

GAS NATURAL SDG, S.A.
ORDINARY GENERAL MEETING OF SHAREHOLDERS
16 APRIL 2013

ANNUAL REPORT ON REMUNERATION TO DIRECTORS

This report has been drawn up at the proposal of the Appointments and Remuneration Committee and lays down the remuneration policy of GAS NATURAL SDG, S.A. for the members of its Board of Directors.

It contains the applicable legal and statutory regime, the principles followed for its application, as well as a breakdown of the remuneration for the 2012 financial year.

I. REGULATORY FRAMEWORK

Article 61b of the Securities Market Act lays down:

“Article 61b. of the annual report on remunerations to directors.

- 1. Together with the Annual Corporate Governance Report, the Board of listed public limited companies must draw up an annual report on the remuneration of its directors. This report must include full, clear and understandable information on the company’s remuneration policy approved by the Board for the year in progress, as well as, if appropriate, the policy for future years. It will also include an overall summary of how the remuneration policy was applied during the financial year, and a breakdown of the individual remuneration accrued by each director.*
- 2. The annual report on remuneration to directors, the company’s remunerations policy approved by the Board for the current year, the policy for future years, the overall summary of how the remuneration policy was applied during the financial year, as well as a breakdown of individual remuneration accrued by each director will be disseminated and subject to a vote - of a consultative nature and as a separate item on the agenda - by the ordinary General Meeting of Shareholders.*
- 3. [...]”.*

Articles 218 and 219 of the Corporate Enterprises Act lays down the basic rules for the remuneration of directors through profit-sharing and stock options, respectively.

In addition, remuneration of the Directors of GAS NATURAL SDG, S.A. is regulated by article 44 of the Company's Articles of Association (hereinafter "AA"), where it states:

"Article 44. Remuneration:

The Board of Directors will receive remuneration of 4% of the profits that remain once overheads, interest, taxes and other amounts to be allocated to write-downs and depreciation have been deducted, unless the Board agrees to reduce the amount receivable in the years when it deems this 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 Corporate Enterprises 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 resolution will specify the number of shares to be handed over, the price of exercising the share option, the value of the shares taken as reference and the term of this form of remuneration."

We should point out that the current wording of article 44 AA was agreed at the Ordinary General Meeting held on 14 April 2011.

Furthermore, article 22 of the Regulations governing the organisation and performance of the Board of Directors of GAS NATURAL SDG, S.A. and its Committees (hereinafter 'RBD') specifies:

“Article 22. Director’s Remuneration

1. The position of Director of GAS NATURAL SDG, S.A. will be remunerated in accordance with the provisions laid down in the Company’s Articles of Association, pursuant to the report issued by the Appointments and Remuneration Committee, as per article 31 of these Regulations.

The Appointments and Remuneration Committee shall propose to the General Meeting of Shareholders the criteria it deems appropriate to ensure 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, at the frequency it deems appropriate, the Board may agree to make interim payments of the amounts corresponding to each Director for the work performed in that period.

2. The Board must define the remuneration policy to its Directors, duly determining (i) the amount of the fixed items, with a breakdown of those corresponding to participation in the Board and in its Committees, and (ii) the variable items, should there be any, specifying their relative importance with regard to the fixed items. 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.- The remuneration of Directors will be transparent. The Annual Report, which is an essential part of the Financial Statements, shall contain any information deemed appropriate concerning the remuneration received by the members of the Board of Directors.”

Lastly, with regard to the analysis and proposal duties of the Appointments and Remunerations Committee, article 31.2 of the RBD lays down:

“Article 31. The Appointments and Remunerations Committee

“[...]

2. The Committee will be responsible for carrying out studies and making proposals on the following matters:

- Putting forward criteria for the remuneration of the company’s Directors and to assure transparency in remunerations.

[...]”

II. CORPORATE REMUNERATIONS POLICY FOR DIRECTORS APPROVED BY THE BOARD FOR THE CURRENT YEAR

The remuneration policy for Directors of GAS NATURAL SDG, S.A. is based on the following criteria:

- Remuneration to Directors must be enough to compensate them for their time spent, position and responsibility, without compromising their independence.
- It must heed a market criterion, pursuant to the fixed remuneration for directors of listed companies of a similar size to GAS NATURAL SDG, S.A.
- The remuneration policy with regard to Executive Directors for the performance of their executive duties, other than the supervisory and joint decision duties, inherent to their membership of the Board of Directors, is based on the following premises:
- Having a competitive global remuneration level with regard to comparable companies in the energy sector. To this end we have considered the energy companies of the IBEX35 and the top 10 companies of that index.
- Having an annual variable bonus item linked to attaining measurable targets aligned with shareholders’ interests, with control and measurement systems. This determines the variable bonus amount based on assessments that measure individual performance as well as the company’s overall performance, using the Company’s annual budget as the key reference point.
- Incorporating medium/long-term multi-year bonus systems that encourage targets sustained over time to be achieved and with the Company’s Strategic Plan objectives as the main reference.

Accordingly, the idea is to pay remuneration made up of a fixed amount and a variable bonus amount, which will be paid according to the global assessment of their performance, pursuant to targets aligned with company and shareholder interests. These are fundamentally based on compliance with the targets laid down in the Annual Budget and in the Multi-year Strategic Plan in force at any time.

Similarly, the Managing Director's contract contains a clause that sets forth compensation that triples the annual compensation payable for certain cases where the relationship ends, except in cases where they are guilty of very serious breaches of their professional obligations with serious damage to the company; it also provides for a compensation equivalent to one year's pay as a consequence of the one year post-contractual non-competition agreement.

Following the favourable report from the Appointments and Remuneration Committee, the Board of Directors has agreed to maintain in 2013 the same remunerations that have applied since 2007, with no changes. These are as follows:

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

The Chairman of the Board of Directors is delegated with the power to establish the fixed remuneration and the variable bonus to be paid in 2013 to the Company's Managing Director for duties other than those of supervision and joint decision-taking. This remuneration will be paid according to an overall assessment of their performance, pursuant to targets aligned with company and shareholder interests. Determination of the aforementioned remuneration must under all circumstances be previously approved in the report issued by the Appointments and Remunerations Committee.

III. DIRECTORS' REMUNERATION POLICY FOR FUTURE YEARS

For future years, the Appointments and Remunerations Committee has notified the Board of Directors of its agreement to maintain the same remuneration policy followed to date, based on the principles of moderation, payment for the time spent, and based on results.

IV. OVERVIEW OF HOW THE REMUNERATIONS POLICY IS APPLIED OVER THE YEAR.

Remuneration to Directors in 2012 was based on criteria of the time spent, position, and responsibility, and under no circumstance did the amount compromise their independence in the exercise of their duties.

In particular, it was deemed appropriate to maintain the values at the same levels as the previous year, which in turn have not changed since 2007.

Consequently, the Board of Directors received the following remuneration in 2012:

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

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

The remuneration of all Directors was set by the Board of Directors, pursuant to the criteria and within the limits laid down in article 44 of the AA.

V. BREAKDOWN OF INDIVIDUAL REMUNERATIONS ACCRUED BY DIRECTORS

The individual remunerations accrued by Directors during 2012 for sitting on the Board and Committees of GAS NATURAL SDG, S.A. were as follows:

In €.

(*) Board: Board of Directors.

(**) EC: Executive Committee.

(***) ACC: Audit and Control Committee.

(****) ARC: Appointments and Remunerations Committee.

	Board (*)	EM (**)	A&CC (***)	A&RC (****)	GROSS TOTAL
SALVADOR GABARRO SERRA	550,000	550,000			1,100,000
ANTONIO BRUFAU NIUBÓ	126,500	126,500		12,650	265,650
RAFAEL VILLASECA MARCO	126,500	126,500			253,000
RAMON ADELL RAMON (4)	126,500		8,050		134,550
ENRIQUE ALCANTARA-GARCIA IRAZOQUI (3)	126,500	80,500			207,000
XABIER AÑOVEROS TRIAS DE BES (1)	92,000				92,000
DEMETRIO CARCELLER ARCE	126,500	126,500			253,000
SANTIAGO COBO COBO	126,500			12,650	139,150
NEMESIO FERNÁNDEZ-CUESTA LUCA DE TENA	126,500				126,500
FELIPE GONZÁLEZ MÁRQUEZ	126,500				126,500
CARLOS KINDER ESPINOSA	46,000	46,000	4,600		96,600
EMILIANO LÓPEZ ACHURRA	126,500	126,500			253,000
CARLOS LOSADA MARRODÁN	126,500	126,500	12,650		265,650
JUAN MARÍA NIN GÉNOVA	126,500	126,500			253,000
HERIBERT PADROL MUNTÉ (2)	92,000				92,000
JUAN ROSELL LASTORTRAS	126,500				126,500
LUIS SUAREZ DE LEZO MANTILLA	126,500		12,650		139,150
MIGUEL VALLS MASEDA	126,500			12,650	139,150
	2,551,000	1,435,500	37,950	37,950	4,062,400

⁽¹⁾ Mr Xabier Añoveros Trías de Bes became a member of the Board of Directors on 20 April 2012 to cover the existing vacancy.

⁽²⁾ Mr Heribert Padrol Munté became a member of the Board of Directors on 20 April 2012, replacing Mr Carlos Kinder Espinosa.

⁽³⁾ Mr Enrique Alcántara-García Irazoqui became a member of the Executive Committee on 20 April

2012, replacing Mr Carlos Kinder Espinosa.

⁽⁴⁾ Mr Ramon Adell Ramon became a member of the Audit and Control Committee on 20 April 2012, replacing Mr Carlos Kinder Espinosa.

On the other hand, in 2012 the Managing Director received the overall sum of 2,784,000 Euros for executive duties other than those of supervision and joint decision-taking. An amount of 270,000 Euros was paid into pension funds and plans. These payments are broken down into four items:

- Fixed remuneration 2012: 1,043,000 euros.
- Annual bonus: 975,000 euros.
- Multi-year bonus: 761,000 euros.
- Other items: 5,000 euros.

The annual bonus is for 2011 and the main target is to comply with the budget for the year approved by the Board of Directors at its session held in January 2011. The multi-year bonus is for the years 2009, 2010 and 2011 and the objective set at the beginning of the period was a combination of targets consistent with the strategic plan applicable to the period.

Both bonuses form part of the annual bonus programme and multi-year bonus programme for executives of the GAS NATURAL FENOSA Group.

Members of the Board of Directors have not received compensation and have not been granted any loans or advances. Nor did they receive shares or share options in 2012, and they have not exercised any options nor have any pending options to exercise. At the time of issuing this report, there is no scheme in force that offers the right to receive shares or share options.

Barcelona, 25 January 2013.

The Board of Directors of GAS NATURAL SDG, S.A.