Gas Natural Fenosa
2013 Annual Report

CONSOLIDATED ANNUAL ACCOUNTS

Consolidated Balance Sheet
Consolidated Income Statement
Consolidated Statement of Comprehensive Income
Statement of Changes in Consolidated Net Equity
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Gas Natural Fenosa
Consolidated Balance Sheet **(Million Euros)**

	31.12.13	31.12.12
ASSETS		
Intangible assets *(Note 5)*	10,245	10,764
Goodwill	5,756	5,837
Other intangible assets	4,489	4,927
Property, plant and equipment *(Note 6)*	21,411	22,308
Investments recorded using the equity method *(Note 7)*	96	100
Non-current financial assets *(Note 8)*	1,457	983
Deferred income tax assets *(Note 20)*	1,051	1,036
NON-CURRENT ASSETS	**34,260**	**35,191**
Inventories *(Note 9)*	864	897
Trade and other receivables *(Note 10)*	5,316	5,106
Trade receivables	4,643	4,557
Other receivables	527	453
Current income tax assets	146	96
Other current financial assets *(Note 8)*	253	1,259
Cash and cash equivalents *(Note 11)*	4,252	4,434
CURRENT ASSETS	**10,685**	**11,696**
TOTAL ASSETS	**44,945**	**46,887**
NET EQUITY AND LIABILITIES		
Share capital	1,001	1,001
Share premium	3,808	3,808
Reserves	7,931	7,402
Net income for the year attributed to the Equity holders of the Company	1,445	1,441
Interim dividend	(393)	(391)
Adjustments for changes in value	(348)	-
Hedging operations	1	(19)
Cumulative translation adjustments	(349)	19
Net equity attributable to the Equity holders of the Company	**13,444**	**13,261**
Minority interests	**1,566**	**1,618**
NET EQUITY *(Note 12)*	**15,010**	**14,879**
Deferred income *(Note 13)*	932	878
Non-current provisions *(Note 14)*	1,564	1,665
Non-current financial liabilities *(Note 15)*	15,508	18,046
Borrowings	15,344	17,815
Other financial liabilities	164	231
Deferred income tax liability *(Note 20)*	2,562	2,688
Other non-current liabilities *(Note 17)*	842	834
NON-CURRENT LIABILITIES	**21,408**	**24,111**
Current provisions *(Note 14)*	134	144
Current financial liabilities *(Note 15)*	3,403	2,386
Borrowings	3,206	2,243
Other financial liabilities	197	143
Trade and other payables *(Note 18)*	4,230	4,560
Trade payables	3,485	3,936
Other payables	709	526
Current income tax liabilities	36	98
Other current liabilities *(Note 19)*	760	807
CURRENT LIABILITIES	**8,527**	**7,897**
TOTAL NET EQUITY AND LIABILITIES	**44,945**	**46,887**

Notes 1 to 37 form an integral part of these Consolidated annual accounts

Gas Natural Fenosa
Consolidated Income Statement **(Million Euros)**

	2013	**2012**
Sales *(Note 21)*	24,969	24,904
Procurements *(Note 22)*	(17,228)	(17,309)
Other operating income *(Note 23)*	213	250
Personnel cost *(Note 24)*	(861)	(871)
Other operating expenses *(Note 25)*	(2,274)	(2,163)
Depreciation, amortisation and impairment expenses *(Notes 5 and 6)*	(1,907)	(1,798)
Release of fixed assets grants to income and others *(Note 13)*	40	34
Other results *(Note 26)*	11	20
OPERATING INCOME	**2,963**	**3,067**
Financial income	212	178
Finance expense	(1,048)	(1,060)
Variations in fair value of financial instruments	(2)	15
Net exchange gains/losses	-	(7)
NET FINANCIAL INCOME *(Note 27)*	**(838)**	**(874)**
Profit of entities recorded by equity method *(Note 7)*	7	10
INCOME BEFORE TAXES	**2,132**	**2,203**
Income tax expense *(Note 20)*	(468)	(546)
NET INCOME FOR THE YEAR FROM CONTINUING OPERATIONS	**1,664**	**1,657**
CONSOLIDATED NET INCOME FOR THE YEAR	**1,664**	**1,657**
Attributable to:		
Equity holders of the Company	1,445	1,441
Minority interests	219	216
	1,664	**1,657**
Basic and diluted earnings per share in Euros from continuing activities attributable to the equity holders of the parent Company *(Note 12)*	1.44	1.45
Basic and diluted earnings per share in Euros attributable to the equity holders of the parent Company *(Note 12)*	1.44	1.45

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Gas Natural Fenosa
Consolidated Statement of Comprehensive Income **(Million Euros)**

	2013	2012
CONSOLIDATED NET INCOME FOR THE YEAR	**1,664**	**1,657**
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN NET EQUITY	**(473)**	**(224)**
Items that will not be transferred to profit/(loss):		
Actuarial gains and losses and other adjustments	3	(87)
Tax effect	(1)	25
Items that will subsequently be transferred to profit/(loss):		
Valuation of available-for-sale financial assets	-	-
Cash flow hedges	(21)	(25)
Cumulate translation adjustment	(460)	(153)
Tax effect	6	16
RELEASES TO INCOME STATEMENT	**38**	**8**
Valuation of available-for-sale financial assets	-	-
Cash flow hedges	48	9
Cumulate translation adjustment	2	1
Tax effect	(12)	(2)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**(435)**	**(216)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,229**	**1,441**
Attributable to:		
Equity holders of the Company	1,094	1,260
Minority interests	135	181

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Gas Natural Fenosa
Statement of changes in consolidated net equity **(Million Euros)**

	Net equity attributable to the Company's equity holders						
	Share Capital	Share premium and Reserves	Net income for the year	Adjustments for change in value	Subtotal	Minority interests	Net Equity
Balance at 1.1.12	**992**	**10,348**	**1,325**	**127**	**12,792**	**1,649**	**14,441**
Total comprehensive income for the year	-	(54)	1,441	(127)	**1,260**	181	**1,441**
Dividends distribution	-	934	(1,325)	**-**	**(391)**	(204)	**(595)**
Acquisition of free allocation rights (Note12)	-	(379)	-	**-**	**(379)**	-	**(379)**
Capital increase (Note 12)	9	(9)	-	**-**	**-**	-	**-**
Other variations	-	(21)	-	**-**	**(21)**	(8)	**(29)**
Balance at 31.12.12	**1,001**	**10,819**	**1,441**	**-**	**13,261**	**1,618**	**14,879**
Total comprehensive income for the year	-	(3)	1,445	(348)	**1,094**	135	**1,229**
Dividends distribution	-	544	(1,441)	**-**	**(897)**	(192)	**(1,089)**
Acquisition of free allocation rights	-	-	-	**-**	**-**	-	**-**
Capital increase	-	-	-	**-**	**-**	-	**-**
Other variations	-	(14)	-	**-**	**(14)**	5	**(9)**
Balance at 31.12.13	**1,001**	**11,346**	**1,445**	**(348)**	**13,444**	**1,566**	**15,010**

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Gas Natural Fenosa
Consolidated Cash Flow Statement **(Million Euros)**

	2013	2012
Income before tax	**2,132**	**2,203**
Adjustments to net income:	**2,608**	**2,540**
Depreciation and amortisation expenses	1,907	1,798
Other adjustments to net income	701	742
Changes in working capital	**(119)**	**(7)**
Other cash flow generated from operations:	**(1,170)**	**(1,299)**
Interest paid	(789)	(827)
Interest collected	95	91
Income tax paid	(476)	(563)
CASH FLOW GENERATED FROM OPERATING ACTIVITIES (*Note 28*)	**3,451**	**3,437**
Cash flows into investing activities:	**(2,485)**	**(2,138)**
Group companies, associates and business units	(47)	(29)
Property, plant and equipment and intangible assets	(1,417)	(1,441)
Other financial assets	(1,021)	(668)
Proceeds from divestitures:	**1,280**	**933**
Group companies, associates and business units	55	53
Property, plant and equipment and intangible assets	16	25
Other financial assets	1,209	855
Other cash flows from investing activities:	**113**	**127**
Proceeds from dividends	8	3
Other proceeds/(payments) from/(of) investing activities	105	124
CASH FLOW RECEIVED FROM INVESTING ACTIVITIES	**(1,092)**	**(1,078)**
Receipts/(payments) for equity instruments:	**-**	**(379)**
Issue	-	-
Acquisition	-	(379)
Cash flows from financing activities:	**(1,349)**	**(17)**
Proceeds from borrowings	5,221	5,442
Repayment of borrowings	(6,570)	(5,459)
Dividends paid	**(1,057)**	**(566)**
Other cash flows from financing activities	**(91)**	**(58)**
CASH FLOW RECEIVED FROM FINANCING ACTIVITIES	**(2,497)**	**(1,020)**
Effect of exchange rates on cash and cash equivalents	**(44)**	**(3)**
VARIATION IN CASH AND CASH EQUIVALENTS	**(182)**	**1,336**
Cash and cash equivalents at beginning of the year	4,434	3,098
Cash and cash equivalents at year end	4,252	4,434

Notes 1 to 37 form an integral part of these Consolidated annual accounts

GAS NATURAL SDG, S.A. AND SUBSIDIARY COMPANIES

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Notes to the consolidated annual accounts of Gas Natural Fenosa for 2013

Note 1. General information

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

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

Gas Natural Fenosa operates mainly in Spain and also outside of Spain, especially in Latin America, in the rest of Europe (France, Italy, Moldova and Portugal) and Africa.

Note 4 includes financial information by operating segments and geographic areas.

Appendix I lists the investee companies of Gas Natural Fenosa, as well as their activity, registered office, equity and results at the year end.

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

Note 2. Regulatory framework

2.1. Regulation of the natural gas industry in Spain

<u>Main characteristics of the natural gas industry in Spain</u>

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

The Ministry of Industry, Energy and Tourism (MINETUR) is the competent organisation in the regulation of the gas and electricity industries, while the National Markets and Competition Commission (CNMC) is the regulatory authority in charge of maintaining and ensuring effective competition and transparent functioning of the Spanish energy industries. Prior to the publication of Law 3/2013 of June 4, these functions were performed by the National Energy Commission (CNE), which has been integrated into the CNMC. The Ministries belonging to the Regional Governments have competencies in legislative enactment and regulatory powers.

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

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

- It is an industry in which regulated and de-regulated activities coexist. The regulated activities consist of transport (including re-gasification, storage and transport in the strict sense) and natural gas distribution. The non-regulated activities comprise production, storage and the supply of natural gas by commercialisers.

- The natural gas sector is practically entirely dependent on foreign supplies of natural gas, which represent almost 99.9% of the natural gas supply in Spain.

- Following the directives set out in EU legislation (Directives 2003/55/CE of June 26, and 98/30/CE of June 22), the supply of natural gas in Spain is totally de-regulated, and all Spanish consumers can freely choose their natural gas provider as from 1 January 2003. The deregulation procedure for the industry has been reinforced substantially by the disappearance as from 1 July 2008 of the bundled tariff of distribution companies and the subsequent obligation of consumers to participate in the deregulated market (although as indicated further below a tariff of last resort has been maintained for consumers of lower consumption).

Regulation of natural gas activities in Spain

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

2.1.1. Regulated activities

Regulated activities are characterised by:

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

- *Remuneration established by legislation*: The general directives that set the remuneration for these activities are governed by Royal Decree 949/2001, while the specific remuneration to be received is updated annually by ministerial order.

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

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

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

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

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

2.1.1.1. Transport

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

- *Re-gasification*: Natural gas is imported to Spain through a pipeline network (in gas form) and by gas tankers (in liquid form, hereon, liquefied natural gas). The re-gasification is the activity that involves the conversion of liquid natural gas, stored in cryogenic tanks generally at re-gasification plants, into a gaseous state, and then pumped into the national gas pipeline network.

- *Transport*: once the natural gas is imported or produced and, if necessary, regasified, it is injected in gas form into the high pressure gas pipeline transport network. The transport network crosses most regions in Spain and transports the natural gas to the major consumers, such as electricity plants and industrial customers and local distributors.

  The transport network is owned mainly by Enagás, S.A., although certain Gas Natural Fenosa companies own a small proportion of it.

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

2.1.1.2. Distribution

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

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

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

The Ministry of Industry, Energy and Tourism sent, in November 2011, to the CNE and to the Consultative Council of Hydrocarbons the Project for the Royal Decree, in which, as a result of the findings issued in August 2010, the remuneration of natural gas destined to the market at the tariff from the contract with Algeria, referred to in Royal Decree 6/2000, article 15, was revised and also in which a surcharge was proposed to finance the cost that arose from the findings. In October 2012 the Ministry again sent the Project to the CNE, along with all the information contained in the dossier. On 17 January 2013, the CNE issued a report in which, among other matters, it indicated that the possible costs to be recognised would be slightly higher to those proposed by the Ministry. Gas Natural Fenosa has asked the Administration to process the procedure initiated to determine the amount of the surcharge.

On 31 March 2012, Royal Decree-Law 12/2012, of 30 March, was published, where directives on internal electricity and gas market matters and electronic communications matters were transferred, and also whereby measures were taken to correct the deviations due to imbalances between the costs and the income of the electricity and gas sectors. In relation to the gas sector, the measures taken to correct the deviations refer, in particular, to the suspension of the administrative authorizations for gas pipelines, except for those subject to international commitments, and of the authorizations for new re-gasification plants, as well as to the delay in the remuneration of underground storage.

Ministerial Order IET/2446/2013, of 27 December established the remuneration of the regulated activities of the gas industry for 2014. In addition under this Order, the tolls and levies associated with the access by third parties to gas installations were updated.

2.1.2. Unregulated activities

2.1.2.1. Supplies (import of natural gas)

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

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

*2.1.2.2. C*ommercialisation

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

In order to oversee that consumers do not have practical problems in changing their retailer, Law 12/2007 ordered the creation of the Supplier Change Bureau, «Oficina de Cambios de Suministrador, S.A. (OCSUM)», which is owned by the major gas and electric operators. During 2014, its functions wil be assumed by the Ministry of Industry, Energy and Tourism.

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

The Ministry of Industry, Energy and Tourism issued Order ITC/1506/2010 of July 8, which modifies Order ITC/1660/2009 of June 22, under which the last resort tariff for gas natural will be carried out under the ruling of the General Directorate of Energy Policy and Mines. The fixed and variable terms of the tariffs will be reviewed when there is a modification of the fixed and variables terms of the tolls and levies for access to the system or in the waste coefficients in force. The variable term will be reviewed quarterly, as from the 1st day of the months of January, April, July and October of each year, provided that the cost of raw materials varies upward to downward by 2%.

On 28 December 2012, Law 15/2012, of 27 December, on fiscal measures for energy sustainability was published, of which the principal aspects related to gas were the modification of the tax on hydrocarbons, establishing a positive rate for natural gas employed as fuel in stationary motors, as well as for natural gas used for purposes other than as fuel (consumption). However, a reduced rate was established for natural gas employed for professional purposes once this was not used in generation or cogeneration of electricity.

On 11 October 2013, a Resolution was published by the General Directorate of Energy Policy and Mines (DGPEM) approving the winter action plan for gas system operations applicable from 1 November 2013 to 31 March 2014. As compared with the Winter Plan 2012-2013, the new plan altered inventory maintenance requirements and increased conventional peak demand estimated for cold spells.

On 11 October 2013, the Council of Ministers approved the forwarding to Parliament of the Bill of Law amending the revised text of the General Law on the Defence of Consumers and Users. This Bill incorporates into internal legislation Directive 2011/83/EU on consumer rights. The new legal framework refers to contracts entered into by entrepreneurs with consumers and users, particularly the following contracts: Distance contracts and contracts outside the entrepreneur's establishments.

On 10 December 2013, Law 20/2013 of 9 December on market unity was published. This law seeks to establish basic principles and standards that will guarantee market unity throughout the national territory, while fully respecting the powers of Autonomous Regions and Local Entities.

On 11 December 2013, Law 21/2013 of 9 December on environmental assessment was published, unifying the laws on strategic environmental assessment and environmental impact assessment in a single legal text. Through this new law, the Government seeks to improve environmental assessment procedures and avoid delays that are difficult to justify from an environmental viewpoint, among other aspects.

During 2013, the TUR did not change in the January, April, July and October reviews because the fluctuation in energy costs was below the 2% threshold stipulated in the calculation methodology.

On 31 December 2013, the Resolution of 26 December 2013 from the General Directorate of Energy Policy and Mines was published, containing the natural gas tariff of last resort (TUR), which on average showed no changes with respect to 2013 tariffs.

2.2. Regulation of the natural gas industry in Latin America

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

In Brazil, on 30 December 2013, the regulator for Río de Janeiro state approved the new tariffs for companies of the group CEG and CEG Río, applicable from 1 January 2014 to the end of 2017. In aggregate terms, unit revenue from this activity is maintained.

In Colombia the regulation establishes that natural gas transporters cannot perform direct production, commercialisation, and distribution activities nor hold economic interests in companies that are dedicated to those activities. On the other hand, natural gas commercialisation or distribution companies may not be trasporters nor have economic interests in a transport company of this product. Companies that undertake production, sale or distribution activities may undertake commercialisation.

On 23 February 2011 the new rate of gas distribution was officially released to all areas in which Gas Natural Fenosa distributes gas in Mexico, resulting in annual rate increases of between 9% and 13.5%, with the exception of the Los Bajiíos zone whose five-yearly tariff revision approved resulted in a tariff increase of 26.8%.

In Argentina, as a result of the 2001 economic crisis, there was a freezing and pesofication of rates, partly offset by upward adjustments to compensation for the price increase due to inflation. At the end of 2012, Argentina's Administration approved the inclusion in the tariff, for all customers, of a new fixed charge to be used, through a trust arrangement, for new investments in networks and for the operation and maintenance of existing networks.

2.3. Regulation of the natural gas industry in Italy

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

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

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

By Delibera number 573 of December 2013, the Italian Regulator has published the rates for the period 2014-2019. There are no fundamental changes in the methodology, only adjustments, so that the impact on remuneration is not significant.

2.4. Regulation of the Electricity sector in Spain

<u>Main characteristics of the electricity sector in Spain</u>

The regulation of the electricity industry in Spain has undergone a major reform process during the year 2013 which led to the publication of Law 24/2013, of 26 December, of the Electricity Sector, which adapts the previous law (Law 54/1997, of 27 November) to the circumstances of both the economy and the power and energy sector in Spain.

The new law, which came into force on 28 December 2013, holds the administrative structure and competencies established in the previous regulation. Thus, the Ministry of Industry, Energy and Tourism is the body responsible for regulating the gas and electricity sectors, while the CNMC is the regulatory authority that is entrusted with the task of maintaining and ensuring effective competition and transparent functioning of Spanish energy sectors. The relevant Ministries of the Regional Governments have competencies in legislative, enforcement and legislation. The Nuclear Safety Council exercised specific competencies over the facilities using this technology.

Furthermore, the Techinal Manager of the System, Red Eléctrica de España, S.A. (REE), has the main function of guaranteeing the continuity and safety of the electricity supply and the proper coordination of the production and transport system. Thus, please bear in mind that Law provides a strict legal separation between the system operator and the activities of generation or sale of electric power.

Generally, the electricity sector has the following main features:

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

  Following the directives of EU legislation (Directives 2009/72/CE), all Spanish consumers can freely choose their electricity provider. A system of tariff of last resort (from January 1, 2014, volunteer price for small consumers) applies to consumers with contracted capacity of less than 10 kW. This last resort tariff consists in an energy price determined by the Administration, plus the appropriate toll for the contracted power.

- The electricity consumed in Spain is mostly generated domestically, since the international connections with France and Portugal have a very small capacity.

- Since July 1, 2007 the Iberian Electricity Market (MIBEL) has begun to operate effectively between Spain and Portugal, which has involved the integration of the electricity systems of both countries (although this integration is still not perfect).

- The electricity system is not self-sufficient and its maintenance generates an annual deficit that has had to be financed by the conventional electricity companies, among them Gas Natural Fenosa.

<u>The regulation of electricity activities in Spain</u>

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

2.4.1. Regulated activities

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

- *Need for prior government authorisation*: The undertaking of regulated activities requires prior regulated administrative authorisation. In order to obtain this authorisation the applicant must basically demonstrate its legal, technical and economic capacity to exercise this activity. The abovementioned authorisation grants a legal monopoly in a given territory.

- *Remuneration established by legislation*: The general directives that set the remuneration for these activities are governed by Royal Decree 2819/1998 of December 23, for transport, and by Royal Decree 222/2008 of 15 February (since January 1, 2014, Royal Decree 1048/2013 of 27 December), and aim to ensure an appropriate remuneration for the exercise of such activities and the development of networks. The remuneration payable to the performance of these activities are updated annually by ministerial order. The remuneration to be received is updated annualy by ministerial order.

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

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

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

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

2.4.1.1. Transport

Electricity transport links the plants with the distribution networks and specific final customers. The network is owned mainly by REE, although other companies, including Gas Natural Fenosa's subsidiary Unión Fenosa Distribución, S.A., own a small interest on secondary transport network.

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

On 30 December 2013, Royal Decree 1047/2013 of 27 December was published, providing the methodology for calculating electricity transport remuneration for 2014.

2.4.*1.2. Distribution*

The distribution of electricity includes all activities that bring electricity from the high tension grid to the final consumer. Up to 1 July 2009, the distributors were also the owners of the distribution facilities, managers of the low tension grid and the final customer bundled tariff electricity suppliers.

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

On 30 December 2013, Royal Decree 1048/2013 of27 December was published, providing the methodology for calculating electricity distribution remuneration for 2014.

2.4.2. Unregulated activities

2.4.2.1. Electricity generation

Under Law 54/1997, effective until 27 December 2013, the activity of electricity generation includes the production of electricity generation in the ordinary regime and the activity of electricity generation under the special regime. The special regime encourages electricity generation from cogeneration and renewable sources by offering a more attractive remuneration.

The special regime is reserved for plants up to 50 MW of installed capacity that use renewable energy sources, waste by-product and co-generation. The other electricity plants are under the ordinary regime, i.e., those that have more than 50 MW installed capacity and/or use a primary energy sources other than those mentioned above, such as nuclear plants, natural gas or coal-burning plants. However, this distinction between special and ordinary regime has disappeared in the new Law 24/2013 of the Electricity Sector, so that new plants using renewable energy should go to the market on equal conditions as those conventional plants, although, generation plants using renewable energy keep as main advantages a specific remuneration system and dispatch priority by the system.

The remuneration of the ordinary plants is based on electricity market prices. The specific Remuneration system for renewable energy generation is currently pending approval.

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

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

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

The securitization process of electric system deficit has been closed by the end of 2013 having been securitized the entire deficit recognized on 31 December 2012. However, development of the rules for the securitization of the deficit for the year 2013, amounting to Euros 3,600 million as recognized under the Law 24/2013 of the Electricity Sector, is still pending.

On 2 October 2010 Royal Decree 1221/2010 was promulgated which modified Royal Decree 134/2010, which had created a mechanism of restrictions for guaranteeing supplies of autochthonous coal, contemplating a regulated price for remunerating this energy. The settlement mechanism for supply security restrictions will be in force only until the end of 2014.

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

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

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

On the other hand, regarding the social bond financing, on 22 March 2012, the Supreme Court issued a sentence which declared the financing mechanism through the social bond foreseen in Royal decree 6/2009 as being inapplicable by the generation companies, it being contrary to Directive 2003/54 on the interior electricity market. Currently the Royal Decree-Law 9/2013 requires again the same companies to finance the social bond, which is being appealed for the same reasons.

On 31 March 2012, Royal Decree-Law 13/2012, of 30 March, was published, in which directives on the interior electricity and gas market matters and electronic communications matters were transferred, and also whereby measures were taken to correct the deviations due to imbalances between the costs and the income of the electricity and gas sectors.

The adjustments included in the Royal Decree-Law 13/2012 to reduce the deficit in the electricity sector result in a reduction in the costs of the system of Euros 1,764 million, from, among other items, a reduction of 10% in the remuneration of the distribution activity, a 75% reduction in the commercial management costs of the distributors, a reduction of 10% in the payments for capacity, the volume of generation with national coal and the availability service, while at the same time certain residual balances of the National Energy Commission and the Institute for the Diversification and Saving of Energy are recovered and incorporated into the electricity system.

On 26 April 2012 Order IET/843/2012, of 25 de April was published, which establishes access tolls from 1 April 2012 onwards and certain tariffs and premiums for special regime installations, and the Resolution of the General Directorate of Energy Policy and Mines which establishes the cost of energy and the TUR for the period from 1 October to 22 December, the first quarter of 2012 and from 1 April 2012. All of this, in application of a Resolution of the Supreme Court, dates 12 March 2012, which establishes that the setting of the access tolls set for the first quarter of 2012 must be supplemented.

The principal aspects of these dispositions are:

- In annual terms, the income from tolls increases by 11% compared to those now applied, resulting in an increase in income of Euros 1,400 million.
- The effectiveness of the Resolution of the Supreme Court, of 20 December, suspending the Tariffs of October 2011, was extended to all of the fourth quarter 2011. The access tolls from 1 January 2012 were revised, thus complying with the Resolutions of the Supreme Court of March 2012, so that the tolls make up the full costs foreseen for 2012 as well as the temporary imbalances of 2011.
- The Access tolls from 1 April were adjusted bearing in mind the reductions in costs established in the Royal Decree Lawn 13/2012 (which reduced the costs of the system Euros 1,764 million), to balance the system (income-costs).
- A new social bond financing mechanism was established, which will be financed by consumers, since it is a payable cost of the system and applicable from 7 February 2012 onwards.

On 14 July 2012 Royal Decree-Law 20/2012, of 13 July, was published containing the measures to guarantee the budgetary stability and to promote activity with the aim of balancing the electricity sector. The principal aspects of this Royal Decree Law are:

- Regarding the costs of generation under the ordinary regime of the peninsular and extra-peninsular electricity systems, it establishes that the revisions of the norms of the remuneration model of the production plants in those systems that develop the content of the Royal Decree Law 13/2012, of 30 March, will be applicable from 1 January 2012. For this purpose, some of the modifications of the remuneration model related to the elimination of expenses of a recurring nature, and to the revision of the financial interest rate on the remuneration, were advanced.

- It was established, for the Autonomous Regions that charge, directly or indirectly, the activities or installations destined to electricity supply, with their own taxes or surcharges on state taxes, are obliged to impose the territorial supplement on the access tolls and final prices, and that this should be paid by the consumers located in the territorial area of the respective Autonomous Regions.
- It was established that the remuneration for transport activities under the concept of investments will be made for those assets in service not yet amortised, applying the net value of these as the base for their financial retribution.
- For the amounts of the income deficit pending in the settlements of the regulated activities of the electricity sector generated in 2006, it was established that the interest rate to be applied is the average of the daily Euribor rate at three month of November of the previous year plus 65 basis points. The difference against the cession price to the Fund would be considered as a cost chargeable to the system.
- The present norm authorises the Ministry of Industry, Energy and Tourism to apply criteria of gradualness to access tolls.

In 2013, Law 15/2012, of 27 December on fiscal measures for energy sustainability was published, the principal aspects referring to electricity generation are:

- The establishment of a tax on the value of the production of electrical energy, of a direct type and real nature, imposed on the performance of production activities and incorporation of electricity into the Spanish electricity system. The tax will be applied on the production by all the generation installations at a rate of 7%.
- The regulation of two new taxes: the tax on production of nuclear fuel spent and radioactive residue that are the result of the nuclear generation of electricity and the tax on the storage of nuclear fuel generated and radioactive residue in central installations, with the aim of compensating society for the charges that it must bear as a result of this generation.
- Additionally, the Law revises the tax treatment applicable to the various energy generating products employed in the production of electricity. For the activity of generation of electricity from fossil fuels, certain exemptions are abolished while the energy generating products employed for combined generation of heat and electricity are taxed. In the same way, to apply a similar treatment to energy production from fossil energy sources, the tax rate on coal is increased, and at the same time, specific tax rates are created for fuels and gas-oils employed in the production of electricity or in the cogeneration of electricity and usable heat.
- The establishment of a new levy on publicly owned possessions for the use or exploitation of continental water sources in hydroelectric production.

Revenues from these taxes come to reduce the deficit of regulated activities in the electricity system.

As part of the measures to reform the electricity sector, Royal Decree-Law 2/2013 of 1 February on urgent measures in the electricity system and in the financial sector was published, bringing in new measures to correct imbalances between electricity system costs and revenue obtained from regulated prices. The main aspects of this Royal-Decree are described below:

- Change of index used to review electricity sector costs so that, with effect as from 1 January 2013, remuneration, tariffs and premiums are reviewed by reference to the consumer price index (CPI) at constant tax rates, excluding unprocessed food and energy products (underlying CPI), replacing the reference to the CPI contained in electricity system regulations.

- There are two options for selling electricity generated at special-regime facilities: (i) assignment of the electricity to the system in exchange for a regulated tariff; or (ii) sale of the electricity in the power generation market, in which case the price will be exclusively the price obtained in the organised market or freely negotiated by the facility's owner or representative, without any premium.

On 15 February 2013, the Council of Ministers approved a Bill of Law whereby an extraordinary loan of Euros 2,200 million, charged to the National Budget, is granted to finance electricity system costs caused by the economic incentives to encourage electricity generation using renewable energy sources.

On 12 July 2013, the Council of Ministers approved a package of measures referred to as an energy reform, comprising Royal Decree-Law 9/2013 previously mentioned on urgent measures to guarantee the electricity system's financial stability (which came to the Law 24/2013 of the Electricity Sector) and several proposed Royal Decrees (some of them still on process).

The main measures brought in by the above-mentioned Royal Decree-Law 9/2013, which was published in the Official State Gazette on 13 July 2013 and came into force on the following day, are as follows:

- Remuneration for electricity transport and distribution:

  - From 1 January 2013 to 14 July 2013, the current remuneration is maintained on a definitive basis.

  - From 14 July 2013 to 31 December 2013, the remuneration rate is linked to the yield on 10-year Government Debentures plus 100 basis points.

  - As from 1 January 2014, the remuneration rate is linked to the yield on 10-year Government Debentures plus 200 basis points.

- Special regime:
  - A new economic regime is established for renewable energy, cogeneration and waste power plants based on remuneration for the sale of electricity generated, valued at market prices.
  - Provision is made for additional remuneration, if necessary, to recover investment and operating costs, based on standard parameters for each technology, until a reasonable return is obtained; for existing facilities, this will be the yield on 10-year Government Debentures plus 300 basis points.
  - Special incentives may be established for island and extra-peninsular generation.
  - This new economic regime will be reviewed every six years.
- Tariff deficit:
  - The total limit imposed on Government guarantees is increased to cover the additional Euros 4,000 million deficit for 2012.
- Financing of the additional cost of electricity generation in island and extra-peninsular territories:
  - limited to 50% of the additional cost in 2013, to be financed through the 2014 National Budget.
- Investment incentive:
  - As from 14 July 2013, the amount of the incentive for investment in long-term generation capacity is reduced from 26,000 euros/MW/year to 10,000 euros/MW/year.
  - It will be collected over twice the number of years remaining to cover the current 10-year collection period.
- Social Bond:
  - The cost of the social bond will be borne by the parent companies of groups engaged simultaneously in generation, distribution and commercialisation activities.
  - The allocation percentage will be calculated annually in proportion to the sum of the distributors' and retailers' supply points and customers.
  - Until the Ministerial Order stipulating these percentages is approved (not before 15 September 2013), the cost of the social bond will be charged to the system.
  - The parameters for granting the social bond will be reviewed as from 1 July 2014.
- Access tolls:
  - The Government is authorised to review tolls quarterly.
  - A review was expected within one month, entailing a 6.5% rise; in this regard, on 15 July 2013 the Ministry of Industry, Energy and Tourism sent to the National Energy Commission the proposed Order for the preparation of the mandatory report.

On 18 October 2013, Law 15/2013 of 17 October was published, granting an extraordinary loan of Euros 2,200 million, charged to the National Budget, to finance certain electricity system costs derived from renewable energy production. However, this extraordinary credit has not been materialised as the new Law 24/2013 left it with no effect.

On 19 October 2013, Royal Decree 815/2013 of 18 October was published, approving the Enabling Regulations on industrial emissions and developing Law 16/2002 of 1 July on integrated pollution prevention and control. The publication of this Royal Decree completed the transposition of the Industrial Emissions Directive into Spanish law.

On 30 October 2013, Law 16/2013 of 29 October was published, bringing in certain environmental taxation measures and other tax and financial measures; this Law modified, among other aspects, the tax on the production of spent nuclear fuel and radioactive waste created by Law 15/2012 on tax measures for energy sustainability, and some aspects of Law 38/1992 of 28 December on excise duties relating to the management of the special tax on gas and electricity tax exemptions.

On 30 October 2013, Law 17/2013 of 29 October was published in order to secure supply and increase competition in the island and extra-peninsula electricity systems. The measures brought in by this Law supplement the provisions of Law 54/1997 on the electricity sector and are designed to establish the basis for the development of new remuneration regimes, so as to increase competition in these systems and reduce generation costs, as well as to improve the risk-resolution mechanisms available to the Administration.

On 1 November, Order IET/2013/2013 was published, regulating the competitive allocation mechanism for the interruptibility demand management service. This Order forms part of the regulatory developments included in the electricity reform package presented by the Government in July 2013. It establishes an auction procedure for the allocation of this service, which will be managed by the System Operator and supervised by the CNMC.

On 13 November 2013, the Supreme Court resolved to urge the Administration to reimburse the claimant companies for the amounts paid in the past to finance the social bond, plus applicable interest, in connection with the Supreme Court judgement issued on 22 March 2012 declaring the mechanism whereby the generating companies financed the social bond (provided by Royal Decree-Law 6/2009) to be inapplicable because it conflicted with Directive 2003/54 on the internal electricity market.

On 28 November, a new proposed Royal Decree on renewables, cogeneration and waste was processed and sent by the MINETUR to the CNMC in order for a report to be issued; the proposal has also been studied by the Consultative Committee on Electricity. In general terms, the new proposal maintains the model proposed in July, although the necessary changes have been made to bring it into line with the modifications made to the Bill of Law on the electricity sector during its passage through Parliament; the content has also been structured and certain details have been changed.

On 27 December, Law 24/2013 of 26 December on the electricity sector was published, the main developments being:

- With respect to the principle of the system's economic and financial sustainability:
  - The remuneration calculation parameters will have a six-year term and will be reviewed prior to the start of the regulatory period taking into account the economic cycle, demand for electricity and an adequate return from these activities.

- A distinction is made between transport and distribution network access tolls and the charges that are necessary to cover other costs of the relevant system activities, which will be determined using methodology to be established by the Government; in general, tolls and charges will be reviewed annually or in the event of circumstances that have a material impact on regulated costs or on the calculation parameters employed.

- Voluntary prices for small consumers are regulated and will be the unic price applicable throughout the Spanish terrory. In line with the prices previously referred to as last-resort tariffs, these prices are defined as the maximum prices that the reference commercialisers may collect from consumers that avail themselves of the prices.

- The legal regime for the collection and payment of tolls, charges, prices and regulated remuneration stipulates that the electricity system's revenues and costs must be settled monthly and with the same frequency, on a general basis.

- Mismatches due to a revenue deficit are limited to the extent that they may not exceed 2% of revenues estimated for the reference period and cumulative liabilities due to mismatches may not exceed 5% of those revenues. Should these limits not be observed, the relevant tolls or charges will be reviewed. The portion of the mismatch that is not offset by a rise in tolls and charges shall be financed by the parties subject to the settlement system in proportion to their debt claims arising from the activities performed. The amounts contributed in this way will be reimbursed in the settlements for the following five years, plus applicable interest. Any surplus revenues generated will be used to offset prior-year mismatches; while there are outstanding prior-year liabilities, the access tolls or charges may not be reduced.

- For year 2013, an income deficit for liquidations of the electrical system for a maximum amount of Euros 3,600 million is recognised. This deficit will generate receivables consisting in the right to receive an amount of the monthly billing for fifteen successive years beginning on January 1, 2014 until its complete satisfaction.

- The obligation to keep separate accounting records is extended, applying not only to the separation of electricity activities from non-electricity activities, but also to the separation of production with regulated remuneration activity from unregulated. This obligation extends to all producers receiving regulated remuneration.

• Electricity generation:

  - The temporary closure of generation facilities is regulated and will be subject to prior administrative authorisation.

  - Hydraulic resources that must be used to generate electricity are regulated as well as the daily market system of offers, in particular that all production units must offer its energy in the market, including those operating under the former special regime.

  - Electricity demand and contracting, rights and obligation of electricity generators, and specific remuneration regime records are all regulated.

• System's economic and technical management:

  - System operator and market operator functions are regulated, as well as the procedures for the certification of the system operator by the National Markets and Competition Commission, and for authorisation and designation as a transportation network manager by the Ministry of Industry, Energy and Tourism, which must be notified to the European Commission, and certification relating to non-European Union countries.

- Network access and connection is regulated, clearly defining the access right and connection right concepts, as well as access and connection permits, the related grant procedure and requirements, and parties responsible for granting permits subject to technical and economic criteria to be stipulated in enabling regulations.

- Electricity transport activity:

    - A specific requirement is provided whereby new facilities must be included in the planning phase in order to receive its remuneration.

    - The functions that must be performed by the transport company are provided, having previously been included in different laws or enabling regulations.

- Electricity distribution:

    - A definition of distribution facilities is provided.

    - The obligations and functions of electricity distribution companies are stipulated, distinguishing between distribution performed as the owners of distribution networks and distribution performed as networks management companies.

- Regime for inspections, infringements and penalties:

    - The classification of infringements is revised and new infringements are included, certain conduct having been identified that had not been envisaged in Law 54/1997 of 27 November but has a negative impact on the electricity system's economic sustainability and functioning.

    - The amount of penalties is revised, existing incidental penalties are extended and powers to impose penalties are modified.

2.4.2.2. Commercialisation of electricity

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

As mentioned above, as from 1 July 2009 consumers purchasing more than 10 Kw must be supplied by a free market retailer, while those consuming power equal to or lower than 10 Kw have the option to continue buying electricity under the regulated price (tariff of last resort called voluntary price for small consumers-VPSC-as from new Law 24/2013).

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

On 29 March 2013, the DGPEM's Resolution of 25 March was published, revising electricity generation costs and last-resort tariffs applicable as from 1 April 2013. The TUR decreased by an average of 6.63%, based on the results of the auction held on 20 March.

On 29 June 2013, the DGPEM's Resolution of 26 June was published, revising electricity generation costs and last-resort tariffs applicable as from 1 July 2013, entailing a 1.3% rise in the TUR.

On 3 August 2013, Order IET/1491/2013 of 1 August was published, revising electricity access tolls applicable as from August 2013, and the DGPEM's Resolution whereby the TUR was revised. The new tariffs are applicable as from 3 August, entailing an average 3.8% increase in the TUR.

On 1 October 2013, the DGPEM's Resolution of 24 September was published, revising electricity generation costs and last-resort tariffs applicable as from 1 October 2013, entailing an average 3% rise in the TUR as a result of the CESUR auction and the maintenance of access tolls.

It should be noted that the CESUR auction for determining the price corresponding to the first quarter of 2014 has been canceled and the energy price for this period, has been established by Royal Decree-Law 17/2013.

2.5. Regulation of the international electricity sector

2.5.1. Generation

The countries in which Gas Natural Fenosa is present as a generator are Mexico, Panama, Costa Rica, Dominican Republic and Puerto Rico.

In Mexico, Costa Rica and Puerto Rico, the Group's generation operations are subject to the regime for capacity commitment contracts (PPA) with the sector's domestic companies, the Federal Electricity Commission (*CFE*), Costa Rica Electricity Institute (*ICE*) and Puerto Rico Electric Power Authority (*PREPA*), respectively; all three public corporations vertically integrated and exclusively responsible for transmission, distribution and commercialisation.

In Panama and the Dominican Republic, electricity generated is sold under bilateral contracts with the distributors.

In all five countries, electricity sector regulations are well-established and stable; legislation is developed and administered by independent regulators.

2.5.2. Distribution

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

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

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

Note 3. Basis of presentation and accounting policies

3.1 Basis of presentation

The Consolidated annual accounts of Gas Natural Fenosa for 2012 were adopted by the General Meeting of Shareholders of 16 April 2013.

The Consolidated annual accounts for 2013, which were formulated by the Gas Natural SDG,S.A. Board of Directors on 31 January 2014, will be submitted, along with those of the investee companies, to the approval of the respective General Meetings. It is expected that they will be adopted without modification.

The Consolidated annual accounts of Gas Natural Fenosa for 2013 have been prepared on the basis of the accounting records of Gas Natural SDG, S.A. and the other companies in the Group, in accordance with the provisions of International Financial Reporting Standards adopted by the European Union (hereon “IFRS-UE”), as per (EC) Regulation nº 1606/2002 of the European Parliament and Council.

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

These Consolidated annual accounts fairly present the consolidated equity and consolidated financial situation of Gas Natural Fenosa at 31 December 2013, and the consolidated results of its operations, the Changes in the Consolidated Statement of Comprehensive Income, the Changes in Consolidated Net Equity and the Consolidated Cash Flows of Gas Natural Fenosa for the year then ended.

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

3.2 New IFRS-EU standards and IFRIC interpretation

As a result of the adoption, publication and coming into force on 1 January 2013 the following changes in the standards were applied:

- IAS 1 (Amendment), “Presentation of items of other comprehensive income”;
- IAS 19 (Amendment), “Employee benefits”;
- IFRS 13, “Fair value measurement”;
- IFRIC 20, “Stripping costs in the production phase of a surface mine”;
- IFRS 7 (Amendment), “Financial instruments: Disclosures – Offsetting financial assets and financial liabilities”;
- IAS 12 (Amendment), “Deferred tax: Recovery of underlying assets”;
- Annual improvements to IFRS, cycle 2009-2011.

The application of IFRS 13 "Fair value measurement" has not had a significant impact on the consolidated annual accounts or on the measurement techniques and methods applied to financial assets and liabilities carried at fair value. Fair value has been determined taking into account the effect of assessing counterparty default risk, in the case of financial assets, and the Group's own credit risk, in the case of financial liabilities.

The application of the other changes has not had a material impact on the consolidated annual accounts. For comparative purposes, the consolidated statement of comprehensive income for the year ended 31 December 2012 is presented under IAS 1 (Amendment), “Presentation of items of other comprehensive income”.

Additionally, the European Union has adopted in 2012 and 2013 the following standards and amendments for the financial years beginning 1 January 2014:

- IFRS 10, "Consolidated financial statements”;
- IFRS 12, "Disclosure of interests in other entities”;
- IAS 27 (Amendment), “Separate financial statements”;
- IAS 28 (Amendment), "Investments in associates and joint ventures”;
- IAS 32, “Financial instruments: Presentation – Offsetting financial assets and financial liabilities”;
- IAS 36 (Amendment), “Impairment of assets”;
- IAS 39 (Amendment), “Financial Instruments: Recognition and measurement”; Novation of derivatives and continuation of hedge accounting.
- IFRS 10, IFRS 11 and IAS 27 (Amendments), “Investment entities”.
- "Transition guide", Amendments to IFRS 10, IFRS 11 and IFRS 12.

The above standards and amendments have not been early adopted, except for IAS 36 (Amendment), "Impairment of Assets".

Additionally, as from 1 January 2014, IFRS 11 “Joint arrangements” is mandatory; as a result, joint ventures (those arrangements in which the venturers hold rights only to the investee's net assets) must be equity consolidated instead of proportionately consolidated.

Had IFRS 11 been applied during the preparation of the 2013 consolidated annual accounts, the estimated effect of the change of consolidation method on the balance sheet at 31 December 2013 and on the 2013 income statement would have been as follows:

	31.12.13	31.12.13 a/ IFRS 11	Variation
Non-current assets	34,260	33,168	(1,092)
Current assets	10,685	10.343	(342)
Total Assets	44,945	43,511	(1,434)
Net equity	15,010	14,967	(43)
Non-current liabilities	21,408	20,187	(1,221)
Current liabilities	8,527	8,357	(170)
Total Net equity and liabilities	44,945	43,511	(1,434)

	31.12.13	31.12.13 a/ IFRS 11	Variation
Sales	24,969	24,478	(491)
Operating expenses	(20,099)	(19,844)	255
Depreciation, amortisation and impairment expenses	(1,907)	(1,612)	295
Operating income	2,963	3,022	59
Net financial income	(838)	(803)	35
Profit of entities recorded by equity method	7	(62)	(69)
Income before taxes	2,132	2,157	25
Income tax expense	(468)	(499)	(31)
Minority interests	(219)	(213)	6
Attributable profit	1,445	1,445	-

The impact derives basically from the change of consolidation method applicable to Unión Fenosa Gas, Ecoeléctrica (combined cycle plant in Puerto Rico), Nueva Generadora del Sur (combined cycle plant in Spain) and several joint ventures that operate electricity generation facilities under the special regime.

Following the analysis of the rest of the new accounting standards and interpretations applicable in financial years commencing as from 1 January 2014 and thereafter, Gas Natural Fenosa does not expect their application to have significant effects on the Consolidated annual accounts.

3.3 Accounting policies

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

3.3.1 Consolidation

a) Subsidiaries

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

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

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

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

The surplus cost of the acquisition in relation to the fair value of the shareholding of Gas Natural Fenosa in the net identifiable assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Consolidated Income Statement.

In a business combination achieved in stages, Gas Natural Fenosa values its prior interest in the target's equity at the fair value on the control date, recognising resulting gains or losses in the Consolidated Income Statement.

Subsidiaries are fully consolidated from the date on which control is transferred to Gas Natural Fenosa.

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

The shareholding of the minority shareholders in the equity and profit or loss of the subsidiary companies is broken down under “Minority interest” in the Consolidated Balance Sheet and “Net income attributable to minority interest” in the Consolidated Income Statement.

In relation to the acquisitions or sale of minority interests without loss of control, the difference between the price paid or received and their net carrying value, or as the case may be, the result of their sale, is booked as equity transactions and does not generate either goodwill or profits.

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

b) Joint Ventures

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

Gas Natural Fenosa’s interests in jointly controlled entities are accounted for by proportionate consolidation, and, accordingly, the aggregation of balances and write offs thereafter are only made in proportion to the interest of Gas Natural Fenosa.

The assets and liabilities assigned to joint ventures and the assets that are controlled jointly are recorded on the Consolidated Balance Sheet in accordance with their nature. The income and expenses from joint ventures are reflected in the Consolidated Income Statement in accordance with their nature.

c) Associates

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

The investments in associates are recorded under the equity method. Gas Natural Fenosa's share of its associates' post-acquisition profits or losses is recognized in the Consolidated Income Statement, and its share of post-acquisition movements in equity is recognized under reserves. Unrealised gains between Gas Natural Fenosa and its associates are eliminated in proportion to its interest in the latter.

d) Consolidation scope

Appendix I includes the investee companies directly and indirectly owned by Gas Natural Fenosa that have been included in the consolidation scope.

Appendix II lists the main consolidation scope changes in 2013 and 2012, the most relevant being:

2013

In 2013 the main variations in the consolidation scope have been the disposal, in February 2013, of shareholdings of 83,7% in two electricity distributors in Nicaragua, Distribuidora de Electricidad del Norte, S.A. and Distribuidora de Electricidad del Sur, S.A. (Note 26).

2012

In 2012 the main variations in the consolidation scope corresponded to the disposal, in February 2012, of the assets corresponding to certain clients for gas and associated contracts in the Region of Madrid (Note 26).

3.3.2 Foreign currency translation

Items included in the financial statements of each of Gas Natural Fenosa's entities are measured using the currency of the primary economic environment in which the entity operates. The Consolidated financial statements are presented in Euros, which is the Gas Natural Fenosa presentational currency.

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

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

- Assets and liabilities for each Balance sheet presented are translated at the closing rate at the date of that balance sheet;

- Income and expenses for each Income statement are translated at monthly average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions.

- All the exchange differences are recognised in the Consolidated Statement of Comprehensive Income, and the cumulate amount under the caption Cumulative translation Adjustments in Net equity.

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

The exchange rates against the Euro (EUR) of the main currencies of the companies in Gas Natural Fenosa at December 31, 2013 and 2012 have been:

	31 December 2013		31 December 2012	
	Closing Rate	Average Accumulated Rate	Closing Rate	Average Accumulated Rate
US Dollar (USD)	1.38	1.33	1.32	1.28
Argentinean Peso (ARS)	8.97	7.26	6.46	5.82
Brazilian Real (BRL)	3.23	2.87	2.69	2.51
Colombian Peso (COP)	2,657	2,483	2,333	2,311
Mexican Peso (MXN)	18.02	16.96	17.14	16.91
Nicaraguan Córdoba (NIO)	34.93	32.83	31.83	30.24
Panamanian Balboa (PAB)	1.38	1.33	1.32	1.28
Moldovan Lei (MDL)	17.95	16.68	15.99	15.55

3.3.3 Intangible assets

a) Goodwill

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

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

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

The impairment losses on goodwill cannot be reversed.

b) Concessions and the like

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

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

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

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

c) Computer software applications

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

Computer software development costs recognized as assets are amortised on a straight–line basis in four years as from the time the assets are prepared to be brought into use.

d) Research costs

Research activities are expensed in the Consolidated Income Statement as incurred.

e) Other intangible assets

Other intangible assets mainly include the following:

- The cost of acquisition of the exclusive re-gasification rights at the installations of EcoEléctrica L.P., Ltd. in Puerto Rico, which are amortised on a straight-line basis until the end of their term (2025).

- The licence costs for new wind farms, mainly acquired as part of a business combination, which will be amortized on a straight-line basis over their useful lives (20 years), once they will start functioning.

- The CO_2 emission allowances received for no consideration are stated at no value while those acquired are stated at their acquisition cost. In the event that Gas Natural Fenosa does not have enough allowances to meet its emission quotas, the deficit is recorded under “Current provisions” and valued at the cost of acquisition for the allowances purchased and at fair value for the allowances pending to purchase on the date the Consolidated annual accounts are filed.

- Gas supply contracts and other contractual rights purchased as part of a business combination, which are valuated at fair value and amortised over the contract term that does not differ of expected consumption scheme.

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

3.3.4 Property, plant and equipment

a) *Cost*

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

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

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

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

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

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

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

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

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

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

b) *Amortisation*

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

	Years of estimated useful life
Buildings	33-50
Liquefied natural gas (LNG) transport gas tankers	25-30
Technical installations (pipeline network and transport)	20-40
Technical installations (hydro-electric plants)	14-65
Technical installations (thermal energy plants)	25-40
Technical installations (combined cycle gas turbine: CCGT)	25
Technical installations (nuclear energy plants)	40
Technical installations (wind farms)	20
Technical installations (electricity transmission lines)	30-40
Technical installations (electricity distribution network)	18-40
Computer equipment	4
Vehicles	6
Other	3-20

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

The calculation of the amortisation charge for the hydro-electric plants differentiates between the different types of assets they have, distinguishing between the investments in civil works (which are depreciated on the basis of the concession period, or 100 years if there is no concession), electro-mechanical equipment (40 years) and the other fixed assets (14 years), taking into account, in any case, the use of the plant and the maximum term of the concessions (expiring between 2022 and 2063).

Gas Natural Fenosa depreciates its nuclear energy plants over a useful life of 40 years which corresponds to the theoretical useful life of its main components. Operating licences of these plants usually long for 10 year periods and the renewal request of these permits cannot be applied for until their 40-year useful life period has been reached.

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

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

c) Exploration operations and production of gas

Gas Natural Fenosa records exploration gas and coal operations using the successful-effort exploration method, which treatment is as follows:

- Explorations costs

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

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

- Investments in areas with reserves

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

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

3.3.5 Impairment of non-financial assets

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

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

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

These units have been defined using the following criteria:

- Gas distribution Europe:
    - Gas distribution Spain. The development, operations and maintenance of the gas distribution network is managed jointly.
    - Gas distribution Others. Relates to the gas distribution assets in Italy.

- Electricity distribution Europe:
    - Electricity distribution Spain. The development, operations and maintenance of the electricity distribution network is managed jointly.
    - Electricity distribution Others. Relates to the electricity distribution assets in Moldova.

- Gas. Includes the gas infrastructure, supplies and commercialisation CGUs and those of Unión Fenosa Gas.

- Electricity:
    - Electricity Spain. Electricity production in Spain is managed jointly and in a centralised manner, depending on market conditions.
    - Electricity Others. Relates to electricity business in Kenya.

- Latin America.

    - Gas distribution Latin America: There is a CGU for each country in which it operates (Argentina, Brazil, Colombia and Mexico), as these are businesses subject to different regulatory frameworks.
    - Electricity distribution Latin America. There is a CGU for each country in which it operates (Colombia and Panama), as these are businesses subject to different regulatory frameworks.
    - Electricity Latin America: there is a CGU for each country in which it operates (Costa Rica, Mexico, Puerto Rico, Panama and the Dominican Republic), as these are businesses subject to different regulatory frameworks and independently managed.

- Other. Includes the coal field CGUs in South Africa and optic fibre.

For those CGUs that required analysis for possible impairment losses, the cash flows were based upon the Strategic Plans approved by Gas Natural Fenosa, extended to five years, based on regulation and market development expectations in line with the sector forecasts available and on past experience on price evolution and the volumes produced.

Cash flows after the projected period were extrapolated bearing in mind the growth rates estimated by the CGU which, in no case, exceeded the average long-term growth rate for the business and the country in which they operate and that are, in any case, lower than the growth rates for the period of the strategic plan. Additionally, to estimate the future cash flow in calculating the residual values, all the investments in maintenance were taken into account and, where applicable, the investments in renovation needed to maintain the productive capacity of the CGUs. The following are the nominal growth rates employed:

	Rates 2013 (%)	**Rates 2012 (%)**
Distribution of gas Latin America	1.0	1.0
Distribution of gas Rest	1.0	1.0
Distribution of electricity Spain	0.6	0.8
Distribution of electricity Latin America	1.2 -3.0	1.2 -3.0
Distribution of electricity Rest	1.8	1.8
Electricity Spain	1.8	1.8
Electricity Latin America	1.0 - 4.9	1.9 - 4.9
Electricity Rest	4.5	4.5
Unión Fenosa Gas	1.4	2.0

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

	Rates 2013 (%)	**Rates 2012 (%)**
Distribution of gas Latin America	12.0-13.0	15.0-16.0
Distribution of gas Rest	9.0	9.8
Distribution of electricity Spain	8.5	9.6
Distribution of electricity Latin America	10.7-15.0	9.4-24.4
Distribution of electricity Rest	15.8	16.5
Electricity Spain	9.0	10.1
Electricity Latin America	7.3-14.4	6.4-16.9
Electricity Rest	10.9	11.2
Unión Fenosa Gas	12.8	12.6

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

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

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

- Distribution of electricity Spain:

  - Regulated remuneration. The amount and growth of the remuneration approved by the regulator, considering the impacts of RDL 2/2013, RDL 9/2013, Law 24/2013 (Note 2.4.2.1) and RD 1048/2013 (Note 2.4.1.2).
  - Operational and maintenance costs. Estimates using historical costs of the network managed.
  - Investments. Taking into consideration the investments necessary to maintain regular use of the network.

- Gas and electricity distribution in Latin America and Rest

  - Evolution of the tariffs. Assessment of tariffs in each country, based on the terms of the tenders and tariff reviews.
  - Cost of energy and fuel. Estimated based on predictive models developed on the basis of knowledge of each country's energy models.

- Electricity Spain:

  - Electricity generated. Market demand evolution has been estimated based on the consensus expressed by several international bodies. The share has been estimated based on Gas Natural Fenosa's market share in each technology and on the expected evolution of each technology's share of the total market. It has been considered the impacts of RDL 2/2013, RDL 9/2013 and Law 24/2013 (Note 2.4.2.1).
  - Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts.
  - Cost of fuel, operation and maintenance and CO_2 emission rights. Estimated based on long-term contracts and the expected evolution of supply curves of prices and market experience.
  - Operation and maintenance costs. Estimated from historical costs of managed park.
  - The effect of new taxes established by Law 15/2012 (Note 2.4.2.1).

- Electricity Latin America and Rest:

  - Electricity production in Latin America is carried on based on sale and purchase energy agreements that determine stable business models and are not subject to fluctuation risks depending on market variables.

- Unión Fenosa Gas:

- Cost of gas supplies. In accordance with prices stipulated in long-term contracts.
- Market price of natural gas. Valued using the predictive models applied by Gas Natural Fenosa based on price curves and market experience.

As a result of the process, in 2013 and 2012, the recoverable values of the assets of the CGUs, calculated in line with the above-mentioned model are, in any case, greater than the net carrying values recorded in these Consolidated annual accounts, and, accordingly, no impairment has been booked, except for those mentioned in Notes 5 and 6.

Likewise, Gas Natural Fenosa estimates that the unfavourable variances the sensitive aspects mentioned, based on historical experience, on which the determination of the recoverable amount in certain CGUs were based could suffer, would not vary the conclusions reached that the recoverable amount is greater than the carrying amount. Concretely, the most important sensitivity analysis performed considered a drop of 5% in the energy produced and in the price of energy in the case of the CGUs for electricity, a drop of 5% in the price of natural gas in Union Fenosa Gas UGE, as well as a drop of 5% in the tariff/remuneration and an increase of 5% in operation and maintenance costs in the case of the CGUs for the distribution of gas and electricity. With regard to the discount rate, this sensitivity analysis was performed applying a 50 basis point increase on the discount rates applied in the base case.

3.3.6 Financial assets and liabilities

Financial investments

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

a) Loans and other receivables

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

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

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

b) Held-to-maturity financial assets

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

c) Fair value financial assets through profit or loss.

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

d) Available-for-sale financial assets

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

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

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

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

- Level 1: Valuations based on the quotation price of identical instruments in an official market. The fair value is based on quoted market prices at the balance sheet date.

- Level 2: Valuations based on variables that are observable for the asset or liability. The fair value of financial assets included in this category is determined using valuation techniques. The valuation techniques maximize the use of observable market data when available and rely as little as possible on specific estimates done by Gas Natural Fenosa. If all significant inputs required to calculate the fair value are observable, the instrument is included in Level 2. If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3.

- Level 3: Valuations based on variables that are not based on observable market information.

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

Gas Natural Fenosa has entered into account receivables assignment agreements in 2013 and 2012, which have been qualified as factoring without recourse since the risks and rewards inherent in ownership of the financial assets assigned have been transferred.

Cash and cash equivalents

Cash and cash equivalents include cash at hand, time deposits with financial entities and other short-term investments noted for their great liquidity with a maturity of no longer than three months.

Borrowings

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

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

Trade and other payables

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

3.3.7 Derivatives and other financial instruments

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

Gas Natural Fenosa documents at the inception of the transaction and periodically, the relationship between hedging instruments and hedged items, as well as its risk management objective. Additionally, the aims of risk management and hedging strategies are periodically reviewed.

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

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

- Derivatives listed on an official market are calculated on the basis of their year-end quotation.

- Derivatives that are not traded on official markets are calculated on the basis of the discounting of cash flows based on year end market conditions, based on market conditions as at Consolidated balance sheet date or, for some non-financial items, on best estimation on forward curves of said non-financial item.

Fair values obtained in absence of risk are adjusted by the expected impact of the risk of counterparty credit observable in positive valuation scenarios and the impact of own credit risk in observable negative valuation scenarios.

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

For accounting purposes, the operations are classified as follows:

1. Derivatives qualifying for hedge accounting

a) Fair value hedge

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

b) Cash flow hedge

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

Amounts accumulated in net equity are reclassified to the income statement in the periods when the hedged item will affect the Consolidated Income Statement.

c) Hedges of net foreign investments

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

2. Derivatives that do not qualify for hedge accounting

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

3. Energy purchase and sale agreements

During the normal course of its business Gas Natural Fenosa enters into energy purchase and sale agreements which in most cases include "take or pay" clauses, by virtue of which the buyer takes on the obligation to pay the value of the energy contracted irrespective of whether he receives it or not. These agreements are executed and maintained in order to meet the needs of receipt of physical delivery of energy projected by Gas Natural Fenosa in accordance with the energy purchase and sale estimates made periodically, which are monitored systematically and adjusted always may be by physical delivery. Consequently, these are negotiated contracts for "own use", and, accordingly, fall out with the scope of IAS 39.

3.3.8 Non-current assets held for sale and discontinued activities

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

Additionally, Gas Natural Fenosa considers discontinued activities the components (cash generating units or groups of cash generating units) that make up a business line or geographic area of operations, which are significant and which can be considered separately from the rest, and which have been sold or disposed by other means or which meet the conditions to be classified as held-for-sale. Furthermore, discontinued activities also include entities acquired exclusively for resale.

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

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

3.3.9 Inventories

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

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

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

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

3.3.10 Share capital

Share capital is made up of ordinary shares.

Incremental costs directly attributable to the issue of new shares or options, net of tax, are deducted from equity as a deduction from Reserves.

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

Acquisitions of treasury shares are recorded at acquisition cost, deducted from equity until disposal. The Gains and losses on disposal of treasury shares are recognized under "Reserves" in the consolidated balance sheet.

3.3.11 Earnings per share

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

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

3.3.12 Preference shares

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

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

- The payment of interest is at the discretion of the issuer.

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

3.3.13 Deferred income

This caption mainly includes:

- Capital grants relating basically to Agreements with the Regional Governments for the gasification of municipalities and other investments in gas infrastructure, for which Gas Natural Fenosa has met all the conditions established, are stated at the amount granted.

- Income received for the construction of connection facilities for the gas or electricity distribution network, which are booked for the cash received, as well as assignments received for these facilities, which are booked, in accordance with IFRIC 18, at their fair value, since both the cash and the facilities are received in consideration for an ongoing service of providing access to the network during the life of the facilities.

- Income from the extension of the pipeline network that will be financed by third parties.

Amounts under Deferred income are recognised through the Consolidated Income Statement systematically on the basis of the useful life of the corresponding asset, thus offsetting the amortisation expense.

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

3.3.14 Provisions for employee obligations

a) Post-employment pension and similar obligations

- Defined contribution plans

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

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

The contributions made have been recorded under “Personnel costs” on the Consolidated Income Statement.

- Defined benefit plans

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

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

Actuarial losses and gains arising from changes in actuarial assumptions or from differences between assumptions and reality are recognised directly in the equity item "Other comprehensive income", for the entire amount, in the period in which they arise.

Past-service costs are recognized immediately in Consolidated Income Statement under “Personnel cost”.

b) Other post-employment benefit obligations

Some of Gas Natural Fenosa’s companies provide post-employment benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans. Actuarial gains and losses arising from changes in actuarial assumptions are charged or credited to income “other comprehensive income”.

c) Termination benefits

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

d) Shares Acquisition Plan

In 2012, a Shares Acquisition Plan 2012-2013-2014 was initiated, addressed to Gas Natural Fenosa employees who fulfil certain conditions and join the plan voluntarily, allowing them to receive part of their remuneration in shares of Gas Natural SDG, S.A., to a maximum limit of Euros 12,000. The cost of the shares acquired and delivered to the Group employees as part of their remuneration for 2013 is registered under the heading “Personnel cost” in the Consolidated Income Statement.

3.3.15 Provisions

Provisions are recognized when Gas Natural Fenosa has a legal or implicit present obligation as a result of past events; it is more likely than an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the best estimate of expenditure required to settle the present obligation at the balance sheet date.

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

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

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

In the event that Gas Natural Fenosa does not have sufficient CO_2 emission allowances to meet its emission quotas, the deficit valuated at the cost of acquisition for the allowances purchased and the fair value for the allowances pending purchase.

3.3.16 Leases

1) Finance leases

The leases in which the lessee assumes substantially all the risks and the advantages derived from the ownership of the assets are classified as financial leases.

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

2) Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases.

Lessee accounting

Payments made under operating leases are charged to the Consolidated income statement on a straight-line basis over the period of the lease.

Lessor accounting

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

- At the end of the lease period the lessor (Gas Natural Fenosa) continues to retain ownership of the asset.

- The lessee has no right to claim an extension of the lease term.

- The lessee does not have a purchase option.

- The risk of the operation is borne by the lessor.

- The fixed capacity charge can reach nil in the periods in which the availability of the Plant is below the guaranteed level. If non-compliance continues, the contract can be cancelled.

- The current value of the capacity charges is lower than the cost of construction of the Plant.

- The lessor has the right to sell energy from the part of the installed capacity that exceeds the level guaranteed under contract to third parties.

3.3.17 Income tax

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

Deferred taxes are recorded by comparing the temporary differences that arise between the taxable income on assets and liabilities and their respective accounting figures in the Consolidated annual accounts used the tax rates that are expected to be in force when the assets and liabilities are realised. No deferred tax liabilities are recognised for profits not distributed from the subsidiaries when Gas Natural Fenosa can control the reversal of the timing differences and it is likely that they will not reverse in the foreseeable future.

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

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

3.3.18 Revenue and expenses recognition and settlement for regulated activities

a) General

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

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

Sales are stated net of tax and discounts and the transactions between companies in the Gas Natural Fenosa are eliminated.

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

Note 2.1 describes the basic aspects of the applicable regulations to the gas sector.

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

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

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

Ministerial Order of 28 October 2002 which regulates the procedures for the payment of the regulated gas activity stipulates that the deviations that come to light from the application of the payment procedure between net payable final income and the accredited remuneration each year, will be taken into account in the calculation of the tolls and levies for the next two years. At the date of formulation of these Consolidated annual accounts the final payments for 2011 and 2012 have not been published, although the provisional negative deviations for this year has been taken into account in order to calculate the tariffs, tolls and levies for 2013 and 2014. It is not expected that the final payments will lead to significant differences in relation to the estimates made.

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

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

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

c) Revenue from electricity business and settlement for regulated activities

Note 2.4 describes the basic aspects of the applicable regulations to the electricity sector.

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

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

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

At the date of formulation of these Consolidated annual accounts the final payments for the period 2008-2012 have not been published, although it is not expected that the final payments will generate significant differences in relation to the estimates made.

In 2006 to 2013, given that the income collected by the companies in the Spanish electricity industry have not been sufficient to remunerate the different regulated activities and costs of the system, the companies themselves, including Gas Natural SDG, S.A., were forced to finance this income deficit, until its definitive funding through the electricity system securitisation fund.

In 2008 the entire deficit for 2007 was auctioned and the financed principal and interest for the period were received. During 2012 and 2013, the deficits for 2006, 2008, 2009, 2010, 2011 and 2012 were fully recovered through securitisation fund issues, the only outstanding matter being the recovery of a residual portion of the deficit generated in 2012, through the final settlements for 2013, which will be completed in the first quarter of 2014.

The debt claims relating to the deficit generated in 2013 may not be assigned by their owners to the securitisation fund. This deficit will generate debt claims consisting of the right to receive a part of the system's monthly billings over fifteen successive years as from 1 January 2014 until they are settled (Note 2.4.2.1).

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

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

d) Other income and expenses

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

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

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

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

Dividends are recognized as income when Gas Natural Fenosa’s right to receive payment is established.

3.3.19 Cash Flow Statements

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

a) Operating activities: activities that constitute ordinary Group revenues, as well as other activities that cannot be qualified as investing or financing.

b) Investing activities: acquisition, sale or disposal by other means of assets in the long-term and other investments not included in cash and cash equivalents.

c) Financing activities: activities that generate changes in the size and composition of net equity and liabilities that do not form part of operating activities.

3.3.20 Significant accounting estimates and judgments

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

a) *Intangible assets and Property, plant and equipment (Notes 3.3.3 and 3.3.4)*

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

b) *Impairment of non-financial assets (Note 3.3.5)*

The estimated recoverable value of the CGU applied to the impairment tests has been determined using the discounted cash flows based on the budgets by Gas Natural Fenosa, which have historically been substantially met.

c) *Derivatives or other financial instruments (Note 3.3.7)*

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated balance sheet date. The quoted market price used for financial assets held by the group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Gas Natural Fenosa uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of financial swaps is calculated as the present value of the estimated future cash flows. The fair value of commodity prices derivatives is determined using quoted forward price curves at the balance sheet date.

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

d) *Provisions for employee benefits (Note 3.3.14)*

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

e) *Provisions (Note 3.3.15)*

Gas Natural Fenosa makes an estimate of the amounts to be settled in the future, including amounts relating to, contractual obligations, outstanding litigation, future costs for dismantling and closure of certain facilities and restoration of land or other liabilities. These estimates are subject to the interpretation of current events and circumstances, projections of future events and estimates of their financial effects.

f) *Income tax (Note 3.3.17)*

The calculation of the income tax expense requires interpretations of tax legislation in the jurisdictions in which Gas Natural Fenosa operates. The determination of expected outcomes of outstanding disputes and litigation requires the preparation of significant estimates and judgment. Gas Natural Fenosa evaluates the recoverability of the deferred income tax assets based on estimates of future taxable income. The recoverability of the deferred tax assets depends ultimately on the capacity of Gas Natural Fenosa to generate sufficient tax profits during the periods in which these deferred taxes are deductible.

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

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

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

Note 4. Segment financial information

An operating segment is a component that carries on business activities from which it may obtain ordinary revenue and incur costs, the operating results of which are reviewed regularly by the Gas Natural SDG, S.A. Board of Directors so as to determine the resources that must be allocated to the segment and to evaluate its performance, and in respect of which separate financial information is available.

The definition of Gas Natural Fenosa's business segments have not been changed since the previous year although the Latin American businesses are grouped together by geographical area, in line with internal management information

a) *Segment Information*

The operating segments of Gas Natural Fenosa are:

- Gas distribution Europe. It encompasses the regulated gas distribution business in Spain and Rest (Italy).

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

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

- Electricity distribution Europe. It covers the regulated electricity distribution business in Spain and Rest (Moldova).

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

  The electricity distribution business in Moldova consists of the regulated distribution of electricity and commercialisation at tariff in the area of the country.

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

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

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

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

- Electricity. It includes the electricity generation and commercialisation in Spain and Rest (Kenya).

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

- Latin America. Includes the gas and electricity distribution businesses, as well as electricity generation.

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

  The electricity distribution business in Latin America relates to the regulated electricity distribution business and sales to customers at regulated prices in Colombia, Nicaragua (until 11 February 2013) and Panama.

  The electricity business in Latin America includes electricity production activity in Costa Rica, Mexico, Panama, Puerto Rico and Dominican Republic.

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

Net financial income and income tax expense are not allocated to the operating segments, since both financing activities and the income tax effects are managed jointly.

Segment results and investments for the periods of reference are as follows:

Segmental financial information – Income Statement

2013	Gas Distribution Europe			Electricity Distribution Europe			Gas				Electricity			Latin America				Other	Elimina-tions	
	Spain	Rest	Total	Spain	Rest	Total	Infras tructure	Supp. and Comm.	UF GAS	Total	Spain	Rest	Total	Gas Distribu tion	Electricity distribution	Electricity	Total			TOTAL
Sales consolidated	1,144	312	**1,456**	802	242	**1,044**	123	10,053	616	**10,792**	4,776	102	**4,878**	3,260	2,121	953	**6,334**	465	**-**	**24,969**
Sales intersegments	139	2	**141**	43	-	**43**	190	1,517	415	**2,122**	1,151	-	**1,151**	-	-	8	**8**	190	**-**	**3,655**
Sales segment	1,283	314	**1,597**	845	242	**1,087**	313	11,570	1,031	**12,914**	5,927	102	**6,029**	3,260	2,121	961	**6,342**	655	**(3,655)**	**24,969**
Segment supplies	(26)	(176)	**(202)**	-	(188)	**(188)**	(32)	(10,485)	(891)	**(11,408)**	(4,222)	(76)	**(4,298)**	(2,235)	(1,559)	(612)	**(4,406)**	(381)	**3,655**	**(17,228)**
Net personnel expenses	(75)	(16)	**(91)**	(104)	(7)	**(111)**	(4)	(49)	(11)	**(64)**	(158)	(2)	**(160)**	(96)	(57)	(16)	**(169)**	(266)	**-**	**(861)**
Other operating income/expenses	(265)	(30)	**(295)**	(153)	(12)	**(165)**	(19)	(173)	(6)	**(198)**	(758)	(12)	**(770)**	(243)	(165)	(58)	**(466)**	99	**-**	**(1,795)**
EBITDA	917	92	**1,009**	588	35	**623**	258	863	123	**1,244**	789	12	**801**	686	340	275	**1,301**	107	**-**	**5,085**
Other income	-	-	**-**	-	-	**-**	-	-	-	**-**	-	-	**-**	-	-	-	**-**	11	**-**	**11**
Depreciation, amortization and impairment expenses	(288)	(27)	**(315)**	(220)	(6)	**(226)**	(98)	(18)	(239)	**(355)**	(594)	(5)	**(599)**	(109)	(65)	(113)	**(287)**	(125)	**-**	**(1,907)**
Debtors provisions and others	(8)	(5)	**(13)**	(6)	-	**(6)**	-	(59)	-	**(59)**	(37)	-	**(37)**	(20)	(93)	-	**(113)**	2	**-**	**(226)**
Operating income	621	60	**681**	362	29	**391**	160	786	(116)	**830**	158	7	**165**	557	182	162	**901**	(5)	**-**	**2,963**
Net financial income	-	-	**-**	-	-	**-**	-	-	**-**	-	-		**-**	-	-	-	**-**	-	**-**	**(838)**
Equity-method result	-	-	**-**	-	-	**-**	-	-	6	**6**	-		**-**	-	-	-	**-**	1	**-**	**7**
Income before taxes	-	-	**-**	-	-	**-**	-	-	**-**	-			**-**	-	-	-	**-**	-	**-**	**2,132**
Income tax expense	-	-	**-**	-	-	**-**	-	-	**-**				**-**	-	-	-	**-**	-	**-**	**(468)**
Net income for the period	-	-	**-**	-	-	**-**	-	-	**-**				**-**	-	-	-	**-**	-	**-**	**1,664**

2012	Gas Distribution Europe			Electricity Distribution Europe			Gas				Electricity			Latin America				Other	Elimina-tions	
	Spain	Rest	Total	Spain	Rest	Total	Infras tructure	Supp.and Comm.	UF GAS	Total	Spain	Rest	Total	Gas Distribu tion	Electricity distribution	Electricity	Total			TOTAL
Sales consolidated	1,135	285	**1,420**	804	250	**1,054**	111	9,841	638	**10,590**	4,952	128	**5,080**	2,979	2,512	852	**6,343**	417	**-**	**24,904**
Sales intersegments	131	12	**143**	48	-	**48**	195	1,379	509	**2,083**	1,242	-	**1,242**	3	1	7	**11**	196	**-**	**3,723**
Sales segment	1,266	297	**1,563**	852	250	**1,102**	306	11,220	1,147	**12,673**	6,194	128	**6,322**	2,982	2,513	859	**6,354**	613	**(3,723)**	**24,904**
Segment supplies	(24)	(170)	**(194)**	-	(194)	**(194)**	(56)	(10,245)	(859)	**(11,160)**	(4,624)	(100)	**(4,724)**	(1,993)	(1,891)	(515)	**(4,399)**	(361)	**3,723**	**(17,309)**
Net personnel expenses	(77)	(15)	**(92)**	(99)	(8)	**(107)**	(6)	(50)	(12)	**(68)**	(152)	(2)	**(154)**	(98)	(66)	(15)	**(179)**	(271)	**-**	**(871)**
Other operating income/expenses	(265)	(29)	**(294)**	(140)	(13)	**(153)**	(19)	(189)	(20)	**(228)**	(514)	(11)	**(525)**	(251)	(190)	(68)	**(509)**	65	**-**	**(1,644)**
EBITDA	900	83	**983**	613	35	**648**	225	736	256	**1,217**	904	15	**919**	640	366	261	**1,267**	46	**-**	**5,080**
Other income	-	-	**-**	-	-	**-**	-	-	-	**-**	-	-	**-**	-	-	-	**-**	20	**-**	**20**
Depreciation, amortization and impairment expenses	(289)	(25)	**(314)**	(228)	(6)	**(234)**	(64)	(15)	(155)	**(234)**	(594)	(5)	**(599)**	(116)	(70)	(111)	**(297)**	(120)	**-**	**(1,798)**
Debtors provisions and others	-	(5)	**(5)**	1	-	**1**	-	(60)	-	**(60)**	(41)	-	**(41)**	(15)	(116)	-	**(131)**	1	**-**	**(235)**
Operating income	611	53	**664**	386	29	**415**	161	661	101	**923**	269	10	**279**	509	180	150	**839**	(53)	**-**	**3,067**
Net financial income	-	-	**-**	-	-	**-**	-	-	-	**-**	-		**-**	-	-	-	**-**	-	**-**	**(874)**
Equity-method result	-	-	**-**	-	-	**-**	-	-	9	**9**	-		**-**	-	-	-	**-**	1	**-**	**10**
Income before taxes	-	-	**-**	-	-	**-**	-	-	**-**	-	-		**-**	-	-	-	**-**	-	**-**	**2,203**
Income tax expense	-	-	**-**	-	-	**-**	-	-	**-**				**-**	-	-	-	**-**	-	**-**	**(546)**
Net income for the period	-	-	**-**	-	-	**-**	-	-	**-**				**-**	-	-	-	**-**	-	**-**	**1,657**

Segmental financial information – Assets, liabilities and investments

	Gas Distribution Europe			Electricity Distribution Europe			Gas				Electricity			Latin America				Other	
2013	**Spain**	**Rest**	**Total**	**Spain**	**Rest**	**Total**	**Infrastructure**	**Supp.and Comm.**	**UF GAS**	**Total**	**Spain**	**Rest**	**Total**	**Gas Distribution**	**Electricity distribution**	**Electricity**	**Total**		**TOTAL**
Assets (1)	3,604	715	**4,319**	5,354	164	**5,518**	895	2,533	2,159	**5,587**	10,063	101	**10,164**	2,247	2,094	1,767	**6,108**	2,722	**34,418**
Investments under equity method	-	-	**-**	-	-	**-**	-	-	59	**59**	24	-	**24**	-	-	-	**-**	13	**96**
Liabilities (2)	(733)	(112)	**(845)**	(891)	(26)	**(917)**	(69)	(2,318)	(180)	**(2,567)**	(847)	(15)	**(862)**	(479)	(759)	(184)	**(1,422)**	(1,233)	**(7,846)**
Investment in intangible assets (3)	39	29	**68**	12	-	**12**	3	-	4	**7**	48	-	**48**	94	1	-	**95**	89	**319**
Invest. in property, plant & equipment (4)	240	1	**241**	212	14	**226**	10	25	15	**50**	128	-	**128**	87	127	249	**463**	67	**1,175**
Business combinations (5)	-	-	**-**	-	-	**-**	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	**-**

	Gas Distribution Europe			Electricity Distribution Europe			Gas				Electricity			Latin America				Other	
2012	**Spain**	**Rest**	**Total**	**Spain**	**Rest**	**Total**	**Infrastructure**	**Supp.and Comm.**	**UF GAS**	**Total**	**Spain**	**Rest**	**Total**	**Gas Distribution**	**Electricity distribution**	**Electricity**	**Total**		**TOTAL**
Assets (1)	3,550	682	**4,232**	5,284	172	**5,456**	1,045	2,257	2,507	**5,809**	10,710	115	**10,825**	2,591	2,279	1,731	**6,601**	2,437	**35,360**
Investments under equity method	-	-	**-**	-	-	**-**	-	1	61	**62**	25	-	**25**	-	-	-	**-**	13	**100**
Liabilities (2)	(562)	(137)	**(699)**	(1,003)	(31)	**(1,034)**	(57)	(2,599)	(135)	**(2,791)**	(1,149)	(21)	**(1,170)**	(562)	(947)	(214)	**(1,723)**	(1,158)	**(8,575)**
Investment in intangible assets (3)	16	39	**55**	11	-	**11**	2	-	2	**4**	19	-	**19**	94	2	-	**96**	79	**264**
Invest. in property, plant & equipment (4)	241	2	**243**	258	16	**274**	23	27	9	**59**	163	-	**163**	83	130	63	**276**	78	**1,093**
Business combinations (5)	-	-	**-**	-	-	**-**	-	-	**-**	-	1	-	**1**	-	-	-	**-**	-	**1**

(1) Operating assets: property, plant and equipment, intangible assets, except goodwill which is detailed in Note 5, inventories, derivatives designated to hedge future trading operations, trade and other receivables and cash and other cash equivalents. They exclude the tax refundable balances, the financial assets and derivatives for negotiating or hedging loans. The assets not included total Euros 10.527 million at 31 December 2013 (Euros 11,527 million at 31 December 2012).

(2) Operating liabilities: including derivatives designated as hedges of future operations. They exclude items such as tax payable, borrowings and respective hedging derivatives. The excluded liabilities total Euros 22.089 million at December 2013 (Euros 23,433 million at December 2012).

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

(4) Includes the investment in property, plant and equipment (Note 6), broken down by operating segment.

(5) Includes business combinations (Note 29), broken down by operating segment.

b) Reporting by geographic area

The home-country of Gas Natural Fenosa - which is also the main operating company - is Spain. The areas of operation are principally Rest of Europe (Italy, France, Moldova and Portugal), Latin America, Africa and others.

Gas Natural Fenosa's sales, depending on country assignation, are as follows:

	2013	**2012**
Spain	13,975	14,027
Rest of Europe	2,212	1,268
Latin America	7,458	7,840
Others	1,324	1,769
Total	**24,969**	**24,904**

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

	A 31.12.13	**A 31.12.12**
Spain	25,981	26,878
Rest of Europe	1,175	854
Latin America	6,262	6,737
Others	1,096	991
Total	**34,514**	**35,460**

The investments in property, plant and equipment and other intangible assets of Gas Natural Fenosa assigned according to location of the assets are as follows:

	A 31.12.13	**A 31.12.12**
Spain	865	864
Rest of Europe	45	58
Latin America	559	404
Others	25	31
Total	**1,494**	**1,357**

Note 5. Intangible assets

The movement in 2013 and 2012 in intangible assets is as follows:

	Concession and other rights to use	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Cost, gross	3,865	590	2,814	**7,269**	5,876	**13,145**
Accumulated Amortisation	(1,270)	(378)	(417)	**(2,065)**	-	**(2,065)**
Net carrying value at 1.1.12	**2,595**	**212**	**2,397**	**5,204**	**5,876**	**11,080**
Investment (Note 4)	128	105	31	**264**	-	**264**
Divestitures	-	-	(22)	**(22)**	(1)	**(23)**
Amortisation and impairment charge	(115)	(81)	(171)	**(367)**	-	**(367)**
Translation adjustment	(133)	1	(19)	**(151)**	(38)	**(189)**
Business combination (Note 29)	-	-	1	**1**	-	**1**
Reclassifications and others	69	(11)	(60)	**(2)**	-	**(2)**
Net carrying value at 31.12.12	**2,544**	**226**	**2,157**	**4,927**	**5,837**	**10,764**
Cost, gross	3,906	659	2,736	**7,301**	5,837	**13,138**
Accumulated Amortisation and impairment expenses	(1,362)	(433)	(579)	**(2,374)**	-	**(2,374)**
Net carrying value at 1.1.13	**2,544**	**226**	**2,157**	**4,927**	**5,837**	**10,764**
Investment (Note 4)	129	140	50	**319**	-	**319**
Divestitures (1)	-	(1)	(65)	**(66)**	(22)	**(88)**
Amortisation and impairment charge	(119)	(85)	(273)	**(477)**	-	**(477)**
Translation adjustment	(210)	(1)	(3)	**(214)**	(59)	**(273)**
Reclassifications and others	12	-	(12)	**-**	-	**-**
Net carrying value at 31.12.13	**2,356**	**279**	**1,854**	**4,489**	**5,756**	**10,245**
Cost, gross	3,701	795	2,704	**7,200**	5,756	**12,956**
Accumulated Amortisation and impairment expenses	(1,345)	(516)	(850)	**(2,711)**	-	**(2,711)**
Net carrying value at 31.12.13	**2,356**	**279**	**1,854**	**4,489**	**5,756**	**10,245**

(1) Divestitures correspond, mainly, to the disposal of shareholdings in the electricity distributors in Nicaragua (Notes 3.3.1 and 26).

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

“Concessions and other rights to use” includes principally:

- The value of the concessions that are considered intangible assets in accordance with IFRIC 12 “Service Concession Agreements” (Note 31), amounting to Euros 1,405 million (Euros 1,549 million in 2012).

- The Maghreb-Europe pipeline concession (Note 31) amounting to Euros 243 million at 31 December 2013 (Euros 283 million at 31 December 2012).

- The electricity distribution concessions in Spain that have an indefinite useful life amounting to Euros 684 million (Euros 684 million at 31 December 2012).

The heading “Other intangible assets” mainly includes:

- Licences to operate wind farms totalling Euros 161 million at 31 December 2013, including the amounts relating to the acquisition of several wind energy companies (Euros 233 million at 31 December 2012).

- The cost of acquisition of the exclusive regasification rights in Puerto Rico totalling Euros 36 million at 31 December 2013 (Euros 42 million at 31 December 2012).

- The CO_2 emission allowances acquired, for Euros 49 million (Euros 59 million at 31 December 2012).

- Other intangible assets acquired as a result of the business combination of Unión Fenosa totalling Euros 1,564 million at 31 December 2013 (Euros 1,799 million at 31 December 2012) which mainly includes gas supply contracts and other contractual rights.

In 2013, the item "Amortisation and impairment charges", in "Other intangible assets", includes Euros 70 million relating to the impairment of the total value assigned in the Unión Fenosa's business combination to the gas processing rights held by Gas Natural Fenosa through its investee Unión Fenosa Gas in the liquefaction plant of Damietta (Egypt), as a result of the temporary interruption of the plant activities caused by the suspension of natural gas deliveries by the supplier. Unión Fenosa Gas has initiated legal actions in 2013 to defend its contractual rights.

Set out below is a summary of goodwill assignment by CGU or CGU group:

	31 December 2013					
	Gas Distribution	**Electricity Distribution**	**Electricity**	**Unión Fenosa Gas**	**Other**	**Total**
Spain	-	1,133	2,863	891	-	4,887
Latin America	54	108	502	-	-	664
Others	143	13	16	-	33	205
	197	**1,254**	**3,381**	**891**	**33**	**5,756**

	31 December 2012					
	Gas Distribution	**Electricity Distribution**	**Electricity**	**Unión Fenosa Gas**	**Other**	**Total**
Spain	-	1,133	2,863	891	-	4,887
Latin America	65	135	542	-	-	742
Others	143	15	16	-	34	208
	208	**1,283**	**3,421**	**891**	**34**	**5,837**

The impairment tests have been carried out at 31 December 2013 and 2012. On the basis of the goodwill and intangible assets with an undefined useful impairment analysis it was concluded that impairment will not probably arise in the future (Note 3.3.5).

The intangible assets include, at 31 December 2013, fully amortised assets still in use totalling Euros 348 million.

Note 6. Property, plant and equipment

The movements in the accounts in 2013 and 2012 under property, plant and equipment and their respective accumulated amortisation and provisions have been as follows:

	Land and buildings	Gas installations	Electricity generation plants	Plant for electricity transmission and distribution	Gas transport tankers	Other Property, plant and equipment	Property, plant and equipment under construction	Total
Cost, gross	688	8,198	11,721	6,259	662	1,315	1,035	**29,878**
Accumulated amortisation	(120)	(3,897)	(1,808)	(694)	(136)	(479)	-	**(7,134)**
Net carrying value at 1.1.12	**568**	**4,301**	**9,913**	**5,565**	**526**	**836**	**1,035**	**22,744**
Investment (Note 4)	24	312	60	237	-	56	404	**1,093**
Divestitures	(5)	(15)	(9)	(2)	-	(2)	(29)	**(62)**
Amortisation and impairment charge	(24)	(365)	(645)	(287)	(25)	(85)	-	**(1,431)**
Translation adjustment	2	24	(26)	35	-	(10)	4	**29**
Business combination (Note 29)	-	-	15	-	-	-	-	**15**
Reclassifications and others	1	63	237	128	-	60	(569)	**(80)**
Net carrying value at 31.12.12	**566**	**4,320**	**9,545**	**5,676**	**501**	**855**	**845**	**22,308**
Cost, gross	694	8,582	12,020	6,602	662	1,377	845	**30,782**
Accumulated Amortisation and impairment expenses	(128)	(4,262)	(2,475)	(926)	(161)	(522)	-	**(8,474)**
Net carrying value at 1.1.13	**566**	**4,320**	**9,545**	**5,676**	**501**	**855**	**845**	**22,308**
Investment (Note 4)	30	311	67	213	-	44	510	**1,175**
Divestitures (1)	(10)	(8)	(39)	(82)	-	(4)	(86)	**(229)**
Amortisation and impairment charge	(20)	(367)	(659)	(279)	(25)	(80)	-	**(1,430)**
Translation adjustment	(13)	(58)	(58)	(162)	-	(35)	(31)	**(357)**
Reclassifications and others	6	30	148	155	-	5	(400)	**(56)**
Net carrying value at 31.12.13	**559**	**4,228**	**9,004**	**5,521**	**476**	**785**	**838**	**21,411**
Cost, gross	701	8,797	12,044	6,592	662	1,326	838	**30,960**
Accumulated Amortisation and impairment expenses	(142)	(4,569)	(3,040)	(1,071)	(186)	(541)	-	**(9,549)**
Net carrying value at 31.12.13	**559**	**4,228**	**9,004**	**5,521**	**476**	**785**	**838**	**21,411**

(1) Divestitures correspond, mainly, to the disposal of shareholdings in the electricity distributors in Nicaragua (Notes 3.3.1 and 26).

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

The financial expenses capitalised in 2013 in fixed assets projects during their construction total Euros 18 million (Euros 12 million in 2012). The financial expenses capitalised in 2013 represent 2,0% of the total financial costs of net borrowings (1.4% for 2012). The average capitalisation rate in 2013 and 2012 totals 3.7% and 3.8%, respectively.

“Electricity generation plants” includes the power islands of the combined cycle plants in Palos de la Frontera and Sagunto acquired under finance leases (Note 15).

“Gas transport tankers” includes the current value, at the date of acquisition, of the payment commitments to the fleet of 6 methane tankers (two of which have been contracted jointly with the Repsol Group and two have been contracted for the joint venture Union Fenosa Gas) under finance leases (Note 17). On 1 January 2014, as part of the sale of the Repsol, S.A gas business, Gas Natural Fenosa and Shell entered into an agreement for the exclusive assignment of each of the tankers above mentioned, subject to the authorization of the shipbuilders for the implementation of the agreement. In addition, Gas Natural Fenosa has signed contracts that involve the addition of four newbuilding gas transport tankers and one existing during the period 2014-2017 under time-charter contracts (Note 34).

“Other Property, plant and equipment” includes at 31 December 2013 the net carrying value of investment in areas with reserves totalling Euros 369 million (Euros 396 million at 31 December 2012), including basically the investments in the coal field belonging to Kangra Coal (Proprietary), Ltd in South Africa and Exploration costs of Euros 55 million (Euros 74 million at 31 December 2012).

Property, Plant and equipment under construction at 31 December 2013 basically include investments in:

- Recurring development of the gas distribution network amounting to 61 million Euros and that of electricity amounting to 169 million Euros.
- Electricity generation stations in Latin America amounting to 250 million Euros.

At 31 December 2013 Gas Natural Fenosa did not have any significant real estate investment.

In 2013, the item “Depreciation and impairment losses”, in “Other PPE”, includes the amount of Euros 16 million relating to the impairment of the total amount of various assets.

Property, Plant and equipment includes, at 31 December 2013, fully depreciated assets in use totalling Euros 1,486 million.

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

Gas Natural Fenosa has investment commitments of Euros 1,141 million at 31 December 2013, basically for the development of the distribution network and other gas infrastructures, the development of the electricity distribution network, the construction of five gas transport tankers and the construction of a wind farm in Mexico (Note 34).

Note 7. Investments recorded using the equity method

The movement in 2013 and 2012 in investments measured by equity accounting is as follows:

	2013	2012
At 1 January	**100**	**99**
Investment	-	-
Share of loss/profit	7	10
Dividends received	(10)	(10)
Divestments and transfers	(1)	1
At 31 December	**96**	**100**

Appendix I includes a list of all Gas Natural Fenosa's associates.

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

	Country	Assets	Liabilities	Income	Net income	Shareholding
2013						
Bluemobility Systems, S.L.	Spain	-	-	-	-	20.0%
Enervent, S.A.	Spain	3	1	1	-	26.0%
Kromschroeder, S.A.	Spain	7	3	5	-	42.5%
Sistemas Energéticos La Muela, S.A.	Spain	2	-	1	1	20.0%
Sistemas Energéticos Mas Garullo, S.A. [1]	Spain	1	-	1	-	18.0%
Sociedade Galega do Medio Ambiente,S.A.	Spain	112	93	45	-1	49.0%
Subgrupo Unión Fenosa Gas [1/2]	Spain /Oman	106	47	33	6	3.7-11.6%
CER's Commercial Corp	Panama	1	-	-	-	25.0%
Torre Marenostrum, S.L.	Spain	29	21	2	1	45.0%
2012						
Bluemobility Systems, S.L.	Spain	1	-	-	-	20.0%
Enervent, S.A.	Spain	3	1	2	-	26.0%
Kromschroeder, S.A.	Spain	7	3	6	-	42.5%
Sistemas Energéticos La Muela, S.A.	Spain	2	-	1	-	20.0%
Sistemas Energéticos Mas Garullo, S.A. [1]	Spain	2	-	1	-	18.0%
Sociedade Galega do Medio Ambiente,S.A.	Spain	111	93	45	-	49.0%
Subgrupo Unión Fenosa Gas [1/2]	Spain /Oman	123	60	50	9	3.7-11.6%
Torre Marenostrum, S.L.	Spain	30	22	3	1	45.0%

[1] Consolidated by equity method in spite of the fact that the shareholding percentage is below 20%, since Gas Natural Fenosa has a significant representation in its management.
[2] Includes the shareholdings in the associates Qalhat LNG S.A.O.C. and Regasificadora del Noroeste, S.A. and 3G Holdings Limited managed through the Unión Fenosa Gas subgroup.

Note 8. Financial assets

The breakdown of financial assets, excluding those carried under “Trade and other receivables” (Note 11) and “Cash and other cash equivalents” (Note 12), at 31 December 2013 and 2012, classified according to their nature and account, is as follows:

At 31 December 2013	Available for sale	Loans and other receivables	Investments held to maturity	Hedge derivatives	Fair value through profit and loss	Total
Equity instruments	150	-	-	-	-	**150**
Derivatives (Note 17)	-	-	-	2	-	**2**
Other financial assets	-	1,303	2	-	-	**1,305**
Non-current financial assets	**150**	**1,303**	**2**	**2**	**-**	**1,457**
Derivatives (Note 17)	-	-	-	8	9	**17**
Other financial assets	-	236	-	-	-	**236**
Current financial assets	**-**	**236**	**-**	**8**	**9**	**253**
Total	**150**	**1,539**	**2**	**10**	**9**	**1,710**

At 31 December 2012	Available for sale	Loans and other receivables	Investments held to maturity	Hedge derivatives	Fair value through profit and loss	Total
Equity instruments	73	-	-	-	-	**73**
Derivatives (Note 17)	-	-	-	-	-	**-**
Other financial assets	-	908	2	-	-	**910**
Non-current financial assets	**73**	**908**	**2**	**-**	**-**	**983**
Derivatives (Note 17)	-	-	-	3	7	**10**
Other financial assets	-	1,249	-	-	-	**1,249**
Current financial assets	**-**	**1,249**	**-**	**3**	**7**	**1,259**
Total	**73**	**2,157**	**2**	**3**	**7**	**2,242**

Available-for-sale financial assets

The movement of Available for sale financial assets in 2013 and 2012, according with the method applied for calculating their fair value is as follows:

	2013				2012			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
At 1 January	**-**	**-**	**73**	**73**	**-**	**-**	**75**	**75**
Increases	-	-	90	90	-	-	-	-
Translation adjustments	-	-	(8)	(8)	-	-	-	-
Transfers and others	-	-	(5)	(5)	-	-	(2)	(2)
At 31 December	**-**	**-**	**150**	**150**	**-**	**-**	**73**	**73**

The main change in the item “Available-for-sale financial assets” in 2013 relates to the share acquisition in the company Medgaz, S.A. In January 2013, a 10.0% interest in this company was acquired from Sonatrach for Euros 54 million; in July 2013 an additional 4.9% stake was acquired from Gaz de France International, S.A.S. for Euros 36 million.

Loans and other receivables

The breakdown at 31 December 2013 and 2012 is as follows:

	At 31.12.13	At 31.12.12
Commercial loans	110	137
Tariff deficit	452	-
Deposits and guarantee deposits	155	150
Debtors for levelling of capacity income	21	22
Other loans	565	599
Loans and other receivables non-current	**1,303**	**908**
Commercial loans	92	92
Tariff deficit	33	1,065
Dividend receivable	-	2
Other loans	111	90
Loans and other receivables current	**236**	**1,249**
Total	**1,539**	**2,157**

The breakdown by maturities at December 2013 and 2012 is as follows:

Maturities	At 31.12.13	At 31.12.12
No later than 1 year	236	1,249
Between 1 year and 5 years	345	414
Later than 5 years	958	494
Total	**1,539**	**2,157**

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

”Commercial loans” mainly include the credits for the sale of gas and electricity installations. The respective interest rates (between 5% and 11% for loans from 1 to 5 years) are adjusted to market interest rates for this type of loans and duration.

The financing for the settlements deficit in regulated electricity activities is recognised in the item “Tariff deficit” since, under prevailing legislation, exists the right to be reimbursed for this amount without submission to future contingent factors. At 31 December 2013, Gas Natural Fenosa records a deficit financing receivable of Euros 485 million relating entirely to 2013. As a consequence of the regulatory changes made during 2013 in connection with the deficit imbalance process (Note 2.4.2.1 and 3.3.18), the item “Other current financial assets” includes the amount that is expected to be recovered over a period of less than one year and the remaining amount, to be recovered over a maximum of fifteen years, is included in “Other non-current financial assets”. These assets bear interest as explained in Note 2.4.2.1.

At 31 December 2012 Gas Natural Fenosa recorded a debt claim for this deficit totalling Euros 1,065 million, for 2010 (Euros 305 million), for 2011 (Euros 303 million) and for 2012 (Euros 457 million); that was included in “Current financial assets” because, under applicable regulations, it was expected to be recovered through the Securitisation Fund within one year.

During 2013, in addition to the collections received from settlements, fifteen issues of the Electricity System Deficit Securitisation Fund were completed (nineteen issues in 2012), Gas Natural Fenosa having collected Euros 1,079 million as a result of these issues (Euros 692 million at 2012).

“Deposits and guarantee deposits” mainly included the amounts received from customers when their contract services as a guarantee for the supply of energy and which, under pertinent legislation, have been deposited with the public authorities (Note 17).

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

“Other loans” includes, basically:

- a loan of Euros 236 million (Euros 254 million at 31 December 2012) for financing ContourGlobal La Rioja, S.L. for the sale of the Arrúbal combined cycle plant (La Rioja), which took place on 28 July 2011. The loan is secured by the shares of this company and by other assets, bear annual interest at a market rate and matures in 2021.

- the value of the concessions that are classified as financial assets in accordance with IFRIC 12 “Service Concession Agreements” (Notes 3.3.3.b and 31), in the amount of Euros 157 million (Euros 133 million at 31 December 2012), of which Euros 16 million are classified under current assets.

- the amount receivable resulting from the cost incurred due to the arbitral award issued in August 2010, quantified at Euros 157 million and recoverable over a five-year period, in accordance with Article 15 of Royal Decree-Law 6/2000 (23 June), which obligates the holder of the contract for the supply of natural gas from Algeria through the Maghreb gas pipeline to apply it preferably to tariff supplies. This amount has been estimated based on the calculation made by the Ministry of Industry, Energy and Tourism in the Draft Royal Decree (Note 2.1.1.2), which revises, as a consequence of the arbitral award, remuneration (2005-2008) for the natural gas supplied to the tariff market deriving from the Algeria contract referred to in Royal Decree 6/2000, and proposes a surcharge to finance the cost incurred as a result of the arbitral award to be paid by the gas system to the company Sagane, S.A., being its recovery irrespective of future sales.

- the loan of Euros 8 million (Euros 3 million of this loan is recognised in current assets) to the company Medgaz, S.A. acquired as part of the share purchase of this company mentioned in the "Financial assets available for sale" paragraph in this Note, which bears annual interest at a market rate and matures in 2016;.

- the present value at December 31, 2012 of the deferred amounts pending receipt for the sale of shareholdings mentioned in Note 19 to Chemo España, S.L. for USD 7 million, matured in 2013 (Note 19).

Hedging derivatives

The variables upon which the valuation of the hedging derivatives reflected under this heading are based and observable in an active market (Level 2).

Note 16 shows the details of the derivative financial instruments.

Note 9. Inventories

The breakdown of Inventories is as follows:

	At 31.12.13	At 31.12.12
Natural gas and liquefied gas	538	527
Coal and fuel oil	191	241
Nuclear fuel	66	57
Raw materials and other inventories	69	72
Total	**864**	**897**

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

Note 10. Trade and other receivables

The breakdown of this account is as follows:

	At 31.12.13	At 31.12.12
Trade receivables	5,378	5,262
Receivables with related companies (Note 32)	110	122
Provision for depreciation of receivables	(845)	(827)
Trade receivables for goods and services	4,643	4,557
Public Administrations	185	146
Prepayments	57	64
Derivative financial instruments (Note 16)	6	28
Sundry receivables	279	215
Other receivables	527	453
Current income tax assets	146	96
Total	**5,316**	**5,106**

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

In general, the outstanding invoices do not accrue interest as they fall due in an average period of 18 days.

The movement in the impairment of receivables is as follows:

	2013	2012
At 1 January	**(827)**	**(580)**
Net charge for the year (Note 25)	(226)	(235)
Write offs	159	42
Translation adjustments and others	49	(54)
At 31 December	**(845)**	**(827)**

Note 11. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31.12.13	At 31.12.12
Cash at bank and in hand	1,651	1,538
Short term investments (Spain and rest of Europe)	2,407	2,687
Short term investments (International)	194	209
Total	**4,252**	**4,434**

The short term investments in cash equivalents mature in less than three months and bear an average effective interest rate 1.0% at 31 December 2013 (2.0% at 31 December 2012).

Note 12. Equity

The main elements of Equity break down as follows:

Share capital and share premium

The variations in 2013 and 2012 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares	Share capital	Share premium	Total
At 31 December 2011	**991,672,139**	**992**	**3,808**	**4,800**
Variation				
Capital increase in swap	9,017,202	9	-	9
At 31 December 2012	**1,000,689,341**	**1,001**	**3,808**	**4,809**
Variation	-	-	-	-
At 31 December 2013	**1,000,689,341**	**1,001**	**3,808**	**4,809**

All the shares issued are fully paid and have the same economic and voting rights.

The fully-paid capital increase completed in 2012 relates to the issuance of new ordinary shares under the shareholder remuneration policy explained in the “Dividends” section of this note.

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

In 2012, 3,447,535 treasury shares have been acquired for Euros 52 million (1,325,160 treasury shares for Euros 15 million in 2012), of which, 163,279 shares for Euros 3 million (275,490 shares for Euros 2 million at 31 December 2012) have been delivered to the Group’s employees as part of their remuneration for 2013 in accordance with the Shares Acquisition Plan 2012-2013-2014 (Note 3.3.14.d) and all the rest have been sold for Euros 50 million (Euros 13 million at 31 December 2012). At the 2013 and 2012 year end, Gas Natural Fenosa does not have any treasury shares.

The most representative holdings in the share capital of Gas Natural SDG, S.A. at 31 December 2013, in accordance with the public information available or the communication issued by the Company itself, are as follows:

	Interest in share capital %
- “la Caixa” group	34.6
- Repsol group	30.0
- Sonatrach	4.0

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

The share price at the end of 2013 of Gas Natural SDG, S.A. is Euros 18.69 (Euros 13.58 at 31 December 2012).

Reserves

“Reserves” includes the following reserves:

	2013	2012
Legal reserve	200	198
Statutory reserve	100	99
Revaluation reserve under RD 7/96	225	225
Goodwill reserve	715	536
Voluntary reserves	5,238	5,153
Other reserves	1,453	1,191
	7,931	**7,402**

Legal reserve

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

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

Statutory reserve

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

Revaluation reserve

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

Goodwill reserve

According to 273 Article of the Spanish Capital Companies Act, Gas Natural SDG, S.A. must appropriate a non-distributable reserve equivalent to the goodwill carried on the asset side of the balance sheet in an amount that represents at least 5% of goodwill. If there are no profits, or the profits are insufficient, to do so, the Share Premium or Freely Available Reserves can be used.

Earnings per share

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

	At 31.12.13	At 31.12.12
Net income attributable to equity holders of the Company	1,445	1,441
Weighted average number of ordinary shares in issue (million)	1,001	996
Earnings per share from continuing activities (in Euros):		
- Basic	1.44	1.45
- Diluted	1.44	1.45
Earnings per share from discontinued activities (in Euros):		
- Basic	-	-
- Diluted	-	-

In order to calculate the average weighted number of ordinary shares in circulation in 2012 the shares issued in the capital increases mentioned in the “Share capital and Share premium” section of this Note had been taken into consideration. Fully-paid capital increases are treated as an issue of shares at market value and therefore the shares issued are included in the calculation of the weighted average number of ordinary shares in circulation as from the date on which the shares are paid up, calculated as follows:

	Number of shares (in thousands)	Days	Days x Number of shares
Shares at 1 January 2012	991,672	366	362,951,952
Capital increase in fully paid	9,017	192	1,731,264
Shares at 1 December 2012	1,000,689		364,683,216
Weighted average number of shares for the period			**996,402**

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

Dividends

The breakdown of the payments of dividends made in 2013 and 2012 is as follows:

	31.12.13			31.12.12		
	% of par value	Euros per share	Amount	% of par value	Euros per share	Amount
Ordinary shares	89%	0.89	895	36%	0.36	360
Remaining shares (no vote, redeemable, etc.)	-	-	-	-	-	-
Total dividends paid	**89%**	**0.89**	**895**	**36%**	**0.36**	**360**
a) Dividends charged to income statement	89%	0.89	895	36%	0.36	360
b) Dividends charged to reserves or share premium	-	-	-	-	-	-
c) Dividends in kind	-	-	-	-	-	-

2013

This includes the payment of an interim dividend of 0.391 per share for a total amount of Euros 391 million, agreed on 30 November 2012 and paid out on 8 January 2013.

Additionally, the proposal for the distribution of 2012 profits approved by the Annual General Meeting held on 16 April 2013 included the payment of a supplementary dividend of 0.503 per share, for a total amount of Euros 504 million, paid on 1 July 2013.

The Board of Directors of Gas Natural SDG, S.A. agreed, at its meeting of 29 November 2013, to distribute an interim dividend against the net income for 2013 of Euros 0.393 per share, totalling Euros 393 million, payable as from 8 January 2014.

At the date of approval of the interim dividend, the Parent Company had the necessary liquidity to pay it in accordance with requirements established under the Spanish Capital Companies Act. The provisional interim accounting statement of the Company formulated by the Directors at 29 November 2012 is as follows:

Net income after tax		621
Reserves to be allocated		(179)
Maximum amount available for distribution		442
Forecast payment of interim dividend		393
Treasury liquidity	5,312	
Undrawn credit facilities	6,363	
Total liquidity		11,675

On 31 January 2014, the Board of Directors adopted the proposal to submit the following distribution of net income of Gas Natural SDG, S.A. to the Shareholders' General Meeting for the year 2013, is as follows:

Basis for distribution	
Profit and loss	1,109
Distribution	
To the Goodwill reserve	179
To voluntary reserve	32
To dividend	898

The proposed distribution of results prepared by the Board of Directors for approval by the General Shareholders Meeting includes the payment of a supplementary dividend of Euros 0.505 per share, totalling Euros 505 million, payable on 1 July 2014.

2012

This includes the payment of an interim dividend of 0.363 per share out of 2011 profits, for a total amount of Euros 360 million, agreed on 25 November 2011 and paid out on 9 January 2012.

The Annual General Meeting of 20 April 2012 approved a fully-paid capital increase through the issuance of new ordinary shares, providing mechanisms to ensure that shareholders that preferred to do so could receive the amount in cash, with the following results:

	2012
End of negotiation period for freely-allocated rights	13 June 2012
% acceptance of irrevocable purchase commitment	81.8%
Nº of rights acquired	811,328,072
Total amount of rights acquisition	Euros 379 million
% new shares	18.2%
Shares issued	9,017,202
Par value	Euro 1
Date entered in Mercantile Register	22 June 2012
Date listed on Stock Exchange	29 June 2012

Adjustment for changes in value

The heading "Cumulative translation adjustments" includes the exchange differences described in Note 3.3.2 as a result of changes in the euro's exchange rate against major currencies of foreign companies Gas Natural Fenosa.

Minority Interest

2013

In February 2013, the sale of the electricity distribution companies in Nicaragua, Distribuidora de Electricidad del Norte, S.A. and Distribuidora de Electricidad del Sur, S.A. was completed; Gas Natural Fenosa held an 83.7% interest (Notes 3.3.1 and 26) and the associated minority interests were derecognised for a total of Euros 4 million.

In June 2013, Gas Natural Fenosa acquired 10% of Gas Navarra, S.A. from the "la Caixa" Group company Hiscan Patrimonio II, S.L.U for Euros 10 million to reach a 100% shareholding. As minority interests were acquired, an equity transaction was recognised, entailing a decrease of Euros 3 million in "Minority interests" and a reduction of Euros 7 million in "Reserves".

2012

In July 2012, Gas Natural Fenosa acquired an additional holding of 4.6% in the company Europe Magreb Pipeline Ltd, for the amount of US Dollars 23 million (Euros 19 million) from the group GALP, reaching a percentage holding of 77.2% Because it is a non-controlling interest acquisition it was booked as an equity transaction resulting in a reduction under the heading "Minority interests" amounting to Euros 15 million and a reduction under the heading "Reserves" amounting to Euros 4 million, due to the difference between the price paid and the carrying amount.

In December 2012, Gas Natural Fenosa sold, along with Sinca Inbursa, S.A. de C.V. (Inbursa), a holding of 1.75% in Gas Natural México S.A. de C.V and of 2% in Sistemas de Administración, S.A. de C.V. to Mitsui & Co, corresponding to Gas Natural Fenosa the sale of 0,875% and 1% respectively amounting to US Dollars 5 million (Euros 4 million). After this operation, Gas Natural Fenosa still maintain control in these companies, having a percentage of 70.9% of Gas Natural México S.A. de C.V. and 71 % of Sistemas de Administración, S.A. de C.V., considering the operations referred to in Note 17. Because this is a non-controlling interest sale without a loss of control, this was booked as an equity transaction, resulting in an increase under the heading “Minority interests” amounting to Euros 6 million and an increase under the heading “Reserves” amounting to Euros 1 million, plus the capital gain before taxes.

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

- Dividend: variable non-accumulative; from the date of payment until 30 June 2015 it will be Euribor at three months plus a spread of 0.65%; as from that date, it will be Euribor at three months plus a spread of 1.65%.

- Dividend payment: will be paid by calendar quarters in arrears, depending on the existence of distributable profit of Gas Natural Fenosa, considering as such the lesser of the net profit declared by the Gas Natural Fenosa and the net profit of Gas Natural SDG, S.A. as guarantor.
- Term: perpetual, with the option for the issuer of reducing all or part of the shareholdings after 30 June 2015. Reduction will be made at nominal value.

- Remuneration: the dividend payment will be preferential and not accumulative and depends on whether distributable profit is reported by Gas Natural SDG, S.A. and the payment of a dividend to its ordinary shareholders. The issuer will have the option but not the obligation to pay the shareholders remuneration in kind by increasing the nominal value of the preference shares.

- Voting rights: none.

Note 13. Deferred income

The breakdown and the movements under this heading in 2013 and 2012 have been as follows:

	Grants	Revenues from pipeline networks and branch lines	Income from extension of pipelines charged to third parties	Other revenues	Total
At 1.01.12	**196**	**406**	**116**	**85**	**803**
Financing received	24	76	6	21	127
Release to income	(14)	(11)	(9)	-	(34)
Translation adjustments	(1)	-	-	(2)	(3)
Transfers and others	(20)	1	(2)	6	(15)
At 31.12.12	**185**	**472**	**111**	**110**	**878**
Financing received	20	75	4	17	116
Release to income	(11)	(17)	(11)	(1)	(40)
Translation adjustments	(2)	-	(1)	(9)	(12)
Transfers and others	(10)	2	-	(2)	(10)
At 31.12.13	**182**	**532**	**103**	**115**	**932**

Note 14. Provisions

The breakdown of provisions at 31 December 2013 and 2012 is as follows:

	At 31.12.13	At 31.12.12
Provisions for employee obligations	699	789
Other provisions	865	876
Non-current provisions	**1,564**	**1,665**
Current provisions	**134**	**144**
Total	**1,698**	**1,809**

Provisions for employee obligations

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

	2013			2012		
	Pensions and other similar obligations	Other obligations to personnel	Total	Pensions and other similar obligations	Other obligations to personnel	Total
At 1 January	**782**	**7**	**789**	**709**	**-**	**709**
Contributions charged to profits	38	8	46	45	8	53
Payments during the year	(82)	-	(82)	(71)	-	(71)
Conversion differences	(50)	-	(50)	16	-	16
Variances recognised directly in equity	(3)	-	(3)	87	-	87
Transfers and other applications (1)	7	(8)	(1)	(4)	(1)	(5)
At 31 December	**692**	**7**	**699**	**782**	**7**	**789**

(1) 2012 includes a reclassification of Euros 7 million from “Other provisions” and a transfer of Euros 8 million to “Other current liabilities””.

Pensions and other similar obligations

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

Breakdown by country	At 31.12.13	At 31.12.12	At 1.1.12
Spain (1)	364	380	355
Colombia (2)	269	330	284
Brazil (3)	42	65	61
Rest	17	7	9
Total	**692**	**782**	**709**

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

Most of the post-employment obligations of Gas Natural Fenosa in Spain consist of the contribution of defined amount to occupational pension plan systems. Nevertheless, at 31 December 2013 and 31 December 2012, Gas Natural Fenosa held the following defined benefit obligations for certain groups of workers:

- Pensioners (retired workers, the disabled, widows and orphans).
- Defined benefit supplement obligations with retired personnel of the legacy Unión Fenosa Group who retired before November 2002 and a residual part of current personnel.
- Coverage of retirement and death for certain employees.
- Gas subsidy for current and retired personnel.
- Electricity for current and retired personnel.
- Liabilities with employees that took early retirement until they reach official retirement age and early retirement plans.

- Salary supplements and contributions to social security for a group of employees taking early retirement until they can access ordinary retirement.
- Health care and other benefits

2) Pension plans and other post-employment benefits in Colombia

At 31 December 2013 and 2012 there are following obligations with certain employees of the Colombian company Electrificadora del Caribe, S.A. E.S.P:

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

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

At 31 December 2013 and at 31 December 2012, Gas Natural Fenosa has the following benefits for certain employees in Brazil:

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

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

	2013			**2012**		
	Spain	**Colombia**	**Brazil**	**Spain**	**Colombia**	**Brazil**
Current value of the obligations						
At 1 January	**1,213**	**330**	**201**	**1,125**	**284**	**186**
Current service cost	4	-	1	3	-	-
Interest cost	42	13	16	50	23	18
Variances recognised directly in equity	2	(2)	(32)	138	36	27
Benefits paid	(90)	(32)	(11)	(88)	(36)	(11)
Cumulative translation adjustments	-	(39)	(35)	-	22	(19)
Transfers and Others	3	(1)	-	(15)	1	-
At 31 December	**1,174**	**269**	**140**	**1,213**	**330**	**201**
Fair value of plan assets						
At 1 January	**833**	**-**	**136**	**770**	**-**	**125**
Expected yield	28	-	11	34	-	15
Contributions	22	-	7	6	-	6
Variances recognised directly in equity	(7)	-	(21)	100	-	14
Benefits paid	(69)	-	(11)	(66)	-	(10)
Cumulative translation adjustments	-	-	(24)	-	-	(13)
Transfers and Others	3	-	-	(11)	-	(1)
At 31 December	**810**	**-**	**98**	**833**	**-**	**136**
Provisions for post-employment pension obligations	**364**	**269**	**42**	**380**	**330**	**65**

The amounts recognized in the Consolidated Income Statement for the above-mentioned pension plans are as follows:

	2013			2012		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Current service cost	4	-	1	3	-	-
Interest cost	42	13	16	50	23	18
Expected return on plan assets	(28)	-	(11)	(34)	-	(15)
Total income statement charge	**18**	**13**	**6**	**19**	**23**	**3**

Benefits payable in coming years as a result of the above-mentioned commitments are as follows:

	2013			2012		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Between 1 to 5 years	21	-	-	31	-	-
Between 5 to 10 years	46	269	-	75	330	-
Later than 10 years	297	-	42	274	-	65
Provisions for pensions and similar obligations	**364**	**269**	**42**	**380**	**330**	**65**

The movement in the liability recognized in the Consolidated Balance Sheet is as follows:

	2013			2012		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
At January 1	**380**	**330**	**65**	**355**	**284**	**61**
Charge against the income statement	18	13	6	19	23	3
Contributions paid	(43)	(32)	(7)	(28)	(36)	(7)
Variations recognised directly in net equity	9	(2)	(11)	38	36	13
Transfers	-	(1)	-	(4)	1	1
Cumulative translation adjustments	-	(39)	(11)	-	22	(6)
Others	-	-	-	-	-	-
At 31 December	**364**	**269**	**42**	**380**	**330**	**65**

The accumulated amount of the actuarial gains and losses recognised directly in equity is negative by Euros 179 million for 2013 (Spain: negative Euros 43 million, Colombia: negative Euros 100 million and Brazil: negative Euros 36 million).

The change recognised in equity relates to actuarial losses and gains derived basically from adjustments to:

	2013			2012		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Financial assumptions	69	(11)	(24)	19	40	28
Demographic assumptions	-	-	(4)	-	-	-
Experience	(56)	9	7	18	(4)	(15)
Limits on assets	(4)	-	10	1	-	-
At 31 December	**9**	**(2)**	**(11)**	**38**	**36**	**13**

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

	2013			2012		
% over total	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Shares	-	-	15%	-	-	16%
Bonds	100%	-	75%	100%	-	79%
Real estate and other assets	-	-	10%	-	-	5%

Real yields on the plan-related assets in 2013, relating basically to Spain and Brazil, have been Euros 39 million (Euros 49 million in 2012).

The main annual actuarial assumptions used were as follows:

	At 31.12.13			At 31.12.12		
	Spain	**Colombia**	**Brazil**	**Spain**	**Colombia**	**Brazil**
Discount rate (1)	0.7 a 3.6%	8.0%	11.4%	1.0 a 4.2%	6.5%	9.8%
Expected return on plan assets (1)	0.7 a 3.6%	-	11.4%	1.0 a 4.2%	-	9.8%
Future salary increases (1)	2.5%	2.5%	7.7%	3.0%	2.5%	7.7%
Future pension increases (1)	2.5%	2.5%	5.5%	2.5%	2.5%	5.5%
Inflation rate (1)	2.5%	2.5%	5.5%	2.5%	2.5%	5.5%
Mortality table	PERMF 2000	RV08	AT-83	PERMF 2000	RV08	AT-83
Life expectancy:						
Men						
Retired in 2013	22.3	18.45	18.13	22.3	18.45	18.13
Retired in 2033	42.2	36.69	21.48	42.2	36.69	21.48
Women						
Retired in 2013	26.8	22.18	35.07	26.8	22.18	35.07
Retired in 2033	48.3	40.39	39.7	48.3	40.39	39.7

(1) per annum

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

The interest rates employed to discount the post-employment liabilities are applied based upon the period of each commitment and the reference curve is calculated as the average of the curves of corporate bonds with a high level credit rating (AA), issued in the Eurozone.

Benefits payable and estimated contributions to be made for 2014 (million euros) are as follows:

	Benefits			Contributions		
	Spain	**Colombia**	**Brazil**	**Spain**	**Colombia**	**Brazil**
Post-employment	65	-	3	19	22	5
Post-employment medical	-	-	-	3	3	2
Long term	1	-	-	-	-	-
At 31 December	**66**	**-**	**3**	**22**	**25**	**7**

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

	Inflation + 1%	Discount +1%	Healthcare +1%
Current value of the obligations	110	(141)	17
Fair value of plan-related assets	-	69	-
Provision for pensions	110	(72)	17
Cost of service for the year	1	(1)	-
Interest paid	5	7	1
Expected yield on plan-related assets	-	5	-

Other obligations with the personnel

Gas Natural Fenosa operates a variable multi-annual remuneration system aimed at strengthening the commitment of the management to achieving the economic objectives of the Group directly related to those established in the current Strategic Plans, approved by the Board of Directors and communicated to the financial markets and the achievement of which, along with their permanence in the Group, grants the right to receive a variable remuneration in cash in the first quarter of the year after its termination. At the close of the year the remuneration programmes 2011-2013, 2012-2014 and 2013-2015 are in vigour, and a provision has been booked, at 31 December 2013, amounting to Euros 16 million (Euros 15 million at 31 December 2012), of which Euros 7 million are classified as non-current in 2013 and in 2012.

Other current and non-current provisions

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

	2013			2012		
	Non-current provisions	**Current provisions**	**Total**	**Non-current provisions**	**Current provisions**	**Total**
At 1 January	**876**	**144**	**1,020**	**1,003**	**133**	**1,136**
Charged to / reversed in the income statement						
- Allowances (1)	64	52	**116**	71	59	**130**
- Reversals	(14)	-	**(14)**	(15)	-	**(15)**
Payments (2)	(19)	(70)	**(89)**	(12)	(200)	**(212)**
Business combinations	-	-	**-**	-	-	**-**
Cumulative translation adjustments	(17)	(2)	**(19)**	(1)	(2)	**(3)**
Transfers and others (3)	(25)	10	**(15)**	(170)	154	**(16)**
At 31 December	**865**	**134**	**999**	**876**	**144**	**1,020**

(1) Includes Euros 23 million and Euros 28 million corresponding the financial updating of provisions 2013 and 2012, respectively. The current provisions include the contribution to the provision for excess CO2 above the rights assigned (Note 25).

(2) During the year 2012, the amount of Euros 185 million was settled corresponding to the sentence of the Supreme Court which rejected appeals against tax claims that questioned the validity of the deduction for export activities applied in 1998-2002 and for which provisions had been made in full.

(3) Figures for 2013 include a decrease of Euros 18 million in the item "Non-current provisions" relating to the Nicaraguan distribution companies sold (Note 3.3.1 and 26)

This heading includes, mainly:

- The provisions recorded to meet obligations arising mainly from tax claims, as well as litigation and arbitration proceedings underway. The information on the nature of the disputes with third parties and the position of the entity in relation to them is set out in the section on "Litigation and Arbitration" in Note 34.

- The provisions to meet the liabilities arising from the dismantling, restoration and other costs related to the facilities, basically electricity generating facilities, totalling Euros 378 million at 31 December 2013 (Euros 363 million in 2012).

- Current provisions include the excess issue of CO_2 above the rights assigned amounting to Euros 54 million at 31 December 2014 (Euros 59 million at 31 December 2012).

At 31 December 2013 and 2012 it was not deemed necessary to raise any provision for onerous contracts.

The estimated payment periods for the commitments provisioned in this item refer to Euros 433 million in between one and five years, Euros 129 million in between five and 10 years, and Euros 303 million after more than 10 years.

Note 15. Borrowings

The breakdown of borrowings at 31 December 2013 and 2012 is as follows:

	At 31.12.13	At 31.12.12
Issuing of debentures and other negotiable obligations	10,360	10,470
Loans from financial institutions	4,931	7,261
Derivative financial instruments	52	84
Other financial liabilities	165	231
Non-current borrowings	**15,508**	**18,046**
Issuing of debentures and other negotiable obligations	2,531	453
Loans from financial institutions	668	1,789
Derivative financial instruments	7	1
Other financial liabilities	197	143
Current borrowings	**3,403**	**2,386**
Total	**18,911**	**20,432**

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

	Carrying amount		Fair value	
	At 31.12.13	**At 31.12.12**	**At 31.12.13**	**At 31.12.12**
Issuing of debentures and other negotiable obligations	10,360	10,470	11,433	11,245
Loans from financial institutions and others	5,096	7,492	5,128	7,567

The fair value of the listed bond issues is estimated on the basis of their market price (Level 1). The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 2013 and 31 December 2012 on borrowings with similar credit and maturity characteristics. These valuations are based on the quotation price of similar financial instruments in an official market or on observable information in an official market (Level 2).

The movement in borrowings is as follows:

	2013	2012
At 1 January	**20,432**	**20,392**
Business combinations	-	19
Increase in borrowings	5,221	5,442
Decrease in borrowings	(6,570)	(5,459)
Cumulative translation adjustment	(186)	7
Transfers and others	14	31
At 31 December	**18,911**	**20,432**

The following tables describe consolidated gross borrowings by instrument at 31 December 2013 and 31 December 2012 and their maturity profile, taking into account the impact of the derivative hedges.

	2014	2015	2016	2017	2018	2019 and beyond	Total
At 31 December 2013:							
Marketable Debt							
Fixed	2,386	789	999	1,399	1,522	5,469	12,564
Floating	146	-	-	37	-	144	327
Institutional Banks and other financial companies							
Fixed	144	153	257	192	134	551	1,431
Floating	74	64	52	101	101	153	545
Commercial Banks and other financial liabilities							
Fixed	198	246	130	201	36	119	930
Floating	455	281	785	221	1,152	220	3,114
Total Fixed	2,728	1,188	1,386	1,792	1,692	6,139	14,925
Total Floating	675	345	837	359	1,253	517	3,986
Total	**3,403**	**1,533**	**2,223**	**2,151**	**2,945**	**6,656**	**18,911**

	2013	2014	2015	2016	2017	2018 and beyond	Total
At 31 December 2012:							
Marketable Debt							
Fixed	279	1,994	798	985	1,100	5,464	10,620
Floating	174	-	-	-	42	87	303
Institutional Banks and other financial companies							
Fixed	129	182	199	229	289	598	1,626
Floating	51	35	26	12	10	11	145
Commercial Banks and other financial liabilities							
Fixed	329	102	206	102	168	492	1,399
Floating	1,424	252	3,621	529	298	215	6,339
Total Fixed	737	2,278	1,203	1,316	1,557	6,554	13,645
Total Floating	1,649	287	3,647	541	350	313	6,787
Total	**2,386**	**2,565**	**4,850**	**1,857**	**1,907**	**6,867**	**20,432**

If the impact of the derivatives on borrowings is excluded, the borrowings at fixed rate amounts Euros 12,957 million at 31 December 2013 (Euros 11,900 million at 31 December 2012) and floating, Euros 5,895 million at 31 December 2013 (8,447 million in 2012).

The following table describes consolidated gross borrowings denominated by currency at 31 December 2013 and 31 December 2012 and its maturity profile, taking into account the impact of the derivative hedges.

	2014	2015	2016	2017	2018	2019 and beyond	Total
At 31 December 2013:							
Euro Debt	2,904	1,002	1,941	1,660	2,768	6,417	16,692
Foreign Currency Debt:							
US Dollar	227	189	142	361	64	162	1,145
Mexican Peso	61	141			81		283
Brazilian Real	64	36	57	9	5		171
Colombian Peso	140	165	83	121	27	77	613
Argentinean Peso	7	-	-	-	-	-	7
Rest	-	-	-	-	-	-	-
Total	**3,403**	**1,533**	**2,223**	**2,151**	**2,945**	**6,656**	**18,911**

	2013	2014	2015	2016	2017	2018 and beyond	Total
At 31 December 2012:							
Euro Debt	1,873	2,109	4,048	1,716	1,357	6,210	17,313
Foreign Currency Debt:							
US Dollar	310	129	451	127	396	259	1,672
Mexican Peso	2	90	148	-	-	85	325
Brazilian Real	88	71	23	14	8	5	209
Colombian Peso	89	166	180	-	146	86	667
Argentinean Peso	24	-	-	-	-	-	24
Rest	-	-	-	-	-	222	222
Total	**2,386**	**2,565**	**4,850**	**1,857**	**1,907**	**6,867**	**20,432**

Borrowings in Euros have borne an effective average interest rate of 4.01% at 31 December 2013 (3.85% at 31 December 2012) while borrowings in foreign currency have borne an effective average interest rate of 5.67% in 2013 (5.37% at 31 December 2012), including derivative instruments assigned to each transaction.

At 31 December 2013, Gas Natural Fenosa has credit facilities totalling Euros 7,731 million (Euros 5,721 million at 31 December 2012), of which Euros 7,362 million have not been drawn down (Euros 5,157 million at 31 December 2012).

Bank borrowings totalling Euros 1,116 million (Euros 1,278 million at 31 December 2012) are subject to the fulfilment of certain financial ratios.

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

Certain investment projects have been financed by means of specific structures (project finance) which include pledges on the shares in the project companies. At 31 December 2013, the outstanding balance of this type of financing totals Euros 560 million (Euros 708million at 31 December 2012).

The most relevant financing instruments are described below:

Issue of bonds and other negotiable securities

In 2013 and 2012 the evolution of the issues of debt securities has been as follows:

	At 1.1.2013	Issues	Buy backs or reimburse-ments	Exchange rate adjustments and others	At 31.12.2013
Issued in a member state of the European Union which required the filing of a prospectus	**9,937**	3,754	(1,535)	-	**12,156**
Issued in a member state of the European Union which did not required the filing of a prospectus	**-**	-	-	-	**-**
Issued outside a member state of the European Union	**986**	333	(556)	(28)	**735**
Total	**10,923**	**4,087**	**(2,091)**	**(28)**	**12,891**

	At 1.1.2012	Issues	Buy backs or reimburse-ments	Exchange rate adjustments and others	At 31.12.2012
Issued in a member state of the European Union which required the filing of a prospectus	**8,507**	3,936	(2,550)	44	**9,937**
Issued in a member state of the European Union which did not required the filing of a prospectus	**-**	-	-	-	**-**
Issued outside a member state of the European Union	**845**	144	(23)	20	**986**
Total	**9,352**	**4,080**	**(2,573)**	**64**	**10,923**

ECP Program

On 23 March 2010 a Euro Commercial Paper program (ECP) was contracted totalling Euros 1,000 million, the issuer being Unión Fenosa Finance BV. During 2013, further issues were completed under that Programme for a total amount of Euros 1,604 million (Euros 1,961 million at December 2012). At 31 December 2013, the amount of Euros 146 million had been drawn down on the Programme (Euros 158 million at December 2012) and the sum of Euros 854 million was available (Euros 842 million at December 2012).

Promissory Notes Program

In 2012 Gas Natural Fenosa did not renew the Promissory Note Program signed in July 2009 and renewed in July 2011 for a maximum amount of Euros 1,000 million. At 31 December 2013 live issues do not exist under this program. At 31 December 2012 live issues exist under this program amounting Euros 14 million.

EMTN Program

Gas Natural Fenosa, though the subsidiary companies Gas Natural Capital Markets, S.A. and Gas Natural Fenosa Finance BV (former Unión Fenosa Finance BV), maintains a European Medium Term Notes (EMTN) Program in the medium term. This Program was established in 1999 of which a total principal of up to Euro 2,000 million could be issued. Following a number of extensions, the latest in November 2013, the Programme limit is Euros 14,000 million (Euros 12,000 million at 31 December 2012). At 31 December 2013, principal drawn down totalled Euros 12,055 million (Euros 9,600 million at 31 December 2012) and the amount of Euros 1,945 million was available. The breakdown of the nominal issue balance is as follows:

Issue	Nominal	Maturity	Coupon %
July 2009	500	2019	6.375
July 2009	2,000	2014	5.250
November 2009	1,000	2016	4.375
November 2009	750	2021	5.125
January 2010	850	2020	4.500
January 2010	650	2015	3.375
January 2010	700	2018	4.125
February 2011	600	2017	5.625
May 2011	500	2019	5.375
February 2012	750	2018	5.000
September 2012	800	2020	6.000
October 2012	500	2017	4.125
January 2013	600	2023	3.875
January 2013 (1)	204	2019	2.125
April 2013	750	2022	3.875
April 2013	300	2017	2.310
July 2013 (2)	101	2023	3.974
October 2013	500	2021	3.500
	12,055		

(1) CHF 250 million as nominal value.
(2) NOK 800 million as nominal value.

Preference shares

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

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

On 16 April 2013, Gas Natural Fenosa's Board of Directors approved a bid for the preferred shares. A cash bid was made to purchase the shares at 93% of their nominal amount; on 16 May 2013, once the acceptance period had ended, the aggregate nominal amount of the acceptances confirmed was Euros 539 million, 88.56% of the issue's nominal amount. The rest of the shares remained outstanding.

Negotiable bonds and Certificates Programme

The Group company, Empresa de Distribución Eléctrica Metro-Oeste, S.A, located in Panama, executed the issue in May 2010 of Negotiable Commercial Securities of up to USD 50 million (Euros 39 million). The amount drawn down at 31 December 2013 totalled Euros 28 million due in 2014 (Euros 16 million at 31 December 2012).

In turn, on 3 May 2011 Gas Natural Fenosa, through its subsidiary Gas Natural México S.A. de C.V., registered a Stock Market Certificate Programme in the Mexican Stock Exchange for the sum of MXN 10,000 million (Euros 544 million). Under this Programme, on 20 May 2011 debt was issued for periods of four and six years and a total amount of MXN 4,000 million (Euros 222 million), the available amount being Euros 222 million, secured by Gas Natural SDG, S.A.

During the year 2012, the dependent company Gas Natural S.A. ESP, located in Colombia, signed an Ordinary Bonds program for Columbian Pesos 500,000 million (Euros 188 million) on the local capital market; in the month of October it placed under this program two issues amounting to Columbian Pesos 100,000 million (Euros 37 million) and Columbian Pesos 200,000 million (Euros 75 million) with maturity at 5 and 7 years, respectively. The balance available at 31 December 2013 under this program is Columbian Pesos 200,000 million (Euros 75 million).

Bank loans

European bank loans (commercial / institutional banks)

At 31 December 2013, bank borrowings include bank loans of Euros 2,236 million (Euros 5,401 million at 31 December 2012) and credit lines drawn in the amount of Euros 221 million (Euros 349 million at 31 December 2012). The most significant variation recorded in this heading consists in a restructuring operation of debt, involving prepayment of the Club Deal loan amounting to Euros 3,000 million with maturity date in 2015 and formalization of a new Euros 750 million loan along with a new credit line amounting to Euros 1,500 million, not drawn down as at 31 December 2013, with a five years maturity, all under the Club Deal modality. Additionally, debts incurred with Instituto de Crédito Oficial (ICO) total Euros 305 million, arranged through loans maturing in 2018 at maximum (Euros 379 million at 31 December 2012).

Additionally, the European Investment Bank (EIB) has granted financing of Euros 1,370 million to Gas Natural Fenosa, of which Euros 225 million are held available on a new line of financing granted and yet to be utilised.

Loans from Latin American banks (commercial / institutional banks)

At 31 December 2013 borrowings from various Latin American banks totalled Euros 1,058 million (Euros 1,234 million at 31 December 2012). The geographic breakdown of these loans is as follows:

Country	2013	2012
Colombia	500	538
Mexico	199	262
Brazil	171	209
Panama	159	167
Other	29	58
	1,058	**1,234**

Of total Latin American borrowings at 31 December 2012, 85% to commercial banks and the remaining 15% to institutional banks.

At 31 December 2013, the debt related to the combined cycle central and the re-gasification plant in Puerto Rico totals Euros 96 million (Euros 134 million at 31 December 2012), including Euros 11 million in credit facilities drawn down (Euros 11 million at 31 December 2012). The most of this debt matures on long term.

Wind farm operators (commercial banks)

At 31 December 2013, wind farm operating companies had Euros 41 million in outstanding loans, mainly for project financing (Euros 53 million at 31 December 2012). Most of this debt matures on long term.

Unión Fenosa Gas (commercial / institutional banks)

At 31 December 2013, the companies belonging to Unión Fenosa Gas had Euros 330 million in outstanding loans (Euros 372 million at 31 December 2012), mainly for financing in US Dollars by EIB to finance the natural gas liquefaction plant in Damietta (Egypt) totalling Euros 125 million (Euros 138 million at 31 December 2012), and for a loan in US Dollars given by twenty-two lending entities totalling Euros 186 million (Euros 209 million at 31 December 2012). Most of this debt matures in 2016 and beyond.

Bank loans – other countries (commercial banks)

At 31 December 2013, bank loans from other countries total Euros 21 million (Euros 20 million at 31 December 2012) and pertain mainly to Moldova and Kenya.

In 2013, financing denominated in yen, amounting to Euros 222 million at year-end 2012, was repaid.

Other financial liabilities

"Other financial liabilities" basically include the finance leases with banks for power islands at the combined cycle plants in Palos de la Frontera and Sagunto, with a maturity of 10 years, entered into respectively in 2005 and 2007 (Note 6).

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

	At 31.12.13			At 31.12.12		
	Nominal	**Discount**	**Present value**	**Nominal**	**Discount**	**Present value**
No later than 1 year	75	(5)	**70**	83	(3)	**80**
Between 1 and 5 years	173	(18)	**155**	245	(31)	**214**
Total	**248**	**(23)**	**225**	**328**	**(34)**	**294**

Note 16. Risk management and derivative financial instruments

Risk management

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

- Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.

- Segregation at the operating level of the risk management functions.

- Assuring that the level of its risk exposure for Gas Natural Fenosa in its business is in line with the objective risk profile and achievement of its annual, strategic objectives.

- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

Interest rate risk

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

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

Gas Natural Fenosa uses financial swaps to manage its exposure to fluctuations in interest rates by exchanging debt at a floating rate for fixed interest rates. In 2013 the financial swaps contracted to mitigate the risk of a specific financing operation in Yen that did not qualify for hedge accounting have been cancelled.

The debt structure at 31 December 2013 and 2012 (Note 15), after taking into account the hedges structured through derivatives, is as follows:

	At 31.12.13	**At 31.12.12**
Fixed interest rate	14,925	13,645
Floating interest rate	3,986	6,787
Total	**18,911**	**20,432**

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

The sensitivity of profit and equity ("Adjustments for changes in value") to the fluctuation in interest rates is as follows:

	Increase/decrease in interest rates (basics points)	Effect on profit before tax	Effect on equity before tax
2013	+50	(20)	26
	-50	20	(26)
2012	+50	(39)	20
	-50	40	(20)

Exchange rate risk

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

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

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

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange fluctuation insurance within the limits approved for hedging instruments.

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

		2013	**2012**
Effect on profit before tax	+5%	-	-
	- 5%	-	-
Effect on equity before tax	+5%	20	21
	- 5%	(19)	(20)

Commodities price risk

A large portion of the operating expenses of Gas Natural Fenosa is linked to the purchase of gas in order to supply customers or for electricity generation at combined cycle plants. Therefore, Gas Natural Fenosa is exposed to gas price fluctuation risk, whose determination is basically subject to the prices of crude oil and its by-products. Additionally, in the electricity generation business Gas Natural Fenosa is exposed to CO_2 emission rights fluctuation risk and electricity prices variations.

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

The risk involved in the electricity ad CO_2 emission rights trading operations carried out by Gas Natural Fenosa is not significant, due to the low volume of these operations and the limits established, both in terms of amount and maturity.

The sensitivity of profit and equity (Value adjustments) to the variation in the fair value of derivative contracts to hedge commodity prices is as follows:

	Increase / decrease in the purchase price of gas	Effect on profit before tax	Effect on equity before tax
2013	+10%	-	4
	-10%	-	(4)
2012	+10%	-	-
	-10%	-	-

	Increase / decrease in the electricity sale price	Effect on profit before tax	Effect on equity before tax
2013	+10%	(1)	2
	-10%	1	(2)
2012	+10%	(8)	(7)
	-10%	8	7

Credit risk

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

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

The main guarantees that are negotiated are guarantees, guarantee deposits and deposits. At 31 December 2013, Gas Natural Fenosa had received guarantees totalling Euros 44 million to cover the risk of large industrial customers (Euros 48 million at 31 December 2012). In 2013, guarantees have been executed amounting to Euros 10 million (lower than Euros 1 million at 31 December 2012).

Furthermore, the debt claims are stated on the Consolidated balance sheet net of provisions for bad debts (Note 10), estimated by Gas Natural Fenosa on the basis of the ageing of the debt and past experience in accordance with the prior segregation of customer portfolios and the current economic environment.

At 31 December 2013 and 2012 Gas Natural Fenosa does not have significant concentrations of credit risk.

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

Likewise, most of the accounts receivable neither due nor provided for have a high credit rating, according to the valuations of Gas Natural Fenosa, based on the solvency analysis and payment habits of each customer.

The breakdown of the age of financial receivables overdue but not considered bad debts at 31 December 2013 and 2012 is as follows:

	At 31.12.13	**At 31.12.12**
Less than 90 days	431	494
90 – 180 days	141	162
More than 180	5	15
Total	**577**	**671**

The impaired financial assets are broken down in Note 10.

Liquidity risk

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

At 31 December 2013, liquidity availabilities amounted to Euros 14,848 million, considering cash and other cash equivalents amounting Euros 4,252 million (Note 11), financial asset derivatives amounting to Euros 18 million (Note 8 and Note 16), bank financing and credit lines available amounting to Euros 7,362 million (Note 15) and the unused capacity to issue debt amounting to Euros 3,217 million (Note 15).

The breakdown of the maturities of the financial liabilities at 31 December 2013 and 2012 is as follows:

	2014	**2015**	**2016**	**2017**	**2018**	**2019 and beyond**	**Total**
At 31 December 2013							
Trade and other payables	(4,288)	-	-	-	-	-	(4,288)
Loans and other financial payables	(4,167)	(2,154)	(2,779)	(2,642)	(3,357)	(7,411)	(22,510)
Financial derivatives	(22)	(13)	(5)	1	(2)	(14)	(55)
Other liabilities	(56)	(56)	(123)	(56)	(57)	(688)	(1,036)
Total (1)	**(8,533)**	**(2,223)**	**(2,907)**	**(2,697)**	**(3,416)**	**(8,113)**	**(27,889)**

	2013	2014	2015	2016	2017	2018 and beyond	Total
At 31 December 2012							
Trade and other payables	(4,560)	-	-	-	-	-	(4,560)
Loans and other financial payables	(3,046)	(3,317)	(5,389)	(2,323)	(2,305)	(7,753)	(24,133)
Financial derivatives	(24)	(18)	(7)	(3)	-	73	21
Other liabilities	(148)	(57)	(57)	(57)	(58)	(707)	(1,084)
Total (1)	**(7,778)**	**(3,392)**	**(5,453)**	**(2,383)**	**(2,363)**	**(8,387)**	**(29,756)**

(1) The amounts are undiscounted contractual cash flows, and, accordingly, differ from the amounts included on the balance sheet and in Note 15.

Capital management

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

Gas Natural Fenosa considers the following to be indicators of the objectives set for capital management: maintaining, after the acquisition of Unión Fenosa, a long-term leverage ratio of approximately 50%, and an A rating.

The long-term credit rating of Gas Natural Fenosa is as follows:

	2013	2012
Moody's	Baa2	Baa2
Standard & Poor's	BBB	BBB
Fitch	BBB+	BBB+

Its leverage rating is as follows:

	2013	2012
Net borrowings:	**14,641**	**15,995**
Non-current borrowings (Note 15)	15,508	18,046
Current borrowings (Note 15)	3,403	2,386
Cash and cash equivalents (Note 11)	(4,252)	(4,434)
Derivatives (Note 16)	(18)	(3)
Net equity:	**15,010**	**14,879**
Equity holders of the Company (Note 12)	13,444	13,261
Minority interests	1,566	1,618
Leverage (Net borrowings / (Net borrowings + Net equity))	**49.4%**	**51.8%**

Derivative financial instruments

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

	At 31.12.13		At 31.12.12	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivatives qualifying for hedge accounting	**2**	**52**	**-**	**82**
Cash flow hedges				
- Interest rate	2	52	-	82
Fair value hedge				
- Exchange rate	-	-	-	-
Other financial instruments	**-**	**-**	**-**	**2**
- Interest rate and exchange rate	-	-	-	2
Derivative financial instruments – non current	**2**	**52**	**-**	**84**
Derivatives qualifying for hedge accounting	**10**	**19**	**26**	**14**
Cash flow hedges				
- Interest rate	-	7	-	-
- Exchange rate	-	7	1	9
- Commodity prices	1	5	10	4
Fair value hedge				
- Exchange rate	9	-	15	1
Other financial instruments	**13**	**1**	**12**	**2**
- Commodity prices	13	1	12	2
- Interest rate	-	-	-	-
Derivative financial instruments – current	**23**	**20**	**38**	**16**
Total	**25**	**72**	**38**	**100**

The fair value of derivatives is determined based on observable variables in an active market (Level 2).

“Other financial instruments” includes the derivatives not qualifying for hedge accounting.

The impact on the Consolidated Income Statement of derivative financial instruments is as follows:

	2013		2012	
	Operating Income	**Financial Income**	**Operating Income**	**Financial Income**
Cash flow hedges	(14)	(34)	30	(39)
Fair value hedges	2	(10)	9	(6)
Other financial instruments	60	(6)	9	12
Total	**48**	**(50)**	**48**	**(33)**

The breakdown of the derivative financial instruments at 31 December 2013 and 2012, their fair value and the breakdown by maturity of their notional values are as follows:

	Fair Value	31.12.13 Notional Value (Million Euros)						
		2014	2015	2016	2017	2018	Beyond	Total
Interest rate swap contracts:								
Cash flow hedges:								
Financial swaps (EUR)	(14)	459	559	257	686	2	22	1,985
Financial swaps (USD)	(28)	27	28	29	200	14	55	353
Financial swaps (MXN)	(1)	67	74	-	-	-	-	141
Financial swaps (CHF)	(6)	-	-	-	-	-	204	204
Financial swaps (NOK)	(8)	-	-	-	-	-	101	101
Collars (EUR)	-	3	2	-	-	-	-	5
EXCHANGE RATE HEDGE:								
Cash flow hedge:								
Exchange fluctuation insurance (USD)	(7)	405	3	-	-	-	-	408
Fair value hedge:								
Foreign exchange fluctuation insurance (BRL)	-	25	-	-	-	-	-	25
Foreign exchange fluctuation insurance (USD)	9	728	-	-	-	-	-	728
Foreign exchange fluctuation insurance (DHN)	-	6	-	-	-	-	-	6
COMMODITY HEDGE:								
Cash flow hedge:								
Commodity price derivatives (EUR)	-	101	1	-	-	-	-	102
Commodity price derivatives (USD)	(3)	216	-	-	-	-	-	216
Commodity price derivatives (ZAR)	(1)	36	-	-	-	-	-	36
OTHERS:								
Financial swaps (JPY)	-	-	-	-	-	-	-	-
Commodity price derivatives (EUR)	12	183	162	6	-	-	-	351
Commodity price derivatives (USD)	-	22	8	30	-	-	-	60
Commodity price derivatives (GBP)	-	-	-	-	-	-	-	-
TOTAL	**(47)**	**2,278**	**837**	**322**	**886**	**16**	**382**	**4,721**

	Fair Value	31.12.12 Notional Value (Million Euros)						
		2013	2014	2015	2016	2017	Beyond	Total
Interest rate swap contracts:								
Cash flow hedges:								
Financial swaps (EUR)	(37)	55	651	254	202	135	23	1,320
Financial swaps (USD)	(45)	28	29	28	30	76	72	263
Financial swaps (MXN)	-	15	70	78	-	-	-	163
Collars (EUR)	-	2	3	2	-	-	-	7
EXCHANGE RATE HEDGE:								
Cash flow hedge:								
Exchange fluctuation insurance (USD)	(8)	491	3	3	-	-	-	497
Fair value hedge:								
Foreign exchange fluctuation insurance (BRL)	-	17	-	-	-	-	-	17
Foreign exchange fluctuation insurance (USD)	14	568	-	-	-	-	-	568
Foreign exchange fluctuation insurance (DHN)	-	6	-	-	-	-	-	6
COMMODITY HEDGE:								
Cash flow hedge:								
Commodity price derivatives (EUR)	4	332	1	-	-	-	-	333
Commodity price derivatives (USD)	2	36	-	-	-	-	-	36
OTHERS:								
Financial swaps (JPY)	(2)	-	-	-	-	-	220	220
Commodity price derivatives (EUR)	10	89	24	11	-	-	-	124
Commodity price derivatives (USD)	-	2	-	-	-	-	-	2
Commodity price derivatives (GBP)	-	1	-	-	-	-	-	1
TOTAL	**(62)**	**1,642**	**781**	**376**	**232**	**211**	**315**	**3,557**

Note 17. Other non-current liabilities

The breakdown of this heading at 31 December 2013 and 2012 is as follows:

	At 31.12.13	At 31.12.12
Finance lease liabilities (1)	529	551
Payables for levelling of capacity income (2)	12	37
Deposits and guarantee deposits (Note 8)	202	202
Finance lease liabilities (3)	99	44
Total	**842**	**834**

There are no significant differences between the carrying values and the fair values of the items in the account "Other non-current liabilities".

(1) Finance lease liabilities

In 2003 Gas Natural Fenosa acquired two gas transport tankers to transport liquefied natural gas with a capacity of 276,000 m^3 through finance lease agreements. The duration of the contracts is 20 years, maturing in 2023.

In July 2004 Unión Fenosa Gas acquired two gas tankers for the transport of liquefied natural gas with capacities of 138,000 m^3 and 140,500 m^3 through 25-year time-charter contracts, extendible to 30 years.

In December 2007 a 138,000 m3 gas tanker was acquired through a 25-year time-charter lease maturing 2032, extendible for consecutive periods of 5 years, and which represents a joint investment of Euros 162 million relating to the current value of the payments to which Repsol (50%) and Gas Natural Fenosa (50%) are committed.

In 2009 a 138,000 m^3 capacity gas tanker was acquired through a 25-year time-charter contract, extendible for consecutive periods of 5 years, which involved a joint investment of Euros 142 million, corresponding to the current value of the payments committed by Repsol YPF (50%) and Gas Natural Fenosa (50%).

Minimum lease payments are as follows:

	At 31.12.13			At 31.12.12		
	Nominal	**Discount**	**Present value**	**Nominal**	**Discount**	**Present value**
Less than 1 year	55	(1)	**54**	56	(2)	**54**
Between 1 and 5 years	222	(45)	**177**	223	(41)	**182**
More than 5 years	688	(336)	**352**	746	(377)	**369**
Total	**965**	**(382)**	**583**	**1,025**	**(420)**	**605**

The effective average interest rate on the liabilities for finance lease agreements at 31 December 2013 is 6.8% (6.7% at 31 December 2012).

(2) Payables for levelling of capacity income

This account includes the revenues invoiced for the assignment of electricity generating capacity pending recognition as income, for the levelling of the revenues over the term of the contracts in Mexico.

(3) Other liabilities

This includes the purchase commitment (without a premium) made to Sinca Inbursa, S.A. de C.V. (Inbursa) on 22 December 2008 covering 14.125% of Gas Natural México, S.A. de C.V. and 14% of Sistemas de Administración, S.A. de C.V. According to this commitment, which had an initial maturity date in May 2013 and was renewed at maturity to May 2016, Inbursa may offer all the shares held at that time to Gas Natural Fenosa, which will be obligated to acquire them. The acquisition price will be the higher of the market value of each share, based on the investees' results, and invested capital increased by financial interest. As a result of the commitment, this sale is recognized as a deferred payment and the repurchase commitment percentage is still allocated to the Parent company. The liability recognized in this item at 31 December 2013 totals Euros 67 million, representing the present value of the amount.

Note 18. Trade and other payables

The breakdown at 31 December 2013 and 2012 is as follows:

	At 31.12.13	**At 31.12.12**
Trade payables	3,390	3,838
Trade payables with related parties (Note 32)	54	52
Amounts due to associates	41	46
Trade payables	3,485	3,936
Public Administration	613	417
Derivative financial instruments (see Note 16)	13	15
Amounts due to employees	83	94
Other payables	709	526
Current tax liabilities	36	98
Total	**4,230**	**4,560**

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

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

The total amount of payments made during the year, with details of periods of payments, according to the maximum legal limit under Law 15/2010 of 5 July, which laid down measures against slow payers, is as follows:

	2013		**2012**	
	Amount	**%**	**Amount**	**%**
Payments made during year within legal maximum period	10,648	99.9	10,070	99.9
Other payments made during year	5	0.1	8	0.1
Total payments during year	**10,653**	**100**	**10,078**	**100**
Weighted average period of payments outside legal period (days)	9		8	-
Deferrals exceeding legal maximum period at year end	-		1	-

Note 19. Other current liabilities

The breakdown at 31 December 2013 and 2012 is as follows:

	At 31.12.13	At 31.12.12
Dividend payable	415	411
Expenses accrued pending payment	237	151
Finance lease liabilities (Note 17)	54	54
Other liabilities (1)	54	191
Total	**760**	**807**

(1) Other liabilities

A 31 December 2012 included a liability to repurchase granted Inbursa amounting of Euros 60 million euros, maturing in May 2013, having renewed when due until May 2016. The associated liability was reclassified to "Other noncurrent liabilities" heading (Note 17).

At December 31 of 2013 included a liability to repurchase granted Chemo Spain, SL amounting to Euros 42 million. The December 16, 2008 was sold to Chemo Spain, SL Invergas 28%, S.A. Gas Natural SDG Argentina, SA, representing a stake in Gas Natural BAN, SA, Natural Energy, SA and Natural Services, Inc. 19.6%, for U.S. $ 56 million (38 million) through an initial payment of USD 28 million and the rest in deferred income (Note 8), and a commitment to repurchase these shares. In the month of September 2013 Chemo Spain, SL exercised its option. The purchase price determined by the invested capital amounted to USD 48 million (Euros 36 million).

Note 20. Tax situation

The Tax Group represented by Gas Natural SDG, S.A. as the parent company has been taxed since 1993 under the Consolidated Tax Regime in accordance with the Special Regime for Group Companies, regulated under Chapter VII of Title VII of the re-written Income tax Act which involves the joint determination of taxable income of Gas Natural Fenosa and the deductions and allowances on the tax payable. The Tax Consolidated Group for 2013 is indicated in Appendix III.

The rest of the Gas Natural Fenosa companies file individual tax returns under their respective regimes, barring a number of Italian subsidiaries that form their own tax consolidated group.

The reconciliation of the applicable tax rate to the effective tax rate and the breakdown of the income tax expense for 2013 and 2012 are as follows:

	2013	%	2012	%
Profit before tax	**2,132**		**2,203**	
Statutory tax	**640**	**30.0**	**661**	**30.0**
Tax rates for foreign companies	(54)	(2.6)	(54)	(2.4)
Reinvestment tax deductions	-	-	(8)	(0.4)
Other tax deductions	(15)	(0.7)	(31)	(1.4)
Balance revaluation	(109)	(5.1)	-	-
Effect of net profit under equity accounting	(2)	(0.1)	(4)	(0.2)
Tax differences against prior years and others	8	0.4	(18)	(0.8)
Income tax	**468**	**22.0**	**546**	**24.8**
Breakdown of current/deferred expense:				
Current income tax	550		447	
Deferred income tax	(82)		99	
Income tax	**468**		**546**	

In June 2013, the Shareholders' Meetings of some group companies resolved to restate their property, plant and equipment as allowed by Law 16/2012 (27 December 2012), with retroactive effects for accounting and tax purposes as from 1 January 2013. The restatement of “Property, plant and equipment” in the individual balance sheets prepared under “Plan General Contable (PGC)” totals Euros 438 million. In order to obtain the right to deduct 30% of future depreciation charges on this restatement amounting to Euros 131 million, a single 5% tax payment of Euros 22 million was made when the 2012 corporate income tax return was filed.

Since Gas Natural Fenosa applies the historical cost method to measure "Property, plant and equipment" (except for business combinations) under IFRS-EU, this restatement has not increased the consolidated carrying amount of the assets, although their tax value has increased and a tax credit has therefore been generated reflecting future tax deduction rights. In view of the close connection between the single tax and the tax credit generated by the increase in the assets' tax value, they both have been recognised with a balancing entry in the consolidated income statement item “Income tax expense", in a net amount of Euros 109 million.

The tax deductions for the reinvestment of extraordinary profit for 2012 related basically to the disposal of certain clients of gas and associated contracts in the Region of Madrid.

The income under the deduction for reinvestment of extraordinary profit as per article 42 of the Corporate Income Tax Act, and the investments in which they have materialised in prior years is disclosed in the annual accounts for said years. The breakdown relating to the last six years, together with that for 2013, are as follows:

Year of sale	Amount generated from sale	Amount reinvested
2007	780	780
2008	152	152
2009	382	382
2010	873	873
2011	856	856
2012	39	39
2013	1	1
Total	**3,083**	**3,083**

The reinvestment has been made in fixed assets related to economic activities, carried out by Gas Natural SDG. S.A. or any other company included in the Consolidated Tax Group, by virtue of the provisions of article 75 of the Corporate Income Tax Act.

The breakdown of the tax effect relating to each component of “Other comprehensive income” of the Consolidated Statement of Comprehensive Income for the year is as follows:

	At 31.12.13			At 31.12.12		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Measurement of available-for-sale financial assets	-	-	-	-	-	-
Cash flow hedges	27	(6)	21	(16)	5	(11)
Cumulative translation adjustments	(458)	-	(458)	(152)	9	(143)
Actuarial gains and loss and other adjustments	3	(1)	2	(87)	25	(62)
Total	**(428)**	**(7)**	**(435)**	**(255)**	**39**	**(216)**

The breakdown and movement of deferred taxes is as follows:

Deferred tax assets	Provisions for employee benefit obligations	Other provisions	Tax losses carried forward	Amortization differences	Financial instruments valuation	Other	Total
At 1.1.12	**216**	**242**	**167**	**114**	**50**	**186**	**975**
Charged/(credited) to income statement	1	8	(218)	(4)	(1)	(15)	(229)
Business combinations	-	-	-	-	-	-	-
Charged to equity	25	-	-	-	2	-	27
Cumulative translation adjustments	2	6	-	-	8	1	17
Others (1)	(9)	20	232	(1)	-	4	246
At 31.12.12	**235**	**276**	**181**	**109**	**59**	**176**	**1,036**
Charged/(credited) to income statement	(9)	(1)	(199)	233	(1)	(20)	3
Business combinations	-	-	-	(1)	-	-	(1)
Charged to equity	(1)	-	-	-	(7)	-	(8)
Cumulative translation adjustments	(10)	(21)	2	(7)	13	(5)	(28)
Others	-	6	51	-	(1)	(7)	49
At 31.12.13	**215**	**260**	**35**	**334**	**63**	**144**	**1,051**

(1) "Transfers and others" includes an increase in "Tax Credits" arising from unrestricted amortisation as a result of the contents of Royal Decree 13/2010.

(2) The increase in "depreciation differences" basically includes the application of the time limitation of 30% depreciation deduction under the provisions of Law 16/2012 and the revaluation mentioned in this Note.

Deferred tax liabilities	Amortization differences	Reinvestment capital gains	Fair value business combination (2)	Financial instruments valuation	Other	Total
At 1.1.12	**325**	**281**	**1,793**	**8**	**235**	**2,642**
Charged/(credited) to income statement	(15)	(22)	(96)	-	3	(130)
Business combinations	-	-	-	-	-	-
Charged to equity	-	-	-	(4)	-	(4)
Cumulative translation adjustments	(1)	-	(16)	-	4	(13)
Others (1)	226	-	(29)	-	(4)	193
At 31.12.12	**535**	**259**	**1,652**	**4**	**238**	**2,688**
Charged/(credited) to income statement	1	-	(79)	-	(1)	(79)
Business combinations	-	-		-	-	-
Charged to equity	-	-	-	(1)	-	(1)
Cumulative translation adjustments	(23)	-	(9)	1	-	(31)
Others	25	-	(25)	(1)	(14)	(15)
At 31.12.13	**538**	**259**	**1,539**	**3**	**223**	**2,562**

(1) Includes an increase in "Amortisation differences" from the application of unrestricted amortisation in line with the content of Royal Decree 13/2010.

(2) The heading "Fair value of business combinations" under the heading "Deferred taxes liabilities" includes basically the tax effect of the difference upon the merger as a result of the absorption of Unión Fenosa, S.A. by Gas Natural SDG, S.A. that occurred in 2009 assigned to net assets acquired which is estimated not to have tax effects, as well as the tax deduction of the part of the merger not assigned to net assets acquired.

At 31 December 2013 the tax credits that have not been recorded totalled Euros 38 million (Euros 31 million at 31 December 2012).

In May 2013 the inspection process to Gas Natural, SDG, S.A. on Corporate Income Tax, as the leading company of the Tax Group, for 2006 to 2008, and for other taxes at an individual level for 2007 and 2008. No important matters were reported, except those referring to the regularisation of the deduction for export activities amounting to Euros 5 million and which does not have any impact on the Consolidated Income Statement since it was fully provided for in previous years (Note 34).

The Tax Group of Gas Natural SDG, S.A. is open to inspection for 2009 and thereafter for the applicable taxes.

The information on the main actions of the Tax Authorities and the position of the entity in each are discussed in the section on "Litigation and arbitration" in Note 34.

Note 21. Sales

The breakdown of this account for 2013 and 2012 is as follows:

	2013	2012
Sales of gas and connections to distribution networks	14,607	14,188
Sales of electricity and access to distribution networks	8,690	9,041
Rental of facilities, maintenance and other services	1,541	1,501
Other sales	131	174
Total	**24,969**	**24,904**

Note 22. Procurements

The breakdown of this account for 2013 and 2012 is as follows:

	2013	2012
Energy purchases	14,845	14,801
Access to transmission networks	1,863	1,845
Other purchases and Stock variation	520	663
Total	**17,228**	**17,309**

Note 23. Other operating income

The breakdown of this account for 2013 and 2012 is as follows:

	2013	2012
Other management income	208	247
Operating grants	5	3
Total	**213**	**250**

The item "Other management income" includes income from services relating to the construction or improvement of concession infrastructures under IFRIC 12 in the amount of Euros 110 million (Euros 117 million in 2012).

Note 24. Personnel costs

The breakdown of this heading for 2013 and 2012 is as follows:

	2013	2012
Wages and salaries	684	707
Social security costs	127	129
Defined contribution plans	39	32
Defined benefit plans	5	4
Own work capitalised	(83)	(85)
Others	89	84
Total	**861**	**871**

The average number of employees of Gas Natural Fenosa in 2013 has been 15,173 and 16,172 in 2012.

Under Law 3/2007 of 22 March, on gender equality, published in the Official State Gazette on 23 March 2007, the number of employees of Gas Natural Fenosa at the end of 2013 and 2012 broken down by category and gender is as follows:

	2013		2012	
	Male	**Female**	**Male**	**Female**
Executives	926	305	931	291
Middle management	2,212	527	2,341	582
Specialized technicians	2,492	1,403	2,562	1,478
Workers	5,121	1,996	5,580	2,194
Total	**10,751**	**4,231**	**11,414**	**4,545**

	2013	**2012**
Spain	8,019	8,247
Rest of Europe	1,212	1,238
Latin American	4,717	5,436
Others	1,034	1,038
Total	**14,982**	**15,959**

Note 25. Other operating expenses

The breakdown of this heading for 2013 and 2012 is as follows:

	2013	**2012**
Taxes	523	285
Repairs and maintenance	396	445
Commercial services & advertising	395	382
Bad debt provision (Note 10)	226	235
Professional services & insurance	168	177
Construction or improvement services (IFRIC 12) (Note 23)	110	117
Procurements	93	105
Leases	59	61
Expenses for emission of CO_2 (Note 14)	52	59
Energy efficiency	25	45
Others	227	252
Total	**2,274**	**2,163**

The impact of Law 15/2012 of tax measures for energy sustainability and Royal Decree-Law 9/2013 (Note 2.4.2.1.) amounted to Euros 455 million in 2013. Of that amount, Euros 232 million, relating to tax on electricity generated, taxes on nuclear fuel and the charge for the use of continental waters, are included in “Taxes”, and Euros 122 million, relating to special taxes on fuel consumption, are included in “Procurements”.

“Energy efficiency" includes Gas Natural Fenosa's contribution to energy saving and efficiency policies under Royal Decree Law 14/2010 (Note 2.4.2.1).

Following the Supreme Court ruling of 13 November 2013 which has recognized to the companies that funded the social bond the right to be repaid the amounts paid (Note 2.4.2.1), are included in the section "Others" lower expenses amounting to Euros 42 million.

Note 26. Other results

In 2013, this relates basically to the gain of Euros 8 million obtained from the sale of the Nicaraguan electricity distribution companies to TSK Melfosur Internacional for Euros 43 million.

In 2012, it related to the gain of Euros 20 million obtained from the sale of assets comprising approximately 245,000 gas customers and other related contracts in the Madrid Region to the Endesa Group for Euros 38 million.

Note 27. Net financial income

The breakdown of this account for 2013 and 2012 is as follows:

	2013	2012
Dividends	12	2
Interest income	114	107
Others	86	69
Total financial income	**212**	**178**
Financial expense from borrowings	(880)	(865)
Interest expenses of pension plans and other post-employment benefits	(41)	(42)
Other financial expenses	(127)	(153)
Total financial expenses	**(1,048)**	**(1,060)**
Variations in the fair value of derivate financial instruments (Note 16)	(2)	15
Net exchange gains/losses	-	(7)
Net financial income	**(838)**	**(874)**

Note 28. Cash generated from operating activities

The breakdown of cash generated from operations in 2013 and 2012 is as follows:

	2013	2012
Net income before tax	**2,132**	**2,203**
Adjustments to net income:	**2,608**	**2,540**
Depreciation, amortisation and impairment expenses *(Note 5 and 6)*	1,907	1,798
Other adjustments to net income:	701	742
Net financial income *(Note 27)*	838	874
Profit of entities recorded by equity method (*Note 7)*	(7)	(10)
Release of fixed assets grants to income *(Note 13)*	(40)	(34)
Other results *(Note 26)*	(11)	(20)
Net variation in Provisions	(79)	(68)
Changes in working capital (excluding the effects on the consolidation scope and cumulative translation adjustments)	**(119)**	**(7)**
Inventories	27	(45)
Trade and other accounts receivable	(455)	(45)
Trade and other accounts payable	309	83
Other cash flows generated from operations:	**(1,170)**	**(1,299)**
Interest received	(789)	(827)
Interest collected	95	91
Income tax payments	(476)	(563)
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	**3,451**	**3,437**

Note 29. Business combinations

2013

There were no significant business combinations in 2013.

2012

Acquisition of Sistemes Energètics Passanant, S.L.U.

On 12 December 2012 the acquisition of the company Sistemes Energètics Passanant, S.L.U., a company that exploits of the wind farm Les Forques II, from the Gamesa group was completed for Euros 1 million and no goodwill was generated from the operation.

If the operation had taken place on 1 January 2012 the impact of the operation on the consolidated turnover and the consolidated profit figures would not have been significant.

Note 30. Joint Ventures

Gas Natural Fenosa participates in different joint ventures that meet the conditions indicated in Note 3.3.1.b) and which are described in Appendix I. The relevant shareholdings in joint ventures at 31 December 2013 and 2012 are as follows:

	2013	2012		2013	2012
Barras Eléctricas Galaico Asturianas, S.A.	44.9%	44.9%	EcoEléctrica Holding Ltd and subsidiarie	50.0%	50.0%
Barras Eléctricas Generación, S.L.	45.0%	45.0%	Eléctrica Conquense, S.A.	46.4%	46.4%
Centrales Nucleares Almaraz-Trillo, A.I.E	19.3%	19.3%	Eléctrica Conquense Distribución, S.A.	46.4%	46.4%
Comunidad de Bienes Central Nuclear de Almaraz	11.3%	11.3%	Gas Natural West Africa, S.L.	40.0%	40.0%
Comunidad de Bienes Central Nuclear de Trillo	34.5%	34.5%	Nueva Generadora del Sur, S.A.	50.0%	50.0%
Comunidad de Bienes Central Térmica de Aceca	50.0%	50.0%	Repsol - Gas Natural LNG, S.L.(1)	-	50.0%
Comunidad de Bienes Central Térmica de Anllares	66.7%	66.7%	Subgrupo Unión Fenosa Gas	50.0%	50.0%

(1) In December 2013 was acquired the 50% (Note 32)

The following amounts represent Gas Natural Fenosa's interest share of assets and liabilities, and sales and results of the joint ventures:

	At 31.12.13	At 31.12.12
Non-current assets	3,285	3,525
Current assets	736	600
Assets	4,021	4,125
Non-current liabilities	1,403	989
Current liabilities	483	398
Liabilities	1,886	1,387
Net assets	**2,135**	**2,738**

	2013	2012
Income	1,676	1,346
Expenses	1,765	1,238
Profit after income tax	(89)	108

There are no contingent liabilities on the holdings in joint ventures. The disclosure on contractual commitments in Note 34 include the commitments for gas purchases of Unión Fenosa Gas and EcoEléctrica LP totalling Euros 12,327 million at 31 December 2013 (Euros 12,195 million at 31 December 2012), the commitments for the purchase of nuclear fuel totalling Euros 43 million at 31 December 2013 (Euros 55 million at 31 December 2012), the commitments for the cession of electricity generation capacity of EcoEléctrica LP amounting to Euros 271 million (Euros 315 million at 31 December 2012) and the commitments for operating lease payments for the gas transport vessels of Unión Fenosa Gas totalling Euros 150 million at 31 December 2013 (Euros 158 million at 31 December 2012).

Note 31. Service Concession Agreements

Gas Natural Fenosa manages various concessions that include provisions for the construction, operation and maintenance of facilities, as well as connection and energy supply obligations during the concession period, in accordance with applicable legislation (Note 2). Set out below please find a breakdown of the remainder of the period until maturity of the concessions that are no indefinite:

Company	Activity	Country	Concession period	Initial remaining period
Gas Natural BAN, S.A.	Gas distribution	Argentina	35 (extendible 10)	14
Companhia Distribuidora de Gás do Río de Janeiro, S.A, Ceg Rio, S.A. and Gas Natural Sao Paulo Sul, S.A.	Gas distribution	Brazil	30 (extendible 20/30)	14-17
Gas Natural, S.A. ESP, Gas Natural del Oriente S.A. ESP, Gas Natural Cundiboyacense S.A. ESP and Gas Natural del Cesar S.A. ESP.	Gas distribution	Colombia	15-50 (extendible 20)	1-34
Gas Natural Distribuzione SpA, Cetraro Distribuzione Gas, S.R.L, Favellato Reti Gas, S.R.L and Cilento Reti Gas, S.R.L	Gas distribution	Italia	11-30	1-25
Gas Natural México S.A. de C.V. and Comercializadora Metrogas S.A. de C.V.	Gas distribution	Mexico	30 (extendible 15)	14-25
Europe Maghreb Pipeline Ltd	Gas transportation	Morocco	25 (extendible)	8
Unión Fenosa Generadora La Joya, S.A. and Unión Fenosa Generadora Torito, S.A.	Electricity generation	Costa Rica	20	9-17
Gas Natural SDG, S.A. and Gas Natural Fenosa Renovables, S.L.	Hydro-electricity generation	Spain	14-65	9-50
Red Unión Fenosa, S.A.	Electricity distribution	Moldova	25 (extendible)	12
Empresa Distribuidora de Electricidad Metro Oeste, S.A. and Empresa Distribuidora de Electricidad Chiriqui, S.A.	Electricity distribution	Panama	15	15

As indicated in Note 3.3.3.b Gas Natural Fenosa applied IFRIC 12 ”Service Concession Agreements” retrospectively, considering that the intangible assets model is basically applicable to the gas distribution activities in Argentina, Brazil and Italy and the financial asset model of electricity generation in Costa Rica.

The hydro-electric station concessions in Spain (Note 3.3.4.b) are beyond the scope of IFRIC 12, as a result, amongst other reasons, of the fact that the sale prices of energy are set by the market. The other concessions internationally are outside the scope of IFRIC 12 as a result of the fact that the Licensor does not control the significant residual holding in the infrastructure at the end of the concession agreement and at the same time, determines the cost of service. The assets related to these concessions are still booked as “Property, plant and equipment”.

On 14 August 2013, Panama's National Public Services Authority (ASEP) renewed Gas Natural Fenosa's contract to operate its two electricity distribution companies for the next 15 years.

Note 32. Related-parties disclosures

Related parties are as follows:

- Significant shareholders of Gas Natural Fenosa, i.e. those directly or indirectly owning 5% or more, and those who, though not significant, have exercised the power to appoint a member of the Board of Directors.

  On the basis of this definition, the significant shareholders of Gas Natural Fenosa are Criteria Caixaholding, S.A.U., and consequently, Caixa d´Estalvis i Pensions de Barcelona Group ("la Caixa" group) and Repsol group.

- Directors and executives of the company, and their immediate families. The term "director" means a member of the Board of Directors; "executive" means a member of the Management Committee of Gas Natural Fenosa and the Internal Audit Director. The operations with directors and executives are disclosed in Note 33.

- Operations between Group companies or entities for part of normal trade. The balances and transactions that are not eliminated in the consolidation process are not significant. Furthermore, the transactions with related parties have been made at arm's length.

The main aggregates for operations with significant shareholders are as follows:

	2013		2012	
Income and expenses (Thousand Euros)	**"la Caixa" Group**	**Repsol Group**	**"la Caixa" Group**	**Repsol Group**
Financial expense	6,916	-	11,464	-
Leases	-	-	-	-
Services received	-	91,702	-	73,702
Goods purchased (1)	-	1,090,558	-	1,175,291
Other expenses (2)	36,983	-	43,844	-
Total expenses	**43,899**	**1,182,260**	**55,308**	**1,248,993**
Financial income	27,697	-	30,823	-
Leases	-	371	-	360
Provision of services	-	54,524	-	41,371
Sale of goods (1)	-	1,108,363	-	1,171,298
Other income	804	-	884	-
Total income	**28,501**	**1,163,258**	**31,707**	**1,213,029**

	2013		2012	
Other transactions (Thousand Euros)	**"la Caixa" Group**	**Repsol Group**	**"la Caixa" Group**	**Repsol Group**
Acquisition of property, plant and equipment, intangible assets or other assets (3)	10,500	1,299	-	5,044
Financing agreements: loans and capital contributions (lender) (4)	1,577,755	6,620	1,860,377	-
Sale of property, plant and equipment, intangible assets or other assets (5)	705,852	-	814,873	-
Financing agreements: loans and capital contributions (borrower) (6)	6,186	-	512,796	-
Deposits and guarantees deposits received	137,500	-	112,500	-
Dividends and other distributed profit	311,037	268,474	290,336	247,009
Other operations (7)	843,020	-	603,460	-

	2013		2012	
Trade debtors and creditors (in thousand Euros)	**"la Caixa" Group**	**Repsol Group**	**"la Caixa" Group**	**Repsol Group**
Trade and other receivables	-	109,800	-	121,600
Trade and other payables	-	54,000	-	51,700

(1) Purchases and sales under gas supply contracts signed with Repsol group are included. In July 2013 Gas Natural Fenosa signed two agreements for the sale of natural gas to Repsol. The first 2 bcm per year for the period 2015-2018 and the second for selling 1 bcm per year for 20 years is estimated to start in 2017. In December 2013 Gas Natural Fenosa authorized the Shell group assignment of a contract for the supply of gas to CCGTs he had with the Repsol group.

(2) Includes contributions to pension plans, collective insurance policies, life insurance policies, and other expenses.

(3) Relates to the acquisition of a 10% stake in Gas Navarra, S.A. from the “la Caixa” Group company Hiscan Patrimonio II, S.L.U. as at 21 June 2013 and to the acquisition of 50% of Repsol-Gas Natural LNG, S.L. from Repsol, S.A. as at 30 December 2013.

(4) Includes treasury and financial investments.

(5) Includes basically the assignment of debt claims (factoring without recourse) to the “la Caixa” Group made during each of the years.

(6) At 31 December 2013 the credit facilities extended by the “la Caixa” Group totalled Euros 562,421 thousand (Euros 474,317 thousand at 31 December 2012), of which Euros 0 had been drawn down (Euros 16,292 thousand at 31 December 2012). Additionally, the “la Caixa” Group has stakes in other loans totalling Euros 6,186 thousand. At 31 December 2012, the “la Caixa” Group had stakes in syndicated loans of Euros 300,000 thousand and other loans totalling Euros 196,504 thousand.

(7) At 31 December 2013 “Other operations” with the “la Caixa” Group include Euros 620,833 thousand for exchange rate hedges (Euros 459,183 thousand at 31 December 2012) and Euros 222,187 thousand for interest rate hedges (Euros 144,277 thousand at 31 December 2012).

Note 33. Disclosures regarding members of the Board of Directors and the Executive personnel

Remuneration of the members of the Board of Directors

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

The amount accrued by the members the Board of Directors of Gas Natural SDG, S.A., for belonging to the Board of Directors, Executive Committee (EC), Audit and Control Committee (A&CC) and Appointments and Remuneration Committee (A&RC), totalled Euros 4,085 thousand (Euros 4,062 thousand in 2012), broken down as follows in Euros:

	Office	Board	EC	A&CC	A&RC	Total
Mr. Salvador Gabarró Serra	Chairman	550,000	550,000	-	-	1,100,000
Mr. Antonio Brufau Niubó	Vice-Chairman	126,500	126,500	-	12,650	265,650
Mr. Rafael Villaseca Marco	CEO	126,500	126,500	-	-	253,000
Mr. Ramón Adell Ramón	Director	126,500	-	12,650	-	139,150
Mr. Enrique Alcántara-García Irazoqui	Director	126,500	126,500	-	-	253,000
Mr. Xabier Añoveros Trías de Bes	Director	126,500	-	-	-	126,500
Mr. Demetrio Carceller Arce	Director	126,500	126,500	-	-	253,000
Mr. Santiago Cobo Cobo	Director	126,500	-	-	12,650	139,150
Mr. Nemesio Fernández-Cuesta Luca de Tena	Director	126,500	-	-	-	126,500
Mr. Felipe González Márquez	Director	126,500	-	-	-	126,500
Mr. Emiliano López Achurra	Director	126,500	126,500	-	-	253,000
Mr. Carlos Losada Marrodán	Director	126,500	126,500	12,650	-	265,650
Mr. Juan María Nin Génova	Director	126,500	126,500	-	-	253,000
Mr. Heribert Padrol Munté	Director	126,500	-	-	-	126,500
Mr. Juan Rosell Lastortras	Director	126,500	-	-	-	126,500
Mr. Luis Suárez de Lezo Mantilla	Director	126,500	-	12,650		139,150
Mr. Miguel Valls Maseda	Director	126,500	-	-	12,650	139,150
		2,574,000	**1,435,500**	**37,950**	**37,950**	**4,085,400**

Additionally, a total of Euros 5 thousand was received in 2013 for other items (Euros 4 thousand in 2012).

In the year 2013, as in the year 2012, no additional amounts were received corresponding to the Board of other participated companies.

The amounts accrued by the Chief Executive Officer for the executive functions under the concept of fixed remuneration, annual variable remuneration, multi-annual variable remuneration and other concepts amounted to Euros 1,043 thousand, Euros 968 thousand, Euros 784 thousand and Euros 5 thousand, respectively, in 2013 (Euros 1,043 thousand, Euros 975 thousand, Euros 761 thousand and Euros 5 thousand in the year 2012).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 314 thousand in 2013 (Euros 313 thousand in 2012). Funds accumulated due to these contributions amount to Euros 2,335 thousand at 31 December 2013 (Euros 2,031 thousand at 31 December 2012).

The members of the Board of Directors of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised.

The contract of the Chief Executive Officer contains a clause that stipulates an indemnity that trebles his annual compensation in certain cases of termination of contract and an indemnity equivalent to one year's pay for the one-year post-employment non-compete clause.

Transactions with Directors

In accordance with the content of article 229 of the Capital Companies Law, we disclose below the holdings and offices of the Directors in the share capital of companies with the same, analogous or complementary activity as that which constitutes the corporate purposes of Gas Natural Fenosa.

Administrators and position in other Companies with similar or complementary Activity		Number of shares and percentage in:											
		Gas Natural Fenosa		Enagás		Repsol		Endesa		Red Eléctrica		Iberdrola	
Mr. Salvador Gabarró Serra	Chairman	3,262	(0.000)	14,371	(0.006)					10,502	(0.008)	90,687	(0.001)
Vice-President 1º of "La Caixa"													
Board Member of Caixabank, S.A.													
Mr. Antonio Brufau Niubó	Vice-Chairman	81,139	(0.008)			306,604	(0.022)						
President of Repsol , S.A.		1,086	(0,000) (1)			1,820	(0.000) (1)						
Mr. Rafael Villaseca Marco	CEO	13,055	(0.001)			713	(0.000)						
Mr. Enrique Alcántara-García Irazoqui	Director	8,339	(0.001)									9,444	(0.000)
Mr. Xabier Añoveros Trías de Bes	Director	350	(0.000)										
Mr. Juan María Nin Génova	Director	156	(0.000)			266	(0.000)						
Director General of "La Caixa"						1,657	(0.000) (1)						
Vice-President and Chief Executive of Caixabank, S.A.													
Vice-President of Criteria Caixaholding, S.A.U.													
Board Member of Repsol, S.A.													
Board Member of Grupo financiero INBURSA													
Mr. Juan Rosell Lastortras	Director	2,000	(0.000) (1)										
Board Member of Caixabank, S.A.													
Mr. Demetrio Carceller Arce	Director	2,826	(0.000)										
President of Disa Corporación Petrolífera, S.A.		31.150	(0,003) (1)										
Mr. Luis Suárez de Lezo Mantilla	Director	18,156	(0.002)			24,093	(0.002)					383	(0.000) (1)
Secretary Board Member of Repsol , S.A.		998	(0.001) (1)			405	(0.000) (1)						
Member of the Environmental and Energy Committee of the International Chamber of Commerce (ICC)													
Mr. Ramón Adell Ramón	Director	5,000	(0.000)										
Mr. Santiago Cobo Cobo	Director	684	(0.000)										
Mr. Felipe González Márquez	Director	1,902	(0.000)			656	(0.000)	59	(0.000)			1,175	(0.000)
												97	(0.000) (1)
Mr. Emiliano López Achurra	Director	1,098	(0.000)										
Board Member of Petróleos del Norte, S.A.													
Mr. Carlos Losada Marrodán	Director	2,020	(0.000)										
Board Member of Innoenergy		8,025	(0.001) (1)										
Mr. Miguel Valls Maseda	Director	7,000	(0.001)										
Mr. Nemesio Fernandez-Cuesta Luca de Tena	Director	1	(0.000)			58,661	(0.003)						
Director General of Business of Repsol, S.A.													
Management Committee Member and Operations Committee Member of Repsol, S.A.													
President of Repsol Exploración, S.A.													
President of Repsol Sinopec Brasil, S.A.													
President of Repsol Petroleo, S.A.													
President of Repsol Comercial de Productos Petroliferos, S.A.													
Mr. Heribert Padrol Munté	Director												

(1) The number of shares held by linked persons.

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

During the years 2013 and 2012, the members of the Board have not carried out related transactions outside the ordinary course or transactions that are not conducted under normal market conditions with the company or Group companies.

Remuneration of the Executive personnel

For the sole purposes of the information contained in this section, “executives” refers to the members of the Management Committee, excluding the CEO, whose remuneration has been included in the previous section, and the Internal Audit Director.

The amounts accrued by the members of the Management Committee, excluding those by the Chief Executive Officer detailed previously, in respect of fixed remuneration, annual variable remuneration, multi-annual variable remuneration and other items, totalled Euros 4,348 thousand, Euros 2,495 thousand, Euros 1,893 thousand and Euros 119 thousand, respectively in 2013 (Euros 4,344 thousand, Euros 2,953 thousand, Euros 1,857 thousand and Euros 119 thousand in 2012).

The amount of fixed remuneration in 2013 includes Euros 132 million received in shares of the Company (Euros 132 million in 2012), in agreement with the Share Purchase plan referred to in Note 3.3.14 d).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, amounted to Euros 5,352 thousand in 2013 (Euros 2,119 thousand in 2012), the difference with respect to the previous year relating basically to the assumption of a contractual modification that, without affecting to the global economic conditions, modifies certain terms and compensates them with pension commitments. Funds accumulated due to these contributions amount to Euros 20,608 thousand at 31 December 2013 (Euros 15,150 thousand at 31 December 2012).

The executives have received no remuneration in respect of profit sharing or bonuses and no loans have been granted to them. Advances granted to executives at 31 December 2013 total Euros 100 thousand (no advances had been granted at 31 December 2012).

During 2012, severance indemnities and other items paid amounted to Euros 1,613 thousand.

The contracts of the executives contain a clause that stipulates a minimum indemnity of two years pay in certain cases of termination of contract and an indemnity equivalent to one year’s fixed remuneration for the post-employment no-competition clause for a period of two years.

Note 34. Commitments and contingent liabilities

Guarantees

At 31 December 2013 Gas Natural Fenosa has given guarantees to third parties for activities totalling Euros 1,630 million (Euros 1,448 million at 31 December 2012).

On the other hand, financial guarantees have also been given totalling Euros 517 million (Euros 650 million at 31 December 2012), of which Euros 270 million relate to the guarantee for compliance with the obligations on the loan received by investee companies (Euros 264 million at 31 December 2012).

Gas Natural Fenosa estimates that the liabilities not foreseen at 31 December 2013, if any, that could given arise from the guarantees given, would not be significant.

Contractual commitments

The following tables present the contractual commitments for purchases and sales at 31 December 2013:

	At 31 December 2013						
Purchase	**Total**	**2014**	**2015**	**2016**	**2017**	**2018**	**And beyond**
Commitments for operating leases (1)	1,077	100	40	37	49	54	797
Commitments for purchases of natural gas (2)	105,588	10,132	9,220	9,238	9,537	8,461	59,000
Commitments for purchases of nuclear fuel	43	20	23	-	-	-	-
Commitments for transport of natural gas (3)	3,170	216	220	219	221	239	2,055
Commitments for investments (4)	1,141	416	12	356	357	-	-
Total contractual obligations	**111,019**	**10,884**	**9,515**	**9,850**	**10,164**	**8,754**	**61,852**

		At 31 December 2013					
Sales	**Total**	**2014**	**2015**	**2016**	**2017**	**2018**	**And beyond**
Commitments for assignment of combined cycle capacity (5)	4,029	221	210	275	250	236	2,837
Commitments for sales of natural gas (6)	30,055	5,959	4,400	2,651	2,797	2,623	11,625
Total contractual obligations	**34,084**	**6,180**	**4,610**	**2,926**	**3,047**	**2,859**	**14,462**

1) Basically reflects the payments foreseen for the operating lease of the five liquefied natural gas transport tankers which terminate in 2014 and the operating costs related to the tanker fleet contracts under finance leases indicated in Note 17, as well as operating costs associated with four gas transport tankers under construction and an existing one, which will be recorded as financial leases and whose start-up is forseen in the years 2014, 2016 and 2017. Also included is the rent of the "Torre del Gas" building owned by Torre Marenostrum, S.L., for which Gas Natural Fenosa has an operating lease without a purchase option for a period of ten years as from March 2006, extendible at market value for successive periods of three years, which is discretionary for Gas Natural Fenosa and obligatory for Torre Marenostrum, S.L.

2) Basically reflects the long-term commitments for natural gas purchases under gas supply contracts with *take or pay* clauses negotiated and held for "own use" (Note 3.3.7.3). Normally, these contracts are for 20-25 years, a minimum amount of gas to be purchased and revision mechanisms for prices indexed to international natural gas prices and regulated prices of natural gas in the countries of origin. The commitments according to these contracts have been calculated on the basis of natural gas prices at 31 December 2013.

   This also includes long-term commitments to buy electricity (Note 9), calculated based on prices at 31 December 2013.

3) Reflects the long-term commitments (20 to 25 years) for gas transport calculated on the basis of prices at 31 December 2013.

4) Basically reflects payment commitments for the development of the distribution network and other gas infrastructures, construction of five methane tankers during the period 2014-2017 and construction of a wind farm in Mexico (Note 6).

5) Reflects the commitments as per the long-term contracts (25 years) of assignment of electricity generation capacity in Mexico and Puerto Rico without a purchase option, classified as operating leases (Note 3.3.16). The commitments under these contracts have been calculated on the basis of prices at 31 December 2013.

6) Reflects the long-term commitment to sell natural gas under gas sale contracts with *take or pay* clauses negotiated and maintained for “own use” (Note 3.3.7.3). Calculated on the basis of natural gas prices at 31 December 2013.

Litigation and arbitration

At the date of formulation of these Consolidated annual accounts the main litigation or arbitration to which Gas Natural Fenosa is a party are as follows:

Tax claims in Spain

As a result of the different tax audits on the fiscal years from 2003 to 2008, the Inspectors have questioned the applicability of the export deduction used by Gas Natural Fenosa, having signed assessments in disagreement and being currently appealed through the Economic-Administrative Court and the National Audience. The total amount, including interest, at 31 December 2013 involved in these assessments totals Euros 89 million, which is fully provided for.

Tax claims in Argentina

The Argentine tax authorities made several tax claims totalling ARS 264 million including accrued interest (Euros 29 million) for the tax treatment of capital gains in the period from 1993 to 2001, arising from the transfer of distribution networks by third parties to Gas Natural BAN, S.A. All the claims have been opposed and it was estimated that a final judgment favourable to the company would be handed down. Thus, the National Appellate Court finally ruled in 2007, for the period 1993-1997, voiding the Judgement of the Federal Public Administration Treasury (*Administración Federal de Ingresos Públicos - AFIP*), which had claimed the tax alleged due, and confirming the voiding of the fines. The decision of the Appellate Court has been appealed to the Supreme Court.

Tax claims in Brazil

In September 2005 the Administrative Court of Río de Janeiro voided the claim that had been filed previously in April 2003 against offsetting the tax credits for the contributions on sales of PIS and COFINS paid by Companhia Distribuidora de Gás do Rio de Janeiro - CEG. The administrative court confirmed this judgement in March 2007, and, accordingly, the company filed an appeal before the contentious-administrative court, (Justicia Federal do Rio de Janeiro), an appeal which is now being heard. Subsequently, on 26 January 2009 notice was given of a public civil suit against CEG for the same events. Gas Natural Fenosa and the legal advisors of the company believe that the actions mentioned above are baseless, and, accordingly, it is not likely that losses will arise from this litigation. The amount of the tax payable in question, actualised at 31 December 2013, totals BR 371 million (Euros 115 million).

Claim against Edemet - Edechi (Panama)

In April 2012 was received not-guilty sentence of second application which leaves ineffective another of first application, which had condemned the group companies Empresa Distribuidora de Electricidad Metro Oeste S.A. and Empresa Distribuidora de Electricidad Chiriquí S.A. to indemnify the plaintiff with an amount to be determined by the experts with a maximum of Dollars 84 million (Euros 61 million). Both the plaintiff and the defendants (Edemet y Edechi) have appealed against this sentence. The alleged damages are derived from a tender for the purchase of a block of energy that was called by the Public Services Authority and was awarded to the plaintiff who finally was incapable of complying with the contract by not presenting the guarantee conditioned in the specifications.

Qatar gas supply contract

After a period of negotiations, Gas Natural Fenosa initiated the arbitration procedures to determine the price of gas supplied by the company Qatar Liquefied Gas Company Limited under its long-term contracts, requesting a price reduction. Later, the supplier lodged a counterclaim, requesting a price increase. The arbitration is in its initial stage.

Gas Natural Fenosa believes that the provisions recorded in these Consolidated annual accounts adequately cover the risks described in this Note, and, accordingly, it is not expected that liabilities will arise in addition to the ones recorded.

Note 35. Auditors' fees

The fees accrued in thousand Euros by the different companies trading under the PwC mark are:

	Thousand Euros	
	2013	**2012**
Auditing and related services	4,298	3,977
Other services	24	815
Total fees	**4,322**	**4,792**

Additionally, other audit firms have rendered the following services to Group companies:

	Thousand Euros	
	2013	**2012**
Auditing and related services	132	138
Other services	5	2
Total fees	**137**	**140**

Note 36. Environment

Main environmental actions

The main actions of Gas Natural Fenosa in 2013 were framed within the corporate environmental values. These actions have been aimed basically for ensuring compliance with legislation, enhancing a strict environmental control of activities and facilities. Responsible measures were also taken to meet the energy needs of customers.

Regarding Climate Change, Gas Natural Fenosa has continued to make progress in reduction mechanisms and carbon footprint analysis. During the year 2013, and in order to identify and minimize indirect emissions, the first assessment of the carbon management of major suppliers was carried out. Likewise, the actions were intensified to maximize the benefits of the products in terms of CO_2.

All of these measures were developed within the framework of an Integrated Management System that Gas Natural Fenosa has certified under the Standard ISO 14,001 to guarantee correct environmental performance. This standard provides the necessary elements to ensure better environmental management: risk analysis, operational control, relations with stakeholders, legal constraints and volunteers, etc. In 2013 the upstream activitieswere included in this management model along with the retailing activities in Colombia and Panama. Thus 99.4% of ebitda generated in 2013 for environmentally relevant activities is certified according to this standard (all ordinary generation, almost all renewable generation, 94% extension of distribution network electric distribution activities and transportation of gas in Spain, Italy, Morocco, Egypt, Mexico, Colombia and Brazil, much of the trading activity, engineering services and the most representative buildings).

During 2013, Gas Natural Fenosa´s management in the area of environmental sustainability and climate change was recognised by the prestigious Dow Jones Sustainability Index (DJSI) and Carbon Disclosure Project (CDP), reaching the top of the sector companies involved in both classifications.

Gas Natural Fenosa implemented its Biodiversity Action Plan in 2013. Particularly worthy of note is the Group's adherence to the Biodiversity Pact promoted by Spain's Ministry of Agriculture, Food and Environment, reaffirming its commitment to the preservation of biodiversity.

All these environmental actions carried out in 2013 totalled Euros 80 million, of which Euros 36 million related to investments and the rest, Euros 44 million, to expenses incurred in environmental management. Additionally, Gas Natural Fenosa has made environmental investments to prevent pollution, protect the atmosphere, manage water resources and waste and soil quality and prepare environmental impact studies and environmental oversight plans.

Possible contingencies, indemnities and other environment-related risk in which Gas Natural Fenosa could incur are adequately covered by subscribed civil liability insurance policies.

Emissions

In 2013, consolidated CO_2 emissions from Gas Natural Fenosa' coal thermal and combined cycle plants subject to regulations governing the greenhouse gas emission trade regime totalled 11.5 million tonnes of CO_2 (15.5 million tonnes of CO_2 in 2012).

Gas Natural Fenosa manages its CO_2 emission rights coverage portfolio in an integrated manner for the period 2008-2012 and post Kyoto, acquiring the necessary emission rights and credits through active participation in both the secondary market and in primary projects and carbon funds, in which an investment of approximately Euros 7 million has been committed.

Gas Natural Fenosa has also registered nine projects of clean development mechanisms (hereinafter MDL) with the United Nations and two credit periods have been renewed in two projects. Additionally, the Group has other MDL projects for validation in different phase, based on generation using renewable sources, implementation of cogeneration systems, and reduction of emissions in gas network and replacement of fuels by other less carbon-intensive alternatives.

Note 37. Subsequent events

During January 2014, the argentinean peso has depreciated by 22% against the euro. The risk arising from investments in Argentina of Gas Natural Fenosa is not significant, since a variation of the Argentinean peso against the euro by 22% only represents a variation in net attributable equity of Euros 8 million.

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APPENDIX I GROUP COMPANIES OF Gas Natural Fenosa

1. Subsidiary companies

Company	Country	Activity	Consolidation Method	% of Shareholding Total	Net Equity* Capital	Reserves	Profit 2013	Interim dividend
Albidona Distribuzione Gas, S.R.L.	Italy	Gas distribution	I.G.	100.0	-	-	-	-
Ceg Río, S.A.	Brazil	Gas distribution	I.G.	59.6	41	90	49	(74)
Comercializadora Metrogas, S.A. de CV	Mexico	Gas distribution	I.G.	85.0	128	(46)	16	-
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	Brazil	Gas distribution	I.G.	54.2	212	228	122	(189)
Favellato Reti, S.R.L.	Italy	Gas distribution	I.G.	100.0	1	9	-	-
Gas Galicia SDG, S.A.	Spain	Gas distribution	I.G.	61.6	33	11	7	-
Gas Natural Andalucía, S.A.	Spain	Gas distribution	I.G.	100.0	12	41	20	(15)
Gas Natural BAN, S.A.	Argentina	Gas distribution	I.G.	70.0	215	(151)	5	(13)
Gas Natural Castilla La-Mancha, S.A.	Spain	Gas distribution	I.G.	95.0	27	21	13	(9)
Gas Natural Castilla y León, S.A.	Spain	Gas distribution	I.G.	90.1	6	79	38	(22)
Gas Natural Cegas, S.A.	Spain	Gas distribution	I.G.	99.7	25	68	38	(25)
Gas Natural Cundiboyacense, S.A. ESP	Colombia	Gas distribution	I.G.	45.8	1	13	7	-
Gas Natural del Cesar, S.A. ESP	Colombia	Gas distribution	I.G.	21.7	3	5	1	-
Gas Natural del Oriente, S.A. ESP	Colombia	Gas distribution	I.G.	32.2	9	19	7	(9)
Gas Natural Distribución SDG, S.A.	Spain	Gas distribution	I.G.	100.0	64	618	278	(151)
Gas Natural Distribuzione Italia, S.P.A.	Italy	Gas distribution	I.G.	100.0	33	218	21	-
Gas Natural Fenosa Perú, S.A.	Peru	Gas distribution	I.G.	100.0	4	-	-	-
Gas Natural Madrid SDG, S.A.	Spain	Gas distribution	I.G.	100.0	16	174	89	(50)
Gas Natural México, S.A. de CV (1)	Mexico	Gas distribution	I.G.	85.0	471	(111)	35	-
Gas Natural Rioja, S.A.	Spain	Gas distribution	I.G.	87.5	3	9	6	(4)
Gas Natural Sao Paulo Sul, S.A.	Brazil	Gas distribution	I.G.	100.0	346	(161)	21	(1)
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution	I.G.	100.0	15	46	16	(10)
Gas Natural, S.A. ESP	Colombia	Gas distribution	I.G.	59.1	11	116	103	-

Company	Country	Activity	Consolidation Method	% of Shareholding Total	Capital	Reserves	Profit 2013	Interim dividend
					Net Equity*			
Gas Navarra, S.A.	Spain	Gas distribution	I.G.	100.0	4	23	13	(9)
Holding Negocios Regulados Gas Natural, S.A.	Spain	Gas distribution	I.G.	100.0	300	2	-	-
Electrificadora del Caribe S.A, E.S.P.	Colombia	Electricity distribution	I.G.	85.4	964	(211)	27	-
Empresa de Distribución Electrica Chiriqui, S.A.	Panama	Electricity distribution	I.G.	51.0	18	7	14	-
Empresa de Distribución Electrica Metro Oeste, S.A.	Panama	Electricity distribution	I.G.	51.0	71	19	36	-
Red Unión Fenosa, S.A.	Moldova	Electricity distribution	I.G.	100.0	7	135	25	-
Unión Fenosa Distribución, S.A.	Spain	Electricity distribution	I.G.	100.0	833	1	236	(160)
Gas Natural Almacenamientos Andalucía, S.A.	Spain	Gas Infraestructure	I.G.	100	-	3	(3)	-
Gas Natural Exploración, S.L.	Spain	Gas Infraestructure	I.G.	100.0	9	(2)	(11)	-
Petroleum Oil & Gas España, S.A.	Spain	Gas Infraestructure	I.G.	100.0	4	42	(3)	-
Gas Natural Rigassificazione Italia, S.P.A.	Italy	Gas Infraestructure	I.G.	100.0	17	(3)	(1)	-
Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas Infraestructure	I.G.	77.2	-	165	184	(87)
Metragaz, S.A.	Marocco	Gas Infraestructure	I.G.	76.7	3	1	1	-
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply and Gas retailing	I.G.	100.0	1	16	283	(200)
Sagane, S.A.	Spain	Gas supply and Gas retailing	I.G.	100.0	95	18	153	(40)
Cetraro Distribuzione Gas, S.R.L.	Italia	Gas supply and Gas retailing	I.G.	100.0	-	-	-	-
Gas Natural Europe, S.A.S.	France	Gas supply and Gas retailing	I.G.	100.0	3	6	4	-
Gas Natural Vendita Italia, S.P.A.	Italy	Gas supply and Gas retailing	I.G.	100.0	2	20	11	-
Natural Energy, S.A.	Argentina	Gas supply and Gas retailing	I.G.	100.0	-	1	3	-
Gas Natural Serviços, S.A.	Brazil	Gas supply and Gas retailing	I.G.	100.0	6	-	(1)	-
Serviconfort Colombia, S.A.S.	Colombia	Gas supply and Gas retailing	I.G.	100.0	-	1	1	-
Gas Natural Puerto Rico, Inc	Puerto Rico	Gas supply and Gas retailing	I.G.	100.0	5	(3)	-	-
Energía Empresarial de la Costa, S.A., E.S.P.	Colombia	Electricity retailing	I.G.	85.4	-	(8)	-	-
Energía Social de la Costa S.A. E.S.P.	Colombia	Electricity retailing	I.G.	85.4	8	(7)	(1)	-
Gas Natural Comercializadora, S.A.	Spain	Gas and Electricity retailing	I.G.	100.0	3	100	219	(70)
La Energía, S.A.	Spain	Gas and Electricity retailing	I.G.	100.0	11	6	-	-
Gas Natural S.U.R. SDG, S.A.	Spain	Gas and Electricity retailing	I.G.	100.0	2	4	(5)	-

Company	Country	Activity	Consolidation Method	% of Shareholding Total	Net Equity* Capital	Reserves	Profit 2013	Interim dividend
Gas Natural Servicios SDG, S.A.	Spain	Gas and Electricity retailing	I.G.	100.0	3	52	63	(40)
Berrybank Development Pty, Ltd	Australia	Electricity generation	I.G.	95.63	2	-	-	-
Crookwell Development Pty, Ltd	Australia	Electricity generation	I.G.	95.63	7	-	-	-
Ryan Corner Development Pty, Ltd	Australia	Electricity generation	I.G.	95.63	9	(1)	-	-
Boreas Eólica 2, S.A.	Spain	Electricity generation	I.G.	89.6	3	8	1	-
Corporación Eólica de Zaragoza, S.L	Spain	Electricity generation	I.G.	68.0	1	1	1	-
Energía del Rio San Juan Corp.	Panama	Electricity generation	I.G.	100.0	3	-	-	-
Energía y Servicios de Panamá, S.A.	Panama	Electricity generation	I.G.	51.0	9	-	2	-
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation	I.G.	97.0	1	-	2	-
Energías Especiales Alcoholeras, S.A.	Spain	Electricity generation	I.G.	82.3	-	(1)	-	-
Energías Especiales de Extremadura, S.L.	Spain	Electricity generation	I.G.	99.0	9	(4)	-	-
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation	I.G.	75.0	3	2	2	-
Fenosa Wind, S.L.	Spain	Electricity generation	I.G.	100.0	19	5	1	-
Fenosa, S.L.U.	Spain	Electricity generation	I.G.	100.0	19	-	-	-
Fuerza y Energía BII Hioxo, S.A. de C.V.	Mexico	Electricity generation	I.G.	100.0	46	(14)	-	-
Fuerza y Energía de Hermosillo, S.A. de C.V.	Mexico	Electricity generation	I.G.	100.0	49	2	(2)	-
Fuerza y Energía de Naco Nogales, S.A. de C.V.	Mexico	Electricity generation	I.G.	100.0	155	(34)	5	-
Fuerza y Energía de Norte Durango, S.A de C.V	Mexico	Electricity generation	I.G.	100.0	54	11	9	-
Fuerza y Energía de Tuxpan, S.A. de C.V.	Mexico	Electricity generation	I.G.	100.0	156	22	15	-
Gas Natural Electricidad SDG, S.A.	Spain	Electricity generation	I.G.	100.0	10	845	37	(39)
Gas Natural Fenosa Renovables Andalucía, S.L.U.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Gas Natural Fenosa Renovables Ruralia, S.L.U.	Spain	Electricity generation	I.G.	51.0	-	-	-	-
Gas Natural Fenosa Renovables, S.L.U.	Spain	Electricity generation	I.G.	100.0	90	203	(8)	-
Gas Natural Wind 4, S.L.U.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Gas Natural Wind 6, S.L.	Spain	Electricity generation	I.G.	60.0	-	-	-	-
Generadora Palamara La Vega, S.A.	Dominican Rep.	Electricity generation	I.G.	100.0	4	73	14	-
Hidroeléctrica Rio San Juan SAS ESP	Colombia	Electricity generation	I.G.	100.0	-	-	-	-

Company	Country	Activity	Consolidation Method	% of Shareholding Total	Net Equity* Capital	Reserves	Profit 2013	Interim dividend
Iberáfrica Power Ltd.	Kenya	Electricity generation	I.G.	71.7	16	-	(1)	-
JGC Cogeneración Daimiel, S.L.	Spain	Electricity generation	I.G.	97.6	1	-	-	-
Sociedad de Tratamiento Hornillos, S.L.	Spain	Electricity generation	I.G.	94.4	1	2	-	-
Sociedad de Tratamiento La Andaya, S.L.	Spain	Electricity generation	I.G.	60.0	1	2	-	-
Societat Eòlica de l´Enderrocada, S.A.	Spain	Electricity generation	I.G.	80.0	6	3	1	(1)
Tratamiento Cinca Medio, S.L.	Spain	Electricity generation	I.G.	80.0	2	2	1	-
Tratamiento Integral de Almazán, S.L.	Spain	Electricity generation	I.G.	90.0	3	3	1	-
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation	I.G.	65.0	25	(3)	5	-
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation	I.G.	65.0	33	(2)	-	-
Gas Natural Fenosa Generación, S.L.U.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Kangra Coal (Proprietary), Ltd.	South Africa	Mining	I.G.	70.0	-	155	18	(69)
Lignitos de Meirama, S.A.	Spain	Mining	I.G.	100.0	23	18	2	-
Welgedacht Exploration Company Ltd	South Africa	Mining	I.G.	100.0	1	-	-	-
Capital Telecom Honduras, S.A.	Honduras	Telecommunications	I.G.	100.0	-	-	-	-
Gas Natural Fenosa Telecomunicaciones Colombia, S.A.	Colombia	Telecommunications	I.G.	88.2	1	1	6	-
Gas Natural Fenosa Telecomunicaciones Costa Rica, S.A.	Costa Rica	Telecommunications	I.G.	66.7	-	-	1	-
Gas Natural Fenosa Telecomunicaciones El Salvador, S.A. de C.V.	El Salvador	Telecommunications	I.G.	100.0	-	-	-	-
Gas Natural Fenosa Telecomunicaciones Guatemala, S.A.	Guatemala	Telecommunications	I.G.	100.0	-	4	4	-
Gas Natural Fenosa Telecomunicaciones Nicaragua, S.A.	Nicaragua	Telecommunications	I.G.	100.0	-	1	-	-
Gas Natural Fenosa Telecomunicaciones Panamá, S.A.	Panama	Telecommunications	I.G.	90.2	2	3	6	-
Gas Natural Fenosa Telecomunicaciones, S.A.	Spain	Telecommunications	I.G.	100.0	21	42	29	-
Gas Natural Informática, S.A.	Spain	IT services	I.G.	100.0	20	7	6	-
Gas Natural Fenosa Engineering, S.L.U.	Spain	Engineering services	I.G.	100.0	1	33	(2)	-
Gas Natural Fenosa Engineering Brasil, S.A.	Brazil	Engineering services	I.G.	100.0	-	-	-	-
Gas Natural Fenosa Engineering, S.A.S.	Colombia	Engineering services	I.G.	100.0	-	-	-	-
Gas Natural Fenosa Engineering, S.A.	Costa Rica	Engineering services	I.G.	100.0	-	-	-	-
Gas Natural Fenosa Engineering, S.A.	Guatemala	Engineering services	I.G.	100.0	-	1	-	-

					Net Equity*			
				% of				
			Consolidation	Shareholding			Profit	Interim
Company	Country	Activity	Method	Total	Capital	Reserves	2013	dividend
Gas Natural Fenosa Engineering, S.A.	Panama	Engineering services	I.G.	100.0	-	1	-	-
Gas Natural Fenosa Engineering México, S.A. de C.V.	Mexico	Engineering services	I.G.	100.0	8	(5)	(1)	-
Gas Natural Fenosa Tecnology INC	Puerto Rico	Engineering services	I.G.	100.0	-	1	-	-
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Engineering services	I.G.	100.0	-	-	-	-
Operación y Mantenimiento Energy Madagascar, S.A.R.L.U.	Madagascar	Engineering services	I.G.	100.0	-	-	-	-
Operación y Mantenimiento Mexico, S.A. de C.V.	Mexico	Engineering services	I.G.	100.0	32	(85)	1	-
Operación y Mantenimiento La Caridad, S.A. de C.V.	Mexico	Engineering services	I.G.	100.0	-	-	-	-
Operación y Mantenimiento Energy, S.A.	Spain	Engineering services	I.G.	100.0	-	3	1	-
Operations & Maintenance Energy Uganda Ltd	Uganda	Engineering services	I.G.	100.0	-	-	-	-
Socoinve, C.A	Venezuela	Engineering services	I.G.	100.0	-	-	-	-
Soluziona Technical Services, Llc.	Egypt	Engineering services	I.G.	100.0	-	-	-	-
Unión Fenosa Operación México S.A. de C.V.	Mexico	Engineering services	I.G.	100.0	-	-	1	-
United Saudi Spanish Power and Gas Services, LLC	Saudí Arabia	Engineering services	I.G.	100.0	-	-	-	-
Clover Financial and Treasury Services, Ltd.	Ireland	Financial services	I.G.	100.0	-	528	24	(109)
Gas Natural Capital Markets, S.A.	Spain	Financial services	I.G.	100.0	-	-	10	(9)
Gas Natural Fenosa Finance B.V.	Netherlands	Financial services	I.G.	100.0	-	(2)	1	-
Unión Fenosa Financiación, S.A.	España	Financial services	I.G.	100.0	1	2	-	-
Unión Fenosa Financial Services USA, Llc.	United States	Financial services	I.G.	100.0	-	-	37	(37)
Unión Fenosa Preferentes, S.A.	Spain	Financial services	I.G.	100.0	-	744	11	(7)
Natural Re, S.A.	Luxembourg	Insurance	I.G.	100.0	4	41	6	-
Administración y Servicios ECAP, S.A. de C.V.	Mexico	Services	I.G.	100.0	-	-	1	-
Administradora de Servicios de Energía México, S.A. de CV	Mexico	Services	I.G.	85.0	-	-	-	-
Almar Ccs, S.A.	Costa Rica	Services	I.G.	100.0	-	-	-	-
Arte Contemporáneo y Energía, A.I.E.	Spain	Services	I.G.	100.0	-	-	-	-
Compañía Española de Industrias Electroquímicas, S.A.	Spain	Services	I.G.	98.5	3	11	1	-
Energía y Confort Administración de Personal, S.A. de C.V.	Mexico	Services	I.G.	85.3	-	1	2	-
Gas Natural do Brasil, S.A.	Brazil	Services	I.G.	100.0	3	(3)	-	-

Company	Country	Activity	Consolidation Method	% of Shareholding Total	Net Equity* Capital	Reserves	Profit 2013	Interim dividend
Gas Natural Italia S.P.A.	Italy	Services	I.G.	100.0	-	1	1	-
Gas Natural Servicios, S.A.S.	Colombia	Services	I.G.	59.0	-	5	4	-
Gas Natural Servicios Económicos, S.A.S.	Colombia	Services	I.G.	100.0	-	-	-	-
Gas Natural Servicios Integrales, S.A.S.	Colombia	Services	I.G.	100.0	1	-	-	-
Gas Natural Servicios, S.A. de C.V.	Mexico	Services	I.G.	85.0	6	1	3	-
General de Edificios y Solares, S.L.	Spain	Services	I.G.	100.0	34	33	2	-
Hispanogalaica de Extracciones, S.L.	Spain	Services	I.G.	100.0	-	-	-	-
Inversiones Hermill, S.A.	Dominican Rep.	Services	I.G.	100.0	1	(1)	-	-
Natural Servicios, S.A.	Argentina	Services	I.G.	100.0	2	(1)	-	-
Repsol-Gas Natural LNG, S.L.	Spain	Services	I.G.	100.0	2	-	-	-
Sistemas de Administración y Servicios, S.A. de C.V. (1)	Mexico	Services	I.G.	85.0	-	-	-	
Unión Fenosa Generación México, S.A. de C.V.	Mexico	Holding company	I.G.	100.0	2	-	(1)	-
Unión Fenosa Minería, S.A.	Spain	Holding company	I.G.	100.0	11	169	16	(15)
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Spain	Holding company	I.G.	100.0	68	584	-	-
Buenergía Gas & Power, Ltd.	Cayman Islands	Holding company	I.G.	95.0	-	35	27	-
Caribe Capital B.V.	Netherlands	Holding company	I.G.	100.0	-	251	-	3
Distribuidora Eléctrica de Caribe, S.A.	Panama	Holding company	I.G.	100.0	110	(10)	22	(13)
First Independent Power, Ltd.	Kenya	Holding company	I.G.	89.6	-	13	-	-
Gas Natural Internacional SDG, S.A.	Spain	Holding company	I.G.	100.0	573	392	119	-
Gas Natural SDG Argentina, S.A.	Argentina	Holding company	I.G.	100.0	104	(23)	-	-
Invergás, S.A.	Argentina	Holding company	I.G.	100.0	61	48	-	-
La Propagadora del Gas, S.A.	Spain	Holding company	I.G.	100.0	10	(1)	6	-
La Propagadora del Gas Latam, S.L.	Spain	Holding company	I.G.	100.0	-	7	(3)	-
Pacific Power Holdings Nº 2 B.V.	Netherlands	Holding company	I.G.	100.0	48	-	-	-
Unión Fenosa Internacional, S.A.	Spain	Holding company	I.G.	100.0	151	112	43	(41)
Unión Fenosa International B.V.	Netherlands	Holding company	I.G.	100.0	5	(1)	-	-
Unión Fenosa México B.V.	Netherlands	Holding company	I.G.	100.0	128	263	45	(1)

Company	Country	Activity	Consolidation Method	% of Shareholding Total	Net Equity* Capital	Reserves	Profit 2013	Interim dividend
Unión Fenosa México, S.A. de C.V.	Mexico	Holding company	I.G.	100.0	475	(187)	-	-
Unión Fenosa Minería B.V.	Netherlands	Holding company	I.G.	100.0	-	136	15	(7)
Unión Fenosa South Africa Coal (Proprietary), LTD	South Africa	Holding company	I.G.	100.0	-	73	15	(21)
Union Fenosa Wind Australia Pty, Ltd.	Australia	Holding company	I.G.	95.63	27	(1)	(1)	-

(1) The percentage of the shareholding corresponds to the legally held shares. Additionally, there is a share re-purchase commitment for the percentages indicated in Note 20, which are also assigned to the parent Company.

2. Joint ventures

Company	Country	Activity	Consolidation Method	% of Shareholding Total	Net Equity* Capital	Reserves	Profit 2013	Interim dividend
Gas Directo, S.A.	Spain	Gas distribution	I.P.	30.0	7	(2)	-	-
Gasifica, S.A.	Spain	Gas distribution	I.P.	55.0	10	1	1	-
Infraestructuras de Gas, S.A.	Spain	Gas distribution	I.P.	42.5	-	3	24	(23)
Cilento Reti Gas, S.R.L.	Italy	Gas distribution	I.P.	60.0	4	(1)	-	-
Gas Natural Vehicular del Norte Asociación en Participación	Mexico	Gas distribution	I.P.	43.6	1	-	-	-
Barras Eléctricas Galaico Asturianas, S.A.	Spain	Electricity distribution	I.P.	44.9	16	137	6	-
Eléctrica Conquense de Distribución, S.A.	Spain	Electricity distribution	I.P.	46.4	1	3	1	-
Gas Natural West África, S.L.	Spain	Gas Infraestructure	I.P.	40.0	-	-	-	-
Palencia 3 Investigación Desarrollo y Explotación, S.L.	Spain	Gas Infraestructure	I.P.	39.0	-	-	-	-
Nueva Electricidad del Gas, S.A.U.	Spain	Gas Infraestructure	I.P.	50.0	-	(3)	-	-
Palawan Sulu Sea Gas, Inc.	Philipines	Gas Infraestructure	I.P.	50.0	6	(6)	-	-
Planta de Regasificación de Sagunto, S.A.	Spain	Gas Infraestructure	I.P.	21.3	2	6	24	(21)
Segas Services, S.A.E.	Egypt	Gas Infraestructure	I.P.	40.7	1	-	-	-
Spanish Egiptian Gas Company S.A.E.	Egypt	Gas Infraestructure	I.P.	40.0	336	(25)	32	-
Unión Fenosa Gas Exploración y Producción, S.A.	Spain	Gas Infraestructure	I.P.	50.0	44	(2)	(3)	-
CH4 Energía S.A. de C.V.	Mexico	Gas supply and Gas retailing	I.P.	42.5	1	11	3	-
Unión Fenosa Gas Comercializadora, S.A.	Spain	Gas supply and Gas retailing	I.P.	50.0	2	64	1	-
Unión Fenosa Gas, S.A.	Spain	Gas supply and Gas retailing	I.P.	50.0	33	596	75	-
Alas Capital & Gas Natural S.A.	Spain	Electricity generation	I.P.	40.0	1	-	-	-
Barras Eléctricas Generación, S.L.	Spain	Electricity generation	I.P.	44.9	1	2	-	-
Castrios, S.A.	Spain	Electricity generation	I.P.	33.3	2	3	1	-
Centrales Nucleares Almaraz-Trillo, A.I.E	Spain	Electricity generation	I.P.	19.3	-	-	-	-
Cogeneración del Noroeste, S.L.	Spain	Electricity generation	I.P.	40.0	5	6	2	-
Desarrollo de Energías Renovables de la Rioja, S.A.	Spain	Electricity generation	I.P.	36.3	17	3	5	-
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Electricity generation	I.P.	50.0	10	29	10	-

Company	Country	Activity	Consolidation Method	% of Shareholding Total	Net Equity* Capital	Reserves	Profit 2013	Interim dividend
EcoEléctrica, L.P.	Puerto Rico	Electricity generation	I.P.	47.5	63	71	85	-
Energías Eólicas de Fuerteventura, S.L.	Spain	Electricity generation	I.P.	50.0	1	-	-	-
Eólica Tramuntana 12, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 13, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 14, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 15, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 16, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 21, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 22, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 23, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 24, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 71, S.L.	Spain	Electricity generation	I.P.	60.0	1	-	-	-
Eólica Tramuntana 72, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 73, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana, S.L.	Spain	Electricity generation	I.P.	60.0	1	-	(1)	-
Molinos de la Rioja, S.A.	Spain	Electricity generation	I.P.	33.3	3	2	3	-
Molinos del Cidacos, S.A.	Spain	Electricity generation	I.P.	50.0	10	8	8	-
Montouto 2000, S.A.	Spain	Electricity generation	I.P.	49.0	6	4	3	-
Nueva Generadora del Sur, S.A.	Spain	Electricity generation	I.P.	50.0	96	27	(106)	-
Parque Eólico Sierra del Merengue, S.L.	Spain	Electricity generation	I.P.	50.0	-	-	-	-
Toledo PV, A.E.I.E	Spain	Electricity generation	I.P.	33.3	-	1	-	-
Alliance, S.A.	Nicaragua	Telecommunications	I.P.	49.9	-	1	-	-
Ghesa Ingeniería y Tecnología, S.A.	Spain	Engineering services	I.P.	41.2	4	18	3	-
Eléctrica Conquense, S.A.	Spain	Services	I.P.	46.4	3	3	1	-
UTE ESE Clece - Gas Natural	Spain	Services	I.P.	50.0	-	-	-	-
Unión Fenosa Gas Infraestructures B.V.	Netherlands	Holding company	I.P.	50.0	6	(6)	-	-
EcoEléctrica Holding, Ltd.	Cayman Islands	Holding company	I.P.	47.5	63	-	-	-

				% of	Net Equity*			
			Consolidation	Shareholding			Profit	Interim
Company	Country	Activity	Method	Total	Capital	Reserves	2013	dividend
EcoEléctrica Limited	Cayman Islands	Holding company	I.P.	47.5	1	-	-	-

3. Jointly controlled assets and operations

Company	Country	Activity	% Shareholding Total
Boquerón	Spain	Gas Infraestructure	4.5%
Casablanca	Spain	Gas Infraestructure	9.5%
Chipirón	Spain	Gas Infraestructure	2.0%
Montanazo	Spain	Gas Infraestructure	17.1%
Morcín – 1	Spain	Gas Infraestructure	20.0%
Villaviciosa	Spain	Gas Infraestructure	70.0%
Bezana / Beguenzo	Spain	Gas Infraestructure	50.0%
Granda	Spain	Gas Infraestructure	50.0%
Rodaballo	Spain	Gas Infraestructure	4.0%
Sestao Knutsen	Spain	Gas Infraestructure	50.0%
Ibérica Knutsen	Spain	Gas Infraestructure	50.0%
Tánger Larrache	Marocco	Gas Infraestructure	40.0%
Comunidad de bienes Central Nuclear de Trillo (Grupo I)	Spain	Electricity generation	34.5%
Comunidad de bienes Central Nuclear de Almaraz (Grupo I y II)	Spain	Electricity generation	11.3%
Comunidad de bienes Central Térmica de Anllares	Spain	Electricity generation	66.7%
Comunidad de bienes Central Térmica de Aceca	Spain	Electricity generation	50.0%

4. Associates

Company	Country	Activity	Consolidation Method	% Shareholding Total	Net Equity Capital	Reserves	Profit 2013	Interim dividend
Qalhat LNG S.A.O.C.	Oman	Gas Infraestructure	P.E.	3.7	55	15	168	(3)
Regasificadora del Noroeste, S.A.	Spain	Gas Infraestructure	P.E.	11.6	47	25	11	-
Enervent, S.A.	Spain	Electricity generation	P.E.	26.0	2	5	1	-
Sistemas Energéticos La Muela, S.A.	Spain	Electricity generation	P.E.	20.0	3	2	3	-
Sistemas Energéticos Mas Garullo, S.A.	Spain	Electricity generation	P.E.	18.0	2	2	2	-
Sociedad Gallega do Medio Ambiente, S.A.	Spain	Electricity generation	P.E.	49.0	32	8	(1)	-
Kromschroeder, S.A.	Spain	Services	P.E.	42.5	1	10	-	-
CER's Commercial Corp	Panama	Services	P.E.	25.0	-	-	-	-
3G Holdings Limited	United Kingdom	Services	P.E.	10.0	-	-	-	-
Torre Marenostrum, S.L.	Spain	Services	P.E.	45.0	5	10	1	-
Bluemobility System, S.L.	Spain	Services	P.E.	20.0	-	-	-	-
Oficina de cambios de suministrador, S.A.	Spain	Services	P.E.	20.0	-	-	-	-

APPENDIX II VARIATIONS IN CONSOLIDATION SCOPE

The main changes in the consolidation scope in 2013 have been as follows:

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired / eliminated	% of voting rights after the operation	Consolidation method after the operation
Distribuidora de Electricidad del Norte, S.A.	Disposal	11 February	83.7	-	-
Distribuidora de Electricidad del Sur, S.A.	Disposal	11 de February	83.7	-	-
Operación & Mantenimiento La Caridad, S.A. de C.V.	Incorporation	4 March	100.0	100.0	Global
Gas Natural Servicios Económicos, S.A.S.	Incorporation	20 March	100.0	100.0	Global
Holding Negocios Regulados Gas Natural, S.A.	Incorporation	17 April	100.0	100.0	Global
Gas Natural Madrid SDG, S.A.	Incorporation	17 April	100.0	100.0	Global
Berrybank development Pty, Ltd	Acquisition	30 April	0.6	95.4	Global
Crookwell development Pty, Ltd	Acquisition	30 April	0.6	95.4	Global
Ryan Corner development Pty, Ltd	Acquisition	30 April	0.6	95.4	Global
Union Fenosa Wind Australia Pty, Ltd.	Acquisition	30 April	0.6	95.4	Global
CER's Commercial Corp	Acquisition	12 June	25.0	25.0	Proportional
Energía del Rio San Juan Corp	Acquisition	12 June	100.0	100.0	Global
Hidroeléctrica Rio San Juan, S.A.S. ESP	Acquisition	12 June	100.0	100.0	Global
Gas Navarra, S.A.	Acquisition	21 June	10.0	100.0	Global
Unión Fenosa Comercial, S.L.	Liquidation	1 June	100.0	-	-
Eufer-Enegía Especiais de Portugal Unipessoal, Lda	Disposal	1 July	100.0	-	-
Zemer Energía, S.A., de C.V.	Disposal	5 July	50.0	-	-
Gas Natural Comercial SDG, S.L.	Liquidation	18 July	100.0	-	-
Gas Natural Fenosa Perú, S.A	Incorporation	7 August	100.0	100.0	Global
Union Fenosa Wind Australia Pty, Ltd.	Acquisition	12 November	0.2	95.6	Global
Berrybank development Pty, Ltd	Acquisition	12 November	0.2	95.6	Global
Crookwell development Pty, Ltd	Acquisition	12 November	0.2	95.6	Global
Ryan Corner development Pty, Ltd	Acquisition	12 November	0.2	95.6	Global
Molinos del Linares, S.A.	Liquidation	13 November	25.0	-	-
Energía Termosolar de los Monegros, S.L.U.	Liquidation	29 November	100.0	-	-
Gas Natural Fenosa Engineering Brasil, S.A.	Incorporation	2 November	100.0	100.0	Global
UTE La Energía Gas Natural Electricidad	Liquidation	4 November	100.0	-	-
Lantarón Energía, S.L.	Liquidation	5 November	100.0	-	-
Biogás Doña Juana, S.A. ESP	Disposal	19 December	49.8	-	-
Generación Panamá, S.A.	Liquidation	27 December	100.0	-	-
Repsol-Gas Natural LNG, S.L.	Acquisition	30 December	50.0	100.0	Global

The main changes in the consolidation scope in 2012 have been as follows:

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired / eliminated	% of voting rights after the operation	Consolidation method after the operation
Transnatural, S.R.L. de C.V.	Disposal	31 January	50.0%	-	-
Distribuidora de Electricidad del Norte, S.A.	Acquisition	10 February	11.4%	83.7%	Global
Distribuidora de Electricidad del Sur, S.A.	Acquisition	10 February	10.0%	83.7%	Global
Capital Telecom Honduras, S.A.	Acquisition	14 February	100%	100%	Global
GEM Suministro de Gas 3, S.L.	Disposal	29 February	100%	-	-
GEM Suministro de Gas SUR 3, S.L.	Disposal	29 February	100%	-	-
Energías Especiales de Extremadura, S.A.	Acquisition	5 March	20.6%	99.0%	Global
U.F. Telecomunicación El Salvador, S.A. de C.V.	Acquisition	10 March	100%	100%	Global
Fenosa Wind, S.L.	Acquisition	26 April	15.0%	100%	Global
Eólica de Cordales, S.L.U.	Disposal	26 April	100%	-	-
Eólica de Cordales Bis, S.L.U.	Disposal	26 April	100%	-	-
Gas Natural International, Ltd.	Liquidation	30 April	100%	-	-
Eólicos Singulares 2005, S.A.	Liquidation	23 May	49.0%	-	-
Andaluza de Energía Solar Cuarta, S.L.	Liquidation	29 May	76.0%	-	-
Eufer-Caetano Energías Renovaveis Ltd	Disposal	11 June	54.0%	-	-
Energías Eólica de Lanzarote, S.L.	Disposal	22 June	50.0%	-	-
Electra del Jallas, S.A.U.	Acquisition	28 June	0.1%	100%	Global
Pacific Power Holdings Nº 2 BV	Acquisition	01 July	100%	100%	Global
Soluziona, S.A. (Bolivia)	Liquidation	02 July	100%	-	-
Europe Maghreb Pipeline, Ltd	Acquisition	02 July	4.6%	77.2%	Global
Energía Termosolar los Monegros, S.L	Acquisition	31 July	10%	100%	Global
O Novo Aquilón, S.L.	Liquidation	09 October	60%	-	-
Parques Eólicos 2008-2012, S.L.	Liquidation	26 October	54%	-	-
Distribuidora Eléctrica Navasfrías, S.L.	Disposal	31 October	100%	-	-
Unión Fenosa Wind Australia Pty, Ltd.	Acquisition	19 November	0.9%	94.8%	Global
Berrybank Development Pty, Ltd.	Acquisition	19 November	0.9%	94.8%	Global
Crookwell Development Pty, Ltd.	Acquisition	19 November	0.9%	94.8%	Global
Hawkesdale Development Pty, Ltd.	Acquisition	19 November	0.9%	94.8%	Global
Ryan Corner Development Pty, Ltd.	Acquisition	19 November	0.9%	94.8%	Global
Cetraro Distribuzione Gas, S.R.L.	Acquisition	03 December	40%	100%	Global
Albidona Distribuzione Gas, S.R.L.	Acquisition	03 December	40%	100%	Global
Sistemes Energetics Passanant, S.L.U.	Acquisition	12 December	100%	100%	Global
Metragaz, S.A.	Acquisition	20 December	4.4%	76.7%	Global
Gas Natural Fenosa Renovables Ruralia, S.L.U	Disposal	21 December	49%	51%	Global
Gas Natural de México, S.A. de C.V.	Disposal	31 December	0.9%	70.9%	Global
Sistemas de Administración y Servicios, S.A. de C.V.	Disposal	31 December	1.0%	71.0%	Global

APPENDIX III GAS NATURAL TAX GROUP COMPANIES

The Gas Natural Tax group is as follows:

Gas Natural SDG, S.A.	Gas Natural Madrid SDG, S.A.
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Gas Natural Rioja, S.A.
Boreas Eólica 2, S.A.	Gas Natural S.U.R. SDG, S.A.
Compañía Española de Industrias Electroquímicas, S.A.	Gas Natural Servicios SDG, S.A.
Energías Ambientales de Somozas, S.A.	Gas Natural Transporte SDG, S.L.
Energías Especiales Alcoholeras, S.A.	Gas Natural Wind 4, S.L.U.
Energías Especiales de Extremadura, S.L.	Gas Natural Wind Canarias, S.L.U.
Energía Termosolar de los Monegros, S.L.	Gas Navarra, S.A.
Europe Mahgreb Pipeline Limited	General de Edificios y Solares, S.L.
Explotaciones Eólicas Sierra de Utrera, S.L.	Hispanogalaica de Extracciones, S.L.
Fenosa Wind, S.L.	Holding Negocios Regulados Gas Natural, S.A.
Fenosa, S.L.U.	JGC Cogeneración Daimiel, S.L.
Gas Natural Almacenamientos Andalucía, S.A.	La Energía, S.A.
Gas Natural Andalucía, S.A.	La Propagadora del Gas, S.A.
Gas Natural Aprovisionamientos SDG, S.A.	La Propagadora del Gas Latam, S.L.U.
Gas Natural Capital Markets, S.A.	Lignitos de Meirama, S.A.
Gas Natural Castilla-La Mancha, S.A.	Operación y Mantenimiento Energy, S.A.
Gas Natural Castilla y León, S.A.	Petroleum, Oil&Gas España, S.A.
Gas Natural Cegas, S.A.	Pizarras Mahide, S.L.
Gas Natural Comercial SDG, S.L.	Sagane, S.A.
Gas Natural Comercializadora, S.A.	Sistemes Energétics Passanant S.L.U.
Gas Natural Distribución SDG, S.A.	Sociedad de Tratamiento Hornillos, S.L.
Gas Natural Electricidad SDG, S.A.	Societat Eòlica de l'Enderrocada, S.A.
Gas Natural Exploración, S.L.	Tratamiento Cinca Medio, S.L.
Gas Natural Fenosa Engineering, S.L.U.	Tratamiento de Almazán, S.L.
Gas Natural Fenosa Nuclear, S.L.U.	Unión Fenosa Comercial, S.L.
Gas Natural Fenosa Renovables Andalucía, S.L.U.	Unión Fenosa Distribución, S.A.
Gas Natural Fenosa Renovables Castilla La Mancha, S.L.U.	Unión Fenosa Financiación, S.A.
Gas Natural Fenosa Renovables, S.L.U.	Unión Fenosa Internacional, S.A.
Gas Natural Fenosa Telecomunicaciones, S.A.	Unión Fenosa Minería, S.A.
Gas Natural Informática, S.A.	Unión Fenosa Preferentes, S.A.U.
Gas Natural Internacional SDG, S.A.	

Gas Natural Fenosa
Report 2013

Consolidated Directors' Report

Consolidated Directors' Report for the financial year ended 31 December 2013

Content

1. Company's situation

1.1. Business model

Gas Natural Fenosa's business model is characterised by responsible and sustainable management of all resources. Our commitment to sustainability and value creation over time is reflected specifically in our corporate responsibility policy, approved by the Board of Directors and implemented across all the Company's business processes; it comprises seven corporate responsibility commitments to stakeholders, which guide our activities: commitment to results, customer orientation, environment, concern for people, health and safety, commitment to society and integrity.

Gas Natural Fenosa is an integrated energy company that supplies gas and electricity to over 20 million customers. Its main purpose is to supply energy to society so as to maximise development and welfare, using innovation, energy efficiency and sustainability as the fundamental pillars of the business model. It is an energy sector leader and a pioneer in the integration of gas and electricity. The business focuses on the complete life-cycle of gas and on production, distribution and marketing of electricity. These are joined by other business areas, such as energy services, which encourage diversification of activities and revenues, anticipating market trends, in order to deal with the specific needs of customer and be able to offer them a comprehensive service that does not focus solely on the sale of energy.

Gas Natural Fenosa's business model is developed through a large number of companies, basically in Spain, the rest of Europe, Latin America and Africa; there are five major business areas:

- **Gas distribution Europe (Spain and Rest)**

  Gas Natural Fenosa has a leading position in the markets in which it operates, allowing organic growth opportunities to be leveraged both by winning new customers in municipalities to which gas is supplied and by expanding networks into zones without a gas supply. It is the leader in Spain and has a major presence in Italy.

- **Electricity distribution Europe (Spain and Rest)**

  Gas Natural Fenosa is one of the most efficient operators in terms of operating and maintenance costs in electricity distribution. It is the third operator in the Spanish market and leader in Moldavia.

- **Gas (Infrastructure, Supply and Commercialisation, and Unión Fenosa Gas)**

  Gas Natural Fenosa has a unique, integrated gas infrastructure that provides considerable business stability, operational flexibility and the capacity to transport gas towards the best business opportunities.

  For Gas Natural Fenosa, our suppliers play an essential role in the optimal functioning of the value chain; accordingly, long-term contracts are concluded, a commitment to society is assumed and environmental impacts are minimised so as to guarantee supply.

  Gas Natural Fenosa responds with value added services to customers' demands for speed, guarantees, quality and energy efficiency.

- **Electricity (Spain and Rest)**

  Gas Natural Fenosa has broad knowledge of all generation technologies and an implementation infrastructure that can be tailored to the needs of any energy model and each country's circumstances. A competitive, flexible gas supply allows the Company to achieve better margins than its competitors when managing combined cycle plants.

Our leading position in the combined retailing of natural gas and electricity brings major advantages, such as a lower service cost, integrated customer service and lower acquisition costs, without forgetting greater proximity to customers.

- **Latin America (Gas Distribution, Electricity distribution and Electricity)**

  In the gas distribution business, Gas Natural Fenosa has operations in Mexico, Colombia, Brazil and Argentina.

  In the electricity distribution business, Gas Natural Fenosa operates in Panama and Colombia.

  In the electricity business, Gas Natural Fenosa is established in Mexico, Puerto Rico, Dominican Republic, Costa Rica and Panama.

Operations throughout the whole gas value chain provide Gas Natural Fenosa with a competitive advantage resulting in a leading company in the sector. Management capacity and experience in the electricity business, combined with a unique integrated position in the gas and electricity markets, make the company a benchmark in this sector. International presence guarantees a privileged position to capture growth in new regions in process of economic development, making the Company one of the world's leading operators.

Appendix I to the Consolidated Annual Accounts contains a list of Gas Natural Fenosa's investees.

1.2. Corporate governance

Gas Natural Fenosa develops and maintains continuously updated its corporate governance rules so as to implement recommendations and best practices of good governance. This set of regulations is formed by:

- Company By-laws.
- General Shareholders' Meeting Regulations.
- Board of Directors and Board Committee Regulations.
- Internal Code of Conduct with regard to the Stock Markets.
- Code of Ethics.
- Corporate Responsibility Policy.

Gas Natural Fenosa has continued to enhance its commitment to transparency and good practices, involving the General Shareholders' Meeting, Board of Directors and Board committees: Executive Committee, Appointments and Remuneration Committee, and Audit and Control Committee. The Management Committee also plays a relevant role.

The 2013 Annual Corporate Governance Report, annexed to this Directors' Report, contains a more detailed description.

The Board of Directors represents the Company and is Gas Natural Fenosa's ultimate decision-taking body, barring decisions reserved for the General Meeting. In particular, the Board is responsible for the following matters:

- Determining strategic orientation and economic objectives.
- Supervising and verifying that the top executives observe the strategies and objectives.
- Assuring the company's future viability and competitiveness.
- Approving codes of conduct.

The Executive Committee is the Board committee responsible for continuous monitoring of Company management.

The Appointments and Remuneration Committee proposes Board members remuneration criteria and general management remuneration policies. It also reviews the Board's structure and composition, supervising the inclusion of new members and establishing guidelines for the appointment of directors.

The Audit and Control Committee supervises systems and the effectiveness of internal controls and of risk management systems, preparation of financial information and internal audit services.

The Management Committee coordinates business and corporate areas. Its main functions include studying and proposing Objectives, the Strategic Plan and the Annual Budget, as well as assessing, for the main Governing Bodies, action proposals that could affect the fulfilment of the Company's Strategic Plan. All the Management Committee members participate in the preparation of the Corporate Risk Map through work meetings in which they express opinions on the main uncertainties and potential impacts on the businesses.

2. Business evolution and results

2.1. Main milestones in 2013

In a context of regulatory stress, net profit for 2013 rose 0.3% on the previous year to Euros 1,445 million. These results were possible due to the business model's solidity and diversification, the growing contribution from international business and increased financial strength achieved by deleveraging.

Consolidated ebitda for the year totalled Euros 5,085 million, up 0.1% on the previous year, thanks to diversification, increasing revenue from international activities and the balance provided by Gas Natural Fenosa's business profile, offsetting the decline in the contribution from business in Spain caused both by the increase in fiscal pressure on electricity generation in Spain due to Law 15/2012 and by the impact of the recent Royal Decree-Law 9/2013 on electricity generation and distribution in Spain.

Ebitda from Gas Natural Fenosa's international activities increased by 2.2% and accounted for 44.1% of the consolidated total as compared with 43.2% in the previous year. Ebitda from operations in Spain fell by 1.6% basically due to a reduction in distribution activity (-4.1%) and electricity activity (-12.7%) as a consequence of the huge impact that regulatory measures contained in Law 15/2012 and Royal Decree-Law 9/2013 have supposed and which have raised to Euros 455 million on year 2013.

The Company's deleveraging process continued and net borrowings stood at Euros 14,641 million at 31 December 2013; the leverage ratio stood at 49.4% and the ratio of net borrowings/ebitda at 2.9x. This progressive restructuring of borrowings allows optimal alignment with the business profile, which has been confirmed as a key aspect of sustained value creation.

On 25 July 2013, Gas Natural Fenosa was awarded the contract tendered by the Peruvian State to take natural gas services to four towns in south west Peru. The start of business in Peru entails the consolidation and extension of the Company's presence in Latin America.

In July 2013, Gas Natural Fenosa signed two agreements for the sale of natural gas to Repsol. The first one was for 2 bcm per annum for the period 2015-2018 and the second one for 1 bcm per annum for 20 years (estimated to commence in 2017).

Gas Natural Fenosa will continue to operate its two electricity distribution companies (Edemet and Edechi) in Panama for the next 15 years following the award of the relevant contracts by Panama's National Public Services Authority (ASEP) on 14 August 2013.

Gas Natural Fenosa's Asian operations grew in September 2013 when a contract was signed for the supply of natural gas to the South Korean energy company Kogas for the next two years.

In November 2013, Gas Natural Fenosa presented the update of its strategic lines for the period 2013-2015 and its strategic vision to 2017 in order to adequate them with the current macroeconomic and energy context and with regulatory impacts.

2.2. Main aggregates

Financial main aggregates

	2013	2012	%
Net sales	24,969	24,904	0.3
Ebitda[1]	5,085	5,080	0.1
Operating income	2,963	3,067	(3.4)
Net income attributable to equity holders of the Company	1,445	1,441	0.3
Cash flows from operating activities	3,451	3,437	0.4
Investments	1,636	1,386	18.0
Net equity	15,010	14,879	0.9
Attributed net equity	13,444	13,261	1.4
Net borrowings (at 31/12)	14,641	15,995	(8.5)

[1] Ebitda = Operating income + Depreciation, Amortisation and Impairment + Operating provisions - Other results

Main financial ratios

	2013	2012
Leverage[1]	49.4%	51.8%
Ebitda/Net financial income	6.1x	5.8x
Net borrowings/Ebitda	2.9x	3.1x
Liquidity ratio[2]	1.2x	1.5x
Solvency ratio[3]	1.1x	1.1x
Return on equity[4]	10.7%	10.9%
Return on assets[5]	3.2%	3.1%

[1] Net borrowings/(Net borrowings + Net equity)
[2] Current assets/Current liabilities
[3] (Net equity + Non-current liabilities)/Non-current assets
[4] ROE: Net income attributable/Attributed net equity
[5] ROA: Net income attributable/Total assets

Main stock market ratios and shareholder remuneration

	2013	2012
Average number of shares (thousand)	1,000,689	996,402
Share price at 31/12 (euro)	18.69	13.58
Stock market capitalisation (million euro)	18,708	13,589
Earnings per share (euro)	1.44	1.45
Attributable net equity per share (euro)	13.43	13.25
Price-earnings ratio (PER)	12.9x	9.4x
EV/ ebitda[1]	6.6x	5.8x
Pay-out (%)	62.1	62.1
Total dividend[2] (million euro)	898	895
Dividend per share	0.90	0.89

[1] EV: Enterprise value calculated as stock market capitalisation + net borrowings
[2] Considering the equivalent total amount destined to dividends. In 2013, this includes a supplementary dividend of Euros 505 million pending approval by the General Meeting.

Main physical aggregates

	2013	2012	%
Gas distribution Europe:			
Sales - TPA[1]	194,975	199,416	(2.2)
Gas distribution connections points (thousand) (at 31/12):	5,627	5,573	1.0
Electricity distribution Europe:			
Sales - TPA[1]	35,307	36,288	(2.7)
Electricity distribution connections points (thousand) (at 31/12):	4,618	4,608	0.2
ICEIT [2] (minutes)	47	33	42.4
Gas:			
Gas supply (GWh):	326,923	328,058	(0.3)
Spain	229,419	238,450	(3.8)
Retail commercialisation Italy	2,992	2,844	5.2
Rest	94,512	86,764	8.9
Unión Fenosa Gas[3]:			
Gas supply in Spain (GWh)	24,228	27,842	(13.0)
Rest (GWh)	10,245	14,100	(27.3)
Gas transportation – EMPL (GWh)	122,804	116,347	5.5
Electricity:			
Electricity generated (GWh):	34,342	37,790	(9.1)
Spain:	33,785	37,144	(9.0)
Hydroelectric	4,434	1,665	166.3
Nuclear	4,287	4,434	(3.3)
Coal	5,430	7,724	(29.7)
Combined cycles	16,593	20,602	(19.5)
Renewables	3,041	2,719	11.8
Other:			
Oil – gas	557	646	(13.8)
Electricity generation capacity (MW):	12,840	12,939	(0.8)
Spain:	12,728	12,827	(0.8)
Hydroelectric	1,914	1,907	0.4
Nuclear	604	604	-
Coal	2,065	2,048	0.8
Oil – gas	-	157	-
Combined cycles	6,998	6,998	-
Renewables	1,147	1,113	3.1
Other:			
Oil – gas	112	112	-

[1] Third party network access (energy distributed)
[2] Installed capacity equivalent interruption time in Spain
[3] Figures for 50% (shareholding)

	2013	2012	%
Latin America:			
Gas distribution:			
Sales - TPA[1]	229,833	210,358	9.3
Gas distribution connections points (thousand) (at 31/12):	6,321	6,090	3.8
Electricity distribution:			
Sales - TPA[1]	16,443	18,074	(9.0)
Electricity distribution connections points (thousand) (at 31/12):	2,925	3,701	(21.0)
Electricity generated (GWh):	19,414	18,458	5.2
Hydroelectric	320	370	(13.5)
Combined cycles	17,980	16,951	6.1
Oil – gas	1,114	1,137	(2.0)
Electricity generation capacity (MW):	2,580	2,580	-
Hydroelectric	73	73	-
Combined cycles	2,298	2,298	-
Oil – gas	209	209	-

[1] Third party network access (energy distributed)

2.3. Analysis of consolidated results

Net Sales

	2013	% of total	2012	% of total	% 2013/2012
Gas distribution Europe	1,597	6.4	1,563	6.3	2.2
Spain	1,283	5.1	1,266	5.1	1.3
Rest	314	1.3	297	1.2	5.7
Electricity distribution Europe	1,087	4.4	1,102	4.4	(1.4)
Spain	845	3.4	852	3.4	(0.8)
Rest	242	1.0	250	1.0	(3.2)
Gas	12,914	51.7	12,673	50.9	1.9
Infrastructures	313	1.3	306	1.2	2.3
Supply and Commercialisation	11,570	46.3	11,220	45.1	3.1
Unión Fenosa Gas	1,031	4.1	1,147	4.6	(10.1)
Electricity	6,029	24.1	6,322	25.4	(4.6)
Spain	5,927	23.7	6,194	24.9	(4.3)
Rest	102	0.4	128	0.5	(20.3)
Latin America	6,342	25.4	6,354	25.5	(0.2)
Gas distribution	3,260	13.1	2,982	12.0	9.3
Electricity distribution	2,121	8.5	2,513	10.1	(15.6)
Electricity	961	3.8	859	3.4	11.9
Other activities	655	2.6	613	2.5	6.9
Consolidation adjustments	(3,655)	(14.6)	(3,723)	(14.9)	(1.8)
Total	**24,969**	**100.0**	**24,904**	**100.0**	**0.3**

Net sales to 31 December 2013 totals Euros 24,969 million, having risen 0.3% on the previous year, due mainly to the growth in the gas distribution business in Latin America and in the wholesale international gas business.

Ebitda

	2013	% of total	2012	% of total	% 2013/2012
Gas distribution Europe	1,009	19.8	983	19.4	2.6
Spain	917	18.0	900	17.7	1.9
Rest	92	1.8	83	1.6	10.8
Electricity distribution Europe	623	12.3	648	12.8	(3.9)
Spain	588	11.6	613	12.1	(4.1)
Rest	35	0.7	35	0.7	0.0
Gas	1,244	24.5	1,217	24.0	2.2
Infrastructures	258	5.1	225	4.4	14.7
Supply and Commercialisation	863	17.0	736	14.5	17.3
Unión Fenosa Gas	123	2.4	256	5.0	(52.0)
Electricity	801	15.8	919	18.1	(12.8)
Spain	789	15.5	904	17.8	(12.7)
Rest	12	0.2	15	0.3	(20.0)
Latin America	1,301	25.6	1,267	24.9	2.7
Gas distribution	686	13.5	640	12.6	7.2
Electricity distribution	340	6.7	366	7.2	(7.1)
Electricity	275	5.4	261	5.1	5.4
Other activities	107	2.1	46	0.9	132.6
Total	**5,085**	**100.0**	**5,080**	**100.0**	**0.1**

Consolidated ebitda in 2013 totalled Euros 5,085 million, having risen 0.1% on the previous year in a highly demanding macroeconomic, energy and financial environment, thanks to an adequate balance of regulated and non-regulated businesses in the gas and electricity markets, including a growing and diversified contribution from international activities that offset the impacts of Law 15/2012 and Royal Decree-Law 9/2013.

Ebitda generated in Latin America accounts for 25.6% of the consolidated total and comprises regulated gas and electricity activities, and electricity generation.

Regulated gas and electricity distribution in Europe contributes 32.1% and the electricity generation business represents 15.8%.

Ebitda from Gas Natural Fenosa's international activities increased by 2.2% and accounted for 44.1% of the consolidated total as compared with 43.2% in the previous year. This growth is explained by a significant increase in gas commercialisation and by business development in Latin America. Conversely, ebitda from operations in Spain fell 1.6%, its relative significance in relation to the consolidated total having fallen to 55.9%.

Net operating income

	2013	% of total	2012	% of total	% 2013/2012
Gas distribution Europe	681	23.0	664	21.6	2.6
Spain	621	21.0	611	19.9	1.6
Rest	60	2.0	53	1.7	13.2
Electricity distribution Europe	391	13.2	415	13.5	(5.8)
Spain	362	12.2	386	12.6	(6.2)
Rest	29	1.0	29	0.9	0.0
Gas	830	28.0	923	30.1	(10.1)
Infrastructures	160	5.4	161	5.2	(0.6)
Supply and Commercialisation	786	26.5	661	21.6	18.9
Unión Fenosa Gas	(116)	(3.9)	101	3.3	(214.9)
Electricity	165	5.6	279	9.1	(40.9)
Spain	158	5.3	269	8.8	(41.3)
Rest	7	0.2	10	0.3	(30.0)
Latin America	901	30.4	839	27.4	7.4
Gas distribution	557	18.8	509	16.6	9.4
Electricity distribution	182	6.1	180	5.9	1.1
Electricity	162	5.5	150	4.9	8.0
Other activities	(5)	(0.2)	(53)	(1.7)	(90.6)
Total	**2,963**	**100.0**	**3,067**	**100.0**	**(3.4)**

Depreciation, amortisation and impairment expenses amount to Euros 1,907 million, having risen by 6.1% due basically to a charge of Euros 70 million relating to the impairment of the value assigned in the Unión Fenosa business combination to the gas processing rights held by Gas Natural Fenosa through its investee Unión Fenosa Gas in the Damietta (Egypt) liquefaction plant, as a result of the temporary interruption of plant activities caused by the suspension of deliveries by the natural gas supplier.

Provisions stand at Euros 226 million as compared with Euros 235 million in 2012; together with profits from the disposal of assets totalling Euros 11 million (Euros 20 million in 2012), operating profit totalled Euros 2,963 million, 3.4% below the previous year.

Net financial income

Net financial income for 2013 totalled Euros 838 million (Euros 874 million in 2012), slightly below the previous year due to the effect of a reduction in gross debt, although at a slightly higher cost, together with an increase in cash volumes.

Corporate income tax

In June 2013, the General Shareholders' Meetings of some Group companies resolved to revaluate fixed assets as permitted by Law 16/2012 (27 December), resulting in the recognition of a net tax credit of Euros 109 million in “Income tax” in the consolidated income statement.

As a result of the revaluation, the effective tax rate for 2013 fell to 22.0%, as compared with 24.8% in 2012.

Non-controlling shareholdings

The main items in this caption relate to the minority interests in EMPL, the investees in Colombia, the gas distribution companies in Brazil, and the electricity generation and distribution companies in Panama and Colombia.

In 2013, the profit attributed to minority interests totalled Euros 219 million, which is Euros 3 million above the previous year.

2.4. Analysis of the consolidated balance sheet

Investments

A breakdown of investments by nature is as follows:

	2013	2012	%
Investments in property, plant and equipment and intangible assets	1,494	1,357	10.1
Financial investments	142	29	389.7
Total investments	**1,636**	**1,386**	18.0

Investments in property, plant and equipment and intangible assets during the year amounted to Euros 1,494 million, 10.1% up on the previous year. This growth is due basically to the investment in electricity generation in the international arena (Mexico).

Financial investments in 2013 relate basically to the acquisition of a 14.9% stake (together with the proportional percentage of the shareholder loan) in Medgaz for a total of Euros 101 million.

Set out below is a breakdown of investments in property, plant and equipment and intangible assets:

	2013	2012	%
Gas distribution Europe	309	298	3.7
Spain	279	257	8.6
Rest	30	41	(26.8)
Electricity distribution Europe	238	285	(16.5)
Spain	224	269	(16.7)
Rest	14	16	(12.5)
Gas	56	63	(11.1)
Infrastructures	12	25	(52.0)
Supply and Commercialisation	25	27	(7.4)
Unión Fenosa Gas	19	11	72.7
Electricity	176	182	(3.3)
Spain	176	182	(3.3)
Rest	-	-	-
Latin America	559	372	50.3
Gas distribution	181	177	2.3
Electricity distribution	128	132	(3.0)
Electricity	250	63	296.8
Other activities	156	157	(0.6)
Total investments in PPE and intangible assets	**1,494**	**1,357**	**10.1**

Gas Natural Fenosa allocated 57.3% of capital expenditure to regulated gas and electricity distribution businesses in Europe and Latin America in order to boost their contribution to consolidated ebitda.

In geographic terms, investments in Spain fell by 4.0%, although Spain is still the main investment location, accounting for 55.7% of consolidated investments in 2013 (63.9% in the previous year), while international investments represented 44.3%, having grown 35.0% on 2012.

In Latin America, Mexico was the main investment location due to the construction of a 234 MW wind farm, entailing cumulative capital expenditure of Euros 161 million in 2013.

Net equity

At 31 December 2013, Gas Natural Fenosa's net equity stood at Euros 1,010 million. The amount of Euros 13,444 million is attributable to Gas Natural Fenosa, having increased by 1.4% with respect to 31 December 2012.

At 31 December 2013, there were 1,000,689,341 ordinary shares represented by book entries, with a par value of one euro per share. All issued shares are fully paid up and carry equal voting and dividend rights.

At 31 December 2013, according to available public information or notifications received by the Company, the most relevant shareholdings in Gas Natural SDG, S.A. are as follows:

	% shareholding
”la Caixa” Group	34.6
Repsol Group	30.0
SonTPAach	4.0

See Note 12 to the Consolidated Annual Accounts for further details.

FY 2013

The proposal for the distribution of 2013 profits that will be submitted by the Board of Directors to the Annual General Shareholders’ Meeting for approval is to allocate Euros 898 million to dividends. This proposal represents a 62.1% pay-out and a dividend yield of over 4.8%, by reference to the share price of 18.695 euros per share at 31 December 2013.

In the meeting of 29 November 2013, the Board of Directors of Gas Natural SDG, S.A. resolved to pay an interim dividend of 0.393 euros per share out of 2013 results, for a total of Euros 393 million, payable as from 8 January 2014.

FY 2012

The application of 2012 profits approved by the Annual General Shareholders’ Meeting on 16 April 2013 entailed the allocation of Euros 895 million in cash to dividends, representing a 62.1% pay-out and a dividend yield of over 6.6%, by reference to the share price of 13.58 euros per share at 31 December 2012.

Consequently, and based on the number of shares outstanding (1,000,689,341), a total gross dividend of 0.894 per share was paid out.

Net borrowings

Evolution of net borrowings (million euro)

	2013	2012	%
Net borrowings	14,641	15,995	(8.5)

At 31 December 2013, net borrowings stood at Euros 14,641 million, placing the leverage ratio at 49.4%. Excluding tariff deficit financing, net borrowings would amount to Euros 14,156 million and leverage would stand at 48.5%.

At 31 December 2013, the ratios Net borrowings/ebitda and ebitda/cost of net borrowings stood at 2.9x (2.8x excluding the tariff deficit) and 6.1x, respectively.

Since the Electricity Deficit Amortisation Fund (FADE) completed its first issue of bonds backed by the electricity system rights assigned on 11 January 2011, issues and extensions have amounted to Euros 25,301 million, of which Euros 9,662 million were issued in 2013. Gas Natural Fenosa has received the relevant portion, for an aggregate amount of Euros 2,873 million, of which Euros 1,079 million were collected in 2013.

Net borrowings maturities (million Euros)

	2014	2015	2016	2017	Post 2018
Net borrowings maturities	643	1,157	1,380	1,956	9,505

The above table shows Gas Natural Fenosa's net borrowings maturities at 31 December 2013.

As regards the distribution of maturity dates for net borrowings, 87.7% falls due during or after 2016. The average life of net borrowings is around five years.

Taking into account the impact of hedges contracted, 82.2% of net borrowings are at fixed interest rates and the remaining 17.8% at variable rates. 4.4% of net borrowings falls due in the short term and 95.6% in the long term.

At 31 December 2013, cash and cash equivalents plus drawable bank financing amounted to Euros 11,613 million, which covers maturities for over 24 months.

Additionally, financial instruments available in the capital market at 31 December 2013 stood at Euros 3,216 million and include the Euro Medium Terms Notes (EMTN) programme for the sum of Euros 1,945 million, following the programme's extension on 30 May in the amount of Euros 2,000 million to reach Euros 14,000 million; the Euro Commercial Paper (ECP) programme for the sum of Euros 854 million; and the Stock Market Certificate programme in the Mexican Stock Exchange, the Commercial Notes Programme in Panama and the Ordinary Bonds Programme in Colombia, for a combined total of Euros 417 million.

In January 2013, a new 10-year bond issue in the capital market was completed for the sum of Euros 600 million at an annual coupon of 3.875%, under the EMTN programme; additionally, under the same programme, the first issue in a currency other than the euro was completed in February, consisting of 250 million Swiss francs at an annual coupon of 2.125% and a six-year maturity. Subsequently, in April a new public issue was completed for Euros 750 million at a coupon of 3.875% and a nine-year maturity, plus a four-year issue of Euros 300 million at a 2.310% coupon. In July, the second issue in a non-euro currency was completed, in this case 800 million Norwegian krone (approximately Euros 100 million), for an annual yield in euros of 3.97% and a 10-year maturity. Finally, in October, a new issue was completed under the EMTN programme in the amount of Euros 500 million at a 3.5% coupon for a term of 7.5 years.

An aggregate amount of Euros 12,055 million has been issued and has not yet matured under the EMTN programme, at an average coupon of 4.65% and with an average term of approximately 4.46 years.

On 16 April 2013, Gas Natural SDG, S.A.'s Board of Directors approved a bid to repurchase an issue of preferred shares, in cash, at 93% of the par value. These preferred shares were issued by Unión Fenosa Financial Services USA, LLC for Euros 609 million in 2003; the bid was accepted by 88.56% of the preferred shareholders.

As part of the continuing debt restructuring process, the early repayment of the Euros 3,000 million Club Deal loan maturing in March 2015 was agreed, by arranging a new five-year credit line of Euros 1,500 million in October 2013, which had not been utilised at 31 December 2013, together with a new five-year loan of Euros 750 million, all on a Club Deal basis.

On 9 July 2013, Gas Natural Fenosa arranged the first tranche of a loan totalling Euros 475 million from the European Investment Bank (EIB) to finance a part of the plan to invest in Unión

Fenosa Distribución's transportation and distribution business from 2012 to 2015. The loan consists of two tranches, the first of which amounts to Euros 250 million, secured by Unión Fenosa Distribución, for an eight-year term, drawn down in July 2013; the second tranche of Euros 225 million has not yet been disposed.

The EIB loan reflects the solidity of Gas Natural Fenosa's project, which meets the European Investment Bank's feasibility, quality and environmental required standards.

Set out below is a breakdown by currency of net borrowings at 31 December 2013 showing relative significance with respect to total net borrowings:

(million euro)	**31.12.2013**	**%**
EUR	12,567	85.8
US$	1,238	8.5
COP	447	3.1
MXN	270	1.8
BRL	119	0.8
Total net borrowings	**14,641**	**100.0**

Note 3.3.2 to the Consolidated Annual Accounts contains details of the euro exchange rates with respect to the main currencies used by Gas Natural Fenosa companies.

The credit rating of Gas Natural Fenosa's short- and long-term debt is as follows:

Agency	**Long term**	**Short term**
Fitch	BBB+	F2
Moody's	Baa2	P-2
Standard & Poor's	BBB	A-2

Liquidity and capital funds

Despite the generalised macroeconomic and financial difficulties, Gas Natural Fenosa has a solid financial and liquidity position. Available cash resources at 31 December 2013 and 2012 are as follows:

Liquidity source	**Availability 2013**	**Availability 2012**
Committed credit lines	7,036	4,912
Uncommitted credit lines	100	95
Undrawn loans	225	150
Cash and cash equivalents	4,252	4,434
Total	**11,613**	**9,591**

At 31 December 2013, cash and cash equivalents plus drawable bank financing amounted to Euros 11,613 million, which covers maturities for over 24 months.

There is additional capital market issuance capacity of Euros 3,217 million under Euro and LatAm (Mexico, Argentina, Panama) programmes, recently supplemented by a 500,000 million Colombian peso programme.

Set out below is a breakdown of working capital at 31 December:

(million euro)	2013	2012
Current operating assets[1]	6,034	5,907
Current operating liabilities[2]	(4,597)	(4,858)
	1,437	**1,049**

[1] Includes Inventories, Trade receivables, and Other receivables.
[2] Includes Trade payables, Other payables and Other current liabilities, excluding the dividend payable.

Analysis of contractual obligations and off-balance-sheet transactions

Note 34 to the Consolidated Annual Accounts provides a breakdown of Gas Natural Fenosa's contractual obligations, off-balance-sheet transactions and contingent liabilities.

2.5. Analysis of results by activity

Gas distribution Europe

2.5.1 Gas distribution Spain

Business in Spain includes the remunerated activity charged to the gas distribution system, TPA (third party network access) and secondary transport, and the non-remunerated activities charged to the same distribution system (meter rental, customer connections, etc.).

Results

	2013	2012	%
Net sales	1,283	1,266	1.3
Procurements	(26)	(24)	8.3
Personnel cost	(75)	(77)	(2.6)
Other expenses/income	(265)	(265)	-
Ebitda	**917**	**900**	**1.9**
Depreciation, amortisation and impairment expenses	(288)	(289)	(0.3)
Change in operating provisions	(8)	-	-
Operating income	**621**	**611**	**1.6**

Net sales and ebitda from the gas distribution business totalled Euros 1,283 million and Euros 917 million, having grown moderately by 1.3% and 1.9%, respectively.

Market context

Gas transported in Spain totalled 321,900 Gwh (349,392 Gwh in 2012), while single-customer LNG carried amounted to 9,759 Gwh (11,490 Gwh in 2012), entailing a total demand for gas of 331,659 Gwh (360,882 Gwh in 2012).

Overall sales in the regulated gas activity in Spain fell by 2.3% (-4,580 GWh) compared with the previous year. While demand for gas subject to distribution remuneration (below 60 bars) grew 3.3%, gas carried in transport and secondary transport was 44.8% lower due basically to a significant decline in combined-cycle consumption.

Main aggregates

The main aggregates for gas distribution in Spain are as follows:

	2013	2012	%
Sales – TPA (GWh)	191,189	195,769	(2.3)
Distribution network (Km)	47,678	46,541	2.4
Increase in connections points (thousand)	47	75	(37.3)
Connections points (thousand) (at 31/12)	5,172	5,124	0.9

Gas Natural Fenosa continues to expand its distribution network and the number of connections points. The volume of new customers, not yet connected, increased 5.2% on the previous year. Low activity in the markets for new buildings and the current economic crisis continue to condition the net increase in connections points.

The distribution network grew 1,137 km, including the gasification of 36 new municipalities, to reach a total of 1,100 municipalities.

On 30 December 2013, Order IET/2446/2013 was published, establishing the tolls and levies payable for third-party access to gas facilities and remuneration for regulated activities in 2014. Remuneration recognised for Gas Natural Fenosa in 2014, for distribution and transport activities, totals Euros 1,108 million.

2.5.2 Gas distribution rest (Italy)

Business in Italy also includes gas tariff sales.

Results

	2013	2012	%
Net sales	314	297	5.7
Procurements	(176)	(170)	3.5
Personnel cost	(16)	(15)	6.7
Other expenses/income	(30)	(29)	3.4
Ebitda	**92**	**83**	**10.8**
Depreciation, amortisation and impairment expenses	(27)	(25)	8.0
Change in operating provisions	(5)	(5)	-
Operating income	**60**	**53**	**13.2**

Ebitda followed the same trend shown during the year, amounting to Euros 92 million, 10.8% up on the previous year, due to steady growth in profits from the regulated distribution activity and the increasing contribution from the gas sales margin.

Ebitda from liberalised commercialisation to customers in Italy rose 29.7% to Euros 24 million in 2013.

The Group's strengthening of its position in gas and electricity regulated and non-regulated activities in Italy was confirmed.

In December, the regulator approved the new regulatory framework for distribution during the period 2014 to 2019.

Main aggregates

	2013	2012	%
Sales – TPA (GWh)	3,786	3,647	3.8
Distribution network (Km)	6,958	6,885	1.1
Connections points (thousand) (at 31/12)	455	449	1.3
Gas retailing commercialisation (GWh)	2,992	2,844	5.2

Gas distribution amounted to 3,786 GWh, up 3.8% on 2012, due mainly to favourable weather conditions.

Retail sales rose 5.2% to 2,992 GWh.

The distribution network reached 6,958 km, having grown by 73 km in the past twelve months.

In Italy, Gas Natural Fenosa reached 455,000 connections points in the gas distribution business, representing an increase of 1.3% on the previous year.

In the retail market, Gas Natural Fenosa reached 506,719 active gas, electricity and services contracts in Italy.

Electricity distribution Europe

2.5.3 Electricity distribution Spain

Business in Spain includes regulated electricity distribution activity and activities related to network services for customers, basically connection rights, metering and other activities relating to third party access to Gas Natural Fenosa's distribution network.

Results

	2013	2012	%
Net sales	845	852	(0.8)
Procurements	-	-	-
Personnel cost	(104)	(99)	5.1
Other expenses/income	(153)	(140)	9.3
Ebitda	**588**	**613**	**(4.1)**
Depreciation, amortisation and impairment expenses	(220)	(228)	(3.5)
Change in operating provisions	(6)	1	-
Operating income	**362**	**386**	**(6.2)**

Order IET/221/2013 of 14 February stipulates remuneration for the transportation, distribution and commercial management activities performed by Gas Natural Fenosa's electricity distributors, together with the other market operators. This remuneration takes into consideration the amendments brought in by Royal Decree-Law 13/2012, recognising the investments made in 2011. Additionally, on 12 July 2013, the Council of Ministers approved a package of measures referred to as an energy reform, comprising Royal Decree-Law 9/2013 on urgent measures to guarantee the electricity system's financial stability, a Bill of Law on the Electricity Sector and several proposed Royal Decrees, which affect the electricity distribution business. Law 24/2013 of 26 December on the Electricity Sector was also approved.

Finally, on 26 December 2013, Order IET/2442/2013 was published, establishing the remuneration for the second period of 2013 for electricity transport and distribution activities, including other prior-year measures.

Ebitda for 2013 totalled Euros 588 million, having fallen by 4.1%. The above-mentioned evolution of net sales was accompanied by an increase in net operating expenditure basically due to efficiency measures applied during the year, the positive impact of which is expected in coming years.

Main aggregates

	2013	**2012**	**%**
Electricity sales (GWh): TPA	32,766	33,763	(3.0)
Connections points (thousand) (at 31/12)	3,772	3,772	-
ICEIT (minutes)	47	33	42.4
Network loss ratio (%)	8.6	8.1	6.2

Electricity supplied decreased by 3.0%, above the fall in domestic demand for electricity distribution, which stood at 243,126 Gwh in 2013 (248,903 Gwh in 2012), entailing a decline of 2.3% according to Red Eléctrica de España (REE)'s balance sheet.

The number of connections points remained at the same level as in the previous year, reaching 3,772,000.

Supply quality, in terms of Installed Capacity Equivalent Interruption Time (ICEIT), exceeded the previous year due to less favourable weather conditions, but was in line with the recent-year average; this may be explained by the correct functioning of facilities thanks to the continuing investment process, the network architecture implemented and systematic operating and maintenance plans.

2.5.4 Electricity distribution rest (Moldova)

Business in Moldova consists of regulated electricity distribution and tariff commercialisation in the capital city and areas in the centre and south of the country. Gas Natural Fenosa distributes 70% of Moldava's total electricity.

Results

	2013	2012	%
Net sales	242	250	(3.2)
Procurements	(188)	(194)	(3.1)
Personnel cost	(7)	(8)	(12.5)
Other expenses/income	(12)	(13)	(7.7)
Ebitda	**35**	**35**	**-**
Depreciation, amortisation and impairment expenses	(6)	(6)	-
Change in operating provisions	-	-	-
Operating income	**29**	**29**	**-**

Net sales reflects, on a pass-through basis, the performance of supplies and, additionally, the recognition of the investment plan implemented and operation and maintenance activities performed in accordance with the country's current regulations. As from 1 March 2013, the new tariff methodologies for commercialisation and distribution came into force for a five-year period.

Excluding the effect of exchange rates, ebitda grew by 7.3% due to a reduction in losses, efficiency improvements and cost containment.

Main aggregates

	2013	2012	%
Electricity sales (GWh) – tariff sales	2,541	2,525	0.6
Connections points (thousand) (at 31/12)	846	836	1.2
Network loss ratio (%)	10.7	12.4	(13.7)

Gas Natural Fenosa continues to implement its plan to improve management in Moldova in connection with processes linked to energy control in the distribution networks, operating processes associated with the commercial management cycle and optimisation of facility operation and maintenance; the plan is achieving its objectives and a steady improvement in basic operating indicators:

- Energy supplied grew by 0.6% , the anti-fraud campaigns having been offset by the decline in consumption due to milder weather conditions in 2013 compared with 2012.

- Connections points reached 846,080, representing a rise of 1.2% on the previous year, due mainly to growth in the real estate sector.

- The network loss ratio evolved favourably, allowing regulated electricity Net sales to be maximised.

Gas

2.5.5 Infrastructure

This business inclusion operation of the Maghreb-Europe gas pipeline, management of maritime transport, development of integrated liquefied natural gas projects (LNG) and exploration, development, production and storage of hydrocarbons.

Results

	2013	2012	%
Net sales	313	306	2.3
Procurements	(32)	(56)	(42.9)
Personnel cost	(4)	(6)	(33.3)
Other expenses/income	(19)	(19)	-
Ebitda	**258**	**225**	**14.7**
Depreciation, amortisation and impairment expenses	(98)	(64)	53.1
Change in operating provisions	-	-	-
Operating income	**160**	**161**	**(0.6)**

Net sales from the infrastructures business in 2013 totalled Euros 313 million, having increased by 2.3%.

Ebitda for 2013 amounted to Euros 258 million, 14.7% up on the previous year due mainly to an increase in production as the Montanazo (Tarragona) well became operational in October 2012, the rise in the international transport tariff for the Maghreb-Europe gas pipeline in 2013 and fleet logistics optimisation.

The increase in depreciation, amortisation and impairment expenses in 2013 is explained by the impairment of sundry assets totalling Euros 16 million.

Main aggregates

The main aggregates of the international gas transport business are as follows:

	2013	2012	%
Gas transportation-EMPL (GWh):	122,804	116,347	5.5
Portugal-Morocco	38,023	36,872	3.1
Spain-Morocco (Gas Natural Fenosa)	84,781	79,475	6.7

The gas transport business in Morocco, performed through the companies EMPL and Metragaz, recorded a total volume of 122,804 GWh, 5.5% up on the previous year. Of this amount, 84,781 GWh were transported for Gas Natural Fenosa by the company Sagane and 38,023 GWh for Portugal and Morocco.

In January 2013, Gas Natural Fenosa and the Algerian company Sociéte Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures, S.p.A (SonTPAach) entered into an agreement for the purchase from the latter company of a 10% stake in Medgaz, S.A. for Euros 54 million. Medgaz owns and operates the Algeria-Europe submarine gas pipeline connecting Beni Saf to the coast of Almería, with a capacity of 8 bcm/year.

The acquisition of this shareholding relates to the transfer to Gas Natural Fenosa of 10% of the pipeline's transport capacity and a new 0.8 bcm/year natural gas supply contract. The supply contract has an 18-year term and supplies commenced on 1 February 2013. Volumes carried during the year by the Medgaz gas pipeline for Gas Natural Fenosa totalled 4,889 GWh.

In July 2013, Gas Natural Fenosa acquired an additional 4.9% interest from the company Gaz de France International, S.A.S. for Euros 36 million. As a result of this acquisition, which did not involve any transport rights or additional gas contract, Gas Natural Fenosa's interest in the gas pipeline increased to 14.9%.

Authorisation processes continued for the five exploration, production and storage projects planned by Gas Natural Fenosa for the coming years in the Guadalquivir Valley (Marismas, Aznalcazar and Romeral areas). On 29 and 30 January 2013, the Secretary of State for the Environment issued the Environmental Impact Declarations for the Saladillo, Marismas Oriental and Aznalcázar, in addition to the Declaration already obtained for the Marismas Occidental project. Subsequently, the Andalusia Regional Government expressed doubts as to whether or not the synergic impacts of the projects on each other had been evaluated, asking the Environment Ministry to complete the evaluation before issuing the relevant environmental permits.

With regard to the Trieste regasification terminal project that the Group is to carry out in the north of Italy (Zaule), on 18 April 2013 a decree was published temporarily suspending the Valutazione di Impatto Ambientale (VIA). The decree temporarily suspended the VIA so that Gas Natural Fenosa could present an alternative location or so that the Port Authority could alter its maritime traffic development planning. On 13 June 2013, the Company filed an appeal at the administrative court against the temporary suspension decree and is awaiting a ruling.

2.5.6 Supply and Commercialisation

This business groups together gas supply and commercialisation (wholesale and retail) activities in Spain and abroad, as well as the supply of products and services related to supply in Spain and supply of gas at the last-resort tariff in Spain.

Results

	2013	**2012**	**%**
Net sales	11,570	11,220	3.1
Procurements	(10,485)	(10,245)	2.3
Personnel cost	(49)	(50)	(2.0)
Other expenses/income	(173)	(189)	(8.5)
Ebitda	**863**	**736**	**17.3**
Depreciation, amortisation and impairment expenses	(18)	(15)	20.0
Change in operating provisions	(59)	(60)	(1.7)
Operating income	**786**	**661**	**18.9**

Net sales totalled Euros 11,570 million, 3.1% up on the previous year. Ebitda amounted to Euros 863 million, having risen 17.3% due basically to due to growth in foreign operations.

Diversification of the commodities portfolio and joint management of commodity and dollar risks, combined with a larger volume of foreign sales, contributed towards the improvement in ebitda in a context of significant volatility in energy and currency markets.

Market context

Spanish gas market demand reached 331,659 GWh in 2013 (360,882 GWh in 2012), of which 55,757 GWh relate to the residential market (55,815 GWh in 2012), 219,180 GWh to the industrial market and third-party supplies (220,782 GWh in 2012) and 56,722 GWh to the electricity market (84,285 GWh in 2012).

Evolution of the main gas market price indices is set out below:

	2013	2012	%
Brent (USD/bbl)	108.7	111.5	(2.5)
Henry Hub (USD/MMBtu)	3.7	2.8	32.1
NBP (USD/MMBtu)	10.7	9.6	11.5
TTF (€/MWh)	26.6	25.0	6.4

Main aggregates

The main aggregates of the supply and commercialisation business are as follows:

	2013	2012	%
Gas supply (GWh):	323,931	325,214	(0.4)
Spain:	229,419	238,450	(3.8)
Gas Natural Fenosa supply	166,991	178,216	(6.3)
Residential	30,786	31,278	(1.6)
Industrial	97,955	94,811	3.3
Electricity	38,250	52,127	(26.6)
Supplies to third parties	62,428	60,234	3.6
International:	94,512	86,764	8.9
Europe	30,672	20,871	47.0
Rest	63,840	65,893	(3.1)
Multiutility contracts (thousand) (at 31/12)	2,246	1,882	19.3
Contracts per customer (at 31.12)	1.48	1.40	5.7
Share of supply market in Spain	44.6%	42.3%	5.4

Gas demand in Spain totalled 333,659 GWh (360,882 GWh in 2012), 8.1% below the previous year, 3.8% in the case of Gas Natural Fenosa. Conventional demand amounted to 274,937 GWh, representing an overall fall of 0.6%, but 2.9% growth for Gas Natural Fenosa. Electricity generation demand totalled 56,722 GWh, entailing an overall decline of 32.7%, 26.6% for Gas Natural Fenosa.

In a weak demand scenario, natural gas sold in the Spanish gas market amounted to 229,419 GWh, 3.8% down on the previous year due to a decline in sales to Gas Natural Fenosa's end customers (-6.3%); this is explained mainly by the reduction in combined-cycle consumption, partly offset by growth in supplies to third parties (+3.6%).

International gas sales totalled 94,512 GWh, having risen 8.9% on the previous year.

In Portugal, Gas Natural Comercializadora reached a gas market share of 13%, according to data published by the regulator in Portugal (ERSE), making it the country's second-ranked operator. In the industrial market, where activities are focused, share is estimated at above 20%. This consolidates the Group's leadership in the Iberian Peninsula just prior to the creation of the single Iberian market (MIBGAS).

Our position as the leading foreign operator in Portugal has also been confirmed, with an industrial contract portfolio of 5.5 TWh/year.

Gas Natural Europe (a French commercialisation subsidiary in Europe), currently has 2,798 supply connections points in France in a range of sectors, from industrial companies (chemicals, paper mills, etc.) to local governments and the public sector, accounting for a total portfolio of 23.3 TWh/year.

The French subsidiary has also consolidated its position in Belgium and Luxembourg, with 569 supply connections points and a contracted portfolio of 6.7 TWh/year. In the Netherlands, supply connections points increased to 309 with a 5.4 TWh/year portfolio. In Germany, where activities commenced at the end of 2012, 97 supply connections points and a portfolio of 1 TWh/year have already been contracted.

Gas Natural Fenosa continues to study the possibility of entering other central European markets in the short term by offering a combination of customised energy consulting and a diversified, secure supply.

Gas Natural Vendita ended 2013 with a contracted portfolio of 4TW/year in Italy's wholesale market.

Foreign market diversification continued through gas sales in America (Caribbean and South America) and Asia (Japan, India and Korea). This has consolidated our presence in the main international LNG markets, with a medium-term position in countries in economic growth or countries that lead the LNG market. In October 2013, Gas Natural Fenosa was awarded an LNG contract for the supply of 1.8 bcm/year to Argentina during 2014 and 2015.

In September 2013, Gas Natural Fenosa entered into a contract with the South Korean energy company Kogas to supply between 1 and 1.5 bcm of liquefied natural gas (LNG) in the next two years. This agreement consolidates our position as a global LNG operator and boosts growth in Asia.

In July 2013, Gas Natural Fenosa signed two agreements for the sale of natural gas to Repsol. The first one was for 2 bcm per annum for the period 2015-2018 and the second one for 1 bcm per annum for 20 years (estimated to commence in 2017).

In the retail market, Gas Natural Fenosa reached 11.2 million gas, electricity and services contracts. More than 1.3 million homes have entrusted Gas Natural Fenosa with combined supply of gas and electricity.

Products and services were marketed throughout Spain and 1,700,000 new contracts were activated. Expansion continued in the small- and medium-sized companies market, more than 114,000 new contracts having been concluded for gas, electricity and services to reach 340,000 at year-end 2013.

Gas Natural Fenosa has extended its residential maintenance services portfolio, adding new services. The services portfolio exceeded 2.2 million active contracts, service offerings and quality having been enhanced through the Company's own operating platform, comprising 164 associate companies connected through an online mobility system.

This performance brought 6% growth in retail segment contracts, on consistent terms, with respect to 31 December 2012.

In the SMEs segment, Gas Natural Fenosa continued to grow and consolidate business in Portugal, active electricity contracts exceeding 15,000 at 31 December 2013.

Gas Natural Fenosa remains committed to increasing the functionalities and users of the virtual office, where products and services can be contracted online.

Gas Natural Fenosa continues to develop a network of vehicular natural gas filling stations open to all users. In 2013, the network comprised 24 proprietary filling stations located on the peninsula's main transport routes, seven of which supply both compressed natural gas and liquid natural gas for heavy freight vehicles. As regards ports, Gas Natural Fenosa supplies fuel, through a mobile station, to the first LNG-driven truck used to move containers in the Port of Valencia.

In integrated energy efficiency solutions, the business volume generated doubled for the second consecutive year. According to a survey by the company DBK, Gas Natural Servicios leads the market for energy services.

Ongoing analysis of efficient new technologies, as part of our firm commitment to energy efficiency, has allowed the Company to develop new products and services for our growing portfolio of energy solutions tailored to our customers' energy needs.

2.5.7 Unión Fenosa Gas

This business groups together the gas supply and commercialisation activities performed by Unión Fenosa Gas and includes the Damietta (Egypt) liquefaction, Sagunto regasification and management of the gas tanker fleet.

Results

Unión Fenosa Gas is 50%-owned by Gas Natural Fenosa and is included in consolidated results on a proportionate basis.

	2013	**2012**	**%**
Net sales	1,031	1,147	(10.1)
Procurements	(891)	(859)	3.7
Personnel cost	(11)	(12)	(8.3)
Other expenses/income	(6)	(20)	(70.0)
Ebitda	**123**	**256**	**(52.0)**
Depreciation, amortisation and impairment expenses	(239)	(155)	54.2
Change in operating provisions	-	-	-
Operating income	**(116)**	**101**	**-**

Ebitda amounts to Euros 123 million, entailing a 52.0% decline in connection with the preceding year.

Results for the year have been affected by the reduction in gas supplied by Egypt. Nonetheless, opportunities generated by the situation in the international LNG selling markets, where UF Gas continue its intense activities, were leveraged. A stable economic contribution was also made by the infrastructures during the period.

The increase in depreciation, amortisation and impairment expenses is due basically to an impairment loss of Euros 70 million on the value assigned in the Unión Fenosa business combination to the gas processing rights held by Gas Natural Fenosa through its investee Unión Fenosa Gas in the Damietta (Egypt) liquefaction plant, as a result of the temporary interruption of plant activities caused by the suspension of deliveries by the natural gas supplier.

Main aggregates

Main aggregates for Unión Fenosa Gas' activities (reflecting the 50% interest) are as follows:

	2013	2012	%
Gas supply in Spain (GWh)	24,228	27,842	(13.0)
Gas supply International (GWh)	10,245	14,100	(27.3)
Liquefaction (GWh)	(158)	7,646	-
Regasification (GWh)	8,266	15,959	(48.2)

The volume of gas supplied in Spain amounted to 24,228 GWh, as compared with 27,842 GWh in the previous year. The fall is particularly significant in supplies to electricity generation companies (-18%) due to an electricity generation mix in which renewable sources grew in relevance and to the use of coal to fill the thermal gap. There was a more moderate decline in the industrial segment (-5.3%).

Additionally, energy managed totalled 10,245 GWh through international sales in different markets.

In 2012, the SAGGAS (Sagunto) plant was adapted to tanker loading operations. The plant's new activity, approved by the Valencia Port Authority in December 2012, allows diversification into a business, LNG tanker loading, that has grown in recent years. SAGGAS has thus diversified its activities and adapted its facilities in order to both unload and load GNL tankers, in parallel to its usual regasification tasks.

As regards the exploration and production project in the La Rioja region of Spain, work continued in the subsoil and in surface facilities. The drilling of the second test (Viura-3) well is due to be completed in February 2014. Construction of the processing plant also continued and is due for completion in the middle of 2014, while the gas pipelines and electricity line are expected to be built by February 2014.

Electricity

2.5.8 Electricity Spain

The electricity business in Spain includes electricity generation in Spain, electricity wholesaling and retailing in Spain's liberalised market, electricity supply at the last-resort tariff and wholesale electricity trading.

Results

	2013	2012	%
Net sales	5,927	6,194	(4.3)
Procurements	(4,222)	(4,624)	(8.7)
Personnel cost	(158)	(152)	3.9
Other expenses/income	(758)	(514)	47.5
Ebitda	**789**	**904**	**(12.7)**
Depreciation, amortisation and impairment expenses	(594)	(594)	-
Change in operating provisions	(37)	(41)	(9.8)
Operating income	**158**	**269**	**(41.3)**

Net sales from the electricity business in 2013 totalled Euros 5,927 million, having increased by 4.3% on 2012.

Ebitda amounted to Euros 789 million, representing a fall of 12.7% on the previous year.

This decrease is explained basically by the evolution of fuel market prices, the lower price of electricity in the wholesale market due to a change of production mix (increased Hydroelectric output) and the tax and regulatory measures brought in by Law 15/2012 and RD 9/2013), affecting electricity generation.

Market context

In the domestic arena, mainland electricity demand reached 246,204 GWh (251,850 GWh in 2012), entailing a fall of 2.2% in both gross demand and in demand adjusted for calendar and temperature effects; this was the third consecutive annual decrease.

The physical balance of international exchanges remained on the export side, with 6.8 TWh exported in 2013, which is 39.7% less than exports accumulated in 2012.

Pumping consumption amounted to 6.0 TWh in 2013, 19.9% up on the previous year.

In cumulative terms for 2013, net generation fell by 3.1% on the previous year due to a 10.6% decline in ordinary regime generation and an 8.6% rise in special regime generation.

Cumulative figures for wind generation in 2013 rose 13.2%, with 22.1% coverage, which was 2% above demand coverage achieved by this technology in 2012; this was the first time in history that wind generation contributed more than any other technology to demand coverage. During the year, wind generation beat a number of demand coverage records, the maximum being 68.5% in the early morning of 25 December.

As regards the other special regime activities, cumulative figures for the period showed a moderate 4.5% increase, the most relevant aspects being the sharp rise in Hydroelectric generation and the significance of solar generation, which reached 12.5 TWh (photovoltaic and thermal), which is more than one half the figure for combined cycle output.

Overall, the special regime accounted for 45.1% of demand in cumulative terms, more than 4.5% up on 2012.

Hydroelectric generation for the year increased by 75.0%. Producible hydroelectric power recorded in 2013 reflects a wet year, with 26% probability of being exceeded (PSS) with respect to the historical average producible figure (the PSS of 5% in March and 3% in April are noteworthy due to their significance in the annual calculation), i.e. statistically, only 26 of every 100 years would be wetter than the current year.

Nuclear generation fell 7.4% over the year; this figure was affected by changes to scheduled maintenance work and the load reductions at the end of March and beginning of April, when market prices were very low (even reaching zero).

The thermal gap accumulated during the year fell by over 27 TWh, from 35.3% demand coverage to in 2012 to 25.0% of the cumulative figure for 2013.

Coal generation decreased by 27.4% of the cumulative total for the year, despite the application of the Royal Decree on Supply Guarantee as from 26 February 2011. In cumulative values for 2013, generation using domestic coal, at 12.8 TWh, amounted to nearly one half of generation using imported coal (24.2 TWh); together, they covered 15.0% of demand, 5% less than in 2012.

In 2013, as in the previous year, no power was generated using Oil.

Combined-cycle output amounted to 24.6 TWh in 2013, far below the 37.9 TWh in 2012. Demand coverage by this technology fell from 15.0% in 2012 to 10.0% in 2013.

Movements in the main electricity and related market price indices (in addition to the indices mentioned in point 2.5.6.) are set out below:

	2013	**2012**	**%**
Weighted average daily market price (€/MWh)	44.3	48.5	(8.7)
Coal API 2 CIF (USD/t)	81.7	92.5	(11.7)
CO_2 EUA (€/ton)	4.5	7.4	(39.2)

Main aggregates

Main aggregates for Gas Natural Fenosa's electricity business in Spain are as follows:

	2013	2012	%
Installed capacity (MW):	12,728	12,827	(0.8)
Ordinary regime:	11,581	11,714	(1.1)
Hydroelectric	1,914	1,907	0.4
Nuclear	604	604	-
Coal	2,065	2,048	0.8
Oil-gas	-	157	-
Combined cycles	6,998	6,998	-
Special regime:	1,147	1,113	3.1
Wind	967	968	(0.1)
Mini-Hydroelectric	108	69	56.5
Cogeneration and other	72	76	(5.3)
Electricity generated (GWh):	33,785	37,144	(9.0)
Ordinary regime:	30,744	34,425	(10.7)
Hydroelectric	4,434	1,665	166.3
Nuclear	4,287	4,434	(3.3)
Coal	5,430	7,724	(29.7)
Oil-gas	-	-	-
Combined cycles	16,593	20,602	(19.5)
Special regime:	3,041	2,719	11.8
Wind	2,209	1,999	10.5
Mini-hydroelectric	362	257	40.9
Cogeneration and other	470	463	1.5
Ordinary regime availability factor (%)	94.4	94.7	(0.3)
Capacity under construction	38.6	38.6	-
Electricity sales (GWh):	32,941	35,910	(8.3)
Liberalised market	25,948	28,216	(8.0)
Last-resort tariff/Regulated	6,993	7,694	(9.1)
Market share of ordinary regime generation	20.6%	20.7%	(0.5)
Market share of special regime generation	2.7%	2.7%	-
Share of commercialisation market	13.6%	14.4%	(5.6)

The change in ordinary regime installed capacity with respect to the previous year is due to a number of factors:

- A 7 MW increase as a result of new certification at several Hydroelectric plants.
- Definitive closure of Group 1 at the Aceca thermal (fuel) plant, with a gross capacity of 157 MW attributable to Gas Natural Fenosa.
- Increase of 17.3 MW in gross capacity at the Meirama plant, recognised in August 2013.

Gas Natural Fenosa's mainland power generation fell by 9.0% due to a 10.7% decrease in ordinary regime generation and a 11.8% rise in special regime generation.

In 2013, hydroelectric generation nearly tripled the figure for 2012, due basically to large contributions at the beginning of the year.

The beginning of 2013 was wet and rainfall continued throughout the first and second quarters before drying up in the last two quarters (particularly the third, which was extremely dry) and ending the year at an average of 47% PSS (probability that recorded producible electricity will be exceeded, based on historical average data). The level of energy reserves in Gas Natural Fenosa's basins stood at 38.2%, as compared with 31.6% at the previous year end. The beginning of 2014 is even wetter than 2013, reserves having rise to over 50% in the first ten days of January.

Accumulated annual nuclear output fell by 3.3% with respect to 2012, having been affected by changes to scheduled maintenance work and load reductions at Easter due to high special regime generation.

The application of the Royal Decree on Supply Guarantee in the final quarter of 2013 resulted in electricity generation using supply guarantee coal amounting to 758 GWh for Gas Natural Fenosa, for a total of 2,314 GWh in the whole of 2013. Generation using coal fell by 29.7% with respect to 2012.

Accumulated figures for combined-cycle electricity generation were 19.5% below the 2012 figure.

Gas Natural Fenosa's cumulative market share of ordinary regime generation stood at 20.6% at 31 December 2013, close to the 20.7% figure for year-end 2012.

Cumulative electricity sales totalled 33 TWh at 31 December 2013, including sales in the liberalised market and last-resort tariff (TUR) sales. The electricity commercialisation portfolio is in line with Gas Natural Fenosa's strategy of maximising margins, optimising market share and hedging against price variations in the electricity market.

At year-end 2013, cumulative CO_2 emissions totalled 11.5 million tonnes as compared with 14.9 million tonnes in 2012, affected by regulations governing greenhouse gas emissions trading.

Gas Natural Fenosa manages its CO_2 emission rights coverage portfolio in an integrated manner for the post Kyoto period (2013-2020), acquiring the necessary emission rights and credits through active participation in both the secondary market and in primary projects and carbon funds.

GNF Renovables

At 31 December 2013, Gas Natural Fenosa Renovables (GNF Renovables) has a consolidable total operational installed capacity of 1,147 MW, of which 967 MW relates to wind technology, 108 MW to mini-Hydroelectric and 72 MW to cogeneration. The increase in relation to the previous year relates mainly to the commissioning of 39 MW in mini-Hydroelectric plants in Galicia.

Output was 11.8% above the figure for 2012 (3,041 GWh vs. 2,719 GWh). This output increase is due basically to the 10.5% rise in wind output as a result of the improved wind conditions compared with the previous year. As regards mini-Hydroelectric technology, high precipitation in 2013 allowed a 40.9% rise in output. Cogeneration remained steady, having risen by 1.5%. Ebitda amounted to Euros 152 million, 1.9% down on the previous year.

With respect to the results obtained in the same period of 2012, it should be noted that a number of regulations have come into force (Law 15/2012, RDL 2/2013 and RDL 9/2013), affecting economic results forecast by companies using special regime technologies.

Finally, construction work on the Peares II and Belesar II mini-Hydroelectric projects in Galicia was completed, commercial operations having commenced at the end of 2013.

2.5.9 Electricity rest (Kenya)

This includes electricity generation in Kenya.

The prevailing very dry weather in Kenya throughout most of 2013 increased the load factor of the thermal power plants, resulting in a sizeable increase in electricity output.

Results

	2013	2012	%
Net sales	102	128	(20.3)
Procurements	(76)	(100)	(24.0)
Personnel cost	(2)	(2)	-
Other expenses/income	(12)	(11)	9.1
Ebitda	**12**	**15**	**(20.1)**
Depreciation, amortisation and impairment expenses	(5)	(5)	-
Change in operating provisions	-	-	-
Operating income	**7**	**10**	**(30.0)**

Ebitda totalled Euros 12 million in 2013. The decrease is due to a reduction in output (13.8%) and to foreign exchange fluctuations. High availability (indicator determining capacity Net sales), at 86.1%, and the reduction in the price of fuel in international markets, offset the decline in ebitda.

Main aggregates

The main aggregates are as follows:

	2013	2012	%
Installed capacity (MW):	112	112	-
Electricity generated (GWh):	557	646	(13.8)
Availability factor (%)	86.0	87.9	(2.2)

In 2013, fuel-oil electricity output in Kenya fell by 13.8% on the previous year to 557 GWh. This decrease is attributable to a reduction in demand for thermal power in Kenya as a result of the higher precipitation during most of the year and, consequently, the rise in water levels in hydroelectric reservoirs.

Latin America

2.5.10 Gas distribution

This relates to gas distribution in Argentina, Brazil, Colombia and Mexico.

	2013	2012	%
Net sales	3,260	2,982	9.3
Procurements	(2,235)	(1,993)	12.1
Personnel cost	(96)	(98)	(2.0)
Other expenses/income	(243)	(251)	(3.2)
Ebitda	**686**	**640**	**7.2**
Depreciation, amortisation and impairment expenses	(109)	(116)	(6.0)
Change in operating provisions	(20)	(15)	33.3
Operating income	**557**	**509**	**9.4**

Net sales totalled Euros 3,260 million, having risen by 9.3%, the volume of sales being 9.3% higher than the previous year.

Ebitda amounted to Euros 686 million, representing a rise of 7.2% on 2012, despite the negative impact on exchange rates of the devaluation of local currencies in Brazil (-11.9%), Argentina (-19.6%), Colombia (-7.3%) and Mexico (-0.4%).

Brazil's contribution accounted for 50.9% of ebitda, the volume of sales having risen by 31.4% on the previous year, and for 21.6% of the energy margin due to the combined effect of higher generation sales and the update of the General Market Price Index.

Colombia contributed 27.7% of ebitda, the most noteworthy aspects being the increase in sales volumes in the industrial and vehicular natural gas markets, and the higher margins.

Ebitda in Mexico represents 17.5% of the total business, the energy margin having grown by 6.1% on the previous year due to improved margins in the household/commercial, vehicular natural gas and third party network access (TPA) markets.

Main aggregates

Set out below are the physical Main aggregates for the gas distribution business in Latin America:

	2013	2012	%
Gas sales (GWh):	229,833	210,358	9.3
Tariff gas sales	148,283	131,407	12.8
TPA	81,550	78,951	3.3
Distribution network (Km)	69,054	67,334	2.6
Change in connections points (thousand)	231	208	11.1
Connections points (thousand) (at 31/12)	6,321	6,090	3.8

The key physical aggregates by country in 2013 are as follows:

	Argentina	Brazil	Colombia	Mexico	Total
Gas activity sales (GWh):	73,164	88,961	18,736	48,972	229,833
Change vs. 2012 (%)	(4.8)	31.4	6.1	1.7	9.3
Distribution network	24,033	6,476	20,293	18,252	69,054
Change vs. 31/12/2012 (km)	427	186	433	674	1,720
Connections points (thousand) (at	1,556	899	2,518	1,348	6,321
Change vs. 31/12/2012 (thousand)	34	29	115	53	231

In 2013, gas distribution connections points reached 6,321,000 customers. High growth levels were maintained, new connections points totalling 231,000, relating mainly to Colombia with an increase of 115,000.

Gas activity sales in Latin America, including gas sales and third party access (TPA) services, totalled 229,833 GWh, 9.3% up on sales recorded in 2012.

The gas distribution network grew by 1,720 km in the last twelve months to reach 69,054 km at the end of December 2013, representing an increase of 2.6%. The expansion of the Mexican network (+674 km) made a considerable contribution to this growth.

The most relevant aspects of these business activities during the year are explained below:

- In Argentina, the energy margin rose 45.7% on the previous year due to the income from FOCEGAS (fund for construction work and costs related to infrastructure expansion and maintenance) granted in December 2012. Cost containment measures continued in a complex economic and financial context with inflation at close to 25%.

- Business performance in Brazil was highly satisfactory, with an increase of new home/commercial connections of 9.6% and of 31.4% of gas and third party access sales particularly in the generation market. Gas thermal plants increased their output by 162% in 2013 compared with the previous year due to low precipitation and low reservoir levels. In December 2013, water levels stood at 43.2%, 10.4 p.p. below the historical average (53.6% average over eight years) in the south east-centre west region, where 70% of the country's reservoirs are located. On 19 December 2013, the Río de Janeiro State Regulator (AGENERSA) approved the request submitted to companies to apply the result of the tariff review, duly updated, as from 1 January 2014; on 20 December 2013, AGENERSA Deliberations Numbers 1,880 and 1,881 were published, approving the tariff review. The tariff framework envisages a recognised WACC reduction of 0.5% that will be offset by an increase in operating efficiency.

- In Colombia, gas and TPA sales rose 6.1% on the previous year due mainly to growth in industrial consumption (+12.4%) and in the customer base. The net 4.1% increase in home/commercial customers, now close to 115,000, is expected to be maintained in coming years, despite the high level of market saturation. In non-regulated businesses, appliance sales rose 28.8% on the previous year, particularly heaters (+32.0%) and water heaters (+13.4%).

- In Mexico, activities continued under the growth acceleration plan, centred mainly on the Distrito Federal and Los Bajíos zones in order to maintain sustained growth. Customers grew by a net 38.7%; there were more new connections than in the previous year due mainly to the increased saturation of the Los Bajíos zone. Gas and third-party access sales rose 1.7% due to growth in the household/commercial customer base, partly offset by the decline in industry sales as a result of the economic slowdown in the final months of the year.

2.5.11 Electricity distribution Latin America

This relates to regulated electricity distribution in Colombia, Nicaragua (to the divestment date, 11 February 2013) and Panama.

Results

	2013	**2012**	**%**
Net sales	2,121	2,513	(15.6)
Procurements	(1,559)	(1,891)	(17.6)
Personnel cost	(57)	(66)	(13.6)
Other expenses/income	(165)	(190)	(13.2)
Ebitda	**340**	**366**	**(7.1)**
Depreciation, amortisation and impairment expenses	(65)	(70)	(7.1)
Change in operating provisions	(93)	(116)	(19.8)
Operating income	**182**	**180**	**1.1**

Ebitda for electricity distribution in Latin America totalled Euros 340 million, 7.1% down on the previous year.

Excluding the effect of foreign exchange rates and the divestment in Nicaragua, ebitda would have risen by 5.8%.

The distribution business in Colombia contributed Euros 241 million to ebitda, representing an increase of 5.1%, excluding the effect of exchange rates. This increase was offset by certain external factors such as the application of lower tariff update rates. Excluding these effects, ebitda rose by 11%.

Additionally, 2013 ebitda includes the results of the Nicaragua business (Euros 3 million) for January and the amount relating to the Panamanian distributors (Euros 96 million).

Main aggregates

	2013	**2012**	**%**
Electricity sales (GWh):	16,443	18,074	(9.0)
Tariff electricity sales	15,406	17,087	(9.8)
TPA	1,037	987	5.1
Connections points (thousand) (at 31/12)	2,925	3,701	(21.0)

Electricity sales totalled 16,443 GWh, having fallen by 9.0% because previous-year figures include Nicaraguan distributor sales of 2,752 GWh (12 months) as compared with 239 GWh in 2013 (one month). Excluding Nicaraguan operations in both periods, sales grew by 5.8% due to the increased demand in Colombia and Panama.

The number of customers fell by 21.0% due to the deconsolidation of customers of the Nicaraguan business. Setting aside the effect of this decrease, customers increased by 4%.

The key physical aggregates by country in 2013 are as follows:

	Colombia	**Nicaragua**	**Panama**	**Total**
Electricity activity sales	11,929	239	4,275	16,443
Change vs. 2012 (%)	6.2	-	4.6	5.8
Connections points (thousand)	2,396	-	529	2,925
Change vs. 31/12/2012 (thousand)	84	-	20	104
Network loss ratio (%)	16.9	-	10.0	16.1

The evolution of the basic operating indicators reflects successful business management and the performance of the loss and default reduction plans as expected.

Loss indicators for Panama and Colombia remained below 2012 levels.

2.5.12 Electricity Latin America

This business groups together generation assets in Mexico, Puerto Rico, Panama and the Dominican Republic.

The assets currently in use in Mexico are the 270 MW Hermosillo plant and the 300 MW Naco Nogales plant in Sonora state, the 1,000 MW Tuxpan III and IV plant in Veracruz state, and the 450 MW Norte Durango plant in Durango state, also in the north west of Mexico.

Results

	2013	2012	%
Net sales	961	859	11.9
Procurements	(612)	(515)	18.8
Personnel cost	(16)	(15)	6.7
Other expenses/income	(58)	(68)	(14.7)
Ebitda	**275**	**261**	**5.4**
Depreciation, amortisation and impairment expenses	(113)	(111)	1.8
Change in operating provisions	-	-	-
Operating income	**162**	**150**	**8.0**

Ebitda amounted to Euros 275 million, having risen 5.4% on the previous year.

In Mexico, ebitda increased by 2.5% due basically to the effect on previous-year results of the incident at the Tuxpan plant in October 2011, which affected operations to March 2012. Contributions were also made by an increase in surplus capacity sales at the Naco Nogales plant and the containment of operating expenditure.

Ebitda in Puerto Rico rose 10.2% due to the rise in spot market prices and the reduction in fuel costs as a result of the reduction in the acquisition price of spot tankers.

Ebitda in the Dominican Republic rose by 9.3% due to an increase in the energy sales contract margin, offsetting the reduction in spot market earnings.

Ebitda in Panama fell by 23.1% as a result of the reduction in generation due to scarce precipitation and to the increase in market purchase costs or to generation using thermal units to cover contracted capacity commitments.

Main aggregates

The main aggregates are as follows:

	2013	2012	%
Installed capacity (MW):	2,580	2,580	-
Mexico	2,035	2,035	-
Puerto Rico (CC)	263	263	-
Costa Rica (Hydroelectric)	51	51	-
Panama (Hydroelectric)	22	22	-
Panama (Oil)	11	11	-
Dominican Republic (Oil)	198	198	-
Capacity under construction	284	50	468.0
Electricity generated (GWh):	19,414	18,458	5.2
Mexico	16,193	15,172	6.7
Puerto Rico (CC)	1,787	1,779	0.4
Costa Rica (Hydroelectric)	239	270	(11.5)
Panama (Hydroelectric)	81	100	(19.0)
Panama (Oil)	17	8	-
Dominican Republic (Oil)	1,097	1,129	(2.8)
Availability factor (%)	94.8%	92.3%	2.7
Mexico	95.7%	92.1%	3.9
Puerto Rico (CC)	91.2%	95.1%	(4.1)
Panama (Hydroelectric and Oil)	92.5%	95.0%	(2.6)
Dominican Republic (Oil)	90.3%	89.5%	0.9

Output increased in Mexico due to the increase in operations at the Tuxpan plant following the above-mentioned incident that affected the plant's availability to March 2012. Output in Mexico also rose due to the increase at the Naco Nogales plant compared with the previous year as a result of the sale of capacity surpluses and because in 2012 this plant was affected by water supply issues.

Output in Puerto Rico rose by 0.4% due to an increase in dispatch, offsetting first-quarter results affected by the longer duration of schedule maintenance work causing a reduction in availability.

Hydroelectric generation in Panama fell by 19.0% on the previous year due to scarce precipitation and unfavourable weather conditions in the first half of 2013, slightly offset by an increase in thermal plant output.

Output in the Dominican Republic decreased by 2.8% because lower demand and the opening of new plants affected final quarter generation.

3. Sustainability

Environment

Main aggregates

	2013	2012	% change
Emission-free installed capacity (%)	19.9	19.4	2.6
Emission-free net production (%)	13.6	7.8	74.4
GHG emissions[1] (t CO2 eq.)	20.8	24.3	(14.4)
GHG emissions/electricity generation (t CO2 eq./GWh)	399	454	(12.1)
Methane emissions in gas distribution (t CO2 eq./km network)	9.9	11.53	(14.1)
CO2 emissions avoided (Mt CO2 eq.)	15.0	15.8	(5.1)
Environmentally certified activities (% of ebitda environmentally certified) [2]	99.4	99.4	-

[1] Greenhouse gases. Scope 1 Direct emissions as per *The Greenhouse Gas Protocol. A Corporate accounting and reporting standard*.

[2] Environmentally certified ebitda as a % of the Group's total ebitda is approximately 80%.

Gas Natural Fenosa strives to meet its customers' energy needs in a responsible manner. This entails a secure operation that guarantees fulfilment of regulations and the minimum possible impact on the environment while ensuring that stakeholder relations are based on trust.

As regards Climate Change, Gas Natural Fenosa has continued to make progress in mechanisms to reduce and analyse our footprint. In 2013, in order to identify and minimise the Group's indirect emissions, the first evaluation of the main suppliers' carbon management was performed. Activities also intensified to enhance the advantages of our products in terms of CO_2. With respect to recognition of our carbon management, for the second consecutive year Gas Natural Fenosa led the worldwide ranked list of utilities companies in the CDP Global 500 Climate Change Report 2013. In terms of emission values, direct CO_2 emissions have declined significantly as a result of the decreasing use of Spanish coal and combined cycle plants in favour of technologies that generate fewer emissions, as a result of a lower demand and growth in Hydroelectric generation; the reduction in emissions derives from the updating of estimation methodology to better reflect network reality.

NO_x and SO_2 emission rates also decreased due to reductions in the use of large combustion plants. Other environmental indicators less closely related to these technologies have not changed significantly.

Note 36 to the annual accounts contains other relevant information on the main environmental and sustainability activities, emissions and environmental investments.

Personnel

Main aggregates

Social nature indicators	2013	2012	% change
Number of employees at 31/12	14,982	15,959	(6.1)
Voluntary turnover rate (%)	2.3	2.1	9.5
Integration rate (disabled persons)[1]	2.1	1.6	31.3
Employee training hours	55.7	52.7	5.7
Absenteeism	1.70	2.14	(20.6)
Days' work lost	4,184	3,547	18.0
Number of accidents causing sick leave	152	157	(3.2)

[1] Spain

Human and social development

Gas Natural Fenosa provides stable and quality employment (95% of posts are indefinite) and a solid, structured and appealing professional career.

Gas Natural Fenosa has a unique global model for external selection and internal mobility in all the geographies in which it operates, thereby guaranteeing a unique employer image and best practices in identifying, attracting and retaining the professional talent necessary to carry on our businesses.

In 2013, 725 vacancies were filled successfully throughout the Company, 239 in Spain and the rest internationally. Of the total new hirings, 263 were women.

Ethical conduct, personal respect, prevention and safety in the workplace, promotion and observance of equality, combined with an appealing, stimulating professional career, are an essential part of Gas Natural Fenosa's commitment to its employees.

These principles are assumed in Gas Natural Fenosa's daily activities, as clearly expressed in the Code of Ethics and in relevant texts such as the Collective Bargaining Agreement, the Equality Plan in Spain and the recently approved Protocol for the Prevention of Workplace, Sexual and Gender-based Harassment.

The globalisation of principles has allowed Gas Natural Fenosa to become the first company in the world to obtain global “Family Responsible Company” (FRC) certification in recognition of the implementation of consistent human resources policies in the 25 countries in which it operates.

In the diversity area, the success of the campaign “We focus on Ability” and the project “Capácitas” led to the hiring in 2013 of 11 disabled persons, thereby exceeding the minimum integration thresholds stipulated by law, without neglecting complementary policies for cooperation with Special Employment Centres and Foundations engaged in the social integration of disabled persons. This has all contributed towards the award of the Bequal seal, recognising Gas Natural Fenosa as one of seven Spanish companies showing Excellence in Diversity.

Gas Natural Fenosa's “Health and Safety Commitment” Plan seeks to bring about a qualitative change in the prevention culture and in safety statistics. In 2013, a powerful internal communication campaign was launched in all the countries in which the Company operates to increase sensitivity and awareness, extend best practices in health and safety, and disseminate the Basic Health and Safety Principles of our Corporate Responsibility Policy.

Training and talent management

Knowledge management, people development and talent attraction and identification form part of the same integrated process to ensure maximum alignment of training activities and business objectives.

Corporate University training hours totalled 55.7 per employee, a large part of which were online through the Corporate University Platform accessible to Company employees in Argentina, Brazil, Colombia, France, Italy, Morocco, Mexico, Moldavia, Nicaragua, Panama and the Dominican Republic.

In 2013 the Corporate University renewed its CLIP (Corporate Learning Improvement Process) accreditation, a certificate awarded by the European Foundation for Management Development recognising the quality of learning and people development processes in business education organisations.

Additionally, for the seventh consecutive time, Gas Natural Fenosa's interest in its people was recognised when it obtained the maximum score (100%) in the Human Capital Development section of the Dow Jones Sustainability Index World (DJSI).

Gas Natural Fenosa's commitment to employees' individual development and professional careers is reflected in our Talent Management Model, which helps to define professional learning in a controlled and consistent manner so as to ensure that corporate needs are also fulfilled. The first pillar is a unique Leadership Model for all our employees, comprising 24 competencies. In 2013, the Leadership Model, in which 180 directors were involved in 2012, was completed for assistant directors and department heads, reaching a total of 1,100 people.

Remuneration

Gas Natural Fenosa's remuneration policy is governed by internal equality and by market competitiveness. The governing criteria are as follows:

- For employees included covered by a collective bargaining agreement, remuneration levels are determined based on professional groups and subgroups, as stipulated in collective bargaining agreements in force.
- Remuneration for executives and employees not covered by such agreements is defined individually, applying the remuneration policy approved by the Board's Appointments and Remuneration Committee.

Variable remuneration under Gas Natural Fenosa's remuneration policy is designed to promote employee commitment and motivate performance, in line with the long-term interests of the Company and its shareholders.

Annual variable remuneration rewards the achievement of individual targets depending on the post occupied, related to economic-financial, efficiency and growth variables, as well as on quality and security issues, directly related to the fulfilment of the objectives proposed in the Management Objective Plan.

The remuneration package is line with market trends and is supplemented by a company pension system. The Company's pension system includes the Pension Plan, the main financing vehicle for post-employment commitments.

Moreover, Gas Natural Fenosa provides a number of fringe benefits supplementing the employee remuneration package, such as the Flexible Remuneration System, which is now a permanent fixture in the Company following its launch in 2012 for executives and specialists excluded from Collective Bargaining Agreements in Spain. This system allows beneficiaries to voluntarily design the composition of their remuneration package, assigning a part of their cash remuneration to contract certain products qualifying for advantageous tax and economic treatment, pursuant to legislation in force at a given time.

During the 2013 Flexible Remuneration campaign, requests received were 10% up on 2012. This percentage reflects the success of this remuneration system.

Personnel structure

Note 24 to the Consolidated Annual Accounts provides a breakdown of personnel by category, gender and geographic area at 31 December.

4. Main risks and uncertainties

<u>Operating risks</u>

4.1.1. Regulatory risk

Gas Natural Fenosa and its subsidiaries are obligated to comply with the legislation in the natural gas and electricity sectors. Especially, the gas and electricity distribution business is regulated in most of the countries in which Gas Natural Fenosa carries out it.

The applicable legislation to the natural gas and electricity sectors in the countries in which Gas Natural Fenosa operates is typically subject to periodical revision by the competent authorities. The introduction of modifications could impact the remuneration of the regulated activities, adversely affecting Gas Natural Fenosa's business, profits, grants and financial situation.

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

Regulatory risk management is founded on smooth communication between Gas Natural Fenosa and regulators. Additionally, in the course of its regulated activities, Gas Natural Fenosa ensures that its costs and investments are aligned with the rates of return recognised for each business.

4.1.2. Gas and electricity volume risk

Most purchases of natural gas and liquefied natural gas (LNG) are made under long-term contracts containing clauses whereby Gas Natural Fenosa is obligated to purchase certain annual volumes of gas (known as take-or-pay clauses). Under such contracts, even if Gas Natural Fenosa does not need to acquire the committed volume of gas at a given time, it is contractually obligated to pay for the minimum volume committed in the take-or-pay clauses.

The contracts stipulates gas volumes in line with Gas Natural Fenosa's estimated needs. However, actual needs may be below the volumes estimated when the contracts are concluded. In the event of significant departures from the estimates, Gas Natural Fenosa will be obligated to purchase a large volume of gas than is actually needed or, failing this, to pay for the minimum volume of gas committed, irrespective of whether or not it acquires the volume that exceeds its needs; this could have a significant adverse effect on Gas Natural Fenosa's operating costs.

In the electricity business, Gas Natural Fenosa's results are exposed to the contracting of electricity generation volumes, which is conditional on the evolution of demand for electricity. Additionally, in view of the major role played by combined-cycle technology in Gas Natural Fenosa's generation plants, volumes generated could be reduced by the increasing relative significance of generation using renewable energies.

A decrease in volumes generated would increase uncertainty as regards the achievement of generation/retailing objectives.

Gas Natural Fenosa's management of contracts and assets is in a globally integrated manner to optimise energy balance sheets, allowing the correction of any departures in the most profitable manner possible.

4.1.3. Operational risk

a) Insurable risks

Gas Natural Fenosa's activities are exposed to a variety of operational risks such as breakdowns in the distribution network, in electricity generation facilities and in gas tankers, explosions, polluting emissions, toxic spills, fire, adverse meteorological conditions, contractual breaches, sabotage or accidents affecting the gas distribution network or electricity generation assets, and other damage and force majeure circumstances that could cause bodily injuries and/or material damage, affecting or destroying Gas Natural Fenosa's facilities or property. Events such as these, or similar events, are unforeseeable and may interrupt the supply of gas and generation of electricity. In such situations, although coverage is provided by risk insurance policies, such as policies covering potential loss of profit and material damage, Gas Natural Fenosa's financial situation and results could be affected to the extent that any losses caused are not insured, coverage is insufficient, or economic losses are generated due to coverage limits or an increase in the excess, as well as potential increases in premiums paid in the insurance market.

Gas Natural Fenosa could also be subject to civil liability claims for personal and/or other damages caused during the ordinary course of its business. The filling of these claims could lead to the payment of indemnities under applicable legislation in the countries in which Gas Natural Fenosa operates, which could have a material adverse effect on the business, outlook, financial situation and results if the third-party liability insurance policies contracted do not cover the amount of the indemnities.

Gas Natural Fenosa prepares continuous improvement plans to reduce the frequency and severity of potential incidents. Specific asset supervision units have been created to intensify preventive and predictive maintenance, among other measures. Additionally, our approach to insurance coverage is based on optimising the Total Cost of Risks.

b) Image and reputation

Gas Natural Fenosa is exposed to opinions and perceptions of a variety of stakeholders. Such perceptions may be adversely impacted by events caused by the Company or by third parties over which the Company has little or no control, impacting our own reputation or the reputation of the industry as a whole. Should this impacts arise, they could cause medium-term financial damage as a result of an increase in demands from regulators, financing costs or commercial efforts to win customers.

Gas Natural Fenosa is engaged actively in identifying and monitoring potential reputational events and the stakeholders affected. Transparency also forms part of our communication policy.

c) Environment

Gas Natural Fenosa's activities are subject to compliance with extensive legislation on environmental protection.

Gas Natural Fenosa and its subsidiaries are subject to strict compliance with extensive legislation on environmental protection that requires, amongst other points, the preparation of environmental impact evaluation studies, obtaining the pertinent authorisations, licenses and permits, as well as compliance with certain requirements, including, amongst others, the fact that:

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

In order to mitigate this risk, Gas Natural Fenosa has adopted an integrated environmental management system and has emergency plans for facilities where accidents could cause environmental impacts. Specific insurance policies have also been taken out to cover this type of risks.

d) Climate change

Demand for electricity and natural gas is related to climate change. A significant part of gas consumption during the winter months depends on electricity generation and its use in heating systems, while summer consumption depends basically on electricity generation for use in air-conditioning systems. Gas Natural Fenosa's Net sales and results from natural gas distribution and retailing activities could be adversely affected in the event that the autumn months become warmer or winters become milder. Demand for electricity could also fall if summers become milder, due to a decline in demand for air-conditioning. Additionally, hydroelectric generation plant occupancy depends on rainfall levels in the plant locations and could be affected by droughts.

European policies and measures to combat climate change could affect Gas Natural Fenosa's results in the event that the Company's generation mix competitiveness is altered.

Gas Natural Fenosa forms part of a number of work groups at the European level, allowing early adaptation of strategies to new regulations. Gas Natural Fenosa also forms part of clean development projects designed to reduce CO_2 emissions.

e) Geopolitical exposure

Gas Natural Fenosa has interests in countries with diverse political, economic and social environments; in this regard, two main areas are particularly relevant:

- Latin America

  A major portion of Gas Natural Fenosa's operating profits are generated by its Latin American subsidiaries. Latin American operations are exposed to a number of risks inherent in investment in this region. Amongst the risk factors linked to the investment and business are:

  - Major influence on the economy by local governments;
  - Significant fluctuation in the economic growth rate;
  - High inflation rates;
  - Devaluation, depreciation or overvaluation of local currencies;
  - Controls or restrictions on the repatriation of profits;
  - Changing environment for interest rates;
  - Changes in financial, economic and tax policies;
  - Unexpected changes in regulatory frameworks;
  - Social tensions and
  - Political and macro-economic instability.

- The Near East and Maghreb

  Gas Natural Fenosa has both its own assets and important gas supply contracts with different countries in the Maghreb and Near East, particularly Egypt. Political instability in the region could result in property damages to the assets of the companies in which Gas Natural Fenosa holds an interest as well as the obstruction of the operation of those companies and others which could interrupt the group’s gas supplies.

Gas Natural Fenosa has a diversified portfolio both in the countries in which it carries on energy distribution activities (Latin America, Europe) and the countries from which gas is supplied (Latin America, Africa, Near East, Europe). Diversification minimises the risk of expropriation and supply interruption due to the knock-on effect of political instability in neighbouring countries. Specific insurance policies have also been taken out for these risks.

4.2. Financial risks

Financial risks (interest rate, exchange rate, commodities prices, credit risk, liquidity risk) are explained in Note 16 to the Consolidated Annual Accounts.

4.3. Main opportunities

Gas Natural Fenosa's main opportunities are as follows:

- Generation mix: Gas Natural Fenosa's generation plants, consisting mainly of combined-cycle facilities, has the necessary flexibility to adapt to different market circumstances; it is thus a valuable asset to leverage opportunities related to price and demand volume volatility in the gas and electricity markets.
- CO_2 market evolution: The mechanisms proposed by the European Commission to increase the cost of emission rights are intended to discourage the use of the more polluting technologies so as to counteract Climate Change. In this context, Gas Natural Fenosa's plants would be more competitive than coal plants and opportunities could also arise in the emissions market.
- NG/LNG supply portfolio: Management of gas pipelines, investment in plants and the fleet of methane tankers allows the Group to meet its business needs in a flexible, diversified manner, optimising our approach to each energy scenarios. Specifically, our gas tankers fleet makes Gas Natural Fenosa on of the world's leading LNG operators and a benchmark in the Atlantic and Mediterranean basin.
- Expected growth in energy demand as from 2015 and new business opportunities in emerging markets.

5. Group's foreseeable evolution

5.1. Strategic priorities

In order to achieve our objectives, Gas Natural Fenosa defines medium-term strategies that are updated periodically to adapt to current and future circumstances, taking into consideration the peculiarities of each of the Company's business lines.

In November 2013, Gas Natural Fenosa presented its updated Strategic Plan 2013-2017, establishing the Group's strategic priorities for the period 2013-2015 and the foundations for growth post 2015. The strategic priorities are:

- Implementation of the Efficiency Plan.
- Management of each business line on the basis of market conditions.
- Management of the business portfolio in accordance with its strategic role.

a) Implementation of the Efficiency Plan

The main objective of the "Efficiency Plan" is to enhance efficiency across all areas of operational and asset management. This will allow a saving of Euros 300 million in 2015 through the implementation of 90 projects in the operation and maintenance, commercialisation and corporate areas.

b) Management of each business line on the basis of market conditions.

Bearing in mind the market scenario, Gas Natural Fenosa has analysed priorities for each business line, updating ebitda growth targets and the Company's investment policy to 2015.

The following key actions have been planned for each business line:

Gas distribution Europe:

- Capture potential organic growth.
- Continue to manage regulatory aspects.

Electricity distribution Europe:

- Reduce regulatory impacts through the efficiency plan.
- Manage the investment plan in line with profitability.

Gas:

- Increase international business market share.
- Leverage the LNG platform to capture growth opportunities.
- Continue to capture opportunities in dual fuel, energy services and energy efficiency.
- Manage retail process efficiency.

Electricity:

- Reduce regulatory impacts through the efficiency plan.
- Manage coverage of electricity generation and commercialisation.

Latin America:

- Exploit potential organic growth.
- Manage upcoming regulatory changes.
- Develop new opportunities in gas distribution and generation.
- Develop services and energy efficiency.

c) Management of the business portfolio in accordance with its strategic role.

In recent years, Gas Natural Fenosa has made considerable divestment efforts. More than Euros 5,000 million have been divested in the past five years, since the acquisition of Unión Fenosa. The current leverage situation provides comfort for Gas Natural Fenosa and no divestment will be necessary for financial reasons. However, the analysis of the strategic role of the Company's portfolio to 2015 will continue.

5.2. Financial priorities

The Strategic Plan establishes a financial policy that is compatible with growth and dividend objectives:

- Strategic lines defined in the context of financial discipline.
- Flexibility to increase investments for future growth if necessary.
- Cash dividend commitment.

Gas Natural Fenosa defines new objectives for 2015 (data in million euro):

	2015 objectives under IFRS 11 [1]	**2015 objectives excluding IFRS 11 [1]**
Ebitda 2015	**> 5,000**	> 5,200
Net income	**~ 1,500**	~ 1,500
Dividend (Pay-out)	**~ 62%**	~ 62%
Investments 2013-2015	**~5,100**	~5,200
Net debt	**~ 12,500**	~ 13,000
Net debt/ebitda 2015	**~ 2.5x**	~ 2.5x

[1] As from 1 January 2014, IFRS 11 will be mandatory. Joint ventures must be equity consolidated (Note 3.2 to the Consolidated Annual Accounts).

5.3. Group's outlook

As from 2015, Gas Natural Fenosa expects to enter new markets, centering our investment and growth strategy focus on the following businesses in the international arena:

- Gas supply, transport and storage.
- Electricity generation.
- Gas distribution.

Gas Natural Fenosa has several projects in progress, aligned with this strategy, that will pick up speed as from 2015, which will bring additional and flexible volume growth.

The main medium-term projects are as follows:

- Contract with Cheniere, which will provide additional, flexible gas volume growth as from 2016.
- Additional LNG volumes for 2019 with Shah Deniz II (Azerbaijan) and Yamal (Russia).
- "Bií Hioxo Project" (Mexico) for wind generation, which will boost the Company's position in the generation market as from 2014.
- “Torito Project” (Costa Rica) for hydroelectric generation, which will consolidate the Company's position as the leading private generator in Costa Rica as from 2016.
- Tender process in 2013 for natural gas distribution in four towns in the south west of Peru, as a result of which gas will be sold and distributed to over 60,000 homes.

Gas Natural Fenosa has targeted ebitda of approximately Euros 5,700 million in 2017 and a net profit of around Euros 1,900 million, entailing annual growth of 7% and 13%, respectively, for the period 2015-2017 and an additional investment capacity of Euros 7,000 million in 2017 to maintain the net debt/ebitda ratio at 3.0x.

Gas Natural Fenosa also expects to invest Euros 9,200 million during the period 2013-2017, entailing an average investment of approximately Euros 2,000 million in 2016 and 2017. As a result of the increased pace of growth envisaged post-2015, Gas Natural Fenosa expects debt to stand at around Euros 10,600 million, representing a net debt/ebitda ratio of approximately 1.8x.

Finally, pay-out is expected to remain at around 62% in 2017, in line with recent years.

In recent years, Gas Natural Fenosa has demonstrated the strength of its business model, which will allow it to fulfil the updated Strategic Plan 2013-2017.

Business expectations are clear and realistic for the period 2013-2015, with achievable financial objectives. Gas Natural Fenosa's profile will change as the gas business and Latin America grow in significance.

Gas Natural Fenosa will also focus on mitigating the regulatory impact of Spain's energy system through efficiency measures and an improved international positioning.

Finally, Gas Natural Fenosa will continue with an unequivocal financial discipline and shareholder remuneration plan, establishing the foundations for growth acceleration as from 2015.

6. R&D&i activities

Innovation is one of the drivers of Gas Natural Fenosa's development; considerable resources and efforts are therefore devoted to R&D&i activities, seeking to optimise resources, develop new technologies and keep abreast of technological advances in the sectors in which we operate.

Investment in technological innovation activities is analysed below:

	2013	2012	% change
Total investment (million euro)	12.5	11.3	10.6

Gas Natural Fenosa's main projects are described below:

In the field of sustainable mobility, Gas Natural Fenosa is working on projects to make natural gas and electricity a genuine alternative for short-, medium- and long-distance transportation. In this area, efforts continued, as in previous years, to develop advanced electric vehicle charging systems and standard service stations for vehicular natural gas: GARNET project, RIVE project and DOMOCELL project, among others.

In advanced electricity network solutions, work continued on new technology projects through the automation of electricity infrastructure operation and maintenance: I2L (intelligent line inspection) project, SEPS (expect network incident probability and severity system) project, OVI-RED (virtual micro-network operator) project, KSI Zigamit project, ME3Gas project and PRICE project.

In the search for advanced technologies for power plants and large facilities, the CAPWA project to develop new systems for collecting water generated by combustion at thermal plants continued. Additionally, the Company has participated in a number of pilot research projects in the field of marine wind energy, development of energy fuels from microalgae and processing of CO_2.

7. Annual Corporate Governance Report

Attached hereto as an Appendix to this Directors' Report, and forming an integral part of the same, is the Annual Corporate Governance Report for 2013, as required under article 526 of the Spanish Capital Companies Act.

8. Treasury shares

The General Meeting held on 20 April 2010 resolved to provide the Board of Directors with specific authorisation, including the power to delegate, to acquire fully-paid Company shares, for valuable consideration, within a period not exceeding five years, up to a maximum of 10% of share capital or the maximum figure permitted under regulations in force at the acquisition date; the total par value of treasury shares may not exceed 10% of issued share capital, or any other percentage that may be legally stipulated.

By virtue of such authorisation, in 2013, 3,447,535 treasury shares were acquired for Euros 52 million (1,325,160 treasury shares for Euros 15 million in 2012), of which 163,279 treasury shares, totalling Euros 3 million (275,490 shares totalling Euros 2 million in 2012) were handed over to the Group's employees as part of their 2013 remuneration under the Share Acquisition Plan 2012-2013-2014 (Note 3.3.14.d); the remainder were sold for Euros 50 million (Euros 13 million at 31 December 2012). At year-end 2013 and 2012 Gas Natural Fenosa held no treasury shares.

9. Events after the reporting date

Events after the reporting date are described in Note 37 to the Consolidated Annual Accounts.

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