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## ANNEX 1

<b>ANNUAL REPORT ON REMUNERATION OF DIRECTORS OF LISTED COMPANIES</b>
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### ISSUER IDENTIFICATION DATA

<b>DATE OF END OF REFERENCE YEAR</b>	31/12/2013
<b>TAX ID NUMBER</b>	A-08015497
<b>COMPANY NAME</b>	
GAS NATURAL SDG, S.A.	
<b>DOMICILE</b>	
PLAZA DEL GAS, 1, BARCELONA	

**ANNUAL REPORT ON REMUNERATION FOR DIRECTORS OF LISTED COMPANIES**

**A. COMPANY REMUNERATION POLICY FOR THE CURRENT YEAR**

**A.1. Describe the Company's remuneration policy. Include the following information in this section:**

- **General principles and fundamentals of the remuneration policy.**
- **Most significant changes in the remuneration policy with respect to the previous year and changes made during the year to the conditions for the exercise of previously awarded options.**
- **Criteria used and composition of groups of comparable companies whose policies have been considered in establishing the company's remuneration policy.**
- **Relative importance of variable remuneration items in comparison with fixed items and the criteria used to determine the components of the directors' remuneration package (remuneration mix).**

**Describe the remuneration policy**

As a general rule, the Company's goal when establishing remuneration policies is to generate value for employees and the Group and to align their interests with those of the shareholders, while ensuring transparency and competitiveness.

The general principles of the remuneration policy for directors are approved and reviewed by the Appointments and Remuneration Committee and by the Board of Directors in order to maintain the Company's remuneration policy in line with best practices in the market.

There were no significant changes in remuneration policy with respect to the previous year. Director remuneration for performing the duties of collective oversight and decision-making is based upon the following principles:

- It should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, without compromising their independence.
- It should be based on market criteria, in coherence with the remuneration established for directors of listed companies that are comparable in size to GAS NATURAL SDG, S.A.

In accordance with the provisions of article 44 of the Articles of Association, the remuneration that the company may allocate each year to the Board of Directors may not exceed 4% of earnings after the following have been deducted: general expenses, interest, taxes, and any other writedowns and amortisations, after a dividend of at least 4% has been allocated to shareholders.

Directors collect fixed remuneration for performing the collective oversight and decision-making functions; in accordance with the principles and criteria set out above, that remuneration takes account of the level of responsibility inherent in those functions while

seeking to be competitive with the remuneration for equivalent functions at institutions that are comparable to Gas Natural Fenosa.

The amount is set each year by the Board of Directors based on a proposal from the Appointments and Remuneration Committee.

Additionally, as detailed in section A.3, the remuneration policy for the Chief Executive Officer for performing his executive functions conforms to the general executive remuneration policy in the Gas Natural Fenosa Group in order to ensure a balance between the various components; it includes the following, inter alia:

- Fixed remuneration: this is based on the level of responsibility while seeking to be competitive with remuneration paid for the current functions at entities that are comparable to Gas Natural Fenosa in terms of capitalization, size, shareholder structure and international scope.
- Variable remuneration covering one or more years: this accounts for a significant proportion of total remuneration and is linked to attainment of preset specific quantifiable objectives that are directly aligned with creating shareholder value.
  - Annual variable remuneration is based on the attainment of objectives set out in the Management by Objectives Plan and on the Company's earnings; in the case of the Chief Executive Officer, they focus mainly on fulfillment of the budget approved at the beginning of the year by the Board of Directors.
  - Multi-year variable remuneration is based on attainment of objectives aligned with the key indicators set out in the Company's Strategic Plan.
- Providential systems: The Chief Executive Officer's remuneration package also includes providential components: group savings insurance, pension plan and life insurance. These instruments are detailed in section A.5 on this report.
- Benefits: additionally, in line with the principles governing the Chief Executive Officer's remuneration policy, his remuneration package also includes health insurance and a subsidy for gas and electricity. These benefits are detailed in section A.10 of this report.

Regarding the performance of duties other than the collective oversight and decision-making functions of the Board, the fixed and variable (annual and multi-year) remuneration collected by the Chief Executive Officer in 2013 represent the following percentages of his total monetary compensation (fixed reiteration, board attendance fees, and annual and multi-year variable remuneration):

Mr. Rafael Villaseca Marco

Fixed remuneration 32%

Variable remuneration (annual and multi-year) 60%

**A.2 Information on the preparatory work and decision-making process followed to determine the remuneration policy and role, if any, performed by the remuneration committee and other supervisory bodies in shaping the remuneration policy. This information should include any mandate given to the Remuneration Committee, its composition and the identity of the external consultants whose services have been used to define the**

**remuneration policy. Also describe the category of any directors who participated in the definition of the remuneration policy.**

<b>Describe the process for determining the remuneration policy</b>
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The Appointments and Remuneration Committee is the body entrusted with proposing director remuneration policy to the Board and with ensuring that remuneration is transparent.

Article 22 of the Regulation of the Board of Directors states as follows:

“1.-The position of director of Gas Natural SDG, S.A. will be remunerated as provided in the Articles of Association, based on a report issued by the Appointments and Remuneration Committee, as provided in article 31 of this Regulation.

The Appointments and Remuneration Committee will make a proposal to the Board as to the criteria it considers to be appropriate for fulfilling the aims of this article; the Board, at its sole discretion, will decide on whether to approve the criteria and as the definitive distribution of the overall amount, within the limits established for this purpose by the Articles of Association. Each year, the Board may decide, with the frequency it considers appropriate, to make interim payments to each director for the work done in the period.

2. The Board must define the compensation policy for directors, determining (i) the amount of the fixed components, detailing those that correspond to membership of the Board and of its Committees, and (ii) any variable components, including a comparison with the amount of fixed compensation.

Except where duly justified, only executive directors may be remunerated in the form of shares, stock options or instruments referenced to the share price.

3.-The remuneration paid to directors must be transparent. The Notes to Annual Accounts, as an integral part of the Annual Accounts, will contain such information as is considered appropriate about the remuneration collected by each member of the Board of Directors.”

Complementing that, article 31.2 states as follows: "The Appointments and Remuneration) Committee is entrusted with analysing and making proposals on the following matters:Proposing criteria for director remuneration and ensuring that it is transparent."

According to article 31.2 of the Regulations of the Board of Directors, with regard to the analysis and proposal functions of the Appointments and Remuneration Committee:

“Article 31.- Appointments and Remuneration Committee.

“[...]

2.-The Committee is entrusted with analysing and making proposals on the following matters:

Proposing criteria for director remuneration and ensuring that it is transparent.

2. Proposing the general policy for remunerating Gas Natural Fenosa Group executives.

[...]"

With regard to the composition of the Appointments and Remuneration Committee, article 31.1 of the Regulation of the Board of Directors states as follows: "The Appointments and Remuneration Committee will comprise at least three and at most five directors, appointed by the Board of Directors from among the external directors, having regard to their knowledge and skills.

Members of this Committee will be removed when they cease to be directors, when the Board of Directors decides, or when three years have elapsed since their appointment, in which case they may be reappointed.

Among the members of the Committee, the Board of Directors will select the Chairman of the same who will not have a casting vote. The Secretary of the Committee will correspond to the Secretary of the Board of Directors."

Accordingly, the composition of the Committee is as follows:

Position	Name	Status
Chairman	Mr. Miguel Valls Maseda	Independent
Member	Mr. Santiago Cobo Cobo	Independent
Member	Mr. Antonio Brufau Niubó	Proprietary
Secretary	Mr. Manuel García Cobaleta	Secretary (not a director)

All members of the Committee have extensive experience and knowledge that are commensurate with the Committee's duties.

Although article 31.3 of the Regulation of the Board Of Directors provides that the Committee must meet at least 4 times per year, in fact it met 9 times in 2013 (attendance rate: 81.48%).

Regarding director remuneration for 2014, the Committee made a proposal at a meeting on 31 January 2014 and it was approved by the Board that same day.

Regarding the Chief Executive Officer's remuneration for executive functions, and in order to approve the remuneration for 2014, the Appointments and Remuneration Committee made a proposal at a meeting on 28 February 2014 which was approved by the Board at a meeting on that same day together with the remuneration policy for the entire executive team.

The Appointments and Remuneration Committee was advised by the Company's Human Resources Department and received external advice from Peoplematters, Towerswatson, HayGroup and The Boston Consulting Group, global consulting firms which have conducted benchmark surveys of remuneration at companies that are

comparable to Gas Natural Fenosa in terms of capitalization, size, shareholder structure and international scope.

**A.3 Indicate the amount and nature of the fixed components, with a breakdown, where necessary, of the remuneration for the performance of senior management functions by the executive directors, the additional remuneration for acting as chairman or member of any board committee, per diem payments for participation in meetings of the Board and its committees and other fixed payments for directorship, and an estimate of the fixed annual remuneration to which they give rise. Identify other benefits not paid in cash and the parameters on which they are based.**

<b>Describe the fixed components of remuneration</b>
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Remuneration for the directors is regulated in article 44 of the Articles of Association (hereinafter "AA"): The current wording of article 44 AA was approved by the Shareholders' Meeting on 14 April 2011.

The remuneration collected by the members of the Board of Directors did not reach the limit established in article 44 AA.

Remuneration for belonging to the company's governing bodies is a fixed amount per annum. Directors did not receive attendance fees.

On 28 February 2014, the Board of Directors decided, based on a proposal by the Appointments and Remuneration Committee, to maintain remuneration at the same amount as the previous year; in fact, remuneration has been unchanged since 2007.

In 2014, as in 2013, directors will not collect any additional amounts for membership of the boards of investee companies.

The members of the Board of Directors will not collect any share in profits, bonus or indemnity and they have not been granted any loans or advances. They will not receive shares or stock options during the year, and they do not have any unused options.

The Chief Executive Officer is subject to the criteria set out in the framework of the Remuneration Policy for the Company's Executive Personnel, as follows:

- (a) Remunerate with a comprehensive combination of monetary and nonmonetary compensation that recognizes and respects the wide range of needs and expectations related to the professional situation, while also serving as a tool for communicating the organization's goals and the business objectives.
- (b) Align the executive with the Group's objectives in the various time horizons so as to incentivize sustainability in earnings.
- (c) Recognize the executive's ability to create value due to his impact on Group earnings and his competencies and personal profile, for which reason he is assigned specific remuneration.

- (d) Foster a culture of commitment to the Group's objectives in which both personal and team contributions are vital.
- (e) Systematically evaluate, using uniform criteria, the person's professional development, the outcome of his actions, and the degree to which he adapts to the competencies required at any given time.
- (f) Remunerate both fairly and competitively. "Fairly" in recognition of the responsibilities and critical nature of the position. "Competitively" by adopting a flexible position vis-à-vis the market while adapting to specific features so as to be able to attract and retain the best professionals.
- (g) Guarantee the application of the set of Remuneration and Compensation Principles, which is uniform and transparent for all, in order to achieve objective management.
- (h) Regularly review remuneration systems and progress and, as necessary, rectify, amend or increase it as a function of earnings, feedback from the employees involved and the capacity to motivate the workforce as a whole, particularly the best employees.

Additionally, the Chief Executive Officer's remuneration for his executive functions is aligned with the general principles of remuneration policy for the Company's executives, which is summarized below:

- (a) Overall remuneration should be competitive with comparable energy companies; to this end, energy companies and multi-sector companies (both in the IBEX35 and others) that are comparable in terms of capitalisation, size, shareholder structure and international scope were considered.
- (b) There should be annual variable component linked to attainment of measurable objectives aligned with shareholders' interests and with oversight and measurement systems which determine the variable remuneration to be received as a function of evaluations which measure the performance on three levels: individual, the business unit, and the entity as a whole. The main benchmark for this purpose is the Company's annual budget.
- (c) Multi-year variable remuneration systems should be established which encourage attainment of objectives over time. The main benchmark for this purpose is the Company's Strategic Plan.

On 28 February 2014, based on a proposal by the Appointments and Remuneration Committee, the Board of Directors approved the amount to be collected by the Chief Executive Officer in 2014 as fixed remuneration for executive functions other than collective oversight and decision-making, as 1,063 thousand euro.

#### **A.4 Describe the amount, nature and main characteristics of the variable components of the remuneration systems.**

**Specifically,**

- **Detail the amount, date of approval, date of implementation, effective period and the main characteristics of the remuneration plans of which the directors are beneficiaries. For plans involving stock options and other financial instruments, the general features of the plan must include**

information on the conditions for exercising such options or financial instruments for each plan.

- Indicate any payments made under profit-sharing or bonus schemes, and the reason why they were granted.
- Detail the basic parameters and grounds for any annual bonus scheme.
- The types of directors (executive directors, proprietary external directors, independent directors or other external directors) that are beneficiaries of remuneration systems or plans that incorporate variable remuneration.
- The foundations of such variable remuneration systems or plans, the criteria chosen to assess performance as well as the components and methods for determining whether or not the criteria have been met, and an estimate of the total amount of variable remuneration that would result from the current compensation plan, as a function of the degree to which targets or benchmarks have been met.
- Where appropriate, give information on any deferral periods or deferral of payment established and/or retention periods for shares or other financial instruments.

<b>Describe the variable components of the remuneration systems</b>
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As indicated earlier, of the Company's directors, only the Chief Executive Officer collects variable remuneration. The purpose of this remuneration is to enhance the Chief Executive Officer's commitment and motivate better performance of his functions, aligning them with the long-term interests of the company and its shareholders.

It is configured into programmes with different objectives and time horizons:

Annual variable remuneration:

The annual variable remuneration is assessed each year to reward the attainment of preset specific quantifiable objectives related to financial, efficiency and growth variables, and to matters of quality and safety, and is directly linked to attainment of the objectives set out in the Management by Objectives Plan. It is accrued once, after year-end.

The calculation of the Chief Executive Officer's annual variable remuneration for 2013, which will be paid in the first quarter of 2014, took account of the indicators and weightings established by the Board of Directors at the proposal of the Appointments and Remuneration Committee. Specifically, in 2013 the following parameters were considered in order to determine the degree of attainment of the objectives:

- Economic Objectives, which are weighted 62% of total objectives and include the following, all with reference to the figures approved in the 2013 Budget approved by the Board of Directors in January 2013:
  - Attainment of the EBITDA approved for 2013
  - Attainment of the Net Profit approved for 2013
  - Attainment of the ratio between Working Capital and Revenues approved for 2013.



- Efficiency Objective, with a 10% weighting, defined as the following ratio:

(Operating Profit + Depreciation and Amortization + Outside Work, Supplies and Services + Personnel Expenses)

(Outside Work, Supplies and Services + Personnel Expenses)

This indicator corresponds conceptually to partial productivity of the controllable expenditure items "Outside Work, Supplies and Services" (OWSS) and "Personnel Expenses" (PE). It measures the capacity of a company that uses OWSS and PE, among other resources, to generate value with its operations that is equivalent to Operating Profit plus recovery of the expenses on Depreciation and Amortization plus OWSS and PE. It is expressed in terms of the value so defined as a multiple of the OWSS + PE.

- Business Growth Objectives, with a 20% weighting, as follows:
  - Attaining the target net increase in the number of gas connection points at the group level.
  - Attaining the target LNG sales in international markets.
- Quality and Safety Objectives, weighted 8%, as follows:
  - Attain the desired position in the index of fulfilment of expectations with respect to competing companies in Spain.
  - Attain the desired level of customer satisfaction among gas and electricity customers in Latin America.
  - Reduce the accident level in terms of the frequency of accidents leading to days lost.

The objectives for 2014 will be approved by the Appointments and Remuneration Committee, like the 2013 objectives. Specifically, the objectives for 2013 were approved by the Appointments and Remuneration Committee on 26 February 2013 for the 2013 financial year.

The objectives for 2014 when it relates to fulfillment of the budget approved by the Board of Directors at a meeting on 31 January 2014.

The amount of Annual Variable Remuneration for 2013 to be paid in the first quarter of 2014, once the degree of attainment of the objectives for 2013 has been approved, is 1,109 thousand euro.

The objectives for 2013 were attained 106.94% based on the following targets and weightings:  
Economic Objectives 62%, Efficiency Objectives 10%, Growth Objectives 20% and Quality and Safety Objectives 8%.

Multi-year variable remuneration:

Since 2004, the Company has established monetary incentive programmes for all executive staff which run for three-year periods and are linked to attainment of medium-term objectives so as to retain and motivate key personnel connected with those objectives and to maximize their alignment with the value of Gas Natural Fenosa on a sustained basis over time. Those programmes were approved by the Board of Directors of Gas Natural SDG at the proposal of the Appointments and Remuneration Committee. The beneficiaries of these programmes are the Company's executives and they apply equally to the Chief Executive Officer.

CONTINUES IN SECTION E.

**A.5 Describe the main features of the main long-term savings systems, including retirement and any other survivor benefit, partly or wholly funded by the company, whether endowed internally or externally, with an estimate of their amount or annual equivalent cost, indicating the type of plan, whether defined contribution or defined benefit, the conditions for the vesting of the directors' economic rights and their compatibility with any type of severance payment for early cancellation or termination of the contractual relationship between the company and the director.**

**Also indicate payments made to any director's defined-benefit pension scheme; or any increase in the director's vested rights when linked to contributions to defined-benefit schemes.**

<b>Describe the long-term saving systems</b>
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Among the company's directors, only the Chief Executive Officer is the beneficiary of providential schemes from Gas Natural Fenosa.

The providential schemes arranged for the Chief Executive Officer are as follows:

- **Group life insurance:** designed as a defined-benefit scheme financed in the form of group insurance that conforms to the current legislation on pension commitments, with a return determined and guaranteed by the insurer.

The participant is entitled to collect a number of savings contributions upon retirement. To all effects, those contributions will be governed by the rules of the Plan established for this purpose. Each year, Gas Natural SDG pays an amount equivalent to 20% of the Chief Executive Officer's fixed remuneration into that scheme.

The contingencies covered by the Plan are: retirement, death prior to retirement and permanent disability prior to retirement.

Where the participant's employment relationship with the company is terminated for any reason other than the contingencies covered by the Plan, the participant's

rights will depend on the reason for termination; nevertheless, in no event will the Company's contributions to the Plan be counted for the purposes of calculating indemnity.

- Pension Plan: A defined-contribution plan for retirement. To all effects, these contributions will be governed by the rules of the Gas Natural Fenosa Joint Pension Plan.
- Additionally, the Chief Executive Officer is the beneficiary of an insurance policy arranged by Gas Natural SDG to cover debt, permanent total disability, or severe disability, prior to retirement.

Contributions to pension plans and group insurance policies amounted to 270 thousand euro in 2013 and will amount to 274 thousand euro in 2014. Additionally, life insurance premiums to be paid in 2014 are estimated to amount to 45 thousand euro (44 thousand euro in 2013).

**A.6 Indicate any indemnity payments agreed or paid in the event of termination as a director.**

<b>Describe the indemnity payments</b>
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Among the company's directors, only the Chief Executive Officer is entitled to indemnity in the event of termination; there is no indemnity for the other directors.

The Chief Executive Officer's contract includes a clause establishing indemnity amounting to three times the annual compensation in certain events of termination (except in the event of very serious and wilful dereliction of professional duties) and an indemnity equivalent to the annual compensation for a post-contractual non-compete clause lasting one year.

**A.7 Describe the conditions with which contracts with executive directors in senior management positions must comply. Among other aspects, give information on the term, limits to the amounts of indemnity, permanence clauses, notice periods and payments in lieu of notice, and any other clauses regarding hiring bonuses, as well as severance payments or golden handshakes for early cancellation or termination of the contractual relationship between the company and the executive director. Include, inter alia, non-compete, exclusivity, permanence or loyalty covenants or agreements and any governing non-competition after termination.**

<b>Describe the conditions of executive directors' contracts</b>
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The Chief Executive Officer's contract term is indefinite and the contract provides monetary compensation for the event of termination provided that it does not occur as a result of very serious and culpable breach of the professional obligations.

The indemnity is set at three times the annual compensation except in the event of very serious and culpable breach of the professional obligations giving rise to serious harm to the Company.

Additionally, there is a post-contractual non-compete clause establishing indemnity in the amount of one year's remuneration. The post-contractual non-compete clause has a term of one year.

The contract provides for one month's advance notice except in the event of *force majeure*, an exclusivity clause in the performance of the functions, and a confidentiality agreement that covers both the contractual and post-contractual periods. Upon termination, any documents and objects related to the business that are still in the possession of the Chief Executive Officer must be returned to the Company.

**A.8 Describe any additional remuneration paid to directors for services rendered other than those inherent to their directorship.**

**Describe supplementary remuneration items**

None.

**A.9 Indicate any remuneration granted in the form of advances, loans and guarantees, indicating the interest rate, key features and any amounts finally repaid, as well as the obligations assumed by way of guarantee.**

**Describe the advances, loans and guarantees granted**

The members of the Board of Directors have not received indemnities nor have they been granted loans or advances.

**A.10 Describe the main features of remuneration in kind.**

**Describe any remuneration in kind**

The Chief Executive Officer's compensation package includes the following remuneration in kind by application of the Company's executive remuneration policy:

- Subsidised utilities: a subsidy on the gas and electricity tariffs.
- Healthcare: a group policy providing reimbursement of expenses and allowing free choice of doctor and hospital.

**A.11 Indicate the remuneration accruing to the director by virtue of payments made by the listed company to a third party in which the director provides**

services, when such payments are intended to remunerate the director's work in the company.

**Describe the remuneration accruing to the director by virtue of payments made by the listed company to a third party in which the director works.**

None.

**A.12 Any remuneration other than those listed above, regardless of their nature or the group undertaking that pays it, especially when it may be considered a related-party transaction or when its payment may distort the true and fair view of the total remuneration received by the director.**

**Describe other remuneration items**

There are no other remuneration items.

**A.13 Describe the actions taken by the company in connection with the remuneration system to reduce excessive risk exposure and match it to the company's long-term goals, values and interests. Include references to any: measures designed to ensure that the remuneration policy is aligned with the company's long-term performance; measures to provide an appropriate balance between fixed and variable compensation; measures taken in relation to those categories of staff whose work has a material impact on the undertaking's risk profile; clawback formulae or clauses to claim back performance-based variable remuneration when it was paid out on the basis of data that is subsequently proven to be inaccurate; and measures designed to prevent conflicts of interest, where applicable.**

**Describe actions taken to reduce the risks**

As detailed above, as a general principle in establishing remuneration policies, the company seeks to generate value for employees and for the group and align them with the interests of shareholders while ensuring that the remuneration policy is transparent and competitive.

Applying that principle to the Chief Executive Officer's variable remuneration (both annual and multi-year) enhances his commitment to the Company and spurs him to better performance of his functions, in line with the interests of the Company and its shareholders.

Annual variable remuneration:

The annual variable remuneration is established each year toward the attainment of preset specific quantifiable objectives related to financial, efficiency and growth variables, and to matters of quality and safety, and is directly linked to attainment of the objectives set out in the Management by Objectives Plan.

The objectives established for the Chief Executive Officer relate mainly to fulfilling the Budget approved by the Board of Directors for the year.

Multi-year variable remuneration:

Tied to attainment of medium-term objectives in order to retain and motivate key personnel in connection with those objectives and align them with maximising the value of Gas Natural Fenosa on a sustained basis over time.

Each plan is tied to fulfilment of a number of strategic objectives and commitments set out in the Group's Strategic Plan in force at any given time which are directly aligned with shareholders' interests, insofar as they contribute to generating value for the Company. The objectives and the variables to measure achievement are set beforehand by the Board of Directors after consultation with the Appointments and Remuneration Committee.

Within the economic objectives, the variables used refer to optimization and financial discipline and to the creation of shareholder value.

Among the indicators used to determine the degree of achievement of the Medium Term Remuneration Programmes for the years 2011- 2013, 2012-2014 and 2013-2015 are some related to the Company's EBITDA and others referenced to the performance of the Company's market capitalization.

The metrics for variable remuneration, both annual and multi-year, are detailed in section A.4.

## **B REMUNERATION POLICY PROJECTED FOR FUTURE YEARS**

**B.1 Give a general forecast of the remuneration policy for future years, describing the policy with respect to: fixed components and variable remuneration and per diem payments, the relationship between remuneration and performance, providential systems, conditions of executive directors' contracts and forecast regarding the most significant changes in remuneration policy with respect to previous years.**

<b>General forecast of the remuneration policy</b>
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The principles of moderation, compensation for dedication, and coherence with earnings performance that guide remuneration policy will continue to be applied in the future unless the competent bodies of the company decide to change them on the basis of circumstances, whether regulatory, economic or otherwise.

To this end, the Board of Directors and the Appointments and Remuneration Committee regularly review the principles of remuneration policy as part of their function.

- B.2 Describe the decision-making process for shaping the remuneration policy planned for future years, and the role, if any, of the remuneration committee.**

**Describe the decision-making process for shaping the remuneration policy**

The process was described above and no significant changes are envisaged in the decision-making process or in the role of the Appointments and Remuneration Committee.

- B.3 Describe the incentives created by the company in the remuneration system to reduce excessive risk exposure and match it to the company's long-term objectives, values and interests.**

**Describe the incentives created to reduce risks**

Already detailed in section A.13. In particular, since the medium-term remuneration plans take a longer view, they contribute to reducing exposure to objective risks and instead contribute to the pursuit of targets that are sustainable over time.

**C. OVERALL SUMMARY OF HOW THE REMUNERATION POLICY WAS APPLIED DURING THE FINANCIAL YEAR OF REFERENCE**

- C.1 Give a brief description of the main features of the structure and remuneration items of the remuneration policy applied during the last financial year, with a breakdown of the individual remuneration accrued by each of the directors listed in Section D of this report, and a summary of the resolutions passed by the board to implement those items.**

**Describe the structure and remuneration items of the remuneration policy applied during the year**

As described above, since there were no material changes in the remuneration policy, the main characteristics and concepts applied during the reporting year coincide with the general principles and foundations of remuneration policy as detailed in section A.

1. The remuneration for the members of the Board of Directors was not changed in 2013; consequently, it has not varied since 2007.
2. The fixed remuneration for the Chief Executive Officer for performing executive functions did not change in 2013 with respect to 2012.
3. The annual variable remuneration for the Chief Executive Officer paid in 2014, corresponding to 2013, represents 34% of the total remuneration for 2013.

4. The multi-year variable remuneration for the Chief Executive Officer paid in 2014, corresponding to the 2011-2013 plan, represents 26% of the total remuneration for 2013.
5. The members of the Board of Directors did not receive any advances, loans or guarantees and there is no share-based remuneration system.

The other components remained in line with the previous years.



#### D. INDIVIDUAL REMUNERATION ACCRUED BY EACH DIRECTOR

<b>Name</b>	<b>Type</b>	<b>Accrual period for 2013</b>
SALVADOR GABARRÓ SERRA	Executive	From 01/01/2013 to 31/12/2013.
ANTONIO BRUFAU NIUBÓ	Proprietary	From 01/01/2013 to 31/12/2013.
RAFAEL VILLASECA MARCO	Executive Director	From 01/01/2013 to 31/12/2013.
XABIER AÑOVEROS TRIAS DE BES	Independent	From 01/01/2013 to 31/12/2013.
DEMETRIO CARCELLER ARCE	Proprietary	From 01/01/2013 to 31/12/2013.
HERIBERT PADROL MUNTÉ	Proprietary	From 01/01/2013 to 31/12/2013.
RAMÓN ADELL RAMÓN	Independent	From 01/01/2013 to 31/12/2013.
ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI	Proprietary	From 01/01/2013 to 31/12/2013.
SANTIAGO COBO COBO	Independent	From 01/01/2013 to 31/12/2013.
NEMESIO FERNÁNDEZ-CUESTA LUCA DE TENA	Proprietary	From 01/01/2013 to 31/12/2013.
FELIPE GONZÁLEZ MÁRQUEZ	Independent	From 01/01/2013 to 31/12/2013.
EMILIANO LÓPEZ ACHURRA	Independent	From 01/01/2013 to 31/12/2013.
CARLOS LOSADA MARRODÁN	Independent	From 01/01/2013 to 31/12/2013.
JUAN MARÍA NIN GÉNOVA	Proprietary	From 01/01/2013 to 31/12/2013.
JUAN ROSELL LASTORTRAS	Proprietary	From 01/01/2013 to 31/12/2013.
LUÍS SUÁREZ DE LEZO MANTILLA	Proprietary	From 01/01/2013 to 31/12/2013.
MIGUEL VALLS MASEDA	Independent	From 01/01/2013 to 31/12/2013.

**D.1 Complete the following tables on the individual remuneration accrued during the year by each of the directors (including remuneration for carrying out executive functions).**

**a) Remuneration accrued in the reporting company:**

**i) Remuneration in cash (thousand euro)**

Name	Wages	Fixed remuneration	Per diems	Short-term variable remuneration	Long-term variable remuneration	Remuneration for belonging to Board committees	Indemnities	Other items	2013 total	2012 total
DEMETRIO CARCELLER ARCE	127	0	0	0	0	127	0	0	254	
JUAN MARÍA NIN GÉNOVA	127	0	0	0	0	127	0	0	254	
EMILIANO LÓPEZ ACHURRA	127	0	0	0	0	127	0	0	254	
LUÍS SUÁREZ DE LEZO MANTILLA	127	0	0	0	0	13	0	0	140	
FELIPE GONZÁLEZ MÁRQUEZ	127	0	0	0	0	0	0	0	127	
RAMÓN ADELL RAMÓN	127	0	0	0	0	13	0	0	140	
SALVADOR GABARRÓ SERRA	550	0	0	0	0	550	0	0	1,100	
ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI	127	0	0	0	0	127	0	1	255	
JUAN ROSELL LASTORTRAS	127	0	0	0	0	0	0	0	127	
XABIER AÑOVEROS TRIAS DE BES	127	0	0	0	0	0	0	0	127	
HERIBERT PADROL MUNTÉ	127	0	0	0	0	0	0	0	127	
ANTONIO BRUFAU NIUBÓ	127	0	0	0	0	139	0	3	269	
CARLOS LOSADA	127	0	0	0	0	139	0	1	267	

MARRODÁN									
SANTIAGO COBO COBO	127	0	0	0	0	13	0	0	140
NEMESIO FERNÁNDEZ-CUESTA LUCA DE TENA	127	0	0	0	0	0	0	0	127
MIGUEL VALLS MASEDA	127	0	0	0	0	13	0	0	140
RAFAEL VILLASECA MARCO	127	1,043	0	1,109	838	127	0	6	3,250

**ii) Share-based remuneration systems**

**iii) Long-term savings systems**

Name	Contribution by the company in the year (thousand euro)		Total accumulated funds (thousand euro)	
	2013	2012	2013	2012
Rafael Villaseca Marco	270		2335	

**iv) Other benefits (€'000)**

Rafael Villaseca Marco					
Remuneration granted in the form of advances and loans					
Interest rate on the transaction		Essential features of the transaction		Any amounts returned	
0.00		N/A		N/A	
Life insurance premiums		Guarantees provided by the company for directors			
2013	2012	2013		2012	
44		0000			

**b) Remuneration accrued by company directors for belonging to boards of other group companies:**

**i) Remuneration in cash (thousand euro)**

Name	Wages	Fixed remuneration	Per diems	Short-term variable remuneration	Long-term variable remuneration	Remuneration for belonging to Board committees	Indemnities	Other items	2013 total	2012 total
SALVADOR GABARRÓ SERRA	0	0	0	0	0	0	0	0	0	
ANTONIO BRUFAU NIUBÓ	0	0	0	0	0	0	0	0	0	
RAFAEL VILLASECA MARCO	0	0	0	0	0	0	0	0	0	
RAMÓN ADELL RAMÓN	0	0	0	0	0	0	0	0	0	
ENRIQUE ALCÁNTARA-GARCÍA IRAZOQUI	0	0	0	0	0	0	0	0	0	
XABIER AÑOVEROS TRIAS DE BES	0	0	0	0	0	0	0	0	0	
DEMETRIO CARCELLER ARCE	0	0	0	0	0	0	0	0	0	
SANTIAGO COBO COBO	0	0	0	0	0	0	0	0	0	
NEMESIO FERNÁNDEZ-CUESTA LUCA DE TENA	0	0	0	0	0	0	0	0	0	
FELIPE GONZÁLEZ MÁRQUEZ	0	0	0	0	0	0	0	0	0	
EMILIANO LÓPEZ ACHURRA	0	0	0	0	0	0	0	0	0	
CARLOS LOSADA MARRODÁN	0	0	0	0	0	0	0	0	0	
JUAN MARÍA NIN	0	0	0	0	0	0	0	0	0	

GÉNOVA										
HERIBERT PADROL MUNTÉ	0	0	0	0	0	0	0	0	0	
JUAN ROSELL LASTORTRAS	0	0	0	0	0	0	0	0	0	
LUÍS SUÁREZ DE LEZO MANTILLA	0	0	0	0	0	0	0	0	0	
MIGUEL VALLS MASEDA	0	0	0	0	0	0	0	0	0	

**ii) Share-based remuneration systems**

**iii) Long-term savings systems**

**c) Summary of remuneration (thousand euro):**

This should include a summary of the amounts corresponding to all the remuneration items included in this report that have accrued to the director, in thousand euro.

Where there are long-term Saving Systems, include contributions or endowments made to such systems:

Name	Remuneration accrued in the Company				Remuneration accruing to group companies				Total		
	Total cash remuneration	Value of shares granted	Gross gain on options exercised	2013 total - Company	Total cash remuneration	Value of shares delivered	Gross gain on options exercised	2013 total - Group	2013 Total	2012 Total	Contributions to savings systems during the year
JUAN MARÍA NIN GÉNOVA	254	0	0	254	0	0	0	0	254		0
EMILIANO LÓPEZ ACHURRA	254	0	0	254	0	0	0	0	254		0

LUÍS SUÁREZ DE LEZO MANTILLA	140	0	0	140	0	0	0	0	140	0
FELIPE GONZÁLEZ MÁRQUEZ	127	0	0	127	0	0	0	0	127	0
MIGUEL VALLS MASEDA	140	0	0	140	0	0	0	0	140	0
RAMÓN ADELL RAMÓN	140	0	0	140	0	0	0	0	140	0
SALVADOR GABARRÓ SERRA	1,100	0	0	1,100	0	0	0	0	1,100	0
ENRIQUE ALCÁNTARA- GARCÍA IRAZOQUI	255	0	0	255	0	0	0	0	255	0
RAFAEL VILLASECA MARCO	3,250	0	0	3,250	0	0	0	0	3,250	0
JUAN ROSELL LASTORTRAS	127	0	0	127	0	0	0	0	127	0
XABIER AÑOVEROS TRIAS DE BES	127	0	0	127	0	0	0	0	127	0
HERIBERT PADROL	127	0	0	127	0	0	0	0	127	0

MUNTÉ											
ANTONIO BRUFAU NIUBÓ	269	0	0	269	0	0	0	0	269		0
CARLOS LOSADA MARRODÁN	267	0	0	267	0	0	0	0	267		0
SANTIAGO COBO COBO	140	0	0	140	0	0	0	0	140		0
NEMESIO CUESTA LUCA DE TENA	127	0	0	127	0	0	0	0	127		0
TOTAL	7,098	0	0	7,098	0	0	0	0	7,098		0

**D.2 Describe the relationship between the remuneration received by the directors and the undertaking's earnings or other performance indicators, detailing how any variations in the company's performance influenced the variation in directors' remuneration.**

Already detailed in section A.13.

**D.3 Describe the outcome of the consultative vote at the annual meeting on the annual remuneration report for the previous year, indicating the number of votes cast against, if any:**

	Number	% of total
Votes cast	793919747	79.34%

	Number	% of total
Votes against	86091453	10.84%
Votes in favour	704576261	88.75%
Abstentions	3252033	0.41%

**E. OTHER INFORMATION OF INTEREST**

**If there are any material aspects relating to directors' remuneration that could not be disclosed in other sections of this report but that are necessary to provide a more comprehensive and fully reasoned picture of the remuneration structure and practices for the company's directors, describe them briefly.**

Since the form in Circular 4/2013 on the Annual Report on Director Remuneration does not allow numbers to be entered with decimals, the actual figures vary slightly from the stated figures in some cases. In the table entitled "a) Remuneration accrued in the reporting company: i) Remuneration in cash (thousand euro)", the stated amount of 127 thousand euro is actually 126,500 euro.

Additionally, the estimated figures set out in the Annual Corporate Governance Report approved on 31 January 2014 have been adjusted in this Remuneration Report following approval of the degrees of achievement of the objectives for variable remuneration (annual and multi-year). Those degrees of achievement were approved by the Board of Directors on 28 February 2014 on the proposal of the Appointments and Remuneration Committee.

*Continuation from section A.4.*

At 2013 year-end, the 2011-2013, 2012-2014 and 2013-2015 Medium-Term Remuneration Programmes were in force. The first of those programmes (2011-2013) ended on 31 December 2013, in accordance with its terms, and its beneficiaries will collect the corresponding variable remuneration in the first quarter of 2014, once the degree of achievement of the objectives has been assessed.

The programmes are mutually independent, although they share the same main features. In all cases, they are specific multi-year remuneration plans for the years to which they refer. Each plan is tied to achievement of a number of strategic objectives and commitments set out in the Group Strategic Plan that is in force at any given



time, directly aligned with shareholder interests insofar as they contribute to generating value for the Company.

Fulfillment of the respective objectives entitles the beneficiaries of each plan to collect the medium-term variable remuneration in the first quarter of the year after it finalizes; the Appointments and Remuneration Committee was again entrusted with assessing the degree of attainment of the preset objectives, on the basis of which it makes a proposal to the Board of Directors for approval. Nevertheless, in each case, collection of the incentive is conditional upon the beneficiary continuing in the service of the Group on 31 December of the last of the years in the programme, apart from the special cases set out in the programme conditions.

The amount to be received under each of the incentive programmes is calculated using the degree of achievement of the objectives established at the beginning of each programme.

To determine the degree of achievement of the Medium-Term Remuneration Programmes, the economic objectives will be weighted to establish the final value of the target.

Within the economic objectives, the variables used refer to optimization and financial discipline and to the creation of shareholder value.

In order to assess the level of attainment of each variable, a number of values have been established on the basis of indicators within each of the aforementioned variables. The individual degree of achievement is calculated by comparing the actual values with the benchmarks for those indicators.

The indicators used to determine the degree of achievement of the most recent Medium Term Remuneration Programmes are related to the Company's EBITDA and the performance of its market capitalization.

Those indicators and their weightings are as follows:

- Net debt / EBITDA (25%)
  - This indicator reflects the number of times that net debt contains EBITDA, and is defined as:  
$$\text{Net debt} = \text{Gross debt} - \text{Cash and cash equivalents}$$
$$\text{EBITDA} = \text{EBIT} + \text{Depreciation and Amortization} + \text{Provisions}$$
- EV/EBITDA (25%)
  - This indicator reflects the number of times that Enterprise Value (EV) contains EBITDA, and is defined as:  
$$\text{EV} = \text{Market capitalization} + \text{Debt}$$
$$\text{EBITDA} = \text{EBIT} + \text{Depreciation and Amortization} + \text{Provisions}$$

- EBITDA (25%)
  - This is defined as the sum of EBITDA in the years to which the Programme refers.

$$\text{EBITDA} = \text{EBIT} + \text{Depreciation and Amortization} + \text{Provisions}$$

- Market capitalisation performance (25%)
  - Defined as:

$$\text{MC} = \text{share price} \times \text{no. of shares}$$

The EV/EBITDA and Market Capitalization indicators are assessed with respect to comparable companies. The degree of achievement of the objectives is determined by the position of Gas Natural Fenosa in the league table of comparables in the reference period.

Under the conditions of the Chief Executive Officer's contract, he collects multi-year variable remuneration as a function of the attainment of the objectives approved for the Gas Natural Fenosa executive variable remuneration programme. Consequently, the degree of attainment of the objectives adopted for the incentive plan expiring each year is used as a reference for determining the amount of multi-year variable remuneration in each year, which is paid in the following year.

The Chief Executive Officer is a beneficiary of the Medium-Term Remuneration Programmes currently in force: 2011-2013, 2012-2014 and 2013-2015.

The Appointments and Remuneration Committee is entrusted with setting the degree of attainment of the objectives under each of the Medium-Term Remuneration Programmes and, as a result, with proposing, to the Board of Directors, the amounts of multi-year variable remuneration for the Chief Executive Officer.

The Board of Directors is entrusted with deciding on the proposal by the Appointments and Remuneration Committee to pay the amount of multi-year variable remuneration to the Chief Executive Officer under the Programmes.

The amount of Multi-Year Variable Remuneration under the 2011-2013 Programme, which is payable in the first quarter of 2014, upon approval of attainment of the objectives of that programme (92.5%), is 824 thousand euro.

*NOTE on section D.1*

Section D.1 states the amount of 838 thousand euro under "Long-term variable remuneration" for the Chief Executive Officer, which is the sum of the amounts accrued in 2013 under the commitments arising from the various multi-year variable remuneration programmes that were in force in 2013 (using final numbers for 2011-2013 and estimates for 2012-2014 and 2013-2015).

*Continuation of the disclosure under section D.1.A.iv*

Life insurance premiums. - Refers to the amount of life insurance premiums + the premium of the life insurance policy associated with the group insurance policy

This annual report on the remuneration of directors was approved by the company's Board of Directors on 20 February 2014.

**Indicate whether any board members voted against or abstained with respect to the approval of this report.**

Yes		No	X
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