





Alberto Sánchez.

Monumento a la paz.

1960-62.

137 x 65 x 40 cm.

Wood.

Museum of Contemporary

Art of Gas Natural Fenosa.



Gas Natural SDG, S.A. **2014** Annual Report

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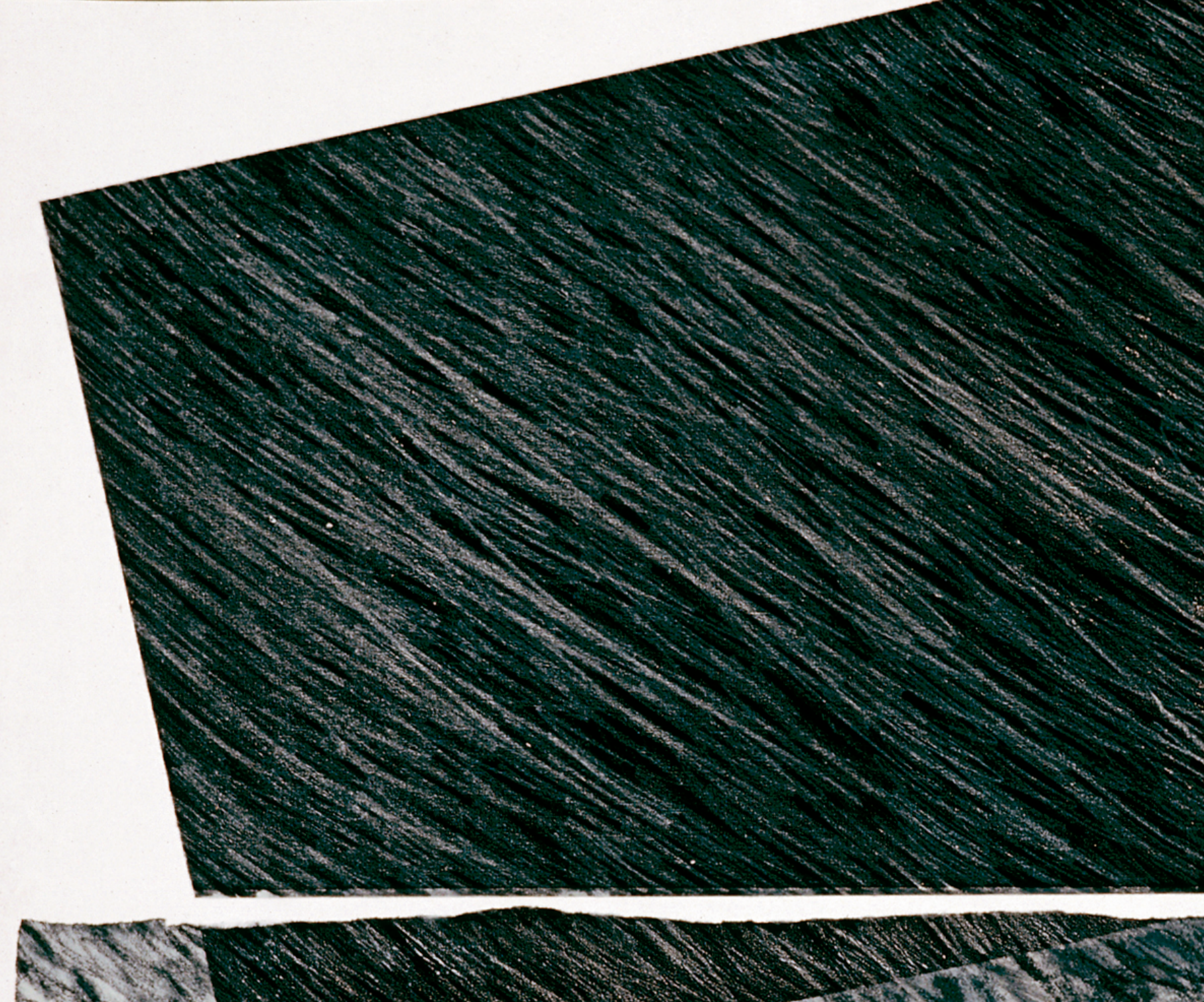
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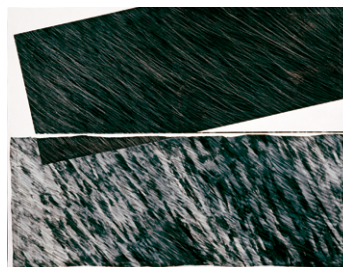


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Gas Natural SDG, S.A. **2014** Annual Report

Annual Accounts



Francisco Mantecón.

Sin título.

1988.

114 x 146 cm.

Mixed media on canvas.
Museum of Contemporary
Art of Gas Natural Fenosa.

Audit Report





Report on Other Legal and Regulatory Requirements

The accompanying directors' Report for 2014 contains the explanations which the directors consider appropriate regarding the company's situation, the development of its business and other matters and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the directors' Report is in agreement with that of the annual accounts for 2014. Our work as auditors is limited to checking the directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the company's accounting records.

PricewaterhouseCoopers Auditores, S.L.



Iñaki Goñiena Bañualdu

February 16, 2015

Balance Sheet of Gas Natural SDG, S.A.

(million euros)	31/12/14	31/12/13
Non-current assets	30,071	28,752
Intangible assets <i>(Note 7)</i>	1,062	4,158
Goodwill	1,062	3,574
Other intangible assets	–	584
Property, plant and equipment <i>(Note 8)</i>	1,049	6,898
Land and buildings	161	220
Plant and other PPE	883	6,523
PPE in course and prepayments	5	155
Long-term investments in Group companies and associates <i>(Note 9)</i>	27,779	16,919
Equity instruments	13,844	10,583
Loans to companies	13,935	6,336
Long-term investments <i>(Note 10)</i>	15	470
Equity instruments	7	7
Derivatives	–	2
Other financial assets	8	461
Deferred income tax assets <i>(Note 20)</i>	166	307
Current assets	4,761	6,130
Inventories <i>(Note 11)</i>	64	243
Raw materials and other supplies	64	243
Trade and other receivables <i>(Note 12)</i>	744	1,052
Trade receivables	38	49
Group companies and associates	466	585
Sundry receivables	75	185
Current income tax assets	164	143
Public Administrations	1	90
Short-term investments in Group companies and associates <i>(Note 9)</i>	1,082	1,274
Loans to companies	1,079	822
Other financial assets	3	452
Short-term investments <i>(Note 10)</i>	62	75
Derivatives	1	9
Other financial assets	61	66
Short-term prepayments and accrued expenses	3	27
Cash and cash equivalents <i>(Note 13)</i>	2,806	3,459
Cash in banks and at hand	2,039	1,200
Other cash equivalents	767	2,259
Total assets	34,832	34,882

Balance Sheet of Gas Natural SDG, S.A.

(million euros)	31/12/14	31/12/13
Net equity (Nota 14)	13,629	13,254
Shareholders' equity	13,640	13,259
Capital	1,001	1,001
Authorised capital	1,001	1,001
Share premium	3,808	3,808
Reserves	8,145	7,734
Legal and statutory	300	300
Other reserves	7,845	7,434
Profit for the year	1,083	1,109
Interim dividend	(397)	(393)
Adjustments for changes in value	(14)	(9)
Hedging operations	(14)	(9)
Grants, donations and bequests received	3	4
Non-current liabilities	16,752	16,412
Long-term provisions (Note 15)	617	803
Long-term post-employment obligations	289	304
Other provisions	328	499
Long-term borrowings (Note 16)	3,903	3,721
Borrowings from financial institutions	3,849	3,534
Finance lease payables	–	155
Derivatives	39	17
Other financial liabilities	15	15
Amounts owing to group companies and associates falling due in more than one year (Note 18)	11,894	10,222
Deferred income tax liabilities (Note 20)	337	1,664
Long term accruals	1	2
Current liabilities	4,451	5,216
Short-term provisions (Note 15)	–	52
Short-term borrowings (Note 16)	618	665
Borrowings from financial institutions	163	177
Finance lease payables	–	70
Derivatives	36	6
Other financial liabilities	419	412
Amounts owing to group companies and associates falling due in less than one year (Note 18)	2,716	3,429
Trade and other payables (Note 19)	1,117	1,070
Trade payables	279	686
Payables with group companies and associates	644	134
Sundry payables	67	23
Personnel (outstanding remuneration)	22	23
Current tax liabilities	42	–
Other amounts payable to Public Administrations	63	204
Total net equity and liabilities	34,832	34,882

Notes 1 to 35 form an integral part of these Annual accounts.

Income Statement of Gas Natural SDG, S.A.

(million euros)	2014	2013
Net turnover (Note 21)	5,123	7,458
Sales	3,656	5,560
Services	–	26
Income from equity instruments of Group companies and associates (Note 9)	1,120	1,685
Income from marketable securities and other financial instruments of Group companies and associates	347	187
Supplies (Note 22)	(3,366)	(4,327)
Consumption of goods	(3,334)	(3,223)
Raw materials and other consumables	(30)	(1,078)
Work carried out for other companies	(2)	(26)
Other operating income (Note 25)	405	340
Supplementary income and other operating income	404	340
Operating grants released to the income statement	1	–
Personnel costs (Note 23)	(212)	(286)
Wages, salaries and related expenses	(164)	(220)
Social Security	(35)	(48)
Provisions	(13)	(18)
Other operating expenses (Note 24)	(485)	(806)
External services	(378)	(441)
Local taxes	(78)	(287)
Impairment loss and variation in trade provisions	(4)	(2)
Other current operating expenses	(25)	(76)
Amortisation expense (Notes 7 and 8)	(87)	(491)
Impairment and results on disposal of financial instruments (Note 9)	(568)	(244)
Impairment and losses	(931)	(232)
Results on disposals and other	363	(12)
Operating profit	810	1,644
Financial income	46	109
Negotiable securities and other financial instruments	46	109
Financial expenses	(653)	(851)
Borrowings from group companies and associates	(509)	(609)
Borrowings from third parties	(144)	(242)
Variation in fair value of financial instruments	2	(3)
Investments	2	(3)
Net exchange gains / losses	2	(7)
Impairment and gains on disposals of financial instruments	–	(1)
Results of disposals and others	–	(1)
Net financial income (Nota 26)	(603)	(753)
Profit before tax	207	891
Income tax (Nota 20)	876	218
Profit for the year	1,083	1,109
Basic and diluted earnings per share in Euros	1.08	1.11

Statement of Changes in Net Equity of Gas Natural SDG, S.A.

A) statement of income and expense recognised

(million euros)	2014	2013
Profit for the year	1,083	1,109
Income and expense recognised directly in net equity	(10)	–
Cash flow hedges	(15)	1
Grants, donations and bequests received	–	–
Actuarial gains and losses and other adjustments	3	(1)
Tax effect	2	–
Releases to income statement	5	14
Cash flow hedges	9	20
Grants, donations and bequests received	(1)	–
Tax effect	(3)	(6)
Total income and expense recognised in net equity	1,078	1,123

B) Statement of Total Changes in Net Equity

(million euros)	Share capital	Share premium	Reserves	Profit or loss brought forward	Profit for the year	Interim dividend	Adjustments for changes in value	Grants, donations and bequests received	Total
Balance at 31/12/2012	1,001	3,808	6,480	74	1,140	(391)	(24)	4	12,092
Total recognised revenues and expenses	–	–	(1)	–	1,109	–	15	–	1,123
Operations with partners or owners									
Dividends distribution	–	–	–	(504)	–	(393)	–	–	(897)
Acquisition of free allocation rights	–	–	1	–	–	–	–	–	1
Other variations in net equity (Nota 9)	–	–	1,254	430	(1,140)	391	–	–	935
Balance at 31/12/2013	1,001	3,808	7,734	–	1,109	(393)	(9)	4	13,254
Total recognised revenues and expenses	–	–	1	–	1,083	–	(5)	(1)	1,078
Operations with partners or owners									
Dividends distribution	–	–	–	(504)	–	(397)	–	–	(901)
Trading in treasury shares	–	–	–	–	–	–	–	–	–
Other variations in net equity (Nota 9)	–	–	410	504	(1,109)	393	–	–	198
Balance at 31/12/2014	1,001	3,808	8,145	–	1,083	(397)	(14)	3	13,629

Statement of cash flows of Gas Natural SDG, S.A.

(million euros)	2014	2013
Profit/(loss) for the year before tax	207	891
Adjustments to results	(208)	(301)
Fixed asset depreciation (<i>Notes 7 and 8</i>)	87	491
Impairment adjustments	936	234
Change in provisions	38	58
Release of grants	(1)	–
Profit/(loss) on write-offs and disposals of financial instruments	(363)	13
Financial income	(1,513)	(1,981)
Financial expenses	653	851
Gains/(losses) on exchange	(2)	(7)
Change in fair value of financial instruments	(2)	3
Other income and expenses	(41)	37
Changes in working capital	428	22
Inventories	3	17
Debtors and other receivables	345	(196)
Other current assets	12	(3)
Creditors and other payables	68	212
Other current liabilities	–	(8)
Other cash flows from operating activities	1,398	1,329
Interest paid	(657)	(743)
Dividends received	1,571	1,698
Interest collected	379	287
Income tax collections/(payments)	105	87
Cash flows from operating activities	1,825	1,941

Statement of cash flows of Gas Natural SDG, S.A. (continued)

(million euros)	2014	2013
Amounts paid on investments	(9,633)	(1,585)
Group companies and associates	(9,566)	(544)
Intangible assets	–	(44)
Property, plant and equipment	(67)	(148)
Other financial assets	–	(849)
Amounts collected from divestments	1,661	2,368
Group companies and associates	1,660	1,184
Other financial assets	1	1,184
Cash flows from investing activities	(7,972)	783
Collections and payments financial liability instruments	6,391	(2,038)
Issued	11,794	6,287
Bank borrowings	1,007	1,717
Payables to Group companies and associates	10,787	4,566
Other payables	–	4
Repayment/redemption of	(5,403)	(8,325)
Debentures and other marketable securities	–	(14)
Bank borrowings	(758)	(4,547)
Payables to Group companies and associates	(4,632)	(3,672)
Other payables	(13)	(92)
Dividend payments	(897)	(895)
Cash flow from financing activities	5,494	(2,933)
Net increase/decrease in cash or cash equivalents	(653)	(209)
Cash and cash equivalents at the beginning of the year	3,459	3,668
Cash and cash equivalents at the year end	2,806	3,459

Notes to annual accounts of Gas Natural SDG, S.A. for the year ended 31 december 2014

Note 1. General information

Gas Natural SDG, S.A. (hereon, the Company) parent company of Gas Natural Fenosa group (hereon, Gas Natural Fenosa) was incorporated as a public limited company in 1843 and its registered office for corporate purposes is in Plaça del Gas, number 1, Barcelona.

The company's corporate purposes, as per its articles of association, comprise the following activities:

- a) All types of activities related to the gas and electricity business and any other type of existing energy source, the production and selling of electrical, electro-mechanical and electronic equipment and components, management of architectural projects, civil engineering works, public services and gas and hydro-carbon distribution in general; management of communications and telecommunications networks and maintenance of electro- and gas-related appliances; as well as consulting, business and energy planning services and the rationalisation of energy use, research, development and exploitation of new technologies, communications, computer and industrial security systems; training and selection of human resources and real estate management and development.
- b) The activity as a holding company, incorporating companies or holding shares as a stakeholder or shareholder in other companies no matter what their corporate purposes or nature, by subscribing, acquiring or holding shares, stakes or any other securities deriving from the same, subject to compliance with the legal requirements in each and every case.

The Company's most relevant ordinary activity is the holding of shares in subsidiaries through which the Company pursues its corporate objects.

The shares of Gas Natural SDG, S.A. are listed on the four Spanish stock exchanges, the continuous market and form part of the Ibex 35 stock index.

Note 2. Regulatory framework

2.1 Regulation of the natural gas industry in Spain

Main characteristics of the natural gas industry in Spain

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

The Ministry of Industry, Energy and Tourism (hereon, 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 of July 2, 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 non-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 gas supply companies.
- 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 non-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).

2.2. Regulation of the Electricity sector in Spain

Main characteristics of the electricity sector in Spain

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 Technical System Manager, 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 non-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-resource tariff consists of an energy price determined by the Administration plus the toll applicable to the

capacity contracted. Since 1 January 2014, this regulated tariff has been referred to as the Small Consumer Voluntary Price (PVPC), the last-resort tariff (TUR) having become the regulated price applicable to consumers classed as vulnerable and to consumers that do not meet requirements to apply the PVPC but are temporarily without a supply company in the free market.

- 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.

In order to eliminate the sector deficit, a number of regulations have been approved in recent years containing significant measures and adjustments to electricity sector activities, as summarised below:

- 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 €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 during year 2013.
- On 31 March 2012, Royal Decree-Law 13/2012 (30 March) was published, transposing into Spanish law Directives governing the internal electricity and gas markets and electronic communications, and providing measures to correct departures arising from mismatches between electricity and gas sector costs and revenues. The adjustments to reduce the electricity sector's tariff deficit entailed a €1,764 million cut in system costs due, among other items, to a 10% reduction in distribution activity remuneration, a 75% cut in distributors' commercial management costs, and a 10% reduction in capacity payments, in the production volume using domestic coal and in the availability service; additionally, certain residual balances relating to the National Energy Commission (CNE) and the Institute for Energy Diversification and Saving were recovered and channelled into the electricity system.
- On 14 July 2012, Royal Decree-Law 20/2012 (13 July) was published, containing measures to guarantee budget stability and to encourage business so as to ensure a balance in the electricity sector; it brought in new adjustments, mainly affecting transmission remuneration and generation in the insular and extra-peninsular systems.

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

- Replacement of the electricity sector costs update index 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); this replaces the reference to the CPI contained in electricity system regulations.

On 12 July 2013, the Minister Council 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 (giving rise to Electricity Sector Law 24/2013), the main measures being:

- 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 €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.

As regards funding of the social bond for disadvantaged consumers, on 22 March 2012 the Supreme Court issued a judgement declaring the mechanism whereby the social bond is funded by generation companies, stipulated in Royal Decree-Law 6/2009, to be inapplicable on the grounds that it conflicts with Directive 2003/54 on the internal electricity market. As indicated previously, Royal Decree-Law 9/2013 once more requires the same companies to finance the social bond, an appeal having been filed for the same reasons.

Finally, on 27 December, Law 24/2013 (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 only price applicable throughout the Spanish territory. In line with the prices previously referred to as last-resort tariffs, these prices are defined as the maximum prices that the reference supply companies 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 €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 non-regulated. 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.

Nota 3. Basis of presentation

Gas Natural SDG, S.A. Annual accounts for 2013 were approved by the Annual General Meeting on 11 April 2014.

The Annual accounts for 2014, which were issued by the Board of Directors of Gas Natural SDG, S.A. on 30 January 2015, will be submitted to the General Meeting for approval; they are expected to be approved without any changes.

The accompanying Annual accounts have been prepared on the basis of the Company's accounting records and are presented in accordance with prevailing commercial legislation and the provisions of the Chart of Accounts introduced under Royal Decree 1514/2007 (17 September), as amended by Royal Decree 1159/2010 (17 September), so as to present fairly the Company's equity and financial position at 31 December 2014, and the results, changes in equity and cash flows of Gas Natural SDG, S.A. for then ended.

The figures set out these Annual accounts are expressed in million euros, unless otherwise stated.

The consolidated Annual accounts of Gas Natural Fenosa for 2014 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU), in accordance with Regulation (EU) 1606/2002 of the European Parliament and the Council. The main figures disclosed in the consolidated Annual accounts, which have been audited, are as follows:

Total assets	50,328
Equity attributed to the parent Company	14,141
Minority interest	3,879
Net turnover	24,742
Net income after tax attributed to the parent Company	1,462

Note 4. Comparability

As a result of the demerger of the hydraulic, conventional thermal and combined-cycle thermal generation business in favour of Gas Natural Fenosa Generación, S.L.U., with accounting effects on 1 January 2014 (Note 5), the income statement, statement of recognised income and expense and cash flow statement for 2014 do not include these activities. Consequently, this demerger must be taken into account when comparing the 2014 figures with 2013 figures.

Following the demerger of the business line, the holding of shares in Group companies and associates is deemed to be the Company's most relevant ordinary activity from which periodic revenue is obtained. In accordance with the stance adopted by the Spanish Institute of Accounting and Auditing ("ICAC") in connection with the calculation of net revenue in holding companies (Reply number 2 in ICAC Official Gazette number 79), dividends from Group companies and associates, and interest received on loans granted to Group companies and associates, are recognised as "Revenue" in 2014. Additionally, the item "Impairment and results on disposal of equity instruments of Group companies and associates" is included in Operating profit/(loss).

The 2013 income statement has been adapted to this presentation for comparability. The reclassification of financial income to the item "Revenue" amounts to €1,872 million and the item "Impairment and results on disposal of equity instruments of Group companies and associates" is included in Operating profit/(loss) in a negative amount of €244 million.

Note 5. Demerger of Gas Natural SDG, S.A. in favour of Gas Natural Fenosa Generación, S.L.U. in 2014

On 31 January 2014, the Board of Directors of Gas Natural SDG, S.A. and the Sole Administrator of Gas Natural Fenosa Generación, S.L.U. signed the Plan for the Demerger of Gas Natural SDG S.A.'s thermal and hydraulic in favour of the wholly-owned company Gas Natural Fenosa Generación, S.L.U. The operation was approved by Gas Natural SDG, S.A.'s General Shareholders' Meeting and by Gas Natural Fenosa Generación, S.L.U.'s Single Shareholder on 11 April 2014 and entered in the Barcelona Mercantile Register on 1 July 2014, once the legally stipulated periods had elapsed and the necessary authorisations had been obtained, with retroactive effects to 1 January 2014 for accounting purposes. Pursuant to Article 96 of the Corporate Income Tax Act, the demerger was specifically completed under the special scheme provided by Title VII, Chapter VIII of the Act.

As this contribution was made to a Group company, it has been recognised at the carrying amount of the assets and liabilities reflected in the Group's consolidated annual accounts, pursuant to Rule 21 of the Chart of Accounts introduced under Royal Decree 1514/2007 (16 November), as amended by Royal Decree 1159/2010 (17 September) on consolidation rules.

Set out below is a breakdown of the assets and liabilities demerged from the Company at 1 January 2014 in favour of Gas Natural Fenosa Generación, S.L.U.:

Intangible assets	3.096
Property, plant and equipment	5.826
Long-term investments in Group companies and associates	1
Long-term investments	453
Deferred tax assets	80
Non-current assets	9.456
Inventories	176
Other current assets	13
Short-term financial assets	33
Cash and banks	4
Current assets	226
Total assets	9.682
Long-term provisions	247
Long-term financial liabilities	156
Long-term payables to Group companies and associates	5.094
Deferred tax liabilities	476
Non-current liabilities	5.973
Short-term provisions	52
Short-term financial liabilities	70
Trade and other payables	52
Current liabilities	174
Total liabilities	6.147
Total net assets	3.535

In exchange for the demerged net assets, Gas Natural SDG, S.A. received shares totalling €3,535 million in the capital increase carried out by Gas Natural Fenosa Generación, S.L.U.

Note 6. Accounting policies

The main accounting principles applied by the Company to prepare these annual accounts are described below. For comparability, the accounting principles applicable to the assets and liabilities transferred in the demerger operation have been maintained.

6.1 Intangible assets

Intangible assets are carried at acquisition price or production cost, or at fair value in the case of assets acquired through a business combination, less accumulated amortisation and any recognised impairment losses.

a) Goodwill

Goodwill represents the excess, on the date of acquisition, of the cost of a business combination over the fair value of the net identifiable assets acquired at the date of the operation. Consequently, goodwill is only recognised when it has been acquired for valuable consideration and relates to the future economic profits from assets that have not been identified individually and recognised separately.

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

The impairment of goodwill cannot be reversed.

b) Other intangible assets

Research expenditure is recognised in the income statement when incurred.

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

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

The CO₂ emission rights that have been granted under the National Assignment Plan, by virtue of the provisions of Law 1/2005/9 March, which regulates the trade in green-house gas emission rights, are recorded as intangible assets against equity. The emission rights purchased are also stated under intangible assets.

CO₂ emission rights are recognised as intangible assets. Emission rights equivalent to emissions released must be submitted near the beginning of the following year. These rights are carried at acquisition cost and are not amortised. The necessary provisions are recorded, provided the carrying amount is not recoverable through the generation of sufficient revenue to cover all the costs and expenses of electricity production.

The gas supply contracts and other contractual rights acquired as part of a business combination, which are stated at fair value, are amortised on a straight-line basis over their terms, which do not differ from the expected consumption patterns of these contracts.

The Company does not own intangible assets with undefined useful life different from Goodwill.

6.2 Property, plant and equipment

a) Cost

Property, plant and equipment are carried at acquisition price or production cost less accumulated depreciation and less any cumulative losses recognised, with the exception of the restatement carried out as a result of the merger by absorption of Gas Natural SDG, S.A. and the companies Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. in 2009, the relevant property, plant and equipment having been measured at fair value.

Financial costs relating to financing for plant projects during the plant construction period to the date the asset is ready for use form part of property, plant and equipment.

Renewal, extension or improvement costs are capitalised as an increase in the asset's value only when its capacity, productivity or useful life increases.

Major maintenance expenditures are capitalised and amortised 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.

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

When such costs entail additions to property, plant and equipment the purpose of which is to minimise the environmental impact and to protect and improve the environment, they are accounted for as an increase in the value of property, plant and equipment.

Future costs that must be borne by Gas Natural SDG, S.A. in connection with the closure of certain facilities are included in the asset's value at their discounted value, recognising the relevant provision (Note 6.12).

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

b) Depreciation

The assets are depreciated on a straight-line basis over their useful lives or the concession term, if shorter. Estimated useful lives are as follows:

	Estimated useful life years
Buildings	33–50
Technical installations (combined cycle plants)	25
Technical installations (hydro-electric plants)	14–65
Technical installations (power plants)	25–40
Technical installations (nuclear power plants)	40
Computer hardware	4
Vehicles	6
Other	3–10

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.

When calculating depreciation charges for hydraulic plants, a distinction is made between the different types of assets involved, i.e. investments in civil engineering (depreciation period based on the concession term), electro-mechanical equipment (40 years) and other PPE (14 years); in all cases, plant usage is considered and the maximum limit is the concession term (between 2022 and 2063).

Gas Natural SDG, S.A. amortises its nuclear energy plants over a useful life of 40 years, which is the theoretical useful life of their main components. However, the license to operate these plants usually covers successive 10-year periods as from their start up, while a renewal cannot be applied for until termination. However, taking into account the optimal performance of these plants, and their maintenance programs, it is considered that the renewal of these permits could be obtained at least until their 40-year useful life period has been reached.

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

When the carrying value of an asset is greater than its estimated recoverable amount or when it is no longer useful, its value is written down immediately to its recoverable amount (Note 6.3).

6.3 Impairment of assets

Assets are tested for impairment provided that an event or change in circumstances indicates that their carrying amount might not be recoverable. Investments in group companies and associates, long-term investments, goodwill and intangible assets that are not in use or have indefinite are tested annually for impairment.

When the recoverable amount is less than the asset's carrying amount, an impairment loss is recognised through profit and loss for the amount of the difference between the two. The recoverable amount is calculated at 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 SDG, S.A. is considering recoverable amount to be value in use, which is calculated using the methodology described below.

For the purposes of assessing impairment losses, assets are grouped together at the lowest level for which there are separately identifiable cash flows. Assets and goodwill are assigned to these cash-generating units (CGUs).

For the purposes of assessing impairment losses, assets are grouped together at the lowest level for which there are separately identifiable cash flows. Assets and goodwill are assigned to these cash-generating units (CGUs). In the case of investments in group companies, barring investments the recoverable amount of which is determined based on the investee's equity (Note 6.4) and goodwill, the cash flows employed are based on the Strategic Plan approved by Gas Natural SDG, S.A., extended to five years on the basis of regulations and expected market evolution, drawing on available industry forecasts and historical experience of price trends and volumes produced.

The cash flows after the five-year period are extrapolated using the growth rates estimated for each CGU or group of CGUs, and in no case exceed the average long-term growth rate for the business in which they operate. In all cases, they are lower than the growth rates stated in the strategic plan. Additionally, in order to estimate future cash flows in the calculation of residual values, all maintenance investments have been considered and, if applicable, renewal investments necessary to maintain the CGUs' production capacity.

The nominal growth rates used for the CGUs and financial assets in Spain fluctuate between 0.6% and 1.8% (0.8% and 1.8% in 2013). Specifically, a growth rate of 1.4% has been applied to the shareholding in Unión Fenosa Gas, S.A. (1.4% in 2013). In the cases of the investees of Gas Natural Internacional SDG, S.A. and Unión Fenosa Internacional, S.A., growth rates are between 1.0% and 4.9% (1.0% and 4.9% in 2013).

The cash flows have been discounted using the average costs of funds before tax. For the CGU and financial assets in Spain this costs fluctuates between 6.2% and 6.5% (8.56% and 9.0% in 2013). In the particular case of Unión Fenosa Gas, S.A. the discount rate has been 12.8% (12.6% in 2012). For the businesses in which Gas Natural Internacional SDG, S.A., Global Power Generation, S.A.U. and Unión Fenosa Internacional, S.A. hold interests, pre-tax discount rates are between 7.0% and 18.0% (7.3% and 15.8% in 2013).

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.

Most of the goodwill of Gas Natural SDG, S.A. relates to CGU Electricity Spain. Apart from the discount rate, the key assumptions that are included in the projections of this CGU are as follows:

- 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 2.2).
- 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.
- Fuel costs. Estimated by reference to long-term supply contracts concluded by Gas Natural Fenosa, the forecast evolution of price curves 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 2.2.2.1).

As a result of this process, in 2014 and 2013 the recoverable amounts of the CGUs' assets, calculated based on the above-mentioned model, are in all cases higher than the carrying amounts recognised in these annual accounts, no impairment having therefore been recorded, except for the amounts referred to in Note 9.

Gas Natural Fenosa considers that the unfavourable fluctuations which could reasonably affect the above-mentioned sensitive variables used as a basis for the recoverable amount of the CGUs, would not affect its conclusions that the recoverable amount exceeds the carrying amount. Specifically, the most relevant sensitivity analyses performed are as follows:

	Increase	Decrease
Discount rate	50 basis points	–
Electricity generated	–	5%
Electricity price	–	5%
Fuel and gas supply costs	5%	–
Operating and maintenance costs	5%	–

6.4 Financial assets and liabilities

Investments in the equity of group and multi-group companies and associates

These are stated at the lower of cost of acquisition or fair value, if the investments are acquired through a business combination, and the recoverable value. The recoverable value is determined as the larger of fair value minus cost of sale and the current value of the cash flows generated by the investment. If there is no better evidence of recoverable value, recoverable value will be the equity of the investee company adjusted by any tacit capital gains subsisting at the valuation date. The provision, and as the case may be, its reversal, is carried on the income statement in which it takes place.

In non-cash contributions of a business to a group company, the investment is measured at the carrying amount of the assets and liabilities contributed, as per the consolidated Annual accounts on the transaction date. The consolidated Annual accounts of the largest group or subgroup into which the assets and liabilities are integrated, where the parent is a Spanish company, are used.

In mergers and spin-offs between group companies that involve the group's parent, directly or indirectly, the assets and liabilities acquired are measured at the amount that would be reflected in the group's Consolidated annual accounts following the transaction. The difference between the cost of the shares handed over and the carrying amount of the assets and liabilities acquired, in the group's Consolidated annual accounts, is recognised in reserves.

Investments

Purchases and sales of investments are recognised on trade-date, which is the date on which Gas Natural SDG, S.A. commits to purchase or sell the asset, and are classified under the following categories:

a) Loans and financial receivables

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

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

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

b) Held-to-maturity financial assets

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

c) Financial assets held for disposal and other financial assets at fair value 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.

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.

They are recognised at fair value, and the changes are recorded directly in equity until the asset is sold or impaired, at which time the accumulated gains and losses in equity are taken to the Income statement.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, Gas Natural SDG, S.A. 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.

Financial assets are written off when the contractual rights to the asset's cash flows have expired or they have been transferred; in the later case, the risks and rewards of ownership must have been substantially transferred. Financial assets are not written off, and a liability is recognised in the same amount as the payment received, in asset assignments where the risks and rewards of ownership are retained.

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 an original maturity no longer than three months as from the acquisition date.

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 proration clauses that can be exercised by Gas Natural SDG, S.A.

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 twelve months are considered non-current payables.

6.5 Financial derivatives and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising 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.

For each hedging transaction, Gas Natural SDG, S.A. 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, risk management aims and hedging strategy are reviewed periodically.

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 listed price.
- 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 eligible for hedge accounting

a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognised 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 qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income statement.

Amounts accumulated in equity are reclassified to the Income statement in the periods when the hedged item will affect profit or loss.

c) Hedges of net foreign investments

Fair value hedge accounting is applied to the differences arising from the exchange rates on loans in foreign currency for financing foreign investments in group and multi-group companies and associates made in the same functional currency.

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 recognised immediately in the Income statement.

3. Energy purchase and sale agreements

During the normal course of its business Gas Natural SDG, S.A. 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 SDG, S.A. in accordance with the energy purchase and sale estimates made periodically, which are monitored systematically and adjusted as the case may be by physical delivery. Consequently, these are negotiated contracts for "own use" and, accordingly, lie beyond the standards on valuation of financial instruments.

6.6 Non-current assets held for sale

Gas Natural SDG, S.A. classifies as held-for-sale assets those assets for which at end active initiatives have been initiated for their sale, which is estimated to take place within the next twelve months.

These assets are stated at the lower of their carrying value and fair value minus the costs necessary for their sale and are not subject to depreciation, since the date they are classified as non-current assets held for sale.

Additionally, Gas Natural SDG, S.A. treats components (cash-generating units or groups of CGUs) representing a business line or geographic area of operations that is significant and may be analysed separately from the rest, and has been sold or otherwise disposed of, or meets the conditions to be classed as held for sale, as discontinued operations. Entities acquired solely for resale are also classed as discontinued operations.

6.7 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.

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.

6.8 Share capital

Share capital is represented by 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 or share premium in the case of issues of capital with premiums.

Dividends on ordinary shares are recognised as a deduction from equity in 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 recognised under "Reserves" in the balance sheet.

6.9 Earnings per share

Basic earnings per share are calculated as a quotient between profit or loss for and the average weighted number of ordinary shares in circulation during this period excluding the average number of treasury stock held by Gas Natural SDG, S.A.

Diluted earnings per share are calculated as a quotient between profit or loss for attributable to the ordinary shareholders 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.

6.10 Grants

Refundable grants are recorded as liabilities until the conditions are met for their classification as non-refundable, while non-refundable grants are recorded as income directly in equity and are recognised as income over the depreciation period of the fixed asset they finance or when they are written off the Balance sheet.

Thus, a grant is considered non-refundable when there is an individual agreement on the grant, and all the conditions for it have been met and there are no reasonable doubts that it will be received.

Monetary grants are stated at the amount at which they are granted while non-monetary grants are stated at the fair value of the asset received, both amounts referring to the time when they are recognised.

6.11 Provisions for employee obligations

a) Post-employment pension obligations and the like

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.

Additionally, there is a defined contribution plan for a group of executives, for which Gas Natural SDG, S.A. undertakes to make certain contributions to an insurance policy. Gas Natural SDG, S.A. 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 recognised in "Staff costs" in the income statement.

Defined benefit plans

For certain groups of employees there are commitments for defined benefit schemes in relation to the payment of supplements on retirement, death and disability pensions, in accordance with the benefits agreed by the entity, which have been transferred out of the company in the form of single premium insurance policies under Royal Decree 1588/1999/15 October, which adopted the Regulations on the instrumentation of pension commitments.

The liability recognised on the Balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial losses and gains arising from changes in actuarial assumptions or from differences between assumptions and reality are recognised entirely in the period in which they arise, directly in equity reserves.

Past service costs are recognised immediately in the income statement, in "Staff costs".

b) Other post-employment benefit obligations

Gas Natural SDG, S.A. provides for post-employment benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans. Actuarial gains and losses arising from changes in actuarial assumptions, are charged or credited to income "Reserves".

c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. Gas Natural SDG, S.A. recognises a liability when 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 SDG, S.A. has decided to give its consent to voluntary redundancies once they have been requested by the employees.

d) Share Acquisition Plan

In 2012, a Share 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 €12,000. The cost of the shares acquired has been recognised in "Staff costs" in the income statement.

6.12 Provisions

Provisions are recognised when Gas Natural SDG, S.A. has a present legal or implicit 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 recognised for future operating losses.

Provisions are measured at the present value of the Company's 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 SDG, S.A. 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 incur, 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 provisions are recognised in the amount of the current value of the existing difference.

In the event that Gas Natural Fenosa does not have sufficient CO2 emission allowances to meet its emission quotas, the deficit valued at the cost of acquisition for the allowances purchased and the fair value for the allowances pending purchase.

6.13 Leases

a) Finance leases

Leases of property, plant and equipment where the lessee substantially bears all the risks and rewards of ownership are classified as finance leases.

The Company acts as lessee in various financial leasing contracts. These 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 are depreciated over the asset's useful life.

b) Operating leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Operating lease payments are charged to the income statement on a straight-line basis over the lease term.

6.14 Income tax

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

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 Annual accounts used the tax rates that are expected to be in force when the assets and liabilities are realized.

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

Deferred tax assets and tax credits are recognised only to the extent that it is probable that future taxable income will be available against which to offset temporary differences and apply tax credits.

When tax rates change, deferred tax assets and liabilities are reestimated. These amounts are charged or credited to losses or profits, or to reserves, depending on the account to which the original amount was charged or credited.

6.15 Revenue recognition and payments for regulated activities

a) General

Sales are recognised when products are delivered to the customer and have been accepted by the customer, even if they have not been invoiced, or if applicable, services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity. Net turnover for includes the estimate of the energy supplied that has not yet been 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.

b) Income from the gas business

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

The best estimate for gas supplied and services provided and yet to be billed is recognised as income.

c) Income from electricity activity and payments for regulated business

Note 2.2. describes the basic aspects of the applicable regulations to the electricity sector.

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

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

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

During 2008, the entire 2007 deficit was auctioned and both the principal financed and interest for the period were collected. In 2012 and 2013, the deficits generated in 2006, 2008, 2009, 2010, 2011 and 2012, plus related interest, were fully recovered through securitisation fund issues and system settlements; only a residual part of the deficit generated in 2012 has yet to be recovered through the final settlements for 2013, which will be collected in the first quarter of 2014.

As regards the 2013 deficit, on 15 December 2014 a private non-recourse assignment was completed of all claims pending collection. This assignment brought the electricity system deficit securitisation process to an end, the entire deficit recognised at 31 December 2013 having been securitised or assigned.

d) Other income and expenses

In accounting for revenues from the service provision agreements is used the percentage realisation method 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 Income statement for the year.

Interest income and expense are recognised using the effective interest method. Interest income from loans to Group companies and associates forms part of revenue for the period.

Dividend income is recognised when the right to collect the dividend is established. Dividend income from loans to Group companies and associates forms part of revenue for the period.

6.16 Transactions in foreign currency

Creditor and debtor foreign currency accounts are translated to euros at the exchange rate in effect at the time of the operation and then remeasured at the year end in accordance with the exchange rate in force at that time.

The exchange differences arising as a result of the valuation at the year end of the debtor and creditor balances in foreign currency are classified on the basis of the year in which they mature and type of currency. The currencies that can be officially translated are then grouped for these purposes. The differences of each group are taken to the income statement.

6.17 Transactions between related parties

In general, transactions between related parties are recorded initially at their fair value. If the agreed price differs from its fair value, the difference is recorded taking into account the economic reality of the operation. The later valuation is made in accordance with the provisions of the respective legislation.

Notwithstanding the above, in merger, de-merger or non-cash contribution operations of a business, the assets that make up the acquired business are stated at the amount corresponding to the same once the operation takes place in the Consolidated Annual accounts of Gas Natural Fenosa.

In these cases, the difference that could arise between the net value of the assets and liabilities of the acquired company, adjusted by the balance of the groupings of grants, donations and bequests received, or any value adjustments or capital or share premiums, as the case may be, issued by the merging company, is recorded under reserves.

6.18 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 venturers.

The assets and liabilities assigned to joint ventures and the assets that are controlled jointly are recorded on the Balance sheet in accordance with the percentage of the interest and classified according to their nature. Likewise, the income and expenses from joint ventures are reflected in the Income statement in accordance with their nature. In both cases, according to the percentage held by each venturer.

The Company records its interest in economic interest groups under "Long-term investments in group companies and associates" on the Balance sheet.

The economic interest groups, joint ownerships and temporary business unions of investee companies of Gas Natural SDG, S.A. have used generally accepted accounting principles as their accounting policies.

6.19 Business combinations

Business combinations are recorded using the acquisition method. The cost of an acquisition is calculated using the fair value of the assets given, the equity instruments issued and the liabilities incurred or borne on the transaction date plus the costs directly attributable to the acquisition. The valuation process required in order to use the acquisition method is completed within the period of one year as from the acquisition date.

The identifiable assets acquired and the liabilities or contingent liabilities incurred or borne as a result of the transaction, are initially stated at their fair value at the date of acquisition, provided that this can be reliably measured.

The surplus cost of the acquisition in relation to the fair value of the shareholding of Gas Natural SDG, S.A. 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 acquired, the difference is recognised directly in the Income statement.

6.20 Cash flows Statements

The cash flows 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 Gas Natural SDG, S.A. revenues, as well as other activities that cannot be qualified as investment or financing.
- b) Investment activities: acquisition, sale or disposal and 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 equity and liabilities that do not form part of operating activities.

6.21 Significant accounting estimates and judgments

The preparation of Annual accounts requires the formulation of estimates and judgments. The valuation standards that require a large number of estimates are set out below:

a) Intangible assets and Property, plant and equipment (Notes 6.1 and 6.2)

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

b) Impairment of non-financial assets (Note 6.3)

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

c) Derivatives or other financial instruments (Note 6.5)

The fair value of financial instruments traded in active markets is based on quoted market prices at the 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 SDG, S.A. 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 interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the Balance sheet date. The fair value of commodity derivatives is calculated by using forward prices curves. The recoverable value of the investments in the equity of group and multi-group companies and associates is determined as the greater of their fair value less costs of sale and the current value of the cash flows from the investment.

The carrying value less impairment provision of trade receivables and payables are 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 SDG, S.A. for similar financial instruments.

d) Provisions for employee benefits (Note 6.11)

A number of assumptions must be used to calculate pension costs, other costs of post-retirement benefits and other post-retirement liabilities. Gas Natural SDG, S.A. estimates at the year end the provision required to cover pension commitments and similar obligations, based on advice from independent actuaries. The changes affecting such assumptions may result in the recording of different amounts and liabilities. The most significant assumptions for the measurement of pension or post-retirement benefit liabilities are energy consumption by beneficiaries during retirement, retirement age, inflation and the discount rate employed. Social security coverage assumptions are also essential to determine other post-retirement benefits. Future changes to these assumptions will have an impact on future pension costs and liabilities.

e) Provisions (Note 6.12)

Gas Natural SDG, S.A. evaluates and makes an estimate of the amounts to be settled in the future, including additional amounts relating to income tax, contractual obligations, the settlement of outstanding litigation, and 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 6.14)

The calculation of the income tax expense requires interpretations of tax legislation in the jurisdictions in which Gas Natural SDG, S.A. operates. The determination of expected outcomes of outstanding disputes and litigation requires the preparation of significant estimates and judgment. Gas Natural SDG, S.A. 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 SDG, S.A. to generate sufficient tax profits during the periods in which these deferred taxes are deductible. Deferred tax liabilities are recognised based on estimates of the net assets that will not be tax deductible in the future.

g) Recognition of revenue and settlements for regulated activities (Note 6.15)

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 7. Intangible assets

Set out below there is an analysis of movements in intangible assets:

	Development	Computer software	Emission rights	Other intangible assets	Subtotal	Goodwill	Total
Cost	24	26	132	693	875	3,574	4,449
Accumulated amortisation	(24)	(23)	–	(130)	(177)	–	(177)
Net carrying value at 01/01/2013	–	3	132	563	698	3,574	4,272
Investment	–	1	49	1	51	–	51
Divestment	–	–	(129)	–	(129)	–	(129)
Amortisation	–	(1)	–	(35)	(36)	–	(36)
Net carrying value at 31/12/2013	–	3	52	529	584	3,574	4,158
Cost	24	27	52	694	797	3,574	4,371
Accumulated amortisation	(24)	(24)	–	(165)	(213)	–	(213)
Net carrying value at 01/01/2014	–	3	52	529	584	3,574	4,158
Demerger scope (Note 5)	–	(3)	(52)	(529)	(584)	(2,512)	(3,096)
Net carrying value at 31/12/2014	–	–	–	–	–	1,062	1,062
Cost	–	2	–	–	2	1,062	1,064
Accumulated amortisation	–	(2)	–	–	(2)	–	(2)
Net carrying value at 31/12/2014	–	–	–	–	–	1,062	1,062

Goodwill arises from the takeover merger of Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. in 2009.

“Other intangible assets”, as a result of the merger of Unión Fenosa, S.A. and Unión Fenosa Generación, S.A.U. in 2009, include gas supply contracts and other contractual rights with a net carrying value of €527 million at 31 December 2013.

In 2014, as a result of the demerger, no CO2 emission rights have been acquired (€49 million at 31 December 2013). Law 13/2010 (5 July), which amended Law 1/2005 (9 March), stipulate that, as from 1 January 2013, the free allocation of emission rights to electricity generating companies is discontinued, so that the Company's plants did not receive income relating to this subsidy in 2013.

At 31 December 2014, intangible assets include fully-amortised assets still in use totalling €2 million (€50 million at 31 December 2013).

Fully-amortised assets written off in 2014 totalled €20 million.

Note 8. Property, plant and equipment

Set out below is an analysis showing movements in Property, plant and equipment during 2014 and 2013:

	Land and buildings	Plant and other property, plant and equipment	Fixed assets under construction	Total
Cost	283	11,899	183	12,365
Accumulated depreciation	(67)	(5,028)	–	(5,095)
Net carrying value at 01/01/2013	216	6,871	183	7,270
Investment	12	28	63	103
Depreciation	(9)	(446)	–	(455)
Reclassifications and transfers	1	70	(91)	(20)
Net carrying value at 31/12/2013	220	6,523	155	6,898
Cost	294	11,896	155	12,345
Accumulated depreciation	(74)	(5,373)	–	(5,447)
Net carrying value at 01/01/2014	220	6,523	155	6,898
Investment	9	1	21	31
Depreciation	(8)	(79)	–	(87)
Demerger scope (<i>Note 5</i>)	(60)	(5,615)	(151)	(5,826)
Reclassifications and transfers	–	53	(20)	33
Net carrying value at 31/12/2014	161	883	5	1,049
Cost	237	2,316	5	2,558
Accumulated depreciation	(76)	(1,433)	–	(1,509)
Net carrying value at 31/12/2014	161	883	5	1,049

The item "Plant and other property, plant and equipment" mainly includes electricity generation assets. At 31 December 2014 it includes the nuclear power plants, while at 31 December 2013 it included the gas combined-cycle, hydraulic, nuclear and coal plants. Additionally, in 2013 this item included finance leases for the power islands of Palos de la Frontera and Sagunto combined-cycle plants, acquired under finance leases.

In 2014 there have been disposals of fully-depreciated assets totalling €12 million (€103 million at 31 December 2013).

No financial assets have been capitalised in respect of fixed assets in course during 2014 (€1 million at 31 December 2013). The financial expenses capitalised in 2013 accounted for 0.01 % of total financial costs on net borrowings.

Property, plant and equipment includes fully-depreciated assets still in use totalling €27 million at 31 December 2014 (€476 million at 31 December 2013).

It is Gas Natural SDG, S.A.'s policy to take out insurance where deemed necessary to cover risks that could affect its property, plant and equipment.

Gas Natural SDG, S.A. at 31 December 2014 and 31 December 2013 has no investment commitments.

Note 9. Investments in group companies and associates

A breakdown of the investments in group companies and associates is as follows:

	A 31/12/14	A 31/12/13
Equity instruments	13,844	10,583
Loans	13,935	6,336
Non-current	27,779	16,919
Loans	1,079	822
Other financial assets	3	452
Current	1,082	1,274

Movements during 2014 and 2013 in non-current investments in group companies and associates are as follows:

	Shareholdings in group companies	Loans to group companies	Shareholdings in associates	Total
Balance at 01/01/2013	10,692	6,287	13	16,992
Additions	1,043	1	–	1,044
Divestments (<i>Note 26</i>)	(930)	(6)	(3)	(939)
Reclassification	–	71	–	71
Charge/reversal provisions	(233)	–	1	(232)
Exchange differences	–	(17)	–	(17)
Balance at 31/12/2013	10,572	6,336	11	16,919
Additions	1,316	6,118	–	7,434
Divestments (<i>Note 26</i>)	(658)	(153)	–	(811)
Demerger scope (<i>Note 5</i>)	3,534	–	–	3,534
Reclassification	–	1,576	–	1,576
Charge/reversal provisions	(931)	–	–	(931)
Exchange differences	–	58	–	58
Balance at 31/12/2014	13,833	13,935	11	27,779

Year 2014

The most significant movements in the item “Shareholdings in Group companies and associates” in 2014 relate to:

- Intragroup corporate restructuring operations:

- Demerger of the coal, gas, fuel oil and hydraulic electricity generation business, which is transferred en bloc to the company Gas Natural Fenosa Generación, S.L.U. in exchange for shares in the beneficiary company totalling €3,535 million.

- Spin-off from Gas Natural Internacional, S.A. to Unión Fenosa Internacional, S.A. of the shares in Gas Natural Vendita, S.p.A., Gas Natural Distribuzione, S.p.A., Gas Natural Rigassificazione Italia, S.p.A., Gas Natural Puerto Rico, Inc., Gas Natural Italia, S.p.A. and Gas Natural Europe, S.A.S.

Gas Natural SDG, S.A. has recognised an increase of €193 million in this item, with a balancing entry in “Voluntary reserves”, in the amount of the difference between the cost of the shareholding in Gas Natural Internacional SDG, S.A. and the carrying amount of the shareholding in Unión Fenosa Internacional, S.A. based on the value of the shares received as per the Consolidated annual accounts, after adjustments to comply with the Standards for the Preparation of Consolidated Annual Accounts (NOFCAC).

- Spin-off from Gas Natural Fenosa Engineering, S.A. to Gas Natural Fenosa Ingeniería y Desarrollo de Generación, S.A. of the generation engineering business.

Gas Natural SDG, S.A. has recognised an increase of €5 million in this item, with a balancing entry in “Voluntary reserves”, in the amount of the difference between the cost of the shareholding in Gas Natural Fenosa Engineering, S.A. and the carrying amount of the shareholding in Gas Natural Fenosa Ingeniería y Desarrollo de Generación, S.A. based on the value of the shares reflected in the consolidated annual accounts adjusted to comply with NOFCAC.

Subsequently, the shareholding in Gas Fenosa Ingeniería y Desarrollo de Generación, S.L. has been sold to the Group company Global Power Generation, S.A. (formerly Gas Natural Electricidad, S.A.).

- Capital increases in Clover Financial and Treasury Services, Ltd in the amount of €131 million and €867 million, and a capital reduction of €69 million.
- Capital contribution to offset losses posted by the company Gas Natural Exploración, S.L. in the amount of €13 million.
- Capital contribution to offset losses posted by Gas Natural S.U.R. SDG, S.A. in the amount of €14 million.
- Capital contribution to offset losses posted by Gas Natural Almacенamientos Andalucía, S.A. in the amount of €4 million.
- Subscription for a capital increase in Nueva Generadora del Sur, S.A. in the amount of €25 million.
- In 2014, the entire shareholding in Gas Natural Fenosa Telecomunicaciones, S.A. has been sold to the private equity firm Cinven for €386 million, generating a pre-tax gain of €362 million. The sale of this shareholding entailed the assignment to the buyer of loans granted.
- Transfer of the shareholding in the company Operación y Mantenimiento Energy, S.A. to the Group company Global Power Generation, S.A. (formerly Gas Natural Electricidad, S.A.) as part of the reorganisation of shareholdings in the international generation business, generating a gain of €1 million.
- The share premiums distributed by Unión Fenosa Distribución, S.A. (€550 million) and Unión Fenosa Financiación, S.A. (€2 million), relating to profits generated prior to the acquisition date, have been recognised as a reduction in the carrying amount of the shares.

Year 2013

The increases in “Shareholdings in group companies” and “Shareholdings in associates” in 2013, relate basically to:

- Intragroup corporate restructuring operations:
 - Spin-off from Gas Natural Distribución SDG, S.A. to the company Gas Natural Madrid SDG, S.A., which was incorporated in 2013, through a contribution of the natural gas distribution business in the Madrid Autonomous Region, pursuant to the plans approved on 30 September 2013; and non-cash contribution by Gas Natural SDG, S.A. of shares in the companies Gas Natural Distribución SDG, S.A., Gas Natural Madrid SDG, S.A., Gas Natural Castilla-La Mancha, S.A., Gas Natural La Rioja, S.A., Gas Natural Castilla y León, S.A., Gas Galicia Sociedad para el Desarrollo del Gas, S.A., Gas Natural Cegás, S.A., Gas Natural Andalucía, S.A., Gas Navarra, S.A. and Gas Natural Transporte SDG, S.L.

Gas Natural SDG, S.A. recognised an increase of €908 million in shareholdings in group companies, with a balancing item in “Voluntary reserves” for the difference between the cost of the shares handed over and the carrying amount of the assets and liabilities received, as per the Consolidated annual accounts, after making adjustments to comply with the Regulations on the Preparation of Consolidated Annual Accounts (NOFCAC).

- Full split of Unión Fenosa Comercial, S.L., the wholesaling business was contributed to Gas Natural Comercializadora, S.A. and the retailing business to Gas Natural Servicios, S.A.

Gas Natural SDG, S.A. has recognised an increase of €120 million in this item, with a balancing entry in “Voluntary reserves”, in the amount of the difference between the cost of the shareholding in Unión Fenosa Comercial, S.L. and the carrying amount of the assets and liabilities received reflected in the Consolidated annual accounts adjusted to comply with NOFCAC.

- Non-cash contribution to Gas Natural Internacional SDG, S.A.'s capital of an 18.90% stake in the company Companhia Distribuidora de Gas do Rio de Janeiro, S.A., a 22.27% stake in Ceg Río, S.A., a 99.99% stake in Gas Natural Sao Paulo, S.A. and a 19.88% stake in Gas Natural México, S.A. de C.V.

The measurement of the non-cash contribution of these shareholdings at the carrying amount of the assets and liabilities received, as per the Consolidated annual accounts, caused a reduction of €53 million in this item, with a balancing item in voluntary reserves.

- Spin-off from Unión Fenosa Internacional, S.A. to Gas Natural Electricidad SDG, S.A. of shares representing the international electricity generation business line.

Gas Natural SDG, S.A. recognised a decrease of €40 million in shareholdings in group companies and a balancing item in voluntary reserves for the difference between the cost of the shares in Unión Fenosa Internacional, S.A. and the carrying amount of the assets and liabilities received at the transaction date, as per the group's Consolidated annual accounts, adjusted to comply with NFCAC.

- Acquisition of 11,999 shares in Gas Navarra, S.A. from the “la Caixa” group company Hiscan Patrimonio II, S.L.U. for €10 million.
- Acquisition of 1,000 shares in Repsol Gas Natural LNG, S.L. from Repsol, S.A. for €1 million.
- In 2013, the following dividend payments out of profits generated prior to the acquisition date of the shareholdings were recognised as a decrease in the carrying amount of the shares, by distribution of a share premium of €550 million by Unión Fenosa Distribución, S.A. and €32 million in Unión Fenosa Internacional, B.V., as well as the distribution of dividends charged to voluntary reserves in the amount of €120 million by Unión Fenosa Internacional, S.A., €12 million in General de Edificios y Solares, S.L. and €6 million in Gas Natural Fenosa Engineering, S.L.U.
- Bottom of 14.25% shares in the capital of Mexico Natural Gas, SA de C.V. and 14% of the shares of Sistemas de Administración y Servicios, S.A. de C.V. for the transfer of repurchase commitment, awarded to Sinca Inbursa, SA de CV from Natural Gas International, Inc. amounting to €50 million (Note 16).
- Reduction of capital in the company Gas Natural Sao Paulo Sul S.A., amounting to €38 million.

The cumulative provision for the impairment of shareholdings in Group companies and associates totals €1,326 million at 31 December 2014 (€395 million at 2013), relating basically to the following companies:

- Gas Natural Exploración, S.L.: the recoverable amount has been calculated on the basis of its equity. No impairment loss has been recognised in 2014 (€11 million at 31 December 2013). The provision at 31 December 2014 totals €173 million (€173 million at 31 December 2013).

- Nueva Generadora del Sur, S.A. is a power generation company that operates the Campo de Gibraltar combined-cycle plant. As a result of a judgement from the Andalusia High Court ordering the dismantling of the power evacuation line, the plant's activities have been temporarily suspended while actions have been taken to identify an alternative route, generating the need to update the impairment test on the entire investment in this company. The impairment testing performed in 2014 has identified the need to recognise an impairment loss of €88 million (€63 million at 31 December 2013). The provision at 31 December 2014 totals €151 million (€63 million at 31 December 2013). The impairment testing has been performed using the following assumptions:
 - A delay in the date on which the plant becomes available;
 - A pre-tax discount rate of 6.5%.
 - A subsequent business growth rate of 1.8%.
- Unión Fenosa Gas, S.A.: In 2013 an impairment loss of €159 million was recognised due to the temporary interruption of activities at the Damietta liquefaction plant (Egypt) due to the suspension of deliveries by the natural gas supplier Egyptian Natural Gas Holding. In 2013, Unión Fenosa Gas initiated legal actions to defend its contractual rights and entered into a transitional agreement with the supplier to resume supplies.

The impairment testing performed in 2013, which took into account the resumption of gas supplies based on the new deadlines agreed with the supplier, identified no additional impairment of the shareholding in Unión Fenosa Gas.

In view of a substantial breach of those agreements by the Egyptian supplier in 2014, the impairment analysis has had to be updated for the entire investment, applying the calculation criteria detailed in Note 6.3. The impairment testing has been performed using the following assumptions:

- A delay in the resumption date of gas supplies from Egypt, without affecting the legal actions initiated;
- A possible gas supply cost increase due to the use of alternative supply sources;
- A pre-tax discount rate of 11.7%.
- A subsequent business growth rate of 1.4%.

The impairment analysis conducted in 2014 has identified the need to recognise an impairment loss of €843 million on the shareholding in Unión Fenosa Gas to bring its value to the recoverable amount. The provision at 31 December 2014 totals €1,002 million (€159 million at 31 December 2013).

Financial income for dividends received from investments in equity instruments of group companies and associates during the years 2014 and 2013, correspond to the following companies:

	2014	2013
Gas Natural Aprovisionamientos SDG, S.A.	383	304
Gas Natural Comercializadora, S.A.	348	86
Gas Natural Internacional SDG, S.A.	118	28
Sagane, S.A.	113	162
Unión Fenosa Distribución, S.A.	26	168
Unión Fenosa Gas, S.A.	23	–
Gas Natural Servicios SDG, S.A.	22	54
Unión Fenosa Internacional, S.A.	20	207
Gas Natural Informática, S.A.	5	–
Unión Fenosa Minería, S.A.	5	32
La Propagadora del Gas, S.A.	4	–
Gas Natural Capital Markets, S.A.	1	18
Gas Natural Fenosa Finance, B.V.	1	–
Compañía Española de Industrias Electroquímicas, S.A.	1	–
Ceg Rio, S.A.	–	7
Clover Financial and Treasury Services, Ltd.	–	6
Companhia Distribuidora de Gas do Rio de Janeiro, S.A.	–	15
Gas Castilla La Mancha, S.A.	–	20
Gas Galicia SDG, S.A.	–	3
Gas Natural Andalucía, S.A.	–	31
Gas Natural Castilla y León, S.A.	–	45
Gas Natural Cegas, S.A.	–	54
Gas Natural Distribución SDG, S.A.	–	279
Gas Natural Fenosa Engineering, S.L.U.	–	3
Gas Natural Rioja, S.A.	–	8
Gas Natural Sao Paulo Sul, S.A.	–	6
Gas Natural Transporte SDG, S.L.	–	22
Gas Navarra, S.A.	–	24
Operación y Mantenimiento Energy, S.A.	–	4
Unión Fenosa Financial Services USA, Llc.	–	37
Other	50	62
Total	1,120	1,685

The breakdown of shareholdings in group companies at 31 December 2014 is set out below:

Company	Registered Office	Activity	Net carrying value 2014	Net carrying value 2013	Data at 31 December 2014						
					% shareholding			Equity			
					Direct	Indirect	Total	Capital	Reserves ¹	Profit/(loss)	Interim dividend
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply and commercialisation	18	18	100.0	–	100.0	1	19	357	(300)
Gas Natural Fenosa LNG, S.L.	Spain	Gas supply and commercialisation	2	2	100.0	–	100.0	2	1	(1)	–
Sagane, S.A.	Spain	Gas supply and commercialisation	42	42	100.0	–	100.0	95	22	209	–
Unión Fenosa Gas, S.A.	Spain	Gas supply and commercialisation	1,438	2,281	50.0	–	50.0	33	647	84	–
Gas Natural Comercializadora, S.A.	Spain	Electricity supply and commercialisation	121	121	100.0	–	100.0	3	102	233	(200)
Gas Natural S.U.R. SDG, S.A.	Spain	Electricity supply and commercialisation	22	8	100.0	–	100.0	2	12	(8)	–
Gas Natural Servicios SDG, S.A.	Spain	Electricity supply and commercialisation	106	106	100.0	–	100.0	3	51	79	–
Unión Fenosa Distribución, S.A.	Spain	Electricity distribution	1,630	2,180	100.0	–	100.0	833	827	315	–
Holding Negocios Regulados Gas Natural, S.A.	Spain	Gas distribution	1,981	1,981	100.0	–	100.0	300	1,681	41	–
Barras Eléctricas Generación, S.L.	Spain	Electricity generation	–	1	–	–	–	–	–	–	–
Gas Natural Fenosa Generación Nuclear, S.L.	Spain	Electricity generation	–	–	100.0	–	100.0	–	–	–	–
Gas Natural Fenosa Generación, S.L.U.	Spain	Electricity generation	3,535	–	100.0	–	100.0	500	3,033	(38)	–
Gas Natural Fenosa Renovables, S.L.U.	Spain	Electricity generation	397	397	100.0	–	100.0	90	126	(22)	–
Global Power Generation, S.A.U.	Spain	Electricity generation	956	956	100.0	–	100.0	10	848	(10)	–
Nueva Generadora del Sur, S.A.	Spain	Electricity generation	143	206	50.0	–	50.0	99	(31)	(101)	–
P.H. La Perla, S.A.	Costa Rica	Electricity generation	1	–	100.0	–	100.0	–	–	–	–
Toledo PV A.E.I.E., S.A.	Spain	Electricity generation	–	–	33.3	–	33.3	–	1	1	–
Gas Natural Almacenamientos Andalucía, S.A.	Spain	Gas infrastructures	8	4	100.0	–	100.0	–	4	(3)	–
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	19	6	100.0	–	100.0	8	–	–	–
Petroleum Oil & Gas España, S.A.	Spain	Gas infrastructures	41	41	32.3	67.7	100.0	4	39	(4)	–
Natural Re, S.A.	Luxembourg	Insurance	8	7	100.0	–	100.0	5	55	7	–

Company	Registered Office	Activity	Net carrying value 2014	Net carrying value 2013	Data at 31 December 2014						
					% shareholding			Equity			
					Direct	Indirect	Total	Capital	Reserves ¹	Profit/(loss)	Interim dividend
Arte Contemporáneo y Energía, A.I.E.	Spain	Services	–	–	100.0	–	100.0	–	–	–	–
Compañía Española de Industrias Electroquímicas, S.A.	Spain	Services	4	4	98.5	–	98.5	3	11	1	–
General de Edificios y Solares, S.L.	Spain	Services	63	63	100.0	–	100.0	34	35	5	–
Clover Financial and Treasury Services, Ltd.	Ireland	Financial services	1,392	401	100.0	–	100.0	1,462	29	35	–
Gas Natural Capital Markets, S.A.	Spain	Financial services	–	–	100.0	–	100.0	–	–	9	–
Gas Natural Fenosa Finance, B.V.	Netherlands	Financial services	7	7	100.0	–	100.0	–	(3)	6	–
Unión Fenosa Financiación, S.A.	Spain	Financial services	11	13	100.0	–	100.0	1	–	–	–
Unión Fenosa Financial Services USA, Llc.	USA	Financial services	–	–	100.0	–	100.0	–	–	–	–
Unión Fenosa Preferentes, S.A.	Spain	Financial services	–	–	100.0	–	100.0	–	748	10	–
Gas Natural Informática, S.A.	Spain	IT services	20	20	100.0	–	100.0	20	8	5	–
Gas Natural Fenosa Engineering, S.L.U.	Spain	Engineering services	25	32	100.0	–	100.0	–	20	(2)	–
Operación y Mantenimiento Energy, S.A.	Spain	Engineering services	–	2	–	–	–	–	–	–	–
Gas Natural Fenosa Telecomunicaciones, S.A.	Spain	Telecommunication services	–	21	–	–	–	–	–	–	–
Gas Natural Internacional SDG, S.A.	Spain	Holding company	558	800	100.0	–	100.0	402	236	121	–
Gasífica, S.A.	Spain	Gas distribution	3	3	55.0	–	55.0	10	1	–	–
La Energía, S.A.	Spain	Holding company	11	11	100.0	–	100.0	11	5	–	–
La Propagadora del Gas, S.A.	Spain	Holding company	10	10	100.0	–	100.0	10	1	–	–
Unión Fenosa Internacional, S.A.	Spain	Holding company	945	508	100.0	–	100.0	250	444	7	(18)
Unión Fenosa International, B.V.	Netherlands	Holding company	–	–	–	–	–	–	–	–	–
Unión Fenosa Minería, S.A.	Spain	Holding company	316	316	100.0	–	100.0	11	169	5	(5)
Total			13,833	10,572							

Appendix I to Gas Natural Fenosa's consolidated annual accounts provides a breakdown of other indirect shareholdings.

¹ Includes the share premium, reserves, prior-year losses and retained earnings.

The non-current loans to group companies which at 31 December 2014 total €13,935 million mature in 2016 (at 31 December 2013, €6,336 million matured in 2015).

Set out below are movements during 2014 and 2013 in loans and other current financial assets:

	Loans to group companies	Other financial assets	Total
Balance at 01/01/2013	531	329	860
Additions	501	451	952
Divestments	(365)	(328)	(693)
Reclassifications	155	–	155
Balance at 31/12/2013	822	452	1,274
Additions	2,381	3	2,384
Divestments	(487)	(452)	(939)
Reclassifications	(1,637)	–	(1,637)
Balance at 31/12/2014	1,079	3	1,082

There are no significant differences between carrying values and fair values in the balances under Loans to group companies and other receivables.

“Loans to group companies” includes outstanding accrued interest totalling €30 million (€15 million in 2013).

There are no dividends pending collection in 2014 (€452 million in 2013).

At 31 December 2014, loans to Group companies and associates have borne interest at a rate of 3.32% (2.58% in 2013) in the case of non-current amounts and 1.22% (1.20% in 2013) in the case of current amounts.

Note 10. Investments

The breakdown of investments by category is as follows:

At 31 December 2014	Available for sale	Loans and other receivables	Assets at fair value through P&L	Hedging derivatives	Total
Equity instruments	7	–	–	–	7
Derivatives (Note 17)	–	–	–	–	–
Other financial assets	–	8	–	–	8
Non-current investments	7	8	–	–	15
Derivatives (Note 17)	–	–	1	–	1
Other financial assets	–	61	–	–	61
Current investments	–	61	1	–	62
Total	7	69	1	–	77

At 31 December 2013	Available for sale	Loans and other receivables	Assets at fair value through P&L	Hedging derivatives	Total
Equity instruments	7	–	–	–	7
Derivatives (Note 17)	–	–	–	2	2
Other financial assets	–	461	–	–	461
Non-current investments	7	461	–	2	470
Derivatives (Note 17)	–	–	8	1	9
Other financial assets	–	66	–	–	66
Current investments	–	66	8	1	75
Total	7	527	8	3	545

Available-for-sale financial assets

The main variations in available-for-sale financial assets are as follows:

	2014	2013
At 1 January	7	6
Increases	–	1
At 31 December	7	7

All available-for-sale financial assets relate to unlisted shareholdings at 31 December 2014 and 31 December 2013.

The main movement in 2013 relates to the subscription of 71,432 shares through a capital increase of €1 million in Neotec Capital Riesgo Sociedad de Fondos S.A., S.C.R.

Loans and other receivables

The breakdown of Loans and other receivables is as follows:

	At 31/12/14	At 31/12/13
Loans to companies	2	2
Deposits and guarantee deposits	6	7
Tariff deficit	–	452
Non-current	8	461
Deposits and guarantee deposits	61	33
Tariff deficit	–	33
Current	61	66
Total	69	527

At 31 December 2013, the item “Financing of electricity system revenue deficit” related to Gas Natural SDG's collection right for 2013.

These assets have been transferred in the demerger operation (Note 5).

Note 11. Inventories

The breakdown of inventories is as follows:

	At 31/12/14	At 31/12/13
Coal and fuel oil	–	173
Nuclear fuel	64	66
Materials and other inventories	–	4
Total	64	243

Note 12. Trade and other receivables

The breakdown of this account is as follows:

	A 31/12/14	A 31/12/13
Trade receivables	51	59
Trade receivables, group companies and associates	466	585
Sundry receivables	42	176
Provision	(13)	(10)
Derivatives (Note 17)	33	9
Current income tax asset	164	143
Public Administration	1	90
Total	744	1,052

In general, amounts billed pending collection do not bear interest, the average maturity period being less than 18 days.

Movements in the bad debt provision are as follows:

	2014	2013
Balance at 1 January	(10)	(5)
<i>Net charge for the year (Note 24)</i>	<i>(4)</i>	<i>(2)</i>
Other	1	(3)
Balance at 31 December	(13)	(10)

Note 13. Cash and cash equivalents

Cash and cash equivalents include:

	At 31/12/14	At 31/12/13
Cash at banks and in hand	2,039	1,200
Other cash equivalents	767	2,259
Total	2,806	3,459

Investments in Cash equivalents mature within less than three months a weighted effective interest rate of 0.76% at 31 December 2014 (1.0% at 31 December 2013).

Note 14. Equity

The main items of Equity are as follows:

Share capital and share premium

The variations during the years 2014 and 2013 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 1 January 2013	1,000,689,341	1,001	3,808	4,809
Capital increase	-	-	-	-
At 31 December 2013	1,000,689,341	1,001	3,808	4,809
Capital increase	-	-	-	-
At 31 December 2014	1,000,689,341	1,001	3,808	4,809

All issued shares are fully paid up and carry equal voting and dividend rights.

The Spanish Companies Act specifically allows the use of the share premium balance to increase capital and imposes no specific restrictions on its use.

In 2014, 1,128,504 treasury shares have been acquired for €23 million (3,447,535 treasury shares for €52 million in 2013), of which 174,998 shares amounting to €3 million have been handed over to the Group's employees as part of their 2014 remuneration under the Share Purchase Plan 2012-2013-2014 (163,279 shares amounting to €3 million in 2013) (Note 6.11.d); all the other treasury shares have been sold for the sum of €20 million (€50 million in 2013). Gas Natural Fenosa held no treasury shares at year-end 2014 and 2013.

According to available public information or notifications sent to the Company, the most relevant shareholdings in Gas Natural SDG, S.A. at December 2014 are as follows:

	Shareholding %
"la Caixa" Group	34.4
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 2014 of Gas Natural SDG, S.A. is €20.81 (€18.69 at 31 December 2013).

Reserves

Reserves includes the following:

	2014	2013
Legal reserves	200	200
Statutory reserves	100	100
RD 7/96 revaluation reserve	225	225
Goodwill reserves	893	715
Voluntary reserves	6,458	6,226
Other reserves	269	268
	8,145	7,734

Legal reserve

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

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

Statutory reserve

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

Year 2014

This includes the payment of an interim dividend of €0.393 per share out of 2013 profits, for a total amount of €393 million, agreed on 29 November 2013 and paid out on 8 January 2014.

The proposal for the distribution of 2013 profits approved by the Annual General Meeting held on 11 April 2014 included the payment of a supplementary dividend of €0.504 per share, for a total amount of €504 million, paid on 1 July 2014.

On 28 November 2014, the Board of Directors of Gas Natural SDG, S.A. resolved to pay an interim dividend of €0.397 per share out of 2014 results, for a total of €397 million, payable as from 8 January 2015.

The Company had sufficient liquidity to pay out the dividend at the approval date, pursuant to the Spanish Companies Act 2010. The provisional liquidity statement drawn up by the Directors on 28 November 2014 is as follows:

Profit after tax	721
Reserves to be recognised	(53)
Maximum amount distributable	668
Forecast interim dividend payment	397
Cash resources	2,924
Undrawn credit facilities	6,696
Total liquidity	9,620

On 30 January 2015, the Board of Directors approved the following proposal for the distribution of Gas Natural SDG, S.A.'s net profit for 2014, for submission to the Annual General Meeting:

Available for distribution	
Profit/(loss) for the year	1,083
Distribution	
To Goodwill reserve	53
To Voluntary reserves	121
To Dividends	909

This proposal for the distribution of profits prepared by the Board of Directors for approval by the Annual General Meeting includes the payment of a supplementary dividend of €0.511 per share, entailing a total of €512 million, on 1 July 2015.

Year 2013

This includes the payment of an interim dividend of 0.391 per share out of 2012 profits, for a total amount of €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 €504 million, paid on 1 July 2013.

Grants

Movements in capital grants during 2014 and 2013 are as follows:

	Capital grants
At 01/01/2013	4
Amount received	–
Released to income statement	–
At 31/12/2013	4
Amount received	–
Released to income statement	(1)
At 31/12/2014	3

Movements in the above table are shown net of taxes.

Note 15. Provisions

The breakdown of provisions at 31 December 2014 and 2013 is as follows:

	At 31/12/14	At 31/12/13
Provisions for post-employment obligations	289	304
Other provisions	328	499
Non-current provisions	617	803
Current provisions	–	52
Total	617	855

Provisions for employee benefits

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

	2014			2013		
	Pensions and other similar obligations	Other obligations to personnel	Total	Pensions and other similar obligations	Other obligations to personnel	Total
At 1 January	298	6	304	314	5	319
Contributions charged to profits	12	9	21	14	7	21
Payments during the year	(15)	–	(15)	(38)	–	(38)
Variances recognised directly in equity	(3)	–	(3)	1	–	1
Demerger scope (<i>Note 5</i>)	(15)	–	(15)	–	–	–
Transfers and other applications	3	(6)	(3)	7	(6)	1
At 31 December	280	9	289	298	6	304

Pensions and other similar liabilities

Most of the post-employment obligations of Gas Natural SDG, S.A. consist of the contribution of defined amounts to occupational pension plan systems. Nevertheless, at 31 December 2014 and 31 December 2013, Gas Natural SDG, S.A. held the following defined benefit obligations for certain groups of workers:

- Pensioners to retired workers, the disabled, widows and orphans and other related groups.
- 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.
- Obligations 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.

The amounts recognised in the Balance sheet for pensions and similar obligations, as well as the movement in the current value of the obligations and the fair value of the plan assets are determined as follows:

Present value of funded obligations	2014	2013
At 1 January	1,079	1,117
Service cost for the year	2	2
Interest cost	33	39
Changes recognised directly in equity	84	(4)
Benefits paid	(74)	(83)
Others	(12)	8
At 31 December	1,112	1,079
Fair value of plan assets		
At 1 January	781	803
Expected yield	23	27
Contributions	2	22
Changes recognised directly in equity	87	(5)
Benefits paid	(61)	(67)
Transfers and other	–	1
At 31 December	832	781
Provisions for pensions and similar obligations	280	298

The amounts recognised in the income statement for all the above-mentioned defined benefit plans are as follows:

	2014	2013
Current service costs	2	2
Interest costs	33	39
Expected return on plan assets	(23)	(27)
Total charge to the income statement	12	14

The amounts recognised in the Income statement for all the defined benefit pension plans mentioned above are as follows:

	2014	2013
1 to 5 years	6	8
5 to 10 years	28	45
More than 10 years	246	245
Provisions for pensions and similar obligations	280	298

The plan assets expressed as a percentage of total assets are as follows:

% of total	2014	2013
Bonds	100	100

Cumulative actuarial gains and losses recognised directly in equity are negative in the amount of €8 million in 2014 (negative in the amount of €10 million in 2013).

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

	2014	2013
Financial assumptions	16	57
Experience	(20)	(53)
Limits on assets	1	(3)
At 31 December	(3)	1

Actuarial assumptions applied are as follows:

	A 31/12/14	A 31/12/13
Discount rate (p.a.) (%)	0.4 a 2.5	0.7 a 3.6
Expected return on plan assets (p.a.) (%)	0.4 a 2.5	0.7 a 3.6
Future salary increases (p.a.) (%)	2.0	2.5
Future pension increases (p.a.) (%)	2.0	2.5
Inflation rate (annual) (%)	2.0	2.5
Mortality table	PERMF 2000	PERMF2000
Life expectancy		
Men		
Retired in 2014	22.4	22.3
Retired in 2034	42.4	42.2
Women		
Retired in 2014	26.9	26.8
Retired in 2034	48.4	48.3

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

The interest rates used to discount post-employment commitments are applied based on the period of each commitment and the reference curve is calculated applying observable rates for high-credit-quality corporate bonds (AA) issued in the Eurozone.

The costs of health care have been measured on the basis of the expected costs of the premiums of the different medical care policies taken out. A 1% variation in the increase in the cost of these premiums would not have a significant impact on the liability booked at 31 December 2014 and 31 December 2013, nor would it cause a relevant variation in the normal, financial costs for future years in relation to that booked in 2014 and 2013.

Other obligations with the personnel

The Company 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 their termination. At the close of the remuneration programs 2012-2014, 2015-2016 and 2014-2017 are in force, and a provision has been booked, at 31 December 2014, amounting to €18 million (€13 million at 31 December 2013 in other provisions), of which €9 million are classified as non-current in 2014 (€6 million in 2013).

Other current and non-current provisions

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

	2014			2013		
	Non-current provisions	Current provisions	Total	Non-current provisions	Current provisions	Total
At 1 January	499	52	551	463	129	592
Allowances ¹	17	–	17	37	52	89
Reversals	–	–	–	–	–	–
Payments	(2)	–	(2)	(9)	(129)	(138)
Transfers and other	46	–	46	8	–	8
Demerger scope (<i>Note 5</i>)	(232)	(52)	(284)	–	–	–
At 31 December	328	–	328	499	52	551

¹This includes €9 million and €20 million in 2014 and 2013, respectively, relating to the financial update of provisions.

This item mainly includes:

- This account includes the provisions recorded to meet obligations arising mainly from tax claims, as well as litigation and arbitration 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 31.
- Provisions for commitments related to power plant decommissioning, restoration and other costs amounting to €146 million at 31 December 2014 (€334 million at 31 December 2013).
- At 31 December 2013, it included current provisions relating to the obligation to hand over CO₂ emissions rights totalling €52 million.

No provision for onerous contracts was deemed necessary at 31 December 2014 or 2013.

At 31 December 2014, the estimated payment dates for these obligations are between one and five years (€17 million), between five and 10 years (€48 million) and more than 10 years (€263 million) (2013: €72 million at between one and five years, €86 million at between five and 10 years and €341 million at more than 10 years in 2013).

Note 16. Borrowings

The breakdown of borrowings at 31 December 2014 and 2013 is as follows:

	A 31/12/14	A 31/12/13
Borrowings from financial institutions	3,849	3,534
Finance lease payables	–	155
Derivatives (Note 17)	39	17
Other financial liabilities	15	15
Non-current borrowings	3,903	3,721
Borrowings from financial institutions	163	177
Finance lease payables	–	70
Derivatives (Note 17)	36	6
Other financial liabilities	419	412
Current borrowings	618	665
Total	4,521	4,386

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

	Carrying amount		Fair value	
	At 31/12/14	At 31/12/13	At 31/12/14	At 31/12/13
Borrowings from financial institutions and other financial liabilities	3,903	3,721	3,909	3,731

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 2014 and 31 December 2013 on borrowings with similar credit and maturity characteristics.

The movement in borrowings is as follows:

	2014	2013
At 1 January	4,386	7,397
Demerger scope (Note 5)	(226)	–
Increase	1,297	1,804
Decrease	(936)	(4,815)
At 31 December	4,521	4,386

The following tables describe borrowings and maturities at 31 December 2014 and 2013, taking into account the impact of derivative hedges.

	2015	2016	2017	2018	2019	2020 and beyond	Total
At 31 December 2014							
Fixed	112	134	443	640	386	432	2,147
Floating	506	367	99	495	670	237	2,374
Total	618	501	542	1,135	1,056	669	4,521

	2014	2015	2016	2017	2018	2019 and beyond	Total
A 31 December 2013							
Fixed	148	270	198	294	122	459	1,491
Floating	517	113	663	192	1,208	202	2,895
Total	665	383	861	486	1,330	661	4,386

Setting aside the impact of derivatives on borrowings, fixed-rate debt would amount to €105 million of total borrowings at 31 December 2014 (€314 million at 31 December 2013); variable-rate debt would amount to €4,416 million at 31 December 2014 (€4,072 million at 31 December 2013).

The following tables describe the gross borrowings denominated in foreign currencies at 31 December 2014 and at 31 December 2013 and their maturities, taking into account the impact of the derivative hedges:

	2015	2016	2017	2018	2019	2020 and beyond	Total
At 31 December 2014:							
Euro debt	589	472	256	1,122	946	669	4,054
USD debt	29	29	286	13	110	–	467
Total	618	501	542	1,135	1,056	669	4,521

	2014	2015	2016	2017	2018	2019 and beyond	Total
At 31 December 2013:							
Euro debt	640	261	836	235	1,318	661	3,951
USD debt	25	122	25	251	12	–	435
Total	665	383	861	486	1,330	661	4,386

Borrowings bore an average effective interest rate in 2014 of 2.23% (2.43% in 2013) including the derivatives assigned to each transaction.

We set out below the most relevant financial instruments:

Bank borrowings

In November 2013, a loan granted in 2010 under a "Club Deal" arrangement was repaid in advance in the amount of €3,000 million and a "Club Deal" credit line of €1,500 million was obtained (not been utilised at 31 December 2014 or 2013), together with a second tranche, in the form of a loan, which was fully drawn in the amount of €750 million.

At 31 December 2014, bank borrowings also include other bilateral bank loans of €1,643 million (€1,477 million at 31 December 2013), no amounts having been drawn down on credit lines.

These payables include bank borrowings totalling €400 million that are subject to the fulfilment of certain covenants.

At the preparation date of these Annual accounts, Gas Natural SDG, S.A. 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.

Institutional financing

The Company records balances payable to the Official Credit Institute (ICO) relating to instruments maturing in 2018 at maximum, for a total amount of €249 million (€305 million).

Additionally, financing granted by the European Investment Bank (EIB) to Gas Natural SDG, S.A. has been drawn down in the amount of €1,392 million, the sum of €53 million being drawable on a financing line granted but not utilised (€1,200 million and €225 million drawable in 2013).

Finance lease liabilities

Finance lease commitments relate almost entirely to the discounted values of payments committed under 10-year finance leases for the power islands of Palos de la Frontera and Sagunto combined cycle plants, concluded in 2005 and 2007, respectively.

Set out below is a breakdown of minimum payments under finance leases at 31 December 2013:

	At 31/12/13		
	Nominal value	Discount	Current value
Less than 1 year	80	(10)	70
Between 1 and 5 years	167	(12)	155
Total	247	(22)	225

The finance lease agreements were transferred in the demerger operation (Note 5).

Other financial liabilities

In 2013, Gas Natural Internacional SDG, S.A. renewed the repurchase commitment on shares in Gas Natural México, S.A. de C.V. and in Sistemas de Administración, S.A. de C.V. made to Sinca Inbursa, transferring to this company both the shares and the deferred payment.

Note 17. Risk management and derivative financial instruments

Risk management

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

- Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.
- Segregation at the operating level of the risk management functions.
- Assuring that the level of its risk exposure of 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 borrowing costs within the established risk parameters.

Gas Natural SDG, S.A. employs financial swaps to manage exposure to interest rate fluctuations, swapping floating rates for fixed rates.

The financial debt structure at 31 December 2014 and 2013 (Note 16), after taking into account the hedges arranged through derivatives, is as follows:

	At 31/12/14	At 31/12/13
Fixed interest rate	2,147	1,491
Floating interest rate	2,374	2,895
Total	4,521	4,386

The floating interest rate is mainly subject to the fluctuations of the Euribor and the Libor.

The sensitivity of results and equity (measurement adjustments) to interest rate fluctuations is as follows:

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
2014	+50	(12)	22
	-50	12	(22)
2013	+50	(14)	22
	-50	14	(22)

Exchange rate risk

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

- Counter value of cash flows related to the purchase-sale 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 SDG, S.A finances, to the extent possible, its investments in local currency. Furthermore, it tries to match, 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 when its marginal contribution to the risk is relevant and can exceed the risk limits established.

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

	%	2014	2013
Effect on net income before tax	+5	-	-
	- 5	-	-
Effect on equity before tax	+5	-	-
	- 5	-	-

Commodity price exchange risk

A portion of operating expenses of Gas Natural SDG, S.A. are linked to the purchase of gas for supplies or for the energy production of its combined cycle plants. Therefore, Gas Natural SDG, S.A. is exposed to the variation in commodity prices whose determination is basically subject to crude oil prices and those of its by-products. Additionally, because of the significant presence of the electricity generation business Gas Natural Fenosa is exposed to CO₂ emission rights fluctuation risk and electricity prices variations.

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

In electricity and CO₂ emission rights trading by the Company, risk is insignificant due to the low volume of transactions and the established limits placed both on the amount and maturity date.

The sensitivity of results and equity to the variation in both the fair value of derivatives to hedge commodity prices such as for trading operations, is as follows:

	Increase / decrease in electricity purchase price	Effect on profit before tax	Effect on equity before tax
2014	+10%	(17)	–
	–10%	17	–
2013	+10%	(1)	(1)
	–10%	1	1

Credit risk

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

Various credit quality measurement 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 negotiated are bank guarantees, guarantees and deposits.

Furthermore, the outstanding trade receivables are stated on the balance sheet net of provisions for bad debts (Note 12), estimated by Gas Natural SDG, S.A based on the age of the debt and the experience of previous years in line with the prior segregation of customer portfolios and the current economic environment.

At 31 December 2014 and 2013 Gas Natural SDG, S.A. does not have significant concentrations of credit risk.

In order to mitigate credit risk in financial positions, derivatives have been contracted and cash surpluses are placed in banks and financial institutions that are highly solvent according to credit ratings by Moody's and S&P.

Likewise, most of the accounts receivable not due nor provided for have a high credit rating, according to the valuations of Gas Natural SDG, S.A. based on an analysis of the solvency and payment habits of each customer.

Set out below is an ageing analysis of financial assets that are in default but are not deemed to be impaired at 31 December 2014 and 2013:

	At 31/12/14	At 31/12/13
Less than 90 days	–	6
90 – 180 days	–	–
More than 180 days	–	–
Total	–	6

The impaired financial assets are broken down in Note 12.

Liquidity risk

Gas Natural SDG, S.A 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 sufficient funds to cover credit obligations.

At 31 December 2014, available cash totalled €9,541 million (€10,384 million in 2013), including cash and cash equivalents of €2,806 million (€3,459 million in 2013), undrawn bank financing and credit lines to the amount of €6,735 million (€6,925 million in 2013) and debt issues not utilised.

Capital management

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

Gas Natural Fenosa considers the following to be objective indicators of capital management: maintaining a long-term leverage ratio of approximately 50%.

The long-term credit rating of Gas Natural SDG, S.A is as follows:

	2014	2013
Moody's	Baa2	Baa2
Standard & Poor's	BBB	BBB
Fitch	BBB+	BBB+

Derivative financial instruments

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

	At 31/12/14		At 31/12/13	
	Assets	Liabilities	Assets	Liabilities
Hedging derivative financial instruments	–	39	2	17
Cash flow hedge	–	7	–	–
Interest rate	–	7	–	–
Cash flow hedge	–	32	2	17
Interest rate	–	32	2	17
Other financial instruments	–	–	–	–
Interest rate and foreign exchange rate	–	–	–	–
Derivative financial instruments – non current	–	39	2	17
Hedging derivative financial instruments	–	35	1	6
Fair value hedge	–	33	1	–
Exchange rate	–	33	1	–
Cash flow hedge	–	2	–	6
Interest rate	–	2	–	6
Other financial instruments	34	59	17	5
Interest rate and foreign exchange rate	1	1	–	–
Price of commodities	33	58	17	5
Derivative financial instruments current	34	94	18	11
Total	34	133	20	28

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

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

	2014		2013	
	Operating Profit	Net financial Income	Operating Profit	Net financial Income
Cash flow hedges	–	(9)	3	(20)
Fair value hedges	–	–	–	(3)
Other financial instruments	5	(28)	60	(6)
Total	5	(37)	63	(29)

The breakdown of derivatives at December 31, 2014 and 2013, their fair value and maturities of their notional values is as follows:

	Fair value	31/12/14 Notional value						Subsequent years	Total
		2015	2016	2017	2018	2019			
Interest rate hedges									
Cash flow hedges									
Financial swaps (EUR)	(18)	555	705	434	–	–	–	1,694	
Financial swaps (USD)	(1)	203	–	144	–	–	–	347	
Financial swaps (NOK)	(15)	–	–	–	–	–	101	101	
Exchange rate hedges									
Fair value hedges									
Financial swaps (USD)	(7)	–	–	–	–	722	160	882	
Foreign exchange insurance (USD)	(33)	689	–	–	–	–	–	689	
Others									
Commodities price derivatives (EUR)	(24)	247	21	–	–	–	–	268	
Commodities price derivatives (USD)	(1)	1	–	–	–	–	–	1	
	(99)	1,695	726	578	–	722	261	3,982	

	Fair value	31/12/13 Notional value						Subsequent years	Total
		2014	2015	2016	2017	2018			
Interest rate hedges									
Cash flow hedges									
Financial swaps (EUR)	(12)	450	555	255	684	–	–	1,944	
Financial swaps (USD)	(1)	–	–	–	127	–	–	127	
Financial swaps (NOK)	(8)	–	–	–	–	–	101	101	
Exchange rate hedges									
Cash flow hedges									
Foreign exchange insurance (USD)	–	3	–	–	–	–	–	3	
Fair value hedges									
Foreign exchange insurance (USD)	1	366	–	–	–	–	–	366	
Commodities hedges									
Cash flow hedges									
Commodities price derivatives (USD)	–	3	–	–	–	–	–	3	
Others									
Commodities price derivatives (EUR)	12	183	162	6	–	–	–	351	
Commodities price derivatives (USD)	–	22	8	30	–	–	–	60	
	(8)	1,027	725	291	811	–	101	2,955	

Note 18. Borrowings from group companies and associates

The breakdown by maturity of borrowings from group companies is as follows:

Maturity	At 31/12/14	At 31/12/13
2014	–	3,429
2015	2,716	742
2016	1,787	1,122
2017	1,492	1,419
2018	1,439	1,436
2019	1,195	1,193
2020	1,633	–
2021 and after	4,348	4,310
Total	14,610	13,651

Payables to Group companies mainly relate to issues of Gas Natural Capital Markets, S.A. and Gas Natural Fenosa Finance, B.V. under the European Medium-Term Notes (EMTN) programme. This programme was created in 1999; following a number of extensions, the latest in November 2014, the programme limit is €14 billion (€12 billion in 2013). At 31 December 2014, a total of €10,755 million principal had been utilised (€12,055 million in 2013). The amount payable is included to Gas Natural Finance, B.V. for Euro Commercial Paper (ECP) issues, €554 million having been utilised (€146 million in 2013). The balances payable to Gas Natural Fenosa Finance, B.V. of subordinated perpetual debentures (€1 billion) and to Unión Fenosa Preferentes, S.A. related to the preferred shares (€745 million) are also included.

Borrowings from group companies include interest accrued pending maturity of €358 million (€358 million in 2013).

Borrowings from group companies and associates accrued an average interest rate of 0.225% in 2014 (0.21% in 2013).

There are no significant differences between the carrying amounts and fair values of Payables to Group companies and associates.

Note 19. Trade and other payables

The breakdown in 2014 and 2013 is as follows:

	At 31/12/14	At 31/12/13
Trade payables	279	686
Trade payables with related parties	644	134
Derivative financial instruments (<i>Note 15</i>)	58	5
Other payables	9	18
Amounts due to employees (outstanding remunerations)	22	23
Public Administrations	63	204
Current tax liabilities	42	–
Total	1,117	1,070

Most payables do not accrue interest and have contractual maturity dates of less than 30 days, in the case of gas purchases and within the legal limits, for other suppliers.

Payments disclosure of deferrals to suppliers. D.A 3^a “Duty of disclosure” of Law 15/2010/5 July

The total amount of payments made to suppliers during the year, with details of payment terms, in accordance with the legal tender deadlines established under Law 15/2010/5 July, which laid down measures against slow payers, is as follows:

	2014	%	2013	%
Payments made and pending payment within maximum legal period	7,377	99.96	3,935	99.95
Other	3	0.04	2	0.05
Total payments during the year	7,380	100	3,937	100
Weighted average period of payments outside legal period (days)	25	–	20	–
Deferrals exceeding legal maximum period at year end	–	–	–	–

Law 31/2014 (3 December) (containing amendments to Law 15/2010 (5 July), which had in turn amended Law 3/2004 (29 December)) on measures to combat late payment in commercial transactions, requires trading companies to state their average supplier payment period in the annual accounts. In this regard, at 31 December 2014 the average supplier payment period is 24 days.

Note 20. Tax situation

Gas Natural SDG, S.A., as the parent of the tax consolidated group 53/93, has filed corporate income tax returns in Spain since 1993 under the Tax Consolidation Regime provided by Title VII, Chapter VII of the Corporate Income Tax Act, whereby taxable income, tax credits and allowances are calculated for the tax group as a whole. The tax consolidated group for 2014 is analysed in Appendix I.

Corporate income tax is calculated on the basis of economic or accounting profit obtained by application of generally accepted accounting principles, which do not necessarily coincide with taxable profit, understood as taxable income for corporate income tax purposes.

The reconciliation of accounting profit for the years 2014 and 2013 to taxable income is as follows:

	At 31/12/14	At 31/12/13
Accounting profit before tax	207	891
Permanent differences	(167)	(1,554)
Temporary differences		
Arising during current year	105	231
Arising in prior years	(137)	(45)
Taxable income	8	(477)

Permanent differences relate basically to the impairment of shareholdings in Group companies (€843 million), capital gains on sales of shareholdings not subject to tax, and the application of the Tax Consolidation Regime, entailing negative permanent differences of €975 million (€1,484 million at 31 December 2013), due mainly to downward adjustments for dividends accrued during the year.

As a result of Law 16/2013, with effect as from 1 January 2013, impairment losses on shareholdings are no longer corporate income tax deductible; a transitional regime has been established for the reversal of portfolio provisions that would have been deductible. Accordingly, in 2014 and 2013 the impairment losses recognised for shareholdings were not treated as tax deductible. The following table shows the evolution of amounts not yet included in the tax base during the year:

Company	Amounts pending inclusion in tax base in 2013 ¹	Amounts included in 2014	Amounts pending inclusion in tax base in 2014 ¹
Gas Natural Sao Paulo Sul, S.A.	42	(20)	22
Nueva Generadora del Sur, S.A.	44	–	44
Other	1	–	1
	87	(20)	67

¹Tax base in the definitive corporate income tax return

Income tax expense is as follows:

	2014	2013
Current tax	(69)	(355)
Deferred tax	(807)	137
Total	(876)	(218)

Current corporate income tax is the result of applying the 30% tax rate to taxable income. In the consolidated tax group, tax credits applied in 2014 totalled €74 million (€166 million in 2013) and no tax-loss carryforwards were offset (€147 million in 2013, generated in the tax group's 2011 corporate income tax return, due to the free depreciation permitted by Royal Decree 13/2010). Adjustments are also included for prior-year taxable differences, entailing an increase in expense of €2 million (reduction of €2 million in 2013).

On 27 November 2014, Corporate Income Tax Law 27/2014 was approved, stipulating a general tax rate cut from 30% to 28% for 2015 and to 25% as from 2016. However, in order to neutralise the tax rate cut, a deduction for the reversal of temporary measures has been provided to offset the economic cost of the rate cut for taxpayers that were affected by the 30% limit on the deduction of depreciation charges, or that restated fixed assets, in both cases under Law 16/2012 (27 December) on tax measures to consolidated public finances and encourage economic activities. Finally, Law 27/2014 provides an exemption regime for the transfer of significant shareholdings in resident entities that eliminates related temporary taxable differences.

As a result of this general tax rate cut and the other changes brought in by Law 27/2014 (27 November), deferred tax assets and liabilities have been remeasured based on their estimated reversal period, recognising the following impacts:

- An expense reduction of €797 million in the item "Income tax expense" in the income statement.
- A charge to the item "Reserves" in the total statement of changes in equity in the amount of €1 million, due to the remeasurement of items previously charged or credited to equity accounts.
- A decrease of €24 million (€1 million with a balancing entry in equity) in the item "Deferred tax assets" and of €820 million in "Deferred tax liabilities", in the balance sheet.

Tax credits for 2014 relate basically to the reinvestment of extraordinary profits as a result of the gain obtained from the sale of Gas Natural Fenosa Telecomunicaciones, S.L.

Incomes that qualify to the tax credit for reinvestment of extraordinary profits provided by Article 42 of the revised Corporate Income Tax Act introduced under Royal Decree-Law 4/2044 (5 March) (TRLIS) and the resulting investments made in previous periods are explained in the annual accounts for the relevant years. Set out below is a breakdown of the past six years, together with 2014:

Year or sale	Amount obtained from sale	Amount reinvested
2008	151	151
2009	700	700
2010	827	827
2011	854	854
2012	38	38
2013	–	–
2014	223	223
Total	2,793	2,793

The reinvestment has been made in fixed assets used in business activities both by the Company and by the other companies of the Tax group, pursuant to Article 75 of the Corporate Income Tax Act.

A breakdown of the tax effect of each item on the Statement of Recognised Income and Expenses is as follows:

	At 31/12/14			At 31/12/13		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Cash flow hedges	(6)	1	(5)	21	(6)	15
Grants, donations and bequests received	(1)	–	(1)	–	–	–
Actuarial gains and losses and other adjustments	3	(2)	1	(1)	–	(1)
	(4)	(1)	(5)	20	(6)	14

A breakdown of deferred taxes is as follows:

	At 31/12/14	At 31/12/13
Deferred tax assets:	166	307
Non-current	157	296
Current	9	11
Deferred tax liabilities:	(337)	(1,664)
Non-current	(328)	(1,647)
Current	(9)	(17)
Net deferred tax	(171)	(1,357)

Movements and breakdown of deferred asset accounts are as follows:

Deferred tax assets	Personnel liability provisions	Other provisions	Tax credits	Valuation of assets and financial instruments	Depreciation/amortisation differences	Others	Total
At 01/01/2013	138	77	123	10	–	3	351
Creation (reversal) ¹	(1)	42	(120)	–	37	(1)	(43)
Movements linked to equity adjustments	–	–	–	(6)	–	–	(6)
Reclassifications/transfers ¹	–	–	4	–	–	1	5
At 31/12/2013	137	119	7	4	37	3	307
Creation (reversal) ²	(23)	(33)	(2)	1	5	(13)	(65)
Movements linked to equity adjustments	(2)	–	–	1	–	–	(1)
Demerger scope (Note 5)	(5)	(43)	–	–	(32)	–	(80)
Other	1	(7)	–	(1)	–	12	5
At 31/12/2014	108	36	5	5	10	2	166

¹The increase in the depreciation differences item basically relates to the application of the temporary 30% limit on the deduction of depreciation charges stipulated in Law 16/2012.

²It includes the decrease due to the restatement of deferred tax assets under Law 27/2014.

Deferred tax liabilities	Depreciation/ amortisation differences	Deferred gains	Merger ¹	Others	Total
At 01/01/2013	157	254	1,105	79	1,595
Creation (reversal)	5	–	(2)	91	94
Other	–	–	–	(25)	(25)
At 31/12/2013	162	254	1,103	145	1,664
Creation (reversal) ²	(17)	(42)	(711)	(102)	(872)
Demerger scope (<i>Nota 5</i>)	(83)	–	(373)	(20)	(476)
Reclasificaciones/transfers	–	(2)	21	2	21
At 31/12/2014	62	210	40	25	337

¹The “Merger” section relates basically to the tax effect of the part of the merger difference resulting from the merger of Unión Fenosa, S.A. into Gas Natural SDG, S.A. in 2009, allocated to net assets acquired, which is not expected to have tax effects, and the amount of the tax deduction applied to the part of the merger difference not allocated to net assets acquired.

²It includes the decrease due to the restatement of deferred tax liabilities under Law 27/2014.

In 2014, the demerger of Gas Natural SDG, S.A. was completed in favour of Gas Natural Fenosa Generación, S.L.U. (Note 5). Pursuant to Article 83.3 TRLIS, this operation is defined as a non-cash contribution of a line of business and is thus subject to the special scheme provided by Title VII, Chapter VIII of the Corporate Income Tax Act (TRLIS). Note 5 provides a breakdown of the carrying amount of the assets handed over, which matches the value recognised for the shareholding in the company Gas Natural Fenosa Generación, S.L.U.

In 2009, the companies Unión Fenosa, S.A. and Unión Fenosa Generación S.A. were merged into Gas Natural SDG, S.A. under the special tax scheme for mergers, spin-offs, asset contributions, share exchanges and changes of registered address of European companies or European cooperatives from one European Union Member State to another, provided by Title VII, Chapter VIII TRLIS. The information requirements stipulated in the special tax scheme are fulfilled in the notes to Gas Natural SDG, S.A.'s 2009 annual accounts.

In May 2013, the inspection of Gas Natural SDG, S.A., as the parent of the tax group, for corporate income tax from 2006 to 2008, and for other taxes at the individual company level for 2007 and 2008, was finally completed. No relevant aspects were identified, except for the regularisation of the tax credit for export activities in the amount of €5 million, which was fully provisioned in prior years and therefore did not affect the income statement (Note 31).

In June 2014, tax audits of Gas Natural SDG, S.A. and Gas Natural Internacional SDG, S.A. commenced, relating to corporate income tax (2009 and 2010) and value added tax (2010). These inspections are not expected to give rise to significant impacts on Gas Natural Fenosa. With respect to other taxes, Gas Natural SDG, S.A.'s tax group is open to inspection for 2010 and subsequent periods.

Notes 31 provides details of the main administrative actions have a tax impact and the Company's position, in the section “Litigation and arbitration”.

Note 21. Sales

Sales are mainly made in the domestic market and break down as follows:

	2014	2013
Electricity sales	1,542	3,726
Natural gas sales	2,110	1,823
Other sales	4	11
Services	--	26
Income from equity instruments of Group companies and associates (<i>Note 9</i>)	1,120	1,685
Income from marketable securities and other financial instruments of Group companies and associates	347	187
Total	5,123	7,458

Electricity and gas sales are made basically in the domestic market. The decrease is due basically to the demerger operation mentioned in Note 5.

Note 22. Procurements

This caption includes purchases of natural gas and other raw materials and consumables utilised in the various electricity generation technologies; also included are natural gas purchases under supply contracts in force.

Note 23. Staff costs

The breakdown of this account in the income statement for 2014 and 2013 is as follows:

	2014	2013
Wages and salaries	164	220
Social security costs	23	33
Defined contribution plans	11	16
Defined benefit plans (<i>Note 13</i>)	2	2
Others	12	15
Total	212	286

The average number of employees of Gas Natural SDG, S.A. during 2014 has totalled 2,237 and 2,786 in 2013.

In accordance with Organic Law 3/2007 (22 March) for effective equality between women and men, published in the Official State Gazette on 23 March 2007, the number of Company employees by gender at year-end 2014 and 2013 is as follows:

2014	Men	Women	Total
Executives	338	143	481
Middle managers	121	81	202
Specialists	339	347	686
Workers	129	277	406
Total	927	848	1,775

2013	Men	Women	Total
Executives	396	143	539
Middle managers	389	91	480
Specialists	422	368	790
Workers	665	317	982
Total	1,872	919	2,791

Note 24. Other operating expenses

A breakdown income statement account for 2014 and 2013 is as follows:

	2014	2013
Taxes	78	287
Operation and maintenance	129	137
Professional services and insurance	64	78
CO ₂ emission expenses	–	49
Advertising and other commercial services	27	25
Energy efficiency	–	25
Impairment losses and changes in trade provisions (<i>Note 13</i>)	4	2
Other	183	203
Total	485	806

The item "Energy efficiency" includes the Company's contribution to energy saving and efficiency policies pursuant to Royal Decree-Law 14/2010 (23 December) (Note 2.2).

In 2013, the item "Taxes" includes amendments to taxes and new taxes and levies introduced by Law 15/2012 (27 December) on tax measures for energy sustainability (Note 2.2).

In 2013, the item "Other" included a reduction of €40 million in expense due to the Supreme Court's Decision of 13 November 2013 recognising that the companies which financed the social bond were entitled to be reimbursed for the amounts paid prior to 2012 (Note 2.2). Royal Decree-Law 9/2013 (July 2013) stipulated that the social bond costs would be borne by the parent companies of integrated production, distribution and commercialisation groups (Note 2.2); the obligation came into force in 2014, following the approval of allocation percentages for the amounts to be financed, entailing an impact of €25 million in 2014.

Note 25. Other operating income

This accounts includes €3129 million in transactions with group companies and associates in 2014 (€313 million in 2013).

Note 26. Net financial income

The breakdown of this account in the Income statement for 2014 and 2013 is as follows:

	2014	2013
Income from marketable securities and other financial instruments	46	109
Total financial income	46	109
Cost of borrowings	(589)	(765)
Interest expense on pensions (Note 15)	(10)	(12)
Other financial expense	(54)	(74)
Total financial expense	(653)	(851)
Change in fair value of financial instruments	2	(3)
Trading portfolio and other available-for-sale assets	2	(3)
Net exchange differences	2	(7)
Profit/(loss) on impairment and disposals of financial instruments	-	(1)
Profit/(loss) on disposals and other	-	(1)
Net financial income/(expense)	(603)	(753)

In 2013, the item "Profit/(loss) on disposals and other" relates basically to settlement losses recognised by Compañía Española de Terrenos y Urbanizaciones, S.A., Lantaron Energía, S.L. and TIT Vectoria, S.L. for a total of €1 million.

Note 27. Foreign currency transactions

Transactions effected in foreign currencies are analysed below, the main currency being the US dollar:

	2014	2013
Sales	919	969
Income from equity instruments of Group companies and associates	–	6
Income from marketable securities and other financial instruments of Group companies and associates	23	17
Purchases	(911)	(968)
Services received	(23)	(11)
Total	8	13

Note 28. Joint ventures

Gas Natural SDG, S.A. participates in different joint ventures that meet the conditions indicated in Note 6.18. The relevant shareholdings in joint ventures at 31 December 2014 and 2013 are as follows:

(%)	2014	2013
Comunidad de bienes Central Térmica Anllares	–	66.7
Comunidad de bienes Central Térmica Aceca	–	50.0
Comunidad de bienes Central Nuclear Trillo (Grupo I)	34.5	34.5
Comunidad de bienes Central Nuclear Almaraz (Grupo I y II)	11.3	11.3
Centrales Nucleares Almaraz-Trillo, A.I.E.	19.3	19.3

The contribution of the shareholdings in joint ventures in terms of the assets, liabilities, income and net income of Gas Natural SDG, S.A. is as follows:

	2014	2013
Non-current assets	611	627
Current assets	67	189
Assets	678	816
Non-current liabilities	63	39
Current liabilities	81	103
Liabilities	144	142
Net assets	534	674
Income	197	233
Expenses	210	228
Net income after tax	(13)	5

There are no contingent liabilities for the shareholdings in joint ventures. The disclosures on contractual commitments in Note 31 include the commitments for the purchase of nuclear fuel totalling €48 million (€43 million at 31 December 2013).

Note 29. Information on transactions with related parties

The following are related parties for the purposes of this Note:

- Significant shareholders of Gas Natural SDG, S.A., shareholders that directly or indirectly hold an interest equal to or greater than 5%, as well as the shareholders who, without being significant, have exercised the power to put forward appointments of a member of the Board of Directors.

Under this definition, the significant shareholders of Gas Natural SDG, S.A. are Criteria Caixaholding, S.A.U., and, consequently, the Caixa d'Estalvis i Pensions de Barcelona group ("la Caixa" group) and the Repsol group.

- Directors and executives of the Company and their immediate families. The term "director" means a member of the Board of Directors and the term "executive" means a member of the Management Committee and the Internal Audit Director. The operations undertaken with directors and executives are set out in Note 30.
- Group companies or entities. Transactions effected between group companies form part of the ordinary course of business.

The aggregated amounts of operations with significant shareholders are as follows (thousand Euros):

Income and expense (thousand Euros)	2014		2013	
	"la Caixa" group	Repsol group	"la Caixa" group	Repsol group
Financial expense	711	--	5,093	--
Goods received	5,978	--	5,768	3,764
Purchase of goods (finished or in progress)	--	13,765	--	437,553
Other expenses ¹	9,747	--	11,796	--
Total expenses	16,436	13,765	22,657	441,317
Financial income	17,160	--	27,387	--
Leases	--	--	--	371
Services provided	--	41	--	802
Sale of goods (finished or in progress)	--	--	--	4
Other income	--	--	9	--
Total income	17,160	41	27,396	1,177

Other transactions (thousand Euros)	2014		2013	
	"la Caixa" group	Repsol group	"la Caixa" group	Repsol group
Purchase of property, plant and equipment, intangible assets or other assets ⁽²⁾	–	–	10,500	1,299
Financing agreements: loans and capital contributions (lender) ³	1,651,291	–	1,532,641	–
Financing agreements, credits and capital contributions(borrower) ⁴	200,000	–	–	–
Warranties and guarantees received	156,250	–	137,500	–
Dividends and other profit distributions	309,445	269,295	311,037	268,474
Other transactions ⁵	372,630	–	200,908	–

¹ Includes contributions to pension plans, group insurance policies, life insurance and other expenditure.

² This 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. on 21 June 2013 and to the acquisition of 50% of Repsol-Gas Natural LNG, S.L. from Repsol, S.A. on 30 December 2013.

³ Includes cash and cash equivalents.

⁴ At 31 December 2014, credit lines contracted with "la Caixa" group amounted to €562,421 thousand (€562,421 thousand at 31 December 2013), of which any amount had been utilised in 2013 and 2012. In addition, "la Caixa" Group has shares of other loans totalling €200,000 thousand. It had no shares of loans at 31 December 2013.

⁵ At 31 December 2014, the item "Other transactions" with the "la Caixa" Group includes the amount of €190,264 thousand in respect of foreign exchange hedges (zero at 31 December 2013) and €182,365 thousand in respect of interest rate hedges (€200,908 thousand at 31 December 2013).

The aggregated amounts of operations with group companies and associates are as follows (in million Euros):

Expenses, income and other transactions	2014		2013	
	Group companies	Multi-group companies and associates	Group companies	Multi-group companies and associates
Financial expenses	(509)	–	(609)	–
Lease expenses	(52)	(7)	(53)	(7)
Services received	(25)	(27)	(34)	(15)
Purchases of goods	(1,402)	–	(471)	(533)
Total expenses	(1,988)	(34)	(1,167)	(555)
Financial income	345	2	185	2
Dividends received	1,098	24	1,823	–
Services provided	–	–	–	7
Sale of goods	3,941	–	3,365	2
Other income	326	2	311	2
Total incomes	5,710	28	5,684	(13)
Sale of Property, plant and equipment, intangible and other assets	550	–	582	–
Purchase of Property, plant and equipment, , intangible and other assets	–	–	(5)	–
Other transactions	550	–	577	–

The item "Purchases" relates basically to electricity purchased from the other Group companies, since Gas Natural SDG, S.A. is their market representative. In 2013 it related to gas purchased for the production of electricity.

Under the heading "Dividends received" are included the dividend payments from voluntary reserves, registered as a lower value on investments in group companies (Note 9).

Sales of natural gas and electricity are included under "Sale of goods".

The item "Other income" includes income from services rendered in accordance with the nature and extent thereof.

The heading "Sales of Property, plant and equipment, intangible and other assets" includes issue premium distributions made by group companies (Note 9).

Costs shared between the Company and other group companies are allocated on the basis of business or cost generation parameters.

Detailed definitions are prepared of services to be provided and of related activities or tasks in order to determine the measurement indicators used to calculate costs allocated. Transactions between companies are objective, transparent, non-discriminatory and always effected at arm's length.

Note 30. Information regarding members of the Board of Directors and Management Committee

Remuneration of the members of the Board of Directors

In accordance with the provisions of the Articles of Association, the Company can allocate each year, for all items, 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, Audit and Control Committee (CA&C) and Appointments and Remuneration Committee (CN&R), totalled €4,085 thousand (€4,085 thousand in 2013), broken down in euros as follows:

	Office	Board	EC	CA&C	CN&R	Total
Mr. Salvador Gabarró Serra	Chairman	550,000	550,000	–	–	1,100,000
Mr. Antonio Brufau Niubó	Vice-Chairman	126,500	57,500	–	12,650	196,650
Mr. Rafael Villaseca Marco	CEO	126,500	126,500	–	–	253,000
Mr. Ramón Adell Ramón	Board Director	126,500	–	12,650	–	139,150
Mr. Enrique Alcántara–García Irazoqui	Board Director	126,500	126,500	–	–	253,000
Mr. Xabier Añoveros Trías de Bes	Board Director	126,500	–	–	–	126,500
Mr. Demetrio Carceller Arce	Board Director	126,500	126,500	–	–	253,000
Mr. Santiago Cobo Cobo	Board Director	126,500	–	–	12,650	139,150
Mr. Nemesio Fernández Cuesta Luca de Tena	Board Director	126,500	69,000	–	–	195,500
Mr. Felipe González Márquez	Board Director	126,500	–	–	–	126,500
Mr. Emiliano López Achurra	Board Director	126,500	126,500	–	–	253,000
Mr. Carlos Losada Marrodán	Board Director	126,500	126,500	12,650	–	265,650
Mr. Juan María Nin Génova	Board Director	126,500	126,500	–	–	253,000
Mr. Heribert Padrol Munté	Board Director	126,500	–	–	–	126,500
Mr. Juan Rosell Lastortras	Board Director	126,500	–	–	–	126,500
Mr. Luis Suárez de Lezo Mantilla	Board Director	126,500	–	12,650	–	139,150
Mr. Miguel Valls Maseda	Board Director	126,500	–	–	12,650	139,150
		2,574,000	1,435,500	37,950	37,950	4,085,400

No amounts were received in 2014 for other items (€5 thousand in 2013).

In 2014, the Chief Executive Officer received €10 thousand as a Board member of the investee company CGE. In 2013, no additional amounts were received in relation to the Boards of other investee companies.

The amounts accrued to the Chief Executive Officer for executive functions in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled €1,063 thousand, €1,141 thousand, €902 thousand and €5 thousand, respectively, during 2014 (€1,043 thousand, €1,109 thousand, €838 thousand and €6 thousand, respectively, in 2013). The variable remuneration (annual and multi-year) for 2013 reflects the definitive amounts approved by the Appointments and Remuneration Committee following the 2013 year end.

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled €308 thousand in 2014 (€314 thousand in 2013). Funds accumulated due to these contributions amount to €2,636 thousand at 31 December 2014 (€2,335 thousand at 31 December 2013).

The members of the Board of Directors of the Company have not received any remuneration in profit sharing or premiums and have not been granted any loans or advances. Neither have they received shares or share options during the year, nor have they exercised any options or hold any options pending execution.

The contract with the Chief Executive Officer contains a clause that establishes a severance indemnity that trebles his annual compensation in the event of certain cases of termination of the labour relationship and an indemnity of one year's remuneration in consideration for the one-year post-contractual non-compete clause.

Operations with Directors

The Board directors have the duty to avoid conflicts of interest, as stipulated Gas Natural SDG, S.A.'s Board Regulations and in Articles 228 and 229 of the Spanish Companies Act 2010. These articles also stipulate that conflicts of interest affecting the Board directors must be reported in the annual accounts.

The Company's Board directors have not communicated any conflict of interest that must be reported.

With respect to transactions with related parties (significant shareholders) that have been submitted to the Board for approval, subject to a favourable report from the Appointments and Remuneration Committee, the Board directors representing the related party involved refrained from voting.

The Board directors did not complete any transactions outside the ordinary course of business or on other terms than arm's length terms with the Company or with Group companies during 2014 and 2013.

Remuneration of Management Committee

For the purposes of the information contained in this section only, "executives" are the members of the Management Committee, excluding the Chief Executive Officer, whose remuneration has been included in the previous section, and the Internal Audit Director.

The amounts received by the executives in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items, totalled €4,459 thousand, €2,776 thousand, €2,083 thousand and €121 thousand, respectively in 2014 (€4,348 thousand, €2,495 thousand, €1,893 thousand and €119 thousand in 2013).

Fixed remuneration for 2014 includes €120 thousand received in the form of Company shares (€120 in 2013) under the share purchase plan mentioned in Note 6.11.d).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled €2,176 thousand in 2014 (€5,352 thousand in 2013). Funds accumulated due to these contributions amount to €22,818 thousand at 31 December 2014 (€20,608 thousand at 31 December 2013).

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 2014 total €100 thousand (€100 thousand at 31 December 2013). No indemnities were received during 2014 or 2013.

The contracts of the members of the Executive Committee contain a clause that stipulates a minimum indemnity of two years pay in certain cases of termination of contract and an indemnity equivalent to one year's fixed remuneration for the post-employment non-compete clause for a period of two years.

Note 31. Contingent liabilities and commitments

Guarantees

At 31 December 2014 Gas Natural SDG, S.A. has been given guarantees before third parties relating to their activities totalling €263 million (€300 million at 31 December 2013).

On the other hand, financial guarantees have also been given totalling €244 million (€256 million at 31 December 2013), €229 million of which relate to the guarantee compliance with the obligations for the loans received by investee companies (€186 million at 31 December 2013).

Gas Natural SDG, S.A. estimates that the unforeseeable liabilities at 31 December 2014, if any, that could arise from the guarantees given would not be significant.

Contractual commitments

At 31 December 2014, the Company is party to several gas supply contracts with “take or pay” clauses negotiated for “own use” (Note 6.5), by virtue of which it has gas purchase rights for the period 2015-2030 in the amount of €17,518 million, calculated on the basis of natural gas prices at 31 December 2014.

Operating lease obligations break down as follows:

Period	2014		2013	
	Operating leases	Purchases of nuclear fuel	Operating leases	Purchases of nuclear fuel
Up to one year	6	23	6	20
Between 1 and 5 years	2	25	8	23
	8	48	14	43

Operating lease commitments refer basically to the rental of the “Torre del Gas” building owned by Torre Marenstrum, S.L., for which Gas Natural SDG, S.A. has an operating lease without a purchase option for a 10-year term as from March 2006, renewable at market value for successive three-year periods at the discretion of Gas Natural SDG, S.A. but on a mandatory basis for Torre Marenstrum, S.L.

Litigation and arbitration

At the date of formulation of these Annual accounts the main litigation or arbitration to which Gas Natural SDG, S.A. is a party are as follows:

Tax claims in Spain

As a result of the various inspection proceedings on tax periods 2003 to 2008, the Inspectorate has questioned the admissibility of the tax credit for export activities applied by Gas Natural Fenosa; the tax assessments have been contested and appeals have been lodged at the Tax and Treasury Court and the National Court. At 31 December 2014, the assessments amounted to €91 thousand, including interest, and were fully provisioned.

The Company believes that the provisions recorded in these Annual accounts adequately cover the risks described in this Note, and, accordingly, no additional liabilities other than those recorded are expected.

Note 32. Auditors' fees

The fees accrued in thousand Euros by the different companies using the PwC mark are:

(thousand euros)	2014	2013
Auditing and related services	1,336	985
Total fees	1,336	985

Note 33. Environment

Environmental actions

The main actions of Gas Natural Fenosa in 2014 were framed within the corporate environmental values. These actions have been aimed basically at ensuring compliance with legislation, and a tight environmental control of activities and facilities. Responsible measures were also taken to meet the energy needs of customers.

This is achieved through environmental management based on the ISO 14001 model, the correct functioning of which is verified periodically, providing the tools required to optimise environmental management. Accordingly, 100% of the EBITDA generated in 2014 by environmentally significant activities is ISO 14001-certified. During 2014 this management model was applied to all the industrial activities carried on in Brazil and considerable progress was made in implementing environmental management in the activities in Argentina.

Gas Natural Fenosa's positioning in relation to climate change is based on its contribution to climate change mitigation by using low-carbon and renewable energies, promoting energy saving and efficiency, applying new technologies and capturing carbon in the Group's projects. In this regard, the launch of the COmpensa2 initiative in 2014 is relevant. With respect to recognition of our carbon management, for the third consecutive year Gas Natural Fenosa led the worldwide ranked list of utilities companies, according to the reports The A List and Iberia 125 Climate Change Report prepared by the Carbon Disclosure Project (CDP).

As regards emission values, in 2014 there were significant changes in direct CO₂ emissions with respect to 2013, coal and gas operations having been conditioned by generation using renewable energies and by moderate demand. In November 2014, Gas Natural Fenosa joined the "Spanish Green Growth Group", promoted by the Ministry of Agriculture, Food and Environment, the objectives of which, under the European Green Growth Group model, are to increase corporate participation, share information, identify opportunities and support Spain's presence in international forums.

In 2014, Gas Natural Fenosa undertook numerous actions to promote the conservation of biodiversity, some in response to requirements implemented by environmental authorities and others voluntarily. In July 2014, an agreement was concluded with the Global Nature Foundation to implement the Group's commitment to the conservation of biodiversity, one of the core elements of the environmental management of businesses and activities worldwide.

Aware of the fundamental role of water in the production process and the environment, in 2014 Gas Natural Fenosa began to define a water strategy in order to improve the management of this resource at its plants. The aim of this strategy is to provide Gas Natural Fenosa with an objective overview of current water management and to define an action framework for the entire group to be implemented over the next few years.

All these environmental actions carried out in 2014 totalled €35 million (€44 million in 2013), of which €3 million relate to environmental investments (€12 million in 2013) and €32 million relate to environmental management expenditure (€32 million in 2013). 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 environmental-related risks in which Gas Natural Fenosa could be incur are adequately covered by subscribed liability insurance policies.

Emissions

Gas Natural Fenosa manages its CO₂ emission rights coverage portfolio in an integrated manner, 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 €3 million has been committed.

Additionally, Gas Natural Fenosa has registered ten projects for clean development mechanisms with the United Nations. The Group has also launched the COmpensa2 initiative in which emissions associated with buildings, corporate trips, vehicles and events are voluntarily offset every year.

In 2014, as a result of the demerger, the coal and combined-cycle plants affected by the greenhouse gas emissions trading regulations were transferred to Gas Natural Fenosa Generación, S.L.U. (Note 5).

In 2013, consolidated CO₂ emissions from Gas Natural Fenosa's coal thermal and combined-cycle plants subject to greenhouse gas emissions trading regulations totalled 11.5 million tonnes of CO₂.

Note 34. Balance sheet and Income statement segregated by activities

The Balance sheet and Income statement are presented in accordance with the Company's business activities:

- a) Electricity generation: includes nuclear power plants in 2014. In 2013 it included ordinary-regime electricity generation in Spain using combined-cycle, hydraulic, nuclear and coal plants.
- b) Other activities: Basically includes the activity as parent company of the Gas Natural Fenosa group, provisions of services to the group companies and purchase-sale of gas under contracts for supplies to other group companies.

The criteria used for segregating by activities are:

- The assets, liabilities, revenue and expenses which directly correspond to each activity are allocated to such activity.
- Indirect assets, liabilities, revenue and expenses have been allocated to each activity on the basis of distribution criteria and taking into account their effective use.
- Financial debt and shareholders' equity are allocated on the basis of the financial needs of each activity. Financial revenue and expenses are allocated as previously allocated.

As a result of the definition of activities and in accordance with the criteria used, the Balance sheet and Income statement segregated at 31 December 2014 and 31 December 2013 are as follows:

Segregated balance sheet (a 31/12/2014)

(million euros)	Electricity generation	Other activities	Total
Non-current assets	1,136	28,935	30,071
Intangible assets	247	815	1,062
Property, plant and equipment	876	173	1,049
Long-term investments in group companies and associates	–	27,779	27,779
Long-term investments	2	13	15
Deferred income tax assets	11	155	166
Current assets	96	4,665	4,761
Inventories	64	–	64
Trade and other receivables	32	712	744
Short-term investments in group companies and associates	–	1,082	1,082
Short-term investments	–	62	62
Short term prepayments and accrued expense	–	3	3
Cash and cash equivalents	–	2,806	2,806
Total assets	1,232	33,600	34,832
Net equity	365	13,264	13,629
Shareholders' net equity	362	13,278	13,640
Adjustments for changes in value	–	(14)	(14)
Grants, donations and bequests received	3	–	3
Non-current liabilities	790	15,962	16,752
Long-term provisions	156	461	617
Long-term borrowings	–	3,903	3,903
Amounts owing to group companies and associates falling due in more than one year	543	11,351	11,894
Deferred income tax liabilities	91	246	337
Long-term accruals and deferred income	–	1	1
Current liabilities	77	4,374	4,451
Short-term borrowings	–	618	618
Amounts owing to group companies and associates falling due in less than one year	–	2,716	2,716
Trade and other payables	77	1,040	1,117
Total net equity and liabilities	1,232	33,600	34,832

Segregated income statement (2014)

(million euros)	Electricity generation	Other activities	Total
Net turnover	189	4,934	5,123
Supplies	(34)	(3,332)	(3,366)
Other operating income	16	389	405
Personnel costs	(14)	(198)	(212)
Other operating expenses	(153)	(332)	(485)
Depreciation/amortisation	(76)	(11)	(87)
Impairment and results on disposals of financial instruments	–	(568)	(568)
Operating profit	(72)	882	810
Financial income	–	46	46
Financial expenses	(19)	(634)	(653)
Variation in fair value of financial instruments	–	2	2
Net exchange gains / losses	–	2	2
Net financial income	(19)	(584)	(603)
Profit before tax	(91)	298	207
Income tax	44	832	876
Profit for the year	(47)	1,130	1,083

Segregated balance sheet (a 31/12/2013)

(million euros)	Electricity generation	Other activities	Total
Non-current assets	10,679	18,073	28,752
Intangible assets	3,340	818	4,158
Property, plant and equipment	6,763	135	6,898
Long-term investments in group companies and associates	–	16,919	16,919
Long-term investments	452	18	470
Deferred income tax assets	124	183	307
Current assets	789	5,341	6,130
Inventories	243	–	243
Trade and other receivables	493	559	1,052
Short-term investments in group companies and associates	–	1,274	1,274
Short-term investments	33	42	75
Short term prepayments and accrued expense	20	7	27
Cash and cash equivalents	–	3,459	3,459
TOTAL ASSETS	11,468	23,414	34,882
Equity	4,694	8,560	13,254
Shareholders' equity	4,690	8,569	13,259
Adjustments for changes in value	–	(9)	(9)
Grants, donations and bequests received	4	–	4
Non-current liabilities	6,179	10,233	16,412
Long-term provisions	437	366	803
Long-term borrowings	1,435	2,286	3,721
Amounts owing to group companies and associates falling due in more than one year	3,709	6,513	10,222
Deferred income tax liabilities	598	1,066	1,664
Long term accruals	–	2	2
Current liabilities	595	4,621	5,216
Short-term provisions	52	–	52
Short-term borrowings	70	595	665
Amounts owing to group companies and associates falling due in less than one year	–	3,429	3,429
Trade and other payables	473	597	1,070
Total equity and liabilities	11,468	23,414	34,882

Segregated income statement (2013)

(million euros)	Electricity generation	Other activities	Total
Net turnover	3,669	3,789	7,458
Supplies	(2,488)	(1,839)	(4,327)
Other operating income	–	340	340
Personnel costs	(102)	(184)	(286)
Other operating expenses	(524)	(282)	(806)
Depreciation/amortisation	(480)	(11)	(491)
Release of fixed assets grants and others	–	(244)	(244)
Operating profit	75	(1,569)	1,644
Financial income	6	103	109
Financial expenses	(277)	(574)	(851)
Variation in fair value of financial instruments	–	(3)	(3)
Net exchange gains / losses	–	(7)	(7)
Impairment and gains on disposals of financial instruments	–	(1)	(1)
Net financial income	(271)	(482)	(753)
Profit before tax	(196)	1,087	891
Income tax	59	159	218
Profit for the year	(137)	1,246	1,109

Note 35. Subsequent events

On 31 January 2015, the Company's Board of Directors approved the plans for the segregation of Gas Natural SDG, S.A. to Gas Natural Fenosa Generación, S.L.U., and the report prepared by Gas Natural SDG, S.A.'s Board of Directors on the segregation of the nuclear electricity generation line of business in Spain to Gas Natural Fenosa Generación, S.L.U., which will be submitted to the General Shareholders' Meeting for approval.

Appendix i. Companies in the gas natural tax group
The companies in the Gas Natural Tax group are as follows:

Gas Natural SDG, S.A.	Gas Natural Internacional SDG, S.A.
Boreas Eólica 2, S.A.	Gas Natural Madrid SDG, S.A.
Compañía Española de Industrias Electroquímicas, S.A.	Gas Natural Rioja, S.A.
Energía Termosolar de los Monegros, S.L.	Gas Natural S.U.R. SDG, S.A.
Energías Ambientales de Somozas, S.A.	Gas Natural Servicios SDG, S.A.
Energías Especiales Alcohólicas, S.A.	Gas Natural Transporte SDG, S.L.
Energías Especiales de Extremadura, S.L.	Gas Natural Wind 4, S.L.U.
Europe Magreb Pipeline Limited	Gas Navarra, S.A.
Explotaciones Eólicas Sierra de Utrera, S.L.	General de Edificios y Solares, S.L.
Fenosa Wind, S.L.	Global Power Generation, S.A.U.
Fenosa, S.L.U.	Hispanogalaica de Extracciones, S.L.
Gas Natural Almacenamiento Andalucía, S.A.	Holding Negocios Regulados Gas Natural, S.A.
Gas Natural Andalucía, S.A.	JGC Cogeneración Daimiel, S.L.
Gas Natural Aprovisionamientos SDG, S.A.	La Energía, S.A.
Gas Natural Capital Markets, S.A.	La Propagadora del Gas, S.A.
Gas Natural Castilla y León, S.A.	La Propagadora del Gas Latam, S.L.U.
Gas Natural Castilla-La Mancha, S.A.	Lignitos de Meirama, S.A.
Gas Natural Cegas, S.A.	Operación y Mantenimiento Energy, S.A.
Gas Natural Comercializadora, S.A.	Petroleum, Oil & Gas España, S.A.
Gas Natural Distribución SDG, S.A.	Sagane, S.A.
Gas Natural Exploración, S.L.	Sociedad de Tratamiento Hornillos, S.L.
Gas Natural Fenosa Electricidad Colombia, S.L.	Societat Eòlica de l'Enderrocada, S.A.
Gas Natural Fenosa Engineering, S.L.U.	Tratamiento Almazán, S.L.
Gas Natural Fenosa Generación Nuclear, S.L.U.	Tratamientos Cinca Medio, S.L.
Gas Natural Fenosa Generación, S.L.U.	Unión Fenosa Distribución, S.A.
Gas Natural Fenosa Ingeniería y Desarrollo de Generación, S.L.U.	Unión Fenosa Financiación, S.A.
Gas Natural Fenosa LNG, S.L.	Unión Fenosa Internacional, S.A.
Gas Natural Fenosa Renovables, S.L.U.	Unión Fenosa Minería, S.A.
Gas Natural Informática, S.A.	Unión Fenosa Preferentes, S.A.U.

Director's report



Vicente Prego.
Il rumore di fondo.
1991.
130 x 195 cm.
Mixed media on canvas.
Museum of Contemporary
Art of Gas Natural Fenosa.



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, environmental protection, 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 23 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 the energy sector leader and a pioneer in the integration of gas and electricity. The business focuses on the full gas life cycle and on electricity generation, distribution and retailing. There are other business lines, such as energy services, that favour diversification of activities and revenues, anticipating new market trends, meeting specific customer needs and providing an integrated service not focused only on energy selling.

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, rest of Europe and Latin America)**

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 solid presence in Italy. It is also the leader in Latin America, with a presence in Mexico, Colombia, Brazil and Argentina.

- **Electricity distribution (Spain, rest of Europe and Latin America)**

Gas Natural Fenosa is one of the most efficient operators in terms of operating and maintenance costs in electricity distribution. It is the third-ranked operator in the Spanish market and the leader in Moldova. In Latin America it is present in Panama and Colombia, where it is regarded as one of the main operators in the region.

- **Gas (Infrastructures, Supplier 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 a critical 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 International)**

Gas Natural Fenosa has broad knowledge of all generation technologies and an 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.

In the international market Gas Natural Fenosa, through Global Power Generation, is established in Mexico, Puerto Rico, the Dominican Republic, Costa Rica, Panama, Kenya and Australia.

- **Compañía General de Electricidad (CGE)**

Gas Natural Fenosa, through the Chilean group CGE, acquired in November 2014, is the leading operator in electricity distribution and transmission, and in natural gas and LPG distribution, in Chile.

Our operations throughout the gas value chain provide Gas Natural Fenosa with a competitive advantage and a leading position in the sector. Our electricity management capacity and experience, 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 achieve growth in new regions that are in the 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 continuously updates its corporate governance rules so as to implement recommendations and best practices. This set of regulations is formed by:

- Company By-laws.
- General Shareholders' Meeting Regulations.
- Board of Administration 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 2014 Annual Corporate Governance 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 direct 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. Evolution and business results

The main financial aggregates of Gas Natural SDG, S.A. and their performance are as follows:

	2014	2013	%
Net turnover	5,123	7,458	(31.3)
Operating profit	810	1,644	(50.7)
Profit for the year	1,083	1,109	(2.3)
Shareholders' equity	13,629	13,259	2.8

The average period for payment to suppliers is 24 days

Gas Natural SDG, S.A. is a company that develops electricity generation and gas business activity, and, consequently, its profits come from these activities and from dividends from its subsidiaries, so the following information refers to Gas Natural Fenosa.

2.1. Main milestones in 2014

The consolidated net profit for 2014 rose 1.2% on the previous year to Euros 1,462 million. This profit includes capital gains on the sale of Gas Natural Fenosa Telecomunicaciones, S.A. and its investees amounting to Euros 252 million and impairment of fixed assets and equity-method investments of Euros 532 million, as well as the related tax effect. In addition, it includes a positive impact of Euros 325 million resulting from the reduction in the general corporate income tax rate under Law 27/2014, of November 27. Adjusting these effects, net adjusted profit would decrease by 2.8% due to the impacts of Royal Decree-Law 9/2013 and Royal Decree-Law 8/2014, as well as the impact of currency depreciation (mainly Latin American currencies) on foreign currency translation into euro during the consolidation process.

Consolidated ebitda for the year stood at Euros 4,853 million, an increase of 0.1% compared with 2013, despite major cost containment in a very demanding macroeconomic, energy and regulatory environment, due to the impacts of Royal Decree-Law 9/2013 and Royal Decree Law 8/2014 in Spain and currency depreciation on currency translation into euro.

The differential impacts with respect to the previous year of the regulatory measures under Royal-Decree Law 9/2013 which affects electricity distribution and generation in Spain and which came into force on 14 July 2013 and therefore did not impact the first quarter of 2013, and Royal Decree-Law 8/2014 which has effected regulated activities in gas with effect from 5 July 2014, amount to Euros 141 million with respect to ebitda.

The impact on the consolidated ebitda of currency depreciation in the translation of other currencies into euro is Euros 70 million, higher than in the previous year, due mainly to the depreciation of the Brazilian real and the Colombian peso.

On 1 October 2014 Gas Natural Fenosa formed the company Global Power Generation in order to boost its generation business outside Europe in line with the objectives of the strategic plan through the development of generation projects, particularly in Latin America and Asia.

Gas Natural Fenosa successfully completed the purchase of the Chilean company Compañía General de Electricidad, S.A. (CGE) through an Initial Public Offering, acquiring 96.72% of its capital for Euros 2,519 million. CGE joined the Gas Natural Fenosa consolidation group on 30 November 2014 and contributed Euros 36 million to consolidated ebitda for the year.

In December 2014 Gas Natural Fenosa assigned the receivable for the electrical system deficit relating to 2013, for slightly over Euros 457 million.

Following the acquisition of CGE, at 31 December 2014 the leverage ratio stood at 48.5% and the net borrowings/ebitda ratio stood at 3.5x.

2.2. Main aggregates

Financial main aggregates

	2014	2013*	%
Net sales	24,742	24,322	1.7
Ebitda ^{1 and 2}	4,853	4,849	0.1
Operating income	3,190	3,022	5.6
Net income attributable to equity holders of the Company	1,462	1,445	1.2
Cash flows from operating activities	2,808	3,305	(15.0)
Investments	4,389	1,597	174.8
Net equity	18,020	14,967	20.4
Attributed net equity	14,141	13,444	5.2
Net borrowings (at 31/12)	16,942	14,252	18.9

*Restated balances at 31 December 2013 under IFRS 11 (Note 3.3 to the consolidated annual accounts).

¹ EBITDA = Operating income + Depreciation, Amortisation and Impairment + Operating provisions - Other results.

² Pro-forma estimated ebitda for 2014, on the basis that if the acquisition of CGE had been effective from 1 January 2014, would amount to Euros 5,359 million.

Main financial ratios

	2014	2013*
Leverage ¹ (%)	48.5	48.8
EBITDA/Net financial income	6.1x	6.0x
Net borrowings/ Ebitda ²	3.5x	2.9x
Liquidity ratio ³	1.3x	1.2x
Solvency ratio ⁴	1.1x	1.1x
Return on equity ⁵ (%)	10.3	10.7
Return on assets ⁶ (%)	2.9	3.3

* Restated ratios at 31 December 2013 under IFRS 11 (Note 3.3 to the consolidated annual accounts).

¹ Net borrowings/(Net borrowings+Net Equity)

² The pro-forma estimated ratio for 2014, on the basis that if the acquisition of CGE had been effective from 1 January 2014, would be 3.2x.

³ Current assets/Current liabilities

⁴ (Net equity + Non-current liabilities)/Non-current assets

⁵ ROE: Net income attributable/Attributed net equity

⁶ ROA: Net income attributable/Total assets

Main stock market ratios and shareholder remuneration

	2014	2013*
Average number of shares (thousand)	1,000,689	1,000,689
Share price at 31/12 (euro)	20.81	18.69
Stock market capitalisation (million euro)	20,824	18,708
Earnings per share (euro)	1.46	1.44
Attributable equity per share (euro)	14.13	13.43
Price-earnings ratio (PER)	14.2x	12.9x
EV/ EBITDA ^{1 and 2}	7.8x	6.8x
Pay-out (%)	62.1	62.1
Total dividend ³ (million euro)	909	898
Dividend per share	0.91	0.90

* Restated ratios at 31 December 2013 under IFRS 11 (Note 3.3 to the consolidated annual accounts).

¹ EV: Enterprise value calculated as stock market capitalisation + net borrowings.

² The pro-forma estimated ratio for 2014, on the basis that if the acquisition of CGE had been effective from 1 January 2014, would be 7.0x.

³ Considering the equivalent total amount distributed as dividends. In 2014, this includes a supplementary dividend of Euros 512 million pending approval by the General Meeting.

Main physical aggregates

	2014	2013*	%
Gas distribution			
Sales - TPA ¹			
Europe	175,223	194,975	(10.1)
Latin America	249,067	227,377	9.5
Gas distribution connections points (thousand) (at 31/12)			
Europe	5,683	5,627	1.0
Latin America	6,593	6,321	4.3
Electricity distribution			
Sales - TPA ¹			
Europe	34,262	34,804	(1.6)
Latin America	17,150	16,443	4.3

Main financial ratios (continuation)

	2014	2013 ¹	%
Electricity distribution connections points (thousand) (at 31/12)			
Europe	4,529	4,514	0.3
Latin America	3,032	2,925	3.7
ICEIT ² (minutes)	48	47	2.1
Gas			
Gas supply (GWh)	318,677	308,010	3.5
Spain	198,117	210,506	(5.9)
Rest	120,560	97,504	23.6
Gas transport-EMPL (GWh)	120,558	122,804	(1.8)
Electricity			
Electricity generated (GWh)	48,282	51,080	(5.5)
Spain	30,542	32,897	(7.2)
Hydroelectric	4,275	4,434	(3.6)
Nuclear	4,425	4,287	3.2
Coal	5,622	5,430	3.5
Combined cycles	14,143	16,394	(13.7)
Renewables	2,077	2,352	(11.7)
Global Power Generation:	17,740	18,183	(2.4)
Hydroelectric	233	320	(27.2)
Combined cycles	15,898	16,193	(1.8)
Oil-gas	1,356	1,670	(18.8)
Wind	253	–	–
Electricity generation capacity (MW)	14,785	14,517	1.8
Spain	12,122	12,088	0.3
Hydroelectric	1,948	1,914	1.8
Nuclear	604	604	–
Coal	2,065	2,065	–
Combined cycles	6,603	6,603	–
Renewables	902	902	–
Global Power Generation:	2,663	2,429	9.6
Hydroelectric	73	73	–
Combined cycles	2,035	2,035	–
Oil-gas	321	321	–
Wind	234	–	–
Electricity sales (GWh)	34,718	32,942	5.4
CGE			
Gas distribution connection points (thousand) (at 31/12)	593	–	–
Electricity distribution connection points (thousand) (at 31/12)	2,854	–	–
Market share LPG Chile (%)	26,6	–	–

¹ Restated figures at 31 December 2013 under IFRS 11 (Note 3.3 to the consolidated annual accounts).

3. Sustainability

3.1 Environment

Main aggregates

	2014	2013	Var. %
Emission-free installed capacity (%)	20.7	19.5	6.2
Emission-free net production (%)	14.0	13.2	6.1
GHG emissions ¹ (t CO ₂ eq.)	19.8	20.8	(4.8)
GHG emissions/electricity generation (t CO ₂ eq./GWh)	406	399	1.8
Methane emissions in gas distribution (t CO ₂ eq./km network)	9.9	9.9	–
Environmentally certified activities (% of ebitda environmentally certified ²)	100.0	99.4	0.6

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%.

According to the environmental principles of Gas Natural Fenosa, its lines of action are aimed at ensuring compliance with environmental legislation, reducing environmental impact, mitigating climate change, preserving biodiversity in the environment, preventing pollution and fostering continuous improvement.

Concerning climate change, this year progress has continued in various projects (footprint, supply chain, risks and opportunities), the most relevant being the launch of the COmpensa2 initiative. With respect to recognition of our carbon management, for the third consecutive year Gas Natural Fenosa led the worldwide ranked list of utilities companies in the CDP's The A list and Iberia 125 Climate Change Report. As for emission values, no significant changes have taken place in terms of direct CO₂ emissions relative to 2013, because as in the previous year the operation of coal and gas groups has been affected by renewable production and moderate demand. In November 2014 Gas Natural Fenosa became part of the Spanish Group for Green Growth promoted by the Ministry of Agriculture, Food and Environment. The Spanish Group for Green Growth, under the European Green Growth Group model, aims to increase companies' involvement, share information, identify opportunities and support Spanish presence in international forums.

In 2014 Gas Natural Fenosa has carried out numerous and varied activities in favour of conserving biodiversity, some in response to the requirements set by the environmental authorities and others of a voluntary character. In July 2014 it signed an agreement with the Global Nature Foundation for the materialisation of our commitment towards biodiversity conservation, one of the main axes in the environmental management of businesses and activities worldwide.

Recognizing the central role that water plays in the production process, as part of our ongoing commitment towards the environment and the efficient management of natural resources, in 2014 Gas Natural Fenosa began defining a water strategy to accommodate different policies and measures aimed at better understanding and improving management of water resources at our facilities. The Water Strategy aims to equip Gas Natural Fenosa with a comprehensive and objective view of the current management of this resource and define a framework for the entire Group. The Water Strategy will be implemented over the next few years.

Note 35 to the annual accounts contains other relevant information on the main environmental and sustainability activities, emissions and environmental investments.

3.2 Personnel

Main aggregates

Employment indicators	2014	2013	% Var.
Number of employees at 31/12	21,961	14,415	52.3
Voluntary turnover rate (%)	3.3	2.3	43.5
Integration rate (disabled persons) ¹	2.3	2.1	9.5
Employee training hours	57.4	55.7	3.1
Absenteeism	1.86	1.70	9.4
Days' work lost	3,035	4,184	(27.5)
Number of accidents causing sick leave	118	152	(22.4)

¹ Spain

Human and social development

Gas Natural Fenosa provides stable and quality employment (96% 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.

Aware that employee satisfaction largely depends on the existence of professional development opportunities, Gas Natural Fenosa continues to offer all employees the possibility of taking part in its Internal Mobility Programme. Through this programme, employees may apply for any vacancy in any location, irrespective of their place of work. This is one of the main pillars of increasing the dynamism of professional development among the company's employees.

Ethical behaviour, promoting and respecting equality, prevention and safety in the workplace are an essential part of the commitment assumed by Gas Natural Fenosa with its employees.

These principles are reflected in the company's daily management through the Code of Ethics, the I Collective Agreement, the Equality Plan and the Protocol for the Prevention of Harassment in the Workplace and Sexual Harassment.

Gas Natural Fenosa promotes diversity and inclusiveness. A clear example of this is the Capacitas and Aflora programmes aimed at normalising the professional integration of disabled employees. Since we began implementing these two projects, a total of 105 persons with special needs have enjoyed job assistance. Gas Natural Fenosa was awarded the Bequal Plus Seal in recognition of our inclusive policy as a pioneer in disability commitment within the energy industry.

Gas Natural Fenosa promotes the reconciliation of employees' professional and private lives through a significant set of labour flexibility measures, services and benefits adapted to employees' needs. Our professionals can thus design their own life options in line with their development plans and the company's interests.

Training and talent management

Talent Management at Gas Natural Fenosa's is centred on employees' individual development and professional careers, helping to define professional learning in a controlled and consistent manner to ensure that their development is aligned with the company's objectives.

The Talent Management and Corporate University unit is responsible for the development of Gas Natural Fenosa's professionals on all organisational levels and for knowledge management in all areas of the company. Training is a success factor for the company since our employees are the ones who achieve business objectives and drive our corporate strategies.

The Corporate University forms part of various international business training networks, such as the European Foundation for Management Development (EFMD) and the Global Council of Corporate Universities (CCU). These are organisations that share best practices and maintain a network of alliance with academic institutions in Spain and the rest of the world. There is also an Advisory Council made up of universities, business schools and external agents such as the Polytechnic Universities of Barcelona and Madrid, the Monterrey Institute of Technology, IESE, ESADE and the Boston Consulting Group. Together with the internal units of Gas Natural Fenosa, they ensure a permanent link between the company's strategy and the programmes that are implemented.

The Corporate University renewed its Corporate Learning Improvement Process (CLIP) accreditation. This certificate, granted by the European Foundation for Management Development, recognises the quality of the learning and development processes for employees in business education organisations. It also offers the opportunity to publicise and compare the training and management model of Gas Natural Fenosa with a team of expert evaluators with a broad knowledge of other multinational companies.

On this occasion, the CLIP evaluators highlighted the involvement of the business areas in the Corporate University's training itinerary model and the implementation of a training and development system based on a centralised model and a team which is interconnected with the Business Partners of the Human Resource Department.

Gas Natural Fenosa intends to achieve a significant improvement in health and safety levels and is therefore pushing through a qualitative cultural change in all the company's areas of action. The Corporate University drew up a training programme structured into profiles and functions so that each professional has the skills, tools and knowledge best suited to their work. The programme combines on-site and distance learning and visits to field operations (projects, facilities, etc.).

Remuneration

Gas Natural Fenosa's remuneration policy is governed by internal equality and by market competitiveness. Employee's remuneration depends on their inclusion in the Collective Agreement.

- The salary levels of employees covered by the Collective Agreement are based on the professional group and sub-group to which they belong.
- 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.

Management by Objectives and Commercial Variable Remuneration are methodologies deployed in Gas Natural Fenosa to encourage employee involvement in achieving the objectives of the company and their direct participation in results. Both are arranged through two types of Annual Variable Remuneration, depending on the group addressed:

- **Management:** based on management by objectives and performance appraisal. Applies to management personnel not covered by the Collective Agreement.
- **Commercial:** based on the fulfilment of commercial objectives. Aimed at employees fulfilling commercial functions within the group.

The compensation package for employees of Gas Natural Fenosa is complemented by a social welfare system which includes the Pension Plan, the main vehicle for funding post-employment commitments.

Furthermore, Gas Natural Fenosa offers a range of social benefits that complement the employees' remuneration package. The Flexible Remuneration System, which has become consolidated within the company after its launch in 2012 for managerial and technical personnel excluded from the scope of regulation of the Collective Agreement in Spain, allows beneficiaries to voluntarily design the composition of their compensation packages.

During the 2014 Flexible Remuneration campaign, requests received were 25% up on 2013. 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.

3.3 Taxation

Tax policies and tax risk management

Gas Natural Fenosa is committed to acting responsibly for taxation purposes in the management of its business and complying with its tax obligations in all the territories in which it operates, maintaining appropriate relations with the relevant tax authorities.

To this end, since 2010 Gas Natural Fenosa has adhered to the "Code of Best Tax Practices" drawn up by the Large Companies Forum together with the Spanish tax authorities. This initiative, supported by the Spanish government, aims to promote transparency, good faith and cooperation with the Tax Administration State Agency in business tax practices and legal security in the application and interpretation of tax regulations.

In this respect, the company has expressly undertaken to: (a) avoid opaque structures for tax purposes, (b) collaborate with the tax authorities, (c) regularly report tax policies applied to the Board of Directors, and (d) apply tax criteria in line with administrative doctrine and jurisprudence.

To ensure that the tax practices of Gas Natural Fenosa are based on these principles, the group has a General Best Tax Practice Procedure.

In addition, Gas Natural Fenosa has a risk map specifically identifying tax risks and controversies concerning the interpretation and application of the tax legislation framework. Information on the main tax-related actions and the entity's position with respect to each of them is set out under Litigation and arbitration in Note 33 to the consolidated annual accounts.

The tax repercussions of any significant or singular operations are reported to the Board of Directors when this is deemed to be a relevant factor. The creation or acquisition of holdings in entities domiciled in tax havens must be reported to the Board of Directors through the Audit and Control Committee.

On the basis of Spanish legislation concerning countries regarded as tax havens (Royal Decree 1080/1991 and Royal Decree 116/2003), Gas Natural Fenosa has five shareholdings in companies incorporated in such territories:

- Holdings of 95.0% in Buenergía Gas & Power, Ltd, 47.5% in Ecoeléctrica Holding, Ltd and 47.5% in Ecoeléctrica Limited, all of which are domiciled in the Cayman Islands. These are companies that directly or indirectly hold interests in a single industrial concern that carries out gas combined cycle electrical generation in Puerto Rico (Ecoeléctrica, L.P.), whose income is taxed in this country and which does not provide Gas Natural Fenosa with any tax benefits.
- Holdings of 31.1% in Gasoducto del Pacífico (Cayman), Ltd. and 54,8% in Gasco Grand Cayman, Ltd., both domiciled in the Cayman Islands. These are dormant companies included in the group due to the acquisition of the CGE group, which do not provide Gas Natural Fenosa with any tax benefits.

Intercompany transactions carried out with these entities relate to dividends procedures amounting to Euros 17,581 thousand as detailed in the Annual Corporate Governance report.

Tax contribution

Gas Natural Fenosa is aware of its responsibility for the economic development of the communities in which it conducts its business. The taxes it pays represent a significant part of the economic contribution made to the countries in which it operates. Therefore, Gas Natural Fenosa pays priority attention to fulfilling its obligation to pay taxes due under the laws of each territory.

The taxes paid by Gas Natural Fenosa have considerable economic importance and involve a major compliance effort under formal obligations and cooperation with the tax authorities.

The total tax contribution of Gas Natural Fenosa amounted to Euros 3,741 million in 2014 (Euros 3,550 million in 2013). The following table shows the total taxes paid by Gas Natural Fenosa segmented between those that represent actual expenditure for the group (called group taxes) and those that are withheld or passed on to the end taxpayer (called third-party taxes):

	2014			2013		
	Group	Third parties	Total	Group	Third parties	Total
Spain	940	1,819	2,759	896	1,850	2,746
Latin America	480	183	663	296	260	556
Rest	106	213	319	93	155	248
Total	1,526	2,215	3,741	1,285	2,265	3,550

Tax actually paid in 2014 breaks down as follows (in Euros million):

Country	Group taxes				Third-party taxes					
	Corporate income tax ¹	Energy taxes	Local taxes	Other ²	Total	VAT	Excise duty on fossil fuels	Other ³	Total	Total
Spain	402	257	145	136	940	1,257	356	206	1,819	2,759
Argentina	7	6	1	23	37	9	1	15	25	62
Brazil	86	–	13	53	152	67	–	3	70	222
Colombia	84	–	24	72	180	9	–	26	35	215
Chile ⁴	5	–	–	–	5	4	–	2	6	11
Mexico	51	–	–	3	54	30	–	9	39	93
Panama	32	–	1	6	39	–	–	3	3	42
Rest Latin America	12	–	1	–	13	2	–	3	5	18
Italy	26	–	–	5	31	37	28	5	70	101
Rest	10	1	–	64	75	120	17	6	143	218
Total	715	264	185	362	1,526	1,535	402	278	2,215	3,741

¹ Relates to corporate income tax actually paid during the year. Does not include accrued amounts. Information on the reconciliation between the corporate income tax recorded and the amount that would result from applying the nominal income tax rate currently prevailing in the country of the parent company (Spain) to pre-tax income is detailed in Note 20 Tax situation in the notes to the consolidated annual accounts.

² Basically includes employer's Social Security contribution and other group taxes specific of each country.

³ Basically includes employee income tax withholdings and employees' Social Security contribution.

⁴ Relates to December 2014 as a result of the business combination performed at 30 November 2014.

4. Main risks and uncertainties

4.1 Operating risks

4.1.1. Regulatory risk

Gas Natural Fenosa and its subsidiaries are required to comply with legislation governing the natural gas and electricity sectors. In particular, gas and electricity distribution are regulated activities in most of the countries in which Gas Natural Fenosa performs them.

Legislation applicable to the natural gas and electricity sectors in the countries in which Gas Natural Fenosa operates is generally revised on a regular basis by the competent authorities. Any amendments brought in could affect the current remuneration system for regulated activities, adversely impacting Gas Natural Fenosa's business, profits, grants and financial situation.

Should competent public or private bodies interpret or apply such regulations based on criteria that differ from those of Gas Natural Fenosa, regulatory compliance could be questioned or appealed and, in the event that any infringement were demonstrated, there could be a material adverse impact on Gas Natural Fenosa's business, prospects, profits, grants and financial position.

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 faults in the distribution network, in electricity generation facilities and in methane tankers, explosions, polluting emissions, toxic spillage, fire, adverse weather 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 to insurers.

Gas Natural Fenosa could also be subject to third-party liability claims for bodily injury and/or other damage caused in the ordinary course of business. Such claims could result in the payment of indemnities under legislation applicable in the countries in which Gas Natural Fenosa operates, which could have a material adverse impact on the business, prospects, 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 extensive legislation on environmental protection.

Gas Natural Fenosa and its subsidiaries must comply strictly with extensive environmental protection regulations requiring, among other aspects, the preparation of environmental impact analyses, obtainment of authorisations, licences and permits, and fulfilment of certain requirements. Considerations include:

- Environmental authorisations and licences might not be granted or could be revoked due to the infringement of conditions imposed;
- The regulatory framework or its interpretation by the authorities could undergo amendments or changes, which could cause an increase in costs or new deadlines.

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 revenue 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 CO₂ emissions.

e) Geopolitical exposure

Gas Natural Fenosa has interests in countries with different political, economic and social environments; in this regard, two main areas are particularly relevant:

- Latin America

A large part of Gas Natural Fenosa's operating profits are generated by our Latin American subsidiaries. Latin American operations are exposed to a number of risks inherent in investment in this region. Risk factors linked to investment and business in Latin America include:

- Considerable influence of local governments on the economy;
- Significant fluctuation in the economic growth rate;
- High inflation;
- Devaluation, depreciation or overvaluation of local currencies;
- Controls or restrictions on the repatriation of earnings;
- Fluctuating interest rates;
- Changes in financial, economic and fiscal policies;
- Unexpected changes to regulatory frameworks;
- Social tensions and
- Political and macroeconomic instability.

- Middle East and Maghreb

Gas Natural Fenosa has both its own assets and major contracts for the supply of gas from various Maghreb countries and the Middle East, particularly Egypt. Political instability in the zone may result in physical damage to the assets of Gas Natural Fenosa's investee companies or the obstruction of the operations of those or other companies, interrupting the Group's gas supply.

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, Middle 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.
- **CO₂ 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 fleet of methane tankers makes Gas Natural Fenosa one of the world's leading LNG operators and a benchmark in the Atlantic and Mediterranean basin.
- **Balanced structural position in business and geographical areas,** many with stable flows, irrespective of commodities prices, which enable the expected growth in energy demand as from 2015 to be fully taken advantage of and new business opportunities in new markets to be maximised.

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, retailing 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 retailing.

Latin America:

- Exploit organic growth potential.
- 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 billion 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.

Regarding the strategic incorporation of the acquisition of CGE:

- This represents the company's entry into a new key market in Latin America with immediate access to a leading market position.
- The transaction increases the geographic diversification of Gas Natural Fenosa and contributes to more balanced business/risk profile.

- It reinforces the leadership of Gas Natural Fenosa in gas distribution in Latin America's most important cities.
- It aids progress towards the consolidation of an electricity distribution platform in Latin America.
- It accelerates the integration of Gas Natural Fenosa's global LNG business in the Chilean market, supplying end customers at international prices.
- It facilitates participation in international generation projects in Chile in the short term.

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), that are maintained after CGE acquisition:

	2015 objectives with CGE
Ebitda 2015	>5,000
Net profit	~1,500
Dividend (<i>Pay-out</i>)	~ 62%
Investments 2013-2015	~5,100
Net debt	~12,500
Net debt/ebitda 2015	2.5x–3.0x

5.3. Group's prospects

As from 2015, Gas Natural Fenosa expects to enter new markets, centring our investment and growth strategy focus on the following businesses in the international arena:

- Gas supply, transport and storage.
- Electricity generation.
- Gas distribution.

The acquisition of CGE is a step towards the fulfilment of the aspirations for 2017 of Gas Natural Fenosa:

- An additional contribution towards the results that uphold the financial discipline plans.
- Consolidates the presence of Gas Natural Fenosa in Latin America.

- A balanced development of two of the three growth levers for the group (distribution networks and liquefied natural gas (LNG)).
- Establishes an attractive platform for growth in the third lever (electricity generation).

Following the acquisition of CGE, Gas Natural Fenosa will draw up a new strategic plan in 2015 that will set the Group's strategic lines and objectives for the coming years.

In addition, Gas Natural Fenosa has several projects in progress aligned with this strategy that will pick up speed as from 2015, bringing 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).
- "Torito Project" (Costa Rica) for hydroelectric generation, which will consolidate the Company's position as the leading private generator in Costa Rica as from 2015.
- Tender process in 2013 for natural gas distribution in four towns in the southwest of Peru, as a result of which gas will be sold and distributed to over 60,000 homes.

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:

	2014	2013	2012	% change
Total investment (million euro)	13.7	12.5	11.3	9.6

Gas Natural Fenosa will focus its innovation activities on the technological lines defined in the Technology Plan, some of which are summarised below:

- Electricity transmission and distribution: the main activities in 2014 continued to centre on the development of intelligent networks and energy storage.
- In the case of intelligent networks, work has continued on the development of novel technological projects through the automation of operation and maintenance of electrical infrastructures. The OSIRIS project has also been launched, which seeks to optimise functions provided by intelligent networks, learn about incidents in tele-management equipment communications and improve the quality of electricity supplies when breakdowns arise.
- Energy storage: this area is expected to be a key factor in electricity systems in the future, since it will enable energy quality to be improved, ensuring stability and reliability of supply and enabling a faster, larger integration into the renewable energy network. Therefore, work is under way to find technological solutions that help make the distribution network more efficient. One of the actions under development is the Li-ion Battery Display Project for use in portable Lithium Ion batteries as support for the distribution network.

- Renewable energies: activity is focused on the development of activities to improve the facilities. The most important projects include studies on existing technology in the field of micro turbines. Renewable gas is another priority line with projects aimed at producing biomethane from biomass for injection into the natural gas network or for use as fuel in the transport sector.
- Efficiency and energy services: work continues on several pilot energy management systems in the residential and SME sectors to expand commercial services that help our customers control and reduce their energy consumption. In this area the DC4Cities European project should be mentioned, which aims to optimise energy management at data centres (DCs), minimising consumption and improving supply through renewable energy.
- Advanced generation technologies: work is under way on projects to improve the utilisation of existing assets and reduce their environmental impact, such as the Less H2O project, focused on the study of alternatives for reducing, reusing and recycling water in combined cycle plants.
- Advanced gas network solutions: different projects have been developed in the field of integrated gas and electricity telemetry.
- Sustainable mobility: projects primarily for maritime and land transport. The GARneT (Gas an Alternative for Road Transport) and LNG Bluecorridors projects have continued to demonstrate the advantages of using LNG as a clean fuel in long-distance heavy road vehicles and the Abel Matutes project is being carried out to install the first natural gas engine in the passenger ferry of that name.

7. Annual Corporate Governance Report

Attached hereto as an Appendix to this Director's Report, and forming part of the same, is the Annual Corporate Governance Report for 2014, as required under article 526 of the Spanish 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 2014, 1,128,504 treasury shares were acquired for Euros 23 million (3,447,535 treasury shares for Euros 52 million in 2013), of which 174,998 treasury shares, totalling Euros 3 million (163,279 shares totalling Euros 3 million in 2012) were handed over to the Group's employees as part of their 2014 remuneration under the Share Acquisition Plan 2012-2013-2014 (Note 3.4.14.d); the remainder were sold for Euros 20 million (Euros 50 million at 31 December 2013). At year-end 2014 and 2013 Gas Natural Fenosa held no treasury shares.

9. Events after the reporting date

Events after the reporting date are described in Note 35 to the Annual Accounts.

A. Capital Structure

A.1 Complete the following table on the company's share capital:

Date of last modification	Share capital (euros)	Number of shares	Number of voting rights
22/06/2012	1,000,689,341.00	1,000,689,341	1,000,689,341

Please indicate whether or not there are different types of shares with different rights associated:

No

Type	Number of shares	Face value	Number of voting rights	Different rights
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A.2 Provide details of the direct and indirect owners of significant stakes in your company at year end, excluding Directors:

Name or company name of shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the stake	Number of voting rights	
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona "la Caixa"	–	Caixabank, S.A.	208	0.00
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona "la Caixa"	–	Criteria CaixaHolding, S.A.U.	344,609,780	34.44
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona "la Caixa"	–	VidaCaixa, S.A. de Seguros y Reaseguros	1,438	0.00
Repsol, S.A.	300,216,871	–	–	30.00
Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures	40,092,780	–	–	4.01

Indicate the most significant changes in the shareholder structure occurred during the year:

Name or company name of shareholder	Date of the transaction	Description of the transaction
Repsol, S.A.	22/05/2014	Equity over 30% of share capital.

A.3 Complete the following tables regarding the members of the company's Board of Directors who hold voting rights over the company shares:

Name or company name of Director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the stake	Number of voting rights	
Mr Salvador Gabarró Serra	3,262			0.00
Mr Antonio Brufau Niubó	81,139			0.01
Mr Rafael Villaseca Marco	13,055			0.00
Mr Carlos Losada Marrodán	2,019	Mrs Mercedes Cavestany de Dalmases	7,800	0.00
Mr Demetrio Carceller Arce	2,826	Inversiones Las Parras de Castellote, S.L.	15,000	0.00
Mr Emiliano López Achurra	1,098			0.00
Mr Enrique Alcántara-García Irazoqui	8,339			0.00
Mr Felipe González Márquez	2,000			0.00
Mr Heribert Padrol Munté	0			0.00
Mr Juan María Nin Génova	156			0.00
Mr Juan Rosell Lastortras	–	Mr Juan Rosell Codinachs	2,000	0.00
Mr Luis Suárez de Lezo Mantilla	18,156			0.00
Mr Miguel Valls Maseda	7,000			0.00
Mr Nemesio Fernández-Cuesta Luca de Tena	1			0.00
Mr Ramón Adell Ramón	5,000			0.00
Mr Santiago Cobo Cobo	684			0.00
Mr Xabier Añoveros Trias de Bes	350			0.00
% total voting rights in possession of the Board of Directors				0.01

Fill in the following tables regarding the members of the company's Board of Directors who own stock options in the company:

Name or company name of Director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Direct holder	Number of voting rights		

A.4 Indicate, where applicable, the family, commercial, contractual or corporate relations which could exist between the owners of significant stakes, provided they are known by the company, unless they are irrelevant or arise from normal trading activities:

Name or company name of related parties	Relationship type	Brief outline
Repsol, S.A.	COM CON COR	Details of commercial, contractual or corporate relations between "la Caixa" and Repsol S.A. are provided in the information prepared by said groups. See also parallel shareholders agreements, section A.6.
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona "la Caixa"	COM CON COR	Details of commercial, contractual or corporate relations between "la Caixa" and Repsol S.A. are provided in the information prepared by said groups. See also parallel shareholders agreements, section A.6.

A.5 Indicate, where applicable, the commercial, contractual or corporate relations which could exist between the holders of significant shares and the company and/or its group, unless they are irrelevant or arise from normal trading activities:

Name or company name of related parties	Relationship type	Brief outline
Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures	Commercial	Relations arising from normal trading activities.

A.6 Indicate whether or not the company has been notified of parallel shareholders agreements that affect it as per Articles 530 and 531 of the Corporate Enterprises Act. Where applicable, give a brief description and list the shareholders associated with the agreement:

Yes

Parties to parallel shareholders agreements	% of share capital affected	Brief outline of agreement
Repsol, S.A.	64.44	Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003.
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona "la Caixa"		<p>(i) Repsol and "la Caixa" shall preserve at all times the principles of transparency, independence and professionalism in the management of Gas Natural Fenosa through maintaining full control of said company.</p> <p>(ii) The Board shall comprise seventeen (17) members, five (5) appointed by Repsol, five (5) appointed by "la Caixa", one (1) Director representing Caixa Catalunya and six (6) Independent Directors jointly nominated by "la Caixa" and Repsol. Repsol and "la Caixa" shall vote in favour of the appointments put forward by the other party.</p> <p>(iii) Among the Directors nominated by each of the parties, "la Caixa" shall propose who should hold the position of Chairman of the Board and Repsol to the Chief Executive Officer. The Repsol and "la Caixa" Directors shall vote in favour of the proposed appointments for each of the positions.</p> <p>(iv) The Executive Committee shall be comprised by eight (8) members, of which three (3) shall be elected from among the Directors nominated by Repsol, including the CEO, three (3) from among those proposed by "la Caixa", including the Chairman, and two (2) from among the Independent Directors.</p> <p>(v) In accordance with the principles outlined in section (i) above, the parties in good faith and in the sole interest of Gas Natural Fenosa, shall reach a consensus on the Gas Natural Fenosa Strategic Plan, prior to its submission to the Board of Directors, which shall include all decisions affecting the basic outlines of the company's strategy: its organisational structure, annual budget, operations of concentration, transfer and the acquisition of assets that are essential in the strategic development of Gas Natural Fenosa. Significant facts: No. 20320 dated 12/01/2000, No. 35389 dated 22/05/2002 and Nos. 42788–42785–42790 and 42784 dated 20/06/2003.</p>

Indicate whether or not the company is aware of the existence of concerted actions among its shareholders. If so, briefly describe them:

Yes

Parties to concerted action	% of share capital affected	Brief outline of agreement
Repsol, S.A.		Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003. By virtue of the agreements referred to in the previous section, "la Caixa" and Repsol, which separately each have a controlling interest in accordance with the rules of takeover bids, have joint control of Gas Natural Fenosa owing to regulatory requirements and for competition purposes. They jointly have a share in the company of over 50% and have appointed more than half of the governing body. In accordance with current regulations, said pacts give rise to a concerted action between "la Caixa" and Repsol in Gas Natural Fenosa. Significant facts: No. 20320 dated 12/01/2000, No. 35389 dated 22/05/2002 and Nos. 42788–42785–42790 and 42784 dated 20/06/2003.
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona "la Caixa"		

If any modification or cancellation of said agreements or concerted actions has taken place during the year, please make express mention of this:

A.7 Indicate if there is any individual person or legal entity that exercises or who might exercise control of the company pursuant to Article 4 of the Securities Market Act. Respond, where applicable:

Yes

Name or company name

Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona "la Caixa"

Repsol, S.A.

Observations

Control may be exercised through the concerted action specified in section A.6.

A.8 Complete the following tables concerning the company's treasury stock:

At year end:

Number of direct shares	Number of indirect shares*	% of share capital
0	0	0.000

* Through:

Name or company name of the direct holder of the stake	Number of direct shares
Total	0

Provide details of the significant changes occurring during the year pursuant to Royal Decree 1362/2007:

Date of communication	Total direct shares acquired	Total indirect shares acquired	% of share capital
	0	0	0.000

A.9 Give details of the terms and conditions corresponding to the General Meeting of Shareholders' current mandate to the Board of Directors for acquiring or assigning own shares.

The General Meeting of Shareholders held on 20 April 2010, in item 8 of the agenda, authorised the Board of Directors to agree the acquisition of the company shares in exchange for valuable consideration and to do so within a deadline of five years. Under the following conditions:

Eight. Authorisation to the Board of Directors for the derivative acquisition of own shares, either directly or through group companies of Gas Natural SDG, S.A., in the terms agreed by the General Meeting and with the legally established restrictions, thus cancelling the authorisation agreed by the Ordinary General Meeting of 26 June 2009.

Eight 1. To cancel the authorisation granted to the Board of Directors by the General Meeting held on 26 June 2009 to acquire company shares by onerous title.

Eight 2. To authorise the Board of Directors to acquire in a term of no longer than five years fully paid-up company shares to a maximum of 10% of share capital by onerous title, on one or more occasions, or the maximum applicable figure in accordance with the legislation in force at the time of acquisition, provided that the aforesaid percentage between the shares acquired by the company directly or indirectly and those already held by the company and its subsidiaries should never exceed 10% of share capital or any other legally prescribed percentage of capital. The minimum and maximum acquisition price shall be the share price on the Continuous Market of the Spanish Stock Exchange, with an upward or downward variation of 5%. If the shares are not listed, the maximum and minimum acquisition price shall be established at between one and a half times and twice the book value of the shares, as per the latest audited consolidated balance sheet. The Board of Directors is authorised to delegate this authorisation in the person or persons it deems appropriate. This authorisation is understood to apply to the acquisition of the company's shares by owned companies.

Likewise, point ten of the agenda of the General Meeting of Shareholders of 20 April 2012 agreed the following:

Ten. Authorisation for the Board of Directors, with substitution powers on the Executive Committee, in accordance with the provisions laid down in Article 297.1 b) of the Corporate Enterprises Act, so that, within the maximum term of five (5) years, if it considers it appropriate, it can increase the share capital, to the maximum quantity corresponding to 50% of the share capital of the company, with the possibility of incomplete subscription, on the date of the authorisation issuing shares with or without the right to vote, with or without a premium, up to half the share capital, in one or more times and on the occasions and to the amount it considers appropriate, rewriting the articles of the Articles of Association and cancelling the authorisation agreed by the Ordinary General Meeting held on 20 April 2010.

Ten

- 1) Taking into consideration the current share capital figure, to authorise the Board of Directors, with the power to delegate this to the Executive Committee, to increase the share capital by FOUR HUNDRED AND NINETY FIVE MILLION EIGHT HUNDRED AND THIRTY SIXTHOUSAND AND SIXTY NINE EUROS (495,836,069 euros), within five (5) years from today's date, through a cash contribution, in one or more payments and as appropriate for the amount decided, duly issuing ordinary, privileged and redeemable shares, with or without the right to vote, with or without a premium, without the need for fresh authorisation from the General Meeting, as well as to amend the Articles of Association required for the share capital increase(s) carried out by virtue of the foregoing authorisation, not fully subscribed. All the foregoing is in accordance with the provisions laid down in Article 297.1.b) of the Corporate Enterprises Act, rendering null and void the authorisation agreed by the Ordinary General Meeting of 20 April 2010.
- 2) The Board of Directors is expressly empowered to fully or partially exclude the preferential subscription right with regard to all or any of the issuances agreed in accordance with the provisions of this authorisation.
- 3) As a consequence of the foregoing agreement, to amend the Transitory Article of the Articles of Association, which will henceforth be drafted as follows:

"Transitory Article - Delegation to the Board of Directors.

The company's Board of Directors, with the powers of replacing this delegation with the Executive Committee has been authorised to increase the share capital by FOUR HUNDRED AND NINETY FIVE MILLION EIGHT HUNDRED AND THIRTY SIX THOUSAND AND SIXTY NINE EUROS (495,836,069 euros), within five (5) years from today's date, through a cash contribution, in one or more payments and as appropriate for the amount decided, duly issuing ordinary, privileged and redeemable shares, with or without the right to vote, with or without a premium, without the need for new authorisation from the General Meeting, as well as to amend the Articles of Association required for the share capital increase(s) carried out by virtue of the foregoing authorisation, not fully subscribed. All the foregoing is in accordance with the provisions laid down in Article 297.1.b) of the Corporate Enterprises Act".

A.10 Indicate whether there is any restriction on the transferability of securities and/or any restrictions on the voting rights. In particular, report the existence of any kind of restriction that may hamper taking control of the company through the acquisition of its shares in the market.

Yes

Description of the restrictions

As a company that incorporates certain regulated and quasi-regulated assets and activities into its group, the acquisition of Gas Natural SDG, S.A. assets may be subject to the provisions laid down in Additional Provision 9 of Law 3/2013 of 4 June, governing the National Commission of Markets and Competition.

Given its nature as a major operator in the gas and electricity markets, the holding of its shares is subject to the restrictions laid down in Article 34 of Decree-Law 6/2000, governing Urgent Measures to intensify competition in the goods and services markets.

A.11 Indicate whether the General Meeting has agreed to take up measures of neutralisation against a takeover bid by virtue of the provisions laid down in Law 6/2007.

No

If appropriate, explain the measures approved and the terms under which the restrictions would not be enforceable:

A.12 Indicate whether the company has issued securities that are not traded on a regulated community market.

No

If appropriate, indicate the different types of shares and, for each type of share, the rights and obligations conferred.

B. General Meeting

B.1 Indicate and, where applicable, give details of whether or not there are differences between the quorum system laid down in the Corporate Enterprises Act (LSC) and the quorum for constituting the General Meeting of Shareholders.

No

	% quorum different to that laid down in Article 193 LSC for general cases	% quorum different to that laid down in Article 194 LSC for special cases
Quorum required for the first call to meeting		
Quorum required for the second call to meeting		

Description of the differences

B.2 Indicate and, where applicable, give details of whether or not there are differences between the system laid down in the Corporate Enterprises Act (LSC) and the system for adopting corporate agreements:

No

Describe how the system differs from that of the LSC.

	Reinforced majority other than that laid down by Article 201.2 LSC for the cases of 194.1 LSC	Other cases of reinforced majorities
% laid down by the institution for the adoption of agreements		

Describe the differences

B.3 Specify the rules applicable to modification of the company's Articles of Association. In particular, report the majorities required for amendment of the Articles of Association, as well as, where appropriate, the rules for protection of shareholders' rights in modification of the Articles of Association.

Modification of the Articles of Association is regulated in Articles 24, 32 and 68 of the Articles of Association and in Article 2 of the Regulations of the General Meeting of Shareholders.

General Meeting.

- The shareholders constituted in a duly convened General Meeting, shall decide by majority vote on the matters which fall to the terms of reference of the meeting.
- All shareholders, including dissidents and those that have not taken part in the meeting, are subject to the resolutions of the General Meeting. (Art. 24 of the Articles of Association).

Specific agreements and majorities. Constitution.

- In order for the ordinary or extraordinary General Meeting to validly agree the issue of bonds, the increase or reduction of share capital, the removal or limitation of the preferential subscription right for new shares or convertible bonds, as well as the transformation, merger, spin-off or global assignment of assets and liabilities, the transfer of the company's registered office abroad and, in general, any modification to the Articles of Association, will require, at the first call to meeting, the attendance of shareholders, either present or represented, that hold at least fifty percent (50%) of the subscribed share capital with voting rights. In the second call to meeting, it will be sufficient for twenty-five percent (25%) of the share capital to be present. (Art. 32 of the Articles of Association).

Amendment to the Articles of Association.

- The modification of the Articles of Association must be agreed by the General Meeting and requires the concurrence of the following requisites:
 - 1) The Board of Directors or, where appropriate, the shareholders that make the proposal, must compile a written report with justification for the amendment.
 - 2) The call to meeting must clearly express the proposed points of change, as well as the right all shareholders have to examine, at the registered office, the full text of the proposed modification and a report on this. They also have the right to ask for handover or free-of-charge sending of said documents.
 - 3) The agreement must be adopted by the General Meeting in accordance with the provisions set out in these Articles of Association.
 - 4) Under all circumstances, the agreement must be set out in a public deed, which will be registered with the Mercantile Register and published in the Register's Official Gazette. (Art. 68 of the Articles of Association).

B.4 Indicate the attendance data of the General Meetings held during the financial year to which this report refers:

Date of General Meeting	% physical presence	Attendance data			Total
		% represented	% remote voting		
			Electronic vote	Others	
11/04/2014	68.65	12.67	0		81.32
16/04/2013	68.86	10.48	0		79.34

B.5 Indicate whether or not there is a statutory restriction to the minimum number of shares required to attend the General Meeting:

Yes

Number of shares required to attend the General Meeting

100

B.6 Indicate whether or not there is an agreement whereby certain decisions that require a structural modification to the company (set-up of subsidiaries, sale of essential operational assets, operations equivalent to liquidation of the company, etc.) must be subject to approval of the General Meeting of Shareholders, even if this is not expressly set out in Mercantile Laws.

No

B.7 Indicate the URL of the company and the means of access to corporate governance content and other information concerning the general meetings and which must be made available to shareholders through the company's website.

With regard to the Corporate Governance section, the route is as follows:
www.gasnaturalfenosa.com – Shareholders and Investors – Corporate Governance.

With regard to the General Meeting section, the route is as follows:
www.gasnaturalfenosa.com – Shareholders and Investors – General Meeting.

C. Structure of the Management of the Company

C.1 Board of Directors

C.1.1 Maximum and minimum number of Directors stipulated in the Articles of Association:

Maximum number of Directors	20
Minimum number of Directors	10

C.1.2 Complete the following table with the members of the Board:

Name or company name of Director	Representative	Position on Board	Date first appointment	Date last appointment	Election procedure
Mr Salvador Gabarró Serra	–	Chairman	23/06/2003	16/04/2013	Agreement at General Meeting
Mr Antonio Brufau Niubó	–	Deputy Chairman	16/06/1989	11/04/2014	Agreement at General Meeting
Mr Rafael Villaseca Marco	–	Chief Executive Officer	28/01/2005	20/04/2012	Agreement at General Meeting
Mr Carlos Losada Marrodán	–	Director	16/12/2002	20/04/2012	Agreement at General Meeting
Mr Demetrio Carceller Arce	–	Director	29/06/2007	20/04/2012	Agreement at General Meeting
Mr Emiliano López Achurra	–	Director	23/06/2003	16/04/2013	Agreement at General Meeting
Mr Enrique Alcántara-García Irazoqui	–	Director	27/06/1991	11/04/2014	Agreement at General Meeting
Mr Felipe González Márquez	–	Director	17/12/2010	14/04/2011	Agreement at General Meeting
Mr Heribert Padrol Munté	–	Director	20/04/2012	20/04/2012	Agreement at General Meeting
Mr Juan María Nin Génova	–	Director	25/01/2008	20/04/2012	Agreement at General Meeting
Mr Juan Rosell Lastortras	–	Director	26/06/2009	16/04/2013	Agreement at General Meeting
Mr Luis Suárez de Lezo Mantilla	–	Director	26/02/2010	11/04/2014	Agreement at General Meeting
Mr Miguel Valls Maseda	–	Director	28/01/2005	20/04/2012	Agreement at General Meeting
Mr Nemesio Fernández-Cuesta Luca de Tena	–	Director	28/01/2011	14/04/2011	Agreement at General Meeting
Mr Ramón Adell Ramón	–	Director	18/06/2010	14/04/2011	Agreement at General Meeting
Mr Santiago Cobo Cobo	–	Director	16/12/2002	20/04/2012	Agreement at General Meeting
Mr Xabier Añoveros Trías de Bes	–	Director	20/04/2012	20/04/2012	Agreement at General Meeting
Total number of Directors					17

Indicate the replacements occurring in the Board of Directors during the reporting period:

Name or company name of Director	Condition member of the Board at the time of replacement	Replacement date
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C.1.3 Complete the following tables regarding the members of the Board of Directors and status:

Executive Directors

Name or company name of Director	Committee which reported appointment	Position in the company's management structure
Mr Rafael Villaseca Marco	Appointments and Remuneration Committee	Chief Executive Officer
Total number of Executive Directors		1
% of the entire Board		5.88

External Proprietary Directors

Name or company name of Director	Committee which reported appointment	Name or title of significant shareholder he/she represents or who proposed appointment
Mr Salvador Gabarró Serra	Appointments and Remuneration Committee	Criteria CaixaHolding, S.A.U.
Mr Antonio Brufau Niubó	Appointments and Remuneration Committee	Repsol, S.A.
Mr Demetrio Carceller Arce	Appointments and Remuneration Committee	Repsol, S.A.
Mr Enrique Alcántara-García Irazoqui	Appointments and Remuneration Committee	Criteria CaixaHolding, S.A.U.
Mr Heribert Padrol Munté	Appointments and Remuneration Committee	Criteria CaixaHolding, S.A.U.
Mr Juan María Nín Génova	Appointments and Remuneration Committee	Criteria CaixaHolding, S.A.U.
Mr Juan Rosell Lastortras	Appointments and Remuneration Committee	Criteria CaixaHolding, S.A.U.
Mr Luis Suárez de Lezo Mantilla	Appointments and Remuneration Committee	Repsol, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Appointments and Remuneration Committee	Repsol, S.A.
Total number of Proprietary Directors		9
% of the entire Board		52.94

External Independent Directors

Name or company name of Director	Profile
Mr Carlos Losada Marrodán	Lecturer of ESADE Academic. Law Graduate and Doctorate in Business Administration.
Mr Emiliano López Achurra	Lawyer. Diploma in International Studies (I.E.P). Diploma in European Community Law (Colegio de Europa).
Mr Felipe González Márquez	Lawyer. President of the Government of Spain 1982-1996.
Mr Miguel Valls Maseda	Business Studies Graduate, Master's Degree from EADA and Business Administration Diploma from IESE.
Mr Ramón Adell Ramón	Professor of Financial Economics and Accounting at the University of Barcelona.
Mr Santiago Cobo Cobo	Entrepreneur. Business Administration Graduate.
Mr Xabier Añoveros Trías de Bes	Lawyer. Doctorate in Law.
Total number of Independent Directors	7
% total of the Board	41.18

Indicate whether or not any Director qualified as independent receives from the company, or from its group, any amount or benefit for an item other than remuneration as Director, or holds or has held, over the last year, a business relationship with the company or any other group company, whether in their own name or as a significant shareholder, Director or senior executive of an entity that maintains or has maintained any such relationship.

Where appropriate, include a reasoned statement from the Board on the grounds why it believes this Director may perform his duties as an Independent Director.

Name or company name of Director	Description of the relationship	Reasoned statement
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Other External Directors

Name or company name of Director	Committee which proposed or reported their appointment
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Total number of other External Directors

% total of the Board

List the reasons why they cannot be considered as Proprietary or Independent Directors and their bonds with the company or its executives or with its shareholders:

Name or company name of Director	Reasons	Company, executive or shareholder with whom the bond is maintained
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Indicate the changes, if any, in the type of Director during the period:

Name or company name of Director	Date of change	Former status	Present status
Mr Salvador Gabarró Serra	24/12/ 2014	Executive	Proprietary

C.1.4 Complete the following table with information concerning the number of female Directors over the last four years, as well as the nature of such Directors:

	Number of female Directors				% of the total of female Directors			
	Financial year t	Financial year t-1	Financial year t-2	Financial year t-3	Financial year t	Financial year t-1	Financial year t-2	Financial year t-3
Executive								
Proprietary								
Independent								
Other external								
Total								

C.1.5 Explain the measures which, where appropriate, have been adopted to include a number of women on the Board of Directors, thus enabling a balanced presence of men and women.

Explanation of the measures

The Appointments and Remuneration Committee shall ensure that for covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought. This obligation is set out in Article 31.2 of the Regulations of the Board of Directors.

C.1.6 Explain the measures which, where appropriate, have been agreed by the Appointments Committee so that the selection procedures are unaffected by any implicit bias that hampers the selection of female Director, and which show that the company purposefully seeks and includes women that satisfy the professional profile sought among the potential candidates:

Explanation of the measures

The Appointments and Remuneration Committee is tasked with reviewing the necessary skills of candidates required for each vacancy, compliance with the requirements needed for each category of Director and the incorporation process of new members, forwarding the opportune reports to the Board as necessary. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought. This obligation is set out in Article 31.2 of the Regulations of the Board of Directors.

When, despite the measures adopted, the number of female Directors is zero or few, explain the reasons for this:

Explanation of the reasons

Having examined the different professional characteristics in the selection of possible male and female candidates, solely objective considerations have been taken into account for the selection.

C.1.7 Explain how shareholders with significant stakes are represented on the Board.

Of the three significant shareholders the company currently has, only two are represented on the Board through natural persons.

Both Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona "la Caixa" and Repsol, S.A. are represented, respectively, by the External Proprietary Directors referred to in section C.1.3.

By virtue of the parallel shareholder agreements in force, Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona "la Caixa" will propose the party to hold the position as Chairman of the Board, and Repsol, S.A. will propose the Chief Executive Officer.

The Directors of Repsol, S.A. and Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona "la Caixa" will vote in favour of the members proposed by each of them for the aforementioned posts. (See sections A.6 and C.1.3.).

C.1.8 Where applicable, explain why Proprietary Directors have been appointed at the request of shareholders whose shareholding in the capital is less than 5%:

Name or company name of shareholder	Explanation
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Indicate whether or not formal requests have been accepted for presence on the Board from shareholders whose holding is equal to or higher than that of others for whom Proprietary Directors have been appointed. Where applicable, explain the reasons why they have not been accepted.

No

Name or company name of shareholder	Explanation
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C.1.9 Indicate whether or not a Director has resigned from his/her post before the conclusion of his/her term of office, whether or not he/she has provided the Board with reasons and through which medium and, if he/she has done so in writing to the entire Board, explain at least the reasons given:

Director's name	Reason for resignation
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C.1.10 Indicate, where applicable, the powers delegated to the Chief Executive Officer:

Name or company name of Director	Brief outline
Mr Rafael Villaseca Marco	He has delegated extensive powers of representation and administration in accordance with the nature and requirements of the Chief Executive Officer.

C.1.11 Indicate, where applicable, the Board members holding positions of administrators or executives in other companies forming part of the group of the listed company:

Name or company name of Director	Company name of group company	Position
Mr Rafael Villaseca Marco	Compañía General de Electricidad, S.A.	Chairman

C.1.12 Identify, where applicable, the Directors of your company who are members of the Board of Directors of other companies listed on official stock exchanges in Spain other than those of your group, that have been reported to the company:

Name or company name of Director	Corporate name of the listed company	Position
Mr Salvador Gabarró Serra	Caixabank, S.A.	Director
Mr Antonio Brufau Niubó	Repsol, S.A.	Chairman
Mr Demetrio Carceller Arce	S.A. Damm	Chairman
Mr Demetrio Carceller Arce	Ebro Foods, S.A.	Deputy Chairman
Mr Demetrio Carceller Arce	Sacyr, S.A.	Deputy Chairman
Mr Juan María Nín Génova	Repsol, S.A.	Director
Mr Juan Rosell Lastortras	Caixabank, S.A.	Director
Mr Luis Suárez de Lezo Mantilla	Repsol, S.A.	Voting Secretary

C.1.13 Indicate and, where applicable, explain whether or not the company has laid down rules on the number of Boards on which its Directors can sit:

No

Explanation of the rules

C.1.14 Specify the company's general policies and strategies for which the full Board is responsible for approving:

The investment and finance policy	Yes
The definition of the structure of the group of companies	Yes
The corporate governance policy	Yes
The corporate social responsibility policy	Yes
The strategic or business plan, as well as the management aims and annual budgets	Yes
The remuneration policy and appraisal of senior management performance	Yes
The policy for control and management of risks, as well as periodic monitoring of the internal information and control systems	Yes
The dividend policy, as well as the treasury stock policy and, in particular, its limits	Yes

C.1.15 Indicate the overall remuneration of the Board of Directors:

Remuneration of the Board of Directors (thousands of euros)	7,206
Amount of overall remuneration corresponding to the cumulative pension rights of Directors (thousands of euros)	2,636
Overall remuneration of the Board of Directors (thousands of euros)	9,842

C.1.16 Identify members of senior management who are not also Executive Directors, and indicate the total remuneration they earned during the year:

Name or company name	Position/s
Mr Manuel Fernández Álvarez	Managing Director of Wholesale Energy Business
Mr José María Egea Krauel	Managing Director of Energy Planning
Mr José Javier Fernández Martínez	Managing Director of Global Power Generation
Mr Antonio Peris Mingot	General Manager of Regulated Business
Mr Daniel López Jordà	Managing Director of Retail Energy Business
Mr Sergio Aranda Moreno	Managing Director of Latin America
Mr Antonio Basolas Tena	Managing Director of Strategy and Development
Mr Antonio Gallart Gabás	Chief Corporate Officer
Mr Jordi Garcia Tabernero	Managing Director of Communications and the Chairman's Office
Mr Carlos Javier Álvarez Fernández	Chief Financial Officer
Mr Manuel García Cobaleda	Managing Director of Legal Services and Secretary of the Board
Mr Carlos Ayuso Salinas	Director of Internal Auditing, Compliance and Control
Total remuneration of senior management (in thousands of euros)	9,439

C.1.17 Indicate, where applicable, the members of the Board of Directors who are also members of the Boards of Directors of companies that are significant shareholders and/or companies of its group:

Name or company name of Director	Company name of significant shareholder	Position
Mr Salvador Gabarró Serra	Criteria CaixaHolding, S.A.U.	Third Vice Chairman
Mr Salvador Gabarró Serra	Caixabank, S.A.	Director
Mr Antonio Brufau Niubó	Repsol, S.A.	Chairman
Mr Juan María Nín Génova	Repsol, S.A.	Director
Mr Luis Suárez de Lezo Mantilla	Repsol, S.A.	Voting Secretary
Mr Juan Rosell Lastortras	Caixabank, S.A.	Director
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol Sinopec Brasil, S.A.	Chairman
Mr Miguel Valls Maseda	Vidacaixa Grupo, S.A.U.	Director

Provide details, where appropriate, of the relevant relationships other than those included in the previous heading, of the members of the Board of Directors with the significant shareholders and/or in entities of its group:

Name or company name of associated Director	Name or company name of significant linked shareholder	Description of relationship
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol, S.A.	Executive Director of Commercial, Chemicals and Gas & Power and Member of the Executive Committee of Repsol, S.A

C.1.18 Indicate whether or not there has been any modification to the Regulations of the Board during the year:

No

Description of modifications

C.1.19 Indicate the procedures for the selection, appointment, re-election, assessment and removal of Directors. Provide details of the competent bodies, the procedures to be followed and the criteria applicable in each procedure.

Procedures for the appointment, re-election, assessment and removal of Directors are set out in Articles 41 and 42 of the Articles of Association and in Articles 11 to 14, 16 and 31 of the Board of Directors' Regulations.

1. Appointment:

The General Meeting of Shareholders is competent for appointing Directors and establishing the number thereof, subject to the limits stipulated in Article 41 of the Articles of Association.

If vacancies were to arise during the term for which the Directors were appointed, the Board shall be entitled to designate, using the co-option system, among the shareholders, the persons to occupy these vacancies until the next General Meeting of Shareholders is held.

A person does not have to be a shareholder to be appointed as a Director, except in the event of the aforementioned appointment by co-option.

Persons subject to prohibition or professional incompatibility as established by law cannot be appointed as administrator.

It will be necessary to appoint persons who not only satisfy legal provisions and those laid down in the Articles of Association for the position, but who have a prestigious position and are equipped with the professional skills and expertise required to perform their duties.

Directors are appointed and re-elected in accordance with a formal and transparent procedure, following a report from the Appointments and Remuneration Committee.

All the proposals for the appointment of Directors submitted by the Board of Directors to the General Meeting of Shareholders and the approved appointment decisions by co-option shall have to be notified previously by the Appointments and Remuneration Committee. When the Board does not follow the recommendations of said committee, it will have to explain the reasons and record the said reasons in the minutes. Directors affected by appointment, re-election or replacement proposals shall refrain from attending or taking part in the deliberations and votes of the Board of Directors or of the committee dealing with said proposals.

Pursuant to the Regulations of the Board of Directors, the following persons cannot be proposed or designated as External Independent Directors:

- a) Those who have been employees or Executive Directors of companies in Gas Natural Fenosa Group unless 3 or 5 years, respectively, have lapsed since the said relationship.
- b) Those who receive from the company or Gas Natural Fenosa whatsoever amount or benefit for a concept other than the Director's remuneration, unless it is not significant.

For the intents and purposes of the provisions laid down in this section, consideration shall not be given to the dividends or pension complements received by the Director as a result of his/her previous professional or labour relationship, as long as the said complements are unconditional and, consequently, the company paying them cannot suspend, modify or revoke their accrual at its discretion without a breach of obligations.

- c) Those who are or have been during the last 3 years a partner of the external auditor or the party responsible for the Auditor's Report for the audit during the said period of the company or any other company in Gas Natural Fenosa.

d) Those who are Executive Directors or senior executives of another company in which any Executive Director or senior executive of Gas Natural SDG, S.A. is an External Director.

e) Those who maintain or have maintained during the last year an important business relationship with the company or with any company in Gas Natural Fenosa either on their own behalf or as a majority shareholder, Director or senior executive of an institution that maintains or would have maintained the said relationship.

The consideration of business relation shall apply to that of goods or services supplier, including financial, advisory or consultancy services.

f) Those who are major shareholders, Executive Directors or senior executives of an institution that receives or has received during the last 3 years significant donations from any of the companies in Gas Natural Fenosa.

This shall not include those who are mere patrons of a foundation that receives donations.

g) Those who are spouses, individuals bound by a similar kinship or second-degree relatives of an Executive Director or senior executive of the company.

h) Those who have not been proposed for either appointment or renovation by the Appointments and Remuneration Committee.

i) Those who are in any of the cases indicated in paragraphs a), e), f) or g) of this section with regard to any majority shareholder or shareholder represented on the Board. In the case of kinship as per paragraph g), the limitation shall apply not only to the shareholder but also to its Proprietary Directors in the investee company.

Proprietary Directors who lose such status due to the sale of their holding by the shareholder who they represent may only be reappointed as Independent Directors when the shareholder he/she represented until then has sold all of his/her shares in the company.

A Director who has a shareholding in the company may have an independent status, provided he/she satisfies all conditions set forth in this article and also his/her holding is not significant.

2. Re-election:

Directors shall be appointed to their position for a term of three (3) years, although outgoing Directors can be re-elected once or several times. Under no circumstances shall the Independent Directors remain in their post as such for a period of more than 12 years.

3. Assessment:

In accordance with Article 4.5 of the Board Regulations, every year the quality and performance of the Board will be assessed, along with that of its committees, following a report from the same.

4. Replacement or removal:

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, Directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

According to Article 15.4 of the Regulations of the Board of Directors, when an Independent Director resigns from his/her post prior to the termination of his/her term of office, he/she shall explain the reasons in a letter addressed to the other Directors. The resignation shall be notified as relevant information.

C.1.20 Indicate whether or not the Board of Directors has performed an assessment of its activity over the year:

Yes

Where appropriate, explain to what extent the self-assessment has led to major changes in its internal organisation and on the procedures applicable to its activities:

Description of modifications

The self-assessment has not led to any major changes in the internal organisation or with regard to the procedures applicable to its activities. In its report, the Board concludes that in 2014 the company performed as expected, exercising its powers in full and without any interference, fully respecting both current legality as well as the organisation and performance of the Regulations of the Board.

C.1.21 Indicate cases in which Directors are compelled to resign.

Besides the cases of professional incompatibility or prohibition applicable by law, Article 15 of the Regulations of the Board of Directors states:

... 2. Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

- a) When Internal Directors leave the executive positions outside the Board and which were associated with their appointment as Director.
- b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these regulations.
- c) When they commit a serious breach of their obligations as Directors, jeopardising the interests of the company.
- d) When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

3. Once a Director has been relieved of his/her duties, he/she shall not be permitted to offer his/her services in a rival company for two years, unless the Board of Directors exempts him/her from this obligation or shortens the duration thereof.

C.1.22 Explain whether the duties of the chief executive of the company correspond to the position of Chairman of the Board. If this is the case, indicate the measures which have been taken to limit the risks of accumulation of powers in a single person:

No

Measures for limiting risks

Indicate and, where applicable, explain whether or not rules have been laid down to empower one of the Independent Directors to request the call of a Board meeting or the inclusion of new matters on the agenda to coordinate and report the concerns of the External Directors and direct the assessment by the Board of Directors.

No

Explanation of the rules

C.1.23 Are reinforced majorities other than those applicable by law required for any type of decision?

No

Where appropriate, describe the differences.

Description of the differences

C.1.24 Indicate if there are specific requirements other than those relating to Directors in order to be appointed as Chairman of the Board of Directors.

No

Description of requirements

C.1.25 Indicate whether the Chairman has a casting vote:

No

Matters for which there is a casting vote

C.1.26 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

No

Age limit for Chairman	Age limit for CEO	Age limit for Director

C.1.27 Indicate whether the Articles of Association or the Board Regulations establish a limited mandate for Independent Directors:

No

Maximum number of years of mandate

C.1.28 Indicate whether or not the Articles of Association or the Regulations of the Board set out specific rules for delegation of the vote to the Board of Directors, the method of doing this and, more specifically, the maximum number of delegations that a Director can have, as well as whether or not it is obligatory to delegate to a Director of the same type. Where appropriate, give a brief description of these rules.

According to Article 47 of the Articles of Association: "... The Directors who are unable to attend shall be entitled to confer their representation to another Director, there being no limit on the number of representations that each Director can have. The representation shall have to be granted by means of any written document, and also by telegram, telex or telefax"

Furthermore, Article 10.3 of the Regulations of the Board of Directors states: "Each Director shall be entitled to confer his/her representation to another Director, there being no limit on the number of representations held by each member for attending the Board meeting. Absent Directors' representations can be conferred by means of any written document, and by telegram, email, telex or telefax addressed to the Chairman's Office or the Board Secretary sufficiently in advance"

C.1.29 Indicate the number of meetings that the Board of Directors has held over the year. Also indicate, where applicable, how many times the Board has met without the Chairman being present. When calculating the number, representations made without specific instructions shall be considered as attendance.

Number of meetings of the Board	12
Number of Board meetings without the Chairman attending	0

Indicate the number of meetings held by the different Board committees over the year:

Number of meetings of the Executive or Delegated Committee	3
Number of meetings of the Audit Committee	7
Number of meetings of the Appointments and Remuneration Committee	6
Number of meetings of the Appointments Committee	–
Number of meetings of the Remuneration Committee	–
Number of meetings of the committee	–

C.1.30 Indicate the number of meetings held by the Board of Directors during the year with the attendance of all its members. When calculating the number, representations made with specific instructions shall be considered as attendance:

Attendance of Directors	6
% of attendances over the total number of votes during the year	96.08

C.1.31 Indicate if the individual and consolidated annual accounts submitted for approval to the Board are certified previously:

Yes

Identify, where applicable, the person(s) who has/have certified the company's Individual and Consolidated Annual Accounts in order to be drawn up by the Board:

Name or company name	Position(s)
Mr Carlos Javier Álvarez Fernández	Chief Financial Officer

C.1.32 Explain, where applicable, the mechanisms established by the Board of Directors to prevent the Individual and Consolidated Annual Accounts it draws up from being submitted to the General Meeting of Shareholders with qualifications in the Auditor's Report.

In accordance with Article 7 of the Regulations of the Board: "1.- Once it has received the reports issued by the Economic-Financial Department and by the Audit and Control Committee, and following pertinent clarifications, the Board of Directors shall draw up the Individual and Consolidated Annual Accounts and the Management Report, in clear and precise terms which render their content easily intelligible. The Board of Directors shall ensure that said accounts provide a true and fair view of the assets, financial position and the results of the company, pursuant to laws applicable.

2. Unless expressly stated otherwise in the minutes, it will be understood that before signing the formulation of the Annual Accounts required by law, the Board of Directors and each one of its members has been provided with the information necessary to perform this deed, and may record the exceptions it deems pertinent, where applicable.
3. The Board of Directors shall endeavour to prepare the accounts in such a way that the auditor of the company's accounts shall be unable to record qualifications. Nevertheless, if the Board of Directors considers that its criterion must be maintained, it will publicly explain the content and extent of the discrepancy."

Article 32 of the Regulations of the Board of Directors regulates the duties of the Audit and Control Committee, and certain powers and functions it assigns to said committee pertain to the auditing process.

C.1.33 Is the Secretary of the Board a Director?

No

C.1.34 Explain the procedures for appointing and dismissing the Secretary of the Board, indicating whether or not his/her appointment and dismissal have been reported by the Appointments Committee and approved by the Board in its plenary session.

Appointments and dismissal procedure

Article 26 of the Regulations of the Board of Directors states the following:

"The Secretary of the Board shall be appointed and dismissed by the latter after a report issued by the Appointments and Remuneration Committee and shall not necessarily have to be Director. He/She shall be responsible for exercising the functions attributed to his/her status by mercantile legislation and these regulations"

Does the Appointments Committee report the appointment?	Yes
Does the Appointments Committee report the dismissal?	Yes
Does the plenary session of the Board adopt the appointment?	Yes
Does the plenary session of the Board adopt the dismissal?	Yes

Is the Board Secretary commissioned with the duty of especially supervising the good governance recommendations?

Yes

Observations

Article 26 of the Regulations of the Board of Directors states in its point three the following:

"The Secretary shall be responsible for the formal and material legality of the Board's actions at all times, ensuring that their procedures and governing rules are regularly reviewed."

C.1.35 Indicate, where applicable, the mechanisms established by the company to safeguard the independence of the auditor, financial analysts, investment banks and rating agencies.

According to Art. 32.2 of the Board Regulations, the Audit and Control Committee is responsible for maintaining "relations with the external auditors to receive information on any questions which could jeopardise their independence, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and auditing standards".

Furthermore, the Board of Directors is bound by its own Regulations (Art. 6.4) to hold direct relationships with the members of the company's top-tier management and the auditors. The objective, professional and continuous nature of this relationship shall respect the independence of the auditors to the utmost.

The company's relations with financial analysts and investment banks are based on the principles of transparency, simultaneity and non-discrimination, as well as the existence of specific and different agents for each collective.

In addition, the company shall take special care not to compromise or interfere with the independence of the financial analysts in respect of the services offered by investment banks, in accordance with the internal codes of conduct established by them and designed to separate their analysis and assessment services.

C.1.36 Specify whether the company has changed of external auditor over the year. If appropriate, identify the incoming and outgoing auditors:

No

Outgoing auditor

Incoming auditor

In the case of disagreements with the outgoing auditor, explain the content of the said disagreements:

No

Explanation of the disagreements

C.1.37 Indicate if the audit company performs other tasks for the company and/or its group other than auditing activities, and if so, state the amount of the fees received for said activities and the percentage of the fees billed to the company and/or its group:

Yes

	Company	Group	Total
Amount of tasks other than auditing activities (in thousands of euros)	326	6	332
Amount of tasks other than auditing/Total amount billed by the audit company (in %)	22.20	0.20	7.10

C.1.38 Indicate if the auditor's report on the annual accounts corresponding to the previous year involves reservations or exceptions. Where applicable, indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of the said reservations or exceptions.

No

Explanation of the reasons

C.1.39 Indicate how many years the current audit company has been auditing, without interruption, the annual accounts of the company and/or its group. Also indicate the percentage of the number of years audited by the current audit company over the total number of years that the annual accounts have been audited:

	Company	Group
Number of years without interruption	24	24
Number of years audited by the current audit company/Number of years the company has been audited (in %)	100.0	100.0

C.1.40 Indicate and, where applicable, provide details of whether there is a procedure whereby Directors can have external assessment:

Yes

Details of the procedure

In accordance with internal regulations, Directors are entitled to propose to the Board, via the Secretary and by means of a notification directed to the Chairman, that external advisors be hired at the company's expense (legal, accounting, technical, financial, commercial advisors or of any other kind), advisors they consider necessary for the company's interests, to provide assistance in their duties when faced with specific problems of some relevance and complexity associated with their duties. (Article 21.2 of the Regulations of the Board and first paragraph of Article 21.3).

The Board of Directors shall be entitled to veto the approval of the proposal if considered unnecessary, in view of the amount involved, or if it considers that the said assessment can be provided by the company's own specialists and technicians. (Article 21.3 of the Regulations of the Board).

C.1.41 Indicate and, where applicable, provide details of whether there is a procedure whereby Directors can have the information necessary to prepare the meetings of the Boards of Directors with sufficient time:

Yes

Details of the procedure

Article 9.2 of the Regulations of the Board of Directors states:

"2. Ordinary meetings shall be convened by the Chairman, or by the Secretary or Assistant Secretary following the order of the Chairman, through any of the channels set out in the Articles of Association, including by email, provided the recipient Director has given his/her address in said mail. The notification shall include the place and the agenda of said meeting and shall be issued, barring exceptional cases, at least 48 hours before the meeting is to be held. Prior to each meeting, the Directors shall be furnished with the information and documentation considered to be pertinent or relevant regarding the subjects to be addressed in the Board meeting. Directors shall also be furnished with the minutes of the previous meeting, regardless of whether said minutes have been approved or not. ...

The Board meeting shall have a quorum, without being previously convoked, if all the Directors are present or represented and unanimously accept that the Board meeting be held".

However, according to Article 2.3 of the Regulations of the Board, when the agreement to be adopted is the modification of the Regulations of the Board of Directors, the Chairman of the Board, the Audit and Control Committee or at least four Directors may propose the said modifications to the Board when circumstances arise which, in their opinion, make it appropriate or necessary, attaching a report explaining the reasons and scope of the modification being proposed, where applicable. The Board shall be called by means of individual notice sent to each of the members with more than 15 days' notice of the date of the meeting".

Articles 21.1 and 3 of the aforementioned regulations state the following concerning the right of information of Directors:

"1. Directors shall have access, through the Chairman, and, as the case may be, through the Secretary, to all the company's services, and shall be entitled to collect, with unlimited powers, any information or assessment they may require regarding any aspect of the company. The right of information also applies to the subsidiaries and shall be channelled through the Chairman or the Secretary of the Board of Directors or of the pertinent committees of the Board, furnishing him/her with the information directly, offering him/her the appropriate agents or taking any measures required for the requested analysis.

(...)

3. The Chairman of the company shall have to be notified of the request for access and the proposal referred to in numbers 1 and 2 of this article through the Secretary of the Board of Directors".

It is usual practice to send the members of the Board of Directors, together with the call to the meeting, all the information that may be useful for learning the matters on the agenda for the Board meeting. In our opinion, the information given is considered complete and sufficient for the members of the Board of Directors to reach an opinion and form criteria.

Likewise, during and following the meeting, Directors shall be furnished with any information or clarifications they deem appropriate in respect of the points included in the agenda, or points which were not included but which were addressed in the same meeting.

C.1.42 Indicate and, where applicable, give details of whether or not the company has laid down rules that oblige the Directors to report and, if necessary, resign in cases that damage the company's credit and reputation:

Yes

Explain the rules

Article 15.2 of the Regulations of the Board of Directors states the following:

"Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

- a) When Internal Directors leave the executive positions outside the Board and which were associated with their appointment as Directors.
- b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these regulations.
- c) When they commit a serious breach of their obligations as Directors, jeopardising the interests of the company.
- d) When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable".

Furthermore, Article 16.7 of the Regulations of the Board of Directors states:

"The Director shall inform the company of any kind of legal or administrative claim or any claim of any nature in which he/she is involved which, due to its significance, could have a serious bearing on the reputation of the company. The Board shall examine the matter and adopt the appropriate measures in the company's interest and with the required urgency".

C.1.43 Indicate whether or not any member of the Board of Directors has informed the company that he/she has been prosecuted or hearings against him/her have been opened for any of the offences laid down in Article 213 of the Corporate Enterprises Act:

Yes

Director's name	Criminal case	Observations
Mr Demetrio Carceller Arce	214/2009	

Indicate whether or not the Board of Directors has analysed the case. If the answer is affirmative, give a reasoned explanation of the decision taken as to whether or not the Director remains in his/her post or, where appropriate, list the actions taken by the Board of Directors up to the date of this report or those scheduled to be taken.

Yes

Decision taken/action taken	Reasoned explanation
The Board of Directors has examined the facts attributed to Mr Carceller by means of a brief sent by the aforesaid Director and has decided not to take any action.	The Board has taken into account the presumption of innocence which should be applied to any person facing charges and the fact that the alleged facts are limited to Mr Carceller's family affairs.

C.1.44 Detail the major agreements entered into by the company and which remain in force, are modified or conclude in the event of a change of control of the company based on the takeover, and the effects of these agreements.

The Industrial Action Agreement between Repsol, S.A. and Gas Natural SDG, S.A., reported as a relevant fact through the National Securities Market Commission on 29 April 2005, considered any change to the controlling structure of either party as grounds for termination, as at 31 December 2014.

An important part of the investee companies with shareholders outside the group contain change of control clauses whereby the other shareholder is entitled to choose to acquire the shareholdings in the event of change of control of the holding company of Gas Natural Fenosa.

Furthermore, the majority of the outstanding debt, which includes a change of control clause, whether through acquisition of more than 50% of the voting shares or through obtaining the right to appoint the majority of Board members of Gas Natural SDG, S.A., are subject to additional conditions such as the major reduction of the credit rating caused by the change of control; material damage to the creditor; an adverse material change affecting solvency or the capacity to fulfil the contract. These clauses entail the repayment of the debt, although they usually have a longer period than that granted in the event of early termination. Some clauses provide for the arrangement of guarantees as an alternative to repayment.

More specifically, the bonds issued, with an approximate value of 12 billion euros (standard practice in the Euromarket), would be susceptible to early maturity providing that the change of control causes a fall of three full notches in at least two of the three ratings it had or all of the ratings fall below investment grade, and providing the Rating Agency explains that the reduction of the credit rating is caused by the change of control.

There are also loans for an approximate amount of 3 billion euros, which could be the object of early repayment in the event of a change of control. Part of that amount refers to the refinancing taken out to acquire Unión Fenosa. All loans have special repayment periods that are longer than those in the cases of early repayment.

Most of the change of control clauses are dependent upon damages being caused for creditors or there being important falls in rating. In most of them, the change of control is excluded if any of the current shareholders owns important shareholdings in the company jointly with a third party. Some contracts include the arrangement of guarantees as an alternative to repayment.

C.1.45 Provide an aggregate list or give a detailed indication of the agreements between the company and its positions of administration and management or employees and which provide for compensation payments, guarantee or protection clauses, when these people resign or are dismissed unfairly, or whether the contractual relationship comes to a conclusion as a consequence of a takeover or other kind of operation.

Number of beneficiaries 25

Management Committee and other executives

Description of decision

The Chief Executive Office contract establishes compensation for three years of total remuneration for certain cases of termination of the contractual relationship: due to a decision by the company, except for very serious cases of misconduct which cause serious damages to the interests of the company or by a decision made by the Chief Executive Officer, provided the termination of the business relationship is caused by a series of circumstances which are classified and agreed by contract (serious corporate breach, depletion or substantial reduction of functions, substantial modification of contractual conditions or relevant change in the entity's shareholders).

As a post-contractual non-competition agreement, compensation is also established amounting to a full year of total remuneration. The post-contractual non-competition agreement has a duration of one year.

The contract signed with members of the Management Committee and the Director of Internal Auditing contain a clause that sets out minimum compensation equivalent to two years' remuneration in certain cases of contractual termination, except in cases of grave misconduct vis-à-vis his/her professional obligations that cause serious damage to the company. They also provide for compensation equivalent to one year's fixed remuneration through the two-year post-contractual antitrust arrangement.

In addition, there are compensation agreements with a further 14 executives, the amounts of which entitle these executives to receive minimum compensation of one year's remuneration in certain cases of contractual termination, except in cases of grave misconduct vis-à-vis their professional obligations and which cause serious damage to the company. The agreement also sets out compensation equivalent to one year's fixed remuneration through the two-year post-contractual antitrust arrangement.

Indicate if these contracts must be notified and/or approved by the bodies of the company or its group:

	Board of Directors	General Meeting
Body that authorises the clauses	No	No
Is the General Meeting informed of the clauses?		Yes

C.2 Committees of the Board of Directors.

C.2.1 Provide details of all the committees of the Board of Directors, their members and the proportion of Proprietary and Independent Directors that sit on these committees:

Executive or Delegated Committee

Name	Position	Type
Mr Salvador Gabarró Serra	Chairman	Proprietary Director
Mr Nemesio Fernández-Cuesta Luca de Tena	Board Member	Proprietary Director
Mr Carlos Losada Marrodán	Board Member	Independent Director
Mr Demetrio Carceller Arce	Board Member	Proprietary Director
Mr Emiliano López Achurra	Board Member	Independent Director
Mr Enrique Alcántara-García Irazoqui	Board Member	Proprietary Director
Mr Juan María Nín Génova	Board Member	Proprietary Director
Mr Rafael Villaseca Marco	Board Member	Executive

% of Executive Directors	12
% of Proprietary Directors	62
% of Independent Directors	25
% of other external Directors	–

Audit Committee

Name	Position	Type
Mr Ramón Adell Ramón	Chairman	Independent Director
Mr Carlos Losada Marrodán	Board Member	Independent Director
Mr Luis Suárez de Lezo Mantilla	Board Member	Proprietary Director

% of Executive Directors	–
% of Proprietary Directors	33
% of Independent Directors	67
% of other external Directors	–

Appointments and Remuneration Committee

Name	Position	Type
Mr Miguel Valls Maseda	Chairman	Independent Director
Mr Antonio Brufau Niubó	Board Member	Proprietary Director
Mr Santiago Cobo Cobo	Board Member	Independent Director

% of Executive Directors	–
% of Proprietary Directors	33
% of Independent Directors	67
% of other external Directors	–

Appointments Committee

Name	Position	Type
% of Executive Directors		
% of Proprietary Directors		
% of Independent Directors		
% of other external Directors		

Remuneration Committee

Name	Position	Type
% of Executive Directors		
% of Proprietary Directors		
% of Independent Directors		
% of other external Directors		

_____ Committee

Name	Position	Type
% of Executive Directors		
% of Proprietary Directors		
% of Independent Directors		
% of other external Directors		

C.2.2 Complete the following table with information on the number of female Directors that have made up the committees of the Board of Directors over the last four years:

	Number of female Directors			
	Financial year t Number %	Financial year t-1 Number %	Financial year t-2 Number %	Financial year t-3 Number %
Executive Committee	-	-	-	-
Audit Committee	-	-	-	-
Appointments and Remuneration Committee	-	-	-	-
Appointments Committee				
Remuneration Committee				
_____ Committee				

C.2.3 Indicate whether or not the Audit Committee is responsible for the following:

Supervising the preparation process and integrity of the financial information related to the company and, where applicable, the group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of the bookkeeping criteria	Yes
Regularly reviewing the internal control and risk management systems so that the main risks can be identified, processed and appropriately publicised	Yes
Ensuring the independence and effectiveness of the internal audit duty; propose the selection, appointment, re-election and dismissal of the person in charge of the internal audit service; forward the budget for this service; receive periodic information on its activities, and verify that senior management considers the conclusions and recommendations in its reports	Yes
Setting up and supervising a mechanism that enables employees to communicate any significant irregularities, especially those related to finance and bookkeeping, and to do so in a confidential manner and, if considered suitable, anonymous	Yes
Raising the selection, appointment, re-election and substitution proposals concerning the external auditor to the Board, as well as the terms and conditions of his/her contract	Yes
Receiving information from the external auditor on the audit plan and the results of carrying it out and checking that senior management take its recommendations into account	Yes
Guaranteeing the independence of the external auditor	Yes

C.2.4 Describe the organisational and operational rules and the responsibilities attributable to each of the Board's committees.

Executive Committee

(Articles 50 and 51 of the Articles of Association and Article 30 of the Board Regulations)

1.1. Powers:

The Board of Directors may designate one or more Executive Committees and appoint one or more Chief Executive Officers and delegate them, temporarily or permanently, any or all of the functions, except those that legally or by agreement of the General Meeting, were within the exclusive jurisdiction thereof, or that may not be delegated by the Board.

By agreement of the Board of Directors on 20 February 1992, the following powers were delegated to the Executive Committee:

- Organising, directing and inspecting all services and facilities of the company.
- Appointing, suspending and dismissing employees and workers of the company and establishing salaries, as well as providing guarantees to those employees with whom the company has an agreement to provide.
- Establishing the salary that should be paid for extra services.
- Auditing the company's funds.
- Receiving, directing and answering private requests and advocating the drawing up of minutes of all kinds.
- Issuing, endorsing, accepting, collecting and discounting bills of exchange and other draft documents, drawing up re-accounts and summoning protests for non-acceptance or non-payment.
- Monitoring, opening, cancelling in the Banco de España, in any locality, or any other bank, savings bank or establishment, current and credit accounts signing, for this purpose, cheques, orders, policies and other documents; and requesting, agreeing to or rejecting statements and account balances.
- Making payments and collections for any security and quantity and even making payment orders for the State, autonomous regions, provinces or municipalities, signing receipts and official receipts.
- Collecting letters, certificates, dispatches, parcels, money orders and goods with declared monetary value from Post Offices, rail and shipping companies and in general all transport companies, customs and agencies, as well as sent merchandise and stock, and making objections and complaints, and the refusal and abandonment of goods.
- Opening, replying to and signing correspondence and updating the accounting books in accordance with the law.
- Contracting insurance of all kinds, signing policies and related documents and receiving indemnities where appropriate.
- Representing the company in acquaintances and grace intervals, insolvencies, defaults, bankruptcy of debtors, attending General Meetings, appointing trustees and administrators, accepting or rejecting the proposals of the debtor and carrying out all the paperwork until the end of the procedure.
- Buying, selling, leasing, reducing, or conditionally or simply exchanging, with the declared price, deferred or paid in cash, all kinds of movable and immovable assets, in rem and personal rights, carrying out planting and building declarations, surveys and marking of boundaries, consolidations and severances and granting contracts of all kinds.

- Establishing, accepting, modifying, acquiring, disposing of, postponing and cancelling, wholly or partially before or after maturity, whether or not the insured security has been fulfilled, mortgages, liens, prohibitions, conditions and all kinds of limitations or guarantees, as well as easements and other in rem rights.
- Establishing, merging, transforming, dissolving and liquidating all types of companies, associations, economic interest groups, European economic interest groups and joint ventures, assisting or intervening in all types of Boards, providing companies all kinds of goods, receiving in return holdings, fees, rights and actions that may apply and, in case of dissolution, the appropriate assets.
- Participating in tenders and auctions, submitting proposals and accepting awards.
- Buying, selling, trading and pledging securities and receiving interest, dividend and amortisation payments from them.
- Modifying, transferring, cancelling, withdrawing and establishing interim or definite deposits of cash and/or securities.
- Coordinating and arranging bank loans with personal guarantees or pledged securities, with banks, savings banks and credit institutions, including the Banco de España, signing policies and related documents.
- Advocating all kinds of notarial deeds, organising and keeping records of the ownership and release of liens, requesting entries in the mercantile and property registers.
- Appearing in name and representation of the company before centres and organisations of the State; autonomous regions, provinces and municipalities of Spain; judges, courts and judiciary, attorneys, unions, delegations, committees, Boards, juries and commissions and, in general, any individual person or legal entity or public or private entity. And before these parties, requesting, monitoring and terminating as the plaintiff, defendant or for any other concept, all manner of processes, procedures, hearings and actions and administrative and of a tax nature; trials and civil and commercial procedures; criminal trials and hearings; contentious-administrative trials; governmental; labour hearings of all levels, jurisdictions and ranks; lodging petitions, carrying out actions and exceptions at whatsoever procedures, formalities and appeals; including annulments and reviews and other extraordinary appeals and providing personal ratification whenever required, acquitting positions and legally acquiescing under decisory or non-decisory oath.
- Appointing trustees and granting them the pertinent powers, both generally and for a specific occasion or event, as well as revoking the powers granted at any time.

Similarly, Article 5 of the Regulations of the Board states that the agreements laid down in points five to eight, ten to thirteen and sixteen can be adopted, without distinction, by the Board of Directors or the Executive Committee. See Article 5 of the Regulations of the Board.

Likewise, Article 30.4 of the Regulations of the Board states that the continued monitoring of management by the company's top-tier level is a specific responsibility of the Executive Committee, as is any other of its functions pursuant to the Articles of Association or these regulations or assigned to it by the Board of Directors.

1.2. Organisation and operation:

- The Executive Committee shall be comprised by the Chairman of the Board of Directors and a maximum of another seven Directors, belonging to the groups envisaged in Article 3 of the regulations and in the same proportion as exists in the Board of Directors. The appointment of the members of the Executive Committee shall require an affirmative vote from at least two thirds of the Board members with existing appointments.
- The Chairman of the Board of Directors will act as Chairman of the Executive Committee and the Secretary of the Board of Directors will undertake the secretariat and may be assisted by the Assistant Secretary.
- The Executive Committee shall be understood to be validly constituted when more than half of its members attend the meeting in person or by representative.

- The members of the Executive Committee shall leave their post when they do so in their capacity as Directors or as agreed by the Board. The positions that become available shall be covered promptly by the Board of Directors.
- The Executive Committee, convened by its Chairman, shall hold meetings whenever its Chairman considers it necessary or upon request of one third of its members. The Secretary will take the minutes of the agreements adopted in the meeting and these will be outlined in the following plenary meeting of the Board of Directors.
- For cases in which, in the view of the Chairman or of the majority of members of the Executive Committee, the importance of the issue so requires, the agreements adopted by the committee shall be submitted for ratification from the plenary Board meeting.

The same shall be applicable in relation to issues the Board has submitted for examination to the Executive Committee and the Board has the final decision.

In any other case, the agreements adopted by the Executive Committee shall be valid and binding, without the need for subsequent ratification from the full Board meeting.

- The provisions in the regulations for the operation of the Board of Directors shall be applicable to the Executive Committee to the full extent possible.

Appointments and Remuneration Committee (Article 31 of the Board Regulations)

Duties:

The committee carries out research and makes proposals to the Board for the following issues:

- Putting forward criteria for the remuneration of the company's Directors and to assure transparency in remunerations.
- Putting forward the general policy for remuneration of the executives of Gas Natural Fenosa.
- Putting forward the guidelines for appointments, selection, careers, promotion and dismissal of top-tier management, in order to ensure that the group always has highly qualified personnel, suitable for the management of its activities.
- Reviewing the structure and composition of the Board of Directors, the criteria that should be applied to the statutory renewal of the Directors, the aptitudes required of the candidates to cover each vacancy, the fulfilment of the requirements for each category of Director and the process for the incorporation of new members, raising the corresponding reports to the Board as applicable. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought.
- Issuing a report on the transactions that involve or may involve conflicts of interests and, in particular, transactions with associated parties submitted to the Board.
- Issuing a report on the appointments and dismissals of the members of top-tier management.

Organisation and operation:

The Appointments and Remuneration Committee shall comprise a minimum of three and a maximum of five Directors, designated by the Board of Directors from among the External Directors, bearing in mind their experience and aptitudes. Its members shall leave their post when they do so in their capacity as Directors, when agreed by the Board of Directors or after a period of three years from their appointment. They can be re-elected.

The Board of Directors shall elect the Chairman from among the members of the committee; the Chairman shall not have the casting vote. The Secretary of the Committee shall be the same as the Secretary of Board of Directors.

The committee shall hold meetings whenever necessary to issue its reports, when considered necessary by the Chairman or upon request from two of its members. At least four meetings per year must be held. They shall be called by the Chairman with prior notice of at least two days before the meeting date, except in certain defined circumstances. Notification for the meeting shall include the agenda together with the pertinent documents to aid proceedings. The meetings shall normally take place at the registered office.

Audit and Control Committee

(Article 51 bis of the Articles of Association and Article 32 of the Board Regulations)

Duties:

Article 51 bis of the Articles of Association:

- “1. Reporting to the General Meeting of Shareholders on issues raised by shareholders with respect to matters within their competence.
2. Proposing to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment of external auditors, pursuant to Article 264 of the Corporate Enterprises Act.
3. Supervising the efficiency of the company's internal control, internal audit services, if appropriate, and the risk management systems, as well as discussing any significant weaknesses of the internal control system detected during the audit with accounts auditors or with audit firms.
4. Supervising the process of compiling and presenting the regulated financial reporting.
5. Establishing the appropriate relations with accounts auditors or audit firms to receive information on any issues which could jeopardise their independence, to be examined by the committee, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and auditing standards. Under all circumstances, every year they must receive written confirmation from the accounts auditors or audit firms reporting their independence with regard to the entity or entities related to the company, directly or indirectly, as well as information on the additional services of any kind provided to these entities by the foregoing auditors or companies, or by persons or entities related to the auditors, in accordance with the provisions laid down in the Accounts Auditing Act, Law 19/1988 of 12 July.
6. Every year, before issuing the Audit Report, providing a report that gives an opinion on the independence of the accounts auditors or audit firm. This report shall, in any case, refer to the provision of additional services referred to in the previous section.
7. Any other general or specific function delegated by the Board of Directors.

The committee will hold meetings as often as decided or whenever called by the Chairman or requested by two of its members. The majority of votes will be used in adopting decisions or recommendations.

The performance of the Audit Committee will be subject to direct application of the rules laid down in the Regulations of the Board of Directors. The provisions in the regulations for the operation of the Board of Directors will apply to the extent possible.

Organisation and operation:

The Audit and Control Committee shall comprise a minimum of three and a maximum of five Directors appointed by the Board of Directors from among the External Directors, taking into account their knowledge and experience in issues of accountancy, audit and risk management. Its members shall leave their post when they do so in their capacity as Directors, when agreed by the Board of Directors or after a period of three years from their appointment. They can be re-elected.

At least one of the committee members will be an Independent Director.

The Board of Directors shall elect the Chairman of the committee, who shall not have a casting vote and shall be replaced in accordance with the Articles of Association (Article 51 bis) and legislation. He/she may be re-elected following the term of one year after his/her dismissal. The Secretary of the committee shall be the same as the Secretary of the Board of Directors.

The committee shall hold meetings whenever necessary in order to issue its reports, and will be convened by its Chairman on his own initiative or upon request of two of its members. At least four meetings per year must be held. The notification for the meeting shall include the agenda together with the relevant documents to facilitate proceedings, and must be made at least two days in advance, except in certain defined circumstances, in writing. The meetings shall normally take place at the registered office. The committee may invite to its meetings any executive or employee it deems appropriate".

Article 32 of the Regulations of the Board:

2. The committee is competent on the following issues:

- Reporting to the General Meeting of Shareholders on questions raised by shareholders with respect to matters within their competence.
- Proposing to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment of external auditors, pursuant to Article 264 of the Corporate Enterprises Act.
- Supervising the internal audit services, guaranteeing their independence and proposing the appointment, re-election and dismissal of the person responsible. Accordingly, the person responsible for the internal audit function shall present an annual work plan, report on the relevant incidents occurring during its development and submit a report on its activities at the end of the year.
- Monitoring and supervising the preparation of regulated financial information, guaranteeing the proper application of the accounting principles and the inclusion of all the companies that are to be included in the consolidation perimeter.
- Monitoring and supervising the company's risk management and internal control systems and their effectiveness, guaranteeing that they identify the types of risk the company faces and the measures considered for reducing them and dealing with them in the event of effective damage. Speaking to the accounts auditors about significant weaknesses of the internal control system detected during the audit.
- Raising the selection, appointment, re-election and substitution proposals concerning the external auditor to the Board, as well as the terms and conditions of his/her contract.
- Liaising with external auditors to receive information on any questions which could jeopardise their independence and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and auditing standards.
- Monitoring the development of the annual auditing.

- Acting as a communication channel between the Board of Directors and the external auditors and assessing the results of each audit. Under all circumstances, every year they must receive written confirmation from the company's accounts auditors reporting their independence with regard to the entity or entities related to the company, directly or indirectly, as well as information on the additional services of any kind provided to these entities by the foregoing auditors or by persons or entities related to the auditors, in accordance with the provisions laid down in the Accounts Auditing Act.
- Every year, before issuing the Audit Report, providing a report that gives an opinion on the independence of the accounts auditors. This report shall, in any case, refer to the provision of additional services referred to in the previous section.
- Reviewing the information on the company's activities and results which is compiled periodically in compliance with current stock market regulations, making sure that it is prepared in accordance with the same accounting criteria as the annual accounts and ensuring the transparency and accuracy of this information.
- Adopting the measures it considers appropriate in the auditing activity, internal financial control system and compliance with legal regulations in matters of provision of information to markets and the transparency and accuracy thereof.
- Checking compliance with the Internal Code of Conduct for Securities Markets current at any time, with these regulations and in general with the rules governing the company, and making any necessary proposals for their improvement.
- Providing information during the first quarter of the year and whenever the Board of Directors so requests, on compliance with these regulations.
- Setting up and supervising a mechanism that enables employees to communicate any significant irregularities, especially those related to finance and bookkeeping, and to do so in a confidential manner and, if considered suitable, anonymous.

C.2.5 Indicate, where applicable, the existence of committee regulations, the location at which they are available for consultation and the modifications that have been made during the financial year. Also indicate whether any annual report on each committee's activities has been voluntarily drafted.

The committees of the Board of Directors of Gas Natural SDG, S.A. are the Executive Committee, the Appointments and Remuneration Committee and the Audit and Control Committee. The last two hold powers to make proposals and perform studies.

The aforementioned committees are regulated in the company's Articles of Association and in the Regulations governing the organisation and operation of the Board of Directors of Gas Natural SDG, S.A. and its committees. Both documents may be checked at the Mercantile Register of Barcelona and on the company's website (www.gasnaturalfenosa.com).

Neither the Articles of Association nor the Regulations governing the organisation and operation of the Board of Directors of Gas Natural SDG, S.A. and its committees were modified in 2014.

In compliance with Article 5 of the Board Regulations, the committees of the Board have drawn up an annual report which has been submitted to the Board of Directors with regard to the quality and efficiency of its performance in 2014.

C.2.6 Indicate whether the composition of the Delegated or Executive Committee reflects the participation in the Board by the various Directors depending on status:

Yes

If the answer is negative, explain the composition of your Delegated or Executive Committee

D. Related-Party Transactions and Intra-Group Transactions

D.1 Identify the competent body and, where appropriate, explain the procedure for approval of transactions with related parties and intra-group parties.

Body in charge of approving related-party transactions

Board of Directors

Procedure for approval of related-party transactions

In accordance with Article 16, *in fine*, of the Regulations of the Board of Directors: "... any direct or indirect transaction between the company and a significant shareholder must be submitted for approval by the Board of Directors, subject to a ruling from the Appointments and Remuneration Committee of the Board. The committee must assess the transaction in terms of equal treatment and fair market conditions. The affected Proprietary Directors must abstain from taking part in the Board deliberations and voting. Where the transactions in question are ordinary ones, across-the-board authorisation may be granted for the line of transactions and the conditions for their execution".

Article 31 of the Board Regulations envisages, among the functions entrusted to the Appointments and Remuneration Committee, the task of informing the Board of transactions that imply or may imply conflicts of interest and, in particular, transactions with associated parties submitted to the Board.

Finally, Article 6.5 of the Regulations obliges the Board of Directors to include, in the Annual Report and the Annual Corporate Governance Report, information on the transactions completed with significant shareholders, so that other shareholders may be informed of their scope and importance.

Explain whether or not the approval of transactions with related parties has been delegated, specifying the body or persons to whom this has been delegated, where appropriate.

At its session held on 30 September 2011, the Board of Directors, following a favourable report from the Appointments and Remuneration Committee, agreed to give across-the-board authorisation to related-party transactions concerning purchase of the polyethylene network of Repsol Butano, S.A. carried out under normal market conditions. Said authorisation is exercised by the Managing Director of Retail Energy Business.

On 25 May 2012, following a favourable report from the Appointments and Remuneration Committee, the Board of Directors granted across-the-board authorisation for the ordinary transactions carried out under market conditions with Caixabank, S.A. or with any entity belonging to "la Caixa" Group concerning: the opening of current bank accounts, temporary financial investments generated through cash surplus from current operations, management of bills presented for payment, different payments concerning habitual operations (payroll, taxes, Social Security, suppliers and others of a similar nature), issue of VISA and the like, sale and purchase of currency in cash or futures with payment in advance and collection of approved foreign currency invoices, confirmation of documentary letters of credit, procurement of interest rate derivatives, as well as ISDA and CMOF (Framework Contracts for Financial Transactions) contracts, and any others of a similar nature that cover all or any of the foregoing operations. Said authorisation is exercised by the Chief Financial Officer.

D.2 Detail those transactions that are significant because of their amount or which are materially relevant, performed between the company or group entities and the company's significant shareholders:

Name or company name of significant shareholder	Name or company name of the company or entity of the group	Nature of the relationship	Type of operation	Amount (thousands of euros)
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Charged interest	2,040
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Interests earned but not paid	54
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Contributions to pension plans and life insurance	23,151
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Reception of services	14,013
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Paid interest	17,276
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Interests earned but not collected	22
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Provision of services	764
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financing agreements: others	1,687,842
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Sales of finance fixed assets	753,838
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financing agreements: loans	200,000
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Guarantees	156,250
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Management contracts	765,982
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	309,445
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Reception of services	1,808
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Procurement of manufactured goods or not	375,262
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Paid interest	265
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Provision of services	383
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Sales of manufactured goods or not	1,118,714
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Financing agreements: others	7,828
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	269,295

D.3 Detail those transactions that are significant because of their amount or which are materially relevant, performed between the company or entities within its group and the company's administrators or executives:

Name or company name of the administrators or executives	Name or company name of the related party	Relationship	Nature of the operation	Amount (thousands of euros)
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D.4 Report on the significant transactions carried out by the company with other companies belonging to the same group, provided that they are not eliminated in the process of drafting the Consolidated Financial Statements and are not part of the company's usual trading in terms of its purpose and conditions.

Under all circumstances, report any intra-group transaction performed with entities established in countries or territories considered to be a tax haven:

Company name of the group entity	Brief description of the operation	Amount (thousands of euros)
Buenergía Gas & Power, Ltd	Dividends received from EcoEléctrica Holding, Ltd	17,581
EcoEléctrica Holding, Ltd	Dividends received from Ecoeléctrica, L.P. and Ecoeléctrica Limited and paid to Buenergía Gas & Power, Ltd	17,581
Ecoeléctrica Limited	Dividends received from Ecoeléctrica, L.P. and paid to Ecoeléctrica Holding, Ltd	176

D.5 Indicate the amount of the transactions performed with other related parties.

0 (in thousands of euros)

D.6 Detail the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/ or its group, and its Directors, executives or significant shareholders.

1. Directors:

The conflicts of interest are regulated by Article 16 of the Regulations of the Board of Directors, which states the following:

- The Director must abstain from intervening in deliberations and voting on issues in which he/she has a direct or indirect interest and would give rise to a conflict of interests.
- The Director shall be considered to have an interest when the issue affects a member of his/her family, or a company, entity or their respective groups, not belonging to Gas Natural Fenosa, in which the Director acts as representative, manager or adviser, or has a major holding in their capital or has been put forward by those entities as a Proprietary Director in Gas Natural Fenosa.

- Directors must report their personal situations to the Board, as well as those of their closest family members and also the companies controlled by them. Specifically, Directors must report aspects relating to holdings, positions held and activities, syndication agreements and, in general, any fact, situation or link that may influence their loyal conduct as administrators of the company. Likewise, Proprietary Directors must inform the Board of any conflict of interest between the company and the shareholder that proposed their appointment, or which could compromise their duty to be loyal.
- The Director cannot carry out direct or indirect professional or commercial transactions with the company or companies in its group, unless he/she has previously reported the situation of conflict of interests, and the Board, subject to a report from the Appointments and Remuneration Committee, has approved the transaction. For ordinary operations, the generic authorisation for the operation type and its implementation procedure shall be sufficient. In all cases, any conflicts of interest of the company's administrators shall be reported in the Annual Corporate Governance Report.
- In his/her capacity as loyal representative of the company, the Director must inform the company of shares in the company he/she holds, directly or through companies in which he/she has a major holding, following the procedure and other processes that are established for investment in Gas Natural SDG, S.A and investee companies.
- Votes on proposals for appointments, re-election or dismissal of Directors shall be secret, and the affected Directors must abstain from taking part in these votes and their deliberations.
- The Director must notify the company of significant changes to their professional circumstances and changes which affect the nature or capacity by virtue of which he/she was appointed as Director.
- The Director shall inform the company of any kind of legal or administrative claim or any claim of any nature in which they are involved which, due to its significance, could have a serious bearing on the reputation of the company. The Board shall examine the matter and adopt the appropriate measures in the company's interest and with the required urgency.
- The Board of Directors shall endeavour, at all times, to prevent Proprietary Directors from using their position to obtain asset benefits without adequate compensation, to the advantage of the shareholder that put them forward for the position.

2. Directors and executives:

Section 6 of the Internal Code of Conduct, for issues relating to the Securities Markets of Gas Natural SDG, S.A., contains the information that the Directors and executives of the entity must provide concerning conflicts of interest:

"6.1. The persons included in the subjective scope of this internal Code of Conduct shall be obliged to inform the Secretary of the Board of Directors of Gas Natural SDG, S.A. of any possible conflicts of interest that may emerge with the corporate relationships in which they hold an interest or with the ownership of their personal or family assets or any other cause that may interfere in the fulfilment of activities which are the object of these regulations.

In the case of there being a doubt over the existence of a conflict of interest, the obliged persons must consult the Secretary of the Board of Directors of Gas Natural SDG, S.A. who shall resolve the issue in writing. The Secretary may take the matter to the Appointments and Remuneration Committee if he/she considers it to be of particular significance.

The persons affected by potential conflicts of interest must keep the information up to date, reporting any modification or closure of the previously communicated situations.

6.2. The affected persons must abstain from participating in the adoption of any kind of decision that could be affected by the conflict of interests with the company..."

3. Significant shareholders:

With regard to this section, Article 16, *in fine*, of the Board Regulations establishes:

"Accordingly, any direct or indirect transaction between the company and a significant shareholder must be submitted for approval by the Board of Directors, subject to a ruling from the Appointments and Remuneration Committee of the Board. The committee must assess the transaction in terms of equal treatment and fair market conditions. The affected Proprietary Directors must abstain from taking part in the Board deliberations and voting. Where the transactions in question are ordinary ones, across-the-board authorisation may be granted for the line of transactions and the conditions for their execution."

Article 31 of the Board Regulations envisages, among the functions entrusted to the Appointments and Remuneration Committee, the task of informing the Board of transactions that imply or may imply conflicts of interest and, in particular, transactions with associated parties submitted to the Board.

Finally, Article 6.5 of the aforementioned Regulations obliges the Board of Directors to include, in the Annual Report and the Annual Corporate Governance Report, information on the transactions completed with significant shareholders (overall volume of the transactions and the nature of the most significant), so that other shareholders may be informed of their scope and importance.

D.7 Is there more than one listed company in the group in Spain?

No

Identify the subsidiary companies that are listed in Spain:

Listed subsidiary companies

Indicate whether or not their respective activity areas and possible business relations between them have been publicly defined, as well as those of the listed subsidiary with the other companies in the group;

No

Define the possible business relations between the parent company and the listed subsidiary company and between the listed subsidiary and the other companies in the group

Identify the mechanisms laid down to solve possible conflicts of interests between the listed subsidiary and the other companies in the group:

Mechanisms for solving possible conflicts of interests

E. Risk Control and Management System

E.1 Explain the scope of the company's Risk Management System.

The Risk Management System works in a comprehensive and continuous way, with said management being consolidated by area or business unit or activity, subsidiaries, geographical areas or support areas (such as human resources, marketing or management control) at corporate level.

E.2 Identify the company bodies responsible for preparing and executing the Risk Management System.

Audit and Control Committee.

Risk Committee.

Economic-Financial Department.

Internal Auditing, Compliance and Control Department.

Risk Department.

E.3 Specify the main risks that could prevent business objectives from being reached.

Commodities price.

Gas volume.

Electricity price.

Electricity volume.

Regulatory.

Strategic.

Credit.

Exchange rates.

Interest rate.

Liquidity.

Image and reputation.

Fraud.

Processes.

Accidents.

Environment.

Climate change.

E.4 Specify whether or not the entity has a level of risk tolerance.

The company has levels of risk tolerance established at corporate level for the main kinds of risks.

The risk assessment process lies in identifying the risks, generally by those businesses that are subject to risk exposure. This identification takes place at the time the risk exposure originates. However, an in-depth review is carried out every year by the Risk Department to ensure proper identification of all risk exposures, whether current or future.

- a) Risk position: definition and characteristics.
- b) Impact variables.
- c) Qualitative and quantitative severity of the risk occurring.
- d) Probability of risk occurring.
- e) Defined mitigation controls and mechanisms, and their effectiveness.

Lastly, it will propose a tolerance level for the types identified, which will be approved by the Risk Committee.

E.5 Specify what risks have materialised over the financial year.

The main risk which has materialised during the year has been of a regulatory nature, arising from the new regulation for electrical production using renewable energy sources published in June (Royal Decree 413/2014) and the measures adopted to guarantee economic sustainability in the natural gas sector, published in July (Royal Decree 8/2014, Title III).

All the causes of the risks are external and inherent to the activities carried out by Gas Natural Fenosa.

The remaining risks have evolved without significant impact on the consolidated annual accounts: the internal control systems have worked appropriately. It is important to note the stability in results despite the changes in the Brent price and the US dollar during the year, particularly in the second half of the year.

E.6 Explain the response and supervision plans for the entity's main risks.

The risks susceptible to affecting the performance of Gas Natural Fenosa are set out in the company's Risk Map. Said map is the main means of communication to the Audit and Control Committee in its duties to supervise the entity's risks.

On a more operational level, the Risk Department and other specific areas (Regulation, Environment, Production) perform periodic measurements of the evolution of main risks, duly giving the opportune instructions in the event of observing levels of exposure or trends in risk evolution that could exceed the established tolerance.

F. Internal Control System and Management of Risks with Regard to the Financial Information Reporting Process (SCIIF)

Describe the mechanisms that make up your entity's internal control system and management of risks with regard to the financial information reporting process (SCIIF).

The Risk Management System works in a comprehensive and continuous way, with said management being consolidated by area or business unit or activity, subsidiaries, geographical areas or support areas (such as human resources, marketing or management control) at corporate level.

F.1 The entity's control environment

Report on, duly detailing their main characteristics, at least:

F1.1 Which bodies and/or functions are in charge of: (i) the existence and upkeep of an appropriate and effective SCIIF; (ii) its introduction; and (iii) its supervision.

Gas Natural Fenosa has defined its Internal Control System on Financial Reporting (hereinafter SCIIF) in the "Internal Control System on Financial Reporting (SCIIF) General Standard of Gas Natural Fenosa".

As part of the SCIIF, Gas Natural Fenosa has defined, in the foregoing General Standard, the responsibilities model of the same. This model revolves around the following five areas of responsibility:

- Board of Directors: the Board is responsible for the existence of an appropriate and efficient SCIIF, the supervision of which falls to the Audit and Control Committee.

Article 5.19 of the Board Regulations sets out that the approval of the risk control and management policy and periodic monitoring of the internal indicators and control systems is one of the powers expressly reserved to the Board.

- Audit and Control Committee: among other tasks, this committee is responsible for the supervision of the SCIIF. Article 32.2 of the Board Regulations sets out that the committee has, *inter alia*, the following powers:
 - Monitoring and supervising the preparation of regulated financial information, guaranteeing the proper application of the accounting principles and the inclusion of all the companies that are to be included in the consolidation perimeter.
 - Monitoring and supervising the company's risk management and internal control systems and their effectiveness, guaranteeing that they identify the types of risk the company faces and the measures considered for reducing them and dealing with them in the event of effective damage. Speaking to the accounts auditors about significant weaknesses of the internal control system detected during the audit.
 - Reviewing the information on the company's activities and results which is compiled periodically in compliance with current stock market regulations, making sure that it is prepared in accordance with the same accounting criteria as the annual accounts and ensuring the transparency and accuracy of this information.
- Adopting the measures it considers appropriate in the auditing activity, internal financial control system and compliance with legal regulations in matters of provision of information to markets and the transparency and accuracy thereof.

For the performance of some of these duties, the Audit and Control Committee has the Internal Auditing, Compliance and Control Unit.

- Economic-Financial Department: this department is responsible for the design, introduction and operation of the SCIIF. It has the Internal Financial Control Unit to assist in the performance of this duty.
- Internal Auditing, Compliance and Control Unit. In general, it is responsible for assisting the Audit and Control Committee in the ongoing review and assessment of the effectiveness of the Internal Control System in all areas of Gas Natural Fenosa, providing a systematic and rigorous approach for the monitoring and improvement of processes and for the assessment of operational risks and controls associated to these, including those corresponding to the SCIIF and to the Crime Prevention Model.
- Business units and corporate units involved in the financial reporting process. These are responsible for carrying out the processes and maintaining daily operations to ensure that the control activities introduced are performed.

F.1.2 Whether or not the following elements exist, particularly with regard to the procedure for financial reporting:

- **Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) the clear definition of the lines of responsibility and authority, with an appropriate distribution of tasks and duties; and (iii) that there are sufficient procedures for proper dissemination at the entity.**

The design and review of the organisational structure of top-tier management, as well as definition of the lines of responsibility, are carried out by the Board of Directors, through the CEO and the Appointments and Remuneration Committee.

To ensure proper management of the group's economic-financial reporting, the Economic-Financial Department has developed, as part of the SCIIF, a technical instruction comprising an interrelations map (information flows) for the financial reporting process. This map documents communications between the Economic-Financial Department, the different parties in charge of the processes and those in charge that are either the source or destination of the financial reporting. The map is called "Interrelations Map of Financial Reporting of Gas Natural Fenosa".

In this regard, there are six main areas that Gas Natural Fenosa has taken into consideration in compiling the interrelations map showing the financial reporting processes:

- i) The information required to prepare the financial reporting;
- ii) The parties in charge that are either the source or destination of the financial reporting and
- iii) The distribution of tasks among the different organizational units
- iv) The scope of this distribution to all group companies
- v) The frequency of information transfer.
- vi) The information systems that take part in the financial reporting preparation and issue process;

Thus, using the Interrelations Map of Gas Natural Fenosa, the processes that have an impact on the preparation of financial reporting are clearly defined, both vis-à-vis the operational processes that have a relevant impact on financial reporting, as well as those processes associated to the administrative and accounting area, and those managers involved in the same.

- **Code of Conduct, approval body, level of dissemination and instruction, principles and values included (indicating whether or not there are specific mentions to the register of operations and the preparation of financial reporting), the body in charge of analysing breaches and proposing corrective actions and fines.**

The undertakings of senior management of Gas Natural Fenosa include focusing their efforts on ensuring that operations are carried out within an environment of professional and ethical practices, not only through the introduction of mechanisms targeted at preventing and detecting fraud committed by employees, or inappropriate practices that could lead to sanctions, fines or which could damage the image of Gas Natural Fenosa, but also reinforcing the importance of ethical values and integrity among its professionals.

In this regard, Gas Natural Fenosa has a Code of Conduct (hereinafter Code of Ethics), which was approved by the Board of Directors on 31 March 2005. This code is mandatory for all employees of Gas Natural SDG, S.A. and for all investee companies in which Gas Natural Fenosa holds management control. The updates and modifications to the Code of Ethics are carried out by the Board of Directors of Gas Natural SDG, S.A.

Since it was approved, it has been amended four times, on the last occasion in 27 June 2014, with the object of updating it and including new commitments acquired by Gas Natural Fenosa in relation to the coming into force of the reform of the Penal Code (Organic Law 5/2010), the implementation of a Crime Prevention Model in the group, the issue of the Anticorruption Policy of Gas Natural Fenosa and in order to adapt it to the best Corporate Responsibility practices.

The Code of Ethic sets out the general ethical principles for Gas Natural Fenosa as a whole, setting out the values to be pursued in practice throughout the organisation, and which includes: (i) purpose (ii) scope of application (involving all members of Gas Natural Fenosa); (iii) governing criteria vis-à-vis conduct at Gas Natural Fenosa (declaration of the group's style of governance); (iv) conduct guidelines (declaration of key values of Gas Natural Fenosa; (v) acceptance and compliance of the code; (vi) Code of Ethics Committee and (vii) enforceability.

The Code of Ethics considers professional responsibility and integrity to be the general governing criteria of conduct at Gas Natural Fenosa. More specifically, it sets out a series of action guidelines to a greater or lesser extent related to the reliability of the financial reporting and to compliance with applicable regulations, viz:

- Respect for the law, human rights and ethical values (Section 4.1)

“Gas Natural Fenosa undertakes the commitment of acting at all times in accordance with applicable laws, with the internal Regulatory System established with internationally accepted ethical practices, with total respect towards human rights and public liberties ...”

- Processing of information and knowledge (Section 4.11):

“All employees that enter any kind of information into the group's IT systems must ensure that this information is rigorous and reliable.

In particular, all of the group's economic transactions should be clearly and precisely set out in the corresponding registries, via the pertinent accounts, and all the transactions performed and with the income and incurred expenses.

Employees of Gas Natural Fenosa shall refrain from any practice that contravenes the undertaking to clearly and accurately reflect all financial transactions in the group's accounts”

Gas Natural Fenosa has also established an Anticorruption Policy, which was approved by the Management Committee in a meeting held on 3 March 2014, and which is compulsory for all employees of all the companies which make up the group with majority shareholding and those in which it has responsibility in its operation and/or management. The policy is understood to be an extension of chapter 4.7. “Corruption and Bribery” of the Code of Ethics of the group and which has the object of establishing the principles which must be used to guide the conduct of all employees and administrators of the companies of Gas Natural Fenosa with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation.

In addition, Gas Natural Fenosa has an Internal Code of Conduct in issues concerning the Securities Market, which is also approved by the company's Board of Directors.

In July 2005, Gas Natural Fenosa set up the Code of Ethics Committee with the same principle of promoting its dissemination and application throughout the group, and to provide a channel of communication to all employees in order to receive inquiries and notifications of breach of the Code of Ethics and Anticorruption Policy.

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

The committee regularly reports to senior management and reports every quarter to the Audit and Control Committee. The nature of the committee is to provide reports and recommendations, proposing corrective actions to those units in charge of providing solutions to problems through practical application of the Code of Ethics and Anticorruption Policy, and simultaneously acting as a bridge between these units and employees. The penalising system, in those cases where this is necessary, is established by the Human Resources Unit. By the same token, the Code of Ethics Committee may propose updates to the code content, and has done so on several occasions. These updates are first approved by the Audit and Control Committee before being ratified by the Board of Directors.

Local Code of Ethics Committees have also been set up to promote the dissemination and application of the code in some of the countries in which Gas Natural Fenosa is present, more specifically in Argentina, Brazil, Mexico, Colombia, Panama, Italy and Moldova.

To favour not only the exercise of said responsibility but also the knowledge and dissemination of the Code of Ethics, this code is available in nine languages:

- From outside: Gas Natural Fenosa corporate website.
- Internally, on the group's Naturalnet platform.

In addition, online training courses through the Corporate University of Gas Natural Fenosa have been developed, which are mandatory for all employees of Gas Natural Fenosa.

Through the Code of Ethics Committee, Gas Natural Fenosa periodically carries out campaigns for the Code of Ethics Compliance Declaration and Anticorruption Policy, to disclose the guidelines governing the conduct expected from all employees, to circulate the mechanisms that exist to make inquiries and notifications, as well as to periodically formalise the undertaking of group employees vis-à-vis ethics and integrity.

Gas Natural Fenosa, to encourage the knowledge of the Code of Ethics among its suppliers and collaborating companies sets out a clause in the General Terms and Conditions of Contracting in which it promotes practices which are in keeping with the guidelines for conduct included in the Code of Ethics of Gas Natural Fenosa, and informs them of where they can find the Code of Ethics of the group, along with information in the queries channel and notifications on aspects related to the Code of Ethics.

- **Reporting channel, which enables communication to be sent to the Audit Committee concerning any irregularities of a financial and accounting nature, along with any possible breaches of the Code of Conduct and irregular activity within the organisation, where appropriate stating whether or not this is of a confidential nature.**

Professional ethics at Gas Natural Fenosa focuses on professional responsibility and integrity, with integrity understood as ethical and honest action performed in good faith; and professional responsibility as proactive and efficient action targeted at excellence, quality and willingness to serve.

As set out in Article 32.2 of the Regulations of the Board and of its Committees, the Audit and Control Committee has powers "to establish and supervise a mechanism that enables employees to report, in confidence, and if necessary, anonymously, irregularities of potential importance, particularly those of a financial and accounting nature, that take place within the company".

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

As remarked upon in the previous section and as a mechanism to obtain greater internal control of compliance with the principles included in the Code of Ethics, in July 2005 the Code of Ethics Committee of Gas Natural Fenosa was set up. One of its main functions is to facilitate and supervise a channel of communication to all employees, to receive inquiries and notifications concerning breaches of the code, and thus facilitate the resolution of conflicts related to application of the Code of Ethics and the Anticorruption Policy. A further duty is to send reports to the Governing Bodies of Gas Natural Fenosa on the dissemination of and compliance with the Code of Ethics and the Anticorruption Policy, as well as the activities of the committee itself.

The foregoing channel of communication is an open channel of communication (e-mail, fax, normal mail and internal mail) between the Code of Ethics Committee and all employees of Gas Natural Fenosa to deal with the issues concerning the code. This channel enables all group employees, suppliers and collaborating companies to obtain or provide information on any issue concerning the Code of Ethics and the Anticorruption Policy. Conduct contrary to the code can also be reported in good faith and in confidence to the Code of Ethics Committee. All of this is outside of the hierarchy governing habitual operations performed by employees.

All communications between the Code of Ethics Committee and Gas Natural Fenosa employees are confidential, pursuant to the restrictions set forth in Organic Law 15/1999 of 13 December, governing the Protection of Personal Data. To this end, the Chairman of the Code of Ethics Committee (Director of Internal Auditing, Compliance and Control) is the sole member, at the initial stage, authorised to be aware of all the information from all the enquiries and notifications received from the group through the consultation and notification procedure. Notifications concerning fraud, auditing or faults in accounting processes or internal control are likewise sent directly to the Audit and Control Committee.

These consultations and notifications are processed and resolved by the Code of Ethics Committee.

The 2014 Corporate Responsibility Report from Gas Natural Fenosa provides more detailed information on the Code of Ethics, the Anticorruption Policy, the activity of the Code of Ethics Committee and the use of the communication channel.

- **Training programmes and periodic retraining for personnel involved in the preparation and review of financial reporting, as well as the assessment of the SCIIF, which at least cover the accounting, audit, internal control and risk management standards.**

The need to have a sufficient and, above all, updated qualification of those professionals involved in the preparation and review of financial reporting, as well as in the assessment of the SCIIF, make it essential to implement an appropriate training plan, by which those persons in charge of each area have the knowledge required to perform the different functions included in the process of preparing and reviewing financial reporting.

To this end, Gas Natural Fenosa has a Corporate University responsible for managing the knowledge and development of persons in all areas of the company. The Corporate University has had its ISO 9001-2008 renewed in 2014, and has had its CLIP certification since 2003, having been renewed for the last time in 2013 for a five-year period. This certificate recognises the quality of learning and development processes of people of corporate education organisations.

The aims of the Corporate University include: to ensure management of knowledge at a multinational and multicultural organisation; to position the organisation as a training benchmark in the energy sector; to ensure that employees acquire the technical knowledge and skills required to achieve the strategic objectives set and to transmit and share the experience and best practices that exist at the company.

The new training model of Gas Natural Fenosa has been introduced since 2013. This is based on training itineraries, which involves a major evolution in the skills model, given that it aligns training with business objectives to the greatest extent possible. The itineraries, which encompass major functions or roles of the organisation, comprise three blocks: knowledge of context, which forms part of the itineraries; functional knowledge, assigned by the businesses to a position or to a profile; and skills, associated to the 24 skills set out in the Leadership Model of Gas Natural Fenosa.

The Leadership Model has been deployed since 2012 by the different levels of the organisation. In 2014, it was focused on the leaders group, made up of heads of department and service, unit and team heads. The Savia programme was used, a training programme designed to strengthen the current role of the leaders, who should be the agents for change in the global implementation of the new processes associated with strategic challenges. One hundred and thirteen people from the different units making up the Economic-Financial Area (Administration and Tax, Management Control, Finance, Investor Relations and Risks), dedicated over 4,000 hours to being trained in operating excellence, which is the essential content of the Savia programme.

Another of the relevant programmes for Gas Natural Fenosa is Commitment to Health and Safety. This programme is designed to promote a qualitative cultural change in order to achieve a significant improvement in this field. In 2014, 562 people from the Economic-Financial Area took part in different training activities organised by the Corporate University within this programme, so amounting to a total of 3,700 hours dedicated to safety training.

The specific knowledge for the Economic-Financial Area covers several objectives, including, making uniform the economic-financial processes developed in any area of the organisation; updating the criteria governing accounting, tax, finance, risk management, management control, international regulations and technical knowledge of the tax area; as well as providing sufficient knowledge on the assessment of companies, financial derivatives and analysis of financial statements.

In 2014, a total of over 200 professionals from the Economic-Financial Area dedicated around 1,400 hours to training in specific contents. Some of the most important training areas were training in management control, strategy and innovation, credit risk analysis, finances for non-financials, analysis of tax reform, tax return and local taxes.

F.2 Assessment of financial reporting risks

Provide information, at least, on the following:

F.2.1 What the main characteristics in the risk identification process are, including error or fraud, with regard to:

- **If the process exists and it is documented. The approach used by Gas Natural Fenosa to carry out the financial reporting risk identification and analysis process is set out in three interrelated matrices:**
 - A matrix for defining the scope of the financial reporting.
 - A matrix of risks associated with the financial reporting.
 - A matrix of financial reporting control activities.
- **If the process covers all the financial reporting objectives (existence and occurrence; integrity; assessment; presentation, breakdown and comparability; and rights and obligations), if it is updated and how frequently.**

The matrix for defining the scope of the financial reporting has the object of identifying the accounts and breakdowns which have an associated significant risk, whose potential impact on financial reporting is material and therefore requires special attention. In this regard, a series of quantitative variables (account balance and variation) and qualitative variables (complexity of transactions; changes and complexity in standards; need to use estimates or forecasts; application of judgement and qualitative importance of the information) have been taken into account in the process of identifying accounts and significant breakdowns. The methodology for preparing the scope matrix has been outlined in a technical instruction entitled "Matrix for Defining Scope of Financial Reporting of Gas Natural Fenosa".

For each one of the accounts/significant breakdowns, the critical processes and sub processes associated with the accounts/significant breakdowns have been defined, and the risks which might give rise to errors in financial reporting have been identified, covering the objectives for the control of existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations, in the "Risks Matrix of Financial Reporting of Gas Natural Fenosa".

Furthermore, the risks matrix has taken into account the risks associated with reaching the objectives of financial reporting, considering, in that identification, the effects of other kinds of risks (for example: operating, technological, financial, reputation, etc.) which form part of the Corporate Risk Map of Gas Natural Fenosa.

Lastly, control activities in terms of both general and processes, which consist of the policies and procedures included in all stages of the financial reporting process and which can assure its reliability, are set out in the "Matrix of Activities of Control for Financial Reporting in Gas Natural Fenosa".

The scope definition matrix, and the risks matrix, the control activities matrix, are updated every year.

• **Whether there is a process to identify the consolidation perimeter, taking into account, *inter alia*, the possible existence of complex corporate structures, holding companies or special vehicle companies.**

In 2013, Gas Natural Fenosa, being aware of the importance of having a tool to ensure adequate control of SCIIF management, implemented the SAP GRC Process Control for the comprehensive management of documentation, assessment and oversight of internal control in Gas Natural Fenosa processes. This implementation, which was performed within the framework of the programme for improving the efficiency of Gas Natural Fenosa, was initially carried out in all Spanish companies with majority shareholdings in which the company is held responsible for its operation and/or management. In 2014, the SAP GRC Process Control was implemented in Colombia and in the Economic-Financial Shared Services Centre of Latin America. Gas Natural Fenosa plans to gradually roll out this tool in the other countries in which it operates. In the roll-out of SAP GRC Process Control, at national level and also internationally in 2014, the company was supported by the users responsible for the key controls of SCIIF and the Internal Auditing, Compliance and Control Unit.

The SCIIF model of Gas Natural Fenosa is integrated in SAP GRC Process Control, except for the scope definition matrix. This application identifies the General Environment Controls and the General Computer Controls, the critical processes, their associated risks and the control activities used to mitigate them, set out in the aforementioned risks matrices and controls. The units responsible for carrying out the control activities are also identified and integrated in the processes structure.

The benefits provided by the implementation of SAP GRC Process Control include the following:

- It centralises all the SCIIF documentation and management of Gas Natural Fenosa in a uniform way.
- It integrates the internal control of financial reporting in business and corporate processes, allowing each responsible organisational unit to regularly assess its controls, providing the necessary evidence and, every year, execute the SCIIF internal certification process.
- It uses workflows and forms for managing control activities, the documentation of evidence of the execution thereof and for the action plans.
- It allows documentary access to evidence of controls in respect of processes and viewing of the result of the assessment in a user-friendly and immediate way.
- It is a support tool for the SCIIF supervision process by Internal Auditing.
- It allows both external and internal information required for reporting on the SCIIF to be obtained and support.

After SAP GRC Process Control was started up in April 2013, the control evaluation requests were performed in 2014 according to the established schedules, whereby the units involved in SCIIF were asked to provide evidence of the controls performed, in accordance with the frequency stipulated in each case. If applicable, this assessment allows weaknesses, and the actions plans necessary, to be identified and completed.

Part of the critical processes identified includes the process for identifying the consolidation perimeter of Gas Natural Fenosa and it has been described in a technical instruction called "Consolidated Closing Cycle of the Gas Natural Fenosa Group".

- **What governing body of the company supervises the process.**

Within the risk identification process defined by Gas Natural Fenosa in its SCIIF, problems relating to fraud have been considered to be a very important element. In this regard, the fraud risk control policy of Gas Natural Fenosa is supported by three basic pillars:

- Fraud prevention.
- Fraud detection.
- Investigation and management of fraud situations.

Preventive anti-fraud controls have been defined, and are classified into two categories. Those called active controls, which are considered to be barriers for restricting or preventing access to valuable assets by persons who might attempt to commit fraud. On the other hand, passive controls attempt to stop fraud from being carried out through measures which are deterrents.

- **If the process exists and it is documented.**

The Audit and Control Committee is responsible for supervising the efficacy of the SCIIF. In order to carry out this function, the Audit and Control Committee uses the Internal Auditing, Compliance and Control Unit and external audit (see section F.5).

F.3 Control activities

Report on, duly detailing their main characteristics, at least:

F.3.1 Procedures for the review and authorisation of financial reporting, and the description of SCIIF, to be published on the securities markets, indicating their supervisors, and the documentation which describes the flow of activities and controls (including those relating to risk of fraud) of the different types of transactions which can have a material impact on the financial statements, including the closing of accounts procedure and the specific review of relevant judgements, estimates, valuations and projection.

Gas Natural Fenosa conducts regular reviews of the financial information prepared and of the description in the SCIIF according to the different levels of responsibility, guaranteeing the quality of this description.

As a first level of review, the persons responsible for the closing of accounts of each company of Gas Natural Fenosa review the financial reporting drawn up to ensure it is reliable.

Furthermore, the financial reporting of Gas Natural Fenosa is regularly reviewed by the head of the Economic-Financial Department, identifying possible deviations. In this regard, the Economic-Financial Department reports on the financial reporting regulated to the Audit and Control Committee, safeguarding the transparency and accuracy of the information and mentioning the internal control systems and the accounting criteria applicable. It also provides information on the main accounting, procedures, judgements, estimates, assessments and processes used in drawing up the economic-financial information and the financial statements, regarding the main risks and contingencies and their cover by means of provisions, and regarding the Risk Management and Control Policies and Systems in Gas Natural Fenosa.

Ultimately, the Chief Financial Officer certifies the reasonability of the individual and consolidated financial statements presented to the Board of Directors for them to be approved.

Furthermore, as indicated in the "Internal Control System on Financial Reporting (SCIIF) General Standard of Gas Natural Fenosa", control activities defined by the group in its SCIIF comply with the basic objective of ensuring that the financial reporting of Gas Natural Fenosa represents the true and fair image of the group.

The control activities defined in the SCIIF include both general controls and controls in critical points.

While they do not allow a sufficient degree of control to be achieved over the group's processes, general controls are mechanisms that enable a series of key targets to be obtained for the achievement of an effective SCIIF; in other words, they describe the policies and guidelines designed to protect Gas Natural Fenosa's SCIIF in its entirety.

In addition, all the critical processes identified have been documented by means of the control activities matrix and by the pertinent descriptive technical descriptions of the processes. These critical processes, their associated risks and the control activities which mitigate them, as well as the descriptive documentation of the aforesaid processes, are identified in the SCIIF management tool, SAP GRC Process Control. In this regard, Gas Natural Fenosa has identified all the processes necessary to draw up the financial information, using relevant judgements, estimates, valuations and forecasts, all of them being considered to be critical. The Audit and Control Committee is regularly informed of the main hypotheses used to estimate the financial reporting which depends on relevant judgements, valuations and projections.

The following information has been included in the documentation included in SAP GRC of the critical processes and control activities:

- Process description.
- Process information flow chart.
- Map of systems which interact in the process.
- Description of financial reporting risks associated with the different processes and control objectives.
- Definition of control activities to mitigate risks identified and their attributes.
- Descriptions of persons responsible for processes and control activities.

The following classifications of control activities have also been identified in the definition of control activities, in accordance with the five following criteria:

- Scope: depending on the scope of the control activities, they can be divided into:
 - General control activities.
 - Processes control activities.
- Implementation: control activities have been classified into implemented and non-implemented.
- Level of automation: depending on the level of automation of the control activities, they can be divided into automatic and manual.
- Nature of the activity: depending on the nature of the control activities, they can be divided into preventive or detective.
- Frequency: depending on the recurrence which the activity has over the course of time, for example: annual, weekly, monthly, daily, etc.

Lastly, the SCIIF of Gas Natural Fenosa includes the definition of the annual internal certification model of the controls identified in the critical processes which have to be performed by the business and corporate units involved in the process of drawing up financial information. The Internal Financial Control Unit is responsible for launching and monitoring this certification process. In order to carry out this internal certification process, the units taking part use the functionalities integrated in the SAP GRC Process Control application for managing the SCIIF of Gas Natural Fenosa (see section F.2.1).

The Internal Auditing, Compliance and Control Unit is responsible for reviewing and assessing the conclusions regarding the compliance and effectiveness of the annual internal certification process of the units which are responsible for carrying out the controls, to identify the weaknesses and action plans.

F.3.2. Internal control policies and procedures on information systems (*inter alia*, on access security, control of changes, operation thereof, operating continuity and separation of functions) which support the relevant processes of the company in drawing up and publishing financial information.

For the critical processes associated with the drawing up and publication of the financial reporting of Gas Natural Fenosa which have been defined in the SCIIF of the group, the control activities which operate in information systems have been defined, both for those used directly in preparing their financial information and for those which are relevant in the process or control of the transactions included in it.

At general level, within the reporting systems map of Gas Natural Fenosa, a series of policies have been defined and implemented to guarantee the following aspects:

- Security of access to both data and applications.
- Control of changes in applications.
- Correct operation of applications.
- Availability of data and continuity of applications.
- Adequate separation of functions.

a) Secure access:

A series of measures have been defined at different levels to guarantee confidentiality and to prevent unauthorised access to data and/or applications. Most internal users are managed and authenticated in a centralised way in the OIM (Oracle Identity Manager) Directories, which ensure they remain confidential.

The company has two main data processing centres (Madrid and Barcelona) to facilitate availability of information systems in the event of any contingency. Only authorised staff is able to access those rooms, all accesses are registered, and they are subsequently inspected to check for any possible anomalies.

Communications with these systems include systems such as Firewall, IDS and anti virus to internally reinforce control against threats.

Work is also being done on drawing up and updating the BRS (Business Recovery Systems) of the main information systems.

Lastly, at application, operating system and database level, the user-password combination is used as preventive control. At data level, profiles have been defined to limit access thereto but a functions separation matrix to ensure that the functions are incompatible has not been developed.

b) Control of changes:

A change management methodology has been developed and implemented based on best practices, setting out the precautions and validations which are necessary to limit risk in that process.

Some of the main aspects it includes are as follows:

- Approval by the Technical, Changes and Business Committees.
- Carrying out tests in the different environments before passing to production.
- Specific environments for the development and tests tasks.
- Reversal procedures.
- Separation of functions in most of the environments between development and production teams.
- Monitoring and control in any phase of development.
- User manuals and training courses.
- Regular maintenance of changes documentation.

c) Operation:

To guarantee that operations are carried out correctly, monitoring is conducted at four levels:

- All interfaces between systems are monitored to ensure they are correctly executed.
- At perimeter level, there are different availability indicators to prevent interruptions in communications.
- Automatic validations on the data entered so that they are in line with expectations based on their nature, rank, etc.
- Of the infrastructures which support applications.

There is also an internal Help Desk service which final users can contact, and they also have a management tools at their disposal to report any kind of discrepancy.

d) Availability and continuity:

Most systems have a high level of local availability, as the servers have duplicated located in the same DPC. The high availability of information systems allows them to remain available should any incidents arise.

A backup copy of data is made regularly, and temporarily kept in a temporary secure location based on the legal requirements established for each system. The data are copied and stored in different locations, so preventing any loss of information. In order to restore these data there is a specific procedure, although tests are not carried out regularly.

e) Separation of functions:

Access to the Information Systems is defined based on roles and profiles which define the functionalities to which a user must have access. These profiles are used to limit user access to Reporting Systems.

f) Regulatory compliance: Personal Data Protection Act (PDPA)

Gas Natural Fenosa complies adequately with the Personal Data Protection Act in order to safeguard and protect the personal data of its employees and customers based on the provisions of Organic Law 15/1999 of 13 December.

The file owners assures compliance with laws in Gas Natural Fenosa:

- Registering all personal data files before the Spanish Data Protection Agency (AEPD).
- Ensuring that the data are appropriate and accurate, and are treated in a way which is proportional for the purpose for which they were collected.
- Guaranteeing confidentiality and security requirements.
- Informing the data owners that the data is collected and obtains their consent for it to be processed.
- Guaranteeing that ARCO rights (access, rectification, cancellation and opposition) are exercised.
- Ensuring that laws are complied with, in its relations with third parties which lend services with access to personal data, drafting contracts to state that the data manager shall handle the data according to the instructions given by the data owner, that it shall not apply or use them for any other purpose other than that indicated in the aforesaid contract, nor shall it convey them, not even for their maintenance, to other persons (the same security measures as for the file owner are applied).
- Complying with the laws of the sector applying to Gas Natural Fenosa.

Pursuant to Article 9 of the PDPA, which addresses security measures and technology, Gas Natural Fenosa adopts the technical measures designed to safeguard the security of personal data and to prevent them from being altered, lost, or being processed or accessed in an unauthorised way to guarantee the confidentiality, integrity and availability of the data.

Pursuant to Article 96 of the PDPA, Gas Natural Fenosa performs twice-yearly audits on its Information Systems in order to comply with the regulations and all data protection procedures and instructions.

F.3.3 Internal control policies and procedures for supervising the management of activities subcontracted to third parties, and those assessment, calculation or valuation questions entrusted to independent experts, which could have a material impact on the financial statements.

Gas Natural Fenosa has developed a series of policies and procedures used to supervise the management of activities subcontracted to third parties, all of which are approved by the levels established in the group, which include an "General External Procurement Standard", a "General Supplier Quality Standard" and the procedures which implement them, and the "Counterparty Due Diligence Procedure".

In this context, in the "General External Procurement Standard", Gas Natural Fenosa sets out the general principles which have to be applied to all awarding or procurement of works, goods and services carried out by the group, guaranteeing a uniform, efficient and quality model for managing the procurement process in Gas Natural Fenosa.

This standard also generally establishes the responsibilities of the different units in the procurement process, including the Procurement Area, which is responsible for promoting long-term relationships of trust with suppliers, establishing objective and impartial mechanisms for the assessment, selection and ensuring that the principles set out in the Code of Ethics of Gas Natural Fenosa, the Human Rights Policy and the Health and Safety Policy, are complied with at all times. It also indicates that it is compulsory to carry out an initial assessment of all potential suppliers before they take part in a procurement process, and in which legal, financial, solvency, quality, safety, environment and corporate responsibility matters, *inter alia*, will be assessed, as well as the regular assessment thereof. In certain processes, they need to be certified/ approved to ensure the quality of the goods and services which are acquired, in collaboration with business units.

With this objective, Gas Natural Fenosa has carried out, in the “General Supplier Quality Standard” and in the procedure which implements it, the basic principles which are applicable to the group’s supplier assessment and approval/certification process, including the setting up of procedures and controls to guarantee compliance with the requirements set out in the specifications by potential suppliers and companies awarded contracts, and also suppliers of services or supplies of materials included in the certification needs defined by criticality or amount needs also have to be certified.

Performance is also measured through satisfaction surveys on suppliers considered to be significant in view of their amount or importance, and in cases in which it is necessary, pertinent corrective measures shall be established in any stage of the process.

In this context, the Procurement Area, in keeping with the criteria of Gas Natural Fenosa, defines or agrees on the indicators for the control of the assessment and certification process before suppliers and products are procured, and monitoring the maintenance of the procurement requirements, to guarantee the quality levels of the products and services acquired. For suppliers which carry out activities or which supply products which need to be certified, three main types of certification have been defined (A, B or C). For the first category (A), the supplier has to comply with the requirements demanded by Gas Natural Fenosa for the activity to be carried out and be in the possession, for them, of an ISO 9001 in force and issued by an authorised certification agency. In category B, the supplier complies with the requirements set out by Gas Natural Fenosa for the activity to be carried out but it does not have a certified quality management system. The question of whether one or another certification is required will be determined depending on the quantitative or qualitative importance in relation to the service rendered.

The third of the categories (C) is provisional, and refers to cases of suppliers with non-conformities in the certification process but which have presented a Corrective Action Plan which has been accepted by Gas Natural Fenosa. Within the granted term, which is never longer than one year, and once the drafting and roll-out of that plan has been confirmed, suppliers shall obtain the required category.

The main areas which affect the critical processes of the financial information which Gas Natural Fenosa has subcontracted to third parties are as follows:

- Certain processes of the Systems Area.
- Reading and measuring processes.
- Certain Customer Service processes.
- Logistics operator.
- Payroll and staff management process.
- Works management and maintenance of the distribution business.
- Certain services to customers of the retail business.

Also, the Business Units carry out the supervision and quality control of its suppliers to determine if they offer the levels of quality required to the works. If not, they send the proposals for the withdrawal of certification/authorisation to suppliers/products/persons as a result of deficiencies in the performance of services or products.

Gas Natural Fenosa uses experts in works which are used for support to valuations, judgements or accounting calculations, only when they are registered in the corresponding Professional Colleges, or have an equivalent certification, show their independence and are companies which the market considers to be prestigious.

Gas Natural Fenosa has also defined the "Counterparty Due Diligence Procedure" which, in general terms, is designed to cover the main legal and reputation risks involved in business relations with third parties, and, in particular, covering misconduct associated with the risk of corruption.

The Internal Auditing, Compliance and Control Unit of Gas Natural Fenosa audits the processes and correct application of Procurement and Supplier Quality Standards and Due Diligence of the Counterparty and if breaches are detected then the pertinent corrective actions are taken.

F.4 Information and communication

Report on, duly detailing their main characteristics, at least:

F.4.1 A specific function responsible for defining accounting policies (area or department of accounting policies), keeping them up to date, and resolving doubts or conflicts arising from their interpretation, keeping fluid communications with the persons responsible for operations in the organisation, as well as a manual of accounting policies which is up to date and communicated with the units through which the entity operates.

One of the responsibilities, *inter alia*, of the the Economic-Financial Department, via the Accounting Planning and Internal Control Unit, is to keep the accounting policies applicable to the group up to date. In this regard, it is responsible for updating the "Gas Natural Fenosa Accounting Plan", which includes the group's accounting criteria and accounts plan, and an analysis of the accounting changes which might have an impact on the financial reporting of Gas Natural Fenosa.

The "Gas Natural Fenosa Accounting Plan" is updated every year, and the last update was in December 2014. Both the accounting criteria on the basis of changes in the IFRS-EU standards applicable and the group's accounting structure are reviewed in the updates, ensuring the traceability between the Individual Account Plans of the group's subsidiaries and the Accounting Plan of Gas Natural Fenosa, which is used as a basis for preparing the different reporting of the financial information to be supplied to external bodies and of the Management Control information.

Once the Accounting Plan is updated, it is disseminated to all the personnel of the organisation via the Gas Natural Fenosa intranet. Furthermore, after the updated Accounting Plan is published on the intranet, an on-line alert is sent to users who access the intranet, thus informing all the staff of the update.

The Accounting Planning and Internal Control Unit is responsible for analysing the IFRS-EU regulations that might have a significant impact on financial statements and for reporting to the Gas Natural Fenosa management affected by any such regulatory changes. It is also entrusted with the task of resolving questions regarding the account entry of specific transactions that may be considered by those responsible for Gas Natural Fenosa financial reporting.

F.4.2 Mechanisms for the capture and preparation of financial information with uniform formats, applied and used by all units of the company or the group, used to support the main financial statements and the notes, as well as the information set out in detail on the SCIIF.

The complete economic-financial management model of Gas Natural Fenosa guarantees that the administrative and accounting processes are uniform by means of the centralisation of the accounting and economic administration in Economic-Financial Shared Services Centres (CSCs) and the use of SAP as a support system in all the companies which form part of the group. The other companies which do not use SAP are obliged to follow the criteria established by the group to ensure that such processes are uniform.

The most important features of the aforesaid model are as follows:

- It is unique for all countries and businesses;
- It includes the legal, fiscal, mercantile and regulatory requirements of the countries;
- It includes internal control requirements;
- It is used as a base for obtaining information furnished to senior management and to official bodies;
- It is supported by a certain organisational model and unique economic and financial reporting processes and systems for all countries and businesses;

The IFRS-EU financial statements of each country are obtained directly through the local account-group account assignment and the registration of IFRS-EU adjustments in the SAP application.

As part of the group SCIF, the interrelations map of the process of drawing up financial information of Gas Natural Fenosa has been defined. The aforesaid map defines a number of things, including the reporting systems which take part in the process of drawing up and issue of financial information both from the standpoint of individual closing of accounts and the closing of the consolidated accounts.

Accordingly, in the processes of drawing up the financial reporting and its breakdowns of Gas Natural Fenosa, the SAP BPC application is used, which is a SAP application for managing the consolidation process.

The information is uploaded in the two systems automatically and directly, once the month is closed.

These two applications help in managing the consolidation process and Management Control in tasks such as:

- Standardisation of information.
- Validation of information.

The economic information - both the financial information and the management information - is drawn up in centralised form in the Integrated Reporting Centre, which ensures that the reporting of Gas Natural Fenosa is integrated, homogeneous, coherent and rational.

Gas Natural Fenosa also has local accounts plans to comply with accounting, fiscal, mercantile and regulatory requirements established by the different laws of the countries in which it operates. Those local accounting plans are conflated into a group accounting plan, which is unified and homogeneous for the purposes of consolidation and reporting of financial information.

F.5 Supervision of system operation

Report on, duly detailing their main characteristics, at least:

F.5.1 The supervisory activities of the SCIIF carried out by the Audit Committee and whether the company has an internal audit function which includes the responsibility of supporting the committee in its task of supervising the internal control system, including the SCIIF. Information will also be provided on the scope of the assessment of SCIIF carried out during the year and on the procedure through which the party responsible for carrying out the assessment notifies its results, if the company has an action plan with details of the possible corrective measures, and if its impact on financial information has been taken into account.

The duties of the Audit and Control Committee are established in Article 32.2 of the Regulation of the Board of Directors and of its Committees, and its responsibilities include the following:

- Monitoring and supervising the preparation of regulated financial information, guaranteeing that the accounting principles are correctly applied and that all the companies that are to be included in the consolidation perimeter are actually included.
- Monitoring and supervising the company's risk management and internal control systems and their effectiveness, guaranteeing that they identify the types of risk the company faces and the measures considered for reducing them and dealing with them in the event of effective damage. Speaking to the accounts auditors about significant weaknesses of the internal control system detected during the audit.
- Reviewing the information on the company's activities and results which is compiled periodically in compliance with current stock market regulations, making sure that it is prepared in accordance with the same accounting criteria as the annual accounts and ensuring the transparency and accuracy of this information.
- Reporting to the General Meeting of Shareholders on questions raised by shareholders with respect to matters within their competence.
- Proposing to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment of external auditors, pursuant to Article 264 of the Corporate Enterprises Act.
- Raising the selection, appointment, re-election and substitution proposals concerning the external auditor to the Board, as well as the terms and conditions of his/her contract.
- Liaising with external auditors to receive information on any questions which could jeopardise their independence and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and technical auditing standards.
- Every year, before issuing the Audit Report, providing a report that gives an opinion on the independence of the accounts auditors.
- Supervising the services of the Internal Audit Area, overseeing its independence and proposing the appointment, re-election and stepping down of its manager. Accordingly, the person responsible for the internal audit function shall present an annual work plan, report on the relevant incidents occurring during its development and submit a report on its activities at the end of the year.
- Monitoring the development of the annual auditing.

- Acting as a communication channel between the Board of Directors and the external auditors and assessing the results of each audit. Under all circumstances, every year they must receive written confirmation from the company's accounts auditors reporting their independence with regard to the entity or entities related to the company, directly or indirectly, as well as information on the additional services of any kind provided to these entities by the foregoing auditors or by persons or entities related to the auditors, in accordance with the provisions laid down in the Accounts Auditing Act.
- Adopting the measures it considers appropriate in the auditing activity, internal financial control system and compliance with legal regulations in matters of provision of information to markets and the transparency and accuracy thereof.

In order to be able to comply with its responsibilities, the Audit and Control Committee avails itself of the information and documentation provided by the Internal Auditing, Compliance and Control, and Economic-Financial Units.

The Internal Auditing, Compliance and Control function was established in Gas Natural Fenosa as a means of independent and objective assessment and for this reason the Internal Audit, Compliance and Control Area reports to the Audit and Control Committee and to the Chairman and Chief Executive Officer of Gas Natural SDG, S.A.

It has the task of guaranteeing the continuous review and improvement of the group's internal control system, as well as safeguarding compliance with external and internal norms and the Control Models established in order to safeguard the efficacy and efficiency of operations, and to mitigate the main risks in each one of the fields in which the group operates, particularly operating risks, and corruption, fraud and legal risks. It is also held responsible for managing the Crime Prevention Model and the Code of Ethics Model of Gas Natural Fenosa, as well as reporting on internal audit activity to the Audit and Control Committee.

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

The Internal Auditing, Compliance and Control Area has established a methodology for assessment of the operational risks based on the conceptual framework of the COSO Report, taking as a point of departure the type of risks defined in the Corporate Risk Map of Gas Natural Fenosa.

In accordance with the aforementioned methodology, the operational risks associated with the processes are prioritised by assessing their impact, relative importance and degree of control. Based on the results obtained in the aforesaid assessment, an action plan is designed with a view to implementing the corrective measures which shall mitigate residual risks identified as having greater potential impact than the established tolerable or accepted risks.

Furthermore, the internal audit function has been developed pursuant to International Standards for the Professional Practice of Internal Auditing, and a number of the internal auditors are in the process of obtaining certification as Certified Internal Auditor (CIA), attesting to the excellence of the internal audit services.

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

Internal Auditing is supported by the implementation of a SAP environment corporate application which it uses to manage and document Internal Audit projects in accordance with the defined methodology.

More specifically and with regard to the Internal Control System on Financial Reporting (SCIIF), Internal Auditing is in charge of:

- Validating the proper design of the SCIIF, based on the basic principles of the model approved by the Audit and Control Committee.
- Supervising the efficacy and adaptation of control policies and procedures put in place (in full over five years).
- Revising and assessing of conclusions on compliance and effectiveness of the SCIIF resulting from the internal certifications of the business and corporate units in charge of the controls (in full over five years).
- Assessing and communicating the results obtained in the process of supervising the Internal Control System on Financial Reporting (SCIIF) and the controls of the SCIIF processes.

With regard to the Crime Prevention Model, the Internal Auditing, Compliance and Control Area is in charge of its annual supervision to make reasonably sure that the model is efficient and effective at preventing, identifying or mitigating the occurrence of legislation-typified crimes.

The main processes revised by the Internal Auditing Area in 2014 were those concerning:

- Business processes:

- Gas distribution: reading and calculation of consumption, gas infrastructure maintenance, managing gas distribution storage facilities, network construction and TPA billing and collection.
- Electricity distribution: network maintenance, management of electricity distribution storage facilities, TPA billing and collection and consumption reading and determination.
- Generation: operation and maintenance of production assets, storage management and purchase of fuel.
- Retail commercialisation: management of energy customers and products.
- Wholesale commercialisation: management and tracking of industrial customers, management and tracking of global accounts and gas management and logistical optimisation.
- Supply and transportation: management of gas spot market, technical vessel management and transportation logistics.
- Exploration and production: exploration/production and management of underground storage facilities.
- Energy management: estimating electricity demand and purchase of electricity.

- Support processes:

- Customer service: retail billing, collection, management of retail non-payments and irregularity and fraud management.
- Information system management (SSII): information system exploitation management and information system user service.
- Financial resource management: economic-administrative management of transactions and short-term resource management planning.

- Others (9%):
 - Monitoring corrective actions.
 - External relations and corporate responsibility strategy.
 - Human resources management.
 - Technology and engineering management.
 - Physical resources management.
 - Review of the group's regulatory system.
- Updating of 2014 Operational Risk Map.
- Review of Counterparty Compliance and Due Diligence Processes.
- Internal Control System on Financial Reporting Model (SCIIF).
- Crime Prevention Model.
- Review of the assessment and achievement of synergies.

53% of the review processes correspond to Spain and the remaining 47% to the international sphere.

Controls on the above processes relating to the Financial Information, were reviewed in accordance with the work methodology described above.

F.5.2 If the company has a discussion procedure through which the accounts auditor (as established in the NTA), the internal audit function and other experts can inform the company senior management and the Audit Committee or administrators of significant weaknesses in internal control identified during the annual accounts review processes or others which might have been entrusted to them. The company shall also state whether it has an action plan to try to correct or mitigate the weaknesses observed.

As established in Article 6.4 of the Regulation of the Board and of its Committees:

"The Board of Directors will hold direct relations with the members of the company's top-tier management and the auditors. The objective, professional and continuous nature of this relationship shall respect the independence of the auditors to the utmost."

In Article 9 of this regulation, it is stipulated that:

"The Board shall meet once every two months and, on the Chairman's initiative, as many times as he/she considers it appropriate for the smooth running of the company. The Ordinary Board sessions shall deal with general matters related to group operation, economic results, the balance sheet, cash flow status and its comparison with the approved budget, matters mentioned in Article 5, where applicable, and, in any case, the points included on the agenda prepared in accordance with the provisions of these regulations. These regular meetings shall also be occasion for the Board to receive specific information regarding achievements and the most significant operational problems, and foreseeable situations that may be critical for company affairs and the actions that management may propose in order to deal with them, as the case may be...".

The members of the Board of Directors, in order to obtain the information necessary for them to carry out their duties, shall be aided by the Executive Committee, which is specifically empowered with the continuous monitoring of the top-tier management of the group, and also the Audit and Control Committee, whose duties include the knowledge and supervision of the process for drawing up regulated financial information, and the efficacy of the internal control system.

The continued monitoring of the top-tier company management at is a specific responsibility of the Executive Committee, as is any other of its functions pursuant to the Articles of Association and Regulations of the Board of Directors and of its Committees, or assigned to it by the Board of Directors itself.

In accordance with the Articles of Association and Regulations of the Board of Directors and of its Committees, the Audit and Control Committee shall comprise a minimum of three and a maximum of five Directors appointed by the Board of Directors from among the External Directors, taking into account their knowledge and experience in issues of accountancy, audit and risk management. Its members shall leave their post when they do so in their capacity as Directors, when agreed by the Board of Directors or after a period of three years from their appointment. They can be re-elected. At least one of the committee members will be an Independent Director. At 31 December 2013, the committee was made up of three Directors, one Proprietary and two Independents; and one of the latter, in turn, was the Chairman.

The Board of Directors shall elect the Chairman of the committee, who shall not have a casting vote and shall be replaced in accordance with the Articles of Association (Article 51 bis) and legislation. He/she may be re-elected following the term of one year after his/her dismissal. The Secretary of the committee shall be the same as the Secretary of the Board of Directors.

The committee shall hold meetings whenever necessary in order to issue its reports, and will be convened by its Chairman on his own initiative or upon request of two of its members. At least four meetings per year must be held. The committee may invite to its meetings any executive or employee it deems appropriate.

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

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

The Internal Auditing, Compliance and Control Unit regularly reports to the Audit and Control Committee on the actions taken to ensure that Gas Natural Fenosa complies with all the policies, standards and controls of the processes established by the top-tier management of the group. They also present:

- The Annual Internal Audit Plan for the committee's approval.
- The degree of execution of the Internal Audit Plan and the main conclusions and recommendations included in the Internal Audit Reports.
- The assessment of the efficacy of the Control System and assessment of operational and Internal Control risks of Gas Natural Fenosa (including those referring to SCIIF and to the Crime Prevention Model), including the corresponding Action Plans to improve the level of internal control.
- The level of implementation by the audited units of the corrective measures appearing in the Auditor's Reports, in particular those proposed by the Audit and Control Committee.

Likewise, the Economic-Financial Department reports the financial information regulated to the Audit and Control Committee, safeguarding the transparency and accuracy of the information and mentioning the internal control systems and the accounting criteria applicable. It also provides information on the main accounting procedures and processes used in drawing up the economic-financial information, and the main risks and contingencies and their cover through provisions, and regarding the Management Policies and Systems and Risk Control in Gas Natural Fenosa, and the relevant matters associated with the drawing up and definition and conclusions of the Corporate Risk Map of Gas Natural Fenosa.

Lastly, the external auditor informs the Audit and Control Committee of the weaknesses in internal control detected during the audit. The external auditors also report on the main conclusions they have reached in the review of internal control, regarding the risks assessment and action plans.

F.6 Other relevant information

As indicated in section F.3.1. above, as part of the model for the assessment of the Internal Control System on Financial Reporting of Gas Natural Fenosa, it has been decided to carry out an annual internal certification process whereby, through SAP GRC Process Control, the Business and Corporate Units which are involved in the process of drawing up financial reporting guarantee that the identified controls are applied within their processes and that they are valid and sufficient. They also inform the Internal Financial Control Unit of weaknesses and/or shortcomings detected and of changes arising in their processes so as to assess if they need to develop new controls or modify existing ones.

During the 2014 year, Gas Natural Fenosa carried out the annual internal certification process, whereby changes were identified in a limited number of processes. Importantly, those changes did not necessitate a modification of the control activities previously identified, so that the risks associated with the preparation and reporting of financial reporting were considered to be covered in the critical processes affected. The main items of this process were as follows:

	Spain	International	Total
Business or Corporate Units	136	149	285
Processes identified	54	129	183
Controls certified	881	2,068	2,949

Action plans were also identified due to weaknesses in evidence of controls, which amounted to 83, 16 of which were in Spain. During 2014, 36% of the action plans identified in 2013 were resolved, and new plans arose during 2014. In any event, the subprocesses affected by the aforesaid action plans do not have a significant impact on the quality of financial reporting.

F.7 Report by external auditor

Reports on:

F.7.1 If the SCIIF information submitted to the markets has been reviewed by the external auditor, in which case the company will have to include the corresponding report as an annex. Otherwise, it will have to explain why.

Gas Natural Fenosa has deemed it pertinent to ask the external auditor to issue a report referring to the information on the Internal Control System on Financial Reporting (SCIIF).

G. Degree of Compliance with Corporate Governance Recommendations

Indicate the company's degree of compliance with the recommendations given in the Unified Code of Good Governance.

If any recommendations are not followed or are followed partially, it will be necessary to include a detailed explanation of the reasons why so that the shareholders, investors and the market in general, have sufficient information to be able to assess the company's actions. General explanations will not be acceptable.

1. The Articles of Association of listed companies should not limit the maximum number of votes that can be issued by the same shareholder or contain other restrictions that prevent the company from being taken over through the purchase of its shares on the market.

See sections: A.10, B.1, B.2, C.1.23 and C.1.24

Complies

2. When the parent company and the subsidiary are listed, they must both publicly define the following in detail:

a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with the remaining group companies;

b) The mechanisms in place to solve possible conflicts of interest that may occur.

See section: D.4 and D.7

Not applicable

3. Although it is not expressly required in mercantile legislation, they should submit the transactions that involve a modification to the company's structure for approval by the General Meeting of Shareholders, especially the following:

a) The transformation of listed companies into holding companies through the creation of subsidiaries or the incorporation of essential activities into dependent enterprises that hitherto had been carried out by the company itself, even though this party holds full domain over the former;

b) The acquisition or disposal of essential operating assets, when this involves an effective modification of the corporate purpose;

c) The transactions whose effect is equivalent to that of the company's liquidation.

See section: B.6

Complies

4. The detailed proposals of the agreements to be adopted by the General Meeting of Shareholders, including the information referred to in Recommendation 27, should be published with the publication of the announcement of the call to the meeting.

Complies

5. In the General Meeting of Shareholders, the matters that are substantially independent must be voted separately so that shareholders can exercise their voting preferences separately. And the said rule should be applied, in particular:

a) To the appointment or ratification of Directors, which must be voted on separately;

b) In the event of amendments to the Articles of Association, to each article or group of articles that are substantially independent.

Complies

6. The companies should allow the division of the vote so that the financial brokers legitimated as shareholders but acting on behalf of different customers can issue their votes in accordance with the instructions given by the said customers.

Complies

7. The Board should carry out its functions on the basis of a unified purpose and independence, giving the same treatment to all the shareholders and following the company's interest, understood as maximising the company's economic value in a sustained manner.

It should also ensure that, in its relations with the stakeholders, the company observes legislation and regulations; fulfils its duties and contracts in good faith; observes the uses and good practices of the sectors and territories in which it operates; and observes the additional principles of social responsibility it has voluntarily accepted.

Complies

8. As the core of its mission, the Board should adopt the company's strategy and the organisation required for its implementation, as well as supervising and controlling the management's fulfilment of targets and observance of the company's corporate interest and purpose. Accordingly, in its plenary session, the Board reserves the competency for adopting the following:

a) The general policies and strategies of the company, and more specifically:

- i) The Strategic or Business Plan, as well as management targets and annual budgets;
- ii) The investment and finance policy;
- iii) The definition of the group companies structure;
- iv) The corporate governance policy;
- v) The corporate social responsibility policy;
- vi) The remuneration policies and assessment of performance of senior management;
- vii) The policy for control and management of risks, as well as periodic monitoring of the internal information and control systems;
- viii) The dividend policy, as well as the treasury stock policy, with special focus on their limits.

See sections: C.1.14, C.1.16 and E.2

b) The following decisions:

- i) At the proposal of the chief executive of the company, the appointment and possible resignation of senior executives, as well as their compensation clauses.
- ii) The remuneration of Directors, as well as, in the case of executives, the additional remuneration through their executive duties and other conditions that their contracts must include.
- iii) The financial information that must be published periodically, given its status as a listed company.

- iv) All kinds of investment or operations which, due to the amount or special characteristics, are of a strategic nature, unless approval falls to the General Meeting;
 - v) The creation or acquisition of shareholdings in special purpose enterprises or enterprises with registered offices in countries or territories considered as tax havens, as well as any other transactions or operations of a similar nature which, due to their complexity, could hamper the group's transparency.
- c) The transactions completed by the company with members of the Board, important shareholders or shareholders represented on the Board or with associated individuals ("related-party transactions").

However, this authorisation by the Board should not be considered necessary for the related-party transactions that meet the following three conditions:

1. They are carried out by virtue of contracts whose terms and conditions are standardised and applied generally to many customers;
2. They are carried out at prices or rates generally established by the person acting as the supplier of the good or service in question;
3. Their amount does not exceed 1% of the company's annual revenue.

It is recommended that the Board should approve the associated transactions after a favourable report has been issued by the Audit Committee or, where applicable, any other party to which that function has been commissioned; and, besides not exercising or delegating their right to vote, the members of the Board who are affected should leave the meeting room while the Board deliberate and votes on the matter.

It is recommended that the competencies attributed to the Board here should be non-delegable, with the exception of those mentioned in paragraphs b) and c), which may be adopted in emergencies by the Executive Committee and subsequently ratified by the Board in its plenary session.

See sections: D.1 and D.6

Complies partially

The degree of fulfilment is very high as a result of the following:

In accordance with Article 4 of the Regulations of the Board of Directors:

"1. The Board of Directors is responsible for carrying out whatsoever action that may be necessary for the fulfilment of the corporate purpose laid down in the Articles of Association. At any given time, the criterion governing the actions taken by the Board of Directors is the sustained maximisation of the company's value. In particular, it shall be competent for the following:

- Determining the company's strategic orientation and financial objectives and agreeing, at the proposal of senior management, the appropriate measures for their achievement.
- Supervising and verifying that the members of senior management comply with the strategy and meet the targets set and observe the corporate purpose and interest.
- Ensuring the company's future viability and its competitiveness, as well as the existence of appropriate leadership and management, where the company's activity is expressly submitted to its control.
- Adopting the company's codes of conduct and exercising the powers laid down in Article 5 of these regulations.

When carrying out its functions, the Board of Directors shall establish all the supervision systems required to guarantee the control of its members' decisions, in accordance with its corporate interest and the interests of the minority shareholders.

2. The Board of Directors shall be responsible for whatsoever management, representation and control activities necessary or appropriate for achieving the corporate purpose as laid down in the Articles of Association. It shall respond for this obligation to the General Meeting. The bestowing of powers in favour of one or more members of the Board does not deprive the latter of the organic competency laid down in the Public Limited Companies Act and Articles of Association.
3. The Board of Directors is authorised, within the legal and statutory limits or those expressly laid down in these regulations, for the following:
 - Appointing one or more Directors, in the case of vacancies, by means of the co-option system until the first General Meeting is held.
 - Accepting Directors' resignations, where applicable.
 - Appointing and dismissing the Chairman, Deputy Chairman, Chief Executive Officers, Secretary and Assistant Secretary of the Board of Directors.
 - Delegating functions to any of its members under the terms and conditions laid down in law and the Articles of Association, as well as their revocation.
 - Appointing the Directors to the various committees laid down in these regulations and revoking their mandates.
 - Preparing the Annual Accounts and the Management Report.
 - Presenting the reports and agreement proposals which, in accordance with the provisions laid down in law and the Articles of Association, are to be prepared by the Board of Directors to be heard and adopted, where applicable, by the General Meeting, including the Annual Corporate Governance Report.
 - Establishing the company's economic targets and adopting, when so proposed by senior management, the strategies, plans and policies aimed at achieving the said targets, where the fulfilment of the said activities is subject to its control.
 - Adopting the acquisitions and transfers of the company's assets or those of its subsidiary companies which, as a result of whatsoever circumstance, are of particular significance.
 - Establishing its own organisation and operation, and as well as that of the company's senior management, and, in particular, modifying these regulations.
 - Exercising the powers awarded to the Board of Directors by the General Meeting, which may only be delegated if so laid down expressly by agreement of the General Meeting, as well as the other powers bestowed by virtue of these regulations.
4. The Board of Directors is also the company's organic representative under the legal terms and conditions laid down in the Articles of Association. The delegation or bestowing of such a power of representation in favour of one or more Directors implies an obligation for the latter to notify the Board of whatsoever documents they sign in the exercise of the said power and which go beyond ordinary administrative requirements.
5. The Board of Directors shall regularly assess its own operations and that of its committees".

Similarly, Article 5 of the said regulations on the powers reserved expressly for the Board of Directors lays down the following:

Article 5. Powers reserved expressly for the Board of Directors.

Notwithstanding the powers of representation and execution awarded by the Articles of Association to the Chairman and the Chief Executive Officers, as well as the effects of the powers or delegations bestowed to third parties directly by the company, with regard to the legal independence of the governing bodies of the companies in the group, a prior decision by the Board of Directors of Gas Natural SDG, S.A. shall be required in the following cases:

1. Presentation to the Ordinary General Meeting of the Annual Accounts and the Management Report of Gas Natural SDG, S.A. and the consolidated accounts, as well as any other proposals legally required of the administrators of the company.
2. Adoption of the group's Strategic Plan, the Annual Budgets, the Annual Financial Plan and the investments and finance policy.
3. Definition of the capital ownership structure and the structure for delegations and powers.
4. Adoption of the corporate governance and corporate social responsibility policies.
5. Incorporation of new companies or entities or participation in already existing companies.
6. Adoption of merger, absorption, spin-off, concentration and dissolution transactions with or without liquidation, in which any of the companies in Gas Natural Fenosa.
7. Disposal of capital shares in companies or other fixed assets by any of the companies in Gas Natural Fenosa.
8. Adoption of investment projects to be carried out by any company in Gas Natural Fenosa.
9. Adoption of programmes for the issue and renewal of serial commercial papers, debentures or similar securities by any of the companies in Gas Natural Fenosa.
10. Adoption of financial transactions to be carried out by any company in Gas Natural Fenosa which are not included in the Annual Financial Plan.
11. Awarding of guarantees by companies belonging to Gas Natural Fenosa to guarantee the obligations of entities that do not belong to it or which, belonging to it, have external shareholders.
12. Transfer of rights over the trade name and brands as well as patents, technology and any other type of industrial property belonging to any of the companies in Gas Natural Fenosa.
13. Adoption or ratification of the appointment and dismissal of the members of top-tier management.
14. Adoption of the appointment and dismissal of the patrons and posts held in the Gas Natural Foundation and of the individual representatives of Gas Natural SDG, S.A. in the cases in which the said company holds the post of administrator in another company. Approval of contribution to patronage activities.
15. Creation, investment and supervision of the management of personnel pension plans and any other undertakings involving personnel which imply long-term financial liabilities for the company.
16. The signing of commercial, industrial or financial agreements of relevant or strategic importance for Gas Natural Fenosa that represent a modification, change or review of the current Strategic Plan or Annual Budget.
17. Approval of any company transaction with a significant shareholder pursuant to the terms of Article 19.
18. Adoption of the financial information that corresponds according to legislation.
19. Adoption of the risk management and control policy and regular monitoring of the indicators and internal control systems.
20. Adoption of the policy on dividends and treasury stocks.

In relation to the agreements covered in points 5, 6, 7, 8, 10, 14 and 15, prior approval by the Board of Directors refers to those agreements that, owing to their quantum or nature, are of special relevance for Gas Natural Fenosa. Whatever the case, the transaction involving quanta of more than 15 million euros shall be understood as relevant, except in points 11 and 12 where the figure stands at 5 million euros and point 14, with a relevance threshold of 200,000 euros.

The agreements laid down in paragraphs five to eight, ten to thirteen and sixteen can be adopted without distinction by the Board of Directors or the Executive Committee.

The Chairman, the Chief Executive Officer(s) or the Secretary shall execute the decisions taken by the Board of Directors pursuant to this article and shall notify the authorisation or approval in the appropriate manner, or shall issue instructions to act as required”

Complied partially, given that some of the decisions which if adopted by the Executive Committee are recommended to be subsequently confirmed by the plenary session of the Board of Directors (e.g.: Investments or transactions of any kind which, in view of the high quantum or special characteristics, are of a strategic nature), have, once adopted by the Executive Committee, been reported to the Board of Directors without its subsequent ratification, as the Executive Committee is invested with full powers to adopt them on the grounds of urgency, efficacy or full operability.

9. The Board should have the necessary size for effective, participatory operation, which means that it should not have fewer than five or more than 15 members.

See section: C.1.2

Explain

At present, the Board of Directors of Gas Natural SDG, S.A., within the minimum number of 10 members and a maximum of 20 members laid down in Article 41 of the Articles of Association, by virtue of the agreement adopted by the General Meeting of Shareholders held on 23 June 2003, comprises 17 members. The said number exceeds by two that of Recommendation 9 of the Unified Code of Good Governance; however, the company understands that the current size of the Board is appropriate and necessary for the correct management and supervision of the company, where the said number does not prevent, limit or restrict in whatsoever way the effective and participatory operation of the said governing body.

10. The External Proprietary and Independent Directors should represent a broad majority of the Board and the number of Executive Directors should be the required minimum, taking into account the complexity of the corporate group and the percentage of participation of the Executive Directors in the company’s capital.

See sections: A.3 and C.1.3

Complies

11. Among the External Directors, the ratio between the number of Proprietary Directors and the Independent Directors should reflect the proportion between the company’s share capital represented by the Proprietary Directors and the rest of the share capital.

This criterion of strict proportionality could be reduced as the weight of the Proprietary Directors is greater than that which would correspond to the total percentage of the share capital they represent:

1. In companies with a high level of capitalisation, when the shares that are legally considered as significant are zero or low-level, but where shareholders exist, with blocks of shares of high absolute value.
2. When it is a question of companies in which there is a plurality of shareholders represented on the Board and there are no associations between them.

See sections: A.2, A.3 and C.1.3

Complies

12. The number of Independent Directors should represent at least one third of the total number of Directors.

See section: C.1.3

Complies

13. The character of each Director must be explained by the Board before the General Meeting of Shareholders that is to carry out or ratify his/her appointment, which should be confirmed or reviewed annually, as appropriate, in the Annual Corporate Governance Report, with prior confirmation by the Appointments Committee. The said report should also explain the reasons why Proprietary Directors have been appointed at the request of shareholders whose holding is less than 5% of the share capital; and reasons should be given for the rejection, where applicable, of formal requests for presence on the Board from shareholders whose holding is equal to or higher than that of others at whose request Proprietary Directors have been appointed.

See sections: C.1.3 and C.1.8

Complies

14. When the number of female Board members is low or non-existent, the Appointments Committee shall ensure that when new vacancies arise:

- a) The selection procedures are not affected by an implicit bias that prevents female Directors from being selected;
- b) The company purposefully seeks women that satisfy the professional profile, including among potential candidates.

See sections: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 and C.2.4

Complies partially

Article 31 of the regulations for the organisation and operation of the Board of Directors and its committees lays down that the Appointments and Remuneration Committee shall review the necessary aptitudes in the candidates that are to cover each vacancy, the fulfilment of the requirements for each category of Director and the process for incorporating new members, raising the corresponding reports to the Board as required. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought.

At present, the number of female Directors on the Board is zero, although Gas Natural SDG, S.A. has had female Directors in the past. On no occasion has the company limited, vetoed or restricted the possible appointment of a Director on the basis of gender, a circumstance which has never been taken into account.

15. That the Chairman, as the person responsible for the effective performance of the Board, ensures that the Directors receive sufficient information beforehand; stimulates the debate and active participation of Directors during the Board sessions, safeguarding their right to take their own position and express their own opinion; and organises and coordinates the periodic assessment of the Board together with the chairmen of the relevant committees as well as, if appropriate, that of the CEO or senior executive.

See sections: C.1.19 and C.1.41

Complies

16. When the Chairman of the Board is also the company's senior executive, one of the Independent Directors should be empowered to request the call to meeting of the Board or the inclusion of new matters on the agenda; coordinate and echo the concerns of the External Directors; and direct the Board's assessment of its Chairman.

See section: C.1.22

Not applicable

17. The Secretary of the Board must be particularly sure that the Board's actions:

- a) Comply with the content and spirit of the laws and their regulations, including those approved by the regulating bodies;
- b) Are in accordance with the Articles of Association of the company and with the meeting rules and regulations, those of the Board and any others that the company has;
- c) Take into consideration recommendations concerning good governance set forth in this Unified Code which the company has accepted.

And, in order to safeguard the Secretary's independence, impartiality and professionalism, his/her appointment and dismissal must be reported by the Appointments Committee and approved by the Board in its plenary session; and the said appointment and dismissal procedure must be laid down in the Board Regulations.

See section: C.1.34

Complies

18. The Board should meet as regularly as necessary to carry out its functions effectively, following the schedule of dates and business laid down at the beginning of the year, where each Director may propose other business for the agenda not considered initially.

See section: C.1.29

Complies

19. The non-attendance of the Directors should be reduced to essential cases and quantified in the Annual Corporate Governance Report. And if representation is essential, it must be designated with instructions.

See sections: C.1.28, C.1.29 and C.1.30

Complies

20. When the Directors or the Secretary express concern for any proposal or, in the case of the Directors, for the company's progress and the said concern is not resolved by the Board, it should be recorded in the minutes of the meeting at the request of the person expressing the said concern.

Complies

21. In its plenary session, the Board should assess the following once a year:

- a) The quality and effectiveness of the Board's performance;
- b) Based on the report prepared by the Appointments Committee, the performance of the Chairman of the Board and the chief executive of the company;
- c) The operation of its committees, based on the report prepared by these.

See sections: C.1.19 and C.1.20

Complies

22. All the Directors should be able to exercise the right to gather the additional information they consider necessary on business that falls within the competency of the Board. And, unless the Articles of Association or the Regulations of the Board lay down otherwise, they should address their requirement to the Chairman or Secretary of the Board.

See section: C.1.41

Complies

23. All the Directors should have the right to obtain the advice they need for the fulfilment of their functions from the company. The company should lay down the appropriate ways of exercising this right, which, under special circumstances, could include external advisory services on the company's account.

See section: C.1.40

Complies

24. The companies should establish a guidance programme to provide new Directors with rapid and sufficient knowledge of the company, as well as its rules on corporate governance. And they should also offer Directors updated awareness programmes whenever circumstances deem such action advisable.

Complies

25. The companies should require the Directors to devote the time and effort necessary for carrying out their function effectively and, consequently:

a) The Directors should notify the Appointments Committee of the other professional obligations in case these could interfere with the dedication required;

b) The companies should establish rules on the number of Boards of which their Directors can form part.

See sections: C.1.12, C.1.13 and C.1.17

Complies partially

Owing to the high level of participation and attendance at the sessions of the governing bodies by the members of the Board, to date the company has not established any rules on the number of Boards on which the said Directors can sit; however, Article 18 of the Regulations of the Board expressly lays down the duty to non-competition.

Article 18 of the Regulations of the Board states:

"Directors may not hold, themselves or by means of a representative, posts of whatsoever kind in companies or enterprises that compete with Gas Natural SDG S.A. or any company in its group, or provide the same services of representation or consultancy in favour thereof. A company shall be considered as a competitor of Gas Natural SDG, S.A. when, directly or indirectly, or through companies in its group, it is devoted to any of the activities included in the corporate purpose of Gas Natural SDG, S.A.

The Board of Directors, on the basis of report from the Appointments and Remuneration Committee, may excuse the fulfilment of this obligation when there is justified cause and it does not have a negative effect on the company's interests."

26. The proposal for the appointment or re-election of Directors raised by the Board to the General Meeting of Shareholders, as well as their provisional appointment by co-option, should be approved by the Board:

a) At the proposal of the Appointments Committee, in the event of Independent Directors.

b) Following a report from the Appointments Committee, in the event of remaining Directors.

See section: C.1.3

Complies

27. The companies should publish the following information about their Directors on their website and keep the said information up-to-date:

a) Professional and biographical profile;

b) Other Boards of Directors to which they belong, whether or not these are listed companies;

c) An indication of the classification of Director to which they belong, specifying, in the event of Proprietary Directors, the shareholder they represent or with whom they are linked.

d) Date of the first appointment as Director of the company, as well as subsequent appointments; and

e) Company shares and stock options of which they are the holder.

Complies

28. The Proprietary Directors should present their resignation when the shareholder they represent sells all his/her shares in the company. They should also present their resignation, in the corresponding number, when the said shareholder lowers his/her shares in the company to a level that requires a reduction in the number of his/her Proprietary Directors.

See sections: A.2, A.3 and C.1.2

Complies

29. The Board of Directors should not propose the dismissal of any Independent Director before the fulfilment of the statutory term for which he/she has been appointed, except when there is just cause, understood as such by the Board after a report issued by the Appointments Committee. In particular, there shall be understood to be just cause when the Director had failed to carry out the duties inherent to his/her position or had been involved in any of the circumstances which might lead him/her to forego his/her position of Independent Director, pursuant to Order ECC/461/2013.

The dismissal of Independent Directors resulting from takeover bids, mergers or other similar corporate transactions that represent a change to the company's share capital structure could be proposed when the said changes to the structure of the Board are brought about by the criterion of proportionality indicated in Recommendation 11.

See sections: C.1.2, C.1.9, C.1.19 and C.1.27

Complies

30. The companies should establish rules that oblige the Directors to report and, where applicable, resign in cases that could damage the company's reputation and credit and, in particular, oblige them to inform the Board of the criminal cases in which they appear as an accused party, as well as their subsequent procedural events.

If a Director is tried or a sentence is issued against him/her for the commencement of a hearing for any of the crimes laid down in Article 213 of the Corporate Enterprises Act, the Board should examine the case as soon as possible and, in view of the specific circumstances, decide whether or not it is fitting for the Director to continue in his/her post. The Board should give a reasoned account of all the events in the Annual Corporate Governance Report.

See sections: C.1.42 and C.1.43

Complies

31. All the Directors should clearly express their opposition when they consider that any proposed decision submitted to the Board may be contrary to the company's interests. And this should apply especially to the Independent Directors and other Directors not affected by the potential conflict of interest in the case of decisions that may damage the shareholders not represented on the Board.

When the Board adopts significant or reiterated decisions on which the Director has formulated serious reservations, the said Director should draw the corresponding conclusions and, if he/she decides to resign, explain the reasons in the letter referred to in the following recommendation.

The scope of this recommendation also includes the Secretary of the Board, even though he/she does not have the status of Director.

Complies

32. When, either due to resignation or any other reason, a Director abandons his/her post before the end of his/her mandate, he/she should explain the reasons in a letter sent to all the members of the Board. And, without prejudice to the said resignation being notified as a relevant event, the reason for the resignation should be accounted for in the Annual Corporate Governance Report.

See section: C.1.9

Not applicable

33. The remuneration made through shares in the company or companies in the group, options over shares or instruments referenced to the value of the share, variable remuneration associated with the company's performance or social security systems should be limited to the Executive Directors.

This recommendation will not cover the provision of shares when it is conditioned to the Directors maintaining them until their resignation as a Director.

Complies

34. The remuneration of the External Directors should be the amount necessary for compensating the devotion, qualification and responsibility required by the post; but not so high as to compromise their independence.

Complies

35. The remuneration related to the company's results should take into account the possible exceptions included in the External Auditor's Report, which may reduce the said results.

Not applicable

36. In the case of variable remuneration, the remuneration policies should incorporate limits and the necessary technical precautionary measures to ensure that the said remuneration is related to the professional devotion of the beneficiaries and do not result simply from the general evolution of the markets or the company's activity sector or other similar circumstances.

Complies

37. When there is a Delegated or Executive Committee (hereinafter called "Executive Committee"), the participation structure of the various categories of Directors should be similar to that of the Board itself and its Secretary should be the Secretary of the Board.

See sections: C.2.1 and C.2.6

Complies

38. The Board should always be aware of the matters dealt with and the decisions adopted by the Executive Committee and all the members of the Board should receive a copy of the minutes of the sessions of the Executive Committee.

Explain

The Chairman of the Board, also Chairman of the Executive Committee of the company, informs the members of the Board of Directors of the matters dealt with in the committee that are not recurrent, ordinary or usual. In addition, when the Executive Committee, in the full exercise of its competencies, considers that a certain matter submitted to its consideration as a result of its strategic, quantitative or qualitative importance must be reported to the Board of Directors or known thereby, it raises the said matter to the Board for the corresponding decision to be taken.

39. The Board of Directors should constitute not only the Audit Committee required by the Securities Market Act, but also one or two separate committees: the Appointments Committee and the Remuneration Committee.

The rules governing the make-up and operation of the Audit Committee and the Appointments and Remuneration Committee or Committees should be given in the Regulations of the Board and include the following:

- a) The Board should appoint the members of these committees, bearing in mind the know-how, skills and experience of the Directors and the missions of each committee; it should deliberate on its proposals and report; and it should report on its activities and respond for the work carried out during the first plenary session of the Board after its meetings;
- b) These committees should be made up exclusively of External Directors, with a minimum of three. The above is understood as without prejudice to the attendance of Executive Directors or senior executives when so agreed expressly by the members of the committee.
- c) Their chairmen should be Independent Directors.
- d) They should be able to seek external consultancy services when they consider it necessary for their functions.
- e) Minutes should be recorded of their meetings and a copy of the said minutes should be sent to all the members of the Board.

See sections: C.2.1 and C.2.4

Complies partially

The chairmen and members of the various committees form part of the Board of Directors and, in turn and in the exercise of their competencies, they make various proposals and submit reports which are then submitted to the Board, which, together with the aim of avoiding the sending of duplicated documentation, is why the minutes of the committees are not sent.

40. The supervision of compliance with the internal codes of conduct and the rules of corporate governance should be attributed to the Audit Committee, to the Appointments Committee or, if these are separate, to the Compliance or Corporate Governance Committee.

See sections: C.2.3 and C.2.4

Complies

41. The members of the Audit Committee and, in particular, its Chairman should be appointed on the basis of their know-how and experience in bookkeeping, audits and risk management.

Complies

42. The listed companies should have an internal audit function which, under the supervision of the Audit Committee, should monitor the correct functioning of the internal control and information systems.

See section: C.2.3

Complies

43. The person responsible for the internal audit function should present his/her annual work plan to the Audit Committee; he/she should inform it directly of the incidents occurring during its development; and, at the end of each year, submit an activities report.

Complies

44. The risk control and management policies should identify at least:

a) The different kinds of risk (operational, technological, financial, legal, those affecting the corporate reputation, etc.) which are faced by the company and which include - as part of the financial or economic risks - contingent liabilities and other off-balance sheet risks;

b) The setting of the risk level that the company believes is acceptable;

c) The mechanisms to mitigate the impact of the risks identified, in the event that they materialise;

d) Internal control and information systems which shall be used to control and manage the foregoing risks, including the contingent liabilities or off-balance sheet risks.

See section: E

Complies

45. The Audit Committee should be responsible for the following:

1. In relation to the internal control and information systems:

- a) That the main risks identified as a result of supervising the efficacy of the internal control of the company and the internal auditing, as the case may be, are adequately managed and disclosed.
- b) Ensuring the independence and effectiveness of the internal audit function; proposing the selection, appointment, re-election and dismissal of the person in charge of the internal audit service; forwarding the budget for this service; receiving periodic information on its activities, and verifying that senior management considers the conclusions and recommendations in its reports.
- c) Setting up and supervising a mechanism that enables employees to communicate any irregularities of importance, especially those of a financial and bookkeeping nature, and to do so in a confidential manner and, if considered suitable, anonymous.

2. In relation to the external auditor:

- a) Receiving regular information from the external auditor on the audit plan and the results of carrying it out, and checking that senior management take its recommendations into account.
- b) Ensuring the independence of the external auditor and, to this end:
 - i) The company should notify the change of auditor to the CNMV as a relevant event and attach a declaration on the possible existence of disagreements with the outgoing auditor and, if there are any disagreement, the content thereof.
 - ii) In the case of the resignation of the external auditor, it should examine the circumstances leading to the said resignation.

See sections: C.1.36, C.2.3, C.2.4 and E.2

Complies

46. The Audit Committee should be able to call any of the company's employee or manager, and also have them appear without the presence of any other executive.

Complies

47. The Audit Committee should report to the Board before the Board adopts the corresponding decisions on the following matters indicated in Recommendation 8:

- a) The financial information that must be published periodically, given its status as a listed company. The committee should ensure that the intermediate accounts are prepared under the same bookkeeping criteria as the annual accounts and, accordingly, consider the appropriateness of a limited review by the external auditor.
- b) The creation or acquisition of shareholdings in special purpose enterprises or enterprises with registered offices in countries or territories considered as tax havens, as well as any other transactions or operations of a similar nature which, due to their complexity, could hamper the group's transparency.
- c) The related-party transactions, unless that preliminary report function has been attributed to another of the supervision and control committees.

See sections: C.2.3 and C.2.4

Complies

48. The Board of Directors should seek to present the accounts to the General Meeting without reservation or exception in the Auditor's Report and, in whatsoever exceptional case, both the Chairman of the Audit Committee and the auditors should clearly explain to shareholders the content and scope of the said reservations or exceptions.

See section: C.1.38

Complies

49. Most of the members of the Appointments Committee (or the Appointments and Remuneration Committee, if there is only one committee) should be Independent Directors.

See section: C.2.1

Complies

50. Besides the functions indicated in the above recommendations, the following responsibilities should correspond to the Appointments Committee:

- a) Assessing the skills, knowledge and experience required on the Board, subsequently defining the duties and aptitudes required by the candidates to cover each vacancy, and assessing the time and dedication required to correctly perform their duties.
- b) Properly examining and organising the succession of the Chairman and chief executive and, if appropriate, making proposals to the Board to enable the foregoing succession to occur in an organised and well planned manner.
- c) Reporting the appointments and resignations of senior executives proposed to the Board by the chief executive.
- d) Notifying the Board on the gender diversity issues shown in Recommendation 14 of this code.

See section: C.2.4

Complies partially

The only matter to be considered under this heading would be gender diversity, for which the Appointments and Remuneration Committee is responsible for reviewing the necessary aptitudes in the candidates that are to cover each vacancy, the fulfilment of the requirements for each category of Director and the process for incorporating new members, raising the corresponding reports to the Board as required. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought. The said obligation is laid down in Article 31.2 of the Regulations of the Board of Directors.

51. The Appointments Committee should consult the company's Chairman and chief executive, especially with regard to business concerning the Executive Directors.

And any Director should be able to request the Appointments Committee to consider potential candidates they deem ideal to cover vacancies.

Complies

52. Besides the functions indicated in the above recommendations, the following responsibilities should correspond to the Remuneration Committee:

a) Proposing to the Board of Directors:

- i) The remuneration policy for Directors and senior executives;
- ii) Individual remuneration of Executive Directors and the other conditions of their contracts.
- iii) The basic contractual conditions of senior executives.

b) Ensuring the observance of the remuneration policy laid down by the company.

See section: C.2.4

Complies

53. The Remuneration Committee should consult the company's Chairman and chief executive, especially with regard to business concerning the Executive Directors and senior executives.

Complies

H. Other Information of Interest

1. If there is any relevant aspect in corporate governance in the company or in the group companies which has not been included in the rest of the sections of this report, but which it were necessary to include to show more complete and reasoned information on the governance structure and practices in the company or its group, briefly indicate them here.

2. In this section, you may include any information or clarification with regard to the previous sections of this report to the extent that they are relevant and non-repetitive.

More specifically, indicate whether your company is subject to any corporate governance legislation other than Spanish law, and if so, include any information that is mandatory and different from that requested herein.

3. The company will also be able to indicate if it has voluntarily subscribed to other codes of ethical principles or good practices, at international or sector level, or in any other field. In that case, indicate the code in question and the date it was subscribed to.

At its meeting on 17 September 2010, the Board of Directors agreed that Gas Natural Fenosa would adhere to the Code of Good Tax Practices. In accordance with the provisions laid down in the Code of Good Tax Practices, it is expressly placed on record that Gas Natural Fenosa has effectively complied with the content of this code and, more specifically, at the meeting held on 30 January 2015, the Board of Directors of Gas Natural Fenosa was notified about the tax policies adhered to by the group in 2014.

Clarification of section A.2

On 22 May 2014 Repsol, S.A. purchased shares of Gas Natural SDG, S.A. which it held indirectly through Repsol Petróleo, S.A. and Repsol Exploración, S.A.

Explanatory note for item D.4

All transactions carried out by companies or group companies with other entities belonging to the same group form part of the company's normal business activities in terms of their object and conditions. Details of transactions not eliminated in the drafting of consolidated financial statements appear in note 31 of the Consolidated Annual Accounts.

Pursuant to the Spanish laws determining countries which are considered to be tax havens (Royal Decree 1080/1991 of 5 July and Royal Decree 116/2003 of 31 January), Gas Natural Fenosa only has 3 shareholdings in companies incorporated in such territories, specifically the shareholdings of 95% in Buenergía Gas & Power, Ltd, of 47.5% in EcoEléctrica Holding, Ltd and of 47.5% in Ecoeléctrica Limited, all registered in the Cayman Isles. They are companies which directly or indirectly own a single industrial shareholding which carries out the electrical generation activity by gas combined cycle plant in Puerto Rico (Ecoeléctrica, L.P), which pay tax on their income in this country and which do not offer any kind of tax advantage for Gas Natural Fenosa.

This Annual Corporate Governance Report has been adopted by the Board of Directors of the company in its session held on 30 January 2015.

Indicate whether or not there have been Directors who voted against or abstained from voting on the adoption of this report.

No

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