Gas Natural Distribuzione SpA, Cetraro Distribuzione Gas, S.R.L, Favellato Reti Gas, S.R.L y Cilento Reti Gas, S.R.L	Gas distribution	Italy	11-30	1-27
Gas Natural México S.A. de C.V. y Comercializadora Metrogas S.A. de C.V.	Gas distribution	Mexico	30 (extendible 15)	16-27
Europe Maghreb Pipeline Ltd	Gas transportation	Morocco	25 (extendible)	10
Unión Fenosa Generadora La Joya, S.A. y Unión Fenosa Generadora Torito, S.A.	Electricity generation	Costa Rica	20	11-19
Gas Natural SDG, S.A. y Gas Natural Fenosa Renovables, S.L.	Hydro-electricity generation	Spain	14-100	11-52
Red Unión Fenosa, S.A.	Electricity distribution	Moldova	25 (extendible)	14
Distribuidora de Electricidad del Norte, S.A. y Distribuidora de Electricidad del Sur, S.A.	Electricity distribution	Nicaragua	30	19
Empresa Distribuidora de Electricidad Metro Oeste, S.A. y Empresa Distribuidora de Electricidad Chiriqui, S.A.	Electricity distribution	Panama	15	2

As indicated in Note 3.3.3, on 1 January 2010 GAS NATURAL FENOSA applied IFRIC 12 "Service Concession Agreements" retrospectively, restating its financial statements for 2009 for comparative purposes, considering that the intangible assets model is basically applicable to the gas distribution activities in Argentina, Brazil and Italy and the financial asset model of electricity generation in Costa Rica.

The hydro-electric station concessions in Spain (Note 3.3.4.b) are beyond the scope of IFRIC 12, as a result, amongst other reasons, of the fact that the sale prices of energy are set by the market. The other concessions internationally are outside the scope of IFRIC 12 as a result of the fact that the Licensor does not control the significant residual holding in the infrastructure at the end of the concession agreement and at the same time, determines the cost of service. The assets related to these concessions are still booked as "Property, plant and equipment".

Note 33. Related-parties disclosures

Related persons are as follows:

- Significant shareholders of GAS NATURAL FENOSA, i.e. those directly or indirectly owning 5% or more, and those who, though not significant, have exercised the power to appoint a member of the Board of Directors.

On the basis of this definition, the significant shareholders of GAS NATURAL FENOSA are Criteria CaixaCorp, S.A., and consequently, Caixa d'Estalvis I Pensions de Barcelona Group ("la Caixa" Group), Repsol YPF Group, Caixa d'Estalvis de Catalunya (to 28 November 2011, when the Board director designated by this company handed in his resignation).

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, through a private placement, 5.01% of its stake in the share capital of Gas Natural SDG, S.A.

- 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 FENOSA. The operations with directors and executives are disclosed in Note 34.
- Operations between Group companies or entities for part of normal trade. The balances and transactions that are not eliminated in the consolidation process are not significant. Furthermore, the transactions with related parties have been made at arm's length.

The main aggregates for operations with significant shareholders are as follows:

2011

Income and expenses (thousand euros)	"la Caixa" Group	Repsol YPF Group	Catalunya Caixa(*)
Financial expense	12,601	–	1,850
Leases ⁽¹⁾	590	–	–
Services received	–	69,586	–
Goods purchased (finished or in progress)	–	884,397	–
Other expenses ⁽²⁾	24,950	–	274
Total expenses	38,141	953,983	2,124
Financial income	15,617	–	433
Leases	–	353	–
Provision of services	–	31,159	–
Sale of goods (finished or in progress)	–	687,624	–
Other income	760	–	–
Total income	16,377	719,136	433

2011

Other transactions (thousand euros)	"la Caixa" Group	Repsol YPF Group	Catalunya Caixa ^(*)
Acquisition of property, plant and equipment, intangible assets or other assets	–	3,340	–
Financing agreements: loans and capital contributions (lender) ⁽³⁾	1,040,631	–	–
Sale of property, plant and equipment, intangible assets or other assets ⁽⁴⁾	623,570	518	–
Financing agreements: loans and capital contributions (borrower) ⁽⁵⁾	550,088	9,918	–
Deposits and guarantees deposits received	112,500	–	–
Dividends and other distributed profit	118,885	97,755	11,992
Other operations ⁽⁶⁾	1,010,004	–	–

2011

Trade debtors and creditors (thousand euros)	"la Caixa" Group	Repsol YPF Group	Catalunya Caixa ^(*)
Trade and other receivables	–	7,000	–
Trade and other payables	–	83,100	–

(*)Until November 28, 2011

2010

Income and expenses (thousand euros)	"la Caixa" Group	Repsol YPF Group	GDF-Suez Group ^(**)	Catalunya Caixa
Financial expense	10,562	–	–	156
Leases ⁽¹⁾	2,499	–	–	–
Services received	–	67,271	8,530	–
Goods purchased (finished or in progress)	–	592,697	142,475	–
Other expenses ⁽²⁾	21,259	–	129	111
Total expenses	34,320	659,968	151,134	267
Financial income	433	5	–	33
Leases	–	1,114	–	–
Provision of services	–	21,766	1,054	–
Sale of goods (finished or in progress)	–	479,279	257,053	–
Other income	688	–	1	–
Total income	1,121	502,164	258,108	33

2010

Other transactions (thousand euros)	"la Caixa" Group	Repsol YPF Group	GDF-Suez Group ^(**)	Catalunya Caixa
Acquisition of property, plant and equipment, intangible assets or other assets	–	6,202	–	–
Financing agreements: loans and capital contributions (lender) ⁽³⁾	452,826	–	–	40,208
Sale of property, plant and equipment, intangible assets or other assets ⁽⁴⁾	175,507	27	–	–
Financing agreements: loans and capital contributions (borrower) ⁽⁵⁾	574,132	–	–	50,987
Deposits and guarantees deposits received	112,500	–	–	70,000
Dividends and other distributed profit	261,528	219,092	36,670	11,799
Other operations ⁽⁶⁾	1,702,046	–	–	9

2010

Trade debtors and creditors (thousand euros)	"la Caixa" Group	Repsol YPF Group	GDF-Suez Group ^(**)	Catalunya Caixa
Trade and other receivables	–	62.400	–	–
Trade and other payables	–	35.600	–	–

(**) Until September 9, 2010.

(1) The operations with the "la Caixa" Group relate basically to vehicle contract hire and maintenance services that are recognised as operating leases based on the characteristics of the contracts for the services which, to April 2011, were provided by a company of "la Caixa" Group.

(2) Includes contributions to pension plans, collective insurance policies, life insurance policies, and other expenses.

(3) Includes treasury and financial investments.

(4) Includes basically the assignment of debt claims (factoring without recourse) to the "la Caixa" Group.

(5) At 31 December 2011 the credit facilities extended by the "la Caixa" Group totalled Euros 474,914 thousand (Euros 483,936 thousand at 31 December 2010), of which Euros 30,316 thousand had been drawn down (Euros 36,316 thousand 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 207,665 thousand (Euros 237,816 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 50,987 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. (Note 13).

(6) At December 31, 2011 "Other operations" with the "la Caixa" Group include Euros 566,587 thousand for exchange rate hedges (Euros 1,249,800 thousand at December 31, 2010) and Euros 443,417 thousand for interest rate hedges (Euros 452,246 thousand at December 31, 2010). This same account includes a balance of Euros 9 thousand with Catalunya Caixa for interest rate hedges.

Note 34. Disclosures regarding members of the Board of Directors and the 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 an amount of 10% 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 recognised 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 (CAandC) and Appointments and Remuneration Committee (CNandR), totalled Euros 4,074 thousand (Euros 4,085 thousand in 2010), broken down as follows in euros:

	Office	Board	Executive Committee	ACC	ARC	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 ⁽¹⁾	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
		2,562,500	1,435,500	37,950	37,950	4,073,900

(1) Mr Narcis Serra Serra formed part of the Board of Directors to 28/11/2011

In 2010, an additional sum 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 the Board of Directors 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.

The contract of the Chief Executive Officer contains a clause that stipulates an indemnity that trebles his annual compensation in certain cases of termination of contract and an indemnity equivalent to one year's pay for the one-year post-employment non-compete clause.

Transactions with Directors

We disclose 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 FENOSA.

Directors and offices in other companies With similar or complementary activities		Number of shares and % shareholding:					
		Gas Natural Fenosa	Enagás	RepsolYPF	Endesa	Red Eléctrica	Iberdrola
Mr Salvador Gabarró Serra Vice-Chairman 1º de "La Caixa" Board director de Caixabank, S.A.	Chairman	3,107 (0.000)	14,371 (0.006)	–	–	10,502 (0.008)	78,434 (0.001)
Mr Antonio Brufau Niubó Chairman Repsol YPF, S.A. Chairman YPF, S.A.	Vice-Chairman	77,276 (0.008) 1,035 (0.000) ⁽¹⁾	–	237,602 (0.019) 1,650 (0.000) ⁽¹⁾	–	–	–
Mr Rafael Villaseca Marco Chairman Repsol-Gas Natural LNG, S.L. Board director de Gas Natural Aprovisionamientos SDG, S.A.	CEO	12,434 (0.001)	356 (0.000)	646 (0.000)	859 (0.000)	–	2,614 (0.000)
Mr Enrique Alcántara-García Irazoqui	Director	7,942 (0.001) 20,714 (0.002) ⁽¹⁾	–	–	–	–	7,459 (0.000)
Mr Carlos Kinder Espinosa	Director	5,391 (0.001)	–	–	–	–	–
Mr Juan María Nin Génova Director general de "La Caixa" Vice-Chairman y consejero delegado de Caixabank, S.A. Vice-Chairman Critería CaixaHolding, S.A.U. Board director Repsol-YPF, S.A. Board director Grupo financiero INBURSA	Director	149 (0.000)	–	242 (0.000)	–	–	–
Mr Juan Rosell Lastortras Board director Caixabank, S.A.	Director	2,000 (0.000) ⁽¹⁾	–	–	–	–	–
Mr Demetrio Carceller Arce Chairman Disa Corporación Petrolífera, S.A. Chairman Disa Peninsular, S.L.U.	Director	2,692 (0.000)	–	–	–	–	–
Mr Luis Suárez de Lezo Mantilla General Secretary /Board dir. Repsol YPF, S.A. Board director YPF, S.A. Board director Repsol-Gas Natural LNG, S.L. Vice-Chairman Fundación Repsol Member of Environment and Energy Commission of International Chamber of Commerce (ICC)	Director	18,156 (0.002) 998 (0.000) ⁽¹⁾	–	8,038(0.001) 368 (0.000) ⁽¹⁾	–	–	333 (0.000) ⁽¹⁾
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 Achurra Board director Petróleos del Norte, S.A.	Director	1,046 (0.000)	–	–	–	–	–
Mr Carlos Losada Marrodán Board director Innoenergy	Director	1,924 (0.001) 12,541 (0.001) ⁽¹⁾	–	–	–	–	–
Mr Miguel Valls Maseda	Director	6,530 (0.001)	–	–	–	–	–

**Directors and offices in other companies
With similar or complementary activities**

Number of shares and % shareholding:

		Number of shares and % shareholding:					
		Gas Natural Fenosa	Enagás	Repsol YPF	Endesa	Red Eléctrica	Iberdrola
Mr Nemesio Fernández-Cuesta Luca de Tena							
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 Repsol 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.	Director	1 (0.000)	–	21,353 (0.002)	–	–	–
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 the 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 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 termination of contract and other items have 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.

Transactions with Directors and executives

The Directors and executives have not carried out any operations outside ordinary business in 2011 and 2010 or any operations not carried out at arm's length with the company or the Group companies.

Note 35. Commitments and contingent liabilities

Guarantees

At 31 December 2011 GAS NATURAL FENOSA has given guarantees to third parties for activities totalling Euros 1,223 million.

On the other hand, financial guarantees have also been given totalling Euros 622 million, of which Euros 245 million relate to the guarantee for compliance with the obligations on the loan received by investee companies.

GAS NATURAL FENOSA estimates that the liabilities not foreseen at 31 December 2011, if any, that could given arise from the guarantees given, would not be significant.

Contractual commitments

The following tables present the contractual commitments for purchases and sales at 31 December 2011:

Purchase	At 31 December 2011						
	Total	2012	2013	2014	2015	2016	And beyond
Commitments for operating leases ⁽¹⁾	818	103	67	49	49	43	507
Commitments for purchases of natural gas ⁽²⁾	84,144	8,455	8,078	7,843	7,243	5,914	46,611
Commitments for purchases of nuclear fuel	59	26	33	–	–	–	–
Commitments for transport of natural gas ⁽³⁾	2,414	185	158	197	202	213	1,459
Commitments for investments ⁽⁴⁾	244	154	90	–	–	–	–
Total contractual obligations	87,679	8,923	8,426	8,089	7,494	6,170	48,577

Sales	At 31 December 2011						
	Total	2012	2013	2014	2015	2016	And beyond
Commitments for assignment of combined cycle capacity ⁽⁵⁾	4.772	235	243	235	224	293	3.542
Commitments for sales of natural gas ⁽⁶⁾	22.576	4.588	4.229	3.811	3.103	1.126	5.719
Total contractual obligations	27.348	4.823	4.472	4.046	3.327	1.419	9.261

(1) Basically reflects the payments foreseen for the operating lease of the five liquefied natural gas transport tankers which terminate in the period 2012-2019 and the operating costs related to the tanker fleet contracts under finance leases indicated in Note 18. Also included is the rent of the "Torre del Gas" building owned by Torre Marenstrum, S.L., for which GAS NATURAL FENOSA has an operating lease without a purchase option for a period of ten years as from March 2006, extendible at market value for successive periods of three years, which is discretionary for GAS NATURAL FENOSA and obligatory for Torre Marenstrum, S.L.

(2) Basically reflects the long-term commitments for natural gas purchases under gas supply contracts with take or pay clauses negotiated and held for "own use" (Note 3.3.73). Normally, these contracts are for 20-25 years, a minimum amount of gas to be purchased and revision mechanisms for prices indexed to international natural gas prices and regulated prices of natural gas in the countries of origin. The commitments according to these contracts have been calculated on the basis of natural gas prices at 31 December 2011.

This also includes long-term commitments to buy electricity (Note 9), calculated based on prices at 31 December 2011.

In November, GAS NATURAL FENOSA signed a long-term gas supply contract with the US group Cheniere. This contract will entail the acquisition of approximately 5 bcm per annum of gas over a 20-year period as from 2017. These purchase volumes have not been included in the contractual commitments shown in the above table because the contract is subject to suspensive conditions pending fulfilment.

(3) Reflects the long-term commitments (20 to 25 years) for gas transport calculated on the basis of prices at 31 December 2011.

(4) Basically reflects payment commitments for upstream projects and gas infrastructures.

(5) Reflects the commitments as per the long-term contracts (25 years) of assignment of electricity generation capacity in Mexico and Puerto Rico without a purchase option, classified as operating leases (Note 3.3.16). The commitments under these contracts have been calculated on the basis of prices at 31 December 2011.

(6) Reflects the long-term commitment to sell natural gas under gas sale contracts with take or pay clauses negotiated and maintained for "own use" (Note 3.3.73). Calculated on the basis of natural gas prices at 31 December 2011.

Litigation and arbitration

At the date of formulation of these Consolidated annual accounts the main litigation or arbitration to which GAS NATURAL FENOSA 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.

Tax claims in Argentina

The Argentine tax authorities made several tax claims totalling ARS 250 million including accrued interest (Euros 45 million) for the tax treatment of capital gains in the period from 1993 to 2001, arising from the transfer of distribution networks by third parties to Gas Natural BAN, S.A. All the claims have been opposed and it was estimated that a final judgment favourable to the company would be handed down. Thus, the National Appellate Court finally ruled in 2007, for the period 1993-1997, voiding the Judgement of the Federal Public Administration Treasury (Administración Federal de Ingresos Públicos - AFIP), which had claimed the tax alleged due, and confirming moreover, the voiding of the fines. The decision of the Appellate Court has been appealed to the Supreme Court.

Tax claims in Brazil

In September 2005 the Administrative Court of Río de Janeiro voided the claim that had been filed previously in April 2003 against offsetting the tax credits for the contributions on sales of PIS and COFINS paid by Companhia Distribuidora de Gás do Rio de Janeiro - CEG. The administrative court confirmed this judgement in March 2007, and, accordingly, the company filed an appeal before the contentious-administrative court, (Justicia Federal do Rio de Janeiro), an appeal which is now being heard. Subsequently, on 26 January 2009 notice was given of a public civil suit against CEG for the same events. GAS NATURAL FENOSA and the legal advisors of the company believe that the actions mentioned above are baseless, and, accordingly, it is not likely that losses will arise from this litigation. The amount of the tax payable in question, actualised at 31 December 2011, totals BR 348 million (Euros 143 million).

Claim against Edemet-Edechi (Panama)

In December 2010 notification was given of the judgement of the court of first instance by virtue of which the Group companies Edemet and Edechi were sentenced to pay the claimant amounts to be determined by the experts up to a maximum of USD 84 million (Euros 65 million). Edemet, Edechi and the claimant have appealed this judgement. The damages claimed arise from a public tender to purchase energy en bloc called by the Public Service Authorities and which was tendered out to the claimant, which finally was not capable of meeting the terms of the contract for not having given the guarantees required in the bidding terms.

GAS NATURAL FENOSA believes that the provisions recorded in these Consolidated annual accounts adequately cover the risks described in this Note, and, accordingly, it is not expected that liabilities will arise in addition to the ones recorded.

Note 36. Auditors fees

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

(thousand euros)

	2011	2010
Auditing and related services	4,184	4,235
Other services	1,199	1,847
Total fees	5,383	6,082

Additionally, in 2011, other audit firms have rendered the following services to Group companies:

(thousand euros)

	2011	2010
Auditing and related services	237	351
Other services	2	37
Total fees	239	388

Note 37. Environment

Main environmental actions

The main actions of GAS NATURAL FENOSA 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 have been adopted to combine the indispensable development of energy and the protection of the environment, and, in particular, the fight against the effects of climate change and the efficient use of resources. We have reduced the environmental impact of our activities, and conserved the bio-diversity 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.

GAS NATURAL FENOSA has certified, under environmental Standard UNE-EN ISO 14001, 14,085 MW of electricity generation, 97% of its installed capacity of total electricity generation. Moreover, the environmental management certification has been received for the liquefaction plant in Damietta (Egypt) plant, the electricity distribution in Spain, Panama and Moldova, the distribution and marketing of gas in Spain and Mexico, energy services in Spain, Unión Fenosa Gas, Metragaz (Morocco), and the main work centres of the company. All these facilities are audited annually both internally and externally.

On the other hand, the coal-fired thermal energy plants, the Sabón thermal energy plant, the combined cycle plants in Palos de la Frontera and Nueva Generadora del Sur and the Sector Hidráulico de Tambre-Ulla in Galicia are still in the European EMAS system.

With respect to waste, the Pre3ver Plan has been implemented to establish and ensure the consistency of waste management criteria and guidelines. The 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 NO_x emissions. Investments were also made in the renewal of gas distribution networks to reduce atmospheric leaks.

Additionally, GAS NATURAL FENOSA has made environmental investments to prevent pollution, protect the atmosphere, manage water resources and waste and soil quality and prepare environmental impact studies and environmental oversight plans.

All these environmental actions carried out in 2011 have cost a total of Euros 99 million, of which Euros 58 million related to investments and the rest, i.e., Euros 42 million, to expenses incurred in environmental management.

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

Emissions

The Council of Ministers on 14 November 2007 adopted the individual assignments of greenhouse gas emission rights for the 2008-2012 period. The assignment given to GAS NATURAL FENOSA totals Euros 47.1 million tonnes of CO₂, broken down as follows:

(mtCO ₂)	2008	2009 ^(*)	2010	2011	2012
Assigned emission allowances	2,884	11,447	11,220	11,026	10,519

(*) As from the year 2009 the emission allowances assigned to UNIÓN FENOSA are included.

In 2011, consolidated CO₂ emissions from GAS NATURAL FENOSA' coal thermal and combined cycle plants subject to regulations governing the greenhouse gas emission trade regime totalled 13.4 million tonnes of CO₂ (10.5 million tonnes of CO₂ in 2010).

GAS NATURAL FENOSA manages its CO₂ 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 emissions in gas network and replacement of fuels by other less carbon-intensive alternatives.

Note 38. 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 start of February. The estimated amount pertaining to GAS NATURAL FENOSA is Euros 94 million.

Appendix I. Group companies of Gas Natural Fenosa

1. Subsidiary companies

Company	Country	Activity
Gas Natural Almacенamientos Andalucía, S.A.	Spain	Gas supply
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply
Sagane, S.A.	Spain	Gas supply
Energía Empresarial de la Costa, S.A., E.S.P.	Colombia	Electricity commercialisation
Energía Social de la Costa S.A. E.S.P.	Colombia	Electricity commercialisation
Cetraro Distribuzione Gas, S.R.L.	Italy	Gas commercialisation
Gas Natural Europe, S.A.S.	France	Gas commercialisation
Gas Natural Vendita Italia, S.P.A.	Italy	Gas commercialisation
Natural Energy, S.A. ⁽¹⁾	Argentina	Gas commercialisation
Gas Natural Comercial SDG, S.L.	Spain	Gas and Electricity commercialisation
Gas Natural Comercializadora, S.A.	Spain	Gas and Electricity commercialisation
Gas Natural S.U.R. SDG, S.A.	Spain	Gas and Electricity commercialisation
Gas Natural Servicios SDG, S.A.	Spain	Gas and Electricity commercialisation
GEM Suministro de Gas 3, S.L.	Spain	Gas and Electricity commercialisation
GEM Suministro de Gas SUR 3, S.L.	Spain	Gas and Electricity commercialisation
Unión Fenosa Comercial, S.L.	Spain	Gas and Electricity commercialisation
Distribuidora de Electricidad del Norte, S.A.	Nicaragua	Electricity distribution
Distribuidora de Electricidad del Sur, S.A.	Nicaragua	Electricity distribution
Distribuidora Eléctrica Navasfrías, S.L.	Spain	Electricity distribution
Electra de Abusejo, S.L.	Spain	Electricity distribution
Electra del Jallas, S.A.	Spain	Electricity distribution
Electrificadora del Caribe S.A, E.S.P.	Colombia	Electricity distribution
Empresa de Distribución Eléctrica Chiriquí, S.A.	Panama	Electricity distribution
Empresa de Distribución Eléctrica Metro Oeste, S.A.	Panama	Electricity distribution
Red Unión Fenosa, S.A.	Moldova	Electricity distribution
Unión Fenosa Distribución, S.A.	Spain	Electricity distribution
Ceg Río, S.A.	Brazil	Gas distribution
Comercializadora Metrogas, S.A. de CV	Mexico	Gas distribution
Companhia Distribuidora de Gás do Rio de Janeiro, S.A.	Brazil	Gas distribution
Favellato Reti Gas, S.R.L.	Italy	Gas distribution
Gas Galicia SDG, S.A.	Spain	Gas distribution

Consolidation Method	% de Shareholding Total	Net equity			
		Capital	Reserves	Profit 2011	Interim dividend
I.G.	100.0	–	–	–	–
I.G.	100.0	1	21	(4)	–
I.G.	100.0	95	(11)	165	–
I.G.	85.4	–	5	(2)	–
I.G.	85.4	1	(2)	(7)	–
I.G.	60.0	–	–	–	–
I.G.	100.0	–	6	(12)	–
I.G.	100.0	2	9	4	–
I.G.	100.0	–	–	2	–
I.G.	100.0	4	5	(1)	–
I.G.	100.0	2	30	(10)	–
I.G.	100.0	2	6	11	–
I.G.	100.0	2	(1)	2	–
I.G.	100.0	–	–	–	–
I.G.	100.0	–	–	–	–
I.G.	100.0	10	101	(25)	–
I.G.	72.3	80	(40)	(4)	–
I.G.	73.7	62	(55)	(6)	–
I.G.	100.0	–	–	–	–
I.G.	100.0	1	(1)	–	–
I.G.	99.9	–	40	6	–
I.G.	85.4	964	(164)	(13)	–
I.G.	51.0	18	(3)	11	–
I.G.	51.0	71	(3)	30	–
I.G.	100.0	7	144	22	–
I.G.	100.0	833	1,773	315	(200)
I.G.	59.6	41	97	37	(41)
I.G.	86.8	128	(62)	12	–
I.G.	54.2	212	276	100	(104)
I.G.	100.0	1	9	–	–
I.G.	61.6	33	10	5	–

1. Subsidiary companies (continued)

Company	Country	Activity
Gas Natural Andalucía, S.A.	Spain	Gas distribution
Gas Natural BAN, S.A. ⁽¹⁾	Argentina	Gas distribution
Gas Natural Castilla-La Mancha, S.A.	Spain	Gas distribution
Gas Natural Castilla y León, S.A.	Spain	Gas distribution
Gas Natural Cegas, S.A.	Spain	Gas distribution
Gas Natural Cundiboyacense, S.A. ESP	Colombia	Gas distribution
Gas Natural Sao Paulo Sul, S.A.	Brazil	Gas distribution
Gas Natural del Cesar, S.A. ESP	Colombia	Gas distribution
Gas Natural del Oriente, S.A. ESP	Colombia	Gas distribution
Gas Natural Distribución SDG, S.A.	Spain	Gas distribution
Gas Natural Distribuzione Italia, S.P.A.	Italy	Gas distribution
Gas Natural México, S.A. de CV ⁽¹⁾	Mexico	Gas distribution
Gas Natural Rioja, S.A.	Spain	Gas distribution
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution
Gas Natural, S.A. ESP	Colombia	Gas distribution
Gas Navarra, S.A.	Spain	Gas distribution
Berrybank development Pty, Ltd	Australia	Energy
Crookwell development Pty, Ltd	Australia	Energy
Hawkesdale development Pty, Ltd	Australia	Energy
Ryan Corner development Pty, Ltd	Australia	Energy
Gas Natural Exploración, S.L.	Spain	Hydrocarbon research and exploration
Petroleum Oil & Gas España, S.A.	Spain	Hydrocarbon research and exploration
Clover Financial and Treasury Services, Ltd.	Ireland	Finance
Gas Natural Capital Markets, S.A.	Spain	Finance
Unión Fenosa Finance B.V.	Netherlands	Finance
Unión Fenosa Financiación, S.A.	Spain	Finance
Unión Fenosa Financial Services USA, Llc.	United States	Finance
Unión Fenosa Preferentes, S.A.	Spain	Finance
Energía y Servicios de Panamá, S.A.	Panama	Electricity generation
Andaluza de Energía Solar Cuarta, S.L.	Spain	Electricity generation
Boreas Eólica 2, S.A.	Spain	Electricity generation

Consolidation Method	% de Shareholding Total	Net equity			
		Capital	Reserves	Profit 2011	Interim dividend
I.G.	100.0	12	41	18	-
I.G.	70.0	215	(127)	7	(13)
I.G.	95.0	27	20	11	-
I.G.	90.1	6	79	26	-
I.G.	99.7	25	68	28	-
I.G.	45.8	1	14	4	-
I.G.	100.0	383	(104)	32	(1)
I.G.	21.7	3	5	1	-
I.G.	32.2	9	16	10	(9)
I.G.	100.0	81	794	277	(175)
I.G.	100.0	33	177	18	-
I.G.	86.8	471	(137)	33	-
I.G.	87.5	3	9	5	-
I.G.	100.0	15	46	10	-
I.G.	59.1	11	136	100	-
I.G.	90.0	4	27	10	-
I.G.	93.9	2	-	-	-
I.G.	93.9	5	1	-	-
I.G.	93.9	2	1	-	-
I.G.	93.9	3	1	-	-
I.G.	100.0	9	22	(21)	-
I.G.	100.0	4	43	(3)	-
I.G.	100.0	-	613	30	(73)
I.G.	100.0	-	-	8	-
I.G.	100.0	-	-	-	-
I.G.	100.0	1	2	(1)	-
I.G.	100.0	-	1	-	(1)
I.G.	100.0	-	735	17	(15)
I.G.	51.0	9	-	5	-
I.G.	76.0	-	-	-	-
I.G.	89.6	3	5	2	-

1. Subsidiary companies (continued)

Company	Country	Activity
Controladora del Golfo, S.A. de C.V.	Mexico	Electricity generation
Corporación Eólica de Zaragoza, S.L	Spain	Electricity generation
Energías Ambientales de Novo, S.A.	Spain	Electricity generation
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation
Energías Ambientales de Vimianzo, S.A.	Spain	Electricity generation
Energías Ambientales Easa, S.A.U.	Spain	Electricity generation
Energía Termosolar de los Monegros, S.L.	Spain	Electricity generation
Energías Especiales Alcoholeras, S.A.	Spain	Electricity generation
Energías Especiales de Extremadura, S.L.	Spain	Electricity generation
Eólica de Cordales, S.L.U.	Spain	Electricity generation
Eólica de Cordales Bis, S.L.U.	Spain	Electricity generation
Eufer Energías Especiais de Portugal, Unipessoal Lda	Portugal	Electricity generation
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation
Fenosa Wind, S.L.	Spain	Electricity generation
Fenosa, S.L.U.	Spain	Electricity generation
Fuerza y Energía BII Hioxo, S.A. DE C.V.	Mexico	Electricity generation
Fuerza y Energía de Hermosillo, S.A. de C.V.	Mexico	Electricity generation
Fuerza y Energía de Naco Nogales, S.A. de C.V.	Mexico	Electricity generation
Fuerza y Energía de Norte Durango, S.A de C.V	Mexico	Electricity generation
Fuerza y Energía de Tuxpan, S.A. de C.V.	Mexico	Electricity generation
Gas Natural Electricidad SDG, S.A.	Spain	Electricity generation
Gas Natural Fenosa Renovables Andalucía, S.L.U.	Spain	Electricity generation
Gas Natural Fenosa Renovables, S.L.U.	Spain	Electricity generation
Gas Natural Fenosa Renovables Castilla la Mancha, S.L.U.	Spain	Electricity generation
Gas Natural Fenosa Renovables Ruralia, S.L.U.	Spain	Electricity generation
Gas Natural Wind 4, S.L.U.	Spain	Electricity generation
Gas Natural Wind 6, S.L.	Spain	Electricity generation
Gas Natural Wind Canarias, S.L.U.	Spain	Electricity generation
Generación Panamá, S.A.	Panama	Electricity generation
Generadora Palamara La Vega, S.A.	Dominican Rep.	Electricity generation
Iberáfrica Power Ltd.	Kenya	Electricity generation

Consolidation Method	% de Shareholding Total	Net equity			
		Capital	Reserves	Profit 2011	Interim dividend
I.G.	100.0	32	(84)	–	–
I.G.	68.0	3	1	1	–
I.G.	100.0	2	–	–	–
I.G.	97.5	1	–	2	–
I.G.	100.0	5	1	3	–
I.G.	100.0	16	3	3	–
I.G.	90.0	1	–	–	–
I.G.	82.3	–	–	(1)	–
I.G.	78.4	–	–	–	–
I.G.	85.0	–	–	–	–
I.G.	85.0	–	–	–	–
I.G.	100.0	–	–	–	–
I.G.	75.0	3	6	4	–
I.G.	85.0	2	–	–	–
I.G.	100.0	2	–	–	–
I.G.	100.0	41	(14)	–	–
I.G.	100.0	49	7	(2)	–
I.G.	100.0	131	(29)	1	–
I.G.	100.0	54	(9)	8	–
I.G.	100.0	156	14	19	–
I.G.	100.0	4	7	(7)	–
I.G.	100.0	–	–	–	–
I.G.	100.0	90	343	31	–
I.G.	100.0	–	–	–	–
I.G.	100.0	–	–	–	–
I.G.	100.0	–	–	–	–
I.G.	60.0	–	–	–	–
I.G.	100.0	–	–	–	–
I.G.	100.0	–	–	–	–
I.G.	100.0	4	63	16	–
I.G.	71.7	16	2	(3)	–

1. Subsidiary companies (continued)

Company	Country	Activity
JGC Cogeneración Daimiel, S.L.	Spain	Electricity generation
Lantarón Energía, S.L.	Spain	Electricity generation
M&D Generación 1, S.L.U.	Spain	Electricity generation
Sistemas Energéticos Alto do Seixal, S.A.U.	Spain	Electricity generation
Sociedad de Tratamiento Hornillos, S.L.	Spain	Electricity generation
Sociedad de Tratamiento La Andaya, S.L.	Spain	Electricity generation
Societat Eòlica de l'Énderrocada, S.A.	Spain	Electricity generation
Tratamiento Integral de Almazán, S.L.	Spain	Electricity generation
Tratamiento Cinca Medio, S.L.	Spain	Electricity generation
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation
UTE La Energía Gas Natural Electricidad	Spain	Electricity generation
Zemer Energía, S.A. de C.V.	Mexico	Electricity generation
Hispanogalaica de Extracciones, S.L.	Spain	Mining
Kangra Coal (Proprietary), Ltd.	South Africa	Mining
Lignitos de Meirama, S.A.	Spain	Mining
Pizarras Mahide, S.L.	Spain	Mining
Unión Fenosa Minería, S.A.	Spain	Mining
Welgedacht Exploration Company Ltd	South Africa	Mining
Gas Natural Rigassificazione Italia, S.P.A.	Italy	Gas regasification
Natural Re, S.A.	Luxemburg	Insurance
Administración y Servicios ECAP, S.A. de C.V.	Mexico	Services
Administradora de Servicios de Energía México, S.A. de CV	Mexico	Services
Almar Ccs, S.A.	Costa Rica	Services
Arte Contemporáneo y Energía, A.I.E.	Spain	Services
Cedifil Cored Wire, S.L.	Spain	Services
Compañía Española de Industrias Electroquímicas, S.A.	Spain	Services
Energía y Confort Administración de Personal, S.A. de C.V.	Mexico	Services
Gas Natural Servicios Colombia Ltda.	Colombia	Services
Gas Natural Servicios Integrales, S.A.S.	Colombia	Services
Gas Natural Servicios, S.A. de C.V.	Mexico	Services

Consolidation Method	% de Shareholding Total	Net equity			
		Capital	Reserves	Profit 2011	Interim dividend
I.G.	97.6	1	-	-	-
I.G.	100.0	-	-	-	-
I.G.	100.0	-	-	-	-
I.G.	100.0	-	(1)	-	-
I.G.	94.4	1	2	1	-
I.G.	60.0	1	3	1	-
I.G.	80.0	6	3	2	-
I.G.	90.0	3	3	2	-
I.G.	80.0	2	1	1	-
I.G.	65.0	25	-	4	-
I.G.	65.0	-	5	-	-
I.G.	100.0	4	-	-	-
I.G.	50.0	-	(1)	-	-
I.G.	100.0	-	-	-	-
I.G.	70.0	-	98	58	(21)
I.G.	100.0	23	16	2	-
I.G.	100.0	1	-	-	-
I.G.	100.0	11	169	15	-
I.G.	100.0	-	-	-	-
I.G.	100.0	17	(1)	(1)	-
I.G.	100.0	4	28	2	-
I.G.	100.0	-	-	-	-
I.G.	86.8	-	-	-	-
I.G.	100.0	-	-	-	-
I.G.	100.0	-	-	-	-
I.G.	98.5	4	1	1	-
I.G.	98.5	3	8	-	-
I.G.	87.0	-	1	-	-
I.G.	59.0	-	1	2	-
I.G.	100.0	1	-	-	-
I.G.	86.8	6	2	1	-

1. Subsidiary companies (continued)

Company	Country	Activity
Gas Natural Serviços, S.A.	Brazil	Services
General de Edificios y Solares, S.L.	Spain	Services
Inversiones Hermill, S.A.	Dominican Rep.	Services
Natural Servicios, S.A. ⁽¹⁾	Argentina	Services
Serviconfort Colombia, S.A.	Colombia	Services
Sistemas de Administración y Servicios, S.A. de C.V. ⁽¹⁾	Mexico	Services
Unión Fenosa Generación México, S.A. de C.V.	Mexico	Services
Gas Natural Fenosa Engineering, S.L.U.	Spain	Professional services
Gas Natural Informática, S.A.	Spain	Professional services
M&D Energy Market, S.L.U.	Spain	Professional services
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Professional services
Operación y Mantenimiento Energy Madagascar, S.A.R.L.U.	Madagascar	Professional services
Operations & Maintenance Energy Uganda Ltd	Uganda	Professional services
Operación y Mantenimiento Energy, S.A.	Spain	Professional services
Proyectos de Ingeniería la Joya, S.A. (Costa Rica)	Costa Rica	Professional services
Socoin, S.A (Guatemala)	Guatemala	Professional services
Socoin Colombia, S.A.S.	Colombia	Professional services
Socoin INC (Puerto Rico)	Puerto Rico	Professional services
Socoin México, S.A. de C.V.	Mexico	Professional services
Socoin, S.A (Panamá)	Panama	Professional services
Socoinve, C.A	Venezuela	Professional services
Soluziona Technical Services, Llc.	Egypt	Professional services
Soluziona, S.A. (Bolivia)	Bolivia	Professional services
Unión Fenosa Operación México S.A. de C.V.	Mexico	Professional services
United Saudi Spanish Power and Gas Services, LLC	Saudi Arabia	Professional services
Gas Natural International, Ltd.	Ireland	Holding company
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Spain	Holding company
Buenergía Gas & Power, Ltd.	Cayman I.	Holding company
Caribe Capital B.V.	Netherlands	Holding company
Distribuidora Eléctrica de Caribe, S.A. (Panamá)	Panama	Holding company
First Independent Power (Kenya), Ltd.	Kenya	Holding company

Consolidation Method	% de Shareholding Total	Net equity			
		Capital	Reserves	Profit 2011	Interim dividend
I.G.	100.0	2	3	(2)	-
I.G.	100.0	34	54	9	-
I.G.	100.0	1	(1)	-	-
I.G.	100.0	2	(1)	-	-
I.G.	100.0	-	-	-	-
I.G.	87.0	-	-	-	-
I.G.	100.0	-	-	-	-
I.G.	100.0	1	39	2	-
I.G.	100.0	20	7	4	-
I.G.	100.0	-	-	-	-
I.G.	100.0	-	-	-	-
I.G.	100.0	-	-	-	-
I.G.	100.0	-	-	-	-
I.G.	100.0	-	7	-	-
I.G.	100.0	-	-	-	-
I.G.	100.0	-	1	-	-
I.G.	100.0	-	-	-	-
I.G.	100.0	-	-	1	-
I.G.	100.0	8	(6)	1	-
I.G.	100.0	-	1	-	-
I.G.	100.0	-	-	-	-
I.G.	100.0	-	-	-	-
I.G.	100.0	-	-	-	-
I.G.	100.0	-	1	1	-
I.G.	100.0	-	-	-	-
I.G.	100.0	6	8	-	(7)
I.G.	100.0	32	1	1	-
I.G.	95.0	-	(3)	16	-
I.G.	100.0	-	252	14	(12)
I.G.	100.0	110	9	21	(13)
I.G.	89.6	-	13	-	-

1. Subsidiary companies (continued)

Company	Country	Activity
Gas Natural SDG Argentina, S.A. ⁽¹⁾	Argentina	Holding company
Gas Natural do Brasil, S.A.	Brazil	Holding company
Gas Natural Internacional SDG, S.A.	Spain	Holding company
Gas Natural Italia S.P.A.	Italy	Holding company
Gas Natural Puerto Rico, Inc	Puerto Rico	Holding company
Holding Gasinmex, S.A. de C.V. ⁽¹⁾	Mexico	Holding company
Invergás, S.A. ⁽¹⁾	Argentina	Holding company
La Energía, S.A.	Spain	Holding company
La Propagadora del Gas, S.A.	Spain	Holding company
Unión Fenosa Internacional, S.A.	Spain	Holding company
Unión Fenosa Internacional B.V.	Netherlands	Holding company
Unión Fenosa México B.V.	Netherlands	Holding company
Unión Fenosa México, S.A. de C.V.	Mexico	Holding company
Unión Fenosa Minería B.V.	Netherlands	Holding company
Unión Fenosa South Africa Coal (Proprietary), LTD	South Africa	Holding company
Union Fenosa Wind Australia Pty, Ltd.	Australia	Holding company
Gas Natural Fenosa Telecomunicaciones, S.A.	Spain	Telecommunications
Gas Natural Fenosa Telecomunicaciones Colombia, S.A.	Colombia	Telecommunications
Gas Natural Fenosa Telecomunicaciones Guatemala, S.A.	Guatemala	Telecommunications
Unión Fenosa Redes de Telecomunicación, S.A. (Nicaragua)	Nicaragua	Telecommunications
Unión Fenosa Redes de Telecomunicación, S.A. (Panamá)	Panama	Telecommunications
Unión Fenosa Redes de Telecomunicación Costa Rica, S.A.	Costa Rica	Telecommunications
Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas transportation
Metragaz, S.A.	Morocco	Gas transportation

(1) The percentage of the shareholding corresponds to the legally held shares. Additionally, there is a share re-purchase commitment for the percentages indicated in Note 18, which are also assigned to the parent Company.

Consolidation Method	% de Shareholding Total	Net equity			
		Capital	Reserves	Profit 2011	Interim dividend
I.G.	100.0	104	(24)	1	-
I.G.	100.0	3	(3)	-	-
I.G.	100.0	350	166	17	-
I.G.	100.0	-	1	1	-
I.G.	100.0	2	(1)	-	-
I.G.	82.7	302	-	-	-
I.G.	100.0	61	46	2	-
I.G.	100.0	11	4	2	-
I.G.	100.0	10	2	-	-
I.G.	100.0	174	212	209	(175)
I.G.	100.0	5	19	-	-
I.G.	100.0	128	306	-	(1)
I.G.	100.0	472	(184)	14	-
I.G.	100.0	-	142	15	(14)
I.G.	100.0	-	72	15	(21)
I.G.	93.9	18	1	-	-
I.G.	100.0	21	28	24	-
I.G.	88.2	1	5	3	-
I.G.	100.0	-	5	3	-
I.G.	100.0	-	1	1	-
I.G.	90.2	2	7	3	-
I.G.	66.7	-	-	-	-
I.G.	72.6	-	193	159	(75)
I.G.	72.3	3	1	1	-

2. Joint ventures

Company	Country	Activity
Repsol-Gas Natural LNG, S.L.	Spain	Gas supply and transportation
CH4 Energía S.A. de C.V.	Mexico	Gas commercialisation and transportation
Transnatural S.R.L. de C.V.	Mexico	Gas commercialisation and transportation
Barras Eléctricas Galaico Asturianas, S.A.	Spain	Electricity distribution
Eléctrica Conquense de Distribución, S.A.	Spain	Electricity distribution
Albidona Distribuzione Gas, S.R.L.	Italy	Gas distribution
Cilento Reti Gas, S.R.L.	Italy	Gas distribution
Gas Natural Vehicular del Norte Asociación en Participación	Mexico	Gas distribution
Gas Natural West África, S.L.	Spain	Hydrocarbon exploration and production
Palencia 3 Investigación Desarrollo y Explotación, S.L.	Spain	Hydrocarbon exploration and production
Gas Directo, S.A.	Spain	Gas
Gasífica, S.A.	Spain	Gas
Infraestructuras de Gas, S.A.	Spain	Gas
Nueva Electricidad del Gas, S.A.U.	Spain	Gas
Palawan Sulu Sea Gas, Inc.	Philippines	Gas
Planta de Regasificación de Sagunto, S.A.	Spain	Gas
Segas Services, S.A.E.	Egypt	Gas
Spanish Egyptian Gas Company S.A.E.	Egypt	Gas
Unión Fenosa Gas Exploración y Producción, S.A.	Spain	Gas
Unión Fenosa Gas Comercializadora, S.A.	Spain	Gas
Unión Fenosa Gas Infraestructuras B.V.	Netherlands	Gas
Unión Fenosa Gas, S.A.	Spain	Gas
Alas Capital & Gas Natural S.A.	Spain	Electricity generation
Barras Eléctricas Generación, S.L.	Spain	Electricity generation
Castrios, S.A.	Spain	Electricity generation
Centrales Nucleares Almaraz-Trillo, A.I.E	Spain	Electricity generation
Cogeneración del Noroeste, S.L.	Spain	Electricity generation
Desarrollo de Energías Renovables de la Rioja, S.A.	Spain	Electricity generation
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Electricity generation
EcoEléctrica, L.P.	Puerto Rico	Electricity generation
Energías Eólicas de Fuerteventura, S.L.	Spain	Electricity generation
Energías Eólicas de Lanzarote, S.L.	Spain	Electricity generation

Consolidation Method	% de Shareholding Total	Net equity			
		Capital	Reserves	Profit 2011	Interim dividend
I.P.	50.0	2	–	1	–
I.P.	43.4	1	7	2	–
I.P.	43.4	10	(34)	(9)	–
I.P.	44.9	16	69	16	–
I.P.	46.4	1	3	1	–
I.P.	60.0	–	–	–	–
I.P.	60.0	3	–	–	–
I.P.	44.3	1	–	–	–
I.P.	40.0	14	2	(4)	–
I.P.	39.0	–	–	–	–
I.P.	30.0	7	(1)	–	–
I.P.	55.0	2	10	1	–
I.P.	42.5	–	–	9	(5)
I.P.	50.0	3	(1)	(5)	–
I.P.	50.0	–	6	(5)	–
I.P.	21.3	2	1	15	(13)
I.P.	40.7	1	–	–	–
I.P.	40.0	336	(61)	34	–
I.P.	50.0	–	(1)	(1)	–
I.P.	50.0	2	13	41	–
I.P.	50.0	–	6	(6)	–
I.P.	50.0	33	455	272	(235)
I.P.	40.0	–	–	–	–
I.P.	44.9	1	2	–	–
I.P.	33.3	2	2	1	–
I.P.	19.3	–	–	–	–
I.P.	40.0	5	5	4	–
I.P.	36.3	17	3	6	–
I.P.	50.0	10	29	15	–
I.P.	47.5	63	58	59	(12)
I.P.	50.0	–	–	–	–
I.P.	50.0	–	–	–	–

2. Joint ventures (continued)

Company	Country	Activity
Eólicos Singulares 2005, S.A.	Spain	Electricity generation
Eólica Tramuntana 12, S.L.	Spain	Electricity generation
Eólica Tramuntana 13, S.L.	Spain	Electricity generation
Eólica Tramuntana 14, S.L.	Spain	Electricity generation
Eólica Tramuntana 15, S.L.	Spain	Electricity generation
Eólica Tramuntana 16, S.L.	Spain	Electricity generation
Eólica Tramuntana 21, S.L.	Spain	Electricity generation
Eólica Tramuntana 22, S.L.	Spain	Electricity generation
Eólica Tramuntana 23, S.L.	Spain	Electricity generation
Eólica Tramuntana 24, S.L.	Spain	Electricity generation
Eólica Tramuntana 71, S.L.	Spain	Electricity generation
Eólica Tramuntana 72, S.L.	Spain	Electricity generation
Eólica Tramuntana 73, S.L.	Spain	Electricity generation
Eólica Tramuntana, S.L.	Spain	Electricity generation
Eufer-Caetano Energías Renováveis, Lda	Portugal	Electricity generation
Molinos de la Rioja, S.A.	Spain	Electricity generation
Molinos del Linares, S.A.	Spain	Electricity generation
Molinos del Cidacos, S.A.	Spain	Electricity generation
Montouto 2000, S.A.	Spain	Electricity generation
Nueva Generadora del Sur, S.A.	Spain	Electricity generation
O Novo Aquilón, S.L.	Spain	Electricity generation
Parque Eólico Sierra del Merengue, S.L.	Spain	Electricity generation
Parques Eólicos 2008-2012, S.L.	Spain	Electricity generation
Toledo PV, A.E.I.E	Spain	Electricity generation
Eléctrica Conquense, S.A.	Spain	Services
UTE ESE Clece-Gas Natural	Spain	Services
Ghesa Ingeniería y Tecnología, S.A.	Spain	Professional services
EcoEléctrica Holding, Ltd.	Cayman I.	Holding company
EcoEléctrica Limited	Cayman I.	Holding company
Alliance, S.A.	Nicaragua	Telecommunications
Biogás Doña Juana, S.A. ESP	Colombia	Biogas treatment and use

Consolidation Method	% de Shareholding Total	Net equity			
		Capital	Reserves	Profit 2011	Interim dividend
I.P.	49.0	-	-	-	-
I.P.	60.0	-	-	-	-
I.P.	60.0	-	-	-	-
I.P.	60.0	-	-	-	-
I.P.	60.0	-	-	-	-
I.P.	60.0	-	-	-	-
I.P.	60.0	-	-	-	-
I.P.	60.0	-	-	-	-
I.P.	60.0	-	-	-	-
I.P.	60.0	-	-	-	-
I.P.	60.0	-	-	-	-
I.P.	60.0	-	-	-	-
I.P.	60.0	-	-	-	-
I.P.	60.0	-	-	-	-
I.P.	60.0	-	-	-	-
I.P.	60.0	-	-	-	-
I.P.	60.0	-	-	-	-
I.P.	54.0	-	-	-	-
I.P.	33.3	3	2	2	-
I.P.	25.0	-	-	-	-
I.P.	50.0	10	8	10	-
I.P.	49.0	6	4	2	-
I.P.	50.0	96	48	(11)	-
I.P.	60.0	-	-	-	-
I.P.	50.0	-	-	-	-
I.P.	54.0	-	-	-	-
I.P.	33.3	-	1	-	-
I.P.	46.4	3	3	1	-
I.P.	50.0	-	-	-	-
I.P.	41.2	4	17	4	-
I.P.	47.5	63	20	-	(20)
I.P.	47.5	1	-	-	-
I.P.	49.9	-	-	-	-
I.P.	49.8	2	1	(1)	-

3. Jointly controlled assets and operations

Company	Country	Activity	% de Shareholding Total
Boquerón	Spain	Exploration and production	4.5
Casablanca	Spain	Exploration and production	9.5
Chipirón	Spain	Exploration and production	2.0
Montanazo	Spain	Exploration and production	17.1
Morcín-1	Spain	Exploration	20.0
Villaviciosa	Spain	Exploration	70.0
Bezana/Beguenzo	Spain	Exploration	60.0
Murcia-Siroco	Spain	Exploration	40.0
Rodaballo	Spain	Exploration and production	4.0
Sestao Knutsen	Spain	LNG Transportation	50.0
Ibérica Knutsen	Spain	LNG Transportation	50.0
Comunidad de bienes Central Nuclear de Trillo (Grupo I)	Spain	Electricity generation	34.5
Comunidad de bienes Central Nuclear de Almaraz (Grupo I y II)	Spain	Electricity generation	11.3
Comunidad de bienes Central Térmica de Anllares	Spain	Electricity generation	66.7
Comunidad de bienes Central Térmica de Aceca	Spain	Electricity generation	50.0
Gassi-Chergui	Argelia	Exploration	30.0
Tánger Larrache	Morocco	Exploration	40.0

4. Associates

Company	Country	Activity	Consolidation Method	% de Shareholding Total	Net equity				
					Capital	Reserves	Profit 2011	Interim dividend	
Kromschroeder, S.A.	Spain	Meters	PE.	42.5	1	10	–	–	
Qalhat LNG S.A.O.C.	Oman	Gas	PE.	3.7	55	18	188	(47)	
Regasificadora del Noroeste, S.A.	Spain	Gas	PE.	10.5	48	5	16	–	
Enervent, S.A.	Spain	Electricity generation	PE.	26.0	2	6	1	–	
Sistemas Energéticos La Muela, S.A.	Spain	Electricity generation	PE.	20.0	3	2	1	–	
Sistemas Energéticos Mas Garullo, S.A.	Spain	Electricity generation	PE.	18.0	2	2	2	–	
Sociedad Gallega do Medio Ambiente, S.A.	Spain	Waste management	PE.	49.0	32	3	3	–	
3G Holdings Limited	United Kingdom	Holding company	PE.	10.0	–	–	–	–	
Torre Mareostrum, S.L.	Spain	Real Estate	PE.	45.0	5	13	1	–	
Bluemobility System, S.L.	Spain	Services	PE.	20.0	–	1	(1)	–	
Oficina de cambios de suministrador, S.A.	Spain	Services	PE.	29.0	–	–	–	–	

Appendix II. Variations in consolidation scope

The main changes in the consolidation scope in 2011 have been as follows:

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired /eliminated	% of voting rights after the operation	Consolidation method after the operation
Energías Especiales de Andalucía, S.L.	Acquisition	January 12	7.5	50.0	Proportional
Clece, S.A., Dragados S.A., Socoin S.A.U y Gas Natural Servicios SDG, S.A. UTE	Incorporation	January 31	50.0	50.0	Proportional
O & M Energy Uganda Limited.	Incorporation	February 4	100.0	100.0	Global
Gas Natural Finance, BV	Liquidation	March 15	100.0	-	-
JGC Cogeneración Daimiel, S.L.	Incorporation	February 11	97.6	97.6	Global
Red Unión Fenosa, S.A.	Acquisition	April 24	6.0	100.0	Global
Gem de Suministro Gas 3, S.L.	Incorporation	May 9	100.0	100.0	Global
Gem de Suministro Gas SUR 3, S.L.	Incorporation	May 9	100.0	100.0	Global
Generación Limpia Guatemala, S.A.	Disposal	May 19	100.0	-	-
Comercializadora Guatemalteca Mayorista de Electricidad, S.A.	Disposal	May 19	100.0	-	-
Redes Eléctricas de Centroamérica, S.A.	Disposal	May 19	100.0	-	-
Distribuidora de Electricidad de Oriente, S.A.	Disposal	May 19	92.8	-	-
Distribuidora de Electricidad de Occidente, S.A.	Disposal	May 19	90.8	-	-
Unión Fenosa Wind Australia Pty. Lda.	Acquisition	May 31	1.0	92.4	Global
Eufer Renovables Ibéricas 2004, S.A.	Acquisition	May 27	50.0	100.0	Global
Eólica del Cordal de Montouto, S.L.U.	Acquisition	May 27	50.0	100.0	Global
Energías Especiales Espina, S.L.U.	Acquisition	May 27	50.0	100.0	Global
Eólica Galaicoasturiana, S.A.U.	Acquisition	May 27	50.0	100.0	Global
Andaluza de Energía Solar Cuarta, S.L.	Acquisition	May 27	45.6	76.0	Global
Energías Especiales Alcohólicas, S.A.	Acquisition	May 27	41.2	82.3	Global
Vientos del Noroeste, S.A.U.	Acquisition	May 27	49.9	100.0	Global
Energía Termosolar de los Monegros, S.L.	Acquisition	May 27	45.0	90.0	Global
Energías Especiales de Extremadura, S.L.	Acquisition	May 27	39.2	78.3	Global
Parque Eólico Cabo Vilano, S.L.U.	Acquisition	May 27	50.0	100.0	Global
Parque Eólico Sierra del Merengue, S.A.	Acquisition	May 27	25.0	50.0	Proportional
Energías Ambientales de Somozas, S.A.	Acquisition	May 27	22.6	45.2	Proportional
Cogeneración del Noroeste, S.L.	Acquisition	May 27	20.0	40.0	Proportional
Energías Ambientales Easa, S.A.	Acquisition	May 27	16.7	33.3	Proportional
Energías Ambientales de Vimianzo, S.A.	Acquisition	May 27	16.7	33.3	Proportional
Energías Ambientales de Novo, S.A.	Acquisition	May 27	16.7	33.3	Proportional
Societat Eòlica de L' Enderrocada, S.A.	Acquisition	May 27	13.3	26.7	Proportional
Punta de Lens Eólica Marina, S.L.U.	Acquisition	May 27	50.0	100.0	Global

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired /eliminated	% of voting rights after the operation	Consolidation method after the operation
Punta de las Olas Eólica Marina, S.L.U.	Acquisition	May 27	50.0	100	Global
Eufer Energías Especiais de Portugal, Unipessoal Lda.	Acquisition	May 27	50.0	100	Global
Prius Enerólica, S.L.U.	Acquisition	May 27	50.0	100	Global
Eufer-Caetano Energías Renovaveis, Lda.	Acquisition	May 27	25.5	51	Proportional
ENEL Unión Fenosa Renovables, S.A.	Disposal	May 27	50.0	-	-
Andaluza de Energía Solar Primera, S.L.	Disposal	May 27	30.4	-	-
Andaluza de Energía Solar Quinta, S.L.	Disposal	May 27	30.0	-	-
Andaluza de Energía Solar Tercera, S.L.	Disposal	May 27	30.0	-	-
Aprovechamientos Eléctricos, S.A.	Disposal	May 27	50.0	-	-
Áridos Energías Especiales, S.L.	Disposal	May 27	21.0	-	-
Azucarera Energías, S.A.	Disposal	May 27	20.0	-	-
Barbao, S.A.	Disposal	May 27	50.0	-	-
Boiro Energía, S.A.	Disposal	May 27	20.0	-	-
Depuración, destilación y reciclaje, S.L.	Disposal	May 27	20.0	-	-
Energías Especiales Alto Ulloa, S.A.	Disposal	May 27	50.0	-	-
Energías Especiales de Andalucía, S.L.	Disposal	May 27	50.0	-	-
Energías Especiales de Careón, S.A.	Disposal	May 27	39.0	-	-
Energías Especiales de Gata, S.L.	Disposal	May 27	50.0	-	-
Energías Especiales de Padul, S.L.U.	Disposal	May 27	50.0	-	-
Energías Especiales del Bierzo, S.A.	Disposal	May 27	25.0	-	-
Energías Especiales Montes Castellanos, S.L.U.	Disposal	May 27	50.0	-	-
Energías Especiales Montes de Andalucía, S.L.	Disposal	May 27	50.0	-	-
Energías Especiales Noroeste , S.A.U.	Disposal	May 27	50.0	-	-
Energías Especiales Peña Armada , S.A.	Disposal	May 27	40.0	-	-
Energías Especiales Santa Bárbara, S.L.	Disposal	May 27	50.0	-	-
Energías Especiales Valencianas, S.L.	Disposal	May 27	50.0	-	-
Energías Especiales Montes de San Sebastian, S.L.	Disposal	May 27	50.0	-	-
Eufer Operación, S.L.	Disposal	May 27	50.0	-	-
Parque Eólico Belmonte, S.A.	Disposal	May 27	25.0	-	-
Parque Eólico de Capelada, A.I.E.	Disposal	May 27	25.0	-	-
Parque Eólico de Corullón, S.L.	Disposal	May 27	50.0	-	-
Parque Eólico de San Andrés, S.A.	Disposal	May 27	41.0	-	-
Parque Eólico Malpica, S.A.	Disposal	May 27	18.0	-	-
Parque Eólico Montes de las Navas, S.A.	Disposal	May 27	10.0	-	-

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired /eliminated	% of voting rights after the operation	Consolidation method after the operation
Promociones Energéticas del Bierzo, S.L.	Disposal	May 27	50.0	-	-
Proyectos Universitarios Energías Renovables, S.L.	Disposal	May 27	17.0	-	-
Sistemas Energéticos Mañón Ortiguera, S.A.	Disposal	May 27	48.0	-	-
Ufefys, S.L.	Disposal	May 27	20.0	-	-
Energías de Villarubia, S.L.	Disposal	May 27	10.0	-	-
Enerlasa, S.A.	Disposal	May 27	22.0	-	-
Sotavento Galicia, S.A.	Disposal	May 27	9.0	-	-
Tirmadrid, S.A.	Disposal	May 27	9.0	-	-
Unión Fenosa Energías Renovables Chile, S.A.	Acquisition	June 30	11.2	91.2	Global
Bis Distribución de Gas, S.A.	Disposal	June 30	100.0	-	-
3G Holdings Limited	Acquisition	June 30	75.0	10.0	Equity
Holding Gasinmex, S.A. de C.V.	Increase	June 30	-	82.7	Global
Distribuidora de Electricidad del Norte, S.A.	Reduction	July 22	16.0	72.3	Global
Distribuidora de Electricidad del Sur, S.A.	Reduction	July 22	16.0	73.7	Global
Unión Fenosa Energías Renovables Chile, S.A.	Disposal	August 18	91.2.0	-	-
Unión Fenosa Chile Limitada	Disposal	August 18	100.0	-	-
Unión Fenosa Renovables Limitada	Disposal	August 18	100.0	-	-
Ufacex Uk Holdings, Ltd	Liquidation	August 31	100.0	-	-
Energías Ambientales Easa, S.A.U.	Acquisition	September 12	66.7	100.0	Global
Energías Ambientales de Vimianzo, S.A.	Acquisition	September 12	-	100.0	Global
Energías Ambientales de Novo, S.A.	Acquisition	September 12	-	100.0	Global
Energías Ambientales de Somozas, S.A.	Acquisition	September 12	-	97.5	Global
Societat Eòlica de L' Enderrocada, S.A.	Acquisition	September 12	-	80.0	Global
Explotaciones Eólicas Sierra de Utrera, S.L.	Acquisition	September 12	25.0	75.0	Global
Unión Fenosa Wind Australia Pty. Lda.	Acquisition	October 26	1.5.0	93.9	Global
Eólica de Cordales, S.L.U.	Incorporation	October 31	100.0	100.0	Global
Eólica de Cordales Bis, S.L.U.	Incorporation	October 31	100.0	100.0	Global
Bis Suministro de Gas, S.L.	Liquidation	October 10	100.0	-	-
Bis Suministro de Gas Sur, S.L.	Liquidation	November 21	100.0	-	-
Energy Way Produção de Energia, Ltda	Disposal	November 8	100.0	-	-
Dawn Energy-Produção de Energia Unipesoal, Ltda	Disposal	November 8	100.0	-	-
Compañía Auxiliar de Industrias Varias, S.A.	Liquidation	November 10	100.0	-	-
Eufer-Caetano Energías Renovaveis, Lda	Acquisition	December 5	3.0	54.0	Proportional
Favellato Reti Gas, SRL	Acquisition	December 6	100.0	100.0	Global

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired /eliminated	% of voting rights after the operation	Consolidation method after the operation
Central Térmica la Torrecilla, S.A.	Liquidation	December 15	50.0	-	-
Ensafeca Holding Empresarial, S.L.	Liquidation	December 22	18.5	-	-
Sistemas Energéticos Alto do Seixal, SAU	Acquisition	December 30	100.0	100.0	Global
Electricaribe Mypimes de Energía, S.A. ESP	Liquidation	December 30	85.0	-	-

The main changes in the consolidation scope in 2010 have been as follows:

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired /eliminated	% of voting rights after the operation	Consolidation method after the operation
Gas Natural Servicios Integrales, S.A.S	Incorporation	March 10	100.0	100.0%	Global
Electrificadora del Caribe, S.A. E.S.P	Acquisition	March 31	4.1	85.4%	Global
Madrileña Red de Gas, S.A.	Disposal	April 30	100.0	-	-
Madrileña Suministro de Gas SUR 2010, S.L.	Disposal	April 30	100.0	-	-
Madrileña Suministro Gas 2010, S.L.	Disposal	April 30	100.0	-	-
Madrileña Servicios Comunes, S.L.	Disposal	April 30	100.0	-	-
Central Anahuac, S.A. de C.V.	Disposal	May 25	100.0	-	-
Central Lomas del Real, S.A. de C.V.	Disposal	May 25	100.0	-	-
Central Vallehermoso S.A. de C.V.	Disposal	May 25	100.0	-	-
Central Saltillo, S.A. de C.V.	Disposal	May 25	100.0	-	-
Electricidad Águila Altamira, S.A. de C.V.	Disposal	May 25	100.0	-	-
Gasoducto del Río, S.A. de C.V.	Disposal	May 25	100.0	-	-
Compañía Mexicana de Gerencia y Operación, S.A. de C.V.	Disposal	May 25	100.0	-	-
Palencia 3 Investigación Desarrollo y Explotación, S.L.	Incorporation	June 24	37.0	37.0	Proportional
Hispano Galaica de Extracciones, S.L.	Incorporation	June 30	100.0	100.0	Global
Eólica Tramuntana, S.L.	Incorporation	July 5	60.0	60.0	Proportional
Energía Termosolar los Monegros, S.L.	Acquisition	July 14	40.0	45.0	Proportional
Sistema Eléctrico de conexión Valcaire, S.L.	Incorporation	July 17	10.6	10.6	Proportional
Hotel Naturaleza Tambre, S.L.	Liquidation	July 19	100.0	-	-
M&D Generación 1, S.L.U.	Incorporation	July 21	100.0	100.0	Global
M&D Energy Market, S.L.U.	Incorporation	July 21	100.0	100.0	Global
Promociones Energéticas del Bierzo, S.L.	Acquisition	July 30	25.0	50.0	Proportional
Gas Natural del Cesar, S.A. ESP	Acquisition	September 14	16.0	62.0	Global
Berrybank Development Pty Ltd	Incorporation	September 21	91.0	91.4	Global

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired /eliminated	% of voting rights after the operation	Consolidation method after the operation
Cilento Reti Gas, S.r.l.	Incorporation	October 13	60	60.0	Proportional
Unión Fenosa Wind Australia PtY, Ltd	Acquisition	October 18	80	91.4	Global
Crookwell Developmet PtY, Ltd	Acquisition	October 18	80	91.4	Global
Hawkesdale Development Pty Ltd	Acquisition	October 18	80	91.4	Global
Ryan Corner Development Pty Ltd	Acquisition	October 18	80	91.4	Global
Limeisa International Coal, B.V.	Liquidation	October 28	100	-	-
Portal del Instalador, S.A.	Liquidation	November 2	100	-	-
Eólica Tramuntana 12, S.L.	Incorporation	December 3	60	60.0	Proportional
Eólica Tramuntana 13, S.L.	Incorporation	December 3	60	60.0	Proportional
Eólica Tramuntana 14, S.L.	Incorporation	December 3	60	60.0	Proportional
Eólica Tramuntana 15, S.L.	Incorporation	December 3	60	60.0	Proportional
Eólica Tramuntana 16, S.L.	Incorporation	December 3	60	60.0	Proportional
Eólica Tramuntana 21, S.L.	Incorporation	December 3	60	60.0	Proportional
Eólica Tramuntana 22, S.L.	Incorporation	December 3	60	60.0	Proportional
Eólica Tramuntana 23, S.L.	Incorporation	December 3	60	60.0	Proportional
Eólica Tramuntana 24, S.L.	Incorporation	December 3	60	60.0	Proportional
Eólica Tramuntana 71, S.L.	Incorporation	December 3	60	60.0	Proportional
Eólica Tramuntana 72, S.L.	Incorporation	December 3	60	60.0	Proportional
Eólica Tramuntana 73, S.L.	Incorporation	December 3	60	60.0	Proportional
BIS Distribución de Gas, S.A.	Incorporation	December 3	100	100.0	Global
BIS Suministro de Gas, S.A	Incorporation	December 3	100	100.0	Global
BIS Suministro de Gas SUR, S.A	Incorporation	December 3	100	100.0	Global
Bluemobility System, S.L	Incorporation	December 15	20	20.0	Equity method
Molinos de Valdebezana, S.A.	Acquisition	December 17	60	100.0	Full consolidation
Gas Aragón, S.A	Disposal	December 17	35	-	-
Unión Fenosa Distribución Colombia, BV	Liquidation	December 21	100	-	-
ElectroCosta Mipymes de Energía, S.A. ESP	Liquidation	December 28	100	-	-
UTE GNS-Dalkia Energía y Servicios	Liquidation	December 31	50	-	-

Appendix III. Gas Natural tax group companies

The Gas Natural Tax group is 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, S.A.	Gas Natural Rioja, S.A.
BIS Suministro de Gas SUR, S.A.	Gas Natural S.U.R. SDG, S.A.
Boreas 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.U.
Compañía Española de Industrias Electroquímicas, S.A.	Gas Natural Wind Canarias, S.L.U.
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.
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 Almacенamientos 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.U.
Gas Natural Capital Markets, S.A.	M&D Generación 1, S.L.U.
Gas Natural Castilla-La Mancha, S.A.	Molinos de Valdebezana, S.A.U.
Gas Natural Castilla y León, 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 Hornillos, S.L.
Gas Natural Distribución SDG, S.A.	Tratamiento Cinca Medio, S.L.
Gas Natural Electricidad SDG, S.A.	Tratamiento Integral de Almazán, S.L.
Gas Natural Exploración, S.L.	Unión Fenosa Comercial, S.L.
Gas Natural Fenosa Engineering, S.L.U.	Unión Fenosa Distribución, S.A.
Gas Natural Fenosa Renovables Andalucía, S.L.U.	Unión Fenosa Financiación, S.A.
Gas Natural Fenosa Renovables Castilla La Mancha, S.L.U.	Unión Fenosa Internacional, S.A.
Gas Natural Fenosa Renovables Ruralía, S.L.U.	Unión Fenosa Minería, S.A.
Gas Natural Fenosa Renovables, S.L.U.	Unión Fenosa Preferentes, S.A.

Consolidated Directors' Report

1. Business performance

2011 Analysis

Net profit attributable to the parent company in 2011 rose 10.3% on the same period of the previous year to €1,325 million.

Consolidated EBITDA in the period amounted to €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 €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 businesses, 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 €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	%
Gas distribution (GWh)	395,840	411,556	(3.8)
Europe	204,809	210,561	(2.7)
Tariff gas sales	2,730	2,741	(0.4)
TPA (third parties 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
Electricity distribution (GWh)	54,067	54,833	(1.4)
Europe	36,361	36,831	(1.3)
Tariff electricity sales	2,445	2,372	3.1
TPA	33,916	34,459	(1.6)
Latin America	17,706	18,002	(1.6)
Tariff electricity sales	16,789	16,979	(1.1)
TPA	917	1,023	(10.4)
Gas distribution connections, ('000) (at 31/12)	11,372	11,361	0.1
Europe	5,490	5,696	(3.6)
Latin America	5,882	5,665	3.8
Electricity distribution connections ('000) (at 31/12)	8,133	9,436	(13.8)
Europe	4,568	4,535	0.7
Latin America	3,565	4,901	(27.3)
ICEIT (installed capacity equivalent interrupt time) (minutes)	42	61	(31.1)

Energy businesses

	2011	2010	%
Electricity generated (GWh)	56,354	58,130	(3.1)
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
Installed capacity (MW):	15,392	17,254	(10.8)
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	0.6
Hydroelectric	22	22	–
CCGT	2,289	2,274	0.7
Oil-fired	321	321	–
Gas supply (GWh)	308,725	305,704	1.0
Spain	236,992	250,885	(5.6)
Rest	71,733	54,819	30.9
Unión Fenosa Gas ⁽¹⁾			
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%.

Analysis of consolidated earnings

Net sales

	2011	%s/total	2010	%s/total	% 2011/2010
Gas distribution	4,063	19.3	4,154	21.2	(2.2)
Spain	1,240	5.9	1,299	6.6	(4.5)
Latin America	2,585	12.3	2,645	13.5	(2.3)
Rest	238	1.1	210	1.1	13.3
Electricity distribution	3,418	16.2	3,272	16.7	4.5
Spain	922	4.4	884	4.5	4.3
Latin America	2,290	10.9	2,200	11.2	4.1
Rest	206	1.0	188	1.0	9.6
Electricity	6,443	30.6	6,470	33.0	(0.4)
Spain	5,452	25.9	5,420	27.6	0.6
Latin America	865	4.1	954	4.9	(9.3)
Rest	126	0.6	96	0.5	31.6
Gas	9,903	47.0	8,791	44.8	12.6
Infrastructure	289	1.4	264	1.3	9.5
Supply and commercialisation	8,603	40.8	7,678	39.1	12.0
Unión Fenosa Gas	1,011	4.8	849	4.3	19.1
Other activities	650	3.1	584	3.0	11.3
Consolidation adjustments	(3,401)	(16.1)	(3,641)	(18.5)	(6.6)
Total	21,076	100.0	19,630	100.0	7.4

Net sales for 2011 totals €21,076 million, an increase of 7.4% against last year, mainly as a result of the growth in the Supply and commercialisation business.

Ebitda⁽¹⁾

	2011	%s/total	2010	%s/total	% 2011/2010
Gas distribution	1,587	34.2	1,620	36.2	(2.0)
Spain	896	19.3	915	20.4	(2.1)
Latin America	621	13.4	635	14.2	(2.2)
Others	70	1.5	70	1.6	–
Electricity distribution	1,016	21.9	1,062	23.7	(4.3)
Spain	680	14.6	645	14.4	5.4
Latin America	306	6.6	390	8.7	(21.5)
Others	30	0.6	27	0.6	11.1
Electricity	1,068	23.0	1,252	28.0	(14.7)
Spain	809	17.4	974	21.8	(16.9)
Latin America	245	5.3	263	5.9	(6.8)
Others	14	0.3	15	0.3	(6.7)
Gas	905	19.1	472	10.5	91.7
Infrastructures	184	4.0	191	4.3	(3.7)
Supply and commercialisation	444	9.6	57	1.3	678.9
Unión Fenosa Gas	277	6.0	224	5.0	23.7
Other activities	69	1.5	71	1.6	(2.8)
Total	4,645	100.0	4,477	100.0	3.8

(1) Ebitda = Operating profit + Depreciation + Operating provisions - Other income

Consolidated EBITDA for 2011 has totalled €4,645 million, an increase of 3.8% against last year, in a very tough macroeconomic, energy and financial context; this result was achieved due to an appropriate balance of regulated and liberalised gas and electricity businesses, including a growing, diversified international presence, which offset the EBITDA impact of divestments in 2010 and 2011.

The gas and electricity distribution activities in Spain (33.9%) and internationally (22.1%), represent 56.0% of the EBITDA of GAS NATURAL FENOSA.

The electricity activity in Spain represents 17.4% of consolidated EBITDA.

Operating income

	2011	%s/total	2010	%s/total	% 2011/2010
Gas distribution	1,149	39.0	1,184	40.9	(3.0)
Spain	612	20.8	626	21.6	(2.2)
Latin America	494	16.8	516	17.8	(4.3)
Other	43	1.5	42	1.5	2.4
Electricity distribution	616	20.9	618	21.4	(0.3)
Spain	459	15.6	420	14.5	9.3
Latin America	133	4.5	177	6.1	(24.9)
Other	24	0.8	21	0.7	14.3
Electricity	356	12.1	550	19.0	(35.3)
Spain	203	6.9	387	13.4	(47.5)
Latin America	144	4.9	154	5.3	(6.5)
Other	9	0.3	9	0.3	–
Gas	622	21.1	231	8.0	169.3
Infrastructures	119	4.0	141	4.9	(15.6)
Supply and commercialisation	383	13.0	12	0.4	3,091.7
Unión Fenosa Gas	120	4.1	78	2.7	53.8
Other activities	204	6.9	310	10.7	(34.2)
Total	2,947	100.0	2,893	100.0	1.9

Depreciation and amortisation expenses increased by 2.0% while provisions fell by €22 million to €216 million. Operating profit increased by 1.9% to €2,947 million despite lower proceeds from real estate divestments compared with last year.

Financial results

The cost of financial borrowings in 2011 was €849 million, lower than in 2010 because the reduction in average gross debt was slightly less (mainly in the first half of the year) and because of the remuneration on a larger balance of cash and cash equivalents. Both the reduction in gross debt and the increase in cash are due to divestments in 2010 and 2011, the amounts collected from securitisation of the tariff deficit, and cash flow from the company's businesses.

Corporate Income tax

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

The income tax expense is recognised based on the effective tax rate envisaged for the year as a whole. The effective tax rate in 2011 was 24.5%, compared with 24.9% in 2010. The difference between the theoretical tax rate and the effective tax rate was due to the application of tax credits from reinvestment of extraordinary gains on asset sales performed in compliance with competition rules.

Minority interest

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

Income attributed to minority interest in 2011 amounted to €201 million, €13 million less than in 2010, basically as a result of the impact in Colombia of the recent tax reforms, discussed in the analysis of results by activity.

Investments

The breakdown of investments by type is as follows::

	2011	2010	%
Investments in Property, plant and equipment	1,230	1,394	(11.8)
Investments in intangible assets	176	149	18.1
Financial investments	108	10	–
Total investments	1,514	1,553	(2.5)

Capital expenditure (intangible assets and property, plant and equipment) amounted to €1,406 million, 8.9% less than in 2010, due primarily to the completion of Combined cycle gas turbines (CCGT) construction. There was a notable increase in capital expenditure in regulated businesses, primarily gas (+21.3%), including the acquisition of distribution and secondary transportation assets from Distribuidora Sureuropea de Gas.

Financial investments in 2011 included the acquisition of ACS's stakes in 6 wind farm companies, which resulted in GAS NATURAL FENOSA attaining majority stakes, and the acquisition of the Altos do Seixal wind farm (Galicia) from GAMESA.

The breakdown of capital expenditure by line of business is as follows:

	2011	2010	%
Gas distribution	445	367	21.3
Spain	260	221	17.6
Latin America	149	108	38.0
Other	36	38	(5.3)
Electricity distribution	490	466	5.2
Spain	340	313	8.6
Latin America	133	137	(2.9)
Other	17	16	6.3
Electricity	258	512	(49.6)
Spain	211	361	(41.6)
Latin America	47	149	(68.5)
Other	–	2	–
Gas	62	67	(7.5)
Infrastructures	32	22	45.5
Supply and commercialisation	20	19	5.3
Unión Fenosa Gas	10	26	(61.5)
Other activities	151	131	15.3
Total capital expenditure	1,406	1,543	(8.9)

GAS NATURAL FENOSA allocated 66.5% of capital expenditure to regulated gas and electricity distribution businesses, which will strengthen their contribution to consolidated EBITDA.

In the geographic scope, Spain remains the main recipient of investment with 70% of consolidated capital expenditure.

Capital expenditure in Latin America remains focused on Brazil, Mexico and Colombia.

Analysis of results by activity

Gas distribution in Spain

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

GAS NATURAL FENOSA made commitments to divest certain gas distribution assets under the plan of action approved by the Spanish National Competition Commission (CNC) in connection with the acquisition of Unión Fenosa.

On 30 April 2010, the sale of low-pressure gas distribution assets, specifically 507,726 supply connections and 3,491 km of distribution networks, was completed. Also in line with commitments to Spain's National Competition Commission as a result of the Unión Fenosa acquisition, on 30 June 2011 the company completed the sale of another 304,456 natural gas supply points in Madrid (with a consumption of 1,439 GWh) to the Madrileña Red de Gas group for €450 million, i.e. a gross capital gain of €280 million. As a result of these divestments, there are notable variations when comparing the two years.

Results

	2011	2010	%
Net sales	1,240	1,299	(4.5)
Purchases	(12)	(18)	(33.3)
Personnel costs, net	(71)	(67)	6.0
Other expense/income	(261)	(299)	(12.7)
Ebitda	896	915	(2.1)
Depreciation and amortization	(284)	(289)	(1.7)
Change in operating provisions	-	-	-
Operating income	612	626	(2.2)

Net sales in the gas distribution business in Spain totalled €1,240 million and EBITDA amounted to €896 million in 2011.

Main aggregates

The main aggregates in gas distribution in Spain were as follows

	2011	2010	%
Gas TPA sales (GWh)	201,231	207,174	(2.9)
Distribution network (Km)	43,871	44,931	(2.4)
Change in connections points ('000)	81	84	(3.6)
Conection points (at 31/12)	5,050	5,274	(4.2)

GAS NATURAL FENOSA continues to expand its distribution network and the number of distribution connections.

On 28 February 2011, the company acquired from Distribuidora Sureuropea de Gas (Grupo Corporación Llorente) a number of distribution and secondary transportation assets in the Andalusia and Castilla-La Mancha regions (101 km. of grid and 4 industrial connections) for €27 million.

On 31 December 2011, Spain's Ministry of Industry issued Order ITC/3587/2011, which established the tolls and fees for third-party access to gas installations and the remuneration for regulated gas activities in 2012. The order maintained the system for calculating the distribution remuneration as amended the previous year, updating the remuneration for 2012 in accordance with the actual IPH index for October 2011. The initial remuneration recognised for GAS NATURAL FENOSA in 2012 is €1,119 million.

Gas distribution in Latin America

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

	2011	2010	%
Net sales	2,585	2,645	(2.3)
Purchases	(1,659)	(1,748)	(5.1)
Personnel costs, net	(89)	(81)	9.9
Other expense/income	(216)	(181)	19.3
Ebitda	621	635	(2.2)
Depreciation and amortization	(113)	(112)	0.9
Change in operating provisions	(14)	(7)	100.0
Operating income	494	516	(4.3)

EBITDA amounted to €621 million, a 2.2% decrease on 2010. This activity registered strong growth, despite the unusual events that occurred in 2010 and the impact of the weather, which led to a radical reduction in gas distribution to thermal power plants in Brazil, supply cuts in industrial markets and in automotive natural gas in Colombia, and a decline in residential consumption in Mexico. Excluding these and the currency effect, EBITDA would have increased by 4.9%.

Brazil and Colombia together accounted for 80.0% of total EBITDA; the gas distribution business in Colombia absorbed the sharp impact of the recent tax reform, specifically an amendment to Act 1370 to tax wealth as of 1 January 2011, although the tax is payable in 8 instalments between 2011 and 2014.

Moreover, and as a result of the cold wave, Decree 4825 was enacted in Colombia after a state of economic and social emergency was declared, increasing that tax by 25% to raise funds for relief efforts after the severe floods.

Net sales totalled €2,585 million, a 2.3% decline.

Main aggregates

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

	2011	2010	%
Gas activity sales (GWh)	191,031	200,995	(5.0)
Tariff gas sales	114,559	128,141	(10.6)
TPA	76,472	72,854	5.0
Distribution network (Km)	65,831	64,492	2.1
Change in connections points ('000)	217	243	(10.7)
Connection points (000) (at 31/12)	5,882	5,665	3.8

The key physical aggregates by country in 2011 are as follows:

	Argentina	Brazil	Colombia	Mexico	Total
Gas activity sales (GWh)	76,172	49,810	17,345	47,704	191,031
Change vs. 2010 (%)	2.1	(22.4)	7.3	3.7	(5.0)
Distribution network	23,312	6,137	19,463	16,919	65,831
Change vs. 31/12/2010 (km)	307	131	453	448	1,339
Connections points ('000 at 31/12)	1,492	842	2,291	1,257	5,882
Change vs. 31/12/2010 ('000)	34	25	108	50	217

There were a total of 5,882,000 gas distribution connections in 2011. High year-on-year growth rates were maintained, and the number of distribution connections increased by 217,145; notably, Colombia added 108,000 distribution connections.

Sales in the gas activity in Latin America, which include both gas sales and TPA (third-party access) services, totalled 191,031 GWh, a 5.0% decrease with respect to the previous year. This slight decline is due primarily to lower sales for power generation in Brazil due to the fact that reservoir levels were much higher than in 2010.

The distribution grid expanded by 1,339 km (+2.1%) in the last 12 months, to 65,831 km at the end of December 2011.

Highlights of activities in Latin America:

- In Argentina, negotiations with the government on the application of the new tariff framework are continuing. The customer base and gas sales increased by 2%, and the company continued to curtail expenditure sharply in a situation of high inflation (23.4%).
- Business in Brazil expanded, with a 55% net increase in customers and a 19% increase in installations due to strong growth in property development, which is being driven by social programmes implemented by the Brazilian government.
- Gas sales increased by 7% in Colombia due to the larger customer base (mainly in residential, commercial, industrial and TPA markets) while average residential consumption also increased.
- In Mexico, installations expanded by 18% with respect to 2010, i.e. 78,099 new customers.

Gas distribution Other (Italy)

The business in Italy also includes gas sales at the regulated tariff.

Results

	2011	2010	%
Net sales	238	210	13.3
Purchases	(129)	(103)	25.2
Personnel costs, net	(14)	(15)	(6.7)
Other expenses/income	(25)	(22)	13.6
Ebitda	70	70	–
Depreciation and amortization	(23)	(22)	4.5
Change in operating provisions	(4)	(6)	(33.3)
Operating income	43	42	2.4

Gas supply and commercialisation in Italy contributed €70 million in EBITDA, i.e. 5.4% more than in 2010, after adjusting for the €3 million in compensation received in 2010 as a result of the regulator's decision in November 2010.

The improvement in EBITDA is attributable primarily to the higher margin on gas sales due to supplying natural gas obtained under GAS NATURAL FENOSA's own natural gas procurement contracts. Specifically, in 2011, fifteen shiploads of liquefied natural gas (5,373 GWh) were regasified at the Panigaglia plant.

Main aggregates

	2011	2010	%
Gas activity sales (GWh)	3,578	3,387	5.6
Tariff gas sales	2,730	2,741	(0.4)
TPA	848	646	31.3
Distribution network (km)	6,736	5,849	15.2
Connections points ('000) (at 31/12)	440	422	4.3

GAS NATURAL FENOSA in Italia now has 440,297 supply points in the gas distribution business, an increase against 31 December 2010 of 4.3%.

On 22 December 2011, Gas Natural Distribuzione Italia acquired the Favellato Reti Gas group, which distributes to 22 municipalities in southwest Italy with 9,669 gas distribution points.

A total of 3,578 GWh of gas were distributed, i.e. 5.6% more than in 2010.

The distribution grid expanded by 887 km in the last 12 months, to 6,736 km at 31 December 2011. This growth included the acquisition of assets from the Favellato Reti group, which added 324 km to the grid.

Electricity distribution in Spain

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

Results

	2011	2010	%
Net sales	922	884	4.3
Purchases	-	-	-
Personnel costs, net	(114)	(108)	5.6
Other expenses/income	(128)	(131)	(2.3)
Ebitda	680	645	5.4
Depreciation and amortization	(220)	(213)	3.3
Change in operating provisions	(1)	(12)	(91.7)
Operating income	459	420	9.3

On 31 December 2011, Ministerial Order IET/3586/2011 was published in the Official State Gazette, establishing tolls for third-party access as from 1 January 2012, the tariffs and premiums for special regime facilities, and the regulated revenues for transmission, supply and commercialisation access management.

The Order includes the definitive values for distribution remuneration for 2010, which had been considered provisional to date. It also establishes the provisional remuneration for 2011 and 2012. According to the provisional figures for 2011, remuneration from distribution increased by 4% year-on-year and from supply access management remained on par with 2010 figures.

Specifically, the initial remuneration recognised for GAS NATURAL FENOSA in 2012 is €862 million for distribution and €41 million for transportation.

Consequently, net revenue increased by 4.3% with respect to 2010 and is in line with the performance of regulated revenues discussed above and with other revenue performance (meter rental, connection fees, etc.).

Recurrent personnel costs remained on par with 2010 (and even absorbed part of the adjustments due to collective agreements) and the increase shown in the table reflects spending that is non-recurrent and not comparable with the previous year.

The other expenses/income item reflects the increase in efficiency obtained by improving processes, which provided for EBITDA of €680 million, i.e. up 5.4% with respect to 2010.

Main aggregates

	2011	2010	%
Electric activity sales (GWh)	33,916	34,465	(1.6)
Tariff electricity sales	–	6	–
TPA	33,916	34,459	(1.6)
Connection points (000) (at 31/12)	3,748	3,719	0.8
ICEIT (minutes)	42	61	(31.1)

Third-party access reflects the decline in consumption throughout Spain due not only to the current economic situation but also to very mild weather in the last few months of the year.

There were no relevant incidents in the period due to the facilities' good performance as a result of investment in recent years and ongoing maintenance, together with favourable weather. As a result, the ICEIT (installed capacity equivalent interrupt time) improved by almost 20 minutes compared with 2010, when performance was very positive (just 42 minutes).

The performance by quality, service and network energy efficiency indicators reflects the success of the ongoing capital expenditure plans, the quality of the network architecture and the allocation of considerable human resources and funds to operation and maintenance.

Electricity distribution in Latin America

This division involves gas distribution in Colombia, Guatemala, Nicaragua and Panama.

The sale of the electricity distribution business in Guatemala led to its deconsolidation on 1 June 2011.

Results

	2011	2010	%
Net sales	2,290	2,200	4.1
Purchases	(1,723)	(1,580)	9.1
Personnel costs, net	(42)	(54)	(22.2)
Other expenses/income	(219)	(176)	24.4
Ebitda	306	390	(21.5)
Depreciation and amortization	(71)	(89)	(20.2)
Change in operating provisions	(102)	(124)	(17.7)
Operating income	133	177	(24.9)

EBITDA from the electricity distribution business in Latin America amounted to €306 million, 21.5% less than last year. Excluding the currency effect, the divestment of electricity distribution companies in Guatemala and the weather, EBITDA would have expanded by 6.8%.

This unusual trend is attributable in part to the distribution business in Colombia, where the amendment to Act 1370 was approved, taxing wealth as of 1 January 2011, although the tax is payable in 8 instalments from 2011 to 2014.

Moreover, and as a result of the cold wave, Decree 4825 was enacted in Colombia after a state of economic and social emergency was declared, increasing that tax by 25% to raise funds for relief efforts after the severe floods. This weather event had a sharp effect on energy demand and prices which, through the pass-through clauses, had a notable impact on the tariff and on the efficacy of the execution of operating plans in the affected areas. But for these effects, EBITDA from the Colombian distribution business would have increased by 4.6%

In May 2011, GAS NATURAL FENOSA sold its stakes in distribution companies DEORSA and DEOCSA to UK fund Actis; those companies together distribute electricity to all of Guatemala except for the capital city and the Departments of Sacatepéquez and Escuintla; also included in the sale were the stakes in other companies in the energy business in Guatemala. The transaction price was US\$345 million. As a result of this divestment, the Guatemala electricity distribution business contributed to the Latin America electricity distribution business EBITDA for only the first five months of 2011.

The sharp increase in the price of #6 fuel oil increased the cost of unrecognised losses. On 15 June 2011, Nicaragua approved a 41.9% increase in the tariff, which partly offset the higher fuel price. To shield end users from the impact of this increase, it will be subsidised until the renewable energy plants come into operation.

Main aggregates

	2011	2010	%
Electric activity sales (GWh)	17,706	18,002	(1.6)
Tariff electricity sales	16,789	16,979	(1.1)
TPA	917	1,023	(10.4)
Connection points (000) (at 31/12)	3,565	4,901	(27.3)

Electricity sales totalled 17,706 GWh, a moderate decline of 1.6% despite the divestment in Guatemala.

The key physical aggregates by country in 2011 are as follows:

	Colombia	Guatemala	Nicaragua	Panama	Total
Electric activity sales (GWh)	10,524	833	2,584	3,765	17,706
Change vs. 2010 (%)	4.2	(56.9)	6.6	6.2	(1.6)
Connections points ('000 at 31/12)	2,224	–	849	492	3,565
Change vs. 31/12/2010 ('000)	26	(1,422)	41	19	(1,336)
Network loss ratio (%)	18.3	17.2	20.6	10.2	–

Plans to reduce losses performed as expected, except in Colombia, where flooding led to difficulties and delays in execution.

Electricity distribution other (Moldova)

The business in Moldova consists of regulated distribution of electricity and the supply of electricity at the bundled tariff in the capital city and the central and southern regions. GAS NATURAL FENOSA is responsible for 70% of electricity distribution in Moldova.

Results

	2011	2010	%
Net sales	206	188	9.6
Purchases	(157)	(143)	9.8
Personnel costs, net	(8)	(7)	14.3
Other expenses/income	(11)	(11)	–
Ebitda	30	27	11.1
Depreciation and amortization	(6)	(5)	20.0
Change in operating provisions	–	1	–
Operating income	24	21	14.3

The revenues reflect the pass through effect of procurement costs together with the capex plan and operation and maintenance performed in accordance with the country's current regulations.

In local currency terms, the spark spread (revenues-procurement costs) increased by close to 6% with respect to 2010, reflecting basically the regulated remuneration for electricity distribution and electricity supply at the regulated tariff.

Personnel expenses increased by 8.5% in local currency terms due to indexation to the Moldovan CPI (which increased by about 8%). The Other expenses/income item reflects efficiency improvements attained through process enhancement. In local currency terms, this section reflects a decline of almost 3% in current terms due to high inflation.

As a result, EBITDA amounted to €30 million, an 11.1% increase over the same period of 2010. In local currency terms, EBITDA increased by around 8%.

Main aggregates

	2011	2010	%
Electric activity sales (GWh)	2,445	2,366	3.3
Tariff electricity sales	2,445	2,366	3.3
TPA	–	–	–
Connection points (000) (at 31/12)	820	816	0.5

Electricity demand in GAS NATURAL FENOSA's distribution territory in Moldova increased by 3.3% and distribution points totalled 819,506, an increase compared with 2010.

GAS NATURAL FENOSA continues to implement its plan to improve management in Moldova, focusing essentially on processes linked to energy control in the distribution networks, operating processes associated with the entire customer management cycle, and optimisation of facility O&M; the plan is achieving its objectives.

This plan is driving a steady improvement in basic operating indicators, particularly the network loss indicator, which has improved almost half of a percentage point compared with last year (from 13.6% to 13.1%), making it possible to maximise regulated revenues.

There has also been a notable improvement in service quality and network incident ratios. Debt collection ratios are very close to 100%.

Electricity in Spain

This area basically includes power generation in Spain, wholesale and retail electricity supply in the liberalised market in Spain, electricity supply at the last-resort tariff and wholesale electricity trading.

Resultados

	2011	2010	%
Net sales	5,452	5,420	0.6
Purchases	(4,061)	(3,909)	3.9
Personnel costs, net	(149)	(130)	1.6
Other expenses/income	(433)	(407)	6.4
Ebitda	809	974	(16.9)
Depreciation and amortization	(560)	(537)	4.3
Change in operating provisions	(46)	(50)	(8.0)
Operating Income	203	387	(47.5)

The net turnover from electricity activity in 2011 totals €5,452 million, an increase of 0.6% over last year.

EBITDA amounted to €809 million in 2011, a 16.9% decrease year-on-year.

Higher fuel prices and the consequent increase in generation costs, together with the change in the electricity production mix (i.e. lower hydroelectric output) and the 3.2% decline in output due, among other reasons, to the divestment of the Plana del Vent and Arrúbal CCGTs in the second and third quarters of the year, respectively, reduced EBITDA even though wholesale power prices in Spain were higher.

Electricity demand in mainland Spain amounted to 62,274 GWh, a decline of 2.1% on 2010. Correcting for calendar effects and temperatures, demand declined by 1.2% in 2011, accentuating the trend that started at the beginning of the year, especially in the last two months of 2011, when demand fell by 7%.

Capacity hourly utilisation peaked at 44,107 MW at the end of January, around 700 MW below the record highs of mid-December 2007.

The physical balance of international power flows was a net export in annual terms: a net 6.1 TWh were exported in 2011, i.e. 26.6% less than last year, as a result of higher market prices with respect to 2010.

Special regime power generation declined by a cumulative annual 1.6% on the cumulative 2010 figure. Special regime output thus covered 36.2% of demand, i.e. 1.3 percentage points more than in 2010.

Wind power output was 2.6% lower in the year. Output from other renewable technologies expanded by 5.4% in the year, meaning that special regime output as a whole increased by 1.6% in 2011. Special regime output thus covered 36.2% of demand, i.e. 1.3 percentage points more than in 2010.

As a result of the decline in demand, and despite the decline in special regime power output, ordinary regime output fell by 5.7%, with reductions in output by all technologies except Spanish coal (due to the Royal Decree on Security of Supply).

In terms of hydroelectric energy capability, 2011 was a dry year, with an exceedance probability of 72% when compared with the historical average, i.e. statistically, only 72 out of every 100 years would be wetter than 2011. Reservoirs in Spain as a whole stood at 50% of capacity in 2011, i.e. 13 points lower than in 2010 (nevertheless, 2010 marked a 10-year record high).

Nuclear output fell by 7.0% in the year, affected by changes in the dates of scheduled shut-downs.

In 2011, coal-fired output increased by 96.7%, covering 15.9% of demand, i.e. twice the 2010 figure. This figure is clearly impacted by the entry into force on 26 February 2011 of the Royal Decree on Security of Supply, which enabled some coal plants to become operational again after being closed for almost two years in some cases.

In 2011 there was no oil-fired output in the ordinary regime.

CCGT output fell by 21.6% in 2011 as a whole, covering 19.5% of demand (down from 24.3% in 2010).

The upward trend in prices that started in the second quarter of last year began to ease as a result of several factors: less output by hydroelectric plants and wind farms plus a decline in commodities prices in the fourth quarter with respect to the third quarter. Average prices in the daily wholesale market exceeded €60/MWh on several occasions, and reached €66.4/MWh on 17 October 2011 (the highest level in the fourth quarter); then they declined slightly in November (reaching the lowest level in 2011), but recovered in December.

The weighted average price in 2011 was €50.8/MWh, i.e. €12.7 more than in 2010 (+33%)

As for other commodities, the average price of Brent crude increased by 40% year-on-year in 2011.

Main aggregates

The main aggregates in GAS NATURAL FENOSA's electricity business in Spain were as follows:

	2011	2010	%
Installed capacity (MW)	12,760	14,637	(12.8)
Ordinary Regime	11,699	13,679	(14.5)
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)
Special Regime	1,061	958	10.8
Electricity generated (GWh)	38,081	38,338	(0.7)
Ordinary Regime	35,701	35,809	(0.3)
Hydroelectric	2,892	4,752	(39.1)
Nuclear	4,378	4,325	1.2
Coal	4,464	772	478.2
Oil/gas	–	32	–
CCGT	23,967	25,928	(7.6)
Special Regime	2,380	2,529	(5.9)
Electricity sales (GWh)	35,905	40,559	(11.5)
Liberalised market	27,058	30,179	(10.3)
Last resort tariff/regulated	8,847	10,380	(14.8)

The change in ordinary regime installed capacity with respect to 31 December 2010 is due to a number of factors:

- Capacity increased in 2011 by 58.5 MW at Unit 1 of the Almaraz nuclear power plant (6 MW attributable to GAS NATURAL FENOSA), by 8 MW at the Puente Nuevo and Burguillo hydroelectric plants, by 32 MW at the Belesar, Albarellos and Tambre 2 plants, and by 65 MW at the Málaga and Barcelona Port CCGTs as a result of the new tests.
- Authorisation for the closure and discontinuation of activity in 2011 of the two oil-fired units at the Sabón plant (460 MW).
- Finally, in 2011 the two units of the Plana del Vent CCGT plant (833 MW) were sold to the company Alpiq, and the Arrúbal CCGT plant (799 MW) was sold to Contour Global.

GAS NATURAL FENOSA's power generation in mainland Spain fell by 0.7% in 2011, with a decline of 0.3% in ordinary regime output (vs. a 5.7% decline throughout Spain) and a decline of 5.9% in special regime output.

Hydroelectric output in 2011 amounted to 2.892 GWh, 39.1% less than in 2010. The year proved to be very dry in the watersheds where GAS NATURAL FENOSA operates, with an exceedance probability of 92% (i.e. probability that the period's energy capability will be exceeded, based on the historical record of average energy capability). Reservoirs in the watersheds were at 36.6% of capacity at 31 December 2011, i.e. 13 percentage points less than at 31 December 2010; however the reservoirs had been at 10-year record highs since the middle of June 2010.

Nuclear energy production has increased as a whole for the year by 1.2%.

The entry into force of the Royal Decree on Security of Supply resulted in GAS NATURAL FENOSA's Anllares, La Robla 2 and Narcea 3 plants working continuously, with coal-fired output in the year totalling 4,464 GWh, compared with 772 GWh in 2010.

GAS NATURAL FENOSA'S CCGT output declined by 7.6% in 2011, due to the sale of the Arrúbal and Plana del Vent units. CCGT output in Spain as a whole fell 21.6%.

The company's share of the ordinary regime power generation market at 31 December 2011 was 20.8%, 0.6 percentage points more than in the same period of 2010, despite the above-mentioned divestments.

The electricity supply area sold 35,905 GWh in 2011, including supply to the liberalised market and under the social (last-resort) tariff, i.e. 11.5% less than in 2010. The reduction in the electricity supply portfolio is in line with the company's strategy of maximising margins, optimising market share, and hedging against price variations in the electricity market.

Total emissions of CO₂ from thermal power plants and CCGTs affected by the regulation governing greenhouse gas emission trading was 13.4 million tonnes. GAS NATURAL FENOSA acquired the emission rights needed to cover its shortfall through the secondary market, primary projects and carbon funds, thereby managing its CO₂ emission right hedges for the 2008-2012 and post-Kyoto periods.

Under its commitments, during April 2011 GAS NATURAL FENOSA supplied the Spanish National Register of Greenhouse Gas Emission Rights (RENADE) with the rights equivalent to the CO₂ emissions certified at its conventional thermal and CCGT plants in 2010, a total of 9.7 million tonnes of CO₂ including emission rights from Clean Development and Joint Implementation mechanisms.

The company traded over 50,000 GWh in the Iberian electricity market in 2011.

Energy trading in the French and German electricity markets in 2011 was performed via Virtual Power Plant (VPP) auctions, energy sales in grid loss auctions in France, and sales in organised markets and OTC; the company managed more than 970 GWh.

As regards crossborder trading between Spain-France and Germany-France, GAS NATURAL FENOSA optimised and diversified its position, participating in the organised markets in those countries and buying interconnection capacity in short- and medium-term auctions, trading over 108 GWh in 2011.

Finally, in CO₂ emission trading, in 2011 the company traded more than 120 Mt of CO₂ emission permits in numerous deals involving EUA rights and CER/ERU and VER credits, both in organised markets and with counterparties for a wide range of products.

Through spot and forward trading GAS NATURAL FENOSA actively manages its position and optimises its margins and exposure, while also developing its own trading business.

With respect to the special regime, the installed capacity of GAS NATURAL FENOSA at 31 December 2011 increased by 95.5 MW net (110.4 MW consolidated) as a result of increasing its stakes in various wind energy companies, explained below. Following those acquisitions, GAS NATURAL FENOSA has a consolidable total of 1,061 MW in operation under the special regime, of which 925 MW are wind, 69 MW are small hydroelectric and 67 MW are cogeneration.

Special regime output was 5.9% lower than in 2010 (2,380 GWh vs. 2,529 GWh). This change in output is primarily attributable to the fact that there were stronger winds and more precipitation in the first few months of 2010, with wind output declining by 7.1% and small hydroelectric output by 9.6% this year. In contrast, cogeneration output increased by 1.7%. Nevertheless, EBITDA increased by 5.3% to €140 million.

GAS NATURAL FENOSA has submitted bids in a tender in Andalusia for a total of 340 MW in 12 wind farms, the announcement of the successful bidder being due in the first quarter of 2012.

In November 2011, the results of the Extremadura government's wind farm tender were made public, GAS NATURAL FENOSA having bid for a total of 185 MW in 5 wind farms. It was awarded 86 MW in 4 wind farms, making it one of the most successful bidders.

As regards tenders already awarded, in the Canary Islands the company continues developing the 102 MW gross capacity which it was awarded, and progress is being made towards the obtainment of the environmental and town planning permits needed for administrative authorisation.

The paperwork for the wind farm concessions awarded to the company in Catalonia is still under way; the company submitted the execution design and applied for administrative authorisation in August 2011.

In Galicia, the paperwork is advancing for the grid connection for the 285 MW net capacity that was awarded and in the preparation of the industrial plans.

On 13 September 2011 the sale agreement was concluded with ACS for a net 95.5 MW package in 5 wind farms, representing its investment in 6 investees together with GNF Renovables. GAS NATURAL FENOSA now has a majority shareholding and control in these investees, increasing its operations in the Andalusia, Catalonia and Galicia regions.

Finally, the designs are complete for the three wind farms awarded in the Aragón wind tender and will be submitted in the first quarter of 2012.

Work continues on schedule for the construction of the Belesar II and Peares II small hydroelectric plants in Galicia and the J. García Carrión cogeneration plant in Castilla-La Mancha.

On 28 December 2011, the contract was signed with GAMESA to purchase its Altos do Seixal wind farm in Galicia, with an installed capacity of 30 MW, which will be added to GAS NATURAL FENOSA's capacity in 2012.

Electricity Latin America

This section includes electricity generation in Mexico, Puerto Rico, Panama and the Dominican Republic.

Currently operational assets in Mexico are the Hermosillo (270 MW) and Naco Nogales (300 MW) power plants in Sonora state; the Tuxpan III and IV (1,000 MW) power plants in Veracruz state and the Norte Durango (450 MW) plant in the state of Durango, also in north-western Mexico.

On 24 December 2009, GAS NATURAL FENOSA reached an agreement to sell part of its power generation business in Mexico and divested 2,233 MW of installed capacity. The transaction was completed on 3 June 2010; consequently, the information for 2010 includes those assets, which were deconsolidated in May 2010.

Results

	2011	2010	%
Net sales	865	954	(9.3)
Purchases	(548)	(607)	(9.7)
Personnel costs. net	(15)	(19)	(21.1)
Other expense/income	(57)	(65)	(12.3)
Ebitda	245	263	(6.8)
Depreciation and amortization	(101)	(105)	(3.8)
Change in operating provisions	–	(4)	–
Operating income	144	154	(6.5)

EBITDA in the period amounted to €245 million, i.e. 6.8% less than the same period of 2010, or 8.7% higher excluding the assets divested in 2010.

Excluding the impact of the divestments, EBITDA in Mexico would have increased by 21.8%, mainly due to the entry into operation of the Norte Durango plant, which was not operational until 3Q10. On 14 October 2011, an incident occurred during the maintenance work at block 3 of the CCGT in Tuxpan. The recovery plan enabled 50% of capacity to be restored by 1 December 2011, and 75% by 15 December. The remaining 25% is expected to be recovered by 14 February 2012.

Output levels in Panama were maintained but at lower prices compared with the previous year; as a result, EBITDA declined by 11.6%, or 7.3% at constant exchange rates.

In the Dominican Republic, EBITDA fell by 16.6%, or by 12.1% at constant exchange rates, as a result of a greater number of major maintenance operations at the plants.

Main aggregates

The main aggregates are as follows:

	2011	2010	%
Installed capacity (MW)	2,520	2,505	0.6
Mexico (CCGT)	2,035	2,020	0.7
Puerto Rico (CCGT)	254	254	–
Panama (hydroelectric)	22	22	–
Panama (thermal)	11	11	–
Dominican Republic (oil-fired)	198	198	–
Electricity generated (GWh)	17,506	19,147	(8.6)
Mexico (CCGT)	14,662	16,182	(9.4)
Puerto Rico (CCGT)	1,700	1,803	(5.7)
Panama (hydroelectric)	118	116	1.7
Panama (thermal)	19	16	18.8
Dominican Republic (oil-fired)	1,007	1,030	(2.2)

The reduction in output in Mexico is due to the sale of power plants in 2010. Excluding this effect, output by the plants in operation increased by 1,770 GWh, basically as a result of the entry into service of Norte Durango.

The Panama plants' availability increased by 9% as the Los Algarrobos hydroelectric plant operated at 100% capacity.

Availability in Puerto Rico increased by 7.9% as a result of the major overhaul of Unit II in the first quarter of 2010. Output did not increase since dispatching was reduced as a result of transmission line repairs.

Output in the Dominican Republic was affected by incidents at the La Vega plant on 21 July 2011 and again on 25 September, which reduced capacity to 60%. The Recovery Plan brought the plant's capacity up to 80% by the end of the year, and the remainder is expected to be recovered in the first quarter of 2012.

Electricity Other (Kenya)

This area refers to power generation in Kenya.

The prevailing very dry weather in Kenya throughout most of 2011 increased the load factor of the thermal power plants, resulting in a sizeable increase in electricity output.

Results

	2011	2010	%
Net sales	126	96	31.3
Purchases	(102)	(71)	43.7
Personnel costs. net	(2)	(2)	–
Other expenses/income	(8)	(8)	–
Ebitda	14	15	(6.7)
Depreciation and amortization	(5)	(6)	(16.7)
Change in operating provisions	–	–	–
Operating income	9	9	–

EBITDA amounted to €14 million in 2011 as a result of high output and a high level of availability (close to 88%), which is the factor determining capacity revenues. The considerable increase in world fuel prices in 2011 and the scheduled maintenance shut-downs led to a slight decline in EBITDA with respect to the previous year.

Main Aggregates

The main aggregates of the activity are the following:

	2011	2010	%
Electric generation capacity (MW)	112	112	–
Electric energy production (GWh)	767	645	18.9

Diesel-fired output in Kenya in 2011 (767 GWh) was 18.9% higher than in 2010. This increase is attributable to strong demand for thermal power in Kenya as a result of the low precipitation during most of the year and, consequently, the low level of water in the hydroelectric reservoirs.

Infrastructure

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

Results

	2011	2010	%
Net sales	289	264	9,5
Purchases	(58)	(12)	383,3
Personnel costs, net	(8)	(6)	33,3
Other expense/income	(39)	(55)	(29,1)
Ebitda	184	191	(3,7)
Depreciation and amortization	(65)	(50)	30,0
Change in operating provisions	–	–	–
Operating income	119	141	(15,6)

Net turnover from infrastructure activity has totalled €289 million, an increase of 9.5%.

EBITDA for 2011 totals €184 million, 3.7% lower than last year. This decrease is mainly due to the negative impact of the currency effect on international transportation in 2011. Additionally, revenues were lower due to the lower occupancy rate of the fleet, attributable to the political problems in Libya.

Main aggregates

The main aggregates in international gas transportation are as follows:

	2011	2010	%
Gas transportation-EMPL (GWh)	111,855	109,792	1.9
Portugal-Morocco	31,286	29,052	7.7
GAS NATURAL FENOSA	80,569	80,740	(0.2)

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz represented a total volume of 111,855 GWh, 1.9% higher than last year. Of that figure, 80,569 GWh were transported for GAS NATURAL FENOSA through Sagane (on par with last year's figure), and 31,286 GWh for Portugal and Morocco (+7.7% year-on-year).

In October, EMPL signed a contract with Morocco's Office National de l'Electricité (ONE) to transport 0.6 bcm of gas per year, delivered by Sonatrach to ONE at the Algeria-Morocco border, to ONE's plants.

In the gas exploration and production area, options are being explored for developing the first well in the Tangier-Larache (Morocco) concession, in which GAS NATURAL FENOSA has a 24% stake.

In the integrated project being developed in Angola by GAS NATURAL FENOSA (20%) with Repsol, since drilling in the Garoupa II block gave positive results, another well is being prepared so as to continue with the exploration phase.

As part of the Villaviciosa concession in northern Spain, where GAS NATURAL FENOSA has a 70% stake, additional geological studies are being performed, which will conclude the evaluation of its potential.

The company continued to advance the paperwork for the five exploration, production and storage projects planned for the coming years in the Guadalquivir Valley (Marismas, Aznalcazar and Romeral areas). On 30 September 2010, the company obtained an Environmental Impact Assessment for the first of the five projects. Subsequently, on 15 November 2010, the Andalusia Regional Government issued a Combined Environmental Authorisation for the project, which is a prerequisite for obtaining approval from the Ministry of Industry, Tourism and Trade. On 15 July 2011, the Spanish Cabinet approved a Royal Decree for adapting the concessions in the Marismas district by authorising gas storage and setting the basic operational and economic conditions. On 14 November 2011, the Doñana Natural Space authorised two projects in the area.

The development of two regasification terminals in Italy is currently at the permit phase. The Trieste-Zaule project completed the permit process at national level in July 2009 by obtaining the Environmental Impact Assessment (VIA) Decree; after the commencement of a round of contacts between affected public administrations in the fourth quarter of 2011, it is awaiting the Single Authorisation from the regional government to commence construction; that authorisation is expected to be obtained in the first half of 2012. The process of obtaining permits for the Taranto project, as required under Italian legislation, is continuing.

Both projects are on-shore, located in the port areas of the respective cities, and have a planned regasification capacity of 8 bcm/year; investment per terminal will be approximately €500 million. These plants will enable the company to diversify its sources of natural gas supply in Italy and provide continuity in this energy supply, in line with the objectives of the Italian government's energy policy.

Supply and commercialisation

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

Results

	2011	2010	%
Net sales	8,603	7,678	12.0
Purchases	(7,945)	(7,345)	8.2
Personnel costs, net	(46)	(64)	(28.1)
Other expenses/income	(168)	(212)	(20,8)
Ebitda	444	57	678.9
Depreciation and amortization	(14)	(14)	–
Change in operating provisions	(47)	(31)	51.6
Operating income	383	12	–

Net sales amounted to €8,603 million, 12.0% more than last year. EBITDA in 2011 totalled €444 million, having risen significantly compared with 2010 EBITDA, which included the net effect of a number of non-recurring items totalling €305 million, particularly the additional provision for liabilities deriving from the dispute with Sonatrach. Excluding this effect, EBITDA would have risen by 22.7%.

Diversification of the portfolio of commodities and combined management of the commodity and dollar risks mitigated the decline in EBITDA in a context of significant volatility in the energy and currency markets.

Main aggregates

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

	2011	2010	%
Gas supply (GWh)	308.635	305.704	1,0
Spain	236.902	250.885	(5,6)
GAS NATURAL FENOSA supply ⁽¹⁾	169.204	184.744	(8,4)
Supply to third parties	67.698	66.141	2,4
International	71.733	54.819	30,9
Europe	25.088	21.122	18,8
Other	46.645	33.697	38,4
Multiutility contracts (at 31/12)	1.682	1.521	10,6
Contracts per customer (at 31/12)	1,35	1,32	2,3

(1) Does not include exchange transactions with energy companies.

GAS NATURAL FENOSA supplied 169,204 GWh in the Spanish gas market, an 8.4% decline with respect to last year, primarily due to lower sales to residential customers as a result of divestment. The company sold 67,698 GWh of gas to third parties for supply to the Spanish market, a 2.4% increase.

With a view to guaranteeing gas exports from Spain to Portugal, GAS NATURAL FENOSA is using the gas grid connections in Campomaior (south-east) and Valença do Minho (north).

Gas Natural Europe (the French subsidiary for supply in Europe), currently has 499 customers in France in a range of sectors, from industrial companies (chemicals, paper mills, etc.) to local governments and the public sector, accounting for a total portfolio of 13.7 TWh.

The French supply subsidiary has 213 distribution connections in Belgium and Luxembourg, representing a contracted portfolio of over 1.9 TWh per year. GAS NATURAL FENOSA aims to increase gas supply in Europe. To that end, it opened an office in The Netherlands in September 2011. It is also considering an entry into other central European markets in the short term by offering a combination of customised energy consulting with the advantage of a diversified, secure supply.

Additionally, Gas Natural Vendita has obtained more customers in the Italian wholesale market and its portfolio under contract amounts to 2,382 GWh per year. It also supplies energy to residential customers in its retail business (a contracted portfolio of over 2,700 GWh).

GAS NATURAL FENOSA participated in the TURGAS auction, organised by OMEL, for the sale of natural gas to last-resort supply companies for the period from 1 July 2011 to 30 June 2012. It was awarded 510 GWh in the auction.

In line with its objectives, the company also continues to expand in Portugal, where it had a contracted portfolio of 3.4 TWh in 2011, i.e. 12.4% of the industrial market and over 5% of the market as a whole.

GAS NATURAL FENOSA further increased the diversification of its gas sales in Latin America, Asia, North America, and elsewhere. Noteworthy is the company's participation in Argentina, where it was awarded the last concession by Enarsa in the fourth quarter of 2011 to supply gas in 2012, thereby strengthening its presence and consolidating its position as Argentina's largest gas supplier.

The company continues to take steps to develop energy options for vehicles in Spain, in both the public and private sectors. The company is an expert in automotive LNG, a business which it already conducts in several Latin American countries and Italy, where automotive natural gas is widely used.

GAS NATURAL FENOSA undertakes end-to-end management of the process, from construction of service stations (capital cost and subsequent operation and maintenance) to the supply of compressed natural gas, thereby ensuring maximum availability of the facilities. It has 23 service stations selling 684 GWh/year; it also has 11 customers in the pipeline which represent an additional 225 GWh/year.

In the fourth quarter of 2011, the company started up new public gas filling stations in Madrid, Villaba (Pamplona), Salt (Gerona) and Murcia; the latter two also service municipal waste collection trucks. Those four stations represent potential consumption of 75.2 GWh/year.

GAS NATURAL FENOSA is also working on actions to foster energy efficiency and the rational use of electricity in the field of transport. We are developing value propositions which complement our existing range of products and services, with a view to improving our customers' energy efficiency.

In Galicia, the company is also managing the network of electric vehicle recharging stations in the city of A Coruña and is adapting charging stations to accommodate the full range of electric vehicles.

As regards one-off contracts in the private sector, GAS NATURAL FENOSA ended 2011 with 4 new contracts for over 55 GWh of primary energy and a portfolio of over 40 bids for primary energy amounting to more than 350 GWh and with the possibility of signing contracts in the first half of 2012.

With regard to energy efficiency projects aimed at more standard customer segments (homeowner associations and the tertiary and industrial markets), GAS NATURAL FENOSA added 198 new customers and ended the year with a total of 1,829 customers.

In 2011, GAS NATURAL FENOSA obtained more than a million new gas and electricity contracts, activated 469,000 services contracts and increased the number of gas+power customers by over 180,000. GAS NATURAL FENOSA now has over 1.68 million domestic maintenance contracts with residential customers based on its own operating platform consisting of over 164 associated firms connected via an online system, which has enabled it to improve service performance and quality (our customers rate this as our top service).

GAS NATURAL FENOSA continues to add features and users to its online customer management system. The site received 4.7 million visits in 2011, 20% more than in 2010. Over 340,000 customers now receive their bill online.

In 2011, the company began marketing all its products and service in all of Spain, it activated 926,000 new residential contracts and continued to expand in the SME market, obtaining over 107,000 contracts.

At the end of 2011, GAS NATURAL FENOSA had over 10.4 million active contracts. Sales efforts were increased, with the result that 82% more contracts were activated with respect to 2010. Retail sector contracts rose by 4%.

Unión Fenosa Gas

This area includes wholesale and retail gas procurement and supply performed by Unión Fenosa Gas, including the liquefaction plant in Damietta (Egypt), the Sagunto regasification plant, and the LNG tankers fleet.

Results

Unión Fenosa Gas is owned 50% by GAS NATURAL FENOSA and is proportionately consolidated.

	2011	2010	%
Net sales	1,011	849	19.1
Purchases	(694)	(580)	19.7
Personnel costs, net	(11)	(12)	(8.3)
Other expenses/income	(29)	(33)	(12.1)
Ebitda	277	224	23.7
Depreciation and amortization	(157)	(146)	7.5
Change in operating provisions	–	–	–
Operating income	120	78	53.8

EBITDA amounted to around €277 million in 2011, 23.7% more than in 2010. This increase was attained through more efficient management of procurements, logistics and infrastructure, and despite a 4.3% decline in sales volumes in Spain. Moreover, intense activity outside Spain provided a high margin in 2011.

Main aggregates

The main aggregates for the Unión Fenosa Gas business are as follows:

	2011	2010	%
Gas supply in Spain (GWh)	56,937	59,518	(4.3)
Gas supply in International (GWh)	26,503	27,774	(4.6)
Liquefaction (GWh)	42,831	35,851	19.5
Regasification (GWh)	42,845	56,092	(23.6)

There was a 4.3% year-on-year decline in gas supply in Spain in 2011, to 56,937 GWh. The decline in volume sales in the fourth quarter reduced full-year demand numbers in all segments: CCGT -2.5%, industrial -5.6% and sales to suppliers -19.2%.

Additionally, a total of 26,503 GWh of energy was traded in 28 international transactions in Japan, India, Taiwan, Korea, Argentina, France and Portugal.

The gas acquired under long-term contracts with Egypt and Oman in 2011 covered the bulk (86%) of the gas needs in the Spanish market in the period.

The main gas infrastructure (liquefaction, shipping and regasification) maintained levels of availability and efficiency in line with last year.

The Damietta (Egypt) liquefaction plant increased production with respect to 2010. The plant delivered 48 shiploads (39 in 2010), of which 29 were for Unión Fenosa Gas and the remainder for other operators.

The Sagunto regasification plant produced 42,845 GWh, i.e. 65 shiploads, of which 22 were for Unión Fenosa Gas (43.8% of the total volume).

Saggas commenced operation of its fourth LNG storage tank in November 2011. This tank, whose construction commenced in 2009, increased storage capacity by 33% (to 600,000 m³ of LNG). Saggas' current installed regasification capacity is 1,000,000 m³/h, i.e. it can meet up to 25% of Spain's demand for natural gas.

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) GAS NATURAL FENOSA may not be successful in the roll out of its 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 liberalized 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 is 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 corresponds 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 authorisations, licences and permits, as well as compliance with certain requirements, including, amongst others, the fact that:

- the environmental authorisations and licenses may not be granted or may be revoked due to non-compliance with the conditions that are imposed thereunder.
- 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 minimise 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 on the production of electricity for air conditioning, basically. 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;
- The 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 profit 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 37 to the Annual Accounts.

GAS NATURAL FENOSA allocates a major portion of its resources and efforts to R&D&i, in order to optimise resources, develop new technologies and keep abreast of the technological advances in the sectors in which it operates.

GAS NATURAL FENOSA participates in domestic and international sectorial and business organisation. The collaboration in institutions of this type allows the Company to remain in the lead of sectorial knowledge and permits it to be identified as a benchmark in its various areas of activity.

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 world 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 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 supply 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. This agreement represents the first step in the process of divestment of generation capacity through combined cycle plants, as imposed by the CNC and in which GAS NATURAL FENOSA continue working.
- On 17 December 2010, GAS NATURAL FENOSA sold its 35% stake in Gas Aragón, S.A. a 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 2011 and 2010 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 €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 authorised, the transaction was completed on 27 May 2011. Following the deal, each shareholder received approximately one-half of EUFER's assets.

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

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

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

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

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

With respect to financial discipline, 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 businesses and expects that the leveraging will continue to diminish. Bonds were issued for a total of €8,050 million between 2009 and 2011 to maximise the financial structure. 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
% total voting rights in possession of the Board of Directors			0.018

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:

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

Unrealised gains/(Losses) of treasury stock disposed of over the period (thousands of euros)	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:

Maximum number of Directors	20
Minimum number of Directors	10

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

Name or company name of Director	Representative	Position on Board	Date first appointment	Date last appointment	Election procedure
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
Total number of Directors					16

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

Name or company name of Director	Condition member of the Board at the time of replacement	Replacement date
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**

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

External Proprietary Directors

Name or company name of Director	Committee which proposed appointment	Name or title of significant shareholder he/she represents or who proposed appointment
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.
Total number of Proprietary Directors		8
% total of the Board		50.0

External Independent Directors

Name or company name of Director	Profile
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
Total number of Independent Directors	6
% total of the Board	37.5

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
Total	7,780

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
Total	0

Other benefits	Data in thousands of euros
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:

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

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

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

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

Name or company name	Position
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
Total remuneration of senior management (in thousands of euros)	10,573

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:

Number of beneficiaries			13
	Board of Directors	General Meeting	
Body that authorises the clauses	No		No
Is the General Meeting informed of the clauses?			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:

At the proposal of the chief executive of the company, the appointment and possible resignation of senior executives, as well as their compensation clauses	Yes
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	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

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	Yes
Variable payment concepts	Yes
Main characteristics of the social benefits systems, with an estimate of the equivalent annual cost or amount	Yes
Conditions to be observed in the contracts of those who exercise senior management functions as Executive Directors	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:

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.

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
Amount of tasks other than auditing activities (in thousands of euros)	784	415	1,199
Amount of tasks other than auditing/Total amount billed by the audit company (%)	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
Number of years without interruption	21	21
No. of years audited by the current audit company / No. of years the company has been audited (%)	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

–

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

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	Yes
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	Yes
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	Yes
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	Yes
Guaranteeing the independence of the external auditor	Yes
In the case of groups, it should favour the group's auditor assuming the responsibility for the audits of the companies in the group	Yes

B.2.3 Describe the organisational and operational rules and the responsibilities attributable to each of the Board's committees.

Committee name	Brief outline
Appointments and Remuneration Committee	<p>Appointments and Remuneration Committee (Article 31 of the Regulations of the Board of Directors).</p> <p>Duties:</p> <p>The Committee carries out research and makes proposals to the Board for the following issues:</p> <ul style="list-style-type: none"> • Putting forward criteria for the remuneration of the company's Directors and to assure transparency in remunerations. • Putting forward the general policy for remuneration of the executives of the group. • 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. • 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.

- 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 1276">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 1344">1.1. Powers.</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 1560 1594 1617">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 1662 1648 2077" style="list-style-type: none"> • Organising, directing and inspecting all services and facilities of the company. • 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. • Establishing the salary that should be paid for extra services. • Auditing the company's funds. • Receiving, directing and answering private requests and advocating the drawing up of minutes of all kinds. • 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.

- 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

Audit and Control Committee (Article 51 bis of the Articles of Association and Article 32 of the Board Regulations).

Duties:

Article 51 bis of Articles of Association:

1. Reporting to the General Meeting of Shareholders on questions raised by shareholders with respect to matters within their competence.
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.
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.
4. Supervising the process of compiling and presenting the regulated financial reporting.
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.
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.
7. Any other general or specific function delegated by the Board of Directors.

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:

Committee name	Brief outline
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:

–

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:

–

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.

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

The risks have evolved without significant impact on the Consolidated Annual Accounts.

Causes of risks

All the causes of the risks are external and inherent to the activities carried out by Gas Natural Fenosa.

Operation of control systems

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

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.

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.

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.

**Name of the committee
or body**
Description of duties

Resources Area

This area is responsible for the overall management of the common services in fields such as information, purchases, engineering and technology, quality, health & safety and environment systems. The role played by these units is fundamental for the management and mitigation of risks of an operational nature. Specifically:

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.

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.

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.

The Quality, Health & 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.

**Name of the committee
or body**
Description of duties

Financial Area

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.

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.

Name of the committee or body**Description of duties**

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**

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**

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.

**Name of the committee
or body**
Description of duties

Executive Committee

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.

The Executive Committee is also responsible for proposing the Strategic Plan, the group's objectives and the annual budget to the Board of Directors.

**Name of the committee
or body**
Description of duties

Quality Committee

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 & 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.

**Name of the committee
or body**
Description of duties

Management Committee

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.

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.

**Name of the committee
or body**
Description of duties
Data Protection
Committee

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.

Name of the committee or body**Description of duties**

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**

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**

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**

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.

**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.

D.4 Identification and description of the procedures for compliance with the different regulations affecting the company and/or its group.

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.

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.

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."

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 **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.

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.

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.

All the information required may be found on the website www.gasnaturalfenosa.com. The corporate governance information can be accessed through the section Information for Shareholders and Investors.

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
Total hours		100

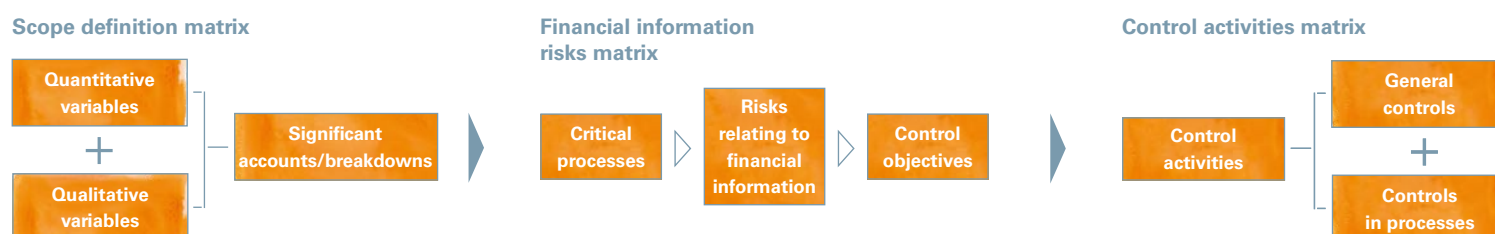
In response to needs in the Internal Audit Unit, personnel from this area, in 2011, attended courses (lasting 16-21 hours) and participated in other training activities organized by the Institute of Internal Auditors.

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

2007-2011 consolidated data

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Operating statistics

Operating statistics

	2011	2010	2009	2008	2007
Gas supply (GWh)	395,840	411,556	402,691	481,414	453,172
Spain	201,231	207,174	229,586	270,073	271,058
Regulated gas sales	–	–	26	14,177	38,288
TPA	201,231	207,174	229,559	255,896	232,770
Latin America	191,031	200,995	169,612	208,408	179,314
Regulated gas sales	114,559	128,141	107,196	144,065	115,132
TPA	76,472	72,854	62,416	64,343	64,182
Italy	3,578	3,387	3,494	2,933	2,800
Regulated gas sales	2,730	2,741	2,974	2,632	2,635
TPA	848	646	521	301	165
Gas supply (GWh)	308,635	305,704	286,152	292,629	292,730
Spain ⁽¹⁾	236,903	250,885	234,230	239,090	245,566
International	71,732	54,819	51,922	53,539	47,164
Unión Fenosa Gas (GWh)⁽²⁾					
Commercialisation	56,937	59,518	34,854	–	–
Trading	26,503	27,774	10,785	–	–
Gas transportation/EMPL (GWh)	111,855	109,792	109,230	133,497	124,150
Gas distribution network (km)	116,438	115,272	118,658	115,295	109,759
Spain	43,871	44,931	50,697	48,578	45,429
Latin America	65,831	64,492	62,315	61,196	59,555
Italy	6,736	5,849	5,645	5,521	4,775
Increase in gas distribution points (thousands)	316	335	298	377	453
Spain	81	84	112	161	246
Latin America	217	243	169	176	170
Italy	18	8	17	40	37
Gas distribution points (thousands) as at 31/12	11,372	11,361	11,790	11,492	11,115
Spain	5,050	5,274	5,954	5,842	5,681
Latin America	5,882	5,665	5,422	5,253	5,077
Italy	440	422	414	397	357
Contracts per customer in Spain as at 31/12	1.4	1.3	1.4	1.4	1.4
Employees as at 31/12	17,769	18,778	19,346	6,842	6,953
Electricity generated (GWh)	56,616	58,389	52,752	31,451	18,700
Spain	38,081	38,338	28,728	18,130	16,975
International	18,535	20,051	24,024	13,321	1,725
Electricity distribution (GWh)	54,067	54,833	34,973	–	–
Europe	36,361	36,831	22,919	–	–
International	17,706	18,002	12,054	–	–
Electricity distribution points (thousands) as at 31/12	8,133	9,436	9,136	–	–
Europe	4,568	4,535	4,497	–	–
International	3,565	4,901	4,639	–	–

(1) Does not include exchange transactions.

(2) Figures at 100%.

Financial statistics

Balance Sheet Figures

(in millions of euros)

	2011	2010	2009(*)	2008(*)	2007
Gross property, plant and equipment and intangible fixed assets	37,147	36,194	34,320	16,274	15,638
Consolidation goodwill	5,876	6,002	6,056	546	541
Provisions and accumulated depreciation	(9,199)	(7,767)	(5,620)	(5,397)	(4,838)
Net property, plant and equipment and intangible fixed assets	33,824	34,429	34,756	11,423	11,341
Financial investments	1,123	799	811	2,862	757
Net equity attributed to the parent company	12,792	11,384	10,681	6,376	6,070
Minority interests	1,649	1,590	1,496	345	357
Grants	803	657	520	424	543
Non-current financial liabilities	17,539	18,176	18,658	4,451	3,075
Current financial liabilities	2,853	2,130	2,849	934	1,004

(*) On 1 January 2010 Gas Natural Fenosa applied the IFRIC 12 "Service Concession Arrangements" retroactively, reformulating the Consolidated Balance Sheets at 1 January 2009 and 31 December 2009 for the intents and purposes of comparison.

Profit and Loss Account Figures

(in millions of euros)

	2011	2010	2009(*)	2008	2007
Sales	21,076	19,630	14,873	13,544	10,093
Other operating income and release of fixed assets to income	298	289	238	95	81
Operating income	21,374	19,919	15,111	13,639	10,174
Gross operating profit	4,645	4,477	3,923	2,564	2,277
Net operating profit	2,947	2,893	2,445	1,794	1,567
Financial expenses and income, fair value variations in financial instruments and net exchange differences	(934)	(1,059)	(814)	(263)	(224)
Gain on sales on financial instruments	2	44	101	14	64
Financial profit/loss	(932)	(1,015)	(713)	(249)	(160)
Income before taxes	2,022	1,883	1,791	1,551	1,415
Consolidated net income for the year	1,526	1,415	1,351	1,172	1,056
Consolidated net income for the year attributed to the parent company	1,325	1,201	1,195	1,057	959

(*) On 1 January 2010, Gas Natural Fenosa applied the IFRIC 12 "Service Concession Arrangements" retroactively, reformulating the Consolidated Profit and Loss Account for 2009 for the intents and purposes of comparison.

Cash Flow Statement Figures

(in millions of euros)

	2011	2010	2009	2008	2007
Net cash generated from operating activities	2,137	2,746	2,512	2,023	1,829
Payments for purchases of Property, plant and equipment and intangible fixed assets	1,456	1,545	1,792	1,088	1,135
Payments for other investments	1,294	788	14,362	1,741	1,041
Proceeds for divestitures	2,521	2,216	2,068	66	176
Dividends paid	445	858	756	580	521
Proceeds/Prepayment of borrowings	(166)	(1,272)	9,039	1,286	730

Stock market statistics

Stock market statistics

	2011	2010	2009	2008	2007
Number of shares traded (millions)	844	1,064	737	376	407
Funds traded (millions of euros)	10,827	13,258	9,777	11,833	15,649
Final share price (euros)	13.27	11.49	15.09	19.29	40.02
Final adjusted share price (euros) ⁽¹⁾	–	11.09	14.56	15.86	32.91
Maximum (euros)	15.00	15.67	22.28	42.45	45.76
Maximum adjusted (euros) ⁽¹⁾	–	15.13	21.51	34.90	37.63
Minimum (euros)	10.20	10.07	8.39	18.51	29.00
Minimum adjusted (euros) ⁽¹⁾	–	9.72	8.10	15.22	23.85
Book value per share (euros)	15.15 ⁽²⁾	14.08	15.04 ⁽²⁾	15.01	14.35
EBITDA per share (euros)	4.87 ⁽²⁾	4.86	4.85 ⁽²⁾	5.73	5.09
Net profit per share (euros)	1.39 ⁽²⁾	1.30	1.48 ⁽²⁾	2.36	2.14
Stock market capitalisation-book value ratio	0.9	0.8	1.1	1.3	2.8
Enterprise value-EBITDA ratio	6.6	6.6	8.9	5.3	9.5
Stock market capitalisation-profit ratio	9.9	8.8	11.6	8.2	18.7
Dividend-stock market capitalisation ratio (%)	6.2	7.0	5.3	7.7	2.8
Dividend-profit ratio (%)	62.0 ⁽³⁾	61.8 ⁽³⁾	61.1	62.7	53.2
Share capital (number of shares as at 31/12)	991,672,139	921,756,951	921,756,951	447,776,028	447,776,028
Average number of shares	953,425,915	921,756,951	809,485,236	447,776,028	447,776,028
Stock market capitalisation (in millions of euros)	13,155	10,591	13,905	8,638	17,920
Dividend (in millions of euros)	821 ⁽³⁾	742 ⁽³⁾	730	663	510

1) Considering adjustments arising from the capital increase with preferential subscription rights carried out in March 2009.

(2) Considering the average number of shares for the year.

(3) Considering the total equivalent amount allocated to shareholders remuneration.

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