

2011
audit and control report



2011 Annual Report on the Functions
and Activities of the Audit and Control
Committee of Gas Natural SDG, S.A.

In accordance with the Principles of Good Corporate Governance of Listed Companies, the Board of Directors of Gas Natural SDG, S.A., at a session held on 23 June 2000, approved the general regulations for the formation and operation of the Audit and Control Committee of Gas Natural SDG, S.A. This was subsequently included in the Articles of Association through resolution of the General Meeting of Shareholders on 23 June 2003, pursuant to the provisions of the Financial System Reform Act, Law 44/2002 of 22 November.

The Board of Directors of the company, in its meeting of 24 March 2004, approved the Organisation and Operation Regulations of the Board of Directors and its Committees, which will provide a complement to the tasks, operation and competence of the Audit and Control Committee as established in the aforementioned Articles of Association. These Regulations were modified and updated by the Board of Directors at its meetings held on 23 February, 18 December 2007, 25 February 2011 and 30 September 2011. The updates carried out during 2011 were partially conducted to adapt to the amendments 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.

In accordance with the foregoing Articles of Association and Regulations, 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 Committee may invite to its meetings any executive or employee it deems appropriate.

On 31 December 2011, the Audit and Control Committee comprised the following Directors appointed by the Board of Directors:

- Chairman: Mr Carlos Losada Marrodán (Independent Director).
- Board member: Mr Carlos Kinder Espinosa (Proprietary Director).
- Board member: Mr Luis Suárez de Lezo Mantilla⁽¹⁾ (Proprietary Director).

The post of Secretary of the Committee is held by Mr Manuel García Cobaleda, Secretary of the Board of Directors of Gas Natural SDG, S.A.

The Audit and Control Committee authorised the internal appointment of the Committee spokesperson, Mr Carlos Ayuso Salinas (Director of Internal Audit of Gas Natural Fenosa), entrusted with the general tasks of coordination and information.

The Committee is authorised, pursuant to Article 51 bis of the Articles of Association and Article 32 of the Regulations of the Board of Directors and its Committees, to carry out the following tasks:

- **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 services of the Internal Audit Area, overseeing its independence and proposing the**

(1) Mr Luis Suárez de Lezo Mantilla was appointed member of the Audit and Control Committee in place of Mr Fernando Ramírez Mazarredo in the Board Meeting of 28 January 2011.

appointment, re-election and stepping down of its manager. 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.

This supervision will consist, among others, of analysing, approving, amending and monitoring the successful execution of the Annual Internal Audit Plan and ascertaining the level of compliance of the audited units with the corrective measures recommended by the Committee itself and the Internal Audit Area in previous actions.

- **Monitoring and supervising the preparation of 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.

Specifically, the Committee should be familiar, through the information and documentation provided by the Internal Audit Area, the Financial Area and the external auditor, with the control systems and risk assessment, the internal control systems and the financial reporting procedures of the

company, as well as supervise its sufficiency, suitability and effective operation in order to ensure the integrity, security and correct execution of operations along with an appropriate accounting record.

- **Presenting the Board with proposals for selection, appointment, re-election and replacement of the external auditor, as well as their contractual terms.**
- **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 technical 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, to provide a report that gives an opinion on the independence of the accounts auditors.** This report

shall, in any case, pronounce on 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.**

In this respect, the Committee shall:

- Analyse, in collaboration with the Financial Area and the external auditors, the half yearly and quarterly financial statements and the accounting or financial information required by the National Securities Market Commission or other regulatory bodies, ensuring transparency and accuracy of the information and stating, where appropriate, the applicable accounting criteria.
- Be appraised of and supervise the accounting practices and principles used in compiling the company's Annual Accounts and those of its consolidated group.
- Report any alteration to the accounting criteria and any risks on or off the balance sheet to the Board, where appropriate.
- **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 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 the Regulations of the Board of Directors and of its Committees.**
- **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.**

In addition, the Board of Directors in its meeting of 31 March 2006 established that notifications received through the notification procedure for non-compliance with the Code of Ethics of Gas Natural Fenosa relating to fraud, auditing or faults in accounting processes and internal control shall be directly transferred to 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, 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.

The sphere of activity of the Audit and Control Committee extends to:

- Gas Natural SDG, S.A.
- Companies in which Gas Natural SDG, S.A. holds a majority interest.
- Other entities and companies for which Gas Natural SDG, S.A. has in some form the effective control or responsibility for management or operation.

During 2011, the activities of the Audit and Control Committee included the study, reporting, support and proposals to the Board of Directors in respect of its monitoring tasks, by means of a periodic supervision of compliance with the procedure for drafting economic and financial information, the procedure for risk identification and assessment, the effectiveness of the Internal Control Regulations of the company (regulations, laws, policies, codes, accounting procedures and internal control, etc.) of the accounts auditing procedure and independence of the external auditor, and compliance with Codes of Ethics, the Regulations of the Board of Directors and its Committees, and the established policies in matters of corporate governance.

These activities have been carried out within the framework of their competence and by means of the information and documentation provided, principally through the Internal Audit Area, the external auditor, the Financial Area and the Secretary of the Board of Directors.

During the period between 1 January 2011 and 27 January 2012 (date of formulation of the 2011 Consolidated and Individual Annual Accounts of Gas Natural Fenosa), six meetings of the Audit and Control Committee were held, with a 94% attendance level.

The meetings of the Audit and Control Committee held during that period and the matters addressed therein are summarised below:

27 January 2011

Agenda

- Approval of the minutes of the previous meeting of the Audit and Control Committee.
- Presentation by the Chief Financial Officer of the financial information and of the financial statements as at 31 December 2010, as well as of the main risks and contingencies and the provisions needed to cover them.
- Presentation by the Chief Financial Officer of the 2010 Annual Financial Report that covers the Consolidated and Individual Annual Accounts, the Management Report and the selected financial information, prior to the approval and declaration of responsibility for the content thereof by the Board of Directors, together with the draft version of the External Audit Report.
- Presentation by the external auditor (PricewaterhouseCoopers) of:
 - Final conclusions of the external audit of the 2010 Consolidated and Individual Annual Accounts of the companies in Gas Natural Fenosa.
 - Memorandum sent to the auditors of Criteria CaixaCorp on the final conclusions of the external audit works on the Consolidated Annual Accounts of Gas Natural Fenosa.
- Proposing the appointment of external auditors for 2011 to the Board of Directors, for submission to the General Meeting of Shareholders (Article 32.2, paragraph 2 of the Regulations of the Board of Directors).
- Presentation by the Chief Financial Officer of the comparative analysis of the 30 good practices of the Internal Financial Reporting Control System (SCIIF) within the reference framework of the National Securities Market Commission and the practices applied by Gas Natural Fenosa.
- Information on contracts undertaken with companies using the PricewaterhouseCoopers name (external auditor).
- Presentation by the Director of Internal Audit of:
 - Monitoring of the degree of execution and main conclusions of the 2010 Internal Audit Plan.
 - 2011 Internal Audit Plan for approval by the Audit and Control Committee.
- Presentation by the Director of Internal Audit of the main activities of the Code of Ethics Committee and of the notification of enquiries or breaches received through the established channels.
- Proposal of the schedule of activities of the Audit and Control Committee in 2011.
- Presentation of the 2010 Annual Report on the Functions and Activities of the Audit and Control Committee.
- Presentation by the Secretary of the Board of:
 - Report on quality and performance of the Audit and Control Committee in 2010.
- Report on compliance with the Internal Code of Ethics in matters relating to the Securities Market in 2010.
- Report on compliance of the Regulations of the Board and of its Committees in 2010.
- 2010 Annual Report on the independence of the auditors (Law 12/2010 of 30 July).
- 2010 Corporate Governance Report.
- Miscellaneous:
 - Monitoring of legislation on corporate governance.
 - Others.

29 April 2011

Agenda

- Approval of the minutes of the previous meeting of the Audit and Control Committee.
- Presentation by the Chief Financial Officer of the financial information and of the financial statements as at 31 March 2011, as well as of the main risks and contingencies and the provisions needed to cover them.
- Presentation by the Chief Financial Officer of the definite fee proposal for the external auditor to carry out the external audit of the Consolidated Annual Accounts for the 2011 tax year, together with its fees.
- Information on contracts undertaken with companies using the PricewaterhouseCoopers name (external auditor).
- Presentation by the Chief Financial Officer of the level of progress made in the Framework Review Project recommended by the Securities Market Commission on the Internal Financial Reporting Control System (SCIIF).
- Presentation by the Head of Legal Services of the Criminal Prevention Programme project.
- Presentation by the Director of Internal Audit of the monitoring of the degree of execution and the main conclusions of the 2011 Annual Internal Audit Plan.

- Presentation by the Director of Internal Audit of the main activities of the Code of Ethics Committee and of the notification of enquiries or breaches received through the established channels.
- Miscellaneous:
 - Monitoring of legislation on corporate governance.
 - Others.

22 July 2011

Agenda

- Approval of the minutes of the previous meeting of the Audit and Control Committee.
- Presentation by the Chief Financial Officer of the financial information as at 30 June 2011 and the provision of the half yearly financial report with the Consolidated Abridged Annual Accounts, the Interim Management Report and the selected financial information, prior to the approval and declaration of responsibility for the content thereof by the Board of Directors, together with the draft version of the External Audit Report.
- Presentation by the external auditor (PricewaterhouseCoopers) of the conclusions of the external audit of the half yearly financial report of Gas Natural Fenosa as at 30 June 2011.
- Presentation by the external auditor (PricewaterhouseCoopers) of the planning and schedule for the 2011 external audit of the Consolidated and Individual Annual Accounts of the companies in Gas Natural Fenosa, as well as other related works.
- Information on contracts undertaken with companies using the PricewaterhouseCoopers name (external auditor).
- Presentation by the Chief Financial Officer of the planning and schedule for tendering the external audit service of the 2012 accounts and thereafter.
- Presentation by the Chief Financial Officer of the Gas Natural Fenosa 2011 Corporate Risk Map.

- Presentation by the Chief Financial Officer of the degree of progress made in the Framework Review Project recommended by the National Securities Market Commission on the Internal Financial Reporting Control System (SCIIF).
- Presentation by the Chief Financial Officer of information on the core fiscal policies applied in the 2010 Corporate Tax return.
- Presentation by the Head of Legal Services of how the Criminal Prevention Programme project is progressing.
- Presentation by the Director of Internal Audit of the monitoring of the degree of execution and the main conclusions of the 2011 Annual Internal Audit Plan.
- Presentation by the Director of Internal Audit of the main activities of the Code of Ethics Committee and of the notification of enquiries or breaches received through the established channels.
- Miscellaneous:
 - Monitoring of legislation on corporate governance.
 - Others.

28 October 2011

Agenda

- Approval of the minutes of the previous meeting of the Audit and Control Committee.
- Presentation by the Chief Financial Officer of the financial information and of the financial statements as at 30 September 2011, as well as of the main risks and contingencies and the provisions needed to cover them.
- Information on contracts undertaken with companies using the PricewaterhouseCoopers name (external auditor).
- Presentation by the Head of Legal Services of how the Criminal Prevention Programme project is progressing.
- Presentation by the Director of Internal Audit of the monitoring of the degree of execution and the main conclusions of the 2011 Annual Internal Audit Plan.
- Presentation by the Director of Internal Audit of the main activities of the Code of Ethics Committee and of the notification of enquiries or breaches received through the established channels.
- Miscellaneous:
 - Monitoring of legislation on corporate governance.
 - Others.

17 December 2011

Agenda

- Approval of the minutes of the previous meeting of the Audit and Control Committee.
- Presentation by the external auditor (PricewaterhouseCoopers) of the external audit preliminary conclusions of the 2011 Consolidated Annual Accounts of the companies in Gas Natural Fenosa.
- Presentation by the Director of Internal Audit of the proposal of the schedule of activities of the Audit and Control Committee in 2012.
- Miscellaneous:
 - Monitoring of legislation on corporate governance.
 - Others.

26 January 2012

Agenda

- Approval of the minutes of the previous meeting of the Audit and Control Committee.
- Presentation by the Chief Financial Officer of the financial information and of the financial statements as at 31 December 2011, as well as of the main risks and contingencies and the provisions needed to cover them.
- Presentation by the Chief Financial Officer of the 2011 Annual Financial Report that covers the Consolidated and Individual Annual Accounts, the Management Report and the selected financial information, prior to the approval and declaration of responsibility for the content thereof by the Board of Directors, together with the draft version of the External Audit Report.
- Presentation by the external auditor (PricewaterhouseCoopers) of:
 - Final conclusions of the external audit of the 2011 Consolidated and Individual Annual Accounts of the companies in Gas Natural Fenosa.
 - Memorandum sent to the auditors of Criteria CaixaHolding, S.A.U. and Repsol, S.A. on the final conclusions of the external audit works on the Consolidated Annual Accounts of Gas Natural Fenosa.
 - Limited review report on the Internal Financial Reporting Control System (SCIIF).
- Presentation by the Chief Financial Officer of the process for tendering the external audit service of the 2012 accounts and thereafter.
- Proposing the appointment of external auditors for 2012 to the Board of Directors, for submission to the General Meeting of Shareholders (Article 32.2, paragraph 2 of the Regulations of the Board of Directors).
- Information on contracts undertaken with companies using the PricewaterhouseCoopers name (external auditor).
- Presentation by the Chief Financial Officer of the group's tax situation report.
- Presentation by the Director of Internal Audit of:
 - Monitoring of the degree of execution and main conclusions of the 2011 Internal Audit Plan.
 - 2012 Internal Audit Plan for approval by the Audit and Control Committee.
- Presentation by the Director of Internal Audit of the main activities of the Code of Ethics Committee and of the notification of enquiries or breaches received through the established channels.
- Presentation by the Director of Internal Audit of the 2011 Annual Report on the Functions and Activities of the Audit and Control Committee.
- Presentation by the Secretary of the Board of:
 - Report on quality and performance of the Audit and Control Committee in 2011.
 - Report on compliance with the Internal Code of Ethics in matters relating to the Securities Market in 2011.
 - Report on compliance of the Regulations of the Board and of its Committees in 2011.
 - 2011 Annual Report on the independence of the auditors (Law 12/2010 of 30 July).
 - 2011 Corporate Governance Report.
- Miscellaneous:
 - Monitoring of legislation on corporate governance.
 - Others.

The main aspects addressed in the Committee meetings were as follows:

Secretary of the Board: legislation on corporate governance in listed companies

One of the Committee's activities was the monitoring of the legislation published during recent financial years relating to listed companies, more specifically:

- Financial System Reform Act, Law 44/2002 of 22 November.
- Law 26/2003 of 17 July, amending the Securities Market Act, Law 24/1988 of 28 July, and the consolidated text of the Public Limited Companies Act, approved by Royal Legislative Decree 1564/1989 of 22 December, with a view to increasing transparency in listed companies.
- Order ECO/3722/2003 of 26 December, on the Annual Corporate Governance Report and other reporting instruments of listed companies and other entities.
- Circular 1/2004 of 17 March, from the National Securities Market Commission, on the annual corporate governance report of listed companies and other entities that issue securities accepted for trading on secondary stock markets and other reporting instruments of listed companies.
- Unified Code on Good Corporate Governance of Listed Companies of 19 May 2006, approved on 22 May 2006 and published by the National Securities Market Commission.
- Law 47/2007 of 19 December, which amends Law 24/1988 of 28 July, governing the Securities Market.
- Royal Decree 1362/2007 of 19 October, which implements Law 24/1988 of 28 July, governing the Securities Market, with regard to the transparency requirements concerning information on issuers whose securities are accepted for trading on an official secondary market or on another regulated market of the European Union.
- Royal Decree 1066/2007 of 27 July, governing takeover bids.
- Law 16/2007 of 4 July, governing reform and adaptation of commercial legislation in accountancy for international harmonisation according to the regulations of the European Union.
- Law 11/2007 of 22 June, governing citizens' electronic access to public services.
- Law 6/2007 of 12 April, governing reform of Law 24/1988 of 28 July, governing the Securities Market, for modification of takeover bids and transparency of issuers.
- Royal Decree 364/2007 of 16 March, amending Royal Decree 685/1982 of 17 March, which implements certain aspects of Law 2/1981 of 25 March, governing regulation of the mortgage market; Royal Decree 1343/1992 of 6 November, which implements Law 13/1992 of 1 June, governing shareholders' equity and consolidated supervision of financial enterprises; Royal Decree 867/2001 of 20 July, governing the legal system of investment service companies; and Royal Decree 1333/2005 of 11 November, which implements Law 24/1988 of 28 July, governing the Securities Market in issues of market abuse.
- Royal Decree 363/2007 of 16 March, which amends Royal Decree 726/1989 of 23 June, on Stock Exchange Governing Entities, Stock Exchange Members, and the collective; Royal Decree 1814/1991 of 20 December, which regulates the official futures and options markets, and Royal Decree 116/1992 of 14 February, governing securities represented through book entries and clearance and settlement of stock market trades.
- Royal Decree 361/2007 of 16 March, which implements Law 24/1988 of 28 July, governing the Securities Market in issues of shareholding in capital of companies that are managed by secondary markets of securities and companies that administer systems for the recording, clearance and settlement of trades.
- Circular 2/2007 of 19 December of the National Securities Market Commission, which approves the notification forms of significant shareholdings held by Directors and executives of operations carried out by the issuer with its own shares, and other forms.
- Circular 4/2007 of 27 December of the National Securities Market Commission, which modifies the form for the Annual Corporate Governance Report of listed companies.

- Circular 1/2008 of 30 January of the National Securities Market Commission, on periodic information from issuers with securities admitted for trading on regulated markets concerning the half yearly financial reports, intermediate management statements and, if applicable, the quarterly financial reports.
- Circular 8/2008 of 10 December of the National Securities Market Commission, which approves the models for the announcements and applications for authorisation of takeover bids.
- Order EHA/1421/2009 of 1 June has led to development of article 82 of Law 24/1988 of 28 July of the Securities Market, on relevant information.
- Circular 4/2009 of 4 November of the National Securities Market Commission, on the communication of relevant information.
- Directive 2009/109/EC of the European Parliament and Council of 16 September 2009, for which the Directives 77/91/EEC, 78/855/EC and 82/891/EEC and the Directive 2005/56/EC have been modified with regards to the obligation of information and documentation in the event of mergers and spin-offs.
- Order Jus/206/2009 of 28 January, for which new models have been approved for the presentation in the Mercantile Register of the annual accounts for the parties under obligation for the publication thereof.
- Law 3/2009 of 3 April on structural modification of trading companies.
- Law 12/2010 of 30 June, amending Law 19/1988 of 12 June, 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, to adjust it to the European regulations.
- Royal Legislative Decree 1/2010 of 2 July, which adopts the consolidated text of the Capital Companies Act; error correction of 30 August 2010.
- Royal Decree-Law 13/2010 of 3 December, on actions in fiscal, labour and deregulation issues to foster investment and the creation of employment.
- Law 2/2011 of 4 March, governing Sustainable Economy.
- The Instruction of 18 May 2011, from the Directorate General of Registers and Notary Affairs, on the incorporation of mercantile companies and the call to the General Meeting, in application of Royal Decree-Law 13/2010 of 3 December.
- The Instruction of 27 May 2011, from the Directorate General of Registers and Notary Affairs, which amends the one of 18 May 2011, on the incorporation of mercantile companies and the call to the General Meeting, in application of Royal Decree-Law 13/2010 of 3 December.
- Law 25/2011 of 1 August, governing partial reform of Capital Companies Act.
- Law 32/2011 of 4 October, which amends Law 24/1988 of 28 July, governing the Securities Market.

As a consequence of the coming into force on 23 December 2010 of Organic Law 5/2010, which amends Organic Law 10/1995 of 23 November, governing the Penal Code, the criminal responsibility of artificial persons in cases in which they do not exercise due control over the systems of individuals subject to their authority was introduced in Spain.

During 2011, the Audit and Control Committee periodically supervised development of the project headed by the Legal Services Area, the Secretary of the Board and the Internal Audit Area (Criminal Prevention Programme Project) which involves reviewing the group's internal control systems to remove or mitigate criminal risks, in order to assess whether these are appropriate and, if necessary, propose improvements to the current control systems and thus mitigate the likelihood of the company incurring criminal liabilities typified in law.

Likewise, the Secretary of the Committee has presented the 2010 and 2011 Corporate Governance Reports and several favourable reports on compliance with the Regulations of the Board of Directors and of its committees and the Internal Code of Conduct in issues concerning the Securities Market, duly confirming that, in the case of the Audit and Control Committee, this has operated with expected normality during 2011, fully exercising its terms of reference without any interference and with complete respect with regard to both current legislation as well as to the organisational and performance rules of the Regulations of the Board of Directors.

Internal Audit Area: supervision of operational risks and effectiveness of internal control

For Gas Natural Fenosa, the Internal Audit is an independent and objective assessment activity. The Internal Audit Area reports in turn to the Audit and Control Committee, the Chairman and the Chief Executive Officer of Gas Natural SDG, S.A.

The Strategic Audit Plan (with a broader time frame of five years) and the Annual Internal Audit Plans are aimed at ensuring ongoing supervision and assessment of the effectiveness of the Internal Control System (including the Internal Financial Reporting Control System, SCIIF) in all sectors of Gas Natural Fenosa, providing a methodical and rigorous approach for the monitoring and improvement of processes 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 Gas Natural Fenosa 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 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 objectives, operating standards, powers and responsibilities of internal auditing, as well as the methodology for drawing up the Annual Internal Audit Plans, are set out in the Internal Auditing Standards.

The Strategic Audit Plan and the Annual Internal Audit Plans are drawn up principally on the basis of the group's Strategic Plan, the risk areas included in the group's Corporate Risk Map, the SCIIF scope matrix, the assessment of the operational risks in each process (operational risk maps), the results of previous years' audits and the proposals from the Audit and Control Committee and from top-tier management.

The Internal Audit Area has established a methodology for assessment of the operational risks based on the conceptual framework of the COSO Report, taking as a point of departure 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.

The Annual Corporate Governance Report sets out the methodology for the identification and control of the group's risks.

In the performance of its activity, the Internal Audit Area constantly verifies compliance with all those policies, regulations and controls of processes (including those laid down in the SCIIF) to ensure they are working properly and for the purpose of preventing and identifying cases of fraud, corruption or bribery. To this end, all of the work review programmes of each of Gas Natural Fenosa procedures include a specific section targeted at verifying the correct design and operation of the foregoing policies, regulations and controls. In accordance with the Strategic Audit Plan, the Internal Control System of Gas Natural Fenosa is fully supervised by the Internal Audit for five years.

More specifically and with regard to the SCIIF, the Internal Audit Area is responsible for supervising:

- The proper design of the SCIIF, based on the basic principles of the model approved by the Audit and Control Committee.
- The efficiency and appropriateness of the control procedures and policies put in place (in full over a period of 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).

The 2011 Corporate Governance Report of Gas Natural SDG, S.A. provides greater detail on the Internal Financial Reporting Control System and the model of supervision set up at Gas Natural Fenosa.

Internal Audit projects have been developed via the Internal Audit corporate Intranet. The aim of this IT application is to improve the effectiveness and efficiency of the 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 have or 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, encouraging the creation of a qualified team of human resources, and promoting internal rotation, training, continuous assessment and professional development within the group.

Furthermore, as a result of the integration of Gas Natural 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.

Gas Natural Fenosa Director of Internal Audit attended the meetings of the Audit and Control Committee for the purpose of the foregoing:

- Presenting the Annual Internal Audit Plan for the Committee's approval.
- The 2011 and 2012 Audit Plans were presented in meetings held on 27 January 2011 and 26 January 2012, respectively.
- Reporting the degree of execution of the Internal Audit Plan and the main conclusions and recommendations included in the Internal Audit Reports.
 - Presenting the level of implementation by the audited units of the corrective measures arising from the Auditor's Reports, in particular those proposed by the Audit and Control Committee.
 - Assessing the effectiveness of the Control System and Assessment of Operational Risks and Internal Control of Gas Natural Fenosa (including the SCIIF).
 - Presenting the proposed reports on the Functions and Activities of the Audit and Control Committee 2010 and 2011.
 - Presenting in conjunction with the Chief Financial Officer how the Framework Review Project recommended by the CNMV on the Internal Financial Reporting Control System (SCIIF) is progressing.
 - Presenting in conjunction with the Head of Legal Services how the Criminal Prevention Programme Project is progressing.

- Monitoring, in his/her role as spokesperson, the aspects addressed in each of the committee meetings and supporting the committee members in carrying out their duties.

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: industrial 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, 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 process 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.

Likewise, given the organisational position of independence and the transverse scope of operations of the Internal Audit function, its management has led or taken part in other projects of collaboration, research or consultancy.

External Audit Area

The external auditor of the Consolidated and Individual Annual Accounts of Gas Natural Fenosa attended the meetings of the Audit and Control Committee in order to ensure his/her autonomy and be informed of the conclusions reached on his/her work in the appropriate manner and with sufficient time (prior to the Board of Directors' formulation of the Half Yearly Financial Report and the Annual Financial Report that covers the Annual Accounts, the Management Report and the selected financial information by the Board of Directors). Specifically, the external auditor has submitted:

- The planning of his/her external audit work, specifying the areas of greater risk on which to focus his/her work, and compliance with the Technical Audit Regulations.
- The main conclusions of his/her audit work on the half yearly and annual financial statements, including recommendations to improve the SCIIF.
- The Consolidated and Individual Annual Accounts Audit Report of Gas Natural Fenosa.
- Limited review report on the review of the Internal Financial Reporting Control System (SCIIF).
- Report and conclusions on the audit or accounting review tasks concerning the financial statements belonging to Gas Natural Fenosa, carried out in compliance with the regulatory and consolidation requirements of the group, Criteria CaixaHolding, S.A.U. and Repsol, S.A.

Special mention must be made of the analysis, in 2011, of all the proposals for the hiring of services with the firm PricewaterhouseCoopers (external auditor)

other than the audit service, to ensure that they are not incompatible with its auditing work, thus avoiding the questioning of its independence, in accordance with the limitations provided in Law 44/2002 of 22 November 2002 on the Financial System Reform Act.

As a result of said analysis and in accordance with the provisions of Law 12/2010 of 30 July, the Committee meeting of 27 January 2012 issued a report in which it declared that, in its opinion, the auditors have proceeded in a completely independent way in the provision of their services, regarding the work typical of an accounts auditor and the services provided in addition to those required by law.

The additional services provided by the auditors have corresponded to matters related mainly to fiscal, legal and business issues and have been required as a result of their uniqueness and complexity. The fees billed in 2011 by the audit service and related fees have totalled 4,184,013 euros and those corresponding to consultancy services have totalled 1,199,135 euros.

In its meetings of 27 January 2011 and 26 January 2012, the Audit and Control Committee made a proposal to the Board of Directors (for subsequent submission to the General Meeting of Shareholders) for the selection and appointment of the external auditors for 2011 and 2012, respectively, pursuant to Article 204 of the Capital Companies Act. Said proposals for the selection and appointment were made according to the results of the open procedure for the selection of the external auditor carried out in 2007 and 2011, which included four accounts auditing firms of international prestige and recognition. The General Meeting of Shareholders held on 14 April 2011 ratified the appointment for the year 2010 and the General Meeting of Shareholders' ratification for the appointment corresponding to the year 2012 is pending.

Financial Area

The Chief Financial Officer attended the meetings of the Audit and Control Committee for the purpose of the following:

- Presenting the financial information, the annual accounts and the monthly, quarterly and half yearly financial statements, as well as accounting or financial information required by the National Securities Market Commission or any other regulatory body, ensuring transparency and accuracy of the information provided and stating the internal control systems and, where appropriate, the accounting criteria applied.
- Reporting on the main accounting procedures and processes employed in compiling the economic and financial information and the financial statements.
- Reporting on the main risks and contingencies and their cover by means of provisions.
- Reporting on the group's fiscal policy and the main fiscal policies applied in the Corporate Tax returns of 2010 and 2011.
- Reporting on the procedure for selecting the external auditor for 2011 and 2012.
- Reporting on whether the external audit programme has been carried out in accordance with the contracted conditions and legal requirements.
- Reporting on the review project of the Internal Financial Reporting Control System (SCIIF).

The year 2011 has also seen 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 in June 2010, which were pending implementation or under development in the group. The definitive implementation of the aforementioned improvements is scheduled for 2012.

The 2011 Corporate Governance Report of Gas Natural SDG, S.A. provides greater detail on the Internal Financial Reporting Control System and the model of supervision set up at Gas Natural Fenosa.

- Reporting on how the key controls of the SCIIF are certified by the business and corporate units responsible for these, as well as the improvement action plans as a result of the certification procedure.
- Reporting on the contracts signed with companies using the PricewaterhouseCoopers name (external auditor) in order to ensure their independence from the perspective of national regulations (Financial System Reform Act, Law 44/2002 of 22 November 2002) and Section 2001 of the Sarbanes-Oxley Act.

Corporate Risk Map of Gas Natural Fenosa

The Chief Finance Officer provided information on the risk control policies and systems at Gas Natural Fenosa, as well as relevant aspects concerning the drafting, definition and conclusions of the Corporate Risk Map of Gas Natural Fenosa, emphasising the following aspects:

- Definition and characteristics of the main risk factors.
- New features in the 2011 Corporate Risk Map.
- Impact variables.
- Main measurement methodologies used for each kind of risk.
- Qualitative, quantitative and probable severity of the risk occurring.
- Defined controls and their effectiveness.

All of which is intended to establish basic guidelines for action in questions of risk and to reduce exposure in those activities with a greater likelihood of residual risk for the group.

The 2011 Annual Corporate Governance Report details the Risk Management System of Gas Natural Fenosa.

Code of Ethics Committee of employees of Gas Natural Fenosa

The Code of Conduct⁽¹⁾ of Gas Natural Fenosa was approved on 31 March 2005 by the Board of Directors of Gas Natural SDG, S.A. and subsequently presented at the General Meeting of Shareholders on 20 April 2005.

The Code of Ethics Committee of Gas Natural Fenosa was set up in July 2005, with the main duties of:

- Promoting the distribution and content of the Code of Ethics.
- Providing a communication channel to all employees for the purpose of gathering consultations and notifications of code breaches.
- Facilitating the solution of disputes concerning the application of the Code of Ethics.

To enable the Code of Ethics Committee to carry out its duties in an objective and independent manner, it is chaired by the Internal Audit Area and is made up of representatives from the different areas involved in monitoring the compliance with the Code of Ethics.

The Code of Ethics Committee informs, at least on a quarterly basis, the Audit and Control Committee and the Management Committee of its activity through the Internal Audit Area.

Code of Ethics Local Committees have also been set up, subordinated to the Code of Ethics Committee, in some

of the countries where Gas Natural Fenosa operates (Italy, Argentina, Brazil, Colombia, Mexico, Panama, Nicaragua and Moldavia), for the purpose of facilitating distribution of the content of the code within these spheres. The other areas are managed by the Code of Ethics Committee itself.

The Code of Ethics is available in nine different languages. Gas Natural Fenosa has reserved a specific space for the code in the corporate Intranet, in which practical information is offered on different issues thereof.

Among the main tasks developed by the Code of Ethics Committee, it is worth mentioning publicity actions of the contents of the Code of Ethics aimed at all the employees of the new group resulting from the integration of Gas Natural and Unión Fenosa, and the supervision of the consultation and notification procedure of the Code of Ethics.

This procedure corresponds to an open channel of communication between the Code of Ethics Committee and all employees of Gas Natural Fenosa to deal with the issues concerning the code. This channel enables all group employees, suppliers and collaborating companies to obtain or provide information on any issue concerning the Code of Ethics. The said Gas Natural Fenosa collectives can therefore address the Code of Ethics Committee to resolve any doubts they may have with regard to the code. They may also get in contact with the Code of Ethics Committee to provide information on conduct that is contrary to the principles of the Code of Ethics and do so in good faith, confidentially and without the fear of reprisals.

All communications between the Code of Ethics Committee and Gas Natural Fenosa employees are confidential, pursuant to the restrictions set forth in Organic Law 15/1999 of 13 December, governing the Protection of Personal Data. To this end, the Chairman of the Code of Ethics Committee is the sole member, at the initial stage, authorised to be aware of all the information from all the enquiries and notifications received from the group through the consultation and notification procedures. Notifications concerning fraud, auditing or faults in accounting processes or internal control are likewise sent directly to the Audit and Control Committee. In 2011, 45% of the notifications received were related to alleged fraud, none of which had any significant impact.

Special mention must be made of the fact that the Code of Ethics Committee has proposed several updates to the contents of the code, which were finally approved by the Audit and Control Committee and confirmed by the Board of Directors.

As a result of the foregoing, the Code of Ethics was amended by agreement of the Board of Directors, dated 25 January 2008, 27 February and 19 May 2009, in order to update it and incorporate the commitments acquired by Gas Natural Fenosa regarding the good governance and corporate responsibility from 2005 (date the Code of Ethics was approved) and likewise to incorporate the best international practices in ethical and social issues and to comply with the regulatory demands derived from the integration of Gas Natural Group and Unión Fenosa.

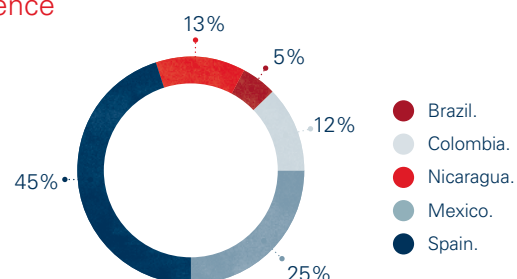
(1) From February 2009 referred to as the Code of Ethics.

Lastly, in 2011, the Declaration of Compliance with the Code of Ethics of Gas Natural Fenosa process was launched, according to which all group employees must repeat their declaration of the fact that they are aware of, understand and comply with each of the guidelines for conduct provided in the Code of Ethics.

A list of the main activity indicators of the Code of Ethics Committee is given hereunder:

Correspondence received **40**

Geographical origin of correspondence



Code of Ethics chapter to which correspondence refers (%) **2011**

Respect for the individual	27
Loyalty to the company and conflicts of interest	25
Corruption and bribery	22
Professional development and equal opportunities	10
Respect for law, human rights and ethical values	6
Use and protection of assets	6
Customer relations	2
Relations with collaborators and suppliers	2
Total	100

Average time for resolving correspondence (days) **2011** **45**

Number of meetings of the Code of Ethics Committee **2011** **8**

Attendance rate for the Code of Ethics Committee (%) **84**

Number of meetings of the Code of Ethics Local Committees **2011** **20**

Attendance rate for the Code of Ethics Local Committees (%) **94**

Registered Office

Plaça del Gas, 1
08003 Barcelona
Tel.: 902 199 199

Madrid Head Office

Avenida de San Luis, 77
28033 Madrid
Tel.: 902 199 199

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