
gasNatural fenosa
170 years together
2012
annual
report

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annual
report

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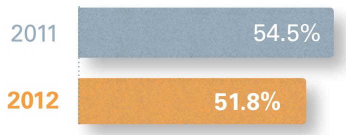
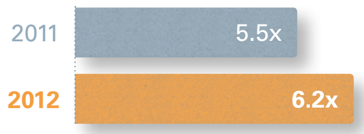


Ebitda/financial results



Net debt/ebitda

Operation

	2012	2011	%
Gas distribution (GWh)	409,774	395,840	3.5
Electricity distribution (GWh)	54,362	54,067	0.5
Gas supply points (in thousands), as at 31/12	11,663	11,372	2.6
Gas supply points (in thousands), as at 31/12	8,309	8,133	2.2

	2012	2011	%
Electricity generated (GWh)	**56,248**	**56,616**	**(0.6)**
Spain	37,144	38,081	(2.5)
International[1]	19,104	18,535	3.1
Power generation capacity (MW)	**15,519**	**15,443**	**0.5**
Spain	12,827	12,760	0.5
International[1]	2,692	2,683	0.3
Gas supply (GWh)[2]	**328,058**	**308,635**	**6.3**
Commercialisation in Spain	238,450	236,902	1.6
Retail commercialisation in Italy	2,844	2,718	4.6
Others	86,764	69,015	21.7
Unión Fenosa Gas (GWh)[3]	**83,883**	**83,440**	**0.5**
Gas commercialisation in Spain	55,683	56,937	(2.2)
Other gas sales	28,200	26,503	6.4
Gas transportation-Empl (GWh)	**116,347**	**111,855**	**4.0**

[1] Includes Costa Rica.
[2] Does not include exchange transactions.
[3] Figures at 100%.

Personnel

	2012	2011	%
Number of employees	17,270	17,769	(2.8)

Financial

(millions of euros)	2012	2011
Net turnover	24,904	21,076
Gross operating profit (Ebitda)ç	5,080	4,645
Investments	1,386	1,514
Net profit	1,441	1,325
Dividend[1]	895	823

[1] Equivalent total amount.

Shares

	2012	2011
Share prices at 31/12 (euros)	13.58	13.27
Profit per share (euros)	1.45	1.39
Capitalisation/profit ratio[1]	9.43	9.90
Share capital as at 31/12 (number of shares)	1,000,689,341	991,672,139
Stock market capitalisation as at 31/12 (millions of shares)	13,589	13,155

[1] Considering the average number of shares for the year.

Letter from the Chairman

Dear shareholders,

The good results obtained in 2012, in spite of the current situation in terms of energy and the macroeconomy, confirm Gas Natural Fenosa's strength and, for yet another year, show the successful flexibility of our business model and the strategic value of our clear commitment to internationalisation and financial discipline.

Net profits were up 8.8% on the previous year, reaching 1.441 billion euros despite lower contributions through gains from the sales of assets. The consolidated Ebitda reached 5.080 billion euros, up 9.4% on 2011, driven along by the international business and a profile balanced between regulated and deregulated businesses on gas and electricity markets.

These good figures allow us to keep an attractive level of remuneration for shareholders, allocating 895 million euros to dividends for 2012. This amount is 8.7% up on the previous year and accounts for a pay-out of 62.1% in accordance with Gas Natural Fenosa's commitment to you.

The international business was up 22.6% and now accounts for 43.2% of the total Ebitda in comparison with the previous year's 38.5%. The company continued to expand its business in Latin America; it consolidated its position in Europe, with a satisfactory level of commercial expansion in countries such as France, Belgium and Holland, and other new countries, such as Germany; and it consolidated its position as a global liquefied natural gas (LNG) operator on the Atlantic and Pacific markets.

In reference to the main business milestones outside Spain, I would like to highlight the signing of an agreement to supply 2 bcm of gas to the Electric Power Authority of Puerto Rico; the start of the construction of the Torito hydroelectric power plant in Costa Rica; the award of the gas supply in the Paris region, France; and the signing of an agreement with Gail, India's leading gas operator, to supply 3 bcm of LNG over the next three years.

Financial discipline remains one of the main pillars on which our strategy is based. The efficient management of resources has given us a sound financial structure as key to creating value. As a result, we have managed to attract 10.700 billion euros on the capitals markets since June 2009 and maintain liquidity levels equivalent to the financial requirements of 24 months' business.

At the close of the year, debt levels stood at 15.995 billion, which represents a ratio of 51.8% and a net financial debt of 3.1 times the Ebitda.

The good results for the year have allowed us to achieve the targets set in the Strategic Plan for 2012 in terms of net profits and Ebitda, as well as net debt. We have successfully closed the first phase of the plan and, this year 2013, we will present a review for the coming three years to adapt it to the current climate. In any case, cost efficiency, strict financial discipline and internationalisation on the back of investments in growing, profitable markets and segments will continue to be the basis of our business.

I would not like to finish without mentioning the recognitions awarded to the company in corporate responsibility and the environment. In 2012, it was the most sustainable company in the world in gas distribution, according to the Dow Jones Sustainability Index (DJSI); it maintained its position in the DJSI Europe and the FST4Good, for the 11th year running in the latter; and led the utilities sector in the Carbon Disclosure Project.

On behalf of the Board of Directors, I would like to thank all our shareholders for their trust in Gas Natural Fenosa, whose human resources will continue to work to consolidate the sustained growth that has been achieved to date and continue the creation of value.

Salvador Gabarró Serra
Chairman of the
Board of Directors

Milestones 2012

Commitment to shareholders

The 2012 General Meeting of Shareholders, held in April, confirmed Gas Natural Fenosa's commitment to its shareholders and approved an 821-million-euro dividend, up 10.7% year-on-year, in line with the company's Strategic Plan targets.

The commitment and consideration to shareholders once again materialised, as part of its flexible remuneration policy. Thus, the company offered the possibility of receiving the supplementary dividend as a script dividend, choosing between shares, cash or a combination of both.

The Meeting also approved the appointment of Xabier Añoveros Trías de Bes as an Independent Director, and Heribert Padrol Munté as a Proprietary Director, the latter at the proposal of Criteria CaixaHolding and in replacement of Carlos Kinder, who finalised his period in office.

Both the Chairman of the company, Salvador Gabarró, and the CEO, Rafael Villaseca, highlighted the contribution of Latin America to the company's business, exceeding 25% of contribution to Ebitda and reaching almost 10 million customers.

The 2011 results, approved by the shareholders, consolidated Gas Natural Fenosa as a leading multinational gas and electricity company.

Business milestones

In August, the company signed its biggest liquefied natural gas (LNG) sales contract with Gail, the Indian gas corporation. With this contract, Gas Natural Fenosa will supply Gail with 3 bcm of LNG over the next three years. The agreement strengthened the position that Gas Natural Fenosa has in the marketing of gas in the Pacific region and represents a major step in the strategy of growth and diversification in new markets, as well as greater specific weight in the international LNG market. All of this placed the company as one of the LNG benchmark operators in the Atlantic and Mediterranean basins, with annual transportation capacity of 30 bcm. By the same token, both companies signed a collaboration agreement to study the joint development of energy projects in India.

In the European sphere, through its European subsidiary that markets natural gas in France, Gas Natural Fenosa was the main successful bidder for the supply of natural gas in the region of Paris and for two years will provide services to the main public supply points of 208 municipalities around the French capital. The company already has around 2,000 customers of varying types in France.

Gas Natural Fenosa also started marketing natural gas in Germany, where it opened a sales office in Cologne at the beginning of last year, and achieved its first three-year contracts to supply gas to customers.

In Portugal, Gas Natural Fenosa increased electricity sales to SMEs by almost 50%, and consolidated itself as the fourth largest operator in this market in 2012. Moreover, the company wants to keep its leadership in Moldova, where it handles 70% of electricity distribution.

Elsewhere, Gas Natural Fenosa began the administrative formalities for a strategic project in Catalonia: construction of a gas reserve in the region of Bages, in Barcelona. The project represents an investment of close to 350 million euros and will enable the energy demands in this autonomous region to be met, as well as achieving less dependence on imports and establishing a hub market for the South of Europe. The future energy reserve, when the company has fulfilled all of the administrative formalities, will have a useful storage volume of 3,200 GWh and a service life of 40 years.

Presence in Latin America

In June, Gas Natural Fenosa began construction of the hydroelectric power plant in Torito, the second one that it is building in Costa Rica, which will have installed power of 50 MW. The project requires an investment of 100 million euros and the power plant will come into operation in 2014. With this initiative, the company will become the largest private electricity producer in Costa Rica.

The company will also supply 2 bcm of natural gas to Puerto Rico Electric Power Authority for the next two years, thus reinforcing its activity in the Central American country, where it has been present since 2003 through EcoEléctrica.

Gas Natural Fenosa also reached an agreement with Exxon Mobil to set up 16 vehicular natural gas stations in Colombia, a network that will supply fuel to more than 125,000 vehicles in the capital, Bogotá. With the addition of these stations, the company has a total of 64 in this city.

Operations in 2012

In September 2012, the company agreed a 5.4 million dollar deal to sell a 1.75% holding in its Mexican gas distribution subsidiary, Gas Natural México, to the Japanese group Mitsui & Co. The deal was sealed together with Sinca Inbursa, a partner of the Spanish company in Gasimex, a holding company of Gas Natural México.

Furthermore, in February, Gas Natural Fenosa closed the sale to Endesa of 245,000 gas customers in Madrid, an operation in compliance with the undertakings acquired with the National Competition Commission (CNC) following the purchase of Unión Fenosa. The operation was announced in 2011 and generated approximate capital gains of 20 million euros.

International acknowledgements

Natural Gas Fenosa received numerous awards and public acknowledgements in 2012 that highlighted the company's actions in the fields of social responsibility, sustainability and environmental protection, in addition to its strict financial control.

For the eighth year running, Gas Natural Fenosa's sustainability strategy earned it a place on the Dow Jones Sustainability Index and DJSI Europe as leader of the gas distribution sector. Likewise, for the eleventh year running, it was included in the FTSE4Good sustainability indices following a new half yearly assessment of this tool geared towards socially responsible investors.

The company was also acknowledged as the utility with the best climate change strategy in the world in the CDP category of the Global 500 Climate Change Report 2012.

Lastly, it was considered to be the tenth most admired energy company in the world, based on the ranking drawn up by the prestigious US magazine Fortune.

Enlarging smart energy grids

2012 saw Gas Natural Fenosa continue its work of transforming its electricity distribution grids into smart grids. The company ended 2012 with 530,000 smart meters installed.

Together with this ambitious roll-out, Gas Natural Fenosa adapted and automated 2,880 transformation centres, which are gradually permitting the remote billing of 100,000 residential customers.

In the sphere of smart homes, the company submitted conclusions of the 3eHouses European pilot project, which was conducted in Sant Cugat del Vallés, Barcelona, and which is being promoted by the European Union. This project encourages the integration of new technologies into homes to obtain an innovative system of energy saving. The project managed to reach the target of reducing energy consumption by 20% over a year.

The Zigamit projects were also presented and featured participation of the Indra corporation. These projects aim to create a wireless communications infrastructure based on ZigBee technology, which will enable home comfort integrated management services to be marketed. Moreover, Gas Natural Fenosa is spearheading the European project GARnet, which has a budget of 3.8 million euros. This plan seeks to set up seven LNG supply stations in Spain, in the main goods transportation corridors, for vehicles that run on this fuel.

Commitment to culture and society

Last year saw the opening of the Gas Museum, located in Sabadell, Barcelona, a centre that aims to preserve and show the historic heritage of the gas and electricity sectors, and explore the future of energy and the environment. The museum, which is also the home to the Gas Natural Fenosa Foundation, is the only museum in Spain focused entirely on the gas industry.

The new season of the Gas Natural Fenosa's Contemporary Art Museum (MAC) was inaugurated at the end of 2012, with a renewed image and brand. The museum is consolidated as a space for contemporary, dynamic, flexible and open culture; an identity-generating element for the company and one that invites public participation. Also of prominence is the wide-ranging activity the museum conducts in the field of social action, with a singular programme of social participation through contemporary art targeted at persons with special needs.

Gas Natural Fenosa maintains its commitment to cooperate with society, specifically focusing on the development of extensive patronage and sponsorship activity. In this regard, Gas Natural Fenosa currently supports more than 100 activities of a cultural, environmental and social sphere.
Key among these activities in 2012 was sponsorship of the Malaga Film Festival, the Sitges Film Festival, the San Sebastian Film Festival, Madrid's Premier Week and the Gandules Cycle at Barcelona's Centre of Contemporary Culture. The company unified all of its film-linked patronage under the slogan "At the Cinema and at Home".

Gas Natural Fenosa was ranked the 10th most admired energy company in the world

Corporate Governance

The Management Committee is the highest decision-making body in the executive sphere and is made up as follows:

Mr Rafael Villaseca Marco
Chief Executive Officer

Mr Carlos J. Álvarez Fernández
Chief Financial Officer

Mr José Mª Egea Krauel
Managing Director of Energy Planning

Mr Antonio Gallart Gabás
Chief Corporate Officer

Mr Daniel López Jordà
Managing Director of Retail Energy Business

Mr Sergio Aranda Moreno
Managing Director of Latin America

Mr Manuel Fernández Álvarez
Managing Director of Wholesale Energy Business

Mr Manuel García Cobaleda
General Counsel

Mr Antoni Peris Mingot
Managing Director of Regulated Business

Mr Antonio Basolas Tena
Managing Director of Strategy and Development

Mr José Javier Fernández Martínez
Managing Director of Power Generation

Mr Jordi Garcia Tabernero
Managing Director of Communications and the Chairman´s Office

The Gas Natural Fenosa's priorities include guaranteeing transparency and the effectiveness of the way in which its bodies of government operate and, therefore, it assumes advanced practices in the area of corporate governance.

After a series of amendments to the Organisation and Operation Regulations of the Board of Directors and of its Committees (the last of them in November 2012), the company can be said to fulfil most of the recommendations for the good corporate governance of listed companies.

The Gas Natural Fenosa's practices in corporate governance are described in detail in various annual reports, which are raised to the General Meeting of Shareholders for its knowledge or approval.

The documentation drawn up by the company in the area of corporate governance seeks to report on the most relevant information related to its standards and procedures, as well as the criteria on which the decisions that are taken are based. All the corporate information is available to the public on the group's website at www.gasnaturalfenosa.com.

The General Meeting of Shareholders, the highest decision-taking body in the company, takes part in the development of corporate governance practices, as does the Board of Directors and its committees: the Executive Committee, the Appointments and Remuneration Committee and the Audit and Control Committee. The Management Committee also plays a relevant role from the viewpoint of management.

In 2012, the different bodies of government met as follows:

- Board of Directors: 12 meetings.
- Executive Committee: 8 meetings.
- Appointments and Remuneration Committee: 8 meetings.
- Audit and Control Committee: 5 meetings.
- Management Committee: monthly meetings.

The Board of Directors, its committees and the Management Committee operated as expected during 2012, fully exercising their competencies without interference and in full observance of current legislation and the applicable standards for the operation of the Organisation and Operation Regulations of the Board of Directors and of its Committees.

As far as the diversity of the Board of Directors is concerned, 17.7% of the Directors are under 55 years of age, 29.4% are between 55 and 60 years of age, and the remaining 52.9% are over 60 years of age.

Composition of the Board of Directors and various Committees (at 31 December 2012))

	Board of Directors	Executive Committee	Audit and Control Committee	Appointments and Remuneration Committee	Type of Director
Chairman	Mr Salvador Gabarró Serra	Chairman			Executive
Vicepresident	Mr Antonio Brufau Niubó	Vicepresident		Director	Proprietary member
Chief Executive Officer	Mr Rafael Villaseca Marco	Chief Executive Officer			Executive
Director	Mr Ramon Adell Ramon[1]		Director		Independent
Director	Mr Enrique Alcántara-García Irazoqui[2]	Director			Proprietary member
Director	Mr Xabier Añoveros Trías de Bes[3]				Independent
Director	Mr Demetrio Carceller Arce	Director			Proprietary member
Director	Mr Santiago Cobo Cobo			Director	Independent
Director	Mr Nemesio Fernández-Cuesta				Proprietary member
Director	Mr Felipe González Márquez				Independent
Director	Mr Emiliano López Achurra	Director			Independent
Director	Mr Carlos Losada Marrodán	Director	Chairman		Independent
Director	Mr Juan María Nin Génova	Director			Proprietary member
Director	Mr Heribert Padrol Munté[4]				Proprietary member
Director	Mr Juan Rosell Lastortras				Proprietary member
Director	Mr Luis Suárez de Lezo Mantilla		Director		Proprietary member
Director	Mr Miguel Valls Maseda			Chairman	Independent
Non-director Secretary	Mr Manuel García Cobaleda	Secretary	Secretary	Secretary	

[1] Mr Ramon Adell Ramon became a member of the Audit and Control Committee on 20 April 2012, replacing Mr Carlos Kinder Espinosa.
[2] Mr Enrique Alcántara-García Irazoqui became a member of the Executive Committee on 20 April 2012, replacing Mr Carlos Kinder Espinosa.
[3] Mr Xabier Añoveros Trías de Bes became a member of the Board of Directors on 20 April 2012 to cover the existing vacancy.
[4] Mr Heribert Padrol Munté became a member of the Board of Directors on 20 April 2012, replacing Mr Carlos Kinder Espinosa.

2012 annual report

corporate management

Human Resources

Workforce demographics and composition

At the close of the 2012 financial year, Gas Natural Fenosa provided work for 17,270 employees in 22 different countries. This figure represents a 2.8% reduction on the 2011 figure, reflecting the actions taken to improve processes.

The distribution by gender shows that 29.66% are women and 70.34% are men.

The geographical distribution shows that 61.1% of people carry out their activity in Europe, 37.5% in America and the rest, 1.4%, in other continents. In addition to Spain, this activity takes place in the following countries: Argentina, Australia, Brazil, Colombia, Costa Rica, Egypt, France, Guatemala, Ireland, Italy, Kenya, Madagascar, Morocco, Mexico, Moldova, Nicaragua, Panama, Puerto Rico, Dominican Republic, South Africa and Uganda.

The average age of the staff is 43.06; the average seniority in the group is around 14.79 years.

In 2012, 14,355 people were directly employed by Gas Natural Fenosa.

Talent Management Model

Talent management is one of the group's strategic priorities and a key tool for meeting business objectives in their different time frames, as it provides a sustainable competitive advantage for growth.

The Talent Management Model was updated during the last quarter of 2011 and the first of 2012 in order to ensure management of the full talent cycle (planning, recruitment, identification, development and engagement) in an integrated manner and for the controlled and consistent definition of the learning process for our professionals to ensure that their development is aligned to the needs of the group.

A double focus is proposed for talent management: on positions, to guarantee the needs of the company are covered with suitable succession plans, and on people, to implement a culture for individual development, with a learning model based on experience and a culture of development-focused feedback.

New lines of action were introduced in 2012 into talent management:

- Definition of the Leadership Model.
- Introduction of competence assessment, based on the defined Leadership Model.
- Creation of Individual Development Plans (IDPs), based on the results of the competence assessment conducted.
- Formalisation of priority succession plans, considering both the criteria associated with the priorities of business and technical knowledge, and exit risks (owing to age or the market).

Once the Leadership Model was defined, the company started implementing the Talent Management Model at executive level, as a first step prior to the expansion of the model to the remainder of the management team and technical personnel. Competence assessment was conducted on this group in 2012 by means of 180- and 360-degree multi-source feedback. IDPs were also created for the executives, with the setting of measurable development goals in order to ensure their fulfilment, and focused on learning through experience.

During the transition to the new Talent Management Model, and in order to assure consistency and traceability of information related to talent identification processes, the company updated its assessment, with the system effective in 2011, for a group of 2,592 individuals not covered by bargaining agreements, of whom 32% were employed internationally.

With regards to talent planning, analysis was ongoing throughout the year into internal management profiles for the succession plans affecting key positions.

Human and social development: a commitment to people

Providing an attractive and stimulating career while guaranteeing equal opportunities and fostering and respecting diversity form part of the Gas Natural Fenosa's commitment to its employees.

In accordance with the United Nations Development Programme, Gas Natural Fenosa promoted its Human and Social Development Plan in 2012 for the purpose of giving added impetus to its social, labour-related and business culture that is based on mutual respect and commitment, producing diversity in opinions, perspectives, culture, ages and gender in each of the countries where the company has a presence.

Gas Natural Fenosa complies with the legal requirements related to equal opportunities and social integration, favouring recruitment of the disabled at levels that even exceed minimum legal requirements.

A highlight of 2012 was the fact of receiving the EFR certificate in the areas of human development, endorsed by the Spanish Ministry of Health, Social Services and Equality in two new countries: Colombia and Brazil.

The EFR certification is a benchmark for the homogenisation of corporate human resources policies and for consolidation of best practices in our industry and others. At the close of 2012, the EFR management model had already reached a 70% coverage level for employees in Spain, Colombia and Brazil, and was added to certification already effective in Spain.

The actions carried out in 2012 by the Diversity Operating Committee marked an important turning point and a clear commitment to correct management, and to the incorporation of new employees with disabilities into the company, facilitating their integration in the workplace, and also diversity, through specific awareness actions.

Special mention should be given to the fact that in 2012 Gas Natural Fenosa maintained its Excellence in Diversity certification under the EDC Excellence Model, which it had previously obtained. This methodology, pioneering in Europe, enables the company's organisational and management system to be improved in order to encourage integration of disability. This year the EDC certificate evolved towards the Bequal model, sponsored by the ONCE Foundation and other organisations and based on the Seeliger y Conde Foundation methodology, which will strengthen and extend the requirements associated with these accreditations in society and companies.

In Spain, the group has a number of cooperation agreements with different legal entities and associations, such as "la Caixa", Adecco and Carriegos Foundations.

All of the group's subsidiaries maintain their commitment to contributing to the development and progress of the communities in which they operate, systematically implementing actions directed at fostering social promotion activities in three ways: through the voluntary intervention of employees (Solidarity Day Association, yearly environmental awareness campaigns, sports activities, etc.); through the cooperation a greements that Gas Natural Fenosa has with the foundations, associations, institutions and research centres in Spain and other countries (Mexican Red Cross, Pro CNIC Foundation for cardiovascular disease research, Down Syndrome Foundation of Madrid – through their Domus Down project-, Nenes i Nens amb Càncer Foundation of Barcelona, among others); and by encouraging sporting, music, cultural, educational and environmental activities.

Gas Natural Fenosa believes that an individual's feeling of belonging and awareness of each area's characteristics are determining factors for the company's success. This is why the company encourages recruitment of employees and managers locally, giving precedence to them against other alternatives.

Education, training and development

With the new approach adopted in 2011 the Corporate University was transformed into a lever for talent development that seeks excellence through professional inspiration. Its mission ("to contribute to developing professionals that make the vision of Gas Natural Fenosa a reality"), aims and structure are permanently aligned with corporate strategy. This connection between the company's strategy, the best international practices and development programmes is guaranteed by its Advisory Board.

The Advisory Board defines the mission and aims of the Corporate University and oversees their fulfilment. It encourages the establishment of institutional relations, proposes new approaches and reports on trends.

In 2012, 12 educational itineraries were designed together with the business areas that allowed learning to be organised with a view to the long term and covering the areas of knowledge of context, functions and skills.

The interest Gas Natural Fenosa has in people was acknowledged for the sixth consecutive time with the highest score (100%) in the area of Human Capital Development of the Dow Jones Sustainability Index World (DJSI World).

Furthermore, October 2012 marked the first anniversary of the launch of the Virtual University in Spain. By the close of 2012, this tool was available to all the group's professionals in Argentina, Brazil, Colombia, France, Italy, Morocco, Mexico, Moldova, Nicaragua, Panama and the Dominican Republic. This initiative was acknowledged by the Mexican Centre for Philanthropy (CEMEFI) as a Best Practice in Corporate Social Responsibility.

The proportion of employees receiving training through the Virtual University reached 58.6% of the workforce.

Gas Natural Fenosa training indicators (%)

	2012	2011
Training hours per employee	52.7	52.24
Users of online training schemes over total staff (%)	58.6	32.30

The Extended University began its activity in 2012 for the purpose of ensuring the consistency and quality of the training offered to collaborating companies, introducing major improvements to the processes for interaction with participants in the value chain. This new channel fosters the employability and development of professionals in different countries by contributing to the professionalisation of companies and improving quality and safety in their work. This practice was started up in Mexico and has led to the training of employees from more than 200 supplier companies. The model will be expanded in 2013 to Brazil, Colombia and Spain.

The overlap in time between the Virtual University and the Extended University led to the Virtual and Extended University (VEU) project, an initiative acknowledged with the prize for Innovation in Human Resources at the 10th Entrepreneurs and Employment Awards given by the business newspaper *Expansión*.

Environment

The performance and commitment of Gas Natural Fenosa ensures that its activities are compatible with protecting the environment and the life quality of the public. The company continuously seeks new focuses that enable it to keep the balance between the value of natural resources used and the wealth generated by the business.

As the result of the application of corporate responsibility policies and company strategy, plans and programmes are established on a yearly basis according to the common guidelines set out in the Quality, Environment and Health & Safety Plan. These plans set environmental goals in order to guarantee ongoing improvement in environmental management.

Nevertheless, modifications introduced in 2011 to regulations governing the use of Spanish coal caused a significant increase in certain environmental aspects, with their consequent reflection in general indicators of the group.

In order to adapt the Gas Natural Fenosa environmental strategy to these new conditioning factors, 2012 saw a review of its goals to 2014, the date until which those changes in the regulations are expected to remain in force.

Environmental management

The Gas natural Fenosa environmental management model takes the international UNE-EN ISO 14001 standard and the European Eco-management and Auditing Scheme (EMAS) regulation as benchmarks. Both frameworks solidly recognise the areas in which Gas Natural Fenosa carries out its activities.

Major advances were made in 2012 in the implementation of the management system into most of the business areas with relevant environmental impacts, and increasing importance was given to the environmental variable in the company's key decisions.

By the year's end, the entirety of the company's electricity generation activities and 94% of its electricity distribution activities had been certified in compliance with UNE-EN ISO 14001. Moreover, environmental certification was granted to the gas transport and distribution activities in Spain, Italy, Morocco, Mexico, Moldova and, more recently, in Brazil and Colombia, and to the commercialisation activity in Italy. Significant progress was made in implementing the Environmental Management System in Argentina and Nicaragua. In addition, Gas Natural Fenosa possesses environmental certification for much of its commercialisation activity, engineering services and its most emblematic buildings.

Gas Natural Fenosa has a total of nine electricity generation facilities in compliance with the EMAS regulations, the most recent of which is the combined-cycle power station in San Roque, in the province of Cadiz.

Gas Natural Fenosa has developed management tools to help operational control of environmental issues, management of activities and integration of different businesses into their local areas.

These tools and methodologies play an essential role in the consistency and uniformity of management in a company characterised by a large variety of activities and geographical dispersion. The main processes whose operation is based on the application of these management tools are:

- identification and assessment of legal environmental requirements (Themis);
- assessment of environmental aspects (Ecological Footprint-UMAS);
- environmental risk management (SERA);
- operational control of emissions, waste and effluent (OCEN-MA and SGR);
- impact of overhead electricity transmission lines on birdlife (CRA);
- environmental indicator reporting (Enablon);
- and planning and monitoring of environmental goals (Enablon)

2012 saw further development of the corporate tools for consulting and managing legal environmental requirements (Themis) and data gathering for environmental indicators (Enablon). Substantial progress was also made in the development and maintenance of georeferenced environmental information systems for electricity generation and distribution facilities in Spain.

Gas Natural Fenosa has systems to minimise and prevent the impact its activities and installations have on the environment. These systems allow a solid and objective evaluation to be made of environmental risks, so that they can be managed and decisions taken in this regard.

In the case of facilities with the greatest environmental risk, the evaluation is made using the UNE 150008:2008 standard as a benchmark. Potential accidents and emergency situations are identified through self-protection plans and their corresponding procedures, in order to define preventive actions and other measures that will reduce the environmental impact of any accidents. Gas Natural Fenosa improved its SERA tool for this purpose during 2012 as a base to support the environmental risk evaluation process for its electrical distribution activity.

Environmental training and awareness is a fundamental tool for the prevention of environmental impacts, as well as for updating the knowledge of those individuals that have environmental responsibility and for raising employee awareness in this field. 3,732 employees received 19,934 hours of training in 2012, covering a range of different subjects, among which were those linked to improving the environmental management of activities.

The company has accepted the commitment to raise awareness of society in general with regards to environmental issues. It has therefore set up different agreements with environmental and educational associations and institutions. The Gas Natural Fenosa Foundation also plays an active role in this area and organises seminars and other activities to encourage environmental awareness.

The environmental actions carried out in 2012 came to a total investment of 105 million euros, of which 46 million euros were for direct environmental investment and 59 million euros for expenses incurred in environmental management.

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Environmental parameters

Gas Natural Fenosa maintained strict environmental controls over its facilities and services. Nevertheless, as previously mentioned, the use of locally sourced coal in power stations resulting from changes to regulations introduced in early 2011, for the purpose of encouraging local employment and growth in the domestic economy in Spain, produced a deterioration in some of the relevant environmental parameters.

For the whole of the activities and facilities managed by Gas Natural Fenosa, the most relevant atmospheric emissions were those of 23.5 kt of sulphur oxides, 40.9 kt of nitrogen oxides and 2 kt of particles.

The production of non-hazardous waste increased by 33% compared to 2011, owing mainly to the increase of fly ash, cinders and waste gypsum in coal-fired power stations. In contrast, production of the most relevant hazardous wastes was reduced by 25%. This reduction was mainly due to the measures that were adopted with the implementation of the Reuse, Reduction, Recycling and Energy Recovery of Waste Plan (Pre3ver), and to the increased operation of power stations.

Raw material consumption increased slightly, also as a consequence of greater coal-fired electricity generation, although this increase was partially compensated by the reduction in the use of natural gas resulting from lower production by combined-cycle power stations.

With regard to effluents, we must highlight the effective performance of the waste treatment plant equipment and systems, which enabled the installations to comply with permitted effluent discharge.

These and other indicators of Gas Natural Fenosa's environmental management can be consulted in greater detail in the chapter on environment in the 2012 Corporate Responsibility Report.

Climate change

Gas Natural Fenosa's positioning with respect to climate change is based on reducing it through low carbon content power generation, by promoting renewable energies and energy saving and efficiency in generation, transporting, distribution and gas and electricity consumption.

The company views climate change as a new challenge, identifying potential business opportunities, options and solutions for identifying greenhouse gases (GHG) and minimising risks arising from regulatory restrictions in this field. In this regard, mention must made of the fact that natural gas is the fossil fuel with the lowest carbon content and lowest emissions of CO_2, making it one of the best solutions for reducing emissions, a decisive vector in the energy balance in coming years and the energy of reference in the transition to a low-carbon economy.

Gas Natural Fenosa is one of the leading combined-cycle operators worldwide and a pioneer in the introduction of natural gas as an automobile fuel in Spain.

Positioning towards climate change

With the Fewer GreenHouse Gases initiative, Gas Natural Fenosa is committed towards:

- Maintaining energy strategies and policies in keeping with security of supply, competitiveness and environmental sustainability.
- Establishing quantifiable objectives for reducing greenhouse gas emissions.
- Levelling the balance of social, environmental and economic aspects to contribute to a low carbon economy.
- Optimising and promoting energy saving and efficiency in its installations and those of its customers, as the most efficient way of fighting against global warming.
- Being active in coal markets and supporting their globalisation so that energy production and consumption trends can be sustainable.
- Guiding the company's actions in order to raise awareness in society in general regarding the global solution for climate change.
- Establishing specific measures to ensure fair and sustainable commitments on reducing global emissions are met.
- Fostering the execution of projects to reduce greenhouse gas emissions on a global scale, paying special attention to developing countries.

GHG emissions from the totality of activities and facilities managed by Gas Natural Fenosa in 2012 were 24.3 MtCO_2e (direct emissions), with an energy mix emission factor of 454 g CO_2/kWh.

Among others, we would like to highlight eco-efficiency actions, such as improving performance at facilities, encouraging renewable energies and combined-cycle facilities.

The use of better materials and the establishment of a comprehensive pipe monitoring and renewal plan allowed the company to reduce its emissions of CH_4 per unit and network length by 1.9% in comparison with 2011.

The rationalisation of energy consumption is one of the group priorities. Therefore, the company supervises and submits all its processes to strict controls, consolidating its goal of seeking maximum efficiency.

In 2012, Gas Natural Fenosa prevented over 15.8 MtCO_2 from being emitted to the atmosphere, due to its low-carbon content energy generation activities, the use of renewable energies, its energy management, the conversion of coal and fuel oil industrial and residential installations into others based on natural gas, use of gas-propelled vehicles, the start-up of Clean Development Mechanism (CDM) projects and other reduction initiatives.

Gas Natural Fenosa is committed to reducing GHG emissions in developing countries through flexibility mechanisms. The company takes part in several carbon funds and registered nine CDM projects at the United Nations: the hydroelectric power plants of Los Algarrobos, Macho de Monte and Dolega (Panama); La Joya (Costa Rica) and Amaime (Colombia); the use of biogas for energy at the Doña Juana Landfill in Bogotá (Colombia); the Sombrilla project, also in Bogotá, and the Quimvale project in Rio de Janeiro (Brazil), in both of which fuel oil was replaced with natural gas; and, finally, the Bii Hioxo wind farm (Mexico) in 2012.

In the field of environmental sustainability, the company raised its customers' awareness regarding efficient energy use. Through the Natural Commitment project, the company cooperates with art galleries so that they can improve their lighting systems by replacing conventional equipment with others with a better energy class; it also holds seminars with customers, where environmental and energy questions are addressed. Gas Natural Fenosa also promotes rational and sustainable consumption of energy among its customers. In this regard, the group's webpage offers the sections www.hogareficiente.com and www.empresaeficiente.com, for use by its customers; these sites offer energy saving and efficiency recommendations in the home and at work, enabling customers to carry out a complete self-diagnosis free of charge.

Commitment to biodiversity conservation

- Complying with nature protection laws and regulations.
- Promoting and cooperating in preserving biodiversity in the area surrounding its installations, paying special attention to protected spaces.
- Studying the environmental impact of its activities and projects, their effects on ecosystems and biological diversity, taking into account its stakeholders.
- Adopting measures to prevent and minimise possible adverse effects on biodiversity, restoring damaged areas and soils.
- Respecting the traditional ways of life of the indigenous communities to favour the preservation and sustainable use of the environment.

Besides, the company still participates in the Caring for Climate: The Business Leadership Platform programme, a platform of business leaders taking part in the United Nations Global Compact, whose goal is to fight against the effects of climate change by improving efficiency and reducing greenhouse gas emissions.

The Carbon Footprint Report will provide the information from 2012 related to climate change-related performance within the limits of its activities. This document is being compiled according to the GHG Protocol and the UNE-EN ISO 14064-1:2006 standard. The report will be subjected to verification according to the ISAE 3000 standard and finally posted on the Gas Natural Fenosa website in the course of 2013. The information provided by the Carbon Footprint Report is coherent with this report and is directed towards specialist groups in this field.

Sustainability and biodiversity

Natural Fenosa upholds its commitment to sustainability by taking on new environmental challenges with a preventive approach and by incorporating environmental criteria into its business processes. For this purpose it has defined an environmental strategy focusing on the mitigation of adverse effects on ecosystems surrounding facilities and on encouraging preservation of biodiversity through the actions of restoration, regeneration and conservation of natural spaces. Moreover, the company collaborates with different conservation organisations to support their initiatives in the defence of nature.

The group continuously carries out studies on the land and aquatic ecosystems that surround the electricity production plants in order to characterise the natural environment and be able to study the impact of its installations. All the studies carried out in 2012 confirmed the situation of normality observed in recent years, and concluded that the studied facilities had an acceptable impact on their environment.

Moreover, Gas Natural Fenosa carries out environmental impact studies for its projects. Public participation in the procedures to approve these projects is ensured through national and regional legislation in each country where the company has a presence.

Different acknowledgements were received in 2012 for the company's good environmental performance and corporate responsibility, having been named world leader in the gas distribution sector by the Dow Jones Sustainability Index (DJSI), with a total score of 86 points (32 points above the industry mean). In the environmental area, the company obtained the best score in its sector and exceeded the mean score by 38 points, showing itself to be the best company with regards to environmental reporting. The company was also acknowledged as the utility with the best climate change strategy in the world in the Carbon Disclosure Project category of the Global 500 Climate Change Report 2012.

The company was recognised as the utility with the best climate change strategy

Innovation

In 2012, Europe continued to develop the programmes and plans established in the targets of the Strategic Energy Technology Plan (SET Plan), with special interest in making the solutions and developments which are implemented available on the market. It is important to underline the increasingly important role played by the European Institute of Innovation and Technology (ETI) and, within its sphere of action in the field of energy, KIC Innoenergy, which transfers innovation to the market, of which Gas Natural Fenosa forms part.

Energy efficiency, and, in particular, the encouragement of innovation in urban environments, are priorities within the areas of action launched. Similarly, initiatives were carried out in the field of transport, with the goal of having this sector make a highly significant contribution to the established emission reduction targets.

In 2012, priority was given to the lines of work connected with technological platforms and other forums with targets of developing energy technology. Initiatives such as the Alliance for Energy Research and Innovation (ALINNE), which Gas Natural Fenosa joined, are working on this adjustment process, allowing great efforts to be made by the scientific, technological and industrial community, in the energy area, to help to create more favourable economic flows, not only in the energy market, but also, in particular, in the energy technology market.

In this regard, Gas Natural Fenosa consolidated its strategy and reinforced its management model, which integrates all the actions needed for innovation to be carried out systematically and for it to involve all areas, from support activities to executing innovation projects.

It also acknowledged the importance of developing an appropriate culture of innovation in its organisation. 2012 was the first year of the Our Energy Awards, which are focused on encouraging and recognising employees' potential for innovation and improvement. Winning ideas in the innovation category concerned electrical distribution, optimisation of energy offers in the different markets and the operation of hydroelectric facilities.

As part of the support activities, technological surveillance and transfer guarantee access to an excellent knowledge on technological advances and enables good use to be made of them. Within technological surveillance, it is important to highlight the consolidation and creation of new groups to control the systematic monitoring of the most important technologies for the company. Particularly important in the field of technological transfer activities were the agreements with the Institute of Electrical and Electronics Engineers (IEEE) and the Electric Power Research Institute (EPRI). Gas Natural Fenosa joined forces with the latter institute to take part in several research programmes, including energy efficiency projects for the end consumer; the development and assessment of technologies and methodologies for the implementation of infrastructures associated with smart grids; the operation and maintenance of combustion turbines and combined cycles; the reliability of heat recovery boilers; and the control of NOx emissions.

In addition to these lines of research, Gas Natural Fenosa has also taken part since 2009, with EPRI, in an industrial project for the capture and storage of CO_2 using post-combustion technologies, with the aim of validating two different technologies. With this collaboration, the company was able to access, on the one hand, to the results of validating the 20 MWt chilled ammonia capture plant industrial project with Alstom technology, in Montaineer, whose demonstration ended in 2012. It also allowed the company to take part in Mitsubishi's advanced amine capture industrial plant. This plant begun to operate this year, capturing CO_2 through the flow of outgoing gas from a coal plant equivalent to 20 MW, compressing and storing the CO_2 until it is stored in an underground saline formation.

The mission of technological surveillance and transfer is completed with the active participation in the energy technological platforms, which are most in keeping with the group's activities. In the field of CO_2 treatment, we may highlight the company's participation and chairmanship in the Spanish Technological Platform of CO_2 (PTECO2), the Spanish CO_2 Association and presence in the European Technology Platform for Zero Emissions Fossil Fuel Power Plants (ZEP). This initiatives promote development of technological capacity in the processes for improving efficiency, capture, transportation, storage and recovery of CO_2 as key technologies in fighting climate change.

In the field of electrical grids, the company also chairs the Spanish Electrical Grid Platform (Futured), which has the target of helping in the technological evolution of Spanish transmission and distribution electrical grids that promote technological leadership, sustainable development and competitiveness.

At European level, Gas Natural Fenosa integrates the European Smart Grid Platform; the EEGI industrial grids initiative (within SET-PLAN), focused on innovation and development at system level; and the Task Force (SGT), which the European Commission created to progress in the implementation of smart grids. And in Spain, the company's presidency of the Spanish Energy Efficiency Technological Platform (PTE-EE), for innovation in energy efficiency technology, is also worthy of note.

Major projects

Initiatives were carried out in the field of vehicular natural gas to bring about greater sustainability in mobility and transport. During 2012, the European GARneT project (Gas as an Alternative for Road Transport) was started to demonstrate the advantages of using liquefied natural gas (LNG) as a clean fuel for long distance heavy goods vehicles. The goal of this initiative, which is financed by the European Commission (TEN-T Programme), is to analyse, from the technological and economic standpoint, the development of a plan for the use of this fuel in Europe. In order to carry out the study and validate the results of GARneT, seven LNG service stations shall be installed in Spain -four of which shall be permanent and three mobile- in some of the primary European corridors for goods transport. The company also took part in developing the LNG Blue Corridors project in Europe, which was launched in early 2013.

Along these same lines, we may highlight the compressed natural gas bus prototype (CNG) converted into electrical hybrid, which is the result of a project developed by Transports Metropolitans de Barcelona (TMB) and Gas Natural Fenosa. This initiative is focused on finding cleaner and more efficient urban transport vehicles. A system also began to be developed to turn a diesel engine into a dual diesel-gas engine, and thus be able to considerably reduce consumption in light vehicles.

In the field of electrical mobility, the RIRVE (Electrical Vehicle Smart Grid) project, financed by the Centre for the Development of Industrial Technology (CDTI), for the creation of a smart grid for recharging electrical vehicles, was of particular importance. In 2012, Gas Natural Fenosa concluded the pilot project with its own fleet vehicles in the company's centre in A Coruña. This project consisted of the installation of a charging station for vehicles and another for motorbikes, as well as the development of a software platform to facilitate monitoring and allow electromobility services to be offered.

The Movele Madrid project was another important electrical mobility project carried out by the company. This initiative, promoted through the Spanish Institute for Energy Diversification and Saving (IDAE), aims to install a grid of 280 recharge points in Madrid and to study their use. In 2012, the installation of the recharge points was completed and a remote management platform was implemented.

The Domocell project was also completed, geared towards creating a recharge system for electrical vehicles which can easily be installed in community garages, thus allowing each vehicle's consumption to be measured. This project's goals -to develop the infrastructure, studies on assessing the impact of the electrical vehicle on the grid, and real mobility and interoperability tests- were achieved.

The evolution of smart metering is a priority for progressing in the deployment of a more sustainable and efficient energy model. These types of infrastructure are based on the installation of digital meters with capacity for the processing, reception and transmission of data. They are the first step in the development of a smart grid to help in using resources efficiently, both from the standpoint of the consumer, and also from that of the service provider.

Also particularly important in this field was the Itac@ project, whose global aim is to channel and boost actions geared towards change in the electrical distribution business model, through the introduction of new technologies in the grid and its environment. In 2012, 533,000 electricity meters were replaced with new smart meters, while 2,880 electrical substations were automated. Through these initiatives, the company is gradually shifting 100,000 residential customers to remote billing. This is a watershed for the residential sector and allows the company to obtain better information and control of the medium and low voltage distribution grids.

The KSI Zigamit and ME3Gas projects were also important. The KSI-ZIGAMIT project, is a bilateral programme for cooperation and technological transfer between Korea and Spain, to spearhead an open protocol and standard remote reading infrastructure, and to make progress in developing new useful functionalities for customers, both in the private sector and in the field of public administrations. The project has currently implemented two pilot tests of value added services in Catalonia and Madrid, with real users, enabling the company to assess the degree of interest in these services and to optimise features according to the requirements of residential customers. The purpose of the ME3Gas project, which is part of the Artemis programme, is to develop a gas smart meter in collaboration with Gas Natural Distribuzione, which complies with the technical requirements set out in Italy for the deployment of these new meters. In 2012, the development and validation laboratory phase of the G4 meters of Elster and Itron was completed, and initial actions for the pilot project with 500 customers got under way.

In 2012 development continued in three areas of smart grids: pilot technological projects, demonstration and deployment, and the implementation of more innovative technologies. One of the most important technological projects was the Energos project, which is focused on investigating the basic elements which can be used to create a smart grid able to carry out real time management of all the multi-directional flows arising in the new electrical grid model. This will imply mass inclusion of renewable energy sources at different levels in the grid, higher participation by end customers in their energy management, greater efficiency levels and the addition of electric vehicles.

Other noteworthy actions were the Smart Line Inspection project (I2L), the Expert Grid Incident Probability and Severity System (SEPS) and the OVI-RED project (virtual micro-grid operator). These initiatives allowed the company to set up innovative technological projects, geared towards improving service quality, through automating the operation and maintenance of electrical infrastructures, so that they can be used more efficiently and more sustainably.

The company also continued to work on technology demonstration initiatives, either because of their degree of maturity or the need to validate their economic applicability. Two of the most important ones were the Scala and Price projects. As far as the Scala project is concerned, in 2012 the company completed the planned deployment of smart meters in Alcalá de Henares and Aranjuez (in the Community of Madrid); devices were installed in the electrical substations to capture the metering information and monitor the centre itself. In addition to these actions, the Scala project is also a way of testing and validating all equipment which can be deployed in a mass environment. The Price project highlights the development and demonstration of interoperable solutions that are common to distribution companies in a shared geographical location, with development and demonstration focusing on four areas: distribution network monitoring and automation, substation energy management, renewable energy integration and demand management, including electric vehicles.

Initiatives geared towards objectively measuring the improvements brought about by smart grid solutions were the Integrating Renewables in the European Electricity Grid project (iGreenGrid) and the Distributed Intelligence for Cost-Effective and Reliable Distribution Network project (Discern). These initiatives concern the integration of renewable energies and grid automation, respectively to compare readings in different demonstrations in Europe and to transfer the best practices from these.

Turning now to the search for renewable gases, in 2012 Gas Natural Fenosa worked on analysing the best processes to recycle biogas, turning it into biomethane, an equivalent of renewable natural gas which can be injected into its distribution networks. The company, which was the first energy operator to produce hydrogen using wind energy, is working on a project which will allow it to inject this energy vector into its networks and mix it with natural gas. With these two projects, which will be completed in the next few years, the company will be at the cutting edge of these technologies, which will be relevant for the world of gas distribution in the near future.

Also in connection with end user energy efficiency were RD&I activities related to three main aspects. First of these was the development of high energy efficiency tools and solutions in the illumination technology, low voltage renewable energy generation management and home automation, aimed at saving energy.

The 3e-Houses European project, funded within the CIP call and spearheaded by Gas Natural Fenosa, was developed as part of the solutions developed in the residential segment. The purpose of this project is to integrate new technologies in homes in order to obtain an innovative energy saving system. During 2012, the first results were obtained from the 60 homes in the municipality of Sant Cugat del Vallés (Barcelona), which took part in the project, and whose energy usage was reduced during the year. A pilot test was also carried out with 30 homes in Leipzig (Germany) and a further 140 devices were installed in homes in Bristol (United Kingdom) and Langefeld (Germany), which will be inspected during 2013.

Work in the field of renewable energy and energy vector in 2012 was centred on numerous different developments for the purpose of lowering the cost of producing this energy and of extending its application, wherever possible, through a wider technology portfolio. One of the most noteworthy projects was the Tesconsol InnoEnergy project, with the goal of improving existing thermal storage systems (by means of sensible heat) and developing new feasible alternatives for thermal storage systems. Another project that is worthy of mention is the InnoEnergy Neptune project, with the goal of measuring wind energy resources with LIDAR (Light Detection and Ranging technique) on buoys, and feasibility analysis and simulation of offshore wind farms. Nor can we fail to mention the Innoenergy AFOSP project, which is designed to develop a low cost floating platform for offshore wind energy.

As far as the search for advanced power plant and major facility technologies is concerned, worthy of note is the continuation of the CapWa project, which concerns new systems for capturing water generated through combustion in power stations. In 2012, works began to install the pilot plant in the Aceca combined-cycle power plant, in Toledo.

Furthermore, special mention must be made to a project involving energy crops through the Institute for Research and Technology in Food and Agriculture (IRTA), with the purpose of better understanding the potential use of this line of technology in Catalonia.

In collaboration with the Catalonia Institute for Energy Research (IREC), the company continued with its project to develop energy fuels based on micro-algae. The aim of this project is to evaluate how feasible it is to produce micro-algae in order to obtain methane-rich gas at a low cost which can be injected into the natural gas distribution network, or be used directly as fuel.

As far as treatment of CO_2 is concerned, the company continued with its efforts in experimentation with the CO_2 pilot capture plant, using carbonation-calcination cycles for capture of CO_2 produced from the combustion on a fluidised bed of biomass. The pilot plant of 300 kWt in the carbonator is in the La Robla power plant (Leon). In 2012, biomass combustion was achieved with simultaneous in situ capture and calcination, reaching capture efficiency rates of over 70%. Gas Natural Fenosa also began to take part in a new European project to carry out in-depth analysis of CO_2 transportation in gas pipelines.

The company is working on the development of renewable gases that can be injected into the natural gas network

Quality

One of Gas Natural Fenosa's priorities is the satisfaction of its customers. The aim is to offer customers an excellent service and increase their satisfaction by continuously improving quality. The measurement model rests on two complementary pillars: a general overview of all the customers in the company, making the global satisfaction index, and, on the other, a process view, analysing the experience of customers who have made use of a certain service and who have a recent recollection, thus offering further details and enabling more in-depth analysis of the different points of the service and in satisfaction with each one of these aspects.

In 2012, Gas Natural Fenosa implemented improvements in the method of measuring in order to obtain more information to focus processes on customer satisfaction. One of these improvements was the inclusion of the Net Promoter Score (NPS) indicator, which analyses the attributes of commitment and recommendation of the company, allowing a comparison to be made of different processes, competitors, and even companies from different sectors. This indicator is widely used all over the world.

During this year, Gas Natural Fenosa also worked on continuing to standardise the measurement model for all products and countries, including additional services such as Servielectric and countries such as Moldova and Nicaragua. In the field of Latin America, a comparison was established with companies in the sector, in order to build a reference for the benchmark. At methodological level, all interviews carried out were recorded and they were statistically controlled in order to ensure the quality of the information.

For yet another year, Gas Natural Fenosa continued to be leader in satisfaction in the retail segment in Spain. In 2012, the global satisfaction index was 7.10 in the residential market and 6.42 in SMEs, with a positive gap against the average of its rivals, which amounted to 6.54 and 5.98, respectively. In the wholesale segment, customer satisfaction was measured in a more systematic way. The global satisfaction index stood at 6.76, while the average for its rivals was 6.52

With the aim of improving the results of the satisfaction indices, Gas Natural Fenosa set up a number of different initiatives in service to major customers. One of these was the launching of the Middle Office Competence Centre, for customised attention to special and multi-supply customers, or the campaign to publicise new customer service and loyalty channels

In the retail segment, there were a number of noteworthy initiatives:

- Unified access to a private area on the website for gas or electricity customers, and identification using electronic ID.
- Online energy advisor for households and businesses with recommendations on how to improve energy efficiency in usage.
- New electricity bill format, increasing the space given over to information to help in understanding the different items, and also on new developments the company offers it customers.
- Online high efficiency household appliances store for customers of Gas Natural Fenosa, in collaboration with LG.
- Offer of greater savings for customers who decide to do without paper bills as way of contributing to sustainability.

Besides, Gas Natural Fenosa was again awarded the Customer Service Award 2012 in a contest organised by the agency Sotto Tempo Advertising, in the category of Energy Suppliers.

Turning to the different countries, in Italy there was a significant improvement in customers' satisfaction levels, and the gap against the competition was closed. Moldova carried out a mystery customer campaign in order to check the quality offered in its face-to-face customer service centres. The company also installed auto-call systems, Interactive Voice Response (IVR), sending of SMS and an online response system via the website, which improves communications with customers.

In Latin America, the roll-out of the Passion for Service project was particularly important. This is a mid-term initiative designed to reduce customer complaints and to increase their satisfaction, which was carried out using work committees in each different country.

In Brazil, Gas Natural Fenosa was again awarded the 12th Associaçao Brasileira de Telesserviços Award, winning three gold and two silver trophies.

In Italy, initiatives were carried out to improve the switching process in contracts, and to prepare offers for free market customers, while the company also improved the management of written complaints and monitoring of leaks in the network.

In Colombia, improvements were applied to reduce the variation in assigning suspension of service operations and bring down times and increase efficiency of operations of technical services in Gas Oriente. In Electricaribe, the company successfully reduced repeated anomalies in billing to customers, response times in customers' requests and claims, repeated warnings due to network damages and discharge management times. The 5S methodology was also applied, intended to bring about a comprehensive improvement in facilities, substations, warehouses and workshops.

In Mexico, projects were carried out geared towards improvement payment to collaborating companies, optimising the procurement process and start-up. Furthermore, six work panels were created with the aim of improving processes with the highest impact on customer complaints, and a pilot project was set up in customer service centres, using portable terminals to track customer satisfaction and areas of concern.

In Panama, the company carried out an ongoing improvement project using the 5S methodology in the contractors' materials warehouse, improving the conditions of the materials and the management and operation of the warehouse.

Continuous improvement

Gas Natural Fenosa also continued its efforts to make processes more efficient, with a special focus on offering the best service to end customers. The company adopted the Lean Six Sigma methodology, used all over the world, which incorporates advanced analysis tools and offers a highly systematic improvement process. During 2012, 1,874 training hours were given in different countries and business.

In the field of communication, the continuous improvement space on the group's Intranet discloses good practices and successful initiatives, in addition to promoting the knowledge of useful tools for carrying out projects. 2012 was the first year of the Our Energy Awards, which are separated into two categories: Continuous Improvement and Innovation. The primary goal of these awards is to encourage people to take part and to recognise their contribution to the company's activities and business.

Over a hundred ideas were received for this first year of the awards, and there were 14 finalists opting for the main prize, which was won by: Improvement in the Maintenance Process of Measuring Centres in the Gas Market in Colombia. The runner-up was the Normalised Elevator Platform for Tasks Inside Boilers project, and the Prize for the Best Simple Idea was for the Redesign of the Protection of NR Polymer Applied to Gas Tubing project.

During 2012, 55 new continuous improvement projects were started throughout the company. In Spain, in the area of gas distribution, we may highlight the projects carried out to increase efficiency in managing supply and start-up works, all based on new technologies: remote supervision, mobility and online management. Gas Natural Fenosa also developed a free-of-charge IT application, for users with hearing and speech defects, enabling direct connection with the gas Emergency Control Centre using a mobile phone, tablet or PC. Projects were also carried out to bring about improvements and savings in other corporate areas such as procurement, medical service or internal resources. In the wholesale business of Gas Natural Fenosa, the QBest programme was launched in order to foster and promote the culture of continuous improvement and efficiency in processes.

Standardisation of processes and certifications

Also in 2012 an integrated management system to cover quality, the environment and health and safety, in all processes, businesses and countries in which Gas Natural Fenosa operates was set up. In July, the 1st Quality, Environment, Health and Safety workshops were held in Spain, through exhibitions and workshops, experiences and knowledge about the Integrated Management System were shared.

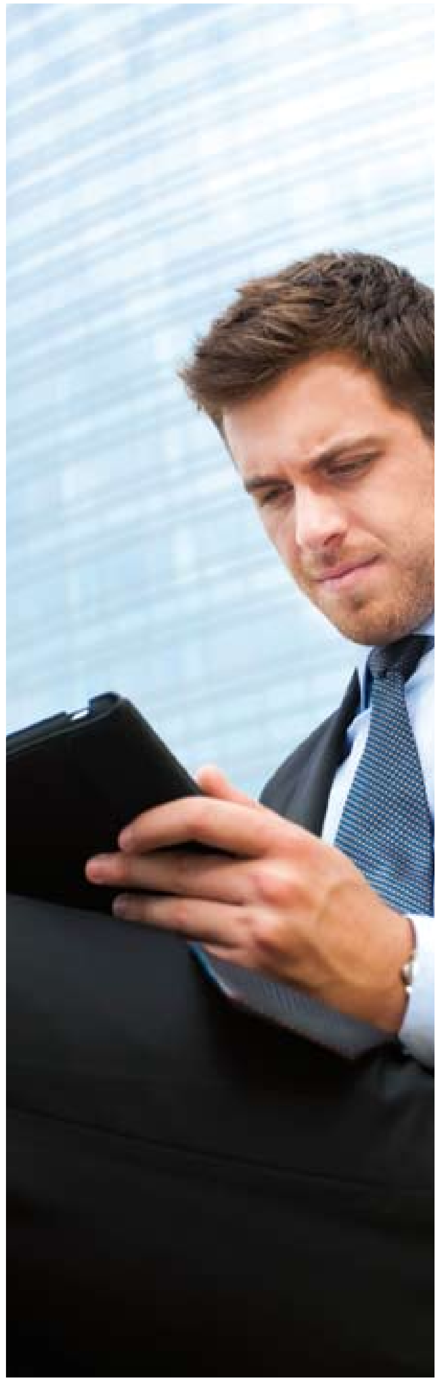
In order to support the installation project, the company consolidated the standards navigator and access application to internal documentation (procedures, standards, etc.) and external documentation (UNE, ISO standards, etc.) as well as Themis (replacing the Nor-ma application), as a tool to allow consultation of the compulsory legal requirements in the fields of quality, industrial safety, the environment, prevention of risks or civil protection, and also Enablon, an application which allows targets of the integrated system and of environmental indicators to be managed.

With regard to renewal of certifications, in 2012 all quality and environmental systems of the company certified in previous years in accordance with the UNE-EN ISO 9001 and UNE-EN ISO 14001 standards, were renewed after the pertinent audits. Furthermore, certificates were included in OHSAS 18001 for generation, distribution and commercialisation processes in Spain.

The subsidiaries of Gas Natural del Oriente, Gas Natural Cundiboyacense and Energía Empresarial, all in Colombia, were also included in the integrated management system. Red Unión Fenosa, in Moldova; Geg, Ceg Rio and Gas Natural SPS, in Brazil; and Metragaz, in Morocco, incorporated the requirements of the OHSAS 18001 standard in their management systems, and certified their integrated system. Argentina, Brazil and Panamá maintained the substantiation of its respective laboratories in accordance with the UNE-EN ISO 17025 standard and Nicaragua started the process for the certification.

Lastly, we should point out that Gas Natural Fenosa renewed the Madrid Excelente brand, by exceeding the requirements of excellence in management to obtain this. The company belongs to the Spanish Association for Quality (AEC), where it actively takes part both on the Energy Industries Committee (CIE) as well as the Six Sigma and Service Quality Committees. It also belongs to the Cerper Certification Committee, with which it organised the Cerper Forum for the fifth year running. Representatives of the company also form part of the Governing Board of Aenor, of the Governing Committee of Club Excelencia en la Gestión and the Executive Committee of Fundibeq: Latin American Quality Foundation.

The company leads the way in customer satisfaction in the energy sector



Commitment to Society

Generation of wealth and well-being

Gas Natural Fenosa makes the most of the resources that society and the environment place at its disposal, providing a basic service: the reliable and safe supply of energy. In performing its activity, it also targets resources at social investment projects, to preserve the environment and help those communities where the company has a presence to progress.

These projects, aligned with the company's business objective, are instrumented through its own initiatives and through collaboration programmes with other recognised social institutions and organisations. All these projects are targeted principally at satisfying social needs that are not covered.

Gas Natural Fenosa has procedures that allow it to prioritise its activities in this field and detect areas that need to be dealt with more urgently.

The company has four major action lines related to key activities that support its commitment to society:

- Access to energy: aimed at providing and facilitating access to this basic service by those populations with limited resources, in areas where the company performs its activity.

- Relationship with communities: the objective is to ensure fluid dialogue and to be aware of the social impact the company's activity has.

- Community investment programmes: this is particularly encouraged in Latin America because of the strong presence the company has in the region. Three model social action programmes have been defined. They seek to be consistent with the company's business activity as well as catering to the different stakeholders with which the company has relations.

- Sponsorship, patronage and donations: through these, the company supports projects and initiatives that generate value for society and, in turn, strengthen the company's social commitment. These values are based on support for culture, social causes and the environment. The adoption of these values is channelled through the different sponsorship and activity initiatives, both of the Gas Natural Fenosa Foundation and the Gas Natural Fenosa Contemporary Art Museum (MAC).

Access to energy

Gas Natural Fenosa performs its activity in areas where the energy supply does not reach the entire population. Being able to help people that live in these areas is a priority for the company, and this is why it actively works in developing its distribution networks to offer these populations a service under safe conditions.

The company has extensive experience in this regard. In Colombia, the marketer Energía Social, whose activity began in 2004, is responsible for commercial management of those districts without a standardised electricity infrastructure, and plays a major role in teaching the efficient and safe use of energy. It also generates jobs in these communities through the role of 'collectors'. The programme, which is partnered by the government, has benefited over 60,000 families since it began.

In Nicaragua, together with the government, an inventory was drawn up to identify those areas that lack basic services such as electricity. These zones are called settlements. 2012 saw the introduction of initiatives to consolidate actions at the five settlements standardised in 2011. Between 2012 and 2016 there are plans to standardise more than 600 throughout the country, through the National Sustainable Electrification and Renewable Energies Plan.

In Argentina, the extension of the gas network to those districts with limited resources, which began in 2002 in the Cuartel V neighbourhood, continues. To date, this project has provided more than 20,000 persons with access to the supply of natural gas.

Relationship with communities

Gas Natural Fenosa performs its activity in an international setting. The company's prosperity involves developing its business in areas where socioeconomic levels are susceptible to improvement.

In these areas, it is essential that the company has a proper relationship with local communities so that it can develop its business appropriately. Fluid dialogue with these communities helps development of business activity, whilst simultaneously encouraging positive impacts and minimising those that are negative.

In this regard, and within the framework of its human rights policy, Gas Natural Fenosa reiterated its solid commitment to local communities and their lifestyles, and undertook to assess the consequences its activities could have on the communities affected for the purpose of improving their living conditions.

To comply with this undertaking, in 2012 Gas Natural Fenosa developed a social impact assessment methodology based on the Measuring Impact criteria of the World Business Council for Sustainable Development (WBCSD). The aim is to help define initiatives and programmes to effectively manage the social impacts associated to the group's activity.

This methodology was tested and adapted to the company's situation through a project that was carried out in 2012 at the Bujagali hydroelectric plant (Uganda). The company's subsidiary Gas Natural Fenosa Operations & Maintenance was awarded the contract for this operation.

The Gas Natural Fenosa's relationship with local communities is nothing new but it was in 2012 that the company opted to introduce a specific methodology allowing it to systemise and standardise its relationship policy with these communities.

Of particular note with regard to these actions were the community programmes carried out in limited-resources districts around the fuel-oil power plant that the company operates in Nairobi (Kenya) since 1997, along with those programmes set up in communities close to the hydroelectric power plant of Torito, in Costa Rica. Having identified the major social opportunities that could benefit surrounding communities, plans were drawn up based on levers for development that help attend these needs. Creating jobs and encouraging education are common features of the different programmes.

Community investment programmes

The major presence of Gas Natural Fenosa in Latin America means that community investment programmes in this region represent one of the basic points of the company's commitment to society.

For the group, it is essential that its community investment programmes focus on the geographical areas where it has a presence and that they be developed in tandem with the corporate activity. To meet this target, the Latin America Integrated Operational Centre (COIL) for Management of Community Investment Programmes was created. Under the motto "Energy to Grow", it implements three kinds of projects:

- Value for suppliers: these are technical and business training projects for suppliers, self-employed workers and micro-companies involved with the gas and electricity sector. Its objective is for them to be integrated into the company's value chain. It has two versions, one for technical training and the other for business training. In 2012, over 1,700 companies received training as part of this programme.

- Responsible use: these are projects which are intended to promote safe and efficient use of energy by customers and society in general. It has one version designed for children and another for adults. Through Natural Family, more than 280,000 children and more than 230,000 adults received tips on the safe and responsible use of energy in 2012.

- Leadership training: these are projects which promote studies and job insertion for the children and relatives of personnel employed in Latin American countries. This programme is targeted at children and collaborators who are finishing their university or tertiary studies and who wish to apply for a training scholarship at the Corporate University.

Through its community investment programmes, Gas Natural Fenosa fosters the development of local communities, generating value in the business fabric and strengthening local socio-economic development.

Sponsorship, patronage and donations

Sponsorship and donations represent financial support for specific projects. Their aim is to develop society by encouraging culture, art, science and other disciplines. In return, Gas Natural Fenosa has the opportunity to strengthen its image and generate preference among its audiences. The company's priority targets are the community investment programmes, culture, energy and the environment, through a range of actions.

Educational initiatives

As part of its commitment to society, the educational initiatives for young persons represent one of the main activities of Gas Natural Fenosa, particularly with regard to the good use of energy and to sustainable development.

In 2012, we can highlight the conferences given as part of the programme titled "Energy, the Environment and You", which were attended by a total of 98,306 Spanish students.

By the same token, the company implemented a wide range of collaboration, participation and sponsorship initiatives with different educational entities in Spain, Italy and some Latin American countries.

Social action focused on underprivileged groups

Gas Natural Fenosa drives and supports projects that help reduce social inequality and integrate the most vulnerable social collectives. The company therefore collaborates financially with foundations and associations whose corporate purpose is to help mitigate these problems in some of the countries where it performs its activity.

Promotion of health and research

The company also takes part in schemes designed to support health and research.

Prominent in this sphere is the research aimed at improving the life quality of the sick and their relatives, such as the study into cardiovascular diseases (the worldwide leading cause of mortality); the informative campaign for early detection of breast cancer, in Moldova; and the campaign to provide free medical care and rehabilitation to child burns-victims, in Nicaragua.

Promotion of music, theatre and films

The company maintained its collaboration commitment with the world of film, music and theatre, by providing support to festivals, musical events and concerts.

By supporting the world of film, Gas Natural Fenosa collaborated with one of the industries most affected by the crisis, particularly in the case of festivals, which in recent years have suffered huge cutbacks in the public aid they used to receive.

Fostering cultural enrichment

An important part of the company's cultural investment is carried out through the Gas Natural Fenosa Contemporary Art Museum (MAC), an exhibition area in A Coruña which has been open for 17 years. The museum offers exhibitions, staged, informative and leisure events, as well as taking part in activities to favour social integration of people with any form of disability.

Moreover, the company supports other institutions, such as the National Art Museum of Catalonia (MNAC), the Contemporary Art Museum of Barcelona (MACBA), the Valladolid Science Museum and the Patio Herreriano Foundation.

For further information on sponsorships and donations, you can access the corporate website of Gas Natural Fenosa at www.gasnaturalfenosa.com.

Corporate volunteers and employee participation

Gas Natural Fenosa also encourages its employees to participate in community investment programmes promoted by the company. One of the most important is the Solidarity Day initiative, created in 1997 and managed by the employees. It involves participants voluntarily donating a one-day fraction of their annual salary to projects targeted at promoting education and teaching children and young persons in those countries in which Gas Natural Fenosa operates.

For the Solidarity Day event, Gas Natural Fenosa also donates an amount equal to the amount donated by employees and assumes all management costs, so that the total amount raised can be used for the selected project. Close to 2,000 employees around the world take part in the initiative.

Since it was created, through its scholarship programmes the Solidarity Day has funded the education of more than 3,000 children and young persons at primary & secondary level as well as technical and university studies in Argentina, Bolivia, Brazil, Colombia, the Philippines, Guatemala, Kenya, Mexico, Moldova, Mozambique, Nicaragua, Panama and the Dominican Republic. In 2012, it collected over 430.000 euros, which shall be used to execute projects in Morocco from 2013.

Gas Natural Fenosa Foundation

The aim of the Gas Natural Fenosa Foundation is to promote essential cultural values in the technological, anthropological and sociological aspects. To do this, it carries out national and international activities, in different countries of Latin America and the Maghreb, in order to adapt its activity to the local reality.

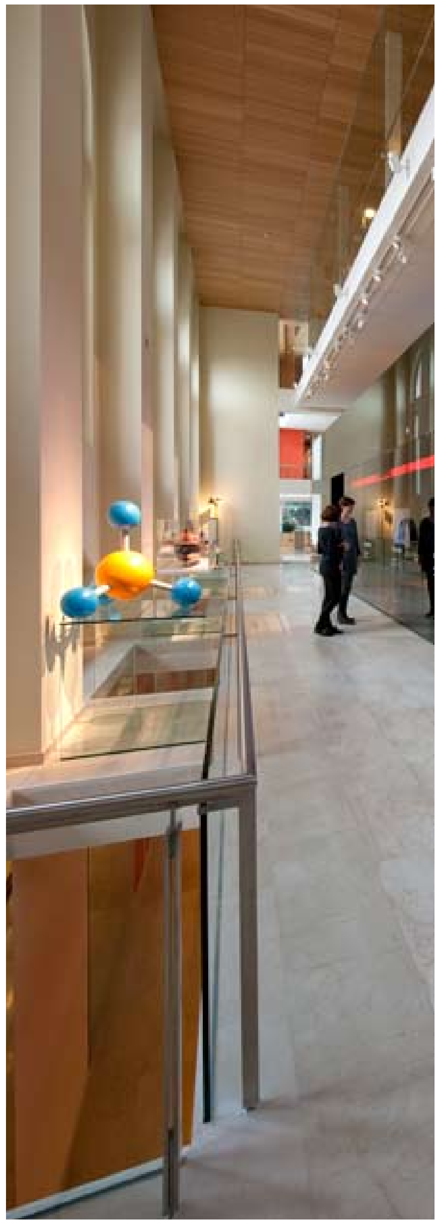
It also performs training actions for gas sector professionals, through the Energy Training Centre, and promotes cultural-type activities targeted at preserving and showing the historic and cultural heritage of the gas sector, which it does through the Gas History Centre and the Gas Museum.

The Gas Natural Fenosa Foundation carries out its activities in four core areas: energy and the environment, international activities, training and historical heritage. Its strategy is based on the following points:

- Improving knowledge and awareness of the environment among the population in general and, specifically, at the professional level, through dissemination and awareness initiatives on issues concerning energy and the environment.
- Protecting and disseminating the historic heritage of Gas Natural Fenosa and of the gas and electricity sectors, through the preservation and dissemination of the group's historical archives and those of different companies that have been involved. It also does this through the performance of research works and publications published by the Gas History Centre.
- Training gas and electricity sector professionals, basically in procedures and processes and in improving customer relations.
- Ongoing development of international programmes, focused on the dynamics of each geographical zone.

In 2012, the foundation opened the Gas Museum. The purpose of the museum is the preservation, conservation and dissemination of the historic heritage of the gas and electricity sectors, as well as exploring the future of energies and how they interact with the environment. Since it opened, over 20,000 persons have enjoyed its cultural and technological offering.

The foundation carries out its activities in four large areas: energy and environment, international activity, training and historical heritage



Financial-economic Management 2012

2012 saw continuance of the ongoing improvement project of the economic processes managed centrally from the European Economic-Financial Shared Services Centre. In January, the Transformation of the Economic-Financial Model Project was launched as part of the group's Improved Efficiency Plan. A series of process, organisational and system improvements were identified during the initial stage, which helped to achieve greater efficiencies. The schedule for implementation of these is from 2012 to 2014.

Electronic payment request, the electronic management of guarantees and the electronic signature for settlements were some of the process and system improvements put into place in the last quarter of 2012. Furthermore, travel management was introduced at the Italian companies and the billing digitalisation process implemented for the Gas Natural Fenosa Foundation and Gas Natural Europe.

Among the organisational improvements introduced in 2012 was the incorporation of the Integrated Reporting Centre and the creation of a single Economic-Financial Shared Services Centre in Latin America. The centre will provide services to countries in the region, in order to simplify processes and make them uniform, as well as improving efficiency.

Elsewhere, the economic-financial computer system was updated to version 6 of SAP R3, the migration of which was completed in January 2013.

By the same token, over the year, different companies were integrated into the economic-financial computer system and into the European Economic-Financial Shared Services Centre. These included the Italian companies Cetraro Distribuzione S.R.L., Albidona Distribuzione S.R.L. and Favelato Reti S.R.L., following the acquisitions. This enabled economic-financial management to be improved as well as optimising costs.

For planning and budgetary purposes, there is a new application developed in BPC (Business Planning and Consolidation), which replaces the previous one in SEM-BPS (Strategic Enterprise Management-Business Planning and Simulation). Introducing the decentralised budget by units means that it is easier to obtain the group's budget, both at consolidated level as well as businesses.

Business restructuring operations continued throughout the year, for the purpose of simplifying and the structure of the group to the businesses. This enabled the removal of 25 companies, basically by focusing its activity on other existing ones with the same activity. Of particular note were the merger operations at the electricity distribution and renewable energies subgroups, which were designed to enable them to apply the tax system provided for in Chapter VIII of Title VII of Royal Legislative Decree 4/2004 of 5 March.

With regard to Internal Control, 2012 saw performance of the works required so that the SAP GRC Process Control computer solution could be set up as a management tool of the Internal Control System on Financial Reporting (SCIIF) at the start of 2013. The current SCIIF was optimised to simplify and identify key risks and controls associated to the critical processes that already exist. This IT solution will enable the group to have a management system for all users responsible for the identified control activities, and will also be the global repository of the SCIIF model. The set-up will start in Spain, and in future years will extend to other countries where Gas Natural Fenosa operates.

During the last months of 2012, the procedure to assess SCIIF controls through internal certification was conducted. The result was certification of 2,912 control activities associated to 147 critical processes identified. This process involved a total of 153 corporate or business units, 79 in Spain and 74 in the international arena.

In 2012 there was ongoing monitoring of the internal control model of all subsidiaries where the model had been set up in 2011: Argentina, Brazil, Colombia, Italy, Mexico, Panama and the Dominican Republic. This monitoring and the actions taken meant that 60% of the improvement plans identified during set-up were resolved. Moreover, the internal control processes were certified, both at local level as well as those associated to the SCIIF.

2012 also witnessed the updating of the Gas Natural Fenosa Accounting Plan, incorporating changes in the applicable EU-IFRS regulations and the accounting adaptation needs to all businesses, ensuring just a single accounting plan within the group and extending this to local accounting plans.

In the area of Taxation, 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 this code, the company has effectively complied with its contents. The Board of Directors was notified of the tax policies pursued by the group during 2012.

In the Large Businesses Forum, created by the Spanish Tax Authorities, collaboration continued both with the tax authorities as well as the Ministry of Finance through the commission to reduce the indirect tax burden. More specifically, in adaptation to the current regulatory framework of the gas and electricity sector, the Excise on Hydrocarbons and Electricity.

In 2012, Gas Natural Fenosa continued with its policy to diversify the group's sources of finance, avoiding bank intervention through the issue of debt on the money markets and an appeal to institutional and multilateral banking.

In Spain, the company renewed its Euro Medium Term Notes programme (EMTN), expanding it up to 12 billion euros. The scheme was used to carry out three note issues at six, eight and five years for an overall amount of 2.050 billion euros. In March 2012, Gas Natural Fenosa signed the outstanding amount of a long-term 500-million euro loan with the European Investment Bank (EIB) for an amount of 150 million euros. Moreover, active steps were taken to extend the term of the bilateral credit facilities with maturity at one year, renewing most of these to a term of three and five years. In this regard, we should highlight the refinancing of the 950-million euro club deal, with maturity in 2013, for a new club deal in two tranches of 1 billion euros and 250 million US dollar, over five years.

As far as financing group companies outside of Spain, Gas Natural Fenosa extended its presence in the international capital market through two operations: the issue of long-term bonds, through Gas Natural ESP, S.A., a subsidiary of the group in Colombia, for 3 trillion Colombian pesos, over five and seven years; and the new issue of negotiable securities for 20.7 million US dollars, in Panama, thus consolidating its position in the country. These issues, carried out in 2012, combine with those performed by Gas Natural México, S.A. de CV in 2011. The healthy financial markets in Latin America enabled continuance with this long-term debt refinancing process under extremely competitive conditions, such as the case of La Joya Hydroelectric project, in Costa Rica.

In addition, with the debt markets in a state of tension, priority was given to managing liquidity in order to strengthen the financial position, both from the standpoint of availability as well as optimising funds targeted at hedging against working capital, with specific actions in the operations fund, both locally and internationally.

With regard to cash management, in 2012 the centralised management of funds (for euro and dollars zones) was optimised, providing the group with liquidity, specially maximising financial income. The corporate exchange risk management policy was also reinforced in all business and countries, to minimise exchange differences at the company's businesses.

Similarly, Gas Natural Fenosa made progress in maturing its organisational culture and risk management, through the organisational implementation that has consolidated the relationship between the corporate risk function and the business. To this end, in the Risk Department two units were created and are in charge of managing this function at those businesses with the greatest exposure to the main categories of risk: energy wholesalers and retailers. From a functional standpoint, the new units answer to the corresponding general management, and from a hierarchical standpoint they answer to the Risk Department. The idea is to make control compatible with the flexibility required for efficient business management in terms of a balance between risk and return.

There was significant progress in 2012 in obtaining profits related to market risk management in the long-term, through which the company tries to respond to the demanding current economic and financial setting.

Progress was made in understanding how the market risk impacts the company's value, and its variability was modelled from its drivers: capacity and stability for generating asset resources; variability in the value of the financial structure demanded, and volatility of the discount factors which can be applied. This allowed the company to objectify the contribution of the risk factors and balance masses in the variation of the share price, enabling it to objectify the measures necessary to manage the group's stock in the long-term.

This methodology was used to determine the variability of the current value of new investment projects. The methodology means that the theoretical compensatory premium -in terms of return- that would have been demanded from a certain investment can be calculated, and the sufficiency of this against the capital cost required can be checked.

Within the credit risk sphere, we can highlight the progress made in risk-adjusted return to determine the profit in placing surplus with banks. The speed with which solvency of the Spanish financial sector map has deteriorated, conditioned by the sovereign debt crisis, had a particular influence on the short-term measurement of risk-adjusted return. This means management efficiency can be strengthened, by homogenising the financial return, in terms of risk; mapping and organising the different alternatives that exist, as well as selecting more efficient portfolios.

We must also point to the impetus to bring in regulations by issuing a procedure to manage operational exposure. This regulation defines the exposure limit of Gas Natural Fenosa to this risk, expressed in terms of the overall cost of the risk. It also lays down the criteria and guidelines to be considered for identification, measurement, control, management and reporting of the exposure to the operational risk, stemming from the exploitation of assets and contracts, and which are susceptible to mitigation through the procurement of hedges in the insurance market. The procedure explains what to do in the event of a claim, from identification to payment in those cases in which it is subject to a hedge by the insurance market. In setting the insurable operational risk, the company considered that the total risk cost does not exceed a certain level in relation to the shareholders equity of Gas Natural Fenosa and nor does it compromise its credit rating. In 2012, this limit was ratified by the Risk Committee.

Progress in the awareness and management of the operational exposure led to an appreciable improvement of the perception of the reinsurance market with regard to operative excellence at Gas Natural Fenosa. This was mirrored over the year through a lower rate of accidents and qualitative improvement of the panel of reinsurers that take part in the different programmes.

In harmony with the previous year, in 2012, Gas Natural SDG, S.A. provided shareholders with an alternative to a supplementary dividend. This, without in any way restricting their possibility of receiving all of their annual remuneration in cash, enabled them to receive company shares with the appropriate tax regulations of the shares released.

The trading period of free allotment rights ended on 13 June 2012, with the result that owners of 18.2% of company shares chose to receive new shares, and the remaining 81.8% accepted the company's irrevocable undertaking to purchase the rights. The definitive number of ordinary shares, with an individual face value of one euro, issued in the share capital increase, totalled 9,017,202 shares. The share capital increase was filed with the Mercantile Register on 22 June 2012. The shares representing the increase were accepted for trading on the Stock Exchange on 29 June 2012.

In 2012, Gas Natural Fenosa continued its activity with analysts and investors, showing off the company to its best advantage and updating its assessment models.

Coinciding with publication of the third quarter figures, a road show took place in November, headed by the CEO together with the CFO, with meetings held in Madrid, Barcelona, London and Frankfort, and the main financial hubs of the USA.

The company developed different channels targeted at providing uniform information to institutional and minority investors in accordance with the principles of equal treatment and simultaneous diffusion. This responded to the commitment of Gas Natural Fenosa, in its Corporate Responsibility Policy, to pay special attention to minority shareholders.

In this regard, in 2012 the group fostered relations with individual shareholders by enabling a shareholders' area on its website and providing a 900-prefix telephone number for customer service. In addition, informative meetings for this group were held in Madrid and Barcelona.

Finally, Gas Natural Fenosa continued its communication programme with analysts and investors, strengthening and providing more transparent economic-financial information to enable them to monitor the group's business project. In 2012, representatives from the management team and the Investor Relations Unit held meetings with institutional investors, both with regard to fixed income as well as equity, in the leading financial locations of Europe and North America, Asia and Australia. In total, there were 479 meetings.

Internal Audit

Gas Natural Fenosa carries out internal audit activities as a means of independent and objective assessment. The Internal Audit Area reports in turn to the Audit and Control Committee, the Chairman and the Chief Executive Officer of Gas Natural SDG S.A.

Its main purpose is to ensure the supervision and continuous assessment of the effectiveness of the Internal Control System, including the Internal Control System on Financial Reporting (SCIIF) and the Criminal Risk Prevention Model, in all fields of Gas Natural Fenosa, providing a methodical and stringent approach for process monitoring and improvement, and for the assessment of operational risks and controls relating thereto. All of the foregoing is designed to achieve compliance with the strategic objectives of the group and to assist the Audit and Control Committee the company's top-tier management, control and corporate governance.

In accordance with the terms recommended in the COSO Report (Committee of Sponsoring Organisations of the Treadway Commission), the Internal Control System in Gas Natural Fenosa was established as a procedure to be carried out by the Board of Directors, top-tier management and the remainder of the organisation personnel, for the purpose of providing a reasonable degree of confidence in achieving objectives in the following sectors or categories:

- Effectiveness and efficiency in operations.
- Reliability of financial information.
- Compliance with applicable laws and regulations.

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

The Internal Audit Area established a methodology for the assessment of operational risks in keeping with best corporate governance practices and based on the conceptual framework of the COSO Report, and on the basis of the types of risks defined in the Corporate Risk Map of Gas Natural Fenosa.

In accordance with the said methodology, the operational risks associated with the processes are prioritised by assessing their incidence, relative importance and degree of control. Based on the results obtained in the aforementioned assessment, an action plan is designed with a view to implementing corrective measures which shall mitigate residual risks identified as having greater potential impact than the established tolerable or accepted risks. The Annual Corporate Governance Report sets out the methodology for the identification and control of the group's risks.

More specifically and with regard to the SCIIF, the Internal Audit Area is in charge of supervising:

- The proper design of the SCIIF, based on the basic principles of the model approved by the Audit and Control Committee.

- The efficacy and adaptation of control policies and procedures put in place (in full over five years).

- The review and assessment of conclusions on compliance and effectiveness of the SCIIF resulting from the internal certifications of the business and corporate units in charge of the controls (in full over five years).

- The appropriate delimitation of the consolidation perimeter.

- The proper application of accounting principles (in full over five years).

With regard to the Criminal Risk Prevention Model, the Internal Audit Area is in charge of its annual supervision to be reasonably sure that the model is efficient and effective at preventing, identifying or mitigating the occurrence of legislation-typified crimes.

Projects are developed partly through the company's internal audit corporate intranet. The aim of this IT application is to improve the effectiveness and efficiency of the development of the internal audit function in all geographic and business spheres of Gas Natural Fenosa. Furthermore, it should be pointed out that the function has been developed pursuant to International Standards for the Professional Practice of Internal Auditing, and that a number of the internal auditors are in the process of obtaining certification as Certified Internal Auditor (CIA), the only qualification recognised worldwide attesting to the excellence of the internal auditing services.

The development of the internal audit function within the group is designed to contribute to continuous improvement in the provision of auditing services, by applying policies based on the management and measurement of its quality, and in encouraging the creation of a qualified team of human resources, promoting internal rotation, training, continuous assessment and professional development within the group.

Furthermore, as a result of the integration of Gas Natural and Unión Fenosa, the Internal Audit Area has updated its organisational structure during the last years with the object of improving the contribution of internal audit to compliance with the new group's strategic objectives, of acquiring greater knowledge of businesses and processes by specialisation of the audit team and of improving the efficiency and efficacy of the internal audit process.

The 2012 Internal Audit Plan for Gas Natural Fenosa was approved by the Audit and Control Committee in its meeting held on 26 January 2012.

Pursuant to the plan, during the period between 1 January 2012 and 25 January 2013 (date of drawing up of the 2012 Annual Accounts), internal audit directors took part in six meetings of the Audit and Control Committee, as well as in individual meetings with its Chairman, to present the degree of execution of the Internal Audit Plan and the main conclusions, control and risk assessments and recommendations included in the internal audit reports.

In addition, these reports reported on the level of implementation by the units of the corrective measures arising from the Auditor's Reports, in particular those proposed by the committee.

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The functions of the Audit and Control Committee and its main activities during 2012 are included in the Annual Report on the Activities of the Audit and Control Committee, which is part of the documentation to be presented by the Board of Directors of Gas Natural SDG, S.A. at the General Meeting of Shareholders. It is also available on Gas Natural Fenosa website, www.gasnaturalfenosa.com.

The functions and activities performed by the Audit and Control Committee of Gas Natural SDG, S.A. and the Internal Audit Area duly comply with the legal requirements introduced through Law 12/2010, which amends Law 19/1988 of 12 July, governing Accounts Auditing, Law 24/1988 of 28 July, governing the Securities Market, and the consolidated text of the Public Limited Companies Act, approved through Royal Legislative Decree 1564/1989 of 22 December, as well as Royal Legislative Decree 1/2010 of 2 July, which approves the consolidated text of the Corporate Enterprises Act.

Likewise, the functions and activities carried out by the Internal Audit Committee and Area comply with the recommendations of good corporate governance set forth in current legislation and the Unified Code for the Good Corporate Governance of Listed Companies, dated 19 May 2006 and approved on 22 May 2006, published by the National Securities Market Commission (Conthe Code).

The year 2012 saw the implementation of a project led by the Financial Area and the Internal Audit Area. The purpose of the project is to improve Gas Natural Fenosa's Internal Control System on Financial Reporting (SCIIF) and its supervision by the Audit and Control Committee. This enabled the incorporation of the recommendations for the SCIIF published by the National Securities Market Commission in June 2010, which were pending implementation or under development in the group (the 2012 Annual Corporate Governance Report of Gas Natural SDG, S.A. provides greater detail on the Internal Control System on Financial Reporting and the model of supervision set up at Gas Natural Fenosa).

Likewise, during 2011 and 2012, the Criminal Risk Prevention Model was designed and implemented. This model incorporates the already established Gas Natural Fenosa internal control structure. Its purpose is to effectively prevent the occurrence of offenses under the Organic Law 5/2010 governing the Amendment of the Penal Code, which entered into force on 23 December 2010. This modification introduces in Spain the criminal responsibility of artificial persons in cases in which they do not exercise due control over the systems of individuals subject to their authority. The model has been designed and implemented by the Legal Services Department and is annually supervised by the Audit and Control Committee through the Internal Audit Area.

The main processes revised by the Internal Audit Area in 2012 were those concerning:

- Business processes:

  - Gas distribution: maintenance of gas infrastructures, dealing with emergencies and industrial connections.

  - Electricity distribution: provision of the consumption service.

- Wholesale and retail commercialisation: arrears management, management and follow-up of industrial customers, construction and connection of energy facilities, capture and procurement of energy and products.

- Generation: operation and maintenance of generation assets.

- Energy management: electricity sales and estimates and purchase of electricity.

- Gas exploration and production.

- Supplies: gas purchases.

• Support processes:

- Customer service: retail and wholesale billing, and arrears management of residential and commercial customers.

- Management of financial and physical resources: purchasing management and service procurement.

- Management of information systems: operations management, legal and regulatory advice, and customer care.

- Monitoring undertakings to improvements in process auditing.

- HR process and service management.

- Management of the regulatory framework.

- Review of the group's regulatory system.

- Review of the 2011 Corporate Responsibility Report.

- Review of the assessment and achievement of the 2012 efficiency projects.

- Internal Control System on Financial Reporting Model (SCIIF).

- Crime Prevention Model.

In addition, given the organisational position of independence and the transverse scope of the internal audit function, this unit led or took part in other collaboration, research and consultancy projects. In this regard, the Internal Audit Area chairs the Code of Ethics Committee, which is responsible for promoting the dissemination, awareness and compliance with Gas Natural Fenosa's Code of Ethics on all levels, and for processing the communications received over the various communication channels created for all the group employees, suppliers and collaborating companies to query or report breaches of the said code in good faith and without fear of reprisal. Notifications concerning fraud, auditing or faults in accounting or internal control processes are likewise sent directly to the Audit and Control Committee.

Internal Audit chairs the Code of Ethics Committee, in charge of dissemination, raising awareness and compliance with the same

economic analysis

Consolidated Economic Analysis

Changes to the consolidation perimeter

The main changes to the consolidation perimeter in 2012 in comparison with the previous year were as follows:

- In May 2011, the shares in those companies through which electricity distribution was performed in Guatemala were disposed of.
- In May 2011, the agreement for business separation and distribution of the Eufer assets was executed through an exchange of shares in different companies that own wind farms. With this operation, Gas Natural Fenosa Renovables received approximately half of the net assets of Eufer, representing over 500 MW of power installed on operating assets.
- On 30 June 2011, the company Bis Distribución de Gas, with 304,000 gas supply points in the Community of Madrid, was disposed of.
- In September 2011, the ACS Group acquired 66.66% of Energías Ambientales (EASA) and 25% of Explotaciones Eólicas Sierra de Utrera, taking a stake of 100% and 75%, respectively, which were consolidated using the full consolidation method.
- In December 2011, 100% of Sistemas Energéticos Alto de Seixal was acquired from Gamesa, which was consolidated using the full consolidation method.
- In December 2011, 100% of Favellato Reti Gas (Italy) was acquired, which was consolidated using the full consolidation method.
- In February 2012, assets corresponding to certain gas customers and associated contracts were disposed of in the Community of Madrid.

Analysis of results

Net turnover

Until 31 December 2012, net turnover amounted to 24.904 billion euros, an increase of 18.2% in comparison with the previous year, mainly due to activity increase in the international gas wholesale activity and, in general, in the activity in Latin America.

Ebitda and operating profits

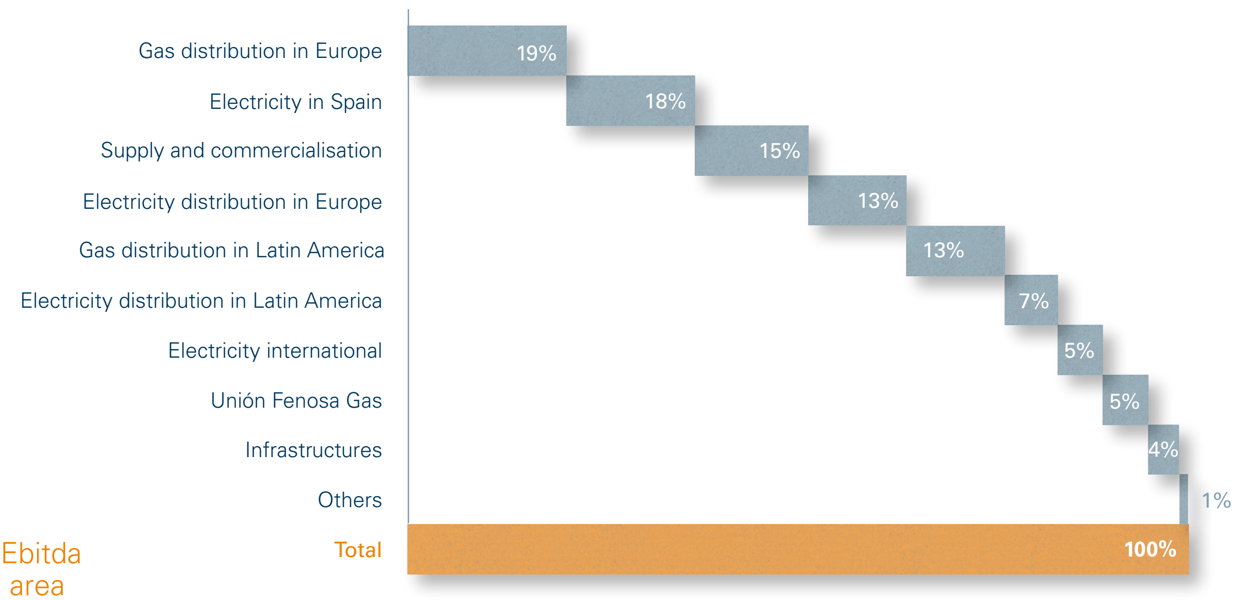
Consolidated Ebitda for 2012 totalled 5.080 billion euros, up 9.4% year-on-year. In an extremely demanding macroeconomic, energy and financial climate, these results were achieved thanks to the appropriate balance between the regulated and deregulated businesses in the gas and electricity markets, with growing and diversified contribution of the international market and which offset the contribution to the Ebitda of the divestiture carried out in 2011, as well as the impact of the Royal Decree-Law 13/2012.

Gas and electricity distribution activities in Spain (29.8%) and abroad (22.1%) accounted for a total of 51.9% of Gas Natural Fenosa's Ebitda.

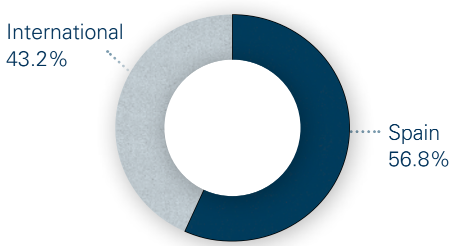
Moreover, the gas activity increased 34.5% and accounted for 24% of consolidated Ebitda; the electricity activity represented 23.2% of consolidated Ebitda.

In international activities, Ebitda increased by 22.6%, up to 2.195 billion euros, and represented 43.2% of overall consolidation, versus 38.5% year-on-year.

Contribution to Ebitda by activity



Contribution to Ebitda by geographical area



Amortisation to 31 December 2012 totalled 1.798 billion euros and posted an increase of 2.7%, while provisions were up by 19 million euros, at 235 million. Earnings of 20 million euros from disposal of assets (268 million euros in 2011) led to an operating profit of 3.067 billion euros, up 4.1% on the previous year.

Financial profit/loss

The cost of net financial debt in 2012 was 823 million euros, less than in 2011 as a consequence of the twin effect of lower net debt and a lower cost of borrowing.

Profit tax

Gas Natural Fenosa pays taxes in Spain under the fiscal consolidation system, where the fiscal group is considered as the taxpayer, and its taxable amount is determined by the aggregation of the taxable amounts corresponding to the companies in the group. The other resident companies in Spain, which do not form part of the special system, pay taxes independently and the non-resident companies pay taxes in each of the countries in which they operate, where the current corporate tax rate (or the equivalent tax) is applied to the profits for the period.

The effective rate for 2012 totalled 24.8%, similar to the previous year. The difference between the theoretical tax rate and the effective tax rate is basically due to the application of tax allowances, fundamentally through reinvestment of extraordinary profits, as well as the application of different corporate taxation regimes, where the activity is carried out in other jurisdictions, and to the effect of net profits integrated using the equity method.

Minority interests

The main entries of this section correspond to earnings from a minority interest in Empl, to investee companies in Colombia, to gas distribution companies in Brazil and to electricity distribution and generation companies in Panama.

The result allocated to the minority interests in 2012 totalled 216 million euros, up 15 million euros on the previous year.

Financial profit/loss

(millions of euros)	2012	2011
Cost of net financial debt	(823)	(849)
Other financial expenses/income	(51)	(85)
Financial profit/loss	**(874)**	**(934)**

Balance sheet

Investments

The tangible and intangible investments for the period totalled 1.357 billion euros, with a decrease of 3.5% year-on-year. Above all, this was due to the decrease of regulated investment in Spain, although partially offset by the increase of investment, mainly in Latin America, in gas distribution and electricity generation activities.

In 2008, the Costa Rican Institute of Electricity (ICE) awarded Gas Natural Fenosa the construction and operation of the 50 MW hydroelectric power plant in Torito for a 20-year period. 24 million euros was invested in 2012 which, through application of IFRIC 12 "Service Concession Arrangements", was considered as financial investment.

Breakdown of investments by type

(millions of euros)	2012	2011	%
Tangible investment	1,093	1,230	(11.1)
Investments in intangible assets	264	176	50.0
Financial investment	29	108	(73.1)
Total investment	**1,386**	**1,514**	**(8.5)**

Breakdown by activity of tangible and intangible investments

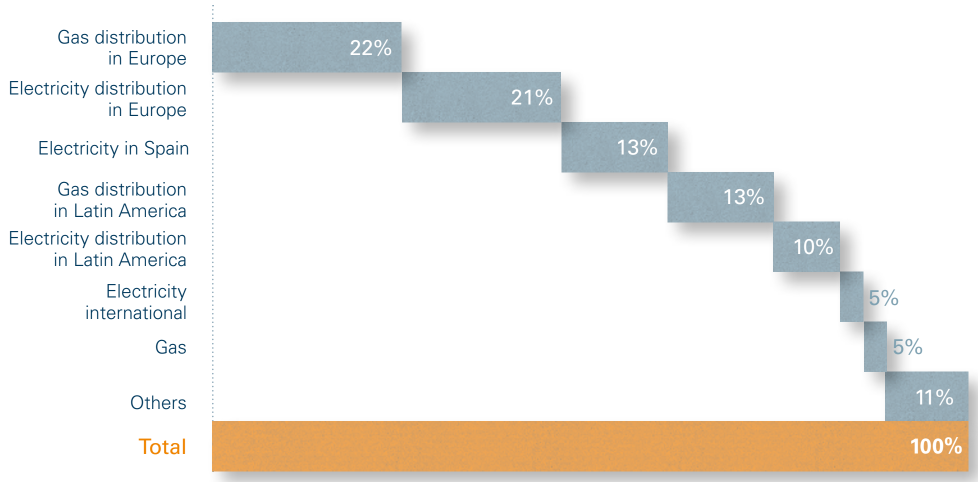
(millions of euros)	2012	2011	%
Gas distribution	**475**	**445**	**7.2**
Spain	257	260	(1.2)
Latin America	177	149	19.5
Italy	41	36	16.7
Electricity distribution	**417**	**490**	**(15.3)**
Spain	269	340	(21.2)
Latin America	132	133	(1.5)
Moldova	16	17	(5.9)
Electricity	**245**	**258**	**(5.0)**
Spain	182	211	(13.7)
Latin America	63	47	34.0
Gas	**63**	**62**	**1.6**
Infrastructures	25	32	(21.9)
Supply and commercialisation	27	20	35.0
Unión Fenosa Gas	11	10	10.0
Others	**157**	**151**	**4.0**
Total tangible and intangible investments	**1,357**	**1,406**	**(3.5)**

Gas Natural Fenosa targeted 65.7% of its investments at the regulated gas and electricity distribution activities, which means that these activities contributed to the consolidated Ebitda.

Broken down by geographical scope, investments in Spain fell 11.4%, although this remained the major recipient, with 63.7% of consolidated investments in 2012 -69.3% the previous year-, whilst international investments accounted for the remaining 36.3%, with growth of 14.4% with regard to 2011.

In Latin America, the main targets of investment were Brazil, Colombia and Mexico, with excellent growth of 19.5% in gas distribution investments.

Tangible and intangible investments by activity



Debt

At 31 December 2012, net financial debt totalled 15.995 billion euros, equivalent to a debt ratio of 51.8%.

If the tariff deficit pending settlement (1.065 billion euros) is deducted at 31 December 2012, net financial debt would be 14.930 billion euros, giving a debt ratio of 50.1%.

The net financial debt/Ebitda and Ebitda/cost of net financial debt ratios were 3.1x at 31 December 2012 (2.9x if we consider the net debt without adjustment) and 6.2x, respectively.

Since 11 January 2011, when the Electricity Deficit Amortisation Fund (FADE) completed the opening issue of bonds, backed by the assigned rights of the electricity system, including issues and increases, a total of 15.639 billion euros have been issued, 5.828 billions of which were in 2012. Gas Natural Fenosa received the corresponding part for an aggregate sum of 1.794 billion euros, 692 millions of which were received in 2012.

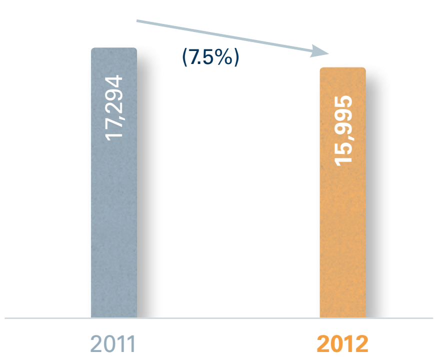
83.3% of the net financial debt became payable on or after 2015; the average life of the net debt is close to 5 years.

79.6% of the net financial debt was at a fixed interest rate and the remaining 20.4% was at a floating rate. 2.3% of the net financial debt matures in the short-term and the remaining 97.7% matures in the long-term.

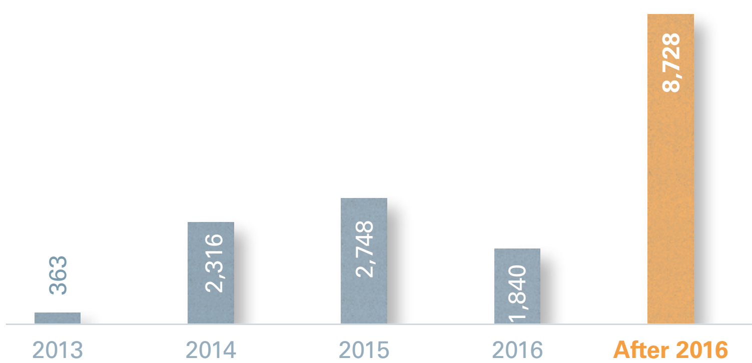
At year end 2012, cash and other cash equivalents together with available bank financing totalled 9 billion euros, which gave a level of liquidity that covers maturities of more than 24 months.

In addition, the financial instruments available on the capitals market at 31 December 2012 totalled 3.699 billion euros, This included the Euro Medium Term Notes programme (EMTN) for the amount of 2.400 billion euros; the Euro Commercial Paper programme (ECP) for the amount of 842 million euros; and the Stock Market Certificates programme on the Mexican Securities Exchange and the Commercial Securities in Panama, which jointly accounted for 372 million euros Lastly, a new programme came into force in Colombia in October 2012, for 500 trillion Colombian pesos. The first issue in that country was carried out on 24 October 2012, for an overall amount of 300 trillion.

Performance of the net financial debt
(millions of euros)



Maturity of the net financial debt at 31 December 2012
(millions of euros)



In 2012, under the EMTN programme, Gas Natural Fenosa placed three bond issues for an amount of 2.050 billion euros. In February, 750 million euros was issued maturing in 2018 with a fixed coupon of 5%; in September, 800 million euros maturing in 2020 with a fixed coupon of 6%; and in October, 500 million euros maturing in 2017 with a fixed coupon of 4.12%. In January 2013, Gas Natural Fenosa performed an issue on the Euro market for 600 million euros, over 10 years and with a fixed coupon of 3.875%; and in the Swiss market, for an amount of 250 million Swiss francs, over six years and with a fixed coupon of 2.125%.

All the foregoing consolidated Gas Natural Fenosa's position as one of the most important debt issuers in the capitals markets, increasing its investment base and its presence on the financial markets. Since June 2009, the company has reached an aggregate amount issued under the EMTN programme of 10.700 billion euros, with an average coupon of 4.8% and an average life in excess of seven years.

In December 2011 and March 2012, Gas Natural Fenosa signed credit facilities with the European Investment Bank (EIB) for an amount of 500 million euros, repayable over up to 15 years. At the close of 2012, the amount not drawn down totalled 150 million euros. By the same token, the company has resorted to new bank financing this year, both in the form of bilateral loans as well as credit facilities.

Net worth

The proposal for allocation of 2011 profits, approved by the General Meeting of Shareholders on 20 April 2012, was to target 360 million euros at dividends (an amount equivalent to the interim dividend for 2011, which was paid on 9 January 2012), as well as an increase of the paid-up share capital through the issue of new ordinary shares to a maximum market value of 461 million euros.

After the trading period of free allotment rights corresponding to the paid-up share capital increase ended, the owners of 81.8% accepted the irrevocable undertaking to purchase the rights accepted by Gas Natural Fenosa, while the remaining 18.2% chose to receive new shares. The definitive number of ordinary shares, with an individual face value of one euro, issued in the share capital increase, totalled 9,017,202 shares. The share capital increase was filed with the Mercantile Register on 22 June 2012.

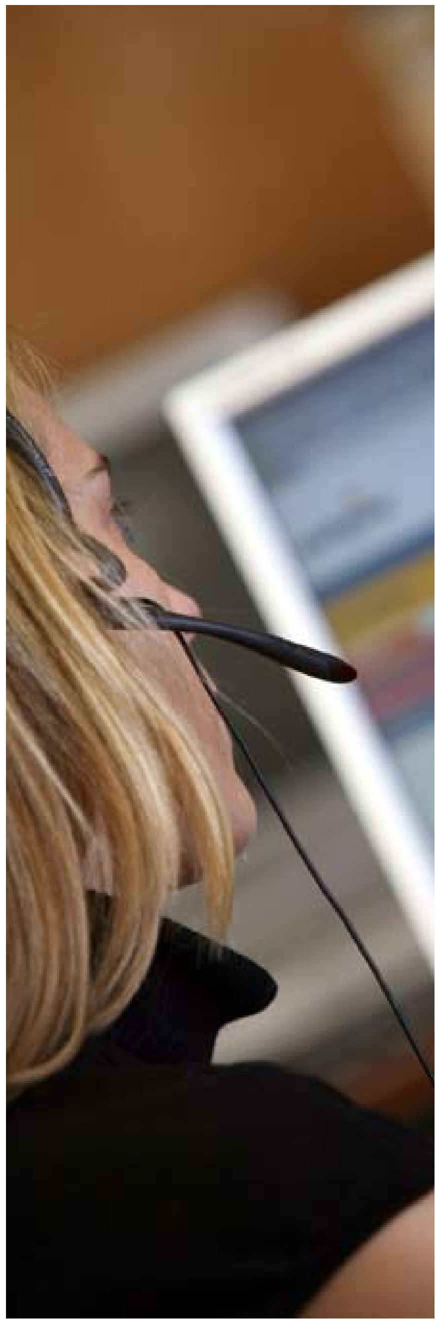
Breakdown by currencies of the net financial debt at 31 December 2012 and its relative weight regarding the total

(millions of euros)	31/12/12	%
Euros	13,691	85.6
American dollars	1,097	6.9
Colombian pesos	551	3.4
Mexican pesos	315	2.0
Yens	222	1.4
Brazilian reals	119	0.7
Argentinian pesos	**15,995**	**100.0**

Short and long-term credit rating of Gas Natural Fenosa

Agency	l/t	s/t
Moody's	Baa2	P-2
Standard & Poor's	BBB	A-2
Fitch	BBB+	F2

Consolidated Ebitda for 2012 amounted to 5.080 billion euros, a 9.4% increase on 2011



As a consequence, on 31 December 2012, the overall number of ordinary shares totalled 1,000,689,341 shares, represented by book entries and with an individual face value of one euro. All of the shares issued are fully paid-up with the same voting and economic rights.

The proposal for distribution of 2012 profits, which the Board of Directors will forward to the Ordinary General Meeting of Shareholders for approval, is to pay 895 million euros in dividends. This entails a payout of 62.1% and a dividend payout in excess of 6.6%, taking the share price listing at 31 December 2012 of 13.58 euros/share.

Likewise, according to the proposal, the supplementary dividend will be paid in cash.

On 8 January 2013, an interim dividend charged to profits for the 2012 year was paid, equivalent to 0.391 euros/share.

At 31 December 2012, the net worth of Gas Natural Fenosa was 14.879 billion euros. Of these assets, the figure of 13.261 billion euros can be attributed to Gas Natural Fenosa, with an increase of 3.7% on 31 December 2011.

Main holdings in Gas Natural Fenosa's share capital at 31 December 2012

	% holding
"la Caixa" Group	35
Repsol Group	30
Sonatrach	4

Stock Market Information

Despite good performance in December, the Spanish stock market posted losses in 2012 and ended the year as the only European index with falls, mainly due to macroeconomic and financial sector uncertainties that have undermined investors' confidence in equity.

The Ibex 35, the primary Spanish stock market index, closed 2012 at 8,167.5 points and a fall of 4.66% year-on-year. It set an annual high of 8,967.4 and an annual low of 5,905.3, on 9 February and 23 July, respectively.

In a context of generalised share losses, at year end, shares of Gas Natural Fenosa stood at 13.58 euros, up 2.4% in comparison with the close of the previous year. In adjusted terms as a consequence of the share capital increase, the value increase totalled 3.3%. The annual high of 13.97 euros was recorded on 19 December, and the annual low of 8.36 euros on 23 July.

The volume of shares traded over 2012 was 622 million shares, with a reduction of 26.3% on the previous year. Of the total number of shares traded, 99.6% corresponded to the continuous market, although 32.4% of this percentage was contracted through so-called block transactions. The remaining 0.4% was traded through special transactions. The daily average of shares traded stood at 2.4 million.

The effective volume traded amounted to 7.136 billion euros, down 34.1% on the previous year. The daily average of shares traded stood at 28 million euros.

In harmony with the policy implemented by other national and international companies, Gas Natural SDG, S.A. provided shareholders with an alternative that, without in any way restricting their possibility of receiving all of their annual remuneration in cash if they so wish, enabled them to receive company shares with the appropriate tax regulations of the shares released.

To put this system into practice, the Ordinary General Meeting of Shareholders of Gas Natural SDG, S.A., held on 20 April 2012, approved a paid-up capital increase, along with the mechanism through which the company accepted an irrevocable commitment to purchase the free allotment rights corresponding to the aforementioned increase of share capital at a fixed price (purchase commitment). This enabled those shareholders who so wished to sell their rights and receive a cash amount equivalent to the sum of the 2011 supplementary dividend, which was paid the first days of July 2012.

13 June 2012 was the last date for trading the free allotment rights corresponding to the paid-up share capital increase, which was used as the base for the shareholder remuneration method for 2011. The result of this was that owners of 81.81% of the free allotment rights accepted the irrevocable undertaking to purchase the rights accepted by the company, while the remaining 18.19% chose to receive new shares. The definitive number of ordinary shares, issued in the share capital increase, totalled 9,017,202 shares. These shares were accepted for trading on the Stock Exchange on 29 June 2012. Currently the number of total outstanding shares totals 1,000,689,341.

At 31 December 2012, the stock market capitalisation of Gas Natural Fenosa stood at 13.589 billion euros, with a weighting of 2.25% in the Ibex 35.

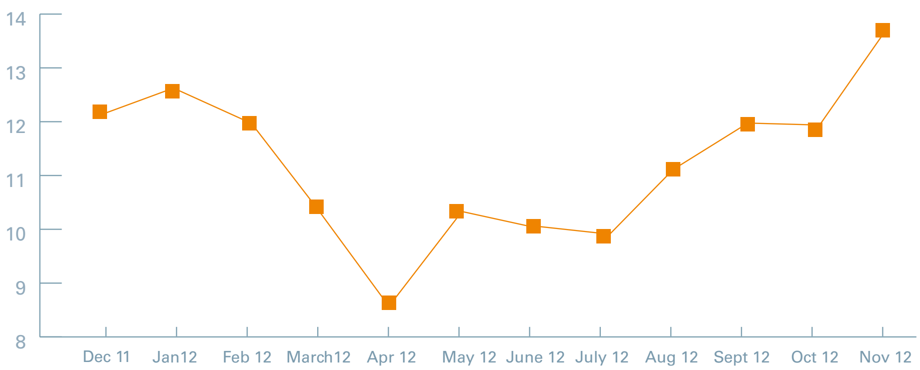
Likewise, taking into account the best available information the number of Gas Natural SDG, S.A. shareholders was estimated at around 80,000 at year end.

For the fifth year running, Gas Natural Fenosa remained on the FTSE4Good Ibex index. This index was created by Bolsas y Mercados Españoles (BME) and the FTSE Group in Spain in 2008 and is made up of Spanish companies listed on the BME and which engage in socially responsible business practices. For the eleventh year running, the company was included in the FTSE4Good sustainability indices, following a new assessment of this tool geared towards socially responsible investors. The criteria for inclusion in the FTSE4Good set increasingly demanding standards and refer to environmental sustainability, development of positive relations with stakeholders, respect for and promotion of human rights, guarantee of good standards in managing the human chain, and efforts intended to thwart corruption.

In 2012, the company was the most sustainable company in the world in gas distribution, according to the Dow Jones Sustainability Index (DJSI); it also maintained its position in the DJSI Europe and led the utilities sector in the CDP category of the Global 500 Climate Change Report 2012.

Gas Natural Fenosa share prices

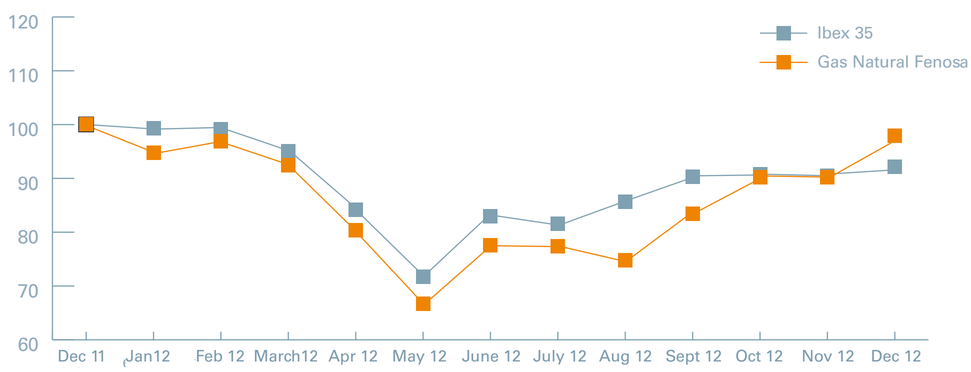
1 year



Monthly close in euros. Share prices adjusted owing to the capital increase.

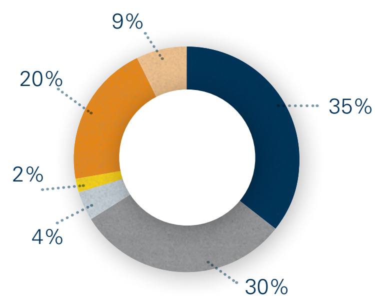
Performance of Gas Natural Fenosa and Ibex 35

1 year



Cierre mensual en euros. Cotización ajustada por la ampliación de capital.

Shareholders and investors*



- "la Caixa" Group
- Repsol Group.
- Sonatrach.
- Institutional investors in Spain.
- Institutional investors abroad.
- Minority investors in Spain.

*At 31 December 2012.

audit report, consolidated annual accounts and consolidated directors' report of Gas Natural Fenosa

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

AUDITOR´S REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the Shareholders of Gas Natural SDG, S.A.

We have audited the consolidated annual accounts of Gas Natural SDG, S.A. (the Company) and its subsidiaries (the Group), consisting of the consolidated balance sheet at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated net equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As explained in Note 3.1 to the accompanying annual accounts, the Directors of the Company are responsible for the preparation of these consolidated annual accounts in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with the legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2012 present fairly, in all material respects, the consolidated financial position of Gas Natural SDG, S.A. and its subsidiaries at 31 December 2012, and the consolidated results of its operations and the consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

The accompanying consolidated Directors' report for 2012 contains the explanations which the Gas Natural SDG, S.A.'s Directors consider appropriate regarding the Group's situation, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated Directors' report is in agreement with that of the consolidated annual accounts for 2012. Our work as auditors is limited to checking the consolidated 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 accounting records of Gas Natural SDG, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Iñaki Goiriena Basualdu
Partner

8 February 2013

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Consolidated Balance Sheet

(Million Euros)

	31/12/12	31/12/11
Assets		
Intangible assets (*Note 5)*	10,764	11,080
Goodwill	5,837	5,876
Other intangible assets	4,927	5,204
Property, plant and equipment *(Note 6)*	22,308	22,744
Investments recorded using the equity method *(Note 7)*	100	99
Non-current financial assets *(Note 8)*	983	1,024
Deferred income tax assets *(Note 21)*	1,036	975
Non-current assets	**35,191**	**35,922**
Non-current assets held for sale *(Note 9)*	–	23
Inventories *(Note 10)*	897	879
Trade and other receivables *(Note 11)*	5,106	5,192
Trade receivables	4,557	4,577
Other receivables	453	497
Current income tax assets	96	118
Other current financial assets *(Note 8)*	1,259	1,388
Cash and cash equivalents *(Note 12)*	4,434	3,098
Current assets	**11,696**	**10,580**
Total assets	**46,887**	**46,502**
Net equity and liabilities		
Share capital	1,001	992
Share premium	3,808	3,808
Reserves	7,402	6,900
Net income for the year attributed to the Equity holders of the Company	1,441	1,325
Interim dividend	(391)	(360)
Adjustments for changes in value	–	127
Hedging operations	(19)	(8)
Cumulative translation adjustments	19	135
Net equity attributable to the Equity holders of the Company	**13,261**	**12,792**
Minority interests	**1,618**	**1,649**
Net equity *(Note 13)*	**14,879**	**14,441**
Deferred income *(Note 14)*	878	803
Non-current provisions *(Note 15)*	1,665	1,712
Non-current financial liabilities *(Note 16)*	18,046	17,539
Borrowings	17,815	17,209
Other financial liabilities	231	330
Deferred income tax liability *(Note 21)*	2,688	2,642
Other non-current liabilities *(Note 18)*	834	1,033
Non-current liabilities	**24,111**	**23,729**
Liabilities linked to non-current assets held for sale *(Note 9)*	–	–
Current provisions *(Note 15)*	144	133
Current financial liabilities *(Note 16)*	2,386	2,853
Borrowings	2,243	2,706
Other financial liabilities	143	147
Trade and other payables *(Note 19)*	4,560	4,671
Trade payables	3,936	3,900
Other payables	526	481
Current income tax liabilities	98	290
Other current liabilities *(Note 20)*	807	675
Current liabilities	**7,897**	**8,332**
Total net equity and liabilities	**46,887**	**46,502**

Notes 1 to 38 form an integral part of these Consolidated annual accounts

Consolidated Income Statement

(Million Euros)

	2012	2011
Sales *(Note 22)*	24,904	21,076
Procurements *(Note 23)*	(17,309)	(14,074)
Other operating income *(Note 24)*	250	263
Personnel cost *(Note 25)*	(871)	(858)
Other operating expenses *(Note 26)*	(2,163)	(2,013)
Depreciation and amortisation expenses *(Notes 5 and 6)*	(1,798)	(1,750)
Release of fixed assets grants to income and others *(Note 14)*	34	35
Other results *(Note 27)*	20	268
Operating income	**3,067**	**2,947**
Financial income	178	137
Finance expense	(1,060)	(1,073)
Variations in fair value of financial instruments	15	2
Net exchange gains/losses	(7)	–
Gain on sales of financial instruments	–	2
Net financial income *(Note 28)*	**(874)**	**(932)**
Profit of entities recorded by equity method (*Note 7)*	10	7
Income before taxes	**2,203**	**2,022**
Income tax expense *(Note 21)*	(546)	(496)
Net income for the year from continuing operations	**1,657**	**1,526**
Consolidated net income for the year	**1,657**	**1,526**
Attributable to:		
Equity holders of the Company	1,441	1,325
Minority interests	216	201
	1,657	**1,526**
Basic and diluted earnings per share in Euros from continuing activities attributable to the equity holders of the parent Company *(Note 13)*	1.45	1.39
Basic and diluted earnings per share in Euros attributable to the equity holders of the parent Company *(Note 13)*	1.45	1.39

Notes 1 to 38 form an integral part of these Consolidated annual accounts

Consolidated Statement of Comprehensive Income

(Million Euros)

	2012	2011
Consolidated net income for the year	**1,657**	**1,526**
Other comprehensive income recognised directly in net equity	**(224)**	**(146)**
Valuation of available-for-sale financial assets	–	–
Cash flow hedges	(25)	(60)
Cumulate translation adjustment	(153)	(81)
Actuarial gains and losses and other adjustments	(87)	(46)
Tax effect	41	41
Releases to income statement	**8**	**82**
Valuation of available-for-sale financial assets	–	–
Cash flow hedges	9	103
Cumulate translation adjustment	1	9
Tax effect	(2)	(30)
Other comprehensive income for the year	**(216)**	**(64)**
Total comprehensive income for the year	**1,441**	**1,462**
Attributable to:		
Equity holders of the Company	1,260	1,281
Minority interests	181	181

Notes 1 to 38 form an integral part of these Consolidated annual accounts

Statement of changes in consolidated net equity

(Million Euros)

	Net equity attributable to the Company's equity holders						
	Share Capital	Share premium and Reserves	Net income for the year	Adjustments for change in value	Subtotal	Minority interests	Net Equity
Balance at 01/01/11	922	9,113	1,201	148	**11,384**	1,590	**12,974**
Total comprehensive income for the year	–	(23)	1,325	(21)	**1,281**	181	**1,462**
Dividends distribution	–	841	(1,201)	–	**(360)**	(124)	**(484)**
Acquisition of free allocation rights *(Note13)*	–	(15)	–	–	**(15)**	–	**(15)**
Capital increase *(Note 13)*	70	445	–	–	**515**	–	**515**
Increase/decrease for business combinations	–	–	–	–	**–**	16	**16**
Other variations	–	(13)	–	–	**(13)**	(14)	**(27)**
Balance at 31/12/11	992	10,348	1,325	127	**12,792**	1,649	**14,441**
Total comprehensive income for the year	–	(54)	1,441	(127)	**1,260**	181	**1,441**
Dividends distribution	–	934	(1,325)	–	**(391)**	(204)	**(595)**
Acquisition of free allocation rights *(Note13)*	–	(379)	–	–	**(379)**	–	**(379)**
Capital increase *(Note 13)*	9	(9)	–	–	**–**	–	**–**
Increase/decrease for business combinations	–	–	–	–	**–**	–	**–**
Other variations	–	(21)	–	–	**(21)**	(8)	**(29)**
Balance at 31/12/12	1,001	10,819	1,441	–	**13,261**	1,618	**14,879**

Notes 1 to 38 form an integral part of these Consolidated annual accounts

Consolidated cash flow Statement

(Million Euros)

	2012	2011
Income before tax	**2,203**	**2,022**
Adjustments to net income:	**2,540**	**2,510**
Depreciation and amortisation expenses	1,798	1,750
Other adjustments to net income	742	760
Changes in working capital	**(7)**	**(1,298)**
Other cash flow generated from operations:	**(1,299)**	**(1,097)**
Interest paid	(827)	(845)
Interest collected	91	59
Income tax paid	(563)	(311)
Cash flow generated from operating activities *(Note 29)*	**3,437**	**2,137**
Cash flows into investing activities:	**(2,138)**	**(2,750)**
Group companies, associates and business units	(29)	(76)
Property, plant and equipment and intangible assets	(1,441)	(1,456)
Other financial assets	(668)	(1,218)
Proceeds from divestitures:	**933**	**2,521**
Group companies, associates and business units	53	685
Property, plant and equipment and intangible assets	25	539
Other financial assets	855	1,297
Other cash flows from investing activities:	**127**	**153**
Proceeds from dividends	3	4
Other proceeds/(payments) from/(of) investing activities	124	149
Cash flow received from investing activities	**(1,078)**	**(76)**
Receipts/(payments) for equity instruments:	**(379)**	**500**
Issue	–	515
Acquisition	(379)	(15)
Cash flows from financing activities:	**(17)**	**(166)**
Proceeds from borrowings	5,442	4,514
Repayment of borrowings	(5,459)	(4,680)
Dividends paid	**(566)**	**(445)**
Other cash flows from financing activities	**(58)**	**(55)**
Cash flow received from financing activities	**(1,020)**	**(166)**
Effect of exchange rates on cash and cash equivalents	**(3)**	**–**
Variation in cash and cash equivalents	**1,336**	**1,895**
Cash and cash equivalents at beginning of the year	3,098	1,203
Cash and cash equivalents at year end	4,434	3,098

Notes 1 to 38 form an integral part of these Consolidated annual accounts.

Notes to the consolidated annual accounts of Gas Natural Fenosa for 2012

Note 1. General information

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

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

GAS NATURAL FENOSA operates mainly in Spain and also outside of Spain, especially in Latin America, in the rest of Europe (France, Italy and Moldova) and Africa.

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

Appendix I lists the investee companies of GAS NATURAL FENOSA, as well as their activity, registered office, equity and results at the year end.

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

Note 2. Regulatory framework

a) 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 is the competent organisation in the regulation of the gas and electricity industries, while the National Energy Commission (CNE) is the regulatory authority in charge of maintaining and ensuring effective competition and transparent functioning of the Spanish energy industries. The Ministries belonging to the Regional Governments have competencies in legislative enactment and regulatory powers.

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

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

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

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

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

Regulation of natural gas activities in Spain

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

1. Regulated activities

Regulated activities are characterised by:

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

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

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

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

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

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

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

1.1. Transport

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

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

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

  The transport network is owned mainly by Enagás, S.A., although certain GAS NATURAL FENOSA companies own a small proportion of it.

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

1.2. Distribution

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

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

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

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

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

The Order IET/849/2012, of 26 April, was published on 26 April 2012, whereby the tolls and levies associated with the access by third parties to gas installations were updated and certain measures were taken related to the financial balance of the gas system, which result in a general increase in tolls of 5% from the application date of the Order (except for the tolls for underground storage, which were held as is, and the cost of gas, which was increased by 35%).

Ministerial Order IET/2812/2012, of 27 December, established the remuneration of the regulated activities of the gas industry for 2013. Specifically, the initial remuneration recognised for GAS NATURAL FENOSA for 2013 totals Euros 1,067 million for distribution activities and Euros 40 million for transport activities.

2. Unregulated activities

2.1. Supplies (import of natural gas)

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

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

2.2. Commercialisation

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

In order to oversee that consumers do not have practical problems in changing their commercialiser, Law 12/2007 ordered the creation of the Supplier Change Bureau, «Oficina de Cambios de Suministrador, S.A. (OCSUM)», which is owned by the major gas and electric operators.

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

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

On 28 April 2012, Resolution of 27 April, of the General Directorate of Energy Policy and Mines, was published, whereby the TUR for natural gas was published, which increased by 4.9% as a result of the increase in tolls and the increase in the cost of natural gas.

On 29 June 2012, Resolution of 28 June 2012, of the General Directorate of Energy Policy and Mines was published, whereby the TUR for natural gas was published, which increased by 2.1% as a result of increase in tolls and increase in the cost of natural gas.

On 31 December 2012, Resolution of 28 December 2012, of the General Directorate of Energy Policy and Mines was published, whereby the TUR for natural gas was published, which did not increase over the previous revision.

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

b) Regulation of the natural gas industry in Latin America

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

In Brazil, Petrobras is the dominant operator. On 29 November 2012 the update of the tariff document of the company Gas Natural Sao Paulo Sul, S.A. was published due to the updating of the average weighted cost of gas and transport. The average tariff increase was 10%.

Regulations in Colombia establish that transporters of natural gas may not directly undertake production, commercialisation or distribution activities, nor hold economic interests in companies that are dedicated to these activities. On the other hand, natural gas commercialisation or distribution companies may not be transporters nor have economic interests in a transport company of this product. Companies that undertake production, sale or distribution activities may undertake commercialisation.

In Mexico, PEMEX is the dominant operator. On 23 February 2011, the new distribution tariff for gas for all the zones in which GAS NATURAL FENOSA distributes gas in Mexico was officially published, resulting in annual tariff increases of between 9% and 13.5%, with the exception of the Los Bajíos zone where the five-yearly tariff revision approved resulted in a tariff increase of 26.8%.

In Argentina, as a result of the 2001 economic crisis, there was a freezing and pesofication of rates. However, since 2007, the Argentine Government has been gradually introducing a stable distributor remuneration system applying the Agreement Act signed in 2005 based on a proper remuneration of assets. Thus, on 10 October 2008, the Argentine Government published a rate increase of between 10% and 30% applicable to Gas Natural BAN, in force as from September 1 of this year to residential and industrial customers and for vehicular natural gas. In spite of this, afterwards, all the tariff revisions that corresponded were not applied, in

December 2012 an agreement was signed establishing the application of a fixed amount per invoice with the resulting amounts being considered as advances on account of the adjustments foreseen in the Agreement Act. These amounts must be deposited in a trust account established for this purpose and employed for the development and maintenance of the infrastructure.

c) Regulation of the natural gas industry in Italy

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

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

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

d) Regulation of the Electricity sector in Spain

Main characteristics of the electricity sector in Spain

The regulation of the electrical industry in Spain is established under the Electrical Industry Act, Law 54/1997 of November 27, which was amended by Law 17/2007 of July 4 and by the detailed regulations pursuant to the same, Royal Decree 1955/2000 of December 1, which regulates the transport, distribution, commercialisation and supply and the government authorisations, Royal Decree 2019/1997 of December 26, which regulates the production market and Royal Decree 661/2007 of May 25, which regulates the special regime.

The Ministry of Industry, Energy and Tourism is the competent organisation in the regulation of the gas and electricity industries, while the National Energy Commission (CNE) is the regulatory authority in charge of maintaining and ensuring effective competition and transparent functioning of the Spanish energy industries. The Ministries belonging to the Regional Governments have competencies in legislative enactment and regulatory powers. The Nuclear Safety Council has specific powers over the facilities using this technology.

Furthermore, the Technical Manager of the System, Red Eléctrica de España, S.A. (REE), has the main function of guaranteeing the continuity and safety of the electricity supply and the proper coordination of the production and transport system. Thus, please bear in mind that Law 17/2007 generally limits the shareholding in REE to a maximum of 3% of share capital or voting rights and to 1% of share capital if the subjects carry out activities in the electricity industry. Moreover, in any case, the sum of the interest of the shareholders undertaking activities in the electricity industry cannot exceed 40%.

Generally, the electricity sector has the following main features:

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

Following the directives of EU legislation (Directives 2003/54/CE/26 June, and 96/92/CE/22 June), all Spanish consumers can freely choose their electricity provider as from 1 January 2003. Under Law 17/2007 and, as in the case of the gas sector, as from 1 January 2009 the bundled tariff market would have disappeared for distribution companies and all consumers would have been obligated to participate in the de-regulated market (although, as indicated further below, a last resort bundled tariff market remains for minor volume consumers). However, this reform was delayed until 1 July 2009.

- 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 these GAS NATURAL FENOSA.

The regulation of electricity activities in Spain

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

1. Regulated activities

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

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

- Remuneration established by legislation: The general directives that set the remuneration for these activities are governed by Royal Decree 2819/1998 of December 23, for transport, and by Royal Decree 222/2008 of 15 February, for distribution, and are designed to ensure proper remuneration for these activities. The remuneration to be received is updated annually by ministerial order.

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

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

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

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

1.1. Transport

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

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

1.2. Distribution

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

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

On the date of the preparation of these consolidated annual accounts, the publication of the Ministerial Order that establishes the remuneration for the regulated activities of the electricity sector for 2013 was still pending.

2. Unregulated activities

2.1. Electricity generation

Electricity generation includes the ordinary and special electricity production regimes. The latter regime is designed to give an incentive to electricity generation based on co-generation and renewable energy sources by offering more attractive remuneration.

The special regime is reserved for plants up to 50 MW of installed capacity that use renewable energy sources, waste by-product and co-generation. The other electricity plants are under the ordinary regime, i.e., those that have more than 50 MW installed capacity and/or use a primary energy sources other than those mentioned above, such as nuclear plants, natural gas or coal-burning plants.

The remuneration of the ordinary plants is based on electricity market prices. Royal Decree 661/2007 provides a specific economic system for electricity plants under the special regime, which includes rates, premiums and specific incentives for each type of technology (except for solar energy plants after 29 September 2008).

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

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

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

On 21 April 2010, Royal Decree 437/2010 was published in the Official State Gazette, setting forth the regulations for the securitisation of the electricity system deficit that was established under Royal Decree Law 6/2009, the main features of which are as follows:

- The following can be assigned to the system's Deficit Securitisation Fund:

  - The debt claims generated in 2006 and 2008 and not assigned to third parties, up to Euros 10,000 million.

  - The deficit debt claims for 2009, up to Euros 3,500 million.

  - The deficit debt claims for 2010 to 2012 recognised each year in the Ministerial Order, which sets the access tariffs for the following year, as from which time the rights can be assigned to the Securitisation Fund. The differences between the estimated tariff deficits and the actual deficits will be settled during the current year.

- The Fund must acquire the debt claims whose assignment commitment has been filed by the initial owners, within a maximum period of one year as from said filing, provided that there are no exception circumstances affecting the markets.

- The restatement interest on the outstanding debt claims will accrue the following amounts:

  - Debt claims for 2006 and 2008: Euribor at 3 months.

  - Debt claims 2009: Euribor at 3 months plus a spread of 0.20 percentage points.

On 2 October 2010 Royal Decree 1221/2010 was promulgated which modified Royal Decree 134/2010, which had created a mechanism of restrictions for guaranteeing supplies of autochthonous coal, contemplating a regulated price for remunerating this energy.

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

- Companies will finance a social voucher until 2013 and will bear the cost of the energy saving and efficiency policies in the period 2011-2013.

- All electricity producing companies, both under the ordinary regime and the renewable energy and cogeneration regime, will pay a toll of Euros 0.5/MWh.

- The hours having the right to a premium of the solar energy plants are limited to three years, which is what happened to other sectors, such as wind and thermo-solar energy.

- The maximum limits of the tariff deficit in 2010, 2011 and 2012 have been modified in order to adjust it to the deviations, while the point at which tariff adequacy is reached has been maintained for 2013.

On 10 February 2011, the Ruling from the Secretary of State for Energy was published in the Official State Gazette, establishing coal volumes, the maximum production volume and remuneration prices for 2011 to be applied in the supply guarantee restriction resolution process. The ruling provides energy remuneration prices for the Power Plants referred to in Exhibit II to Royal Decree 134/2010 that consume autochthonous coal, and includes a breakdown of parameters employed, the maximum production volume that may be scheduled in the supply guarantee restriction process and coal-equivalent consumption. The ruling states provisional prices that are used by the System Operator to settle with the power plants during 2011.

On 28 May 2011, Law 12/2011 (27 May) on third-party liability for nuclear damage or damage caused by radioactive materials was published in the Official State Gazette, regulating nuclear third-party liability in accordance with the Paris and Brussels international treaties, supplemented by a specific third-party liability regime for damage that may be caused by accidents involving radioactive materials that are not nuclear substances. It also redefines the concept of owner or operator of an authorisation and brings in new criteria affecting the power plant ownership regime.

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

On 27 January 2012 a Royal Decree-Law introduced temporarily suspension of premiums for new special-regime plants. This Royal Decree temporarily suspends economic incentives for new electricity plants using the following technologies: wind, photovoltaic solar, thermosolar, cogeneration, biomass, biogas, mini-hydraulic and waste. This measure will not affect operational plants or plants already pre-registered.

On 22 March 2012, the Supreme Court issued a sentence which declared the financing mechanism through the social bond foreseen in Royal decree 6/2009 as being inapplicable by the generation companies, it being contrary to Directive 2003/54 on the interior electricity market.

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

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

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

The principal aspects of these dispositions are:

- In annual terms, the income from tolls increases by 11% compared to those now applied, resulting in an increase in income of Euros 1,400 millions.

- The effectiveness of the Resolution of the Supreme Court, of 20 December, suspending the Tariffs of October 2011, was extended to all of the fourth quarter 2011. The access tolls from 1 January 2012 were revised, thus complying with the Resolutions of the Supreme Court of March 2012, so that the tolls make up the full costs foreseen for the year 2012 as well as the temporary imbalances of 2011.

- The Access tolls from 1 April were adjusted bearing in mind the reductions in costs established in the Royal Decree Lawn 13/2012 (which reduced the costs of the system Euros 1,764 millions), to balance the system (income-costs).

- A new social bond financing mechanism was established, which will be financed by consumers, since it is a payable cost of the system and applicable from 7 February 2012 onwards.

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

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

- It was established, for the Autonomous Regions that charge, directly or indirectly, the activities or installations destined to electricity supply, with their own taxes or surcharges on state taxes, are obliged to impose the territorial supplement on the access tolls and final prices, and that this should be paid by the consumers located in the territorial area of the respective Autonomous Regions.

- It was established that the remuneration for transport activities under the concept of investments will be made for those assets in service not yet amortised, applying the net value of these as the base for their financial retribution.

- For the amounts of the income deficit pending in the settlements of the regulated activities of the electricity sector generated in 2006, it was established that the interest rate to be applied is the average of the daily Euribor rate at three month of November of the previous year plus 65 basis points. The difference against the cession price to the Fund would be considered as a cost chargeable to the system.

- The present norm authorises the Ministry of Industry, Energy and Tourism to apply criteria of gradualness to access tolls.

On 28 December 2012, Law 15/2012, of 27 December on fiscal measures for energy sustainability was published, the principal aspects referring to electricity generation are:

- The establishment of a tax on the value of the production of electrical energy, of a direct type and real nature, imposed on the performance of production activities and incorporation of electricity into the Spanish electricity system. The tax will be applied on the production by all the generation installations at a rate of 7%.

- The regulation of two new taxes: the tax on production of nuclear fuel spent and radioactive residue that are the result of the nuclear generation of electricity and the tax on the storage of nuclear fuel generated and radioactive residue in central installations, with the aim of compensating society for the charges that it must bear as a result of this generation.

- Additionally, the Law revises the tax treatment applicable to the various energy generating products employed in the production of electricity. For the activity of generation of electricity from fossil fuels, certain exemptions are abolished while the energy generating products employed for combined generation of heat and electricity are taxed. In the same way, to apply a similar treatment to energy production from fossil energy sources, the tax rate on coal is increased, and at the same time, specific tax rates are created for fuels and gas-oils employed in the production of electricity or in the cogeneration of electricity and usable heat.

- The establishment of a new levy on publicly owned possessions for the use or exploitation of continental water sources in hydroelectric production.

Finally, on 31 December 2012, Royal Decree-Law 29/2012, of 28 December was published, covering the improvement of management and social protection under the Special Regime for Domestic Servants and other measures of an economic and social nature, which establish that the temporary imbalances in settlements in the electricity system that arise in 2012, from the amount that results from the final settlement by the National Energy Commission, will be considered as income deficits in the electricity settlement system for 2012, which will generate collection rights that may be ceded by their owners to the Securitisation Fund for the Deficit of the Electricity System, in addition to the Euros 1,500 millions deficit already recognised in the twenty-first supplementary disposition of Law 54/1997, of 27 November, on the Electricity Sector. Likewise, the prohibition of the ex ante deficit from 2013 onwards that this supplementary disposition contemplated is abolished. Moreover, to guarantee the final aim for which the remuneration priority mechanism for installations under special regime was established, that is, to assure an economic regime under the assumed condition of complete execution of the installation within a concrete timeframe, authorisation is introduced for the abolishment or correction of the priority economic regime if noncompliance with the obligations that constitute the essential suppositions upon which the final granting of this special regime was made should appear.

2.2. The commercialisation of electricity

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

As mentioned above, as from 1 July 2009 consumers purchasing more than 10 Kw must be supplied by a free market commercialiser, while those consuming power equal to or lower than 10 Kw have the option to continue buying electricity under the regulated price (tariff of last resort).

In order to oversee that consumers do not have practical problems in changing their commercialiser, Law 12/2007 ordered the creation of the Supplier Change Bureau, «Oficina de Cambios de Suministrador, S.A. (OCSUM)», which is owned by the major gas and electric operators.

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

On 29 June 2012, the Resolution of 28 June 2012, of the General Directorate for Energy Policy and Mines, was published, whereby the cost of the production of electricity is established and the TUR to be applied from 1 July 2012, which contemplates an increase in the TUR of 4.3% because of the increase of energy cost resulting from the CESUR auction.

On 29 September 2012, the Resolution of 27 September 2012, of the General Directorate for Energy Policy and Mines, was published, establishing the cost of production of electricity and the TURs to be applied from 1 October 2012, reflecting a decrease in the TUR of 2.29% because of the drop in the cost of energy resulting from the CESUR auction.

On 29 December 2012, the Resolution of 27 December 2012, of the General Directorate for Energy Policy and Mines, was published, which established the cost of energy production and the TURs to be applied from 1 January 2013, showing an increase in the TUR of 3% because of the increase in energy costs resulting from the CESUR auction.

e) Regulation of the international electricity sector

1. Generation

The main countries in which GAS NATURAL FENOSA is present as a generator are Mexico and Puerto Rico.

The electricity sector in Mexico is made up of a public company, Comisión Federal de Electricidad (CFE), vertically integrated, which has exclusive rights to conduction, transformation, distribution and supply of electricity in the country. The reform to the Electricity Public Service Act of 1992 permitted the participation of private investment in the electricity sector in Mexico under the figure of the independent producer or external energy producer, self-supplier, as well as co-generation, import and export. The independent producers, including various investee companies of GAS NATURAL FENOSA, sell their energy mainly to CFE, in accordance with longer term energy and capacity contracts.

The electricity sector in Puerto Rico is controlled by the Autoridad de Energía Eléctrica (AEE or Puerto Rico Electric Power Authority (PREPA)), a public corporation and governmental agency. Its mission is to provide electricity to customers more efficiently, economically and safely, in harmony with the environment. At this time it produces, transports and distributes practically all the electricity consumed in Puerto Rico and it is self-regulating in terms of tariffs and service quality standards. There are independent generators that sell their electricity to PREPA, including EcoEléctrica L.P., an investee company of GAS NATURAL FENOSA.

2. Distribution

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

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

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

Note 3. Basis of presentation and accounting policies

3.1 Basis of presentation

The Consolidated annual accounts of GAS NATURAL FENOSA for 2011 were adopted by the General Meeting of Shareholders of 20 April 2012.

The Consolidated annual accounts for 2012, which were formulated by the Board of Directors on 25 January 2013, will be submitted, along with those of the investee companies, to the approval of the respective General Meetings of Shareholders. It is expected that they will be adopted without modification.

The Consolidated annual accounts of GAS NATURAL FENOSA for 2012 have been prepared on the basis of the accounting records of Gas Natural SDG, S.A. and the other companies in the Group, in accordance with the provisions of International Financial Reporting Standards adopted by the European Union (hereon "IFRS-UE"), as per (EC) Regulation nº 1606/2002 of the European Parliament and Council.

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

These Consolidated annual accounts fairly present the consolidated equity and consolidated financial situation of GAS NATURAL FENOSA at 31 December 2012, and the consolidated results of its operations, the changes in the Consolidated statement of comprehensive income, the changes in consolidated net equity and the consolidated cash flows of GAS NATURAL FENOSA for the year then ended.

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

3.2 New IFRS-EU standards and IFRIC interpretation

As a result of the adoption, publication and coming into force on 1 January 2012 the following changes in the standards were applied:

- IFRS 7 (Amendment), "Financial instruments: Disclosures – Transfers of Financial Assets".

The application of the above amendments had no significant impact on the Consolidated annual accounts.

Additionally, in 2012 the Official Gazette of the European Union published the following standards coming into force for financial years beginning on 1 January 2013 and thereafter, which have not been adopted in advance:

- IAS 1 (Amendment), "Presentation of items of other comprehensive
- IAS 19 (Amendment), "Employee benefits".
- IFRS 13, "Fair value measurement".
- IFRIC 20, "Stripping costs in the production phase of a surface mine".
- IFRS 7 (Amendment), "Financial instruments: Disclosures – Offsetting financial assets and financial liabilities".
- IAS 32, "Financial instruments: Presentation – Offsetting financial assets and financial liabilities".
- IAS 12 (Amendment), "Deferred tax: Recovery of underlying assets".

Following the analysis of these new accounting standards and interpretation applicable in financial years commencing as from 1 January 2013 and thereafter, GAS NATURAL FENOSA does not expect their application to have significant effects on the Consolidated annual accounts.

Additionally, The European Union has adopted the following standards for the financial years beginning 1 January 2014, which have not been applied in advance:

- IFRS 10, "Consolidated financial statements".
- IFRS 11, "Joint arrangements".
- IFRS 12, "Disclosure of interests in other entities".
- IAS 27 (Amendment), "Separate financial statements".
- IAS 28 (Amendment), "Investments in associates and Joint Ventures".

GAS NATURAL FENOSA is assessing the impact of the application of these standards on the Consolidated annual accounts.

3.3 Accounting policies

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

3.3.1 Consolidation

a) Subsidiaries

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

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

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

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

The surplus cost of the acquisition in relation to the fair value of the shareholding of GAS NATURAL FENOSA in the net identifiable assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Consolidated income statement.

In a business combination achieved in stages, GAS NATURAL FENOSA values its prior interest in the target's equity at the fair value on the control date, recognising resulting gains or losses in the Consolidated income statement.

Subsidiaries are fully consolidated from the date on which control is transferred to GAS NATURAL FENOSA.

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

The shareholding of the minority shareholders in the equity and profit or loss of the subsidiary companies is broken down under "Minority interest" in the Consolidated balance sheet and "Net income attributable to minority interest" in the Consolidated income statement.

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

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

b) Joint Ventures

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

GAS NATURAL FENOSA's interests in jointly controlled entities are accounted for by proportionate consolidation, and, accordingly, the aggregation of balances and write offs thereafter are only made in proportion to the interest of GAS NATURAL FENOSA.

The assets and liabilities assigned to joint ventures and the assets that are controlled jointly are recorded on the Consolidated balance sheet in accordance with their nature. The income and expenses from joint ventures are reflected in the Consolidated income statement in accordance with their nature.

c) Associates

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

The investments in associates are recorded under the equity method. GAS NATURAL FENOSA's share of its associates' post-acquisition profits or losses is recognized in the Consolidated income statement, and its share of post-acquisition movements in equity is recognized under reserves. Unrealised gains between GAS NATURAL FENOSA and its associates are eliminated in proportion to its interest in the latter.

d) Consolidation scope

Appendix I includes the investee companies directly and indirectly owned by GAS NATURAL FENOSA that have been included in the consolidation scope.

Appendix II lists the main variations in the consolidation scope in 2012 and 2011.

2012

In 2012 the main variations in the consolidation scope correspond to the disposal, in February 2012, of the assets corresponding to certain clients for gas and associated contracts in the Region of Madrid (Note 9).

2011

In 2011 the main variations in the consolidation scope have been:

- Sale of shareholdings in the Guatemalan electricity distributors (Note 9).
- Additional sale of several gas distribution companies and assets in the Madrid area (Note 9).

- Swap of EUFER's renewable assets as a result of the completion of the collaboration with another partner that was arranged through this company (Note 9).

- Acquisition of shareholdings in a number of wind farms (Note 30).

- Acquisition of the Italian gas distribution company Favellato Reti, S.R.L. (Note 30).

3.3.2 Foreign currency translation

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

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

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

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

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

- All the exchange differences are recognised in the Consolidated statement of comprehensive income, and the cumulate amount under the caption Cumulative translation Adjustments in Net Equity.

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

The exchange rates against the Euro (EUR) of the main currencies of the companies in GAS NATURAL FENOSA at December 31, 2012 and 2011 have been:

	31 December 2012		31 December 2011	
	Closing Rate	Average Accumulated Rate	Closing Rate	Average Accumulated Rate
US Dollar (USD)	1.32	1.28	1.29	1.39
Argentinean Peso (ARS)	6.46	5.82	5.54	5.72
Brazilian Real (BRL)	2.69	2.51	2.43	2.33
Colombian Peso (COP)	2,333	2,311	2,514	2,569
Mexican Peso (MXN)	17.14	16.91	18.09	17.27
Nicaragua Córdoba (NIO)	31.83	30.24	29.72	31.21
Panama Balboa (PAB)	1.32	1.28	1.29	1.39
Moldovan Lei (MDL)	15.99	15.55	15.14	16.30

3.3.3 Intangible assets

a) Goodwill

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

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

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

The impairment losses on goodwill cannot be reversed.

b) Concessions and the like

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

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

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

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

c) Computer software applications

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

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

d) Research costs

Research activities are expensed in the Consolidated income statement as incurred.

e) Other intangible assets

Other intangible assets mainly include the following:

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

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

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

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

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

3.3.4 Property, plant and equipment

a) Cost

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

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

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

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

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

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

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

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

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

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

b) Amortisation

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

	Years of estimated useful life
Buildings	33-50
Liquefied natural gas (LNG) transport gas tankers	25-30
Technical installations (pipeline network and transport)	20-40
Technical installations (hydro-electric plants)	14-100
Technical installations (thermal energy plants)	25-40
Technical installations (combined cycle gas turbine: CCGT)	25
Technical installations (nuclear energy plants)	40
Technical installations (wind farms)	20
Technical installations (electricity transport lines)	30-40
Technical installations (electricity distribution network)	18-40
Computer equipment	4
Vehicles	6
Other	3-20

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

The calculation of the amortisation charge for the hydro-electric plants differentiates between the different types of assets they have, distinguishing between the investments in civil works (which are depreciated on the basis of the concession period, or 100 years if there is no concession), electro-mechanical equipment (40 years) and the other fixed assets (14 years), taking into account, in any case, the use of the plant and the maximum term of the concessions (expiring between 2013 and 2060).

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

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

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

c) Exploration operations and production of gas

GAS NATURAL FENOSA records exploration gas and coal operations using the successful-effort exploration method, which treatment is as follows:

- Explorations costs

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

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

- Investments in areas with reserves

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

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

3.3.5 Impairment of non financial assets

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

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

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

These units have been defined using the following criteria:

- Gas distribution:

  - Gas distribution Spain: The development, operations and maintenance of the gas distribution network is managed jointly.

  - Gas distribution Latin America: There is a CGU for each country in which it operates (Argentina, Brazil, Colombia and Mexico), as these are businesses subject to different regulatory frameworks.

- Gas distribution Others: Relates to the gas distribution assets in Italy.

- Electricity distribution:

  - Electricity distribution Spain. The development, operations and maintenance of the electricity distribution network is managed jointly.

  - Electricity distribution Latin America. There is a CGU for each country in which it operates (Colombia, Nicaragua, Panama), as these are businesses subject to different regulatory frameworks.

  - Electricity distribution Others. Relates to the electricity distribution assets in Moldova.

- Electricity:

  - Electricity Spain. Electricity production in Spain is managed jointly and in a centralised manner, depending on market conditions.

  - Electricity Latin America: there is a CGU for each country in which it operates (Costa Rica, Mexico, Puerto Rico, Panama and the Dominican Republic), since there is a generation capacity in each country that is similar to Spain's.

  - Electricity Others. Relates to Kenya.

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

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

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

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

	Rates 2012	Rates 2011
Distribution of gas Latin America	1.0	1.0
Distribution of gas rest of Europe	1.0	1.0
Distribution of electricity Spain	0.8	0.8
Distribution of electricity Rest of Europe	1.2-3.0	1.2-3.0
Distribution of electricity Latin America	1.8	1.8
Generation of electricity in Spain	1.8	1.8
Generation of electricity – Latin America	1.9-4.9	1.9-4.9
Electricity Others	4.5	4.5
Unión Fenosa Gas	2.0	2.0

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

	Rates 2012	Rates 2011
Distribution of gas Latin America	15-16	17-18
Distribution of gas rest of Europe	9.8	10.4
Distribution of electricity Spain	9.6	9.2
Distribution of electricity Rest of Europe	9.4-24.4	10.7-24.1
Distribution of electricity Latin America	16.5	16.6
Generation of electricity in Spain	10.1	10.0
Generation of electricity – Latin America	6.4-16.9	6.8-16.5
Electricity Others	11.2	12.6
Unión Fenosa Gas	12.6	12.5

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

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

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

- Gas and electricity distribution in Spain:

  - The amount and growth of the remuneration approved by the regulator, considering the impact of Royal Decree-Law 13/2012 (Note 2.d).

  - Operational and maintenance costs.

  - Investments.

- Gas and electricity distribution in Latin America and Others

  - Evolution of the tariffs.

  - Cost of energy and fuel.

- Electricity Spain:

  - Electricity produced and sold to the market, which depended on market demand and market share.

  - Price of the electricity in the Iberian market.

  - Cost of fuel, operation and maintenance and CO_2 emission rights.

  - The effect of new taxes established by Law 15/2012 (Note 2.d).

- Electricity Latin America and Others:

  - Electricity production in Latin America is protected by energy trading contracts that are determined by stable business models and are not subject to risks based on the fluctuation of market variables.

- Unión Fenosa Gas:

  - Cost of the gas supplies.

  - Market price of natural gas.

As a result of the process, in 2012 and 2011, the recoverable values of the assets of the CGUs, calculated in line with the above-mentioned model are, in any case, greater than the net carrying values recorded in these Consolidated annual accounts, and, accordingly, no impairment has been booked.

Likewise, GAS NATURAL FENOSA estimates that the unfavourable variances the sensitive aspects mentioned, on which the determination of the recoverable amount in certain CGUs were based could suffer, would not vary the conclusions reached that the recoverable amount is greater than the carrying amount. Concretely, the most important sensitivity analysis performed considered a drop of 5% in the energy produced and in the price of energy in the case of the CGUs for electricity, a drop of 5% in the price of gas in

Union Fenosa Gas, as well as a drop of 5% in the tariff/remuneration and an increase in operation and maintenance costs in the case. of the CGUs for the distribution of gas and electricity. With regard to the discount rate, this sensitivity analysis was performed applying a 50 basis point increase on the discount rates applied in the base case.

3.3.6 Financial assets and liabilities

Financial investments

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

a) Loans and other receivables

These are non-derivative financial assets, with fixed or determinable pay outs, which are not listed in an active market, and for which there is no plan to trade in the short-term. They include current assets, except those maturing after twelve months as from the balance sheet date 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 FENOSA plans to and can hold until maturity. The valuation criteria for these investments are the same as those for loans and financial receivables.

c) Fair value financial assets through profit or loss.

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

d) Available-for-sale financial assets

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

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

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

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

- Level 1: Valuations based on the quotation price of identical instruments in an official market.
- Level 2: Valuations based on variables that are observable for the asset or liability.
- Level 3: Valuations based on variables that are not based on observable market information.

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

GAS NATURAL FENOSA has entered into account receivables assignment agreements in 2012 and 2011, which have been qualified as factoring without recourse since the risks and rewards inherent in ownership of the financial assets assigned have been transferred.

Cash and cash equivalents

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

Borrowings

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

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

Trade and other payables

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

3.3.7 Derivatives and other financial instruments

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

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

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

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

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

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

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

For accounting purposes, the operations are classified as follows:

1. Derivatives qualifying for hedge accounting

a) Fair value hedge

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

b) Cash flow hedge

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

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

c) Hedges of net foreign investments

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

2. Derivatives that do not qualify for hedge accounting

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

3. Energy purchase and sale agreements

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

3.3.8 Non-current assets held for sale and discontinued activities

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

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

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

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

3.3.9 Inventories

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

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

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

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

3.3.10 Share capital

Share capital is made up of ordinary shares.

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

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

3.3.11 Earnings per share

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

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

3.3.12 Preference shares

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

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

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

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

3.3.13 Deferred income

This caption mainly includes:

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

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

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

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

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

3.3.14 Provisions for employee obligations

a) Post-employment pension and similar obligations

- Defined contribution plans

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

  As a result of the merger by absorption of Unión Fenosa, S.A. and Gas Natural SDG, S.A. and in order to comply with the Regulations on Pension Plans and Funds, on 29 September 2011 these employment system joint promotion pension plans were integrated into Gas Natural SDG, S.A.'s plan.

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

  The contributions made have been recorded under "Personnel costs" on the Consolidated income statement.

- Defined benefit plans

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

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

  GAS NATURAL FENOSA has availed itself of the possibility of fully recognising the actuarial gains and losses arising from changes in actuarial assumptions or from differences between the assumptions and the reality in the period in which they occur, directly in equity under "Reserves".

  Past-service costs are recognized immediately in Consolidated income statement under "Personnel cost", unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period. The interest cost of updating the obligations with personnel and the forecast yield on the plan's assets are recorded under the caption "Net financial income".

b) Other post-employment benefit obligations

Some of GAS NATURAL FENOSA's companies provide post-employment benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans. Actuarial gains and losses arising from changes in actuarial assumptions, are charged or credited to income "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 FENOSA terminates the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits. In the event that mutual agreement is required, the provision is only recorded in those situations in which GAS NATURAL FENOSA has decided to give its consent to voluntary redundancies once they have been requested by the employees.

d) Shares Acquisition Plan

In 2012, a Shares Acquisition Plan 2012-2013-2014 was initiated, addressed to GAS NATURAL FENOSA employees who fulfil certain conditions and join the plan voluntarily, allowing them to receive part of their remuneration in shares of Gas Natural SDG, S.A., to a maximum limit of Euros 12,000. The cost of the shares acquired and delivered to the Group employees as part of their remuneration for the year 2012 amounted to Euros 2 million and is registered under the heading "Personnel cost" in the Consolidated income statement.

3.3.15 Provisions

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

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

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

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

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

In the event that GAS NATURAL FENOSA does not have sufficient emission allowances to meet its emission quotas, the deficit valuated at the cost of acquisition for the allowances purchased and the fair value for the allowances pending purchase is recorded under provisions.

3.3.16 Leases

a) Finance leases

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

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

b) Operating leases

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

- Lessee accounting.

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

- Lessor accounting.

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

- At the end of the lease period the lessor (GAS NATURAL FENOSA) continues to retain ownership of the asset.

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

- The lessee does not have a purchase option.

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

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

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

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

3.3.17 Income tax

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

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

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

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

3.3.18 Revenue and expenses recognition and settlement for regulated activities

a) General

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

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

Sales are stated net of tax and discounts and the transactions between companies in the GAS NATURAL FENOSA are eliminated.

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

Note 2 describes the basic aspects of the applicable regulations to the gas sector.

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

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

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

Ministerial Order of 28 October 2002 which regulates the procedures for the payment of the regulated gas activity stipulates that the deviations that come to light from the application of the payment procedure between net payable final income and the accredited remuneration each year, will be taken into account in the calculation of the tolls and levies for the next two years. At the date of formulation of these Consolidated annual accounts the final payments for 2010 and 2011 have not been published, although the provisional deviations for this year has been taken into account in order to calculate the tariffs, tolls and levies for 2012 and 2013. It is not expected that the final payments will lead to significant differences in relation to the estimates made.

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

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

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

c) Revenue from electricity business and settlement for regulated activities

Note 2 describes the basic aspects of the applicable regulations to the electricity sector.

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

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

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

At the date of formulation of these Consolidated annual accounts the final payments for the period 2008-2011 have not been published, although it is not expected that the final payments will generate significant differences in relation to the estimates made.

In the years 2006 to 2012, given that the income collected by the companies in the Spanish electricity industry have not been sufficient to remunerate the different regulated activities and costs of the system, the companies themselves, including Gas Natural SDG, S.A., were forced to finance this income deficit, until its definitive funding through the electricity system securitisation fund.

In 2008 the entire deficit for 2007 was auctioned, the financed principal and the interest for the period were received. During the year 2012, the deficit from the years 2006, 2008 and 2009 was fully recovered through the issues of the securitisation fund. As for the deficit for the years 2010, 2011 and 2012, under current legislation (Note 2) the recouping of the contributions that were not assigned to third parties will be made through the assignment to the securitisation fund of the debt claims. Given the forecast that the assignments will occur in a period of less than one year, the estimated amount recoverable has been recorded under “Other current financial assets” on the Consolidated balance sheet.

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

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

d) Other income and expenses

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

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

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

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

Dividends are recognized as income when GAS NATURAL FENOSA's right to receive payment is established.

3.3.19 Cash Flow Statements

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

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

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

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

3.3.20 Significant accounting estimates and judgments

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

a) Intangible assets and Property, plant and equipment (Note 3.3.4)

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 3.3.5)

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

c) Derivates or other financial instruments (Note 3.3.7))

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

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

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

d) Provisions for employee benefits (Note 3.3.14)

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

e) Provisions (Note 3.3.15)

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

f) Income tax (Note 3.3.17)

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

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

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

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

Note 4. Segment financial information

An operating segment is a component that carries on business activities from which it may obtain ordinary revenue and incur costs, the operating results of which are reviewed regularly by the entity's maximum operating decision-taking authority so as to determine the resources that must be allocated to the segment and to evaluate its performance, and in respect of which separate financial information is available.

a) Segment Information

The operating segments of GAS NATURAL FENOSA are:

- Gas distribution. Encompasses the regulated gas distribution business in Spain, Latin America and Others (Italy).

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

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

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

- Electricity distribution. Covers the regulated electricity distribution business in Spain, Latin America and Rest of Europe (Moldova).

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

  The electricity distribution business in Latin America relates to the regulated electricity distribution business and sales to customers at regulated prices in Colombia, Nicaragua and Panama.

  Including the electricity distribution business in Guatemala, to the date of sale, 19 May 2011 (Note 9).

  The electricity distribution business in Moldova consists of the regulated distribution of electricity and its bundled tariff sale in the capital and south and central areas of the country.

- Electricity. Includes the electricity generation in Spain, Latin America (Costa Rica, Mexico, Puerto Rico, Panama and the Dominican Republic) and Rest (Kenya).

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

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

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

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

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

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

The segment's results and investments for the periods of reference are as follows:

Segmental financial information–Income Statement

	Gas Distribution				Electricity Distribution				Electricity				Gas						
2012	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infras-tructure	Supp. and Commerc.	Unión Fenosa Gas	Total	Other	Eliminations	Total
Sales consolidated	1,135	2,979	285	**4,399**	804	2,512	250	**3,566**	4,952	852	128	**5,932**	111	9,841	638	**10,590**	417	**–**	**24,904**
Sales intersegments	131	3	12	**146**	48	1	–	**49**	1,242	7	–	**1,249**	195	1,379	509	**2,083**	196	**–**	**3,723**
Sales segment	1,266	2,982	297	4,545	852	2.513	250	3,615	6,194	859	128	7,181	306	11,220	1,147	12,673	613	(3,723)	24,904
Segment supplies	(24)	(1,993)	(170)	**(2,187)**	–	(1,891)	(194)	**(2,085)**	(4,624)	(515)	(100)	**(5,239)**	(56)	(10,245)	(859)	**(11,160)**	(361)	**3,723**	**(17,309)**
Net personnel expenses	(77)	(98)	(15)	**(190)**	(99)	(66)	(8)	**(173)**	(152)	(15)	(2)	**(169)**	(6)	(50)	(12)	**(68)**	(271)	**–**	**(871)**
Other operating income/ expenses	(265)	(251)	(29)	**(545)**	(140)	(190)	(13)	**(343)**	(514)	(68)	(11)	**(593)**	(19)	(189)	(20)	**(228)**	65	**–**	**(1,644)**
EBITDA	900	640	83	**1,623**	613	366	35	**1,014**	904	261	15	**1,180**	225	736	256	**1,217**	46	**–**	**5,080**
Other income	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	20	**–**	**20**
Amortization expenses	(289)	(116)	(25)	**(430)**	(228)	(70)	(6)	**(304)**	(594)	(111)	(5)	**(710)**	(64)	(15)	(155)	**(234)**	(120)	**–**	**(1,798)**
Debtors provisions and others	–	(15)	(5)	**(20)**	1	(116)	–	**(115)**	(41)	–	–	**(41)**	–	(60)	–	**(60)**	1	**–**	**(235)**
Operating income	611	509	53	**1,173**	386	180	29	**595**	269	150	10	**429**	161	661	101	**923**	(53)	**–**	**3,067**
Net financial income	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	**–**	**(874)**
Equity-method result	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	9	**9**	1	**–**	**10**
Income before taxes	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	**–**	**2,203**
Income tax expense	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	**–**	**(546)**
Net income for the period	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	**1,657**

	Gas Distribution				Electricity Distribution				Electricity				Gas						
2011	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infras-tructure	Supp. and Commerc.	Unión Fenosa Gas	Total	Other	Eliminations	Total
Sales consolidated	1,132	2,585	238	**3,955**	892	2,288	206	**3,386**	4,270	856	126	**5,252**	97	7,383	516	**7,996**	487	**–**	**21,076**
Sales intersegments	108	–	–	**108**	30	2	–	**32**	1,182	9	–	**1,191**	192	1,220	495	**1,907**	163	**–**	**3,401**
Sales segment	1,240	2,585	238	4,063	922	2,290	206	3,418	5,452	865	126	6,443	289	8,603	1,011	9,903	650	(3,401)	21,076
Segment supplies	(12)	(1,659)	(129)	**(1,800)**	–	(1,723)	(157)	**(1,880)**	(4,061)	(548)	(102)	**(4,711)**	(58)	(7,945)	(694)	**(8,697)**	(387)	**3,401**	**14,074**
Net personnel expenses	(71)	(89)	(14)	**(174)**	(114)	(42)	(8)	**(164)**	(149)	(15)	(2)	**(166)**	(8)	(46)	(11)	**(65)**	(289)	**–**	**(858)**
Other operating income/ expenses	(261)	(216)	(25)	**(502)**	(128)	(219)	(11)	**(358)**	(433)	(57)	(8)	**(498)**	(39)	(168)	(29)	**(236)**	95	**–**	**(1,499)**
EBITDA	896	621	70	**1,587**	680	306	30	**1,016**	809	245	14	**1,068**	184	444	277	**905**	69	**–**	**4,645**
Other income	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	268	**–**	**268**
Amortization expenses	(284)	(113)	(23)	**(420)**	(220)	(71)	(6)	**(297)**	(560)	(101)	(5)	**(666)**	(65)	(14)	(157)	**(236)**	(131)	**–**	**(1,750)**
Debtors provisions and others	–	(14)	(4)	**(18)**	(1)	(102)	–	**(103)**	(46)	–	–	**(46)**	–	(47)	–	**(47)**	(2)	**–**	**(216)**
Operating income	612	494	43	**1,149**	459	133	24	**616**	203	144	9	**356**	119	383	120	**622**	204	**–**	**2,947**
Net financial income	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	**–**	**(932)**
Equity-method result	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	7	**7**	–	**–**	**7**
Income before taxes	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	**–**	**2,022**
Income tax expense	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	**–**	**(496)**
INCN inter segments	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	–	**–**	–	–	**1,526**

Segmental financial information–Assets, liabilities and investments

2012	Gas Distribution				Electricity Distribution				Electricity				Gas					
	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infras-tructure	Supp. and Commerc.	Unión Fenosa Gas	Total	Other	TOTAL
Assets[1]	3,550	2,591	682	**6,823**	5,284	2,279	172	**7,735**	10,710	1,731	115	**12,556**	1,045	2,257	2,507	**5,809**	2,437	**35,360**
Investments under equity method	–	–	–	**–**	–	–	–	**–**	25	–	–	**25**	–	1	61	**62**	13	**100**
Liabilities[2]	(562)	(562)	(137)	**(1,261)**	(1,003)	(947)	(31)	**(1,981)**	(1,149)	(214)	(21)	**(1,384)**	(57)	(2,599)	(135)	**(2,791)**	(1,158)	**(8,575)**
Investment in intangible assets[3]	16	94	39	**149**	11	2	–	**13**	19	–	–	**19**	2	–	2	**4**	79	**264**
Investm. in property, plant & equipment[4]	241	83	2	**326**	258	130	16	**404**	163	63	–	**226**	23	27	9	**59**	78	**1,093**
Business combinations[5]	–	–	–	**–**	–	–	–	**–**	1	–	–	**1**	–	–	–	**–**	–	**1**

2011	Gas Distribution				Electricity Distribution				Electricity				Gas					
	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infras-tructure	Supp. and Commerc.	Unión Fenosa Gas	Total	Other	Total
Assets[1]	4,208	2,633	673	**7,514**	5,160	2,087	163	**7,410**	11,562	1,758	118	**13,438**	1,055	2,469	2,301	**5,825**	1,953	**36,140**
Investments under equity method	–	–	–	**–**	–	–	–	**–**	23	–	–	**23**	–	1	61	**62**	14	**99**
Liabilities[2]	(786)	(488)	(104)	**(1,378)**	(696)	(893)	(33)	**(1,622)**	(1,326)	(192)	(26)	**(1,544)**	(65)	(2,560)	(159)	**(2,784)**	(1,085)	**(8,413)**
Investment in intangible assets[3]	9	16	28	**53**	11	2	1	**14**	27	5	–	**32**	5	–	–	**5**	72	**176**
Investm. in property, plant & equipment[4]	251	133	8	**392**	329	131	16	**476**	184	42	–	**226**	27	20	10	**57**	79	**1,230**
Business combinations[5]	–	–	10	**10**	–	–	–	**–**	77	–	–	**77**	–	–	–	**–**	–	**87**

1 Assets by segment consist of operating assets (including property, plant and equipment, intangible assets, inventories, derivatives designated to hedge future trading operations, trade receivables, trade payables and cash and other cash equivalents). They exclude the Tax refundable balances, the financial assets and derivatives for negotiating or hedging loans. The assets not included total Euros 11,527 million at 31 December 2012 (Euros 10,362 million at 31 December 2011).

2 Liabilities by segment consist of operating liabilities (including derivatives designated as hedges of future operations). They exclude items such as Tax payable, borrowings and respective hedging derivatives. The excluded liabilities total Euros 23,433 million at December 2012 (Euros 23,648 million at December 2011).

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

4 Includes the investment in property, plant and equipment (Note 6), broken down by operating segment. The investment in property, plant and equipment shown in Gas Distribution Spain for 2011 included the purchase of gas distribution and secondary transportation assets in the regions of Andalusia and Castilla-La Mancha completed in February 2011, from the company Corporación Llorente Muñoz, S.L., for Euros 27 million.

5 Includes business combinations (Note 30), broken down by operating segment.

b) Reporting by geographic area

The home-country of GAS NATURAL FENOSA - which is also the main operating company - is Spain. The areas of operation are principally Rest of Europe (Italy, France and Moldova), Latin America, and others.

GAS NATURAL FENOSA's sales, depending on country assignation, are as follows:

	2012	2011
Spain	14,027	12,224
Rest of Europe	1,268	1,203
Latin America	7,840	6,370
Others	1,769	1,279
Total	**24,904**	**21,076**

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

	At 31/12/12	At 31/12/11
Spain	26,878	27,813
Rest of Europe	854	810
Latin America	6,737	6,582
Others	991	1,034
Total	**35,460**	**36,239**

The investments in property, plant and equipment and other intangible assets of GAS NATURAL FENOSA assigned according to location of the assets are as follows:

	At 31/12/12	At 31/12/11
Spain	864	975
Rest of Europe	58	54
Latin America	404	345
Others	31	32
Total	**1,357**	**1,406**

Note 5. Intangible assets

The movement in 2012 and 2011 in intangible assets is as follows:

	Concession and other rights to use	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Cost, gross	3,902	588	2,521	7,011	6,002	**13,013**
Accumulated Amortisation	(1,171)	(385)	(234)	(1,790)	–	**(1,790)**
Net carrying value at 1/1/11	**2,731**	**203**	**2,287**	**5,221**	6,002	**11,223**
Investment	42	87	47	176	–	**176**
Divestitures	(1)	–	(8)	(9)	–	**(9)**
Amortisation charge	(111)	(76)	(166)	(353)	–	**(353)**
Translation adjustment	(90)	(1)	(2)	(93)	13	**(80)**
Business combination *(Note 30)*	43	–	238	281	4	**285**
Reclassifications and others[1]	(19)	(1)	1	(19)	(143)	**(162)**
Net carrying value at 31/12/11	**2,595**	**212**	**2,397**	**5,204**	5,876	**11,080**
Cost, gross	**3,865**	590	2,814	7,269	5,876	**13,145**
Accumulated Amortisation	(1,270)	(378)	(417)	(2,065)	–	**(2,065)**
Net carrying value at 1/1/12	**2,595**	**212**	**2,397**	**5,204**	5,876	**11,080**
Investment	128	105	31	264	–	**264**
Divestitures	–	–	(22)	(22)	(1)	**(23)**
Amortisation charge	(115)	(81)	(171)	(367)	-	**(367)**
Translation adjustment	(133)	1	(19)	(151)	(38)	**(189)**
Business combination *(Note 30)*	–	–	1	1	–	**1**
Reclassifications and others	69	(11)	(60)	(2)	–	**(2)**
Net carrying value at 31/12/12	**2,544**	**226**	**2,157**	**4,927**	5,837	**10,764**
Cost, gross	3,906	659	2,736	7,301	5,837	**13,138**
Accumulated depreciation	(1,362)	(433)	(579)	(2,374)	–	**(2,374)**
Net carrying value at 31/12/12	**2,544**	**226**	**2,157**	**4,927**	5,837	**10,764**

[1] The year 2011 included transfers to the heading "Non-current assets held for sale" of electricity distribution concessions amounting to Euros 88 million and of goodwill for Euros 69 million from the companies in Guatemala (note 9), as well as Euros 68 million from EUFER (Note 9), which were removed during the year 2011.

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

"Concessions and the like" includes principally:

- The value of the concessions that are considered intangible assets in accordance with IFRIC 12 "Service Concession Agreements" (Note 32), amounting to Euros 1,549 million (Euros 1,535 million in 2011).

- The Maghreb-Europe pipeline concession amounting to Euros 283 million at 31 December 2012 (Euros 315 million at 31 December 2011).

- The electricity distribution concessions in Spain that have an indefinite useful life (Note 32) amounting to Euros 684 million (Euros 684 million at 31 December 2011).

The heading "Other intangible assets" mainly includes:

- Licences to operate wind farms totalling Euros 233 million at 31 December 2012, including the amounts relating to the acquisition of several wind energy companies mentioned in Note 30 (Euros 293 million at 31 December 2011).

- The cost of acquisition of the exclusive regasification rights in Puerto Rico totalling Euros 42 million at 31 December 2012 (Euros 49 million at 31 December 2011).

- The CO_2 emission allowances acquired, for Euros 59 million (Euros 67 million at 31 December 2011).

- Other intangible assets acquired as a result of the business combination of UNIÓN FENOSA totalling Euros 1,799 million at 31 December 2012 (Euros 1,947 million at 31 December 2011) which mainly includes gas supply contracts and other contractual rights.

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

	At 31/12/12					
	Gas Distribution	**Electricity Distribution**	**Electricity**	**Unión Fenosa Gas**	**Other**	**Total**
Spain	–	1,133	2,863	891	–	**4,887**
Latin America	65	135	542	–	–	**742**
Others	143	15	16	–	34	**208**
	208	**1,283**	**3,421**	**891**	**34**	**5,837**

	At 31/12/11					
	Gas Distribution	**Electricity Distribution**	**Electricity**	**Unión Fenosa Gas**	**Other**	**Total**
Spain	–	1,133	2,878	891	–	**4,902**
Latin America	75	136	552	–	–	**763**
Others	143	16	17	–	35	**211**
	218	**1,285**	**3,447**	**891**	**35**	**5,876**

The impairment tests have been carried out at 31 December 2012 and 2011. On the basis of the goodwill impairment analysis it was concluded that impairment will not probably arise in the future (Note 3.3.5).

The intangible assets include, at 31 December 2012, fully amortised assets still in use totalling Euros 286 million.

Note 6. Property, plant and equipment

The movements in the accounts in 2012 and 2011 under property, plant and equipment and their respective accumulated amortisation and provisions have been as follows:

	Land and buildings	Gas installations	Electricity generation plants	Plant for electricity transport and distribution	Gas transport tankers	Other Property, plant and equipment	Property, plant and equipment under cons-truction	Total
Cost, gross	671	8,229	11,412	6.101	662	1,171	937	**29,183**
Accumulated amortisation	(111)	(3,805)	(1,157)	(437)	(111)	(356)	–	**(5,977)**
Carrying amount at 1/1/11	**560**	**4,424**	**10,255**	**5,664**	**551**	**815**	**937**	**23,206**
Investment	38	308	43	289	–	58	494	**1,230**
Divestitures	(3)	–	–	–	–	(3)	(8)	**(14)**
Amortisation	(23)	(355)	(607)	(283)	(25)	(104)	–	**(1,397)**
Translation adjustment	(1)	(29)	42	24	–	4	(2)	**38**
Business combinations *(Note 30)*	2	–	592	–	–	1	143	**738**
Reclassifications and others[1]	(5)	(47)	(412)	(129)	–	65	(529)	**(1,057)**
Carrying amount at 31/12/11	**568**	**4,301**	**9,913**	**5,565**	**526**	**836**	**1,035**	**22,744**
Cost, gross	688	8,198	11,721	6,259	662	1,315	1,035	**29,878**
Accumulated amortisation	(120)	(3,897)	(1,808)	(694)	(136)	(479)	-	**(7,134)**
Carrying amount at 1/1/12	**568**	**4,301**	**9,913**	**5,565**	**526**	**836**	**1,035**	**22,744**
Investment	24	312	60	237	–	56	404	**1,093**
Divestitures	(5)	(15)	(9)	(2)	–	(2)	(29)	**(62)**
Amortisation	(24)	(365)	(645)	(287)	(25)	(85)	–	**(1,431)**
Translation adjustment	2	24	(26)	35	–	(10)	4	**29**
Business combinations *(Note 30)*	–	–	15	–	–	–	–	**15**
Reclassifications and others	1	63	237	128	–	60	(569)	**(80)**
Carrying amount at 31/12/12	**566**	**4,320**	**9,545**	**5,676**	**501**	**855**	**845**	**22,308**
Cost, gross	694	8,582	12,020	6,602	662	1,377	845	**30,822**
Accumulated amortisation	(128)	(4,262)	(2,475)	(926)	(161)	(522)	–	**(8,514)**
Carrying amount at 31/12/12	**566**	**4,320**	**9,545**	**5,676**	**501**	**855**	**845**	**22,308**

[1]Includes transfers to "Non-current assets held for sale" totalling Euros 1,081 million, which were removed in 2011 (Note 9).

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

The financial expenses capitalised in 2012 in fixed assets projects during their construction total Euros 12 million (Euros 17 million in 2011). The financial expenses capitalised in 2012 represent 1.4% of the total financial costs of net borrowings (1.8% for 2011). The average capitalisation rate in 2012 and 2011 totals 3.8% and 4.9%, respectively.

"Electricity generation plants" includes the power islands of the combined cycle plants in Palos de la Frontera and Sagunto acquired under finance leases (Note 16).

"Gas transport tankers" includes the current value, at the date of acquisition, of the payment commitments to the fleet of 6 methane tankers (2 of which have been contracted jointly with the Repsol Group and 2 have been contracted for the joint venture Union Fenosa Gas) under finance leases (Note 18).

"Other Property, plant and equipment" includes at 31 December 2012 the net carrying value of investment in areas with reserves totalling Euros 396 million (Euros 417 million at 31 December 2011), including basically the investments in the coal field belonging to Kangra Coal (Proprietary), Ltd in South Africa and Exploration costs of Euros 74 million (Euros 64 million at 31 December 2011).

Property, Plant and equipment under construction at 31 December 2012 basically include investments in:

- Recurring development of the gas distribution network amounting to 84 million Euros and that of electricity amounting to 219 million Euros.
- Electricity generation stations in Latin America amounting to 110 million Euros.
- Mini hydraulic generation plants amounting to 37 million Euros and wind power parks amounting to 38 million Euros in Spain, the cost of which is expected to be recovered through the income to be received on the market, bearing in mind the new regulatory framework of the special regime (Note 2.d).

Property, Plant and equipment includes, at 31 December 2012, fully depreciated assets in use totalling Euros 1,262 million.

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

GAS NATURAL FENOSA has investment commitments of Euros 200 million at 31 December 2012, basically for the development of the distribution network and other gas infrastructures and the development of the electricity distribution network.

At 31 December 2012 GAS NATURAL FENOSA did not have any significant real estate investment.

Note 7. Investments recorded using the equity method

The movement in 2012 and 2011 in investments measured by equity accounting is as follows:

	2012	2011
At January 1	99	105
Investment	–	–
Share of loss/profit	10	7
Dividends received	(10)	(7)
Divestments and transfers	1	(6)
At December 31	100	99

During the year 2011, as a result of the swap of EUFER's renewable assets due to the agreement to end the collaboration with the other partner that was arranged through this company, shareholdings in several companies that were consolidated using the equity method have been written off in the amount of Euros 4 million (Note 9).

On 22 December 2011 the company Ensafeca Holding Empresarial S.L. was liquidated. GAS NATURAL FENOSA held an 18.5% interest in this company, generating a gain of Euros 1 million before tax (Note 28).

Appendix I includes a list of all GAS NATURAL FENOSA's associates.

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

	Country	Assets	Liabilities	Income	Net income	Shareholding
2012						
Bluemobility Systems, S.L.	Spain	1	–	–	–	20.0
Enervent, S.A.	Spain	3	1	2	–	26.0
Kromschroeder, S.A.	Spain	7	3	6	–	42.5
Sistemas Energéticos La Muela, S.A.	Spain	2	–	1	–	20.0
Sistemas Energéticos Mas Garullo, S.A.[1]	Spain	2	–	1	–	18.0
Sociedade Galega do Medio Ambiente,S.A.	Spain	111	93	45	–	49.0
Subgrupo Unión Fenosa Gas[1/2]	Spain/Oman	123	60	50	9	3.7-11.6
Torre Marenostrum, S.L.	Spain	30	22	3	1	45.0
2011						
Bluemobility Systems, S.L.	Spain	1	–	–	–	20.0
Enervent, S.A.	Spain	4	2	1	–	26.0
Kromschroeder, S.A.	Spain	8	3	6	–	42.5
Sistemas Energéticos La Muela, S.A.	Spain	2	–	1	–	20.0
Sistemas Energéticos Mas Garullo, S.A.[1]	Spain	1	–	1	–	18.0
Sociedade Galega do Medio Ambiente,S.A.	Spain	113	95	45	(1)	49.0
Subgrupo Unión Fenosa Gas[1/2]	Spain/Oman	119	57	30	7	3.7-11.6
Torre Marenostrum, S.L.	Spain	32	24	3	1	45.0

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

Note 8. Financial assets

The breakdown of financial assets, excluding those carried under "Trade and other receivables" (Note 11) and "Cash and other cash equivalents" (Note 12), at 31 December 2012 and 2011, classified according to their nature and account, is as follows:

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

At 31 December 2011	Available for sale	Loans and other receivables	Investments held to maturity	Hedge derivatives	Fair value through profit and loss	Total
Equity instruments	75	–	–	–	–	**75**
Other financial assets	-	948	1	–	–	**949**
Non-current financial assets	75	948	1	–	–	**1,024**
Derivatives *(Note 17)*	–	–	–	–	–	**–**
Other financial assets	–	1,388	–	–	–	**1,388**
Current financial assets	–	1,388	–	–	–	**1,388**
Total	**75**	**2,336**	**1**	**–**	**–**	**2,412**

Available-for-sale financial assets

The movement of Available for sale financial assets in 2012 and 2011, according with the method applied for calculating their fair value is as follows:

	2012				2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
At 1 January	–	–	75	75	–	–	90	90
Increases	–	–	-	-	–	–	3	3
Divestments	–	–	-	-	–	–	(11)	(11)
Business combinations	–	–	-	-	–	–	–	–
Fair value adjustment	–	–	-	-	–	–	–	–
Translation adjustments	–	–	-	-	–	–	(6)	(6)
Transfers and others	–	–	(2)	(2)	–	–	(1)	(1)
At 31 December	–	–	73	73	–	–	75	75

During 2011, changes in the item “Available-for-sale financial assets” were due basically to the sale of the shareholding in the Colombian company Proyecto TDO, S.A.S. for Euros 9 million, which had no impact on the consolidated income statement.

Loans and other receivables

The breakdown at 31 December 2012 and 2011 is as follows:

	At 31/12/12	At 31/12/11
Commercial loans	137	118
Deposits and guarantee deposits	150	156
Debtors for levelling of capacity income	22	19
Other loans	599	655
Loans and other receivables non-current	**908**	**948**
Commercial loans	92	73
Tariff deficit	1,065	1,231
Dividend receivable	2	1
Other loans	90	83
Loans and other receivables current	**1,249**	**1,388**
Total	**2,157**	**2,336**

The breakdown by maturities at December 2012 and 2011 is as follows:

Maturities	At 31/12/12	At 31/12/11
No later than 1 year	1,249	1,388
Between 1 year and 5 years	414	444
Later than 5 years	494	504
Total	**2,157**	**2,336**

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

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

“Deposits and guarantee deposits” mainly include the amounts received from customers when they contract services as a guarantee for the supply of energy and which, under pertinent legislation, have been deposited with the public authorities (Note 18).

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

“Other non-current loans” includes a loan of Euros 254 million (Euros 258 million at 31 December 2011) for financing ContourGlobal La Rioja, S.L. for the sale of the Arrúbal combined cycle plant (La Rioja), which took place on 28 July 2011 (Note 9). The loan is secured by shares in this company and by other assets, bear annual interest at a market rate and matures in 2021.

"Other credits" includes the value of the concessions that are classified as financial assets in accordance with IFRIC 12 "Service Concession Agreements" (Note 32), in the amount of Euros 133 million (Euros 114 million at 31 December 2011), of which Euros 16 million are classified under current assets.

"Other non-current loans" also includes the amount receivable resulting from the cost incurred due to the arbitral award issued in August 2010 (Note 15), quantified at Euros 157 million and recoverable over a five-year period, in accordance with Article 15 of Royal Decree-Law 6/2000 (23 June), which obligates the holder of the contract for the supply of natural gas from Algeria through the Magreb gas pipeline to apply it preferably to tariff supplies. This amount has been estimated based on the calculation made by the Ministry of Industry, Energy and Tourism in the Draft Royal Decree (Note 2.1.1), which revises, as a consequence of the arbitral award, remuneration (2005-2008) for the natural gas supplied to the tariff market deriving from the Algeria contract referred to in Royal Decree 6/2000, and proposes a surcharge to finance the cost incurred as a result of the arbitral award to be paid by the gas system to the company Sagane, S.A., being its recovery irrespective of future sales.

"Other current loans" include value of the deferred amounts pending receipt for the sale of shareholdings mentioned in Note 18 to Chemo España, S.L. for USD 7 million maturing in 2013.

The financing of the deficit for the settlement of the regulated electricity activities is included under "Other current financial assets", in accordance with the fact that, base on current legislation, there is a right to receive payment without submission to future contingent factors, and recovery is expected in less than 12 months. At 31 December 2012 GAS NATURAL FENOSA has a debt claim for this deficit totalling Euros 1,065 million for 2010 (Euros 305 million), for 2011 (Euros 303 million), and for 2012 (Euros 457 million). These assets accrue market interest rate (Note 2).

During 2012, in addition to the collections received from settlements, nineteen Electricity System Deficit Securitisation Fund issues were completed (eleven issues in 2011), GAS NATURAL FENOSA having collected Euros 692 million as a result of these issues (Euros 1,102 million at 31 December 2011). Debt claims arising from the deficit in settlements for regulated electricity activities have been assigned irrevocably to the Electricity System Deficit Securitisation Fund (FADE).

Hedging derivatives

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

Note 17 shows the details of the derivative financial instruments.

Note 9. Non-current assets and disposable groups of assets held for sale and discontinued activities

At 31 December 2011, the balance under the heading "Non-current assets held for sale" included the assets corresponding to approximately 245,000 clients for gas and other associated contracts in the Region of Madrid, for which on 30 June 2011 GAS NATURAL FENOSA agreed to their sale to Grupo Endesa for Euros 38 million. This operation fell within the framework of compliance with commitments acquired by GAS NATURAL FENOSA with the National Commission for Competition (hereinafter NCC) for the acquisition of UNIÓN FENOSA. From the date of the agreement, these assets were considered as non-current assets held for sale. Once the corresponding authorisations were obtained, the sale took place on 29 February 2012, generating a capital gain before taxes of Euros 20 million (Note 27).

Additionally, in the year 2011 the following operations were performed:

On 7 February 2011, GAS NATURAL FENOSA reached an agreement with a company of the Madrileña Red de Gas Group to sell approximately 300,000 additional gas distribution supply points in the Madrid area for Euros 450 million. This transaction was carried out as part of the action plan adopted by the National Anti-Trust Commission in relation to the acquisition of Unión Fenosa. Since the date of the agreement, these assets have been classified as non-current assets held for sale. After obtaining the respective authorisations the sale was made on 30 June 2011 generating a profit before tax of Euros 280 million (Note 27).

On 14 April 2011, GAS NATURAL FENOSA agreed to sell the Arrúbal combined cycle plant (La Rioja), with an installed capacity of 800 MW, to ContourGlobal La Rioja, S.L.. This transaction was carried out as part of the action plan adopted by the National Anti-Trust Commission in relation to the acquisition of Unión Fenosa. Since the date of the agreement, these assets have been classified as non-current assets held for sale. After obtaining the respective authorisations, the sale was made on 28 July 2011, ownership of the plant having been transferred for Euros 313 million without any impact on the Consolidated income statement. The agreement included a buyer financing operation in the amount of Euros 258 million that bears annual interest at a market rate (Note 8) and the signing with Gas Natural Comercializadora SDG, S.A. (subsidiary of GAS NATURAL FENOSA) of gas supply and electricity purchase and sale contracts for less than 50% of forecast production with a maximum term of 10 years for the Plant (Note 35).

On 19 May 2011, GAS NATURAL FENOSA agreed with companies owned by the investment fund Actis to sell its shares in the Guatemalan electricity distributors Distribuidora de Electricidad de Oriente, S.A. and Distribuidora de Electricidad de Occidente, S.A., and in other Guatemalan companies engaged in energy activities, for a total of Euros 239 million, generating a pre-tax loss of Euros 9 million (Note 27).

On 2 August 2010, GAS NATURAL FENOSA and Enel Green Power agreed to terminate their collaboration on renewable energy which until that time was channelled through Enel Unión Fenosa Renovables, S.A. (EUFER), a company in which each shareholder held a 50% stake. After this operation, each shareholder will receive approximately half of the assets of EUFER. The operation was approved on 10 November 2010 by the anti-trust authorities, pending regulatory and administrative authorization. As from that date, the part of the assets and liabilities that were reflected in the consolidated balance sheet of GAS NATURAL FENOSA that should have been assigned to Enel Green Power were treated as non-current assets and liabilities held for sale. After obtaining the respective authorisations, the sale was made on 27 de mayo de 2011. For accounting purposes, it has been treated as a swap of the assets and liabilities that are written off at their carrying amount in GAS NATURAL FENOSA's consolidated balance sheet for the acquired business that is recognised at fair value determined on the basis of independent third-party appraisals (Note 30), generating a loss before tax of Euros 4 million (Note 27).

Note 10. Inventories

The breakdown of Inventories is as follows:

	At 31/12/12	At 31/12/11
Natural gas and liquefied gas	527	513
Coal and fuel oil	241	260
Nuclear fuel	57	52
Raw materials and other inventories	72	54
Total	**897**	**879**

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

Note 11. Trade and other receivables

The breakdown of this account is as follows:

	At 31/12/12	At 31/12/11
Trade receivables	5,262	5,150
Receivables with related companies (Note 33)	122	7
Provision for depreciation of receivables	(827)	(580)
Trade receivables for goods and services	**4,557**	**4,577**
Public Administrations	146	167
Prepayments	64	57
Derivative financial instruments *(Note 17)*	28	46
Sundry receivables	215	227
Other receivables	**453**	**497**
Current income tax assets	**96**	**118**
Total	**5,106**	**5,192**

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

The movement in the impairment of receivables is as follows:

	2012	2011
At 1 January	**(580)**	**(383)**
Net charge for the year (Note 26)	(235)	(216)
Write offs	42	42
Translation adjustments and others	(54)	(23)
At 31 December	**(827)**	**(580)**

Note 12. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31/12/12	At 31/12/11
Cash at bank and in hand	1,538	986
Short term investments (Spain and rest of Europe)	2,687	1,907
Short term investments (International)	209	205
Total	**4,434**	**3,098**

The short term investments in cash equivalents mature in less than three months and bear an average effective interest rate 2.0% at 31 December 2012 (3.0% at 31 December 2011).

Note 13. Equity

The main elements of Equity break down as follows:

Share capital and share premium

The variations in 2012 and 2011 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares (in thousands)	Share capital	Share premium	Total
At 31 December 2010	921,757	922	3,331	4,253
Variation				
Capital increase in cash	38,184	38	477	515
Capital increase in swap	31,731	32	-	32
At 31 December 2011	991,672	992	3,808	4,800
Variation				
Capital increase in cash	–	–	–	–
Capital increase in swap	9,017	9	–	9
At 31 December 2012	1,000,689	1,001	3,808	4,809

At 31 December 2012 and at 31 December 2011 the total number of authorised ordinary shares was, respectively, 1,000,689,341 and 991,672,139 shares, made by accounting entries, with a par value of Euro 1 each. All the shares issued are fully paid and have the same economic and voting rights.

The proposal to apply the profits for the year 2011 approved by the General Shareholders Meeting held on 20 April 2012 included the payment of a dividend of Euros 360 million (an amount equal to the interim dividend distributed for the year 2011). The proposal for the application of profits for the year 2010, approved by the General Shareholders Meeting held on 14 April 2011, included the payment of a dividend of Euros 324 million (an amount equal to that distributed as interim dividend on account for the year 2010). Additionally, both in 2011 and in 2010, an increase in fully paid capital was included, through the issue of new ordinary shares, bearing in mind mechanisms to guarantee that those shareholders who so preferred could receive the amount in cash, with the following results:

	2011	2010
Termination date of the negotiation period of free assignation rights	13 June 2012	14 June 2011
% acceptance of irrevocable commitment to purchase	81.8	3.6
No. of rights acquired	811,328,072	33,272,473
Total value of the rights acquired	Euros 379 million	Euros 15 million
% of new shares	18.2	96.4
Shares issued	9,017,202	31,731,588
Nominal value	1 euro	1 euro

The capital increase of 2012 was totally paid up and entered in the Mercantile Registry on 23 June 2011 and the shares issued have been traded on the Stock Exchange since 29 June 2012.

The capital increase of 2011 was totally paid up and registered in the Mercantile Registry on 22 June 2012 and the shares issued have been traded on the Stock Exchange since 29 June 2011.

In the context of the agreements concluded between the Algerian company La Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures s.p.a (Sonatrach) and GAS NATURAL FENOSA (Note 15) on 17 June 2011, the Board of Directors of Gas Natural SDG, S.A. approved a capital increase, excluding the pre-emptive subscription right, through the issue of 38,183,600 new shares at a price of 13.4806 Euros per share, to be fully subscribed by Sonatrach for a total cash sum of Euros 515 million, resulting in a 3.85% shareholding owned by Sonatrach in Gas Natural SDG, S.A. According to the special report on the exclusion of the pre-emptive subscription right issued by the independent expert pursuant to the revised Spanish Companies Act 2010, the agreed issue price reflects the fair value of the Company's shares. This increase and the resulting entry of Sonatrach as a minority shareholder of Gas Natural SDG, S.A. was executed on 9 August 2011, once approval had been obtained from the Algerian authorities.

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

In 2012, 1,325,160 treasury shares have been acquired for Euros 15 million, of which, 275,490 shares for Euros 2 million have been delivered to the Group's employees as part of their remuneration for 2012 in accordance with the Shares Acquisition Plan 2012-2013-2014 (Note 3.3.14.d) and all the rest have been sold for Euro 13 million. At the 2012 year end, GAS NATURAL FENOSA does not have any treasury shares. In 2011, no transfers of treasury shares took place.

The most representative holdings in the share capital of Gas Natural SDG, S.A. at 31 December 2012, in accordance with the public information available or the communication issued by the Company itself, are as follows:

	Interest in share capital %
"la Caixa" Group (Criteria Caixaholding, S.A.U.)	35.0
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 2012 of Gas Natural SDG, S.A. is Euros 13.58 (Euros 13.27 at 31 December 2011).

Reserves

Reserves includes the following reserves:

	2012	2011
Legal reserve	198	185
Statutory reserve	99	91
Revaluation reserve under RD 7/96	225	225
Goodwill reserve	536	357
Voluntary reserves	5,153	4,491
Other reserves	1,191	1,551
	7,402	**6,900**

Legal reserve

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

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

Statutory reserve

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

Revaluation reserve

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

Goodwill reserve

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

Earnings per share

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

	At 31/12/12	At 31/12/11
Net income attributable to equity holders of the Company	1,441	1,325
Weighted average number of ordinary shares in issue (million)	996	953
Earnings per share from continuing activities (in Euros):		
Basic	1.45	1.39
Diluted	1.45	1.39
Earnings per share from discontinued activities (in Euros):		
Basic	–	–
Diluted	–	–

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

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

In the year 2011, the calculation of the weighted average number of ordinary shares was as follows::

	Number of shares (in thousands)	Days	Days x Number of shares
Shares at 1 January 2011	**921,757**	**365**	**336,441,287**
Fully-paid capital increase	31,731	191	6,061,733
Capital increase in cash	38,184	144	5,498,438
Shares at 1 December 2011	**991,672**	**365**	**348,001,458**
Weighted average number of shares for the period			**953,429**

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

Dividends

The breakdown of the payments of dividends made in 2012 and 2011 is as follows:

	31/12/12			31/12/11		
	% of par value	Euros per share	Amount[1]	% of par value	Euros per share	Amount[2]
Ordinary shares	36	0.36	360	35	0.35	324
Remaining shares (no vote, redeemable, etc.)	–	–	–	–	–	–
Total dividends paid	36	0.36	360	35	0.35	324
a) Dividends charged to income statement	36	0.36	360	35	0.35	324
b) Dividends charged to reserves or share premium	–	–	–	–	–	–
c) Dividends in kind	–	–	–	–	–	–

1 Includes the payment of the interim dividend of Euros 0.36 per share, totalling Euros 360 million, agreed on 25 November 2011 and paid on 9 January 2012.
2 Includes the payment of the interim dividend of Euros 0.35 per share, amounting to a total of Euros 324 million, agreed on 26 November 2010 and paid on 7 January 2011.

The Board of Directors of Gas Natural SDG, S.A. agreed, at its meeting of 30 November 2012, to distribute an interim dividend against the net income for 2012 of Euros 0.391 per share, totalling Euros 391 million, payable as from 8 January 2013.

At the date of approval of the interim dividend, the Parent Company had the necessary liquidity to pay it in accordance with requirements established under the Spanish Capital Companies Act. The provisional accounting statement of the Company formulated by the Directors at 30 November 2012 is as follows:

Net income after tax		682
Reserves to be allocated		(181)
Maximum amount available for distribution		501
Forecast payment of interim dividend		391
Treasury liquidity	3,848	
Undrawn credit facilities	4,320	
Total liquidity		8,168

On 25 January 2013, the Board of Directors adopted the proposal to submit the following distribution of net income of Gas Natural SDG, S.A. FY 2012 to the Shareholders' General Meeting, and the Retained earnings for the year 2011, is as follows:

Basis for distribution	
Retained earnings	74
Profit and loss	1,140
Distribution	
To Legal reserve	2
To Statutory reserve	1
To the Goodwill reserve	179
To voluntary reserve	137
To dividend	895

The proposed distribution of results prepared by the Board of Directors for approval by the General Shareholders Meeting includes the payment of a dividend of Euros 391 million.

Minority Interest

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

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

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

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

- Dividend payment: will be paid by calendar quarters in arrears, depending on the existence of distributable profit of GAS NATURAL FENOSA, considering as such the lesser of the net profit declared by the GAS NATURAL FENOSA and the net profit of Gas Natural SDG, S.A. as guarantor.

- Term: perpetual, with the option for the issuer of reducing all or part of the shareholdings after 30 June 2015. Reduction will be made at nominal value.

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

- Voting rights: none.

Note 14. Deferred income

The breakdown and the movements under this heading in 2012 and 2011 have been as follows:

	Grants	Revenues from pipeline networks and branch lines	Income from extension of pipe-lines charged to third parties	Other reve-nues	Total
At 1/1/11	**160**	**347**	**117**	**33**	**657**
Financing received	40	103	11	47	201
Release to income	(12)	(14)	(7)	(2)	(35)
Translation adjustments	1	–	(1)	1	1
Transfers and others	7	(30)	(4)	6	(21)
At 31/12/11	**196**	**406**	**116**	**85**	**803**
Financing received	24	76	6	21	127
Release to income	(14)	(11)	(9)	–	(34)
Translation adjustments	(1)	–	–	(2)	(3)
Transfers and others	(20)	1	(2)	6	(15)
At 31/12/12	**185**	**472**	**111**	**110**	**878**

Note 15. Provisions

The breakdown of provisions at 31 December 2012 and 2011 is as follows:

	At 31/12/12	At 31/12/11
Provisions for employee obligations	789	709
Other provisions	876	1,003
Non-current provisions	1,665	1,712
Current provisions	144	133
Total	**1,809**	**1,845**

Provisions for employee obligations

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

	2012			2011		
	Pensions and other similar obligations	Other obligations to personnel	Total	Pensions and other similar obligations	Other obligations to personnel	Total
At 1 January	709	–	709	698	–	698
Contributions charged to profits	45	8	53	42	–	42
Payments during the year	(71)	–	(71)	(77)	–	(77)
Conversion differences	16	–	16	–	–	–
Variances recognised directly in equity	87	–	87	46	–	46
Transfers and other applications[1]	(4)	(1)	(5)	–	–	–
At 31 December	782	7	789	709	–	709

[1]Includes a reclassification of Euros 7 million from "Other provisions" and a transfer of Euros 8 million to "Other current liabilities"

Pensions and other similar obligations

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

Breakdown by country	At 31/12/12	At 31/12/11	At 1/1/11
Spain[1]	380	355	362
Colombia[2]	330	284	268
Brazil[3]	65	61	57
Rest	7	9	11
Total	**782**	**709**	**698**

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

Most of the post-employment obligations of GAS NATURAL FENOSA in Spain consist of the contribution of defined amount to occupational pension plan systems. Nevertheless, at 31 December 2012 and 31 December 2011, GAS NATURAL FENOSA held the following defined benefit obligations for certain groups of workers:

- Pensioners (retired workers, the disabled, widows and orphans).
- Defined benefit supplement obligations with retired personnel of the legacy Unión Fenosa Group who retired before November 2002 and a residual part of current personnel.
- Coverage of retirement and death for certain employees.
- Gas subsidy for current and retired personnel.
- Electricity for current and retired personnel.
- Liabilities with employees that took early retirement until they reach official retirement age and early retirement plans.
- Salary supplements and contributions to social security for a group of employees taking early retirement until they can access ordinary retirement.
- Health care and other benefits

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

At 31 December 2012 and 2011 there are following obligations with certain employees of the Colombian company Electrificadora del Caribe, S.A. E.S.P:

- Pension liabilities for retired personnel.

- Post-retirement electricity for current and retired personnel.

- Healthcare and other post-retirement aid

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

At 31 December 2012 and at 31 December 2011, GAS NATURAL FENOSA has the following benefits for certain employees in Brazil:

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

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

	2012			2011		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Current value of the obligations						
As at 1 January	**1,125**	**284**	**186**	**1,200**	**268**	**171**
Current service cost	3	–	–	4	–	–
Interest cost	50	23	18	48	20	17
Actuarial gains and losses	138	36	27	(43)	31	28
Benefits paid	(88)	(36)	(11)	(90)	(34)	(14)
Transfers	(15)	1	–	6	–	–
Cumulative translation adjustments	–	22	(19)	–	5	(16)
Others	–	–	–	–	(6)	–
As at 31 December	**1,213**	**330**	**201**	**1,125**	**284**	**186**
Fair value of plan assets						
As at 1 January	**770**	–	**125**	**838**	–	**114**
Expected yield	34	–	15	33	–	14
Contributions	6	–	6	9	–	5
Actuarial gains and losses	100	–	14	(42)	–	12
Benefits paid	(66)	–	(10)	(68)	–	(9)
Transfers	(11)	–	(1)	–	–	–
Cumulative translation adjustments	–	–	(13)	–	–	(11)
As at 31 December	**833**	–	**136**	**770**	–	**125**
Provisions for post-employment pension obligations	**380**	**330**	**65**	**355**	**284**	**61**

The amounts recognized in the Consolidated income statement for the aforementioned pension plans are as follows:

	2012			2011		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Current service cost	3	–	–	4	–	–
Interest cost	50	23	18	48	20	17
Expected return on plan assets	(34)	–	(15)	(33)	–	(14)
Total income statement charge	**19**	**23**	**3**	**19**	**20**	**3**

The movement in the liability recognized in the Consolidated balance sheet is as follows:

	2012			2011		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
As at January 1	**355**	**284**	**61**	**362**	**268**	**57**
Charge against the income statement	19	23	3	19	20	3
Contributions paid	(28)	(36)	(7)	(31)	(34)	(10)
Variations recognised directly in net equity	38	36	13	(1)	31	16
Transfers	(4)	1	1	6	(6)	–
Cumulative translation	–	22	(6)	–	5	(5)
Others	–	–	–	–	–	–
As at 31 December	**380**	**330**	**65**	**355**	**284**	**61**

The accumulated amount of the actuarial gains and losses recognised directly in equity is negative by Euros 183 million for 2012 (Spain: negative Euros 34 million, Colombia: negative Euros 102 million and Brazil: negative Euros 47 million).

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

	2012 (%)			2011 (%)		
% over total	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Shares	–	–	16	–	–	16
Bonds	100	–	79	100	–	76
Real estate and other assets	–	–	5	–	–	8

Real yields on the plan-related assets in 2012, relating basically to Spain and Brazil, have been Euros 49 million (Euros 47 million in 2011).

The main annual actuarial assumptions used were as follows:

	At 31/12/12			At 31/12/11		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Discount rate[1]	1.0 a 4.2	6.5	9.8	3.1 a 4.9	7.8	11.4
Expected return on plan assets[1]	1.0 a 4.2	6.5	9.8	3.1 a 4.9	7.8	12.8
Future salary increases[1]	3.0	2.5	7.7	3	2.75	7.6
Future pension increases[1]	2.5	2.5	5.5	2.5	2.75	5.5
Inflation rate[1]	2.5	2.5	5.5	2.5	2.75	5.5
Mortality table	PERMF 2000	RV08	AT-83	PERMF 2000	RV08	AT-83

[1]per annum

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

The interest rates employed to discount the post-employment liabilities are applied based upon the period of each commitment and the reference curve is calculated as the average of the curves of corporate bonds with a high level credit rating (A, AA and AAA) at the real duration of the average flow measured in months, which does not significantly differ from what would have been obtained using the average of the curve of corporate bonds classified at AA.

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

	Inflation + 1%	Discount +1%	Healthcare +1%
Current value of the obligations	112	(162)	22
Fair value of plan-related assets	–	(71)	–
Provision for pensions	**112**	**(91)**	**22**
Cost of service for the year	1	(1)	–
Interest paid	7	7	2
Expected yield on plan-related assets	**(1)**	**3**	**–**

Other obligations with the personnell

GAS NATURAL FENOSA operates a variable multi-annual remuneration system aimed at strengthening the commitment of the management to achieving the economic objectives of the Group directly related to those established in the current Strategic Plans, approved by the Board of Directors and communicated to the financial markets and the achievement of which, along with their permanence in the Group, grants the right to receive a variable remuneration in cash in the first quarter of the year after its termination. At the close of the year the remuneration programmes 2010-2012, 2011-2013 and 2012-2014 are in vigour, and a provision has been booked, at 31 December 2012, amounting to Euros 15 million (Euros 15 million at 31 December 2011 in other provisions), of which Euros 7 million are classified as non-current in 2012 and in 2011.

Other current and non-current provisions

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

	2012			2011		
	Non-current provisions	Current provisions	Total	Non-current provisions	Current provisions	Total
As at 1 January	1,003	133	**1,136**	2,167	127	**2,294**
Charged to / reversed in the income statement						
- Allowances	71	59	**130**	264	18	**282**
- Reversals	(15)	–	**(15)**	(29)	–	**(29)**
Payments[2]	(12)	(200)	**(212)**	(53)	(5)	**(58)**
Business combinations	–	–	**–**	2	–	**2**
Cumulative translation adjustments	(1)	(2)	**(3)**	(3)	2	**(1)**
Transfers and others	(170)	154	**(16)**	(1,345)	(9)	**(1,354)**
As at 31 December	**876**	**144**	**1,020**	**1,003**	**133**	**1,136**

1 Includes Euros 28 million and Euros 42 million corresponding the financial updating of provisions 2012 and 2011, respectively. The current provisions include the contribution to the provision for excess CO_2 above the rights assigned.

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

This heading includes the provisions recorded to meet obligations arising mainly from tax claims, as well as litigation and arbitration proceedings underway. The information on the nature of the disputes with third parties and the position of the entity in relation to them is set out in the section on "Litigation and Arbitration" in Note 35.

On 14 June 2011, GAS NATURAL FENOSA and Sonatrach agreed to resolve their differences in relation to the price applicable to the gas supply contracts of Sagane S.A. (subsidiary of GAS NATURAL FENOSA) in respect of which an arbitral award was issued in 2010, determining both the price applicable to the period 2007-2009 and the price applicable from 1 January 2010 to 31 May 2011, both parties having abandoned all proceedings in progress. This agreement had no impact on the Consolidated income statement, since the risks deriving from the dispute were already provisioned, having been transferred to the item "Trade and other payables" in the amount of Euros 1,356 million, Euros 1,182 million of which was paid in 2011. The end of the price dispute has allowed the two companies to analyse partnership opportunities, resulting specifically in Sonatrach's acquisition of a minority interest in Gas Natural SDG, S.A. (Note 13).

Additionally, this account includes the provisions to meet the liabilities arising from the dismantling, restoration and other costs related to the facilities, basically electricity generating facilities, totalling Euros 363 million at 31 December 2012 (Euros 314 million in 2011). The increase is due, basically, to the consideration of the impact of the taxes established in Law 15/2012 (Note 2.d) on the production of nuclear fuel to be extracted from the reactor of the last recharge which is estimated not to be consumed at the closedown of the nuclear plants.

Current provisions include the excess issue of CO_2 above the rights assigned amounting to Euros 59 million at 31 December 2012 (Euros 18 million at 31 December 2011).

At 31 December 2012 and 2011 it was not deemed necessary to raise any provision for onerous contracts.

The estimated payment periods for the commitments provisioned in this item refer to Euros 453 million in between one and five years, Euros 116 million in between five and 10 years, and Euros 307 million after more than 10 years.

Note 16. Borrowings

The breakdown of borrowings at 31 December 2012 and 2011 is as follows:

	At 31/12/12	At 31/12/11
Issuing of debentures and other negotiable obligations	10,470	8,276
Loans from financial institutions	7,261	8,847
Derivative financial instruments	84	86
Other financial liabilities	231	330
Non-current borrowings	18,046	17,539
Issuing of debentures and other negotiable obligations	453	1,076
Loans from financial institutions	1,789	1,621
Derivative financial instruments	1	9
Other financial liabilities	143	147
Current borrowings	2,386	2,853
Total	**20,432**	**20,392**

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

	Carrying amount		Fair value	
	At 31/12/12	At 31/12/11	At 31/12/12	At 31/12/11
Issuing of debentures and other negotiable obligations	10,470	8,276	11,245	8,207
Loans from financial institutions and others	7,492	9,177	7,567	9,282

The fair value of the listed bond issues is estimated on the basis of their market price (Level 1). The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 2012 and 31 December 2011 on borrowings with similar credit and maturity characteristics. These valuations are based on the quotation price of similar financial instruments in an official market or on observable information in an official market (Level 2).

The movement in borrowings is as follows:

	2012	2011
As at 1 January	**20,392**	**20,306**
Business combinations	19	640
Increase in borrowings	5,442	4,514
Decrease in borrowings	(5,459)	(4,680)
Cumulative translation adjustment	7	9
Transfers and others[1]	31	(397)
As at 31 December	**20,432**	**20,392**

1 The year 2011 includes principally transfers to the heading "Liabilities linked to non-current assets held for sale" amounting to Euros 399 million, which were removed during the year 2011.

The following tables describe consolidated gross borrowings by instrument at 31 December 2012 and 31 December 2011 and their maturity profile, taking into account the impact of the derivative hedges.

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

	2012	2013	2014	2015	2016	2017 and beyond	Total
At December 31, 2011:							
Marketable Debt							
Fixed	742	600	1.977	790	987	3,922	9,018
Floating	334	–	–	–	–	–	334
Institutional Banks and other financial companies							
Fixed	133	127	181	177	175	638	1,431
Floating	165	33	32	46	25	112	413
Commercial Banks and other financial liabilities							
Fixed	799	723	154	110	99	349	2,234
Floating	680	1,648	263	3,224	356	791	6,962
Total Fixed	1,674	1,450	2,312	1,077	1,261	4,909	12,683
Total Floating	1,179	1,681	295	3,270	381	903	7,709
Total	**2,853**	**3,131**	**2,607**	**4,347**	**1,642**	**5,812**	**20,392**

If the impact of the derivatives on borrowings is excluded, the classification between fixed and floating rates would be: fixed, Euros 11,900 million in 2012 (Euros 10,918 million in 2011) and floating, Euros 8,447 million in 2012 (9,379 million in 2011).

The following table describes consolidated gross financial debt denominated by currency at 31 December 2012 and 31 December 2011 and its maturity profile, taking into account the impact of the derivative hedges.

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

	2012	2013	2014	2015	2016	2017 and beyond	Total
At 31 December 2011:							
Euro Debt	1,972	2,528	2,236	3,866	1,523	4,809	16,934
Foreign Currency Debt:							
US Dollar	507	428	116	276	119	600	2,046
Mexican peso	37	2	72	140	–	80	331
Brazilian real	116	77	30	21	–	12	256
Colombian peso	203	80	153	44	–	76	556
Argentinean peso	18	16	–	–	–	–	34
Rest	–	–	–	–	–	235	235
Total	**2,853**	**3,131**	**2,607**	**4,347**	**1,642**	**5,812**	**20,392**

Borrowings in Euros have borne an effective average interest rate of 3.85% at 31 December 2012 (4.14% at 31 December 2011) while borrowings in foreign currency have borne an effective average interest rate of 5.37% (5.21% at 31 December 2011), including derivative instruments assigned to each transaction.

At 31 December 2012, GAS NATURAL FENOSA has credit facilities totalling Euros 5,721 million (Euros 4,933 million at 31 December 2011), of which Euros 5,157 million have not been drawn down (Euros 4,202 million at 31 December 2011).

Bank borrowings totalling Euros 1,278 million (Euros 1,490 millions at 31 December 2011) are subject to the fulfilment of certain financial ratios relating mainly to debts incurred by the former UNIÓN FENOSA group and to the debts of Latin American companies in local market financing operations without recourse to the parent company.

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

Certain investment projects have been financed by means of specific structures (project finance) which include pledges on the shares in the project companies. At 31 December 2012, the outstanding balance of this type of financing totals Euros 708 million (Euros 812 million at 31 December 2011).

The most relevant financing instruments are described below:

Issue of bonds and other negotiable securities

In 2012 and 2011 the evolution of the issues of debt securities has been as follows:

	At 1/1/12	Issues	Buy backs or reimburse-ments	Exchange rate adjustments and others	At 31/12/12
Issued in a member state of the European Union which required the filing of a prospectus	**8,507**	3,936	(2,550)	44	**9,937**
Issued in a member state of the European Union which did not required the filing of a prospectus	–	–	–	–	–
Issued outside a member state of the European Union	**845**	144	(23)	20	**986**
Total	**9,352**	**4,080**	**(2,573)**	**64**	**10,923**

	At 1/1/11	Issues	Buy backs or reimburse-ments	Exchange rate adjustments and others	At 31/12/11
Issued in a member state of the European Union which required the filing of a prospectus	**7,484**	3,218	(2,259)	64	**8,507**
Issued in a member state of the European Union which did not required the filing of a prospectus	–	–	–	–	–
Issued outside a member state of the European Union	**635**	262	(35)	(17)	**845**
Total	**8,119**	**3,480**	**(2,294)**	**47**	**9,352**

ECP Program

On 23 March 2010 a Euro Commercial Paper program (ECP) was contracted totalling Euros 1,000 million, the issuer being Unión Fenosa Finance BV. During 2012, further issues were completed under that Programme for a total amount of Euros 1,941 million. At 31 December 2012, the amount of Euros 158 million had been drawn down on the Programme (Euros 266 million at December 2011) and the sum of Euros 842 million was available (Euros 734 million at December 2011).

Promissory Notes Program

In 2012 GAS NATURAL FENOSA did not renew the Promissory Note Program signed in July 2009 and renewed in July 2011 for a maximum amount of Euros 1,000 million. At 31 December 2012 live issues still exist under this program which amount to Euros 14 million (Euros 69 million at 31 December 2011).

EMTN Program

GAS NATURAL FENOSA, though the subsidiary companies Gas Natural Capital Markets, S.A. and Gas Natural Fenosa Finance BV (former Unión Fenosa Finance BV), maintains a European Medium Term Notes (EMTN) Program in the medium term. This Program was established in 1999 of which a total principal of up to Euro 2,000 million could be issued. Following a number of extensions, the latest in November 2011, the Programme limit is Euros 12,000 million (Euros 12,000 million at 31 December 2011). At 31 December 2012, principal drawn down totalled Euros 9,600 million (Euros 8,050 million at 31 December 2011) and the amount of Euros 2,400 million was available. The breakdown of the nominal issue balance is as follows:

Issue	Nominal	Maturity	Coupon (%)
July 2009	500	2019	6.37
July 2009	2,000	2014	5.25
November 2009	1,000	2016	4.37
November 2009	750	2021	5.12
January 2010	850	2020	4.50
January 2010	650	2015	3.37
January 2010	700	2018	4.12
February 2011	600	2017	5.63
May 2011	500	2019	5.38
February 2012	750	2018	5.00
September 2012	800	2020	6.00
October 2012	500	2017	4.12
Total	**9,600**		

Preference shares

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

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

Negotiable bonds and Certificates Programme

The Group company, Empresa de Distribución Eléctrica Metro-Oeste, S.A, located in Panama, executed the issue in May 2010 of Negotiable Commercial Securities of up to USD 50 million (Euros 39 million). The amount drawn down at 31 December 2012 totalled Euros 16 million due in 2013 (Euros 23 million at 31 December 2011).

In turn, on 3 May 2011 GAS NATURAL FENOSA, through its subsidiary Gas Natural México S.A. de C.V., registered a Stock Market Certificate Programme in the Mexican Stock Exchange for the sum of MXN 10,000 million (Euros 544 million). Under this Programme, on 20 May 2011 debt was issued for periods of four and six years and a total amount of MXN 4,000 million (Euros 234 million), the available amount being Euros 234 million, secured by Gas Natural SDG, S.A.

During the year 2012, the dependent company Gas Natural S.A. ESP, located in Colombia, signed an Ordinary Bonds program for Columbian Pesos 500,000 million (Euros 215 million) on the local capital market; in the month of October it placed under this program two issues amounting to Columbian Pesos 100,000 million (Euros 43 million) and Columbian Pesos 200,000 million (Euros 86 million) with maturity at 5 and 7 years, respectively. The balance available at 31 December 2012 under this program is Columbian Pesos 200,000 million (Euros 86 million).

Bank loans

European bank loans (commercial / institutional banks)

At 31 December 2012, bank borrowings include bank loans of Euros 5,401 million (Euros 6,595 million at 31 December 2011) and credit lines drawn in the amount of Euros 349 million (Euros 461 million at 31 December 2011). Additionally, debts incurred with Instituto de Crédito Oficial (ICO) total Euros 379 million, arranged through loans maturing in 2018 at maximum (Euros 577 million at 31 December 2011).

Additionally, the European Investment Bank (EIB) has granted financing of Euros 1,008 million to GAS NATURAL FENOSA, of which Euros 150 million are held available on a new line of financing granted and yet to be utilised.

Loans from Latin American banks (commercial / institutional banks)

At 31 December 2012 borrowings from various Latin American banks totalled Euros 1,234 million (Euros 1,263 million at 31 December 2011). The geographic breakdown of these loans is as follows: Mexico: Euros 262 million (Euros 312 million at 31 December 2011), Colombia: Euros 538 million (Euros 556 million at 31 December 2011), Brazil: Euros 209 million (Euros 256 million at 31 December 2011), Argentina: Euros 24 million (Euros 34 million at 31 December 2011), Panama: Euros 167 million (Euros 99 million at 31 December 2011), Nicaragua: Euros 6 million (Euros 6 million at 31 December 2011) and Costa Rica: Euros 28 million.

Of total Latin American borrowings at 31 December 2012, 82% to commercial banks and the remaining 18% to institutional banks (BNDES, EIB, ICO, etc.).

At 31 December 2012, the debt related to the combined cycle plant and the re-gasification plant in Puerto Rico totals Euros 134 million (Euros 156 million at 31 December 2011), including Euros 11 million in credit facilities drawn down (Euros 11 million at 31 December 2011). The most of this debt matures on long term.

Wind farm operators (commercial banks)

At 31 December 2012, wind farm operating companies had Euros 53 million in outstanding loans, mainly for project financing (Euros 66 million at 31 December 2011). Most of this debt matures on long term.

Unión Fenosa Gas (commercial / institutional banks)

At 31 December 2012, the companies belonging to Unión Fenosa Gas had Euros 372 million in outstanding loans (Euros 394 million at 31 December 2011), mainly for financing in US Dollars by European Investment Bank (EIB) to finance the natural gas liquefaction plant in Damietta (Egypt) totalling Euros 138 million (Euros 148 million at 31 December 2011), and for a loan in US Dollars given by twenty-two lending entities totalling Euros 209 million (Euros 220 million at 31 December 2011). Most of this debt matures in 2016 and beyond.

Bank loans – other countries (commercial banks)

At 31 December 2012, bank loans from other countries total Euros 20 million (Euros 14 million at 31 December 2011) and pertain mainly to Moldova and Kenya.

Other financial liabilities

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

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

	At 31/12/12			At 31/12/11		
	Nominal	Discount	Present value	Nominal	Discount	Present value
No later than 1 year	83	(3)	80	87	(4)	83
Between 1 and 5 years	245	(31)	214	274	(34)	240
Later than 5 years	–	–	–	51	(11)	40
Total	**328**	**(34)**	**294**	**412**	**(49)**	**363**

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 for GAS NATURAL FENOSA in its business is in line with the objective risk profile and achievement of its annual, strategic objectives.
- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

Interest rate risk

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

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

GAS NATURAL FENOSA uses financial swaps to manage its exposure to fluctuations in interest rates by exchanging debt at a floating rate for fixed interest rates. Additionally, please bear in mind the financial swaps contracted to mitigate the risk of a specific financing operation in Yen that does not qualify for hedge accounting.

The debt structure at 31 December 2012 and 2011, after taking into account the hedges structured through derivatives, is as follows:

	At 31/12/12	At 31/12/11
Fixed interest rate	13,645	12,683
Floating interest rate	6,787	7,709
Total	**20,432**	**20,392**

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

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

	Increase/decrease in interest rates (basics points)	Effect on profit before tax	Effect on equity before tax
2012	+50	(39)	20
	-50	40	(20)
2011	+50	(45)	18
	-50	41	(18)

Exchange rate risk

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

- Counter value of cash flows related to the sale and purchase of raw materials denominated in currencies other than local or functional currencies.

- Debt denominated in currencies other than local or functional currencies.

- Operations and investments in non-Euro currencies, and, accordingly, the counter value of equity contributed and results.

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

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

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

	%	2012	2011
Effect on profit before tax	+5	–	2
	-5	–	(2)
Effect on equity before tax	+5	21	13
	-5	(20)	(15)

Commodities price risk

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

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

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

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

	Increase / decrease in the purchase price of gas (%)	Effect on profit before tax	Effect on equity before tax
2012	+10	–	–
	-10	–	–
2011	+10	–	3
	-10	–	(3)

	Increase / decrease in the electricity sale price (%)	Effect on profit before tax	Effect on equity before tax
2012	+10	(8)	(7)
	-10	8	7
2011	+10	(7)	(7)
	-10	7	7

	Increase/decrease in the price of CO_2 emission rights (%)	Effect on profit before tax	Effect on equity before tax
2012	+10	–	–
	-10	–	–
2011	+10	–	1
	-10	–	(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 the respective credit limits are assigned.

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

The main guarantees that are negotiated are guarantees, guarantee deposits and deposits. At 31 December 2012, GAS NATURAL FENOSA had received guarantees totalling Euros 48 million to cover the risk of large industrial customers (Euros 10 million at 31 December 2011). In 2012, guarantees have been executed for amounts lower than Euros 1 million (lower than Euros 1 million at 31 December 2011)

Furthermore, the debt claims are stated on the Consolidated balance sheet net of provisions for bad debts (Note 11), estimated by GAS NATURAL FENOSA on the basis of the ageing of the debt and past experience in accordance with the prior segregation of customer portfolios and the current economic environment.

At 31 December 2012 and 2011 GAS NATURAL FENOSA does not have significant concentrations of credit risk.

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

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

The breakdown of the age of financial receivables overdue but not considered bad debts at 31 December 2012 and 2011 is as follows:

	At 31/12/12	At 31/12/11
Less than 90 days	494	338
90–180 days	162	108
More than 180	15	26
Total	**671**	**472**

The impaired financial assets are broken down in Note 11.

Liquidity risk

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

At 31 December 2012, liquidity availabilities amounted to Euros 13,293 million, considering cash and other cash equivalents amounting Euros 4,434 million (Note 12), financial asset derivates amounting to Euros 3 million (Note 8 and Note 17), bank financing and credit lines available amounting to Euros 5,157 million (Note 16) and the unused capacity to issue debt amounting to Euros 3,699 million (Note 16).

The breakdown of the maturities of the financial liabilities at 31 December 2012 and 2011 is as follows:

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

	2012	2013	2014	2015	2016	2017 and beyond	Total
At 31 December 2011							
Trade and other payables	(4,671)	–	–	–	–	–	(4,671)
Loans and other financial payables	(3,642)	(3,793)	(3,216)	(4,774)	(1,985)	(7,019)	(24,429)
Financial derivatives	(30)	(19)	(7)	(5)	(5)	65	(1)
Other liabilities	(62)	(62)	(154)	(57)	(58)	(763)	(1,156)
Total[1]	**(8,405)**	**(3,874)**	**(3,377)**	**(4,836)**	**(2,048)**	**(7,717)**	**(30,257)**

[1] The amounts are undiscounted contractual cash flows, and, accordingly, differ from the amounts included on the balance sheet and in Note 16.

Capital management

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

GAS NATURAL FENOSA considers the following to be indicators of the objectives set for capital management: maintaining, after the acquisition of UNIÓN FENOSA, a long-term leverage ratio of approximately 50%, and an A rating.

The long-term credit rating of GAS NATURAL FENOSA is as follows:

	2012	2011
Moody's	Baa2	Baa2
Standard & Poor's	BBB	BBB
Fitch	BBB+	A-

Its leverage rating is as follows:

	2012	2011
Net borrowings:	**15,995**	**17,294**
Non-current borrowings *(Note 16)*	18,046	17,539
Current borrowings *(Note 16)*	2,386	2,853
Cash and cash equivalents *(Note 12)*	(4,434)	(3,098)
Derivatives *(Note 17)*	(3)	–
Net equity:	**14,879**	**14,441**
Equity holders of the Company *(Note 13)*	13,261	12,792
Minority interests	1,618	1,649
Leverage (Net borrowings / (Net borrowings + Net equity)) (%)	**51.8**	**54.5**

Derivative financial instruments

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

	At 31/12/12		At 31/12/11	
	Assets	Liabilities	Assets	Liabilities
Derivatives qualifying for hedge accounting	–	82	–	72
Cash flow hedges				
- Interest rate	–	82	–	71
Fair value hedge				
- Exchange rate	–	–	–	1
Other financial instruments	–	2	–	14
- Interest rate and exchange rate	–	2	–	14
Derivative financial instruments – non current	–	84	–	86
Derivatives qualifying for hedge accounting	26	14	43	16
Cash flow hedges				
- Interest rate	–	–	–	9
- Exchange rate	1	9	15	1
- Commodity prices	10	4	3	6
Fair value hedge				
- Exchange rate	15	1	25	–
Other financial instruments	12	2	3	–
- Commodity prices	12	2	3	–
- Interest rate	–	–	–	–
Derivative financial instruments – current	38	16	46	16
Total	**38**	**100**	**46**	**102**

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

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

	2012		2011	
	Operating Income	Financial Income	Operating Income	Financial Income
Cash flow hedges	30	(39)	(29)	(74)
Fair value hedges	9	(6)	(22)	(5)
Other	9	12	3	3
Total	**48**	**(33)**	**(48)**	**(76)**

The breakdown of the derivative financial instruments at 31 December 2012 and 2011, their fair value and the breakdown by maturity of their notional values are as follows:

		31/12/12 Notional value (in million of Euros)						
	Fair Value	2013	2014	2015	2016	2017	Beyond	Total
Interest rate swap contracts:								
Cash flow hedges:								
Financial swaps (EUR)	(37)	55	651	254	202	135	23	1,320
Financial swaps (USD)	(45)	28	29	28	30	76	72	263
Financial swaps (MXN)	–	15	70	78	–	–	–	163
Collars (EUR)	–	2	3	2	–	–	–	7
Exchange rate hedge:								
Cash flow hedge:								
Exchange fluctuation insurance (USD)	(8)	491	3	3	–	–	–	497
Exchange fluctuation insurance (BRL)	–	–	–	–	–	–	–	–
Fair value hedge:								
Financial swaps (BRL)	–	–	–	–	–	–	–	–
Foreign exchange fluctuation insurance (BRL)	–	17	–	–	–	–	–	17
Foreign exchange fluctuation insurance (USD)	14	568	–	–	–	–	–	568
Foreign exchange fluctuation insurance (DHN)	–	6	–	–	–	–	–	6
Commodity hedge:								
Cash flow hedge:								
Commodity price derivatives (EUR)	4	332	1	–	–	–	–	333
Commodity price derivatives (USD)	2	36	–	–	–	–	–	36
Others:								
Financial swaps (JPY)	(2)	–	–	–	–	–	220	220
Commodity price derivatives (EUR)	10	89	24	11	–	–	–	124
Commodity price derivatives (USD)	–	2	–	–	–	–	–	2
Commodity price derivatives (GBP)	–	1	–	–	–	–	–	1
Total	**(62)**	**1,642**	**781**	**376**	**232**	**211**	**315**	**3,557**

	Fair Value	31/12/11 Notional value (in million of Euros) 2012	2013	2014	2015	2016	Beyond	Total
Interest rate swap contracts:								
Cash flow hedges:								
Financial swaps (EUR)	(27)	847	55	651	4	2	26	1,585
Financial swaps (USD)	(52)	203	28	29	29	31	151	471
Financial swaps (MXN)	–	14	14	67	–	–	–	95
Collars (EUR)	(1)	13	3	3	2	–	–	21
Exchange rate hedge:								
Cash flow hedge:								
Exchange fluctuation insurance (USD)	14	376	–	–	–	–	–	376
Exchange fluctuation insurance (BRL)	–	42	–	–	–	–	–	42
Fair value hedge:								
Financial swaps (BRL)	–	2	–	–	–	–	–	2
Foreign exchange fluctuation insurance (BRL)	–	10	-	–	–	–	–	10
Foreign exchange fluctuation insurance (USD)	25	351	11	–	–	–	–	362
Foreign exchange fluctuation insurance (DHN)	–	6	–	–	–	–	–	6
Commodity hedge:								
Cash flow hedge:								
Commodity price derivatives (EUR)	(3)	246	3	1	–	–	–	250
Commodity price derivatives (USD)	(1)	36	–	–	–	–	–	36
Others:								
Financial swaps (JPY)	(14)	–	–	–	–	–	220	220
Commodity price derivatives (EUR)	3	78	2	2	1	–	–	83
Total	**(56)**	**2,224**	**116**	**753**	**36**	**33**	**397**	**3,559**

Note 18. Other non-current liabilities

The breakdown of this heading at 31 December 2012 and 2011 is as follows:

	At 31/12/12	At 31/12/11
Finance lease liabilities[1]	551	571
Payables for levelling of capacity income[2]	37	68
Deposits and guarantee deposits *(Note 7)*	202	198
Finance lease liabilities[3]	44	196
Total	**834**	**1,033**

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

1) Finance lease liabilities

In 2003 GAS NATURAL FENOSA acquired two gas transport tankers to transport liquefied natural gas with a capacity of 276,000 m3 through finance lease agreements. The duration of the contracts is 20 years, maturing in 2023.

In July 2004 Unión Fenosa Gas acquired two gas tankers for the transport of liquefied natural gas with capacities of 138,000 m3 and 140,500 m^3 through 25-year time-charter contracts, extendible to 30 years.

In December 2007 a 138,000 m^3 gas tanker was acquired through a 25-year time-charter lease maturing 2032, extendible for consecutive periods of 5 years, and which represents a joint investment of Euros 162 million relating to the current value of the payments to which Repsol (50%) and GAS NATURAL FENOSA (50%) are committed.

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

Minimum lease payments are as follows:

	At 31/12/12			At 31/12/11		
	Nominal	Discount	Present value	Nominal	Discount	Present value
Less than 1 year	56	(2)	54	57	(3)	54
Between 1 and 5 years	223	(41)	182	229	(43)	186
More than 5 years	746	(377)	369	763	(378)	385
Total	**1,025**	**(420)**	**605**	**1,049**	**(424)**	**625**

The effective average interest rate on the liabilities for finance lease agreements at 31 December 2012 is 6.7% (6.8% at 31 December 2011).

2) Payables for levelling of capacity income

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

3) Other liabilities

During the year 2012, the purchase commitments without premium granted to Sinca Inbursa, S.A. de C.V and to Chemo España, S.L with maturity in 2013 (Note 20) were transferred to the heading "Other current liabilities".

Note 19. Trade and other payables

The breakdown at 31 December 2012 and 2011 is as follows:

	At 31/12/12	At 31/12/11
Trade payables	3,838	3,775
Trade payables with related parties *(Note 33)*	52	83
Amounts due to associates	46	42
Trade payables	**3,936**	**3,900**
Public Administration	417	375
Derivative financial instruments *(see Note 17)*	15	7
Amounts due to employees	94	99
Other payables	**526**	**481**
Current tax liabilities	**98**	**290**
Total	**4,560**	**4,671**

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

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

	2012		2011	
	Amount	%	Amount	%
Payments made during year within legal maximum period	10,070	99.9	7,210	99.8
Other payments made during year	8	0.1	11	0.2
Total payments during year	**10,078**	**100.0**	**7,221**	**100.0**
Weighted average period of payments outside legal period (days)	8		11	
Deferrals exceeding legal maximum period at year end	1		1	

Note 20. Other current liabilities

The breakdown at 31 December 2012 and 2011 is as follows:

	At 31/12/12	At 31/12/11
Dividend payable	411	392
Expenses accrued pending payment	151	159
Finance lease liabilities *(Note 18)*	54	54
Other liabilities[1]	191	70
Total	**807**	**675**

[1]Other liabilities

This includes the repurchase commitment of the preferential shares of Buenergia Gas & Power, Ltd. (a company holding 47.5% of EcoEléctrica, L.P.), in which GAS NATURAL FENOSA has a 95% holding with 5% held by another company, which is, moreover, the holder of the preferential shares in Buenergia that gives it a preferential right over the dividends of that company and which must be repurchased by Buenergia, to the extent in which the company distributes profits, for the amount of Dollars 6 million.

Also included is the purchase commitment without premium granted to Sinca Inbursa, S.A. de C.V. (Inbursa). On 22 September 2008, 15% of Gas Natural México, S.A. de C.V. and de Sistemas de Administración, S.A. de C.V. was sold to Inbursa, for Mexican Pesos 761 million (Euros 49 million), agreeing on a repurchase commitment of these shares. Inbursa can offer until 22 May 2013 all the shares that it has at that time to Gas Natural SDG, S.A., which will have the obligation to buy them. The purchase price will be determined as the greater of, the market value of each share, on the basis of profits of the companies held or the capital invested updated at financial interest rates. As a result of this commitment this sale was booked as a deferred payment, so that the dominant company is still assigned the percentage of the repurchase commitment. Derived from the operations performed during the year 2012 mentioned under the heading "minority interests" in Note 13, the repurchase commitment is now being granted on 14.125% of the shares of Gas Natural México, S.A. de C.V. and 14 % of Sistemas de Administración, S.A. de C.V. The liability registered at 31 December 2012 amounts to Mexican Pesos 1,035 million and is equivalent to the current value of the amount to be reimbursed (Mexican Pesos 988 million at 31 December 2011).

Also included is the purchase commitment without premium granted Chemo España, S.L. On 16 December 2008, 28% of Invergas, S.A. and Gas Natural SDG Argentina, S.A. was sold to Chemo España, S.L., resulting in a participation of 19.6% in Gas Natural BAN, S.A., Natural Energy, S.A. and Natural Servicios, S.A., for US Dollars 56 million (Euros 38 million) through an initial collection of Dollars 28 million and the rest as deferred collections (Note 8), accepting a repurchase commitment for these shares. Chemo España, S.L. may offer during the month of September 2013 all the shares that it possesses at that time GAS NATURAL FENOSA which will have the obligation to purchase them. The purchase price will be determined by the capital invested. As a result of this commitment, this sale was booked as a deferred payment, so that the dominant company is still assigned the percentages mentioned.. The liability registered at 31 December 2012 amounts to US Dollars 55 million (US Dollars 55 million at 31 December 2011) and is equivalent to the current value of the amount to be reimbursed.

Note 21. Tax situation

The Tax Group represented by Gas Natural SDG, S.A. as the parent company has been taxed since 1993 under the Consolidated Tax Regime in accordance with the Special Regime for Group Companies, regulated under Chapter VII of Title VII of the re-written Income tax Act which involves the joint determination of taxable income of GAS NATURAL FENOSA and the deductions and allowances on the tax payable. The Tax Consolidated Group for 2012 is indicated in Appendix III.

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

The reconciliation of the applicable tax rate to the effective tax rate and the breakdown of the income tax expense for 2012 and 2011 are as follows:

	2012	%	2011	%
Profit before tax	2,203		2,022	
Statutory tax	661	30.0	607	30.0
Tax rates for foreign companies	(54)	(2.4)	(42)	(2.1)
Reinvestment tax deductions	(8)	(0.4)	(39)	(1.9)
Other tax deductions	(31)	(1.4)	(25)	(1.2)
Effect of net profit under equity accounting	(4)	(0.2)	(2)	(0.1)
Tax differences against prior years and others	(18)	(0.8)	(3)	(0.2)
Income tax	546	24.8	496	24.5
Breakdown of current/deferred expense:				
Current income tax	447		441	
Deferred income tax	99		55	
Accrued Corporate income tax	546		496	

The tax deductions for the reinvestment of extraordinary profit for 2012 relate basically to the disposal of certain clients of gas and associated contracts in the Region of Madrid, which took place in compliance with the provision of anti-trust legislation (Note 9). The tax deductions for the reinvestment of extraordinary profit for 2011 relate basically to the sale of gas distribution assets in the Region of Madrid, which took place in compliance with the provision of anti-trust legislation (Note 9).

The income under the deduction for reinvestment of extraordinary profit as per article 42 of the Corporate Income Tax Act, and the investments in which they have materialised in prior years is disclosed in the annual accounts for said years. The breakdown relating to the last six years, together with that for 2012, are as follows:

Year of sale	Amount generated from sale	Amount reinvested
2006	321	321
2007	780	780
2008	152	152
2009	382	382
2010	873	873
2011	856	856
2012	39	39
Total	**3,403**	**3,403**

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

The breakdown of the tax effect relating to each component of "Other comprehensive income" of the Consolidated statement of comprehensive income for the year is as follows:

	At 31/12/12			At 31/12/11		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Measurement of available-for-sale financial assets	–	–	–	–	–	–
Cash flow hedges	(16)	5	(11)	43	(12)	31
Cumulative translation adjustments	(152)	9	(143)	(72)	8	(64)
Actuarial gains and loss and other adjustments	(87)	25	(62)	(46)	15	(31)
Total	**(255)**	**39**	**(216)**	**(75)**	**11**	**(64)**

The breakdown and movement of deferred taxes is as follows:

Deferred tax assets	Provisions for employee benefit obligations	Other provisions	Tax losses carried forward	Amortization differences	Financial instruments valuation	Other	Total
At 1/1/11	228	259	76	112	52	230	**957**
Charged/(credited) to income statement	(12)	(6)	49	5	–	(11)	25
Business combinations	–	–	–	–	–	–	–
Charged to equity	15	–	–	–	(9)	–	6
Cumulative translation adjustments	–	(2)	1	(3)	11	(2)	5
Others	(15)	(9)	41	–	(4)	(31)	(18)
At 31/12/11	216	242	167	114	50	186	**975**
Charged/(credited) to income statement	1	8	(218)	(4)	(1)	(15)	(229)
Business combinations	–	–	–	–	–	–	–
Charged to equity	25	–	–	–	2	–	27
Cumulative translation adjustments	2	6	–	–	8	1	17
Others[1]	(9)	20	232	(1)	–	4	246
At 31/12/12	235	276	181	109	59	176	**1,036**

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

Deferred tax liabilities	Amortization differences	Reinvestment capital gains	Fair value business combination[3]	Financial instruments valuation	Other	Total
At 1/1/11	**296**	**231**	**1,978**	**6**	**193**	**2,704**
Charged/(credited) to income statement	37	50	(61)	–	54	80
Business combinations	–	—	5	–	–	5
Charged to equity	–	–	–	3	–	3
Cumulative translation adjustments	(1)	–	(2)	(1)	2	(2)
Others[1]	(7)	–	(127)	–	(14)	(148)
At 31/12/11	**325**	**281**	**1,793**	**8**	**235**	**2,642**
Charged/(credited) to income statement	(15)	(22)	(96)	–	3	(130)
Business combinations	–	–	–	–	–	–
Charged to equity	–	–	–	(4)	–	(4)
Cumulative translation adjustments	(1)	–	(16)	–	4	(13)
Others[2]	226	–	(29)	–	(4)	193
At 31/12/12	**535**	**259**	**1,652**	**4**	**238**	**2,688**

1 The movement in the year 2011 in the lines "Transfers and others" reflects basically the transfer from the headings "Non-current assets held for sales" and "Liabilities linked with non-current assets held for sales" (Note 9).
2 "Transfers and others" includes an increase in "Amortisation differences" from the application of unrestricted amortisation in line with the content of Royal Decree 13/2010.
3 The heading "Fair value of business combinations" under the heading "Deferred taxes liabilities" includes basically the tax effect of the difference upon the merger as a result of the absorption of Unión Fenosa, S.A. by Gas Natural SDG, S.A. that occurred in 2009 assigned to net assets acquired which is estimated not to have tax effects, as well as the tax deduction of the part of the merger not assigned to net assets acquired.

At 31 December 2012 the tax credits that have not been recorded totalled Euros 31 million (Euros 31 million at 31 December 2011).

In November 2012 it was notified the regularisation proposals derived from the inspections performed in Gas Natural, SDG, S.A. on Corporate Income Tax, as the leading company of the Tax Group, for the years 2006 to 2008, and for other taxes at an individual level for the years 2007 and 2008. No important matters were reported, except those referring to the regularisation of the deduction for export activities amounting to Euros 5 million and which does not have any impact on the Consolidated income statement since it was fully provided for in previous years (Note 35).

The Tax Group of Gas Natural SDG, S.A. is open to inspection for the years 2009 and thereafter for the applicable taxes, while the companies proceeding from the Tax Group of which Union Fenosa, S.A. was the leading company are open to inspection for the years 2002 and thereafter for Corporate Income Tax and 2008 and thereafter for the rest of the applicable taxes.

The information on the main actions of the Tax Authorities and the position of the entity in each are discussed in the section on "Litigation and arbitration" in Note 35.

Note 22. Sales

The breakdown of this account for 2012 and 2011 is as follows:

	2012	2011
Sales of gas and connections to distribution networks	14,188	11,280
Sales of electricity and access to distribution networks	9,041	8,236
Rental of facilities, maintenance and other services	1,501	1,367
Other sales	174	193
Total	**24,904**	**21,076**

Note 23. Procurements

The breakdown of this account for 2012 and 2011 is as follows:

	2012	2011
Energy purchases	14,801	12,132
Access to transmission networks	1,845	1,433
Other purchases and Stock variation	663	509
Total	**17,309**	**14,074**

Note 24. Other operating income

The breakdown of this account for 2012 and 2011 is as follows:

	2012	2011
Other management income	247	261
Operating grants	3	2
Total	**250**	**263**

The item "Other management income" includes income from services relating to the construction or betterment of concession infrastructures under IFRIC 12 in the amount of Euros 117 million (Euros 95 million in 2011).

Note 25. Personnel costs

The breakdown of this heading for 2012 and 2011 is as follows:

	2012	2011
Wages and salaries	707	699
Social security costs	129	126
Defined contribution plans	32	32
Defined benefit plans	4	4
Own work capitalised	(85)	(82)
Others	84	79
Total	**871**	**858**

The average number of employees of GAS NATURAL FENOSA in 2012 has been 16,172 and 16,274 in 2011.

Under Law 3/2007 of 22 March, on gender equality, published in the Official State Gazette on 23 March 2007, the number of employees of GAS NATURAL FENOSA at the end of 2012 and 2011 broken down by category and gender is as follows:

	2012		2011	
	Male	Female	Male	Female
Executives	931	291	862	249
Middle management	2,341	582	2,239	551
Specialized technicians	2,562	1,478	2,524	1,434
Workers	5,580	2,194	6,087	2,256
Total	**11,414**	**4,545**	**11,712**	**4,490**

	2012	2011
Spain	8,247	8,358
Rest of Europe	1,238	1,553
Latin American	5,436	5,475
Others	1,038	816
Total	**15,959**	**16,202**

Note 26. Other operating expenses

The breakdown of this heading for 2012 and 2011 is as follows:

	2012	2011
Repairs and maintenance	445	439
Commercial services & advertising	382	339
Taxes	285	310
Bad debt provision *(Note 11)*	235	216
Professional services & insurance	177	170
Construction or improvement services *(IFRIC 12) (Note 24)*	117	95
Procurements	105	89
Leases	61	57
Expenses for emission of CO_2	59	17
Energy efficiency	45	49
Others	252	232
Total	**2,163**	**2,013**

At 31 December 2011 under the heading "Taxes" an amount of Euros 52 million was booked in the Colombian subsidiaries in respect of Wealth Tax, introduced when Law 1370 was amended, taxing the value of assets at 1 January 2011, although the tax is payable in 8 instalments from 2011 to 2014.

"Energy efficiency" includes GAS NATURAL FENOSA's contribution to energy saving and efficiency policies under Royal Decree-Law 14/2010 (Note 2).

Note 27. Other results

In 2012 this corresponds to the capital gains earned from the disposal of certain gas clients and other associated contracts in the Region of Madrid amounting to Euros 20 million (Note 9).

In 2011 this relates basically to the gain obtained on the disposal of additional distribution assets in Madrid for the sum of Euros 280 million (Note 9) and the gain obtained in the business combination through the acquisition of wind energy companies from ACS (Note 30) in the amount of Euros 3 million. It also includes the loss generated by the sale of the Guatemalan electricity distributors in the amount of Euros 9 million (Note 9) and the loss of Euros 4 million on the EUFER swap (Note 9).

Note 28. Net financial income

The breakdown of this account for 2012 and 2011 is as follows:

	2012	2011
Dividends	2	4
Interest income	107	71
Others	69	62
Total financial income	**178**	**137**
Financial expense from borrowings	(865)	(892)
Interest expenses of pension plans and other post-employment benefits	(42)	(39)
Other financial expenses	(153)	(142)
Total financial expenses	**(1,060)**	**(1,073)**
Variations in the fair value of derivate financial instruments (Note 17)	15	2
Net exchange gains/losses	(7)	–
Gain on sales of financial instruments	–	2
Net financial income	(874)	(932)

Gains and losses on the sale of financial instruments in 2011 relate to the gain of Euros 1 million on the sale of the 15% shareholding in Ecoenergía de Navarra, S.A. and the gain of Euros 1 million on the liquidation of Ensafeca Holding Empresarial, S.L. (Note 7).

Note 29. Cash generated from operating activities

The breakdown of cash generated from operations in 2012 and 2011 is as follows:

	2012	2011
Net income before tax	**2,203**	**2,022**
Adjustments to net income:	**2,540**	**2,510**
Depreciation and amortisation of fixed assets (Note 5 and 6)	1,798	1,750
Other adjustments to net income:	742	760
Net financial income (Note 28)	874	932
Profit of entities recorded by equity method (Note 7)	(10)	(7)
Release of fixed assets grants to income (Note 14)	(34)	(35)
Other results (Note 27)	(20)	(268)
Net variation in Provisions	(68)	138
Chances in working capital (excluding the effects on the consolidation scope and cumulative translation adjustments)	**(7)**	**(1,298)**
Inventories	(45)	(127)
Trade and other accounts receivable	(45)	(619)
Trade and other accounts payable	83	(552)
Other cash flows generated from operations:	**(1,299)**	**(1,097)**
Interest received	(827)	(845)
Interest collected	91	59
Income tax payments	(563)	(311)
Cash flows generated from operating activities	**3,437**	**2,137**

Note 30. Business combinations

2012

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

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

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

2011

During 2011 a number of wind energy companies and gas distribution companies were acquired in Italy, in line with GAS NATURAL FENOSA's strategic objectives.

Acquisition of EUFER's wind energy businesses

As indicated in Note 9, due to the agreement to end the collaboration with Enel Green Power through EUFER, GAS NATURAL FENOSA acquired approximately one half of EUFER's business and its assets and liabilities, the operation having included the transfer of the relevant human and other resources necessary to carry on the electricity generation activity under the special regime. The operation was therefore deemed to be a business combination and not an acquisition of assets.

The cost of the business combination, net of the debt assumed, is equal to the fair value calculated by independent third parties specifically for the operation. Set out below is a breakdown of the net assets acquired showing their carrying amount in EUFER and their fair values:

Cost of the business combination	286
Fair value of the net assets acquired	282
Goodwill *(Note 5)*	4

	Fair value	Carrying value
Other intangible assets	204	33
Property, plant and equipment	665	665
Non-current financial assets	3	3
Other current assets	39	39
Cash and other cash equivalents	21	21
Total assets	**932**	**761**
Minority interests	6	6
Non-current provisions	2	2
Non-current financial liabilities	546	546
Other non-current liabilities	5	1
Current financial liabilities	33	33
Other current liabilities	58	45
Total liabilities	**650**	**633**
Fair value of the net assets acquired	**282**	**–**

Had the transaction been completed on 1 January 2011, the impact on consolidated revenue and on consolidated results would not have been significant.

This business combination was recognised provisionally, since the 12-month period following the acquisition has not elapsed, as per

IFRS 3. As a result of the purchase price allocation process, the value of intangible assets was increased, relating basically to licences to operate the assets received (mainly wind farms). As the main shareholdings received by Gas Natural Fenosa Renovables, S.A. (subsidiary of GAS NATURAL FENOSA) have been merged, most of this value increase had a tax effect.

Acquisition of wind energy companies from ACS

On 30 June 2011 a purchase and sale agreement was concluded with the ACS Group encompassing the sale of ACS' direct and indirect holdings in five wind farms with a capacity of 95.5 MW located in several Autonomous Regions for a price of Euros 66 million, together with certain debt claims totalling Euros 6 million. Once the necessary regulatory and administrative authorisations had been obtained, the agreement was executed on 12 September 2011.

Through this acquisition, the shareholding in the company Explotaciones Eólicas Sierra de Utrera, S.L. was increased from 50% to 75% and the interest in the parent company Energías Ambientales Easa, S.A. rose from 33.33% to 100%. As this was an acquisition in stages, the prior interests held were restated to fair value on the acquisition date. The difference between the carrying amount of the prior interests and their fair value generated a gain of Euros 3 million that was recognised in the item "Other results" (Note 27).

Set out below is a breakdown of the net assets acquired showing their historical carrying amounts and fair values:

Cost of the business combination	66
Fair value of the net assets acquired	66
Change in fair value of assets acquired in first stage	3
Gain *(Note 27)*	(3)

	Fair value	Carrying value
Other intangible assets	56	–
Property, plant and equipment	37	37
Other non-current assets	5	4
Other current assets	10	10
Cash and cash equivalents	11	11
Total assets	**119**	**62**
Non-current financial liabilities	16	16
Other non-current liabilities	2	2
Current financial liabilities	6	6
Other current liabilities	19	19
Total liabilities	**43**	**43**
Fair value of net assets acquired	**76**	**–**
Minority interests	(10)	–
Fair value of net assets acquired	**66**	**–**

Had the transaction been completed on 1 January 2011, the impact on consolidated revenue and on consolidated results would have been an increase of Euros 13 million and Euros 2 million, respectively.

This business combination was recognised provisionally, since the 12-month period following the acquisition has not elapsed, as per IFRS 3. As a result of the purchase price allocation process, the value of intangible assets was increased, relating basically to licences to operate the wind farms. As the main shareholdings received by Gas Natural Fenosa Renovables, S.A. (subsidiary of GAS NATURAL FENOSA) were merged, most of this value increase had a tax effect.

Acquisition of wind energy companies from Gamesa

On 28 November 2011 a purchase and sale agreement was concluded with Gamesa Energía to acquire all the share capital of Sistemas Energéticos Alto de Seixal, S.A. Sociedad Unipersonal, which operates a 30 MW wind farm, for a price of Euros 11 million. Once the necessary regulatory and administrative authorisations had been obtained, the agreement was executed on 28 December 2011.

Set out below is a breakdown of the net assets acquired showing their carrying amounts in Sistemas Energéticos Alto de Seixal, S.A. and their fair values:

Cost of the business combination	11
Fair value of the net assets acquired	11
Goodwill ***(Note 5)***	–

	Fair value	Carrying value
Other intangible assets	12	–
Property, plant and equipment	34	34
Other current assets	4	4
Total assets	**50**	**38**
Non-current financial liabilities	39	39
Total liabilities	**39**	**39**
Fair value of net assets acquired	**11**	**–**

Had the transaction been completed on 1 January 2011, the impact on consolidated revenue and on consolidated results would not have been significant.

This business combination was recognised provisionally, since the 12-month period following the acquisition has not elapsed, as per IFRS 3. As a result of the purchase price allocation process, the value of intangible assets was increased, relating basically to licences to operate the wind farms. As the main shareholdings received by Gas Natural Fenosa Renovables, S.A. (subsidiary of GAS NATURAL FENOSA) were merged, most of this value increase had a tax effect.

Acquisition of a gas distribution company in Italy

Finally, on 6 December 2011 a purchase and sale agreement was signed, and executed on 22 December 2011, for all the share capital of the Italian company Favellato Reti, S.R.L., which distributes natural gas in the Italian provinces of Foggia, Isernia and Benevento, for a price of Euros 10 million.

Set out below is a breakdown of the net assets acquired showing their carrying amounts in Favellato Reti, S.R.L. and their fair values:

Cost of the business combination	10
Fair value of the net assets acquired	10
Goodwill *(Note 5)*	–

	Fair value	Carrying value
Other intangible assets	9	9
Property, plant and equipment	2	2
Total assets	**11**	**11**
Current liabilities	1	1
Total liabilities	**1**	**1**
Fair value of net assets acquired	**10**	**–**

Had the transaction been completed on 1 January 2011, the impact on consolidated revenue and on consolidated results would not have been significant.

This business combination was recognised provisionally, since the 12-month period following the acquisition has not elapsed, as per IFRS 3.

The definite purchase price allocations of the business combinations for the year 2011 shown earlier were finished during the year 2012 and there were no modifications to the preliminary assignations.

Note 31. Joint Ventures

GAS NATURAL FENOSA participates in different joint ventures that meet the conditions indicated in Note 3.3.1.b) and which are described in Appendix I. The relevant shareholdings in joint ventures at 31 December 2012 and 2011 are as follows:

	2012 (%)	2011 (%)		2012 (%)	2011 (%)
Barras Eléctricas Galaico Asturianas, S.A.	44.9	44.9	EcoEléctrica Holding Ltd y dependientes	50.0	50.0
Barras Eléctricas Generación, S.L.	45.0	45.0	Eléctrica Conquense, S.A.	46.4	46.4
Centrales Nucleares Almaraz-Trillo, A.I.E	19.3	19.3	Eléctrica Conquense Distribución, S.A.	46.4	46.4
Comunidad de Bienes Central Nuclear de Almaraz	11.3	11.3	Gas Natural West Africa, S.L.	40.0	40.0
Comunidad de Bienes Central Nuclear de Trillo	34.5	34.5	Nueva Generadora del Sur, S.A.	50.0	50.0
Comunidad de Bienes Central Térmica de Aceca	50.0	50.0	Repsol - Gas Natural LNG, S.L.	50.0	50.0
Comunidad de Bienes Central Térmica de Anllares	66.7	66.7	Subgroup Unión Fenosa Gas	50.0	50.0

The following amounts represent GAS NATURAL FENOSA's interest share of assets and liabilities, and sales and results of the joint ventures:

	At 31/12/12	At 31/12/11
Non-current assets	3,525	3,729
Current assets	600	568
Assets	**4,125**	**4,297**
Non-current liabilities	989	1,166
Current liabilities	398	419
Liabilities	**1,387**	**1,585**
Net assets	**2,738**	**2,712**

	2012	2011
Income	1,346	1,222
Expenses	1,238	1,085
Profit after income tax	**108**	**137**

There are no contingent liabilities on the holdings in joint ventures. The disclosure on contractual commitments in Note 35 include the commitments for gas purchases of Unión Fenosa Gas and EcoEléctrica LP totalling Euros 12,195 million at 31 December 2012 (Euros 12,052 million at 31 December 2011), the commitments for the purchase of nuclear fuel totalling Euros 55 million at 31 December 2012 (Euros 59 million at 31 December 2011), the commitments for the cession of electricity generation capacity of EcoEléctrica LP amounting to Euros 315 million (Euros 354 million at 31 December 2011) and the commitments for operating lease payments for the gas transport vessels of Unión Fenosa Gas totalling Euros 158 million at 31 December 2012 (Euros 133 million at 31 December 2011).

Note 32. Service Concession Agreements

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

Company	Activity	Country	Concession period	Initial remaining period
Gas Natural BAN, S.A.	Gas distribution	Argentina	35 (extendible 10)	15
Companhia Distribuidora de Gás do Río de Janeiro, S.A, Ceg Rio, S.A. y Gas Natural Sao Paulo Sul, S.A.	Gas distribution	Brazil	30 (extendible 20/30)	15-18
Gas Natural, S.A. ESP, Gas Natural del Oriente S.A. ESP, Gas Natural Cundiboyacense S.A. ESP y Gas Natural del Cesar S.A. ESP.	Gas distribution	Colombia	15-50 (extendible 20)	2-35
Gas Natural Distribuzione SpA, Cetraro Distribuzione Gas, S.R.L, Favellato Reti Gas, S.R.L y Cilento Reti Gas, S.R.L	Gas distribution	Italy	11-30	1-26
Gas Natural México S.A. de C.V.y Comercializadora Metrogas S.A. de C.V.	Gas distribution	Mexico	30 (extendible 15)	15-26
Europe Maghreb Pipeline Ltd	Gas transportation	Morocco	25 (extendible)	9
Unión Fenosa Generadora La Joya, S.A.y Unión Fenosa Generadora Torito, S.A.	Electricity generation	Costa Rica	20	10-18
Gas Natural SDG, S.A. y Gas Natural Fenosa Renovables, S.L.	Hydro-electricity generation	Spain	14-100	10-51
Red Unión Fenosa, S.A.	Electricity distribution	Moldova	25 (extendible)	13
Distribuidora de Electricidad del Norte, S.A. y Distribuidora de Electricidad del Sur, S.A.	Electricity distribution	Nicaragua	30	18
Empresa Distribuidora de Electricidad Metro Oeste, S.A. y Empresa Distribuidora de Electricidad Chiriqui, S.A.	Electricity distribution	Panama	15	1

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

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

Note 33. Related-parties disclosures

Related persons are as follows:

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

On the basis of this definition, the significant shareholders of GAS NATURAL FENOSA are Criteria Caixaholding, S.A.U., and consequently, Caixa d´Estalvis I Pensions de Barcelona Group (“la Caixa” Group), Repsol Group, Caixa d’Estalvis de Catalunya (to 28 November 2011, when the Board director designated by this company handed in his resignation).

- Directors and executives of the company, and their immediate families. The term “Director” means a member of the Board of Directors; “executive” means a member of the Management Committee of GAS NATURAL FENOSA. The operations with directors and executives are disclosed in Note 34.

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

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

2012

Income and expenses (Thousand Euros)	“la Caixa” Group	Repsol Group
Financial expense	11,464	–
Leases	–	–
Services received	–	73,702
Goods purchased (finished or in progress)	–	1,175,291
Other expenses[1]	43,844	–
Total expenses	**55,308**	**1,248,993**
Financial income	30,823	–
Leases	–	360
Provision of services	–	41,371
Sale of goods (finished or in progress)	–	1,171,298
Other income	884	–
Total income	**31,707**	**1,213,029**

2012

Other transactions (Thousand Euros)	“la Caixa” Group	Repsol Group
Acquisition of property, plant and equipment, intangible assets or other assets	–	5,044
Financing agreements: loans and capital contributions (lender)[2]	1,860,377	–
Sale of property, plant and equipment, intangible assets or other assets[3]	814,873	–
Financing agreements: loans and capital contributions (borrower)[4]	512,796	–
Deposits and guarantees deposits received	112,500	–
Dividends and other distributed profit	290,336	247,009
Other operations[5]	603,460	–

2012

Trade debtors and creditors (in thousand Euros)	"la Caixa" Group	Repsol Group
Trade and other receivables	–	121,600
Trade and other payables	–	51,700

2011

Income and expenses (Thousand Euros)	"la Caixa" Group	Repsol Group	Catalunya Caixa*
Financial expense	12,601	–	1,850
Leases	590	–	–
Services received	–	69,586	–
Goods purchased (finished or in progress)	–	884,397	–
Other expenses (1)	24,950	–	274
Total expenses	**38,141**	**953,983**	**2,124**
Financial income	15,617	–	433
Leases	–	353	–
Provision of services	–	31,159	–
Sale of goods (finished or in progress)	–	687,624	–
Other income	760	–	–
Total income	**16,377**	**719,136**	**433**

2011

Other transactions (Thousand Euros)	"la Caixa" Group	Repsol Group	Catalunya Caixa *
Acquisition of property, plant and equipment, intangible assets or other assets	–	3,340	–
Financing agreements: loans and capital contributions (lender)[2]	1,040,631	–	–
Sale of property, plant and equipment, intangible assets or other assets[3]	623,570	518	–
Financing agreements: loans and capital contributions (borrower)[4]	550,088	9,918	–
Deposits and guarantees deposits received	112,500	–	–
Dividends and other distributed profit	118,885	97,755	11,992
Other operations[5]	1,010,004	–	–

Trade debtors and creditors (in thousand Euros)	"la Caixa" Group	Repsol Group	Catalunya Caixa *
Trade and other receivables	–	7,000	–
Trade and other payables	–	83,100	–

* Until November 28, 2011.
1 Includes contributions to pension plans, collective insurance policies, life insurance policies, and other expenses.
2 Includes treasury and financial investments.
3 Includes basically the assignment of debt claims (factoring without recourse) to the "la Caixa" Group made during each of the years.
4 At 31 December 2012 the credit facilities extended by the "la Caixa" Group totalled Euros 474,317 thousand (Euros 474,914 thousand at 31 December 2011), of which Euros 16,292 thousand had been drawn down (Euros 30,316 thousand at 31 December 2011). Additionally, the "la Caixa" Group has stakes in syndicated loans of Euros 300,000 thousand (Euros 300,000 thousand at 31 December 2011) and other loans totalling Euros 196,504 thousand (Euros 207,665 thousand at 31 December 2011). At 31 December 2011, this item includes the fully-paid capital increase in which the "la Caixa" Group and the Repsol Group opted to receive new shares in Gas Natural SDG, S.A. (Note 13).
5 At December 31, 2012 "Other operations" with the "la Caixa" Group include Euros 459,183 thousand for exchange rate hedges (Euros 566,587 thousand at December 31, 2011) and Euros 144,277 thousand for interest rate hedges (Euros 443,417 thousand at December 31, 2011).

Note 34. Disclosures regarding members of the Board of Directors and the 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 an amount of 4% of liquid profits to remuneration of the members of the Board of Directors, which can only be drawn once the legal reserve and any other obligatory reserves have been covered, and if the shareholders have recognised a dividend of at least 4% of its nominal value.

The amount accrued by the members the Board of Directors of Gas Natural SDG, S.A., for belonging to the Board of Directors, Executive Committee (EC), Audit and Control Committee (A&CC) and Appointments and Remuneration Committee (A&RC), totalled Euros 4,062 thousand (Euros 4,074 thousand in 2011), broken down as follows in Euros:

	Office	Board	EC	A&CC	A&RC	Total
Mr Salvador Gabarró Serra	Chairman	550,000	550,000	–	–	1,100,000
Mr Antonio Brufau Niubó	Vice-Chairman	126,500	126,500	–	12,650	265,650
Mr Rafael Villaseca Marco	CEO	126,500	126,500	–	–	253,000
Mr Ramón Adell Ramón	Director	126,500	–	8,050	–	134,550
Mr Enrique Alcántara-García Irazoqui	Director	126,500	80,500	–	–	207,000
Mr Xabier Añoveros Trías de Bes[2]	Director	92,000	–	–	–	92,000
Mr Demetrio Carceller Arce	Director	126,500	126,500	–	–	253,000
Mr Santiago Cobo Cobo	Director	126,500	–	–	12,650	139,150
Mr Nemesio Fernandez Cuesta	Director	126,500	–	–	–	126,500
Mr Felipe González Márquez	Director	126,500	–	–	–	126,500
Mr Carlos Kinder Espinosa[1]	Director	46,000	46,000	4,600	–	96,600
Mr Emiliano López Achurra	Director	126,500	126,500	–	–	253,000
Mr Carlos Losada Marrodán	Director	126,500	126,500	12,650	–	265,650
Mr Juan María Nin Génova	Director	126,500	126,500	–	–	253,000
Mr Heribert Padrol Munté[2]	Director	92,000	–	–	–	92,000
Mr Juan Rosell Lastortras	Director	126,500	–	–	–	126,500
Mr Luis Suárez de Lezo Mantilla	Director	126,500	–	12,650	–	139,150
Mr Miguel Valls Maseda	Director	126,500	–	–	12,650	139,150
		2,551,000	**1,435,500**	**37,950**	**37,950**	**4,062,400**

1 Are part of the Board of Directors until 20 April 2012.
2 Are part of the Board of Directors from 20 April 2012.

In the year 2012, as in the year 2011, no additional amounts were received corresponding to the Board of other participated companies.

The amounts received by the Chief Executive Officer for the executive functions under the concept of fixed remuneration, annual variable remuneration, multi-annual variable remuneration and other concepts amounted to Euros 1,043 thousand, Euros 975 thousand, Euros 761 thousand and Euros 5 thousand, respectively, in the year 2012 (Euros 1,012 thousand, Euros 966 thousand, Euros 0 thousand and Euros 3 thousand in the year 2011).

Additionally, and substituting the multi-annual variable remuneration, in the year 2011, an amount of Euros 1,725 thousand was paid, of an extraordinary and singular nature, which was an incentive established to reward the acquisition and integration of UNIÓN FENOSA, which was performed from the year 2008.

Contributions to pension plans and group insurance policies totalled Euros 270 thousand in 2012 (Euros 263 thousand in 2011).

The members the Board of Directors of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised.

The contract of the Chief Executive Officer contains a clause that stipulates an indemnity that trebles his annual compensation in certain cases of termination of contract and an indemnity equivalent to one year's pay for the one-year post-employment non-compete clause.

Transactions with Directors

In accordance with the content of article 229 of the Capital Companies Law, we disclose below the holdings and offices of the Directors in the share capital of companies with the same, analogous or complementary activity as that which constitutes the corporate purposes of GAS NATURAL FENOSA.

Administrators and position in other Companies with similar or complementary Activity		Number of shares and percentage in:					
		Gas Natural Fenosa	Enagás	Repsol	Endesa	Red Eléctrica	Iberdrola
Mr. Salvador Gabarró Serra Vice-President 1° of "la Caixa" Board Member of Caixabank, S.A.	Chairman	3,262 (0.000)	14,371 (0.006)	–	–	10,502 (0.008)	84,736 (0.001)
Mr. Antonio Brufau Niubó President of Repsol , S.A.	Vice-Chairman	81,139 (0.008) 1,086 (0.000)[1]	–	237,974 (0.022) 1,724 (0.000)[1]	–	–	–
Mr. Rafael Villaseca Marco Vice-President of Repsol-Gas Natural LNG, S.L.	CEO	13,055 (0.001)	356 (0.000)	646 (0.000)	859 (0.000)	–	2,614 (0.000)
Mr. Enrique Alcántara-García Irazoqui	Director	8,339 (0.001) 21,749 (0.002)[1]	–	–	–	–	7,459 (0.000)
Mr. Xabier Añoveros Trías de Bes	Director	350 (0,000)	–	–	–	–	–
Mr. Juan María Nin Génova Director General of "la Caixa" Vice-President and Chief Executive of Caixabank, S.A. Vice-President of Criteria Caixaholding, S.A.U. Board Member of Repsol, S.A. Board Member of Grupo financiero INBURSA	Director	156 (0,000)	–	253 (0.000)	–	–	–
Mr. Juan Rosell Lastortras Board Member of Caixabank, S.A.	Director	2,000 (0,000)[1]	–	–	–	–	–
Mr. Demetrio Carceller Arce President of Disa Corporación Petrolífera, S.A. President of Disa Peninsular, S.L.U.	Director	2,826 (0.000) 31,150 (0.003)[1]	–	–	–	–	–
Mr. Luis Suárez de Lezo Mantilla Secretary Board Member of Repsol , S.A. Board Member of Repsol – Gas Natural LNG, S.L. Vice-President de la Fundación Repsol Member of the Environmental and Energy Committee of the International Chamber of Commerce (ICC)	Director	18,156 (0.002) 998 (0.000)[1]	–	21,189 (0.002) 384 (0.000)[1]	–	–	359 (0.000)[1]

Administrators and position in other Companies with similar or complementary Activity		Number of shares and percentage in: Gas Natural Fenosa	Enagás	Repsol	Endesa	Red Eléctrica	Iberdrola
Mr. Felipe González Márquez	Director	1,902 (0.000)	–	–	–	–	91 (0.000)
Mr. Ramón Adell Ramón	Director	1,500 (0.000)	–	–	–	–	–
Mr. Santiago Cobo Cobo	Director	683 (0.000)	–	–	–	–	–
Mr. Emiliano López Atxurra Board Member of Petróleos del Norte, S.A.	Director	1,098 (0.000)	–	–	–	–	–
Mr. Carlos Losada Marrodán Board Member of Innoenergy	Director	2,020 (0.001) 13,168 (0.001)[1]	–	–	–	–	–
Mr. Miguel Valls Maseda	Director	7,000 (0.001)	–	–	–	–	–
Mr. Nemesio Fernández-Cuesta Luca de Tena Director General of Business of Repsol, S.A. Management Committee Member and Operations Committee Member of Repsol, S.A.. President of Repsol Exploración, S.A. President of Repsol Sinopec Brasil, S.A. President of Repsol Gas Natural LNG, S.L. President of Repsol Petroleo, S.A. President of Repsol Comercial de Productos Petroliferos, S.A.	Director	1 (0.000)	–	43,664 (0.003)	–	–	–
Mr. Heribert Padrol Munté	Director	–	–	–	–	–	–

1 The number of shares held by linked persons.

In the operations with related parties (significant shareholders) that have been submitted for approval by the Board, subject to a favourable report of the Appointments and Remuneration Committee, the Directors representing the related party involved have abstained from voting.

Remuneration of the Management Committee

The amounts received by the members of the Management Committee, excluding those by the Chief Executive Officer detailed previously, in respect of fixed remuneration, annual variable remuneration, multi-annual variable remuneration and other items, totalled Euros 4,144 thousand, Euros 2,853 thousand, Euros 1,807 thousand and Euros 112 thousand, respectively in 2012 (Euros 4,177 thousand, Euros 2,405 thousand, Euros 0 thousand and Euros 72 thousand in 2011).

The amount of fixed remuneration in the year 2012 includes Euros 132 million received in shares of the Company, in agreement with the Share Purchase plan referred to in Note 3.3.14 d).

Additionally, and substituting the multi-annual remuneration, in the year 2011, an amount of Euros 3,919 thousand was paid, of an extraordinary and singular nature, which was an incentive to reward the acquisition and integration process of UNION FENOSA, which was performed since the year 2008.

Contributions to pension plans and group insurance policies totalled Euros 1,887 thousand in 2012 (Euros 1,811 thousand in 2011).

The members the Management Committee of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances.

During the year 2012, the indemnities paid for the extinction of contract and other concepts amounted to Euros 1,613 thousand, with no amounts under this concept paid during the year 2011.

The contracts of the members of the Management 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.

Transactions with Directors and executives

The Directors and executives have not carried out any operations outside ordinary business in 2012 and 2011 or any operations not carried out at arm's length with the company or the Group companies.

Note 35. Commitments and contingent liabilities

Guarantees

At 31 December 2012 GAS NATURAL FENOSA has given guarantees to third parties for activities totalling Euros 1,630 million.

On the other hand, financial guarantees have also been given totalling Euros 650 million, of which Euros 264 million relate to the guarantee for compliance with the obligations on the loan received by investee companies.

GAS NATURAL FENOSA estimates that the liabilities not foreseen at 31 December 2012, if any, that could given arise from the guarantees given, would not be significant.

Contractual commitments

The following tables present the contractual commitments for purchases and sales at 31 December 2012:

	At 31 December 2012						
Purchase	**Total**	**2013**	**2014**	**2015**	**2016**	**2017**	**And beyond**
Commitments for operating leases[1]	730	98	85	56	35	33	423
Commitments for purchases of natural gas[2]	111,281	10,156	9,539	9,210	7,403	7,847	67,126
Commitments for purchases of nuclear fuel	55	31	24	–	–	–	–
Commitments for transport of natural gas[3]	2,742	176	179	181	233	365	1,608
Commitments for investments[4]	200	119	81	–	–	–	–
Total contractual obligations	**115,008**	**10,580**	**9,908**	**9,447**	**7,671**	**8,245**	**69,157**

Sales	At 31 December 2012						
	Total	2013	2014	2015	2016	2017	And beyond
Commitments for assignment of combined cycle capacity [5]	4,449	238	231	220	287	262	3,211
Commitments for sales of natural gas[6]	18,136	5,405	4,579	3,542	1,027	1,002	2,581
Total contractual obligations	**22,585**	**5,643**	**4,810**	**3,762**	**1,314**	**1,264**	**5,792**

1 Basically reflects the payments foreseen for the operating lease of the five liquefied natural gas transport tankers which terminate in the period 2013-2019 and the operating costs related to the tanker fleet contracts under finance leases indicated in Note 18. Also included is the rent of the "Torre del Gas" building owned by Torre Marenostrum, S.L., for which GAS NATURAL FENOSA has an operating lease without a purchase option for a period of ten years as from March 2006, extendible at market value for successive periods of three years, which is discretionary for GAS NATURAL FENOSA and obligatory for Torre Marenostrum, S.L.

2 Basically reflects the long-term commitments for natural gas purchases under gas supply contracts with take or pay clauses negotiated and held for "own use" (Note 3.3.7.3). Normally, these contracts are for 20-25 years, a minimum amount of gas to be purchased and revision mechanisms for prices indexed to international natural gas prices and regulated prices of natural gas in the countries of origin. The commitments according to these contracts have been calculated on the basis of natural gas prices at 31 December 2012.

This also includes long-term commitments to buy electricity (Note 9), calculated based on prices at 31 December 2012.
Includes the purchase volumes of the gas supply contract signed in November 2011 with the North American group Cheniere, complying in the year 2012 with the suspension conditions to which the contract was subject.

3 Reflects the long-term commitments (20 to 25 years) for gas transport calculated on the basis of prices at 31 December 2012.

4 Basically reflects payment commitments for the development of the distribution network and other gas infrastructures and the development of the electricity distribution network.

5 Reflects the commitments as per the long-term contracts (25 years) of assignment of electricity generation capacity in Mexico and Puerto Rico without a purchase option, classified as operating leases (Note 3.3.16). The commitments under these contracts have been calculated on the basis of prices at 31 December 2012.

6 Reflects the long-term commitment to sell natural gas under gas sale contracts with take or pay clauses negotiated and maintained for "own use" (Note 3.3.7.3). Calculated on the basis of natural gas prices at 31 December 2012.

Litigation and arbitration

At the date of formulation of these Consolidated annual accounts the main litigation or arbitration to which GAS NATURAL FENOSA is a party are as follows:

Tax claims in Spain

As a result of the different tax audits on the fiscal years from 2003 to 2008, the Inspectors have questioned the applicability of the export deduction used by GAS NATURAL FENOSA, and assessments were signed in disagreement and appealed through Economic-Administrative claims. The total amount, including interest, at 31 December 2012 involved in these assessments totals Euros 85 million, which is fully provided for.

Tax claims in Argentina

The Argentine tax authorities made several tax claims totalling ARS 257 million including accrued interest (Euros 40 million) for the tax treatment of capital gains in the period from 1993 to 2001, arising from the transfer of distribution networks by third parties to Gas Natural BAN, S.A. All the claims have been opposed and it was estimated that a final judgment favourable to the company would be handed down. Thus, the National Appellate Court finally ruled in 2007, for the period 1993-1997, voiding the Judgement of the Federal Public Administration Treasury (Administración Federal de Ingresos Públicos - AFIP), which had claimed the tax alleged due, and confirming moreover, the voiding of the fines. The decision of the Appellate Court has been appealed to the Supreme Court.

Tax claims in Brazil

In September 2005 the Administrative Court of Río de Janeiro voided the claim that had been filed previously in April 2003 against offsetting the tax credits for the contributions on sales of PIS and COFINS paid by Companhia Distribuidora de Gás do Rio de Janeiro - CEG. The administrative court confirmed this judgement in March 2007, and, accordingly, the company filed an appeal before the contentious-administrative court, (Justicia Federal do Rio de Janeiro), an appeal which is now being heard. Subsequently, on 26 January 2009 notice was given of a public civil suit against CEG for the same events. GAS NATURAL FENOSA and the legal advisors of the company believe that the actions mentioned above are baseless, and, accordingly, it is not likely that losses will arise from this litigation. The amount of the tax payable in question, actualised at 31 December 2012, totals BR 361 million (Euros 134 million).

Claim against Edemet-Edechi (Panama)

In April 2012 notification was received on the not-guilty sentence in the second application which leaves ineffective that of the first application, which had condemned the companies of Grupo Empresa Distribuidora de Electricidad Metro Oeste S.A. and Empresa Distribuidora de Electricidad Chiriquí S.A. to indemnify the plaintiff with an amount to be determined by the experts with a maximum of Dollars 84 million (Euros 65 million). Both the plaintiff and the defendants (Edemet y Edechi) have appealed against the sentence. The alleged damages are derived from a tender for the purchase of energy in block that was called by the Public Services Authority and was awarded to the plaintiff who finally was incapable of complying with the contract by not presenting the guarantee conditioned in the specifications.

Qatar gas supply contract

After a period of negotiations, GAS NATURAL FENOSA initiated the arbitration procedures to determine the price of gas supplied by the company Qatar Liquefied Gas Company Limited under its long-term contracts, requesting a price reduction. Later, the supplier lodged a counterclaim, requesting a price increase. The arbitration is in its initial stage.

GAS NATURAL FENOSA believes that the provisions recorded in these Consolidated annual accounts adequately cover the risks described in this Note, and, accordingly, it is not expected that liabilities will arise in addition to the ones recorded.

Note 36. Auditors fees

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

Thousand Euros	2012	2011
Auditing and related services	3,977	4,184
Other services	815	1,199
Total fees	**4,792**	**5,383**

Additionally, in 2012, other audit firms have rendered the following services to Group companies:

Thousand Euros	2012	2011
Auditing and related services	138	237
Other services	2	2
Total fees	**140**	**239**

Note 37. Environment

Main environmental actions

The main actions of GAS NATURAL FENOSA in 2012 formed part of its corporate environmental values. These actions have been aimed basically at ensuring compliance with legislation, and a tight environmental control of activities and facilities.

Measures have been adopted to combine the indispensable development of energy and the protection of the environment, and, in particular, the fight against the effects of climate change and the efficient use of resources. We have reduced the environmental impact of our activities, and conserved the bio-diversity of the environment and we have boosted continuous improvements by updating and reviewing environmental management, involving suppliers and fostering the responsible use of energy by our customers.

All of these measures were developed within the framework of an Integrated Management System that GAS NATURAL FENOSA has certified under the Standard ISO 14.001 to guarantee correct environmental performance. Thus, certified to conform to this Standard are the normal generation parks, practically all of renewable energy park and 94% of the length of the electricity distribution network. Likewise, the gas distribution and transport activities are environmentally certified in Spain, Italy, Morocco, Egypt, Mexico, Colombia and Brazil and in the System implementation stage in Argentina. Additionally, GAS NATURAL FENOSA has its environmental management certified in the greater part of its commercial activities, engineering services and in its most representative buildings.

On the other hand, the coal-fired thermal energy plants, the combined cycle plants of Palos de la Frontera, Sabón and Nueva Generadora del Sur and the Sector Hidráulico de Tambre-Ulla in Galicia are still in the European EMAS system and Group I for the San Roque combined cycle plant has obtained for the first time registration.

During 2012, GAS NATURAL FENOSA´s management in the area of environmental sustainability and climate change was recognised by the prestigious Dow Jones Sustainability Index (DJSI) and Carbon Disclosure Project (CDP), locating us in first place among the companies of the sector that participated in both classifications. In 2012 it participated actively in numerous events linked to environmental management, its participation in the National Environmental Congress, held in Madrid at the end of November, stood out for its relevance.

The principal investments made during the year 2012 were aimed at the renovation of the gas distribution network with the objective of reducing escapes into the atmosphere, undertaking improvements in the energy efficiency of the hydro stations and work centres. Likewise, investments were made to improve residue treatment and to reduce the issues into the atmosphere in electricity generating stations.

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.

All these environmental actions carried out in 2012 have cost a total of Euros 105 million, of which Euros 46 million related to investments and the rest, Euros 59 million, to expenses incurred in environmental management.

The possible contingencies, indemnities and other environment-related risk in which GAS NATURAL FENOSA could incur are adequately covered by civil liability insurance policies that it has taken out.

Emissions

The Council of Ministers on 14 November 2007 adopted the individual assignments of greenhouse gas emission rights for the 2008-2012 period. The assignment given to GAS NATURAL FENOSA totals Euros 47.1 million tonnes of CO_2, broken down as follows:

($mtCO_2$)	2008	2009*	2010	2011	2012
Assigned emission allowances	2,884	11,447	11,220	11,026	10,519

* As from the year 2009 the emission allowances assigned to UNIÓN FENOSA are included.

In 2012, consolidated CO_2 emissions from GAS NATURAL FENOSA' coal thermal and combined cycle plants subject to regulations governing the greenhouse gas emission trade regime totalled 15.5 million tonnes of CO2 (13.4 million tonnes of CO_2 in 2011).

GAS NATURAL FENOSA manages its CO_2 emission rights coverage portfolio in an integrated manner for the period 2008-2012 and post Kyoto, acquiring the necessary emission rights and credits through active participation in both the secondary market and in primary projects and carbon funds, in which an investment of approximately Euros 60 million has been committed.

GAS NATURAL FENOSA has also registered 9 projects of clean development mechanisms (hereinafter MDL) with the United Nations and two credit periods have been renewed in two projects. Additionally, the Group has other MDL projects for validation in different phase, based on generation using renewable sources, implementation of cogeneration systems, reduction of emissions in gas network and replacement of fuels by other less carbon-intensive alternatives.

Note 38. Subsequent events

On 8 January 2013, GAS NATURAL FENOSA and Sonatrach signed an agreement to acquire from the latter a 10% holding in Medgaz, S.A. (and 10% of the shareholders´ loan), for Euros 62 million euro. The acquisition of the holding is related with the transfer of 10% of the transport capacity of the submarine pipeline Argelia-Europe, with a capacity of 0.8 bcm/year. This capacity will be employed for a new supply contract of 0.8 bcm/year, with a duration of 18 years.

On 9 January 2013, GAS NATURAL FENOSA, through its Euro Medium Term Notes (EMTN) program, closed a bond issue on the Euro market amounting to Euros 600 million with a due date in January 2023, with an annual coupon of 3.87%.

On 14 January 2013, GAS NATURAL FENOSA closed a bond issue on the Swiss market amounting to Swiss Francs 250 million and due date in February 2019, with an annual coupon of 2.12%.

Following the year end, an issue for a total amount of Euros 996 million has been approved by the Electricity System Deficit Securitisation Fund, of which Euros 687 million have been destined to the sector, paid out on 21 January 2013. The estimated amount corresponding to GAS NATURAL FENOSA is Euros 96 million.

Appendix I. Group companies of Gas Natural Fenosa

1. Subsidiary companies

Company	Country	Activity
Gas Natural Almacenamientos Andalucía, S.A.	Spain	Gas supply
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply
Sagane, S.A.	Spain	Gas supply
Energía Empresarial de la Costa, S.A., E.S.P.	Colombia	Electricity commercialisation
Energía Social de la Costa S.A. E.S.P.	Colombia	Electricity commercialisation
Cetraro Distribuzione Gas, S.R.L.	Italy	Gas commercialisation
Gas Natural Europe, S.A.S.	France	Gas commercialisation
Gas Natural Vendita Italia, S.P.A.	Italy	Gas commercialisation
Natural Energy, S.A.[1]	Argentina	Gas commercialisation
Gas Natural Comercial SDG, S.L. on liquidation	Spain	Gas and Electricity commercialisation
Gas Natural Comercializadora, S.A.	Spain	Gas and Electricity commercialisation
Gas Natural S.U.R. SDG, S.A.	Spain	Gas and Electricity commercialisation
Gas Natural Servicios SDG, S.A.	Spain	Gas and Electricity commercialisation
Unión Fenosa Comercial, S.L.	Spain	Gas and Electricity commercialisation
Distribuidora de Electricidad del Norte, S.A.	Nicaragua	Electricity distribution
Distribuidora de Electricidad del Sur, S.A.	Nicaragua	Electricity distribution
Electrificadora del Caribe S.A, E.S.P.	Colombia	Electricity distribution
Empresa de Distribución Eléctrica Chiriqui, S.A.	Panama	Electricity distribution
Empresa de Distribución Eléctrica Metro Oeste, S.A.	Panama	Electricity distribution
Red Unión Fenosa, S.A.	Moldova	Electricity distribution
Unión Fenosa Distribución, S.A.	Spain	Electricity distribution
Albidona Distribuzione Gas, S.R.L.	Italy	Gas distribution
Ceg Río, S.A.	Brazil	Gas distribution
Comercializadora Metrogas, S.A. de CV	Mexico	Gas distribution
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	Brazil	Gas distribution
Favellato Reti, S.R.L.	Italy	Gas distribution
Gas Galicia SDG, S.A.	Spain	Gas distribution
Gas Natural Andalucía, S.A.	Spain	Gas distribution
Gas Natural BAN, S.A.[1]	Argentina	Gas distribution
Gas Natural Castilla-La Mancha, S.A.	Spain	Gas distribution
Gas Natural Castilla y León, S.A.	Spain	Gas distribution

		Net equity			
Consolidation Method	% of Shareholding Total	Capital	Reserves	Profit 2012	Interim dividend
I.G.	100.0	–	4	(1)	–
I.G.	100.0	1	14	208	(100)
I.G.	100.0	95	18	122	–
I.G.	85.4	–	3	(2)	–
I.G.	85.4	1	(9)	9	–
I.G.	100.0	–	–	–	–
I.G.	100.0	3	8	(3)	–
I.G.	100.0	2	14	6	–
I.G.	100.0	–	1	2	–
I.G.	100.0	4	4	1	–
I.G.	100.0	2	22	150	(125)
I.G.	100.0	2	13	(10)	–
I.G.	100.0	2	1	30	–
I.G.	100.0	10	77	52	–
I.G.	83.69	80	(46)	(3)	–
I.G.	83.73	62	(60)	(7)	–
I.G.	85.4	964	(148)	36	–
I.G.	51.0	18	(5)	14	–
I.G.	51.0	71	(9)	33	–
I.G.	100.0	7	143	25	–
I.G.	100.0	833	1,837	252	(190)
I.G.	100.0	–	–	–	-
I.G.	59.6	41	80	39	(41)
I.G.	85.0	128	(46)	15	-
I.G.	54.2	212	213	99	(104)
I.G.	100.0	1	9	1	–
I.G.	61.6	33	11	5	–
I.G.	100.0	12	41	16	–
I.G.	70.0	215	(133)	2	(13)
I.G.	95.0	27	21	12	–
I.G.	90.1	6	79	28	–

Company	Country	Activity
Gas Natural Cegas, S.A.	Spain	Gas distribution
Gas Natural Cundiboyacense, S.A. ESP	Colombia	Gas distribution
Gas Natural del Cesar, S.A. ESP	Colombia	Gas distribution
Gas Natural del Oriente, S.A. ESP	Colombia	Gas distribution
Gas Natural Distribución SDG, S.A.	Spain	Gas distribution
Gas Natural Distribuzione Italia, S.P.A.	Italy	Gas distribution
Gas Natural México, S.A. de CV[1]	Mexico	Gas distribution
Gas Natural Rioja, S.A.	Spain	Gas distribution
Gas Natural Sao Paulo Sul, S.A.	Brazil	Gas distribution
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution
Gas Natural, S.A. ESP	Colombia	Gas distribution
Gas Navarra, S.A.	Spain	Gas distribution
Berrybank Development Pty, Ltd	Australia	Energy
Crookwell Development Pty, Ltd	Australia	Energy
Hawkesdale Development Pty, Ltd	Australia	Energy
Ryan Corner Development Pty, Ltd	Australia	Energy
Gas Natural Exploración, S.L.	Spain	Hydrocarbon research and exploration
Petroleum Oil & Gas España, S.A.	Spain	Hydrocarbon research and exploration
Clover Financial and Treasury Services, Ltd.	Ireland	Finance
Gas Natural Capital Markets, S.A.	Spain	Finance
Gas Natural Fenosa Finance B.V.	Netherlands	Finance
Unión Fenosa Financiación, S.A.	Spain	Finance
Unión Fenosa Financial Services USA, Llc.	United States	Finance
Unión Fenosa Preferentes, S.A.	Spain	Finance
Boreas Eólica 2, S.A.	Spain	Electricity generation
Corporación Eólica de Zaragoza, S.L	Spain	Electricity generation
Energía Termosolar de los Monegros, S.L.	Spain	Electricity generation
Energía y Servicios de Panamá, S.A.	Panama	Electricity generation
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation
Energías Especiales Alcoholeras, S.A.	Spain	Electricity generation
Energías Especiales de Extremadura, S.L.	Spain	Electricity generation

Consolidation Method	% of Shareholding Total	Net equity Capital	Reserves	Profit 2012	Interim dividend
I.G.	99.7	25	68	29	–
I.G.	45.8	1	16	5	–
I.G.	21.7	3	6	2	–
I.G.	32.2	9	21	10	(9)
I.G.	100.0	81	794	278	(200)
I.G.	100.0	33	196	21	–
I.G.	85.0	471	(91)	(14)	–
I.G.	87.5	3	9	6	–
I.G.	100.0	383	(125)	26	(1)
I.G.	100.0	15	46	12	–
I.G.	59.1	11	139	100	–
I.G.	90.0	4	27	11	–
I.G.	94.8	2	–	–	–
I.G.	94.8	6	1	–	–
I.G.	94.8	2	1	–	–
I.G.	94.8	4	1	–	–
I.G.	100.0	9	–	(3)	–
I.G.	100.0	4	39	3	–
I.G.	100.0	–	528	26	(109)
I.G.	100.0	–	–	10	–
I.G.	100.0	–	1	–	–
I.G.	100.0	1	3	(1)	–
I.G.	100.0	–	1	–	(1)
I.G.	100.0	–	737	17	(11)
I.G.	89.6	3	7	1	–
I.G.	68.0	3	1	1	–
I.G.	100.0	1	–	(1)	–
I.G.	51.0	9	(3)	3	–
I.G.	97.5	1	–	3	–
I.G.	82.3	–	(1)	(1)	–
I.G.	99.0	9	–	(4)	–

Company	Country	Activity
Eufer Energías Especiais de Portugal, Unipessoal Lda	Portugal	Electricity generation
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation
Fenosa Wind, S.L.	Spain	Electricity generation
Fenosa, S.L.U.	Spain	Electricity generation
Fuerza y Energía BII Hioxo, S.A. DE C.V.	Mexico	Electricity generation
Fuerza y Energía de Hermosillo, S.A. de C.V.	Mexico	Electricity generation
Fuerza y Energía de Naco Nogales, S.A. de C.V.	Mexico	Electricity generation
Fuerza y Energía de Norte Durango, S.A de C.V	Mexico	Electricity generation
Fuerza y Energía de Tuxpan, S.A. de C.V.	Mexico	Electricity generation
Gas Natural Electricidad SDG, S.A.	Spain	Electricity generation
Gas Natural Fenosa Renovables Andalucía, S.L.U.	Spain	Electricity generation
Gas Natural Fenosa Renovables Castilla la Mancha, S.L.U.	Spain	Electricity generation
Gas Natural Fenosa Renovables Ruralia, S.L.U.	Spain	Electricity generation
Gas Natural Fenosa Renovables, S.L.U.	Spain	Electricity generation
Gas Natural Wind 4, S.L.U.	Spain	Electricity generation
Gas Natural Wind 6, S.L.	Spain	Electricity generation
Gas Natural Wind Canarias, S.L.U.	Spain	Electricity generation
Generación Panamá, S.A.	Panama	Electricity generation
Generadora Palamara La Vega, S.A.	Dominican Rep.	Electricity generation
Iberáfrica Power Ltd.	Kenya	Electricity generation
JGC Cogeneración Daimiel, S.L.	Spain	Electricity generation
Lantarón Energía, S.L.	Spain	Electricity generation
M&D Generación 1, S.L.U.	Spain	Electricity generation
Sistemes Energètics Passanant, S.L.U.	Spain	Electricity generation
Sociedad de Tratamiento Hornillos, S.L.	Spain	Electricity generation
Sociedad de Tratamiento La Andaya, S.L.	Spain	Electricity generation
Societat Eòlica de l´Enderrocada, S.A.	Spain	Electricity generation
Tratamiento Cinca Medio, S.L.	Spain	Electricity generation
Tratamiento Integral de Almazán, S.L.	Spain	Electricity generation
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation

Consolidation Method	% of Shareholding Total	Net equity: Capital	Net equity: Reserves	Net equity: Profit 2012	Net equity: Interim dividend
I.G.	100.0	–	1	(1)	–
I.G.	75.0	3	1	3	–
I.G.	100.0	19	–	5	–
I.G.	100.0	19	–	–	–
I.G.	100.0	43	(12)	(1)	–
I.G.	100.0	49	4	–	–
I.G.	100.0	155	(31)	3	–
I.G.	100.0	54	(2)	16	–
I.G.	100.0	156	1	26	–
I.G.	100.0	4	1	(2)	–
I.G.	100.0	–	–	–	–
I.G.	100.0	–	–	–	–
I.G.	51.0	–	-	–	–
I.G.	100.0	90	344	(109)	–
I.G.	100.0	–	–	–	–
I.G.	60.0	–	–	–	–
I.G.	100.0	–	–	–	–
I.G.	100.0	–	–	–	–
I.G.	100.0	4	59	18	–
I.G.	71.7	16	(1)	2	–
I.G.	97.6	1	–	–	–
I.G.	100.0	–	–	(2)	–
I.G.	100.0	–	–	–	–
I.G.	100.0	–	–	–	–
I.G.	94.4	1	2	1	(1)
I.G.	60.0	1	2	1	(1)
I.G.	80.0	6	3	2	–
I.G.	80.0	2	2	1	–
I.G.	90.0	3	4	1	–
I.G.	65.0	25	(4)	5	–
I.G.	65.0	–	5	–	–

Company	Country	Activity
UTE La Energía Gas Natural Electricidad	Spain	Electricity generation
Zemer Energía, S.A. de C.V.	Mexico	Electricity generation
Hispanogalaica de Extracciones, S.L.	Spain	Mining
Kangra Coal (Proprietary), Ltd.	South Africa	Mining
Lignitos de Meirama, S.A.	Spain	Mining
Pizarras Mahide, S.L.	Spain	Mining
Unión Fenosa Minería, S.A.	Spain	Mining
Welgedacht Exploration Company Ltd	South Africa	Mining
Gas Natural Rigassificazione Italia, S.P.A.	Italy	Gas regasification
Natural Re, S.A.	Luxemburg	Insurance
Administración y Servicios ECAP, S.A. de C.V.	Mexico	Services
Administradora de Servicios de Energía México, S.A. de CV	Mexico	Services
Almar Ccs, S.A.	Costa Rica	Services
Arte Contemporáneo y Energía, A.I.E.	Spain	Services
Compañía Española de Industrias Electroquímicas, S.A.	Spain	Services
Energía y Confort Administración de Personal, S.A. de C.V.	Mexico	Services
Gas Natural Servicios, S.A.S.	Colombia	Servicios
Gas Natural Servicios Integrales, S.A.S.	Colombia	Services
Gas Natural Servicios, S.A. de C.V.	Mexico	Services
Gas Natural Serviços, S.A.	Brazil	Services
General de Edificios y Solares, S.L.	Spain	Services
Inversiones Hermill, S.A.	Dominican Rep.	Services
Natural Servicios, S.A.[1]	Argentina	Services
Serviconfort Colombia, S.A.S.	Colombia	Services
Sistemas de Administración y Servicios, S.A. de C.V.[1]	Mexico	Services
Unión Fenosa Generación México, S.A. de C.V.	Mexico	Services
Gas Natural Fenosa Engineering, S.L.U.	Spain	Professional services
Gas Natural Fenosa Engineering, S.A.S. (Colombia)	Colombia	Professional services
Gas Natural Fenosa Engineering, S.A. (Costa Rica)	Costa Rica	Professional services
Gas Natural Fenosa Engineering, S.A. (Guatemala)	Guatemala	Professional services
Gas Natural Fenosa Engineering, S.A. (Panamá)	Panamá	Professional services

Consolidation Method	% of Shareholding Total	Net equity Capital	Reserves	Profit 2012	Interim dividend
I.G.	100.0	4	–	1	–
I.G.	50.0	–	(1)	–	–
I.G.	100.0	–	–	–	–
I.G.	70.0	–	148	36	(46)
I.G.	100.0	23	17	1	–
I.G.	100.0	1	–	–	–
I.G.	100.0	11	169	17	–
I.G.	100.0	1	–	–	–
I.G.	100.0	17	(2)	(1)	–
I.G.	100.0	4	29	15	–
I.G.	100.0	–	–	–	–
I.G.	85.0	–	–	–	–
I.G.	100.0	–	–	–	–
I.G.	100.0	–	–	–	–
I.G.	98.5	3	10	1	–
I.G.	85.0	–	1	1	–
I.G.	59.0	–	3	3	–
I.G.	100.0	1	—	–	–
I.G.	85.0	6	–	1	–
I.G.	100.0	2	1	(1)	–
I.G.	100.0	34	54	(8)	–
I.G.	100.0	1	(1)	–	–
I.G.	100.0	2	(1)	–	–
I.G.	100.0	–	–	1	–
I.G.	85.0	–	–	–	–
I.G.	100.0	2	–	–	–
I.G.	100.0	1	39	3	–
I.G.	100.0	–	–	–	–
I.G.	100.0	–	–	–	–
I.G.	100.0	–	1	–	–
I.G.	100.0	–	1	–	–

Company	Country	Activity
Gas Natural Informática, S.A.	Spain	Professional services
M&D Energy Market, S.L.U.	Spain	Professional services
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Professional services
Operación y Mantenimiento Energy Madagascar, S.A.R.L.U.	Madagascar	Professional services
Operación y Mantenimiento Mexico, S.A. de C.V.	México	Professional services
Operación y Mantenimiento Energy, S.A.	Spain	Professional services
Operations & Maintenance Energy Uganda Ltd	Uganda	Professional services
Socoin INC (Puerto Rico)	Puerto Rico	Professional services
Socoin México, S.A. de C.V.	Mexico	Professional services
Socoinve, C.A	Venezuela	Professional services
Soluziona Technical Services, Llc.	Egypt	Professional services
Unión Fenosa Operación México S.A. de C.V.	Mexico	Professional services
United Saudi Spanish Power and Gas Services, LLC	Saudi Arabia	Professional services
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Spain	Professional services
Buenergía Gas & Power, Ltd.	Cayman I.	Holding company
Caribe Capital B.V.	Netherlands	Holding company
Distribuidora Eléctrica de Caribe, S.A. (Panamá)	Panama	Holding company
First Independent Power (Kenya), Ltd.	Kenya	Holding company
Gas Natural do Brasil, S.A.	Brazil	Holding company
Gas Natural Internacional SDG, S.A.	Spain	Holding company
Gas Natural Italia S.P.A.	Italy	Holding company
Gas Natural Puerto Rico, Inc	Puerto Rico	Holding company
Gas Natural SDG Argentina, S.A.[1]	Argentina	Holding company
Invergás, S.A.[1]	Argentina	Holding company
La Energía, S.A.	Spain	Holding company
La Propagadora del Gas, S.A.	Spain	Holding company
Pacific Power Holdings Nº 2 B.V.	Netherlands	Holding company
Unión Fenosa Internacional, S.A.	Spain	Holding company
Unión Fenosa International B.V.	Netherlands	Holding company
Unión Fenosa México B.V.	Netherlands	Holding company
Unión Fenosa México, S.A. de C.V.	Mexico	Holding company

Consolidation Method	% of Shareholding Total	Net equity Capital	Reserves	Profit 2012	Interim dividend
I.G.	100.0	20	7	–	–
I.G.	100.0	–	–	–	–
I.G.	100.0	–	–	–	–
I.G.	100.0	–	–	–	–
I.G.	100.0	32	(85)	–	–
I.G.	100.0	–	7	–	–
I.G.	100.0	–	–	1	–
I.G.	100.0	–	1	–	–
I.G.	100.0	8	(5)	1	–
I.G.	100.0	–	–	–	–
I.G.	100.0	–	–	–	–
I.G.	100.0	–	1	–	–
I.G.	100.0	–	–	–	–
I.G.	100.0	32	2	–	–
I.G.	95.0	–	13	22	–
I.G.	100.0	–	251	13	(10)
I.G.	100.0	110	(13)	24	(13)
I.G.	89.6	–	13	–	–
I.G.	100.0	3	(3)	–	–
I.G.	100.0	350	183	65	(30)
I.G.	100.0	–	1	–	–
I.G.	100.0	3	(2)	–	–
I.G.	100.0	104	(23)	–	–
I.G.	100.0	61	48	–	–
I.G.	100.0	11	4	–	–
I.G.	100.0	10	2	(3)	–
I.G.	100.0	–	–	–	–
I.G.	100.0	174	212	83	(50)
I.G.	100.0	5	23	–	–
I.G.	100.0	128	308	–	(1)
I.G.	100.0	475	(170)	28	–

Company	Country	Activity
Unión Fenosa Minería B.V.	Netherlands	Holding company
Unión Fenosa South Africa Coal (Proprietary), LTD	South Africa	Holding company
Union Fenosa Wind Australia Pty, Ltd.	Australia	Holding company
Capital Telecom Honduras, S.A.	Honduras	Holding company
Gas Natural Fenosa Telecomunicaciones Colombia, S.A.	Colombia	Telecomunicaciones
Gas Natural Fenosa Telecomunicaciones Costa Rica, S.A.	Costa Rica	Telecommunications
Gas Natural Fenosa Telecomunicaciones Guatemala, S.A.	Guatemala	Telecommunications
Gas Natural Fenosa Telecomunicaciones Panamá, S.A.	Panamá	Telecommunications
Gas Natural Fenosa Telecomunicaciones, S.A.	Spain	Telecomunicaciones
Unión Fenosa Redes de Telecomunicación El Salvador, S.A. de CV	El Salvador	Telecommunications
Unión Fenosa Redes de Telecomunicación, S.A. (Nicaragua)	Nicaragua	Telecomunicaciones
Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas transportation
Metragaz, S.A.	Morocco	Gas transportation

1 The percentage of the shareholding corresponds to the legally held shares. Additionally, there is a share re-purchase commitment for the percentages indicated in Note 20, which are also assigned to the parent Company.

Consolidation Method	% of Shareholding Total	Net equity Capital	Reserves	Profit 2012	Interim dividend
I.G.	100.0	–	136	17	(10)
I.G.	100.0	–	70	17	(21)
I.G.	94.8	22	–	–	–
I.G.	100.0	–	–	–	–
I.G.	88.2	1	2	3	–
I.G.	66.7	–	–	–	–
I.G.	100.0	–	4	3	–
I.G.	90.2	2	3	5	–
I.G.	100.0	21	35	31	–
I.G.	100.0	–	–	–	–
I.G.	100.0	–	1	1	–
I.G.	77.2	–	250	187	(151)
I.G.	76.7	3	1	-	-

2. Joint ventures

Company	Country	Activity
Repsol-Gas Natural LNG, S.L.	Spain	Gas supply and transportation
CH4 Energía S.A. de C.V.	Mexico	Gas commercialisation and transportation
Barras Eléctricas Galaico Asturianas, S.A.	Spain	Electricity distribution
Eléctrica Conquense de Distribución, S.A.	Spain	Electricity distribution
Cilento Reti Gas, S.R.L.	Italy	Gas distribution
Gas Natural Vehicular del Norte Asociación en Participación	Mexico	Gas distribution
Gas Natural West África, S.L.	Spain	Hydrocarbon exploration and production
Palencia 3 Investigación Desarrollo y Explotación, S.L.	Spain	Hydrocarbon exploration and production
Gas Directo, S.A.	Spain	Gas
Gasifica, S.A.	Spain	Gas
Infraestructuras de Gas, S.A.	Spain	Gas
Nueva Electricidad del Gas, S.A.U.	Spain	Gas
Palawan Sulu Sea Gas, Inc.	Philippines	Gas
Planta de Regasificación de Sagunto, S.A.	Spain	Gas
Segas Services, S.A.E.	Egypt	Gas
Spanish Egiptian Gas Company S.A.E.	Egypt	Gas
Unión Fenosa Gas Exploración y Producción, S.A.	Spain	Gas
Unión Fenosa Gas Comercializadora, S.A.	Spain	Gas
Unión Fenosa Gas Infraestructures B.V.	Netherlands	Gas
Unión Fenosa Gas, S.A.	Spain	Gas
Alas Capital & Gas Natural S.A.	Spain	Electriciy generation
Barras Eléctricas Generación, S.L.	Spain	Electriciy generation
Castrios, S.A.	Spain	Electriciy generation
Centrales Nucleares Almaraz-Trillo, A.I.E	Spain	Electriciy generation
Cogeneración del Noroeste, S.L.	Spain	Electriciy generation
Desarrollo de Energías Renovables de la Rioja, S.A.	Spain	Electriciy generation
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Electriciy generation
EcoEléctrica, L.P.	Puerto Rico	Electriciy generation
Energías Eólicas de Fuerteventura, S.L.	Spain	Electriciy generation
Eólica Tramuntana 12, S.L.	Spain	Electriciy generation
Eólica Tramuntana 13, S.L.	Spain	Electriciy generation
Eólica Tramuntana 14, S.L.	Spain	Electriciy generation

Consolidation Method	% of Shareholding Total	Net equity			
		Capital	Reserves	Profit 2012	Interim dividend
I.P.	50.0	2	–	–	–
I.P.	42.5	1	9	3	–
I.P.	44.9	16	75	14	–
I.P.	46.4	1	3	1	–
I.P.	60.0	3	–	–	–
I.P.	43.4	1	–	–	–
I.P.	40.0	–	–	–	–
I.P.	39.0	–	–	–	–
I.P.	30.0	7	(2)	1	–
I.P.	55.0	2	9	1	(1)
I.P.	42.5	–	–	13	(10)
I.P.	50.0	–	(2)	(1)	–
I.P.	50.0	–	–	–	–
I.P.	21.3	2	4	26	–
I.P.	40.7	1	–	–	–
I.P.	40.0	336	(60)	–	25
I.P.	50.0	1	8	–	–
I.P.	50.0	2	57	10	–
I.P.	50.0	–	–	–	–
I.P.	50.0	33	458	260	(180)
I.P.	40.0	–	–	–	–
I.P.	44.9	1	2	–	–
I.P.	33.3	2	3	1	–
I.P.	19.3	–	–	-	–
I.P.	40.0	5	6	4	–
I.P.	36.3	17	3	6	–
I.P.	50.0	10	29	17	–
I.P.	47.5	63	70	70	(12)
I.P.	50.0	1	–	–	–
I.P.	60.0	–	–	–	–
I.P.	60.0	–	–	–	–
I.P.	60.0	–	–	–	–

Company	Country	Activity
Eólica Tramuntana 15, S.L.	Spain	Electriciy generation
Eólica Tramuntana 16, S.L.	Spain	Electriciy generation
Eólica Tramuntana 21, S.L.	Spain	Electriciy generation
Eólica Tramuntana 22, S.L.	Spain	Electriciy generation
Eólica Tramuntana 23, S.L.	Spain	Electriciy generation
Eólica Tramuntana 24, S.L.	Spain	Electriciy generation
Eólica Tramuntana 71, S.L.	Spain	Electriciy generation
Eólica Tramuntana 72, S.L.	Spain	Electriciy generation
Eólica Tramuntana 73, S.L.	Spain	Electriciy generation
Eólica Tramuntana, S.L.	Spain	Electriciy generation
Molinos de la Rioja, S.A.	Spain	Electriciy generation
Molinos del Linares, S.A.	Spain	Electriciy generation
Molinos del Cidacos, S.A.	Spain	Electriciy generation
Montouto 2000, S.A.	Spain	Electriciy generation
Nueva Generadora del Sur, S.A.	Spain	Electriciy generation
Parque Eólico Sierra del Merengue, S.L.	Spain	Electriciy generation
Toledo PV, A.E.I.E	Spain	Electriciy generation
Eléctrica Conquense, S.A.	Spain	Services
UTE ESE Clece - Gas Natural	Spain	Services
Ghesa Ingeniería y Tecnología, S.A.	Spain	Professional services
EcoEléctrica Holding, Ltd.	Cayman I.	Holding company
EcoEléctrica Limited	Cayman I.	Holding company
Alliance, S.A.	Nicaragua	Telecommunications
Biogás Doña Juana, S.A. ESP	Colombia	Biogas treatment and use

		Net equity			
Consolidation Method	% of Shareholding Total	Capital	Reserves	Profit 2012	Interim dividend
I.P.	60.0	–	–	–	–
I.P.	60.0	–	–	–	–
I.P.	60.0	–	–	–	–
I.P.	60.0	–	–	–	–
I.P.	60.0	–	–	–	–
I.P.	60.0	–	–	–	–
I.P.	60.0	1	–	–	–
I.P.	60.0	–	–	–	–
I.P.	60.0	–	–	–	–
I.P.	60.0	1	–	–	–
I.P.	33.3	3	2	3	–
I.P.	25.0	–	-	–	–
I.P.	50.0	10	8	11	–
I.P.	49.0	6	4	3	–
I.P.	50.0	96	37	(10)	–
I.P.	50.0	–	–	–	–
I.P.	33.3	–	1	–	–
I.P.	46.4	3	2	1	–
I.P.	50.0	–	–	–	–
I.P.	41.2	4	18	3	–
I.P.	47.5	63	20	–	(20)
I.P.	47.5	1	–	–	–
I.P.	49.9	–	1	–	–
I.P.	49.8	2	–	(5)	–

3. Jointly controlled assets and operations

Company	Country	Activity	% of Shareholding Total
Boquerón	Spain	Exploration and production	4.5
Casablanca	Spain	Exploration and production	9.5
Chipirón	Spain	Exploration and production	2.0
Montanazo	Spain	Exploration and production	17.1
Morcín–1	Spain	Exploration	20.0
Villaviciosa	Spain	Exploration	70.0
Bezana/Beguenzo	Spain	Exploration	50.0
Granda	Spain	Exploration	50.0
Rodaballo	Spain	Exploration and production	4.0
Sestao Knutsen	Spain	LNG Transportation	50.0
Ibérica Knutsen	Spain	LNG Transportation	50.0
Comunidad de bienes Central Nuclear de Trillo (Grupo I)	Spain	Electricity generation	34.5
Comunidad de bienes Central Nuclear de Almaraz (Grupo I y II)	Spain	Electricity generation	11.3
Comunidad de bienes Central Térmica de Anllares	Spain	Electricity generation	66.7
Comunidad de bienes Central Térmica de Aceca	Spain	Electricity generation	50.0
Tánger Larache	Morocco	Exploration	40.0

4. Associates

Company	Country	Activity	Consolidation Method	% of Shareholding Total	Net equity: Capital	Reserves	Profit 2012	Interim dividend
Kromschroeder, S.A.	Spain	Meters	P.E.	42.5	1	10	–	–
Qalhat LNG S.A.O.C.	Oman	Gas	P.E.	3.7	55	11	242	–
Regasificadora del Noroeste, S.A.	Spain	Gas	P.E.	11.6	47	9	3	–
Enervent, S.A.	Spain	Electriciy generation	P.E.	26.0	2	6	1	–
Sistemas Energéticos La Muela, S.A.	Spain	Electriciy generation	P.E.	20.0	3	2	2	–
Sistemas Energéticos Mas Garullo, S.A.	Spain	Electriciy generation	P.E.	18.0	2	2	2	–
Sociedad Gallega do Medio Ambiente, S.A.	Spain	Waste management	P.E.	49.0	32	3	–	–
3G Holdings Limited	United Kingdom	Holding company	P.E.	10.0	–	–	–	–
Torre Marenostrum, S.L.	Spain	Real Estate	P.E.	45.0	5	11	1	–
Bluemobility System, S.L.	Spain	Services	P.E.	20.0	–	–	–	–
Oficina de cambios de suministrador, S.A.	Spain	Services	P.E.	20,0	–	–	–	–

Appendix II. Variations in consolidation scope

The main changes in the consolidation scope in 2012 have been as follows:

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired / eliminated	% of voting rights after the operation	Consolidation method after the operation
Transnatural, S.R.L. de C.V.	Disposal	31 January	50.0	–	–
Distribuidora de Electricidad del Norte, S.A.	Acquisition	10 February	11.4	83.7	Global
Distribuidora de Electricidad del Sur, S.A.	Acquisition	10 February	10.0	83.7	Global
Capital Telecom Honduras, S.A.	Acquisition	14 February	100.0	100.0	Global
GEM Suministro de Gas 3, S.L.	Disposal	29 February	100.0	–	–
GEM Suministro de Gas SUR 3, S.L.	Disposal	29 February	100.0	–	–
Energías Especiales de Extremadura, S.A.	Acquisition	5 March	20.6	99.0	Global
U.F. Telecomunicación El Salvador, S.A. de C.V.	Acquisition	10 March	100.0	100.0	Global
Fenosa Wind, S.L.	Acquisition	26 April	15.0	100.0	Global
Eólica de Cordales, S.L.U.	Disposal	26 April	100.0	–	–
Eólica de Cordales Bis, S.L.U.	Disposal	26 April	100.0	–	–
Gas Natural International, Ltd.	Liquidation	30 April	100.0	–	–
Eólicos Singulares 2005, S.A.	Liquidation	23 May	49.0	–	–
Andaluza de Energía Solar Cuarta, S.L.	Liquidation	29 May	76.0	–	–
Eufer-Caetano Energías Renovaveis Ltd	Disposal	11 June	54.0	–	–
Energías Eólica de Lanzarote, S.L.	Disposal	22 June	50.0	–	–
Electra del Jallas, S.A.U.	Acquisition	28 June	0.1	100.0	Global
Pacific Power Holdings Nº 2 BV	Acquisition	01 July	100.0	100.0	Global
Soluziona, S.A. (Bolivia)	Liquidation	02 July	100.0	–	–
Europe Maghreb Pipeline, Ltd	Acquisition	02 July	4.6	77.2	Global
Energía Termosolar los Monegros, S.L	Acquisition	31 July	10.0	100.0	Global
O Novo Aquilón, S.L.	Liquidation	09 October	60.0	–	–
Parques Eólicos 2008-2012, S.L.	Liquidation	26 October	54.0	–	–
Distribuidora Eléctrica Navasfrías, S.L.	Disposal	31 October	100.0	–	–
Unión Fenosa Wind Australia Pty, Ltd.	Acquisition	19 November	0.9	94.8	Global
Berrybank Development Pty, Ltd.	Acquisition	19 November	0.9	94.8	Global
Crookwell Development Pty, Ltd.	Acquisition	19 November	0.9	94.8	Global
Hawkesdale Development Pty, Ltd.	Acquisition	19 November	0.9	94.8	Global
Ryan Corner Development Pty, Ltd..	Acquisition	19 November	0.9	94.8	Global
Cetraro Distribuzione Gas, S.R.L.	Acquisition	03 December	40.0	100.0	Global
Albidona Distribuzione Gas, S.R.L.	Acquisition	03 December	40.0	100.0	Global
Sistemes Energetics Passanant, S.L.U.	Acquisition	12 December	100.0	100.0	Global
Metragaz, S.A.	Acquisition	20 December	4.4	76.7	Global

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired / eliminated	% of voting rights after the operation	Consolidation method after the operation
Gas Natural Fenosa Renovables Ruralia, S.L.U.	Disposal	21 December	49.0	51.0	Global
Gas Natural de México, S.A. de C.V.	Disposal	31 December	0.9	70.9	Global
Sistemas de Administración y Servicios, S.A. de C.V.	Disposal	31 December	1.0	71.0	Global

The main changes in the consolidation scope in 2011 have been as follows:

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired / eliminated	% of voting rights after the operation	Consolidation method after the operation
Energías Especiales de Andalucía, S.L.	Acquisition	January 12	7.5	50.0	Proportional
Clece, S.A., Dragados S.A., Socoin S.A.U y Gas Natural Servicios SDG, S.A. UTE	Incorporation	January 31	50.0	50.0	Proportional
O & M Energy Uganda Limited.	Incorporation	February 4	100.0	100.0	Global
Gas Natural Finance, BV	Liquidation	March 15	100.0	–	–
JGC Cogeneración Daimiel, S.L.	Incorporation	February 11	97.6	97.6	Global
Red Unión Fenosa, S.A.	Acquisition	April 24	6.0	100.0	Global
Gem de Suministro Gas 3, S.L.	Incorporation	May 9	100.0	100.0	Global
Gem de Suministro Gas SUR 3, S.L.	Incorporation	May 9	100.0	100.0	Global
Generación Limpia Guatemala, S.A.	Disposal	May 19	100.0	–	–
Comercializadora Guatemalteca Mayorista de Electricidad, S.A.	Disposal	May 19	100.0	–	–
Redes Eléctricas de Centroamérica, S.A.	Disposal	May 19	100.0	–	–
Distribuidora de Electricidad de Oriente, S.A.	Disposal	May 19	92.8	–	–
Distribuidora de Electricidad de Occidente, S.A.	Disposal	May 19	90.8	–	–
Unión Fenosa Wind Australia Pty. Lda.	Acquisition	May 31	1.0	92.4	Global
Eufer Renovables Ibéricas 2004, S.A.	Acquisition	May 27	50.0	100.0	Global
Eólica del Cordal de Montouto, S.L.U.	Acquisition	May 27	50.0	100.0	Global
Energías Especiales Espina, S.L.U.	Acquisition	May 27	50.0	100.0	Global
Eólica Galaicoasturiana, S.A.U.	Acquisition	May 27	50.0	100.0	Global
Andaluza de Energía Solar Cuarta, S.L.	Acquisition	May 27	45.6	76.0	Global
Energías Especiales Alcoholeras, S.A.	Acquisition	May 27	41.2	82.3	Global
Vientos del Noroeste, S.A.U.	Acquisition	May 27	49.9	100.0	Global
Energía Termosolar de los Monegros, S.L.	Acquisition	May 27	45.0	90.0	Global

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired / eliminated	% of voting rights after the operation	Consolidation method after the operation
Energías Especiales de Extremadura, S.L	Acquisition	May 27	39.2	78.3	Global
Parque Eólico Cabo Vilano, S.L.U.	Acquisition	May 27	50.0	100	Global
Parque Eólico Sierra del Merengue, S.A.	Acquisition	May 27	25.0	50.0	Proportional
Energías Ambientales de Somozas, S.A.	Acquisition	May 27	22.6	45.2	Proportional
Cogeneración del Noroeste, S.L.	Acquisition	May 27	20.0	40.0	Proportional
Energías Ambientales Easa, S.A.	Acquisition	May 27	16.7	33.3	Proportional
Energías Ambientales de Vimianzo, S.A.	Acquisition	May 27	16.7	33.3	Proportional
Energías Ambientales de Novo, S.A.	Acquisition	May 27	16.7	33.3	Proportional
Societat Eòlica de L' Enderrocada, S.A.	Acquisition	May 27	13.3	26.7	Proportional
Punta de Lens Eólica Marina, S.L.U.	Acquisition	May 27	50.0	100	Global
Punta de las Olas Eólica Marina, S.LU.	Acquisition	May 27	50.0	100	Global
Eufer Energías Especiais de Portugal, Unipessoal Lda.	Acquisition	May 27	50.0	100	Global
Prius Enerólica, S.L.U.	Acquisition	May 27	50.0	100	Global
Eufer-Caetano Energías Renovaveis, Lda.	Acquisition	May 27	25.5	51.0	Proportional
ENEL Unión Fenosa Renovables, S.A.	Disposal	May 27	50.0	–	–
Andaluza de Energía Solar Primera, S.L.	Disposal	May 27	30.4	–	–
Andaluza de Energía Solar Quinta, S.L.	Disposal	May 27	30.0	–	–
Andaluza de Energía Solar Tercera, S.L.	Disposal	May 27	30.0	–	–
Aprovechamientos Eléctricos, S.A.	Disposal	May 27	50.0	–	–
Áridos Energías Especiales, S.L.	Disposal	May 27	21.0	–	–
Azucarera Energías, S.A.	Disposal	May 27	20.0	–	–
Barbao, S.A.	Disposal	May 27	50.0	–	–
Boiro Energía, S.A.	Disposal	May 27	20.0	–	–
Depuración, destilación y reciclaje, S.L.	Disposal	May 27	20.0	–	–
Energías Especiales Alto Ulloa, S.A.	Disposal	May 27	50.0	–	–
Energías Especiales de Andalucía, S.L.	Disposal	May 27	50.0	–	–
Energías Especiales de Careón, S.A.	Disposal	May 27	39.0	–	–
Energías Especiales de Gata, S.L.	Disposal	May 27	50.0	–	–
Energías Especiales de Padul, S.L.U.	Disposal	May 27	50.0	–	–
Energías Especiales del Bierzo, S.A.	Disposal	May 27	25.0	–	–
Energías Especiales Montes Castellanos, S.L.U.	Disposal	May 27	50.0	–	–
Energías Especiales Montes de Andalucía, S.L.	Disposal	May 27	50.0	–	–
Energías Especiales Noroeste , S.A.U.	Disposal	May 27	50.0	–	–

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired / eliminated	% of voting rights after the operation	Consolidation method after the operation
Energías Especiales Peña Armada , S.A.	Disposal	May 27	40.0	–	–
Energías Especiales Santa Bárbara, S.L.	Disposal	May 27	50.0	–	–
Energías Especiales Valencianas, S.L.	Disposal	May 27	50.0	–	–
Energías Especiales Montes de San Sebastian, S.L.	Disposal	May 27	50.0	–	–
Eufer Operación, S.L.	Disposal	May 27	50.0	–	–
Parque Eólico Belmonte, S.A.	Disposal	May 27	25.0	–	–
Parque Eólico de Capelada, A.I.E.	Disposal	May 27	25.0	–	–
Parque Eólico de Corullón, S.L.	Disposal	May 27	50.0	–	–
Parque Eólico de San Andrés, S.A.	Disposal	May 27	41.0	–	–
Parque Eólico Malpica, S.A.	Disposal	May 27	18.0	–	–
Parque Eólico Montes de las Navas, S.A.	Disposal	May 27	10.0	–	–
Promociones Energéticas del Bierzo, S.L.	Disposal	May 27	50.0	–	–
Proyectos Universitarios Energías Renovables, S.L.	Disposal	May 27	17.0	–	–
Sistemas Energéticos Mañón Ortigueria, S.A.	Disposal	May 27	48.0	–	–
Ufefys, S.L.	Disposal	May 27	20.0	–	–
Energías de Villarubia, S.L.	Disposal	May 27	10.0	–	–
Enerlasa, S.A.	Disposal	May 27	22.0	–	–
Sotavento Galicia, S.A.	Disposal	May 27	9.0	–	–
Tirmadrid, S.A.	Disposal	May 27	9.0	–	–
Unión Fenosa Energías Renovables Chile, S.A.	Acquisition	June 30	11.2	91.2	Global
Bis Distribución de Gas, S.A.	Disposal	June 30	100.0	–	–
3G Holdings Limited	Acquisition	June 30	7.5	10.0	Equity
Holding Gasinmex, S.A. de C.V.	Increase	June 30	–	82.7	Global
Distribuidora de Electricidad del Norte, S.A.	Reduction	July 22	16.0	72.3	Global
Distribuidora de Electricidad del Sur, S.A.	Reduction	July 22	16.0	73.7	Global
Unión Fenosa Energías Renovables Chile, S.A.	Disposal	August 18	91.2	–	–
Unión Fenosa Chile Limitada	Disposal	August 18	100.0	–	–
Unión Fenosa Renovables Limitada	Disposal	August 18	100.0	–	–
Ufacex Uk Holdings, Ltd	Liquidation	August 31	100.0	–	–
Energías Ambientales Easa, S.A.U.	Acquisition	September 12	66.7	100	Global
Energías Ambientales de Vimianzo, S.A.	Acquisition	September 12	–	100	Global
Energías Ambientales de Novo, S.A.	Acquisition	September 12	–	100	Global
Energías Ambientales de Somozas, S.A.	Acquisition	September 12	–	97.5	Global
Societat Eòlica de L' Enderrocada, S.A.	Acquisition	September 12	–	80.0	Global

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired / eliminated	% of voting rights after the operation	Consolidation method after the operation
Explotaciones Eólicas Sierra de Utrera, S.L.	Acquisition	September 12	25.0	75.0	Global
Unión Fenosa Wind Australia Pty. Lda.	Acquisition	October 26	1.5	93.9	Global
Eólica de Cordales, S.L.U.	Incorporation	October 31	100	100	Global
Eólica de Cordales Bis, S.L.U.	Incorporation	October 31	100	100	Global
Bis Suministro de Gas, S.L.	Liquidation	October 10	100	–	–
Bis Suministro de Gas Sur, S.L.	Liquidation	November 21	100	–	–
Energy Way Produçao de Energía, Ltda	Disposal	November 8	100	–	–
Dawn Energy-Produçao de Energía Unipesoal, Ltda	Disposal	November 8	100	–	–
Compañía Auxiliar de Industrias Varias, S.A.	Liquidation	November 10	100	–	–
Eufer-Caetano Energías Renovaveis, Lda	Acquisition	December 5	3.0	54.0	Proportional
Favellato Reti Gas, SRL	Acquisition	December 6	100	100	Global
Central Térmica la Torrecilla, S.A.	Liquidation	December 15	50.0	–	–
Ensafeca Holding Empresarial, S.L.	Liquidation	December 22	18.5	–	–
Sistemas Energéticos Alto do Seixal, SAU	Acquisition	December 30	100	100	Global
Electricaribe Mypimes de Energía, S.A. ESP	Liquidation	December 30	85.0	–	–

Appendix III. Gas Natural Tax group companies

The GAS NATURAL Tax group is as follows:

Gas Natural SDG, S.A.	Gas Natural Fenosa Telecomunicaciones, S.A.
Andaluza Energía Solar Cuarta, S.L.	Gas Natural Informática, S.A.
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Gas Natural Internacional SDG, S.A.
Aplicaciones y Proyectos energéticos, S.A.	Gas Natural Rioja, S.A.
Boreas Eólica 2, S.A.	Gas Natural S.U.R. SDG, S.A.
Cedifil Cored Wire, S.L.	Gas Natural Servicios SDG, S.A.
Compañía Española de Industrias Electroquímicas, S.A.	Gas Natural Transporte SDG, S.L.
Electra de Abusejo, S.L.	Gas Natural Wind 4, S.L.U.
Electra del Jallas, S.A.	Gas Natural Wind Canarias, S.L.U.
Energías Ambientales EASA, S.A.	Gas Navarra, S.A.
Energías Ambientales de Somozas, S.A.	Generación Peninsular, S.L.U.
Energías Ambientales de Novo, S.A.	General de Edificios y Solares, S.L.
Energías Ambientales de Vimianzo, S.A.	Hispanogalaica de Extracciones, S.L.
Energías Especiales Alcoholeras, S.A.	JGC Cogeneración Daimiel, S.L.
Energías Especiales de Extremadura, S.L.	La Energía, S.A.
Energías Especiales Espina, S.L.U.	La Propagadora del Gas, S.A.
Energía Termosolar de los Monegros, S.L.	Lignitos de Meirama, S.A.
Eólica del Cordal de Montouto, S.L.U.	M&D Energy Market, S.L.U.
Eólica Galaico Asturiana, S.A.U.	M&D Generación 1, S.L.U.
Eufer Renovables Ibéricas 2004, S.A.U.	Molinos de Valdebezana, S.A.U.
Explotaciones Eólicas Sierra de Utrera, S.L.	Operación y Mantenimiento Energy, S.A.
Fenosa Wind, S.L.	Pizarras Mahide, S.L.
Fenosa, S.L.U.	Parque Eólico de Cabo Vilano, S.L.U.
Gas Natural Almacenamientos Andalucía, S.A.	Punta de Las Olas Eólica Marina, S.L.U.
Gas Natural Andalucía, S.A.	Punta de Lens Eólica Marina, S.L.U.
Gas Natural Aprovisionamientos SDG, S.A.	Prius Enerólica, S.L.U.
Gas Natural Capital Markets, S.A.	Sagane, S.A.
Gas Natural Castilla-La Mancha, S.A.	Sistemas Energéticos Alto do Seixal, S.A.U.
Gas Natural Castilla y León, S.A.	Sociedad de Tratamiento Hornillos, S.L.
Gas Natural Cegas, S.A.	Societat Eòlica de l'Enderrocada, S.A.
Gas Natural Comercial SDG, S.L.	Tratamiento Cinca Medio, S.L.
Gas Natural Comercializadora, S.A.	Tratamiento Integral de Almazán, S.L.
Gas Natural Distribución SDG, S.A.	Unión Fenosa Comercial, S.L.
Gas Natural Electricidad SDG, S.A.	Unión Fenosa Distribución, S.A.
Gas Natural Exploración, S.L.	Unión Fenosa Financiación, S.A.
Gas Natural Fenosa Engineering, S.L.U.	Unión Fenosa Internacional, S.A.
Gas Natural Fenosa Renovables Andalucía, S.L.U.	Unión Fenosa Minería, S.A.
Gas Natural Fenosa Renovables Castilla La Mancha, S.L.U.	Unión Fenosa Preferentes, S.A.U.
Gas Natural Fenosa Renovables, S.L.U.	Vientos del Noroeste, S.A.

Consolidated Directors' Report

1. Business performance

2012 Analysis

Despite a much more demanding macroeconomic context, GAS NATURAL FENOSA attained the financial objectives set out in the 2010-2012 Strategic Plan due to its balanced business profile, growth in international activities and strict financial discipline.

Net profit in 2012 was Euros 1,441 million, up 8.8% year-on-year, despite lower gains on asset sales with respect to 2011.

Consolidated EBITDA in 2012 amounted to Euros 5,080 million, a 9.4% increase with respect to 2011, supported by GAS NATURAL FENOSA's diversification, the growing contribution from the international business, and its balanced business profile, which offset the stagnation in the contribution from the regulated businesses in Spain, which were impacted by the divestments in 2011 and by Royal Decree-Act 13/2012.

The results obtained in this context highlight the solid fundamentals of GAS NATURAL FENOSA's business model, which is based on an appropriate balance of regulated and liberalised gas and electricity businesses, including a growing, diversified international presence.

EBITDA from GAS NATURAL FENOSA's international activities increased by 22.6%, accounting for 43.2% of the consolidated total in 2012, compared with 38.5% the previous year.

Net interest-bearing debt amounted to Euros 15,995 million at year-end, and the company attained the objectives set out in the 2010-2012 Strategic Plan: leverage of 51.8%, and a Net debt/EBITDA ratio of 3.1x. Excluding the outstanding tariff deficit, Net debt would be Euros 14,930 million, i.e. leverage of 50.1% and Net debt/EBITDA of 2.9x.

In January 2013, GAS NATURAL FENOSA placed a Euros 600 million 10-year bond in the euro market with a fixed coupon of 3.875%, and a 250 million Swiss franc 6-year bond with a fixed coupon of 2.125%. These issues strengthen GAS NATURAL FENOSA's position as a leading issuer in the capital markets, expanding its investor base and its presence in financial markets.

Also in January 2013, GAS NATURAL FENOSA signed an agreement with Algerian company Sonatrach to buy a 10% stake in Medgaz, which operates the Algeria-Europe submarine gas pipeline connecting Beni Saf with the Almería coast with a capacity of 8 bcm/year. As part of this acquisition, GAS NATURAL FENOSA will receive 10% of the gas pipeline's transport capacity as well as a new natural gas supply contract of 0.8 bcm/year.

Main financial aggregates

	2012	2011	%
Net sales	24,904	21,076	18.2
EBITDA	5,080	4,645	9.4
Operating income	3,067	2,947	4.1
Net income attributable to parent Company	1,441	1,325	8.8
Investments	1,386	1,514	(8.5)
Net financial debt (at 31/12)	15,995	17,294	(7.5)

Main physical aggregates

Gas and electricity distribution:

	2012	2011	%
Gas distribution (GWh):	409,774	395,840	3.5
Europe:	199,416	204,809	(2.6)
Tariff gas sales	2,754	2,730	0.9
TPA (third parties access)	196,662	202,079	(2.7)
Latin America:	210,358	191,031	10.1
Tariff gas sales	131,407	114,559	14.7
TPA	78,951	76,472	3.2
Electricity distribution (GWh):	54,362	54,067	0.5
Europa:	36,288	36,361	(0.2)
Tariff electricity sales	2,525	2,445	3.3
TPA	33,763	33,916	(0.5)
Latin America:	18,074	17,706	2.1
Tariff electricity sales	17,087	16,789	1.8
TPA	987	917	7.6
Gas distribution conections, ('000) (at 31/12):	11,663	11,372	2.6
Europe	5,573	5,490	1.5
Latin America	6,090	5,882	3.5
Electricity distribution connections ('000) (at 31/12):	8,309	8,133	2.2
Europe	4,608	4,568	0.9
Latin America	3,701	3,565	3.8
ICEIT (installed capacity equivalent interrupt time) (minutes)	33	42	(21.4)

Energy businesses:

	2012	2011	%
Electricity generated (GWH):	55,978	56,354	(0.6)
Spain:	37,144	38,081	(2.5)
Hydroelectric	1,665	2,892	(42.4)
Nuclear	4,434	4,378	1.3
Coal	7,724	4,464	73.0
Oil/gas	–	–	–
CCGT (Combined cycle gas turbine)	20,602	23,967	(14.0)
Renewables	2,719	2,380	14.2
International:	18,834	18,273	3.1
Hydroelectric	100	118	(15.3)
CCGT	16,951	16,362	3.6
Oil-fired	1,783	1,793	(0.6)
Installed capacity (MW):	15,468	15,392	0.5
Spain:	12,827	12,760	0.5
Hydroelectric	1,907	1,901	0.3
Nuclear	604	595	1.5
Coal	2,048	2,048	–
Oil/gas	157	157	–
CCGT	6,998	6,998	–
Renewables	1,113	1,061	4.9
International:	2,641	2,632	0.3
Hydroelectric	22	22	–
CCGT	2,298	2,289	0.4
Oil-fired	321	321	–
Gas supply (GWh):	328,058	308,725	6.3
Spain	238,450	236,992	0.6
Rest	89,608	71,733	24.9
UF Gas[1]:			
Gas supply in Spain (GWh)	55,683	56,937	(2.2)
Rest (GWh)	28,200	26,503	6.4
Gas transportation – EMPL (GWh)	116,347	111,855	4.0

1 Aggregates at 100%.

Analysis of consolidated income

Net sales

	2012	%s/total	2011	%s/total	% 2012/2011
Gas distribution	4,545	18.3	4,063	19.3	11.9
Spain	1,266	5.1	1,240	5.9	2.1
Latin America	2,982	12.0	2,585	12.3	15.4
Rest	297	1.2	238	1.1	24.8
Electricity distribution	3,615	14.5	3,418	16.2	5.8
Spain	852	3.4	922	4.4	(7.6)
Latin America	2,513	10.1	2,290	10.9	9.7
Rest	250	1.0	206	1.0	21.4
Electricity	7,181	28.8	6,443	30.6	11.5
Spain	6,194	24.9	5,452	25.9	13.6
Latin America	859	3.4	865	4.1	(0.7)
Rest	128	0.5	126	0.6	1.6
Gas	12,673	50.9	9,903	47.0	28.0
Infrastructure	306	1.2	289	1.4	5.9
Supply and commercialisation	11,220	45.1	8,603	40.8	30.4
UF Gas	1,147	4.6	1,011	4.8	13.5
Other activities	613	2.5	650	3.1	(5.7)
Consolidation adjustments	(3,723)	(14.9)	(3,401)	(16.1)	9.5
Total	**24,904**	**100.0**	**21,076**	**100.0**	**18.2**

Net sales totalled Euros 24,904 million in 2012, an 18.2% increase over 2011, due basically to growth in the wholesale gas business outside Spain, generally, to business in Latin America.

Ebitda[1]

	2012	%s/total	2011	%s/total	% 2012/2011
Gas distribution	1,623	31.9	1,587	34.2	2.3
Spain	900	17.7	896	19.3	0.4
Latin America	640	12.6	621	13.4	3.1
Rest	83	1.6	70	1.5	18.6
Electricity distribution	1,014	20.0	1,016	21.9	(0.2)
Spain	613	12.1	680	14.6	(9.9)
Latin America	366	7.2	306	6.6	19.6
Rest	35	0.7	30	0.6	16.7
Electricity	1,180	23.2	1,068	23.0	10.5
Spain	904	17.8	809	17.4	11.7
Latin America	261	5.1	245	5.3	6.5
Rest	15	0.3	14	0.3	7.1
Gas	1,217	24.0	905	19.5	34.5
Infrastructures	225	4.4	184	4.0	22.3
Supply and commercialisation	736	14.5	444	9.5	65.8
UF Gas	256	5.0	277	6.0	(7.6)
Other activities	46	0.9	69	1.5	(33.3)
Total	**5,080**	**100.0**	**4,645**	**100.0**	**9.4**

1 EBITDA = Operating profit + Depreciation + Operating provisions - Other income

Consolidated EBITDA in 2012 amounted to Euros 5,080 million, an increase of 9.4% with respect to 2011, in a very tough context in macroeconomic, energy and financial terms; this result was achieved due to an appropriate balance of regulated and liberalised gas and electricity businesses, including a growing, diversified international contribution, which offset the EBITDA impact of divestments in 2011 and the impact of Royal Decree-Act 13/2012.

Regulated gas and electricity distribution in Spain (29.8%) and other countries (22.1%) accounts for 51.9% of GAS NATURAL FENOSA's EBITDA.

The gas business expanded by 34.5% and accounts for 24.0% of consolidated EBITDA, while the electricity business accounts for 23.2% of consolidated EBITDA.

EBITDA from GAS NATURAL FENOSA's international business accounts for 43.2% of the consolidated total, compared to 36.3% the year before.

Operating income

	2012	%s/total	2011	%s/total	% 2012/2011
Gas distribution:	1,173	38.2	1,149	39.0	2.1
Spain	611	19.9	612	20.8	(0.2)
Latin America	509	16.6	494	16.8	3.0
Rest	53	1.7	43	1.5	23.3
Electricity distribution:	595	19.4	616	20.9	(3.4)
Spain	386	12.6	459	15.6	(15.9)
Latin America	180	5.9	133	4.5	35.3
Rest	29	0.9	24	0.8	20.8
Electricity	429	14.0	356	12.1	20.5
Spain	269	8.8	203	6.9	32.5
Latin America	150	4.9	144	4.9	4.2
Rest	10	0.3	9	0.3	11.1
Gas	923	30.1	622	21.1	48.4
Infrastructures	161	5.2	119	4.0	35.3
Supply and commercialisation	661	21.6	383	13.0	72.6
UF Gas	101	3.3	120	4.1	(15.8)
Other activities	(53)	(1.7)	204	6.9	(126.0)
Total	**3,067**	**100.0**	**2,947**	**100.0**	**4.1**

Amortisation allowances increased by 2.7%, while provisions increased by Euros 19 million to Euros 235 million at 31 December 2012. Revenues of Euros 20 million from the disposal of assets (Euros 268 million in 2011) brought the operating profits to Euros 3,067 million, which was 4.1% higher than the year before.

Financial results

The cost of net interest-bearing debt was Euros 823 million in 2012, i.e. lower than in 2011 due to the combined effect of lower net debt and the lower cost of debt.

Corporate Income tax

GAS NATURAL FENOSA is taxed in Spain under the consolidated taxation system, in which the tax group is viewed as the taxpayer and its tax base is determined by aggregating the tax bases of its component companies. The other Spanish-resident companies that are not part of the tax group file individual returns, and those not resident in Spain are taxed in their respective countries; the rate for corporate income tax (or the equivalent tax) applicable to income for the period is applied.

The effective tax rate in 2012 was 24.8%, on par with last year's figure. The difference between the theoretical tax rate and the effective tax rate was due basically to the application of tax credits, the application of different tax systems to companies operating outside Spain, and the effect of net income from equity-accounted affiliates.

Minority interest

The main items in this account are the minority shareholders of EMPL, investees in Colombia, gas distribution companies in Brazil, and electricity generation and distribution companies in Panama.

Income attributed to minority interest in 2012 amounted to Euros 216 million, Euros 15 million less than in 2011.

Investments

The breakdown of investments by nature is as follows:

	2012	2011	%
Investments in Property, plant and equipment	1,093	1,230	(11.1)
Investments in intangible assets	264	176	50.0
Financial investments	29	108	(73.1)
Total investments	**1,386**	**1,514**	**(8.5)**

Capital expenditure (intangible assets and property, plant and equipment) amounted to Euros 1,357 million, 3.5% less than in 2011, due primarily to the decline in regulated investment in Spain, which is partly offset by the increase in investment primarily in Latin America (gas distribution and power generation).

In 2008, the Costa Rican Institute of Electricity (ICE) awarded GAS NATURAL FENOSA the contract to build and operate the Torito hydroelectric plant (50 MW) for a 20-year period. Capital expenditure amounted to Euros 24 million in 2012; by application of IFRIC 12 "Service Concession Arrangements", that amount is classified as financial assets.

The breakdown of capital expenditure by line of business is as follows:

	2012	2011	%
Gas distribution:	475	445	6.7
Spain	257	260	(1.2)
Latin America	177	149	18.8
Rest	41	36	13.9
Electricity distribution:	417	490	(14.9)
Spain	269	340	(20.9)
Latin America	132	133	(1.5)
Rest	16	17	(0.8)
Electricity:	245	258	(5.0)
Spain	182	211	(13.7)
Latin America	63	47	34.0
Rest	–	–	–
Gas:	63	62	1.6
Infrastructures	25	32	(21.9)
Supply and commercialisation	27	20	35.0
UF Gas	11	10	10.0
Other activities	157	151	4.0
Total capital expenditure	**1,357**	**1,406**	**(3.5)**

GAS NATURAL FENOSA allocated 65.7% of capital expenditure to regulated gas and electricity distribution, which will strengthen their contribution to consolidated EBITDA.

A total of 63.7% of capital expenditure in the period corresponds to Spain (down 11.4%, compared with 69.3% in 2011), whereas 36.3% of capital expenditure corresponds to other countries, an increase of 14.4% with respect to 2011.

Capital expenditure in Latin America remains focused on Mexico, Brazil and Colombia, and capital spending on gas distribution expanded by a notable 19.5%.

Analysis of results by activity

Gas distribution in Spain

This area includes gas distribution, third-party access (TPA) and secondary transportation, as well as the distribution activities that are charged for outside the regulated remuneration (meter rentals, customer connections, etc.) in Spain.

In line with the action plan approved by Spain's National Competition Commission in connection with the purchase of Unión Fenosa, the company completed the sale of 304,456 natural gas supply points in Madrid (with a consumption of 1,439 GWh) to the Madrileña Red de Gas group on 30 June 2011. As a result, there are notable variations when comparing the two periods.

Results

	2012	2011	%
Net sales	1,266	1,240	2.1
Purchases	(24)	(12)	100.0
Personnel costs, net	(77)	(71)	8.5
Other expense/income	(265)	(261)	1.5
Ebitda	**900**	**896**	**0.4**
Depreciation and amortization	(289)	(284)	1.8
Change in operating provisions	–	–	–
Operating income	**611**	**612**	**(0.2)**

Net sales in the gas distribution business totalled Euros 1,266 million and EBITDA amounted to Euros 900 million, i.e. slightly higher in year-on-year terms despite divestments in 2011.

Main aggregates

The main aggregates in gas distribution in Spain were as follows:

	2012	2011	%
Gas TPA sales (GWh)	195,769	201,231	(2.7)
Distribution network (Km)	46,541	43,871	6.1
Change in connections points ('000)	75	81	(7.4)
Conection points (at 31/12)	5,124	5,050	1.5

GAS NATURAL FENOSA continues to expand its distribution network and to increase the number of supply connections. The low level of activity in the new building market continues to impact growth in supply connections, which the company is offsetting by increasing connections in the existing building market. New customers in that market which are signed but not yet connected expanded by 12% with respect to 2011.

In like-for-like terms, the distribution network expanded by 1,459 km, connecting 40 new municipalities.

Order IET/2812/2012 was published on 31 December 2012, establishing the tolls and fees for third-party access to gas installations and remuneration for regulated gas activities for 2013. This Order established an efficiency factor of zero for updating remuneration assigned to the distribution and transport business. The remuneration recognised for GAS NATURAL FENOSA in 2013 from distribution and transportation activities in 2012 is Euros 1,107 million.

Gas distribution in Latin America

This division involves gas distribution in Argentina, Brazil, Colombia and Mexico.

	2012	2011	%
Net sales	2,982	2,585	15.4
Purchases	(1,993)	(1,659)	20.1
Personnel costs, net	(98)	(89)	10.1
Other expense/income	(251)	(216)	16.2
Ebitda	**640**	**621**	**3.1**
Depreciation and amortization	(116)	(113)	2.7
Change in operating provitions	(15)	(14)	7.1
Operating income	**509**	**494**	**3.0**

Revenues increased by 15.4% to Euros 2,982 million, on 10.1% growth in volume year-on-year.

EBITDA amounted to Euros 640 million, a 3.1% increase on 2011, and was positively impacted by appreciation of the Colombian peso (+11.5%), the Argentine peso (+0.8%) and the Mexican peso (+2.0%) and negatively impacted by the devaluation of the Brazilian real (-7.3%).

Brazil accounted for 48.4% of EBITDA; sales volume was 35.9% higher than in 2011, and the energy margin was 5.9% higher, mainly due to the Consumer Price Index update.

Growth in Colombia´s EBITDA accounted for 14.1%, taking into consideration the effect of the wealth tax booked in the first hald fo 2011 which does not apply in 2012.

EBITDA in Mexico accounted for 18.0% of the total, and the energy margin rose 11.6% with respect to 2011.

Main aggregates

The main physical aggregates in gas distribution in Latin America are as follows:

	2012	2011	%
Gas activity sales (GWh):	210,358	191,031	10.1
Tariff gas sales	131,407	114,559	14.7
TPA	78,951	76,472	3.2
Distribution network (Km)	67,334	65,831	2.3
Change in connections points ('000)	208	217	(4.1)
Connection points (000) (at 31/12)	6,090	5,882	3.5

The key physical aggregates by country in 2012 are as follows:

	Argentina	Brazil	Colombia	Mexico	Total
Gas activity sales (GWh)	76,847	67,692	17,656	48,163	210,358
Change vs. 2011 (%)	0.9	35.9	1.8	1.0	10.1
Distribution network	23,605	6,290	19,860	17,579	67,334
Change vs. 31/12/2011 (km)	293	153	397	660	1,503
Connections points ('000 at 31/12)	1,522	870	2,403	1,295	6,090
Change vs. 31/12/2011 ('000)	31	28	111	38	208

There were a total of 6,090,470 gas distribution connections in 2012. Year-on-year growth remains high, with the company adding 207,565 distribution connections (of which 111,159 in Colombia alone). The company now has more than 1.5 million customers in Argentina.

Sales in the gas activity in Latin America, which include both gas sales and TPA (third-party access) services, totalled 210,358 GWh, a 10.1% increase with respect to 2011.

The distribution grid expanded by 1,503 km (+2.3%) in the last 12 months, to 67,334 km at the end of December 2012. Mexico, where the grid added 660 km, contributed to this notable growth.

Highlights in Latin America:

- In Argentina, residential/commercial customer numbers net growth decreased by 10.9% compared with 2011. Gas and TPA sales increased by 0.9% due to the increase in unit consumption by domestic/commercial clients and to a larger customer base. The company continued to curtail expenditure in a situation of high inflation (around 23%). In December 2012, the company signed a contract with ENARGAS and Nación Fideicomisos to create a fund for construction and expenses related to infrastructure expansion and maintenance.

- The business performed very well in Brazil, with a 14.5% net increase in residential/commercial customer numbers and a 35.9% increase in gas and TPA sales, especially in power generation. Electric power plant dispatching in 2012 increased by 118% year-on-year, and sales also performed very well. Reservoir levels in December 2012 were 28.9%, i.e. below the historical average (62.3%).

- In Colombia, net residential/commercial customer numbers increased by 2.9% and installations grew by 6.2%, especially in the new building segment (+17.8%). Gas and TPA sales also expanded by 3.4% in the residential/commercial market.

- In Mexico, installations increased by 31.0% with to 2011, with notable improvements in central Mexico (Mexico City and Toluca) and in the north (Monterrey, Nuevo Laredo and Saltillo). As for gas and TPA sales, there was a notable increase in the residential/commercial market (+8.1%) and TPA (+3.6%) with respect to 2011, due to the larger customer base and higher residential unit consumption.

Gas distribution Rest (Italy)

The business in Italy also includes gas sales at the regulated tariff.

Results

	2012	2011	%
Net sales	297	238	24.8
Purchases	(170)	(129)	31.8
Personnel costs, net	(15)	(14)	7.1
Other expenses/income	(29)	(25)	16.0
Ebitda	**83**	**70**	**18.6**
Depreciation and amortization	(25)	(23)	8.7
Change in operating provisions	(5)	(4)	25.0
Operating income	**53**	**43**	**23.3**

EBITDA totalled Euros 83 million, i.e. 18.6% higher than in 2011, due to the increase in regulated gas distribution and the growing contribution from the margin on gas sales.

Main aggregates

	2012	2011	%
Gas activity sales (GWh):	3,647	3,578	1.9
Tariff gas sales	2,754	2,730	0.9
TPA	893	848	5.3
Distribution network (km)	6,885	6,736	2.2
Connections points ('000) (at 31/12)	449	440	2.0

A total of 3,647 GWh of gas were distributed, i.e. 1.9% more than in 2011, due mainly to the favourable weather.

The distribution grid expanded by 149 km in the last 12 months, to 6,885 km at 31 December 2012.

GAS NATURAL FENOSA has 448,967 gas distribution points in Italy, a 2.0% increase with respect to 2011.

Electricity distribution in Spain

The electricity distribution business in Spain includes regulated distribution of electricity and network services for customers, basically connections and hook-ups, metering and other actions associated with third-party access to GAS NATURAL FENOSA's distribution network.

Results

	2012	2011	%
Net sales	852	922	(7.6)
Purchases	–	–	–
Personnel costs, net	(99)	(114)	(13.2)
Other expenses/income	(140)	(128)	9.4
Ebitda	**613**	**680**	**(9.9)**
Depreciation and amortization	(228)	(220)	3.6
Change in operating provisions	1	(1)	–
Operating income	**386**	**459**	**(15.9)**

Royal Decree-Act 13/2012, of 30 March 2012, adopting measures to correct imbalances between costs and revenues in the electricity and gas sectors, establishes a reduction in regulated revenues associated with distribution and customer management. This decline amounted to approximately Euros 110 million for GAS NATURAL FENOSA with respect to the 2012 figures established under Order IET/3586/2011 (Official State Gazette of 31/12/2011), the result of which is a decline of 7.6% in revenues and of 9.9% in EBITDA with respect to 2011.

Main aggregates

	2012	2011	%
Electric activity sales (GWh):	33,763	33,916	(0.5)
Tariff electricity sales	–	–	–
TPA	33,763	33,916	(0.5)
Connection points ('000) (at 31/12)	3,772	3,748	0.6
ICEIT (minutes)	33	42	(21.4)

Energy supplied was on par with 2011 despite the fact that electricity demand fell by 1.7% in like-for-like terms, in line with performance nationwide.

The number of distribution connections increased slightly, by 0.6%, to 3,772,495.

There were no notable incidents in the period due to the facilities' optimal performance as a result of investment in recent years, the network architecture and ongoing operation and maintenance plans. As a result, the ICEIT (installed capacity equivalent interrupt time) was 33 minutes, i.e. an improvement of 21.4%.

Electricity distribution in Latin America

This division involves electricity distribution in Colombia, Nicaragua and Panama.

The sale of the electricity distribution business in Guatemala led to its deconsolidation on 1 June 2011.

Results

	2012	2011	%
Net sales	2,513	2,290	9.7
Purchases	(1,891)	(1,723)	9.8
Personnel costs, net	(66)	(42)	57.1
Other expenses/income	(190)	(219)	(13.2)
Ebitda	**366**	**306**	**19.6**
Depreciation and amortization	(70)	(71)	(1.4)
Change in operating provisions	(116)	(102)	13.7
Operating income	**180**	**133**	**35.3**

Net sales in electricity distribution in Latin America totalled Euros 2,513 million in 2012, a 9.7% increase. EBITDA amounted to Euros 366 million in 2012, 19.6% more than in 2011.

The distribution business in Colombia contributed Euros 246 million to EBITDA, i.e. a 1.2% improvement excluding the effect of the wealth tax in 2011. That increase reflects greater demand year-on-year, which was affected by a very strong cold wave in winter. This weather event also impacted energy prices, which had a notable impact on the tariff as a result of the pass-through clauses. The reduction of losses as a result of the action plans implemented during the year also contributed to these results.

EBITDA from distribution companies in Central America totalled Euros 120 million, i.e. up 11.9%, driven by higher demand in Panama (+9%) and Nicaragua (+6%). This absorbed the impact of the higher cost of unrecognised losses due to higher energy purchase prices, especially in Nicaragua, where procurement costs increased by around 6% on average.

Main aggregates

	2012	2011	%
Electric activity sales (GWh):	18,074	17,706	2.1
Tariff electricity sales	17,087	16,789	1.8
TPA	987	917	7.6
Connection points ('000) (at 31/12)	3,701	3,565	3.8

Electricity sales totalled 18,074 GWh, an increase of 2.1% despite the fact that the 2011 figures reflect the sale of distribution companies in Guatemala.

The number of distribution connections increased by 3.8%, to 3,700,934.

The key physical aggregates by country in 2012 are as follows:

	Colombia	Nicaragua	Panama	Total
Electric activity sales (GWh)	11,238	2,751	4,085	18,074
Change vs. 2011 (%)	6.8	6.5	8.5	2.1
Connections points ('000 at 31/12)	2,312	880	509	3,701
Change vs. 31/12/2011 ('000)	88	31	17	136
Network loss ratio (%)	17.4	20.0	10.4	16.3

The performance of basic operating indicators reflects good business management and growth, as envisioned in the plan to reduce grid losses and bad debts, enabling the company to offset losses by increasing demand in this area.

Electricity distribution Rest (Moldova)

The business in Moldova consists of regulated distribution of electricity and the supply of electricity at the bundled tariff in the capital city and the central and southern regions. GAS NATURAL FENOSA is responsible for 70% of electricity distribution in Moldova.

Results

	2012	2011	%
Net sales	250	206	21.4
Purchases	(194)	(157)	23.6
Personnel costs, net	(8)	(8)	–
Other expenses/income	(13)	(11)	18.2
Ebitda	**35**	**30**	**16.7**
Depreciation and amortization	(6)	(6)	–
Change in operating provisions	–	–	–
Operating income	**29**	**24**	**20.8**

Net revenues reflect the effect of procurement costs together with the capex plan and operation and maintenance performed in accordance with the country's current regulations.

Excluding the currency effect, EBITDA expanded by 12.5% due to the increase in regulated remuneration for electricity distribution and supply at the bundled tariff, to the improvement in grid loss indicators, and to more efficient spending.

Main aggregates

	2012	2011	%
Electric activity sales (GWh):	2,525	2,445	3.3
Tariff electricity sales:	2,525	2,445	3.3
TPA	–	–	–
Connection points ('000) (at 31/12)	836	820	2.0
Network loss ratio (%)	12	13	(7.7)

GAS NATURAL FENOSA continues to implement its plan to improve management in Moldova, focusing on processes linked to energy control in the distribution networks, operating processes associated with the entire customer management cycle, and optimisation of facility O&M; the plan is achieving its objectives and providing an ongoing improvement in basic operating indicators:

- Energy supply expanded by 3.3%, i.e. faster than electricity demand at national level (+2.1%) as a result of plans to improve the energy efficiency of the grids and of anti-fraud actions.

- Supply connections totalled 836,000, i.e. up 2.0% with respect to 2011, due primarily to growth in the real estate sector.

- The network loss indicator performed very favourably, declining by 1 percentage point compared with 2011, enabling the company to maximise regulated revenues.

Electricity Spain

This area basically includes power generation in Spain, wholesale and retail electricity supply in the liberalised market in Spain, electricity supply at the last-resort tariff and wholesale electricity trading.

Results

	2012	2011	%
Net sales	6,194	5,452	13.6
Purchases	(4,624)	(4,061)	13.9
Personnel costs, net	(152)	(149)	2.0
Other expenses/income	(514)	(433)	18.7
Ebitda	**904**	**809**	**11.7**
Depreciation and amortization	(594)	(560)	6.1
Change in operating provisions	(41)	(46)	(10.9)
Operating Income	**269**	**203**	**32.5**

Net sales in the electricity business amounted to Euros 6,194 million in 2012, 13.6% more than in 2011.

EBITDA amounted to Euros 904 million in 2012, an 11.7% increase year-on-year.

The negative performance of fuel prices, the change in the electricity production mix (lower hydroelectric output) and their impact on generation costs was managed adequately, since the company was able to increase EBITDA in a context of production prices in Spain that, over the full year, were on par with 2011.

Electricity demand in mainland Spain amounted to 251,749 GWh in 2012, a decline of 1.4% with respect to 2011. Adjusting for the different number of working days and the temperature, demand actually declined by 1.8% in the year as a whole.

The balance of international power flows was a net export in physical terms in 2012, amounting 11.2 TWh, i.e. up 84.0% with respect to 2011. The balance of international power flows was a net export in physical terms in 2012, amounting 11.2 TWh, i.e. up 84.0% with respect to 2011.

Spanish net electricity production increases 1.5% with respect 2011, special regime output increasing by 10.9% in 2012 and ordinary regime decreasing by 3.6%

Special regimen covered 40.7% of total Spanish mainland demand, i.e. almost four and a half points more than in 2011.

Wind output in 2012 increased by 14.3% with respect to 2011. Output from the other special regime energies expanded by 8.1% in the quarter due to the recovery in hydroelectric output and to the increase in solar output: photovoltaic and solar thermal together exceeded 11 TWh in 2012.

As far as Ordinary Regime output is concerned, when broken down by technology, hydraulic and combined cycle output declined while coal and nuclear increased compared to the year before.

Hydroelectric output declined by 29.4% in 2012. Nevertheless, and given the scant hydrological contribution in recent months, the hydroelectric energy capacity in the year marks 2012 as extremely dry, with an exceedance probability of more than 99% when compared with the historical average: i.e. statistically, 99 out of every 100 years would be wetter than 2012.

In 2012, CCGT output declined by 24.2%, covering 15.0% of demand (4.5 points less than in 2011).

Nuclear output increased by 6.7% in the year; this figure was affected by changes in the dates of scheduled shut-downs.

In 2012 as a whole, coal-fired output increased by 25.5%. Spanish coal-fired output increased by 11.8%, clearly impacted by the entry into force of the Royal Decree on Security of Supply on 26 February 2011. Imported coal-fired output increased by 47.8%, evidence of its competitiveness compared with other technologies.

There was no oil-fired output in 2011 or 2012.

In 2012, the weighted average price in the electricity pool was Euros 48.5/MWh, i.e. Euros 2.3/MWh less than in 2011.

Main aggregates

The main aggregates in GAS NATURAL FENOSA's electricity business in Spain were as follows:

	2012	2011	%
Installed capacity (MW):	12,827	12,760	0.5
Ordinary Regime	11,714	11,699	0.1
Hydroelectric	1,907	1,901	0.3
Nuclear	604	595	1.5
Coal	2,048	2,048	–
Oil/gas	157	157	–
CCGT	6,998	6,998	–
Special Regime	1,113	1,061	4.9
Electricity generated (GWh):	37,144	38,081	(2.5)
Ordinari Regime:	34,425	35,701	(3.6)
Hydroelectric	1,665	2,892	(42.4)
Nuclear	4,434	4,378	1.3
Coal	7,724	4,464	73.0
Oil/gas	–	–	–
CCGT	20,602	23,967	(14.0)
Special Regime	2,719	2,380	14.2
Electricity sales (GWh):	35,910	35,905	–
Liberalised market	28,216	27,058	4.3
Last resort tariff / regulated	7,694	8,847	(13.0)

The change in ordinary regime installed capacity with respect to 2011 is due to a number of factors:

- The 6 MW increase as a result of re-rating several hydroelectric plants.

- The 9 MW increase corresponding to GAS NATURAL FENOSA at the Almaraz nuclear power plant.

GAS NATURAL FENOSA's electricity output in mainland Spain declined by 2.5%, with ordinary regime output falling by 3.6% (mainly due to divestments and lower hydroelectric output), while special regime output increased by 14.2%, outstripping overall growth in mainland Spain (+10.9%)

Hydroelectric output in 2012 amounted to 1,665 GWh, i.e. 42.4% lower than in 2011. Overall, 2012 was extremely dry, with an exceedance probability of 99%, despite the improvement in December, a month which is not especially relevant in the calculation. Reservoirs in the GAS NATURAL FENOSA watersheds were at 31.6% of capacity, i.e. 5 points less than one year ago.

Nuclear output increases 1.3% in the year.

The application in 2012 of the Royal Decree on Security of Supply resulted in GAS NATURAL FENOSA's Anllares, La Robla 2 and Narcea 3 plants working continuously; In 2012, coal-fired output amounted to 7,724 GWh, i.e. up 73.0% compared with 2011. The greatest increase was in Meirama, where output in 2012 totalled 2,755 GWh, vs. 1,083 GWh in 2011.

In 2012, CCGT output amounted to 20,602 GWh, i.e. 14.0% less than in 2011, reflecting the divestment of CCGT plants; in like-for-like terms, the decline would have been 11.4%. In contrast, CCGT output in Spain as a whole fell by 24.2%, evidencing that GAS NATURAL FENOSA made intensive use of its CCGTs (practically double the rest of the ordinary regime).

GAS NATURAL FENOSA attained a 20.7% share of the ordinary regime power generation market in 2012, i.e. on par with 2011 figures or 0.4 percentage points more if the 2011 output of the divested CCGTs is excluded.

The electricity supply area sold 35,910 GWh in 2012, including supply to the liberalised market and under the last-resort tariff. The electricity supply portfolio is in line with the company's strategy of maximising margins, optimising market share, and hedging against price variations in the electricity market.

The company's consolidated CO2 emissions totalled 14.9 million tonnes in 2012, compared with 12.8 million tonnes in 2011. GAS NATURAL FENOSA applies a comprehensive approach to its CO2 emission right hedges for the Kyoto period (2008-2012) and the second commitment period of the Kyoto Protocol (2013-2020), recently confirmed at the Doha Climate Change Conference, and it acquired the emission rights and credits that it needs through active participation in the secondary market, primary projects and carbon funds.

At 31 December 2012, Gas Natural Fenosa Renovables (GNF Renovables) had a consolidable total operational installed capacity of 1,113 MW, of which 968 MW are wind, 69 MW are small hydroelectric and 75 MW are cogeneration. Increases during the fourth quarter of 2012 are attributable to the commissioning of the García Carrión co-generation plant (8.5 MW, Castilla La Mancha) in October and of the Les Forques II wind facility (12 MW, Catalonia) in December.

Output was 14.2% higher than in 2011 (2,719 GWh vs. 2,380 GWh). This is primarily attributable to the 20.9% increase in wind output due to including all production by EASA companies (acquiring the ACS stake at the end of the third quarter of 2011), to the acquisition of the Alto do Seixal wind farm at the end of 2011, and to the greater winds compared with the previous year. Small hydroelectric output declined by 8.5% due to scant precipitation in the year. Co-generation output expanded by 3.8%. EBITDA increased by 10.9% to Euros 155 million.

Work continues on schedule for the construction of the Belesar II and Peares II small hydroelectric plants in Galicia, which are scheduled to become operational in 2013.

Electricity Latin America

This section includes electricity generation in Mexico, Puerto Rico, Costa Rica, Panama and the Dominican Republic.

Currently operational assets in Mexico are the Hermosillo (270 MW) and Naco Nogales (300 MW) power plants in Sonora state; the Tuxpan III and IV (1,000 MW) power plants in Veracruz state and the Norte Durango (450 MW) plant in the state of Durango, also in north-western Mexico.

Results

	2012	2011	%
Net sales	859	865	(0.7)
Purchases	(515)	(548)	(6.0)
Personnel costs. Net	(15)	(15)	–
Other expense/income	(68)	(57)	19.3
Ebitda	**261**	**245**	**6.5**
Depreciation and amortization	(111)	(101)	9.9
Change in operating provisions	–	–	–
Operating income	**150**	**144**	**4.2**

EBITDA amounted to Euros 261 million, a 6.5% increase on 2011. Excluding the currency effect, EBITDA declined by 0.7%.

EBITDA in Mexico in 2012 increased by 4.1% with respect to 2011 (-3.8% excluding the currency effect). The reduction in activity was due mainly to lower gas sales prices and greater costs as a result of the incident at the Tuxpan plant, which occurred in October 2011 during maintenance work on block 3. The recovery plan enabled 100% of capacity to be restored by the first half of February 2012.

EBITDA in Panama declined by 28.6% with respect to 2011 (34.0% excluding the currency effect), due to low precipitation in the fourth quarter, which reduced revenues from energy sales.

EBITDA in Puerto Rico increased by 11.1% with respect to 2011 (by 2.3% excluding the currency effect) due to higher sales in the spot market resulting from greater dispatching.

EBITDA in the Dominican Republic rose by 40.6% with respect to 2011 (by 30.1% excluding the currency effect) with respect to 2011 due to greater energy sales resulting from an increase in generation. Output in 2012 was favoured by more efficient plants dropping out of the system, higher demand, and a better position in the dispatching merit order.

Main aggregates

The main aggregates are as follows:

	2012	2011	%
Installed capacity (MW):	2,558	2,520	1.5
Mexico (CCGT)	2,035	2,035	–
Puerto Rico (CCGT)	263	254	3.5
Panama (hydroelectric)	51	22	–
Panama (thermal)	11	11	–
Dominican Republic (oil-fired)	198	198	–
Electricity generated (GWh):	18,188	17,506	3.9
Mexico (CCGT)	15,172	14,662	3.5
Puerto Rico (CCGT)	1,779	1,700	4.6
Panama (hydroelectric)	100	118	(15.3)
Panama (thermal)	8	19	(57.9)
Dominican Republic (oil-fired)	1,129	1,007	12.1

Output in Mexico increased by 3.5% in the year due to the incident at the Tuxpan plant in October 2011, which impeded it from operating during most of the fourth quarter of 2011, as visible also in the plant's availability. The company signed an agreement with Grupo México to sell surplus capacity at the Naco Nogales plant (up to 50 MW) in the first half of the year. The capacity tests requested by the Mexican Federal Electricity Commission (CFE) commenced late in 2012, and the plant is expected to commence commercial operations in the first quarter of 2013.

Output in Panama declined by 21% with respect to 2011, due to lower dispatching by the National Dispatch Centre (CND) of both thermal plants and hydroelectric plants as a result of less frequent rainfall in the fourth quarter of 2012.

Output in Puerto Rico increased by 4.6% with respect to 2011. Dispatching of the plant continued to rise, exceeding the contracted level due to the lower availability of PREPA's system and the optimisation of its economic dispatching in economic terms. The major overhaul of the plant took place in the first quarter of 2012, whereas the 2011 overhaul was brought forward to December 2010.

Output in the Dominican Republic expanded by 12.1% with respect to 2011 due to more efficient plants dropping out of the system, greater demand, and a better position in the dispatching merit order.

Electricity Rest (Kenya)

This area refers to power generation in Kenya.

The dominant weather conditions in the area (greater precipitation) during most of 2012 led to a decline in the use of thermal power plants, which reduced electricity output.

Results

	2012	2011	%
Net sales	128	126	1.6
Purchases	(100)	(102)	(2.0)
Personnel costs. net	(2)	(2)	—
Other expenses/income	(11)	(8)	37.5
Ebitda	**15**	**14**	**7.1**
Depreciation and amortization	(5)	(5)	–
Change in operating provisions	–	–	–
Operating Income	**10**	**9**	**11.1**

EBITDA amounted to Euros 15 million in 2012. High availability (87.9%), the factor determining capacity revenues, together with the positive EUR/USD exchange rate provided for EBITDA in line with 2011 figures despite the notable increase in fuel prices in international markets throughout the year and to the scheduled and unscheduled maintenance shut-downs.

Main Aggregates

The main aggregates of the activity are the following:

	2012	2011	%
Electric generation capacity (MW)	112	112	–
Electric energy production (GWh/year)	646	767	(15.8)

Diesel-fired output in Kenya in 2012 (646 GWh) was 15.8% lower than in 2011. This decline is attributable to lower demand for thermal power in Kenya as a result of the greater precipitation in the year and, consequently, the higher level of water in the hydroelectric reservoirs.

Infrastructure

This area includes operation of the Maghreb-Europe gas pipeline, maritime transportation, the development of integrated liquefied natural gas (LNG) projects, and hydrocarbon exploration, development, production and storage.

Results

	2012	2011	%
Net sales	306	289	5.9
Purchases	(56)	(58)	(3.4)
Personnel costs, net	(6)	(8)	(25.0)
Other expense/income	(19)	(39)	(51.3)
Ebitda	**225**	**184**	**22.3**
Depreciation and amortization	(64)	(65)	(1.5)
Change in operating provisions	–	–	–
Operating income	**161**	**119**	**35.3**

Net sales in the Infrastructure business totalled Euros 306 million in 2012, a 5.9% increase.

EBITDA in 2012 amounted to Euros 225 million, i.e. 22.3% more than in 2011, due mainly to the positive currency effect on international transportation in 2012 and to the 3% increase in transport tariffs in the year. Moreover, revenues rose as a result of higher occupancy of the fleet and lower operating costs for exploration and development.

Main aggregates

The main aggregates in international gas transportation are as follows:

	2012	2011	%
Gas transportation-EMPL (GWh):	116,347	111,855	4.0
Portugal-Morocco	36,872	31,286	17.9
GAS NATURAL FENOSA	79,475	80,569	(1.4)

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz represented a total volume of 116,347 GWh, 4.0% more than in 2011. Of that figure, 79,475 GWh were transported for GAS NATURAL FENOSA through Sagane and 36,872 GWh for Portugal and Morocco.

The increase in gas transportation for Morocco in 2012 is attributable to the contract signed in October 2011 by EMPL with Morocco's Office National de l'Électricité (ONE) to transport 0.6 bcm of gas per year, delivered by Sonatrach at the Algeria-Morocco border, to ONE's power plants.

As part of the Villaviciosa concession in northern Spain, where GAS NATURAL FENOSA operates with a 70% stake; having concluded the evaluation of its potential, the company has ruled out moving on to the next phase of research and will exit the project.

GAS NATURAL FENOSA performed geological and geophysical surveys in the Bages area (Barcelona province), recently completing the technical feasibility study for underground natural gas storage in salt cavities. The administrative and environmental paperwork has commenced.

The company continued to advance the paperwork for the five exploration, production and storage projects planned for the coming years in the Guadalquivir Valley (Marismas, Aznalcázar and Romeral areas). On 30 September 2010, the company obtained an

Environmental Impact Assessment (EIA) for the first of the five projects. On 14 November 2011, the Doñana Natural Space authorised the two projects in that area which, together with the other projects, are in the final phase of environmental paperwork with a view to obtaining the EIA in the first half of 2013. On 15 July 2011, the Spanish Cabinet approved a Royal Decree for adapting the concessions in the Marismas district by authorising gas storage and setting the basic operational and economic conditions. The company commenced operation of this underground gas storage system on 2 April 2012.

As regards the Trieste regasification project in northern Italy (Zaule), having secured the environmental permit at national level and after commencing a round of contacts at the end of 2011, GAS NATURAL FENOSA is awaiting the Single Authorisation to commence construction.

The power to grant regarding that Authorisation has been transferred to the Ministry for Economic Development, from the Friuli–Venezia Giulia region, by virtue of a recent decision handed down by the Council of State.

The Trieste project (onshore) will have a regasification capacity of 8 bcm/year. This project will further diversify sources of natural gas, increase supply security in Italy, encourage competition among the various market actors and operators, and notably boost regional and local economic growth.

In 2013, GAS NATURAL FENOSA signed an agreement with Algerian company Sonatrach (Sociéte Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures, S.p.A) to acquire 10% of Medgaz, S.A., which operates the Algeria-Europe subsea gas pipeline connecting Beni Saf with the Almería coast (capacity: 8 bcm/year).

As part of this acquisition, GAS NATURAL FENOSA will receive 10% of the gas pipeline's transport capacity as well as a natural gas supply contract of 0.8 bcm/year.

Supply and commercialisation

This area includes gas supply and commercialisation (wholesale and retail) in Spain and other countries, the supply in Spain of products and services related to supply, and supply of gas at the last-resort tariff in Spain.

Results

	2012	2011	%
Net sales	11,220	8,603	30.4
Purchases	(10,245)	(7,945)	29.0
Personnel costs, net	(50)	(46)	8.7
Other expenses/income	(189)	(168)	12.5
Ebitda	**736**	**444**	**65.8**
Depreciation and amortization	(15)	(14)	7.1
Change in operating provisions	(60)	(47)	27.7
Operating profit	**661**	**383**	**72.6**

Net sales amounted to Euros 11,220 million, 30.4% more than in 2011. EBITDA increased by 65.8% to Euros 736 million, mainly due to the increase in operations outside Spain.

Diversification of the portfolio of commodities, combined management of the commodity and dollar risks and greater sales outside Spain helped improve EBITDA in a context of significant volatility in the energy and currency markets.

Main aggregates

The main aggregates in the gas procurement and supply activity are as follows:

	2012	2011	%
Gas supply (GWh)	328,058	308,635	6.3
Spain:	238,451	236,902	0.7
GAS NATURAL FENOSA supply[1]	178,217	169,204	5.3
Supply to third parties	60,234	67,698	(11.0)
International:	89,607	71,733	24.9
Europe	23,715	25,088	(5.5)
Rest	65,892	46,645	41.3
Multiutility contracts (at 31/12)	1,882	1,682	11.9
Contracts per customer (at 31/12)	1.40	1.35	3.7

1 Does not include exchange transactions with energy companies.

In a situation of weak demand, the company supplied 238,450 GWh in the Spanish gas market, a 1.6% increase with respect to 2011, primarily due to higher sales to final customers of GAS NATURAL FENOSA, which increased by 6.8%, while sales to third parties declined by 11.0%.

The upward trend in international gas sales continued, reaching 89,607 GWh in 2012, a 24.9% increase compared to the year before.

GAS NATURAL FENOSA participated in several auctions (last resort tariff, gas for operation and buffer storage), and was awarded 1,642 GWh.

GAS NATURAL FENOSA remains committed to promoting the use of natural gas in new industrial activities. As a result, at the end of the year Gas Natural Comercializadora signed a framework agreement with Navantia and Reganosa to offer a comprehensive service that completes the repair cycle of gas carrier ships in the Ferrol estuary to bring them into operation, guaranteeing an even more attractive and competitive product for the ship operators.

With a view to guaranteeing gas exports from Spain to Portugal, GAS NATURAL FENOSA is using the gas grid connections in Campomaior (south-east) and Valença do Minho (north). GAS NATURAL FENOSA continues to strengthen its position as the leading independent supplier in Portugal, with a market share of almost 15% in the industrial segment.

Gas Natural Europe (the French subsidiary for supply in Europe) currently has 2,566 distribution connections in a range of sectors in France, from industrial companies (chemicals, paper mills, etc.) to local governments and the public sector, accounting for a total portfolio of 14.1 TWh per year.

The French subsidiary strengthened its position in Belgium and Luxembourg with 465 supply points, representing a contracted portfolio of 4.9 TWh per year. In the beginning of the year it commenced operating in the Netherlands, with 80 supply points and a portfolio of 0.6 TWh, and at the end of the year in Germany, where it has already signed its first customers.

GAS NATURAL FENOSA is also considering an entry into other central European markets in the short term by offering a combination of customised energy consulting with the advantage of a diversified, secure supply.

Gas Natural Vendita had a portfolio under contract in the Italian wholesale market amounting to 2,645 GWh/year at the end of 2012.

Outside Spain, the company increased market diversification with gas sales in the Caribbean and South America as well as in Asia, favoured by strong demand in the area.

GAS NATURAL FENOSA has over 10.6 million active retail gas, electricity and services contracts. At the end of the year, more than 1.08 million residential customers had both electricity and gas supply contracts with GAS NATURAL FENOSA. The domestic maintenance contract portfolio was expanded to include 12 different types, and the company now has more than 1.88 million contracts with its own operating platform consisting of 163 associated firms connected via an online system, which has enabled it to improve service performance and quality.

It strengthened this business line in 2012 by providing customers with access to offers for efficient equipment (e.g. gas boilers and heaters). This line enables GAS NATURAL FENOSA to expand its customer services, offering technical solutions together with special offers on energy and credit lines.

GAS NATURAL FENOSA continues to add features and users to its online customer management system, and the website received 3.8 million hits in 2012. Over 415,000 customers now receive their bill online.

GAS NATURAL FENOSA had 35,000 gas and 319,000 electricity contracts in the SME market at the end of 2012. Sales campaigns enabled the company to expand the active portfolio to 6.7 TWh in gas and to 8.9 TWh in electricity.

The company is using its leading position in vehicular natural gas (VNG) to continue to advance in the development of energy options for vehicles in Spain, in both the public and private sectors.

At the end of 2012, GAS NATURAL FENOSA owned 30 VNG filling stations in Spain (five of which can also supply LNG): 18 are open to the public, with a projected total supply capacity of 363 GWh/year; the other 12 serve private fleets and have an annual capacity of 498 GWh.

GAS NATURAL FENOSA currently has 10 new CNG stations open to the public and two private stations under construction. The company maintains its plan to open additional fuelling stations (LNG and CNG) in the main cities and on the principal highways. Along these lines, the European Commission is funding the GARneT project (Gas as an Alternative for Road Transport), presented by a consortium comprising Grupo Ham and GAS NATURAL FENOSA. The project has received a grant covering 50% of capital costs of 7 LNG fuelling stations on the principal Spanish highways with a view to a subsequent massive roll-out at European level.

GAS NATURAL FENOSA commenced operation of the Santiago de Compostela University Hospital Complex, which will require more than 21 GWh of gas and 37 GWh of electricity per year.

The company continues to develop new competitive energy efficiency services for our customers using new efficient technologies, such as geothermal energy, electric heat pumps, and LED street lighting, while also expanding and reinforcing traditional products.

It is also working to innovate and develop smart solutions to obtain energy savings for the residential and SME segments, which will enable customers to take advantage of intelligent networks and communications technology.

Activities related to end-to-end energy efficiency solutions doubled with respect to 2011, and the company signed 14 new customers in 2012 (hotels, food industry, public administrations, etc.).

Including the three lines of business in the tertiary sector and in energy solutions, the company added 384 contracts and invested Euros 25 million.

Unión Fenosa Gas

This business includes wholesale and retail gas procurement and supply performed by Unión Fenosa Gas, including the liquefaction plant in Damietta (Egypt), the Sagunto regasification plant, and the gas carrier fleet.

Results

Unión Fenosa Gas is owned 50% by GAS NATURAL FENOSA and is proportionately consolidated.

	2012	2011	%
Net sales	1,147	1,011	13.5
Purchases	(859)	(694)	23.8
Personnel costs, net	(12)	(11)	9.1
Other expenses/income	(20)	(29)	(31.0)
Ebitda	**256**	**277**	**(7.6)**
Depreciation and amortization	(155)	(157)	1.3
Change in operating provisions	–	–	–
Operating profit	**101**	**120**	**(15.8)**

EBITDA amounted to Euros 256 million in the year, i.e. 7.6% less than in 2011.

The company maintained these high results during a year of notable uncertainty in the market by seizing opportunities for LNG sales outside Spain, where UF Gas continued to operate actively all year.

Main aggregates

The main aggregates for the UF Gas business are as follows:

	2012	2011	%
Gas supply in Spain (GWh)	55,683	56,937	(2.2)
Gas supply International (GWh)	28,200	26,503	6.4
Liquefaction (GWh)	15,291	42,831	(64.3)
Regasification (GWh)	31,918	42,845	(25.5)

The total volume of gas supplied in Spain in 2012 was 55,683 GWh compared to 56, 937 GWh reported the year before. Supplies to electricity companies experienced a slight increase of 0.2%, while sales to the industrial sector fell by 8.1%.

In addition, 28,200 GWh of power were sold in international markets.

Work was completed to adapt the Sagunto regasification plant to load ships.

Gas infrastructure company Nueva Electricidad del Gas commissioned the gas pipeline connecting Córdoba C1 and Córdoba C1A wells (Andalucía).

In connection with the Viura Project (La Rioja), in August 2012, UF Gas Exploración & Producción awarded the EPC contract (Engineering, Procurement and Construction) for the early production plant and it received a positive environmental decision on the Viura-3 well. Field work for the acquisition of 232 km2 of 3D seismic data commenced in November 2012.

2. Risk factors related to the activity of GAS NATURAL FENOSA

a) Uncertainty of the macro-economic environment

In the last few months the international economy and financial system have gone through a period of considerable turbulence and uncertainty, especially in the financial markets, which began in August 2007 and which has deteriorated substantially since September 2008. This uncertainty has severely impacted the general levels of liquidity and credit available, as well as the terms and conditions for the same, which has contributed to an increase in the financial burden of homes and industrial customers of GAS NATURAL FENOSA, thus reducing their purchasing power and affecting demand adversely.

GAS NATURAL FENOSA cannot predict the trend in the economic cycle in the next few years nor whether there the current recession in the international economic cycle will take a turn for the worse.

b) Development of business strategy

Given the risks to which it is exposed and the uncertainties inherent in its business, GAS NATURAL FENOSA cannot ensure that it will be able to successfully implement its business strategy. The scope of and compliance with its strategic objectives are subject, amongst others risk factors, to:

- The lack of an increase in the number of supply points in Europe and Latin America, due to the fact that GAS NATURAL FENOSA cannot expand the distribution network;

- The lack of an increase in the number of customers due to the lack of success of the marketing campaigns for liberalized market consumers;

- The enabling of take or pay clauses in supply contracts, which would involve the obligation to pay for a volume of gas exceeding the needs of GAS NATURAL FENOSA;

- The lack of success in the consolidation of the electricity production business in Spain conditioned by subsidised technology incentives;

- The incapacity to consolidate the multi-service business strategy or to increase the number of multi-product contracts per customer.

c) Regulatory risk

GAS NATURAL FENOSA and its subsidiaries are obligated to comply with the legislation in the natural gas and electricity sectors. Especially, the gas and electricity distribution business is regulated in most of the countries in which GAS NATURAL FENOSA carries out this business.

The applicable legislation to the natural gas and electricity sectors in the countries in which the GAS NATURAL FENOSA Group operates is typically subject to periodical revision by the competent authorities. The introduction of modifications could impact the remuneration of the regulated activity, adversely affecting the business, profits, grants and the financial position of GAS NATURAL FENOSA.

In the event that public or private entities interpret or apply criteria other than those of GAS NATURAL FENOSA, its compliance would be questioned or challenged, and, if any non-compliance were proven, this could adversely affect the business, outlook, profits, grants and financial position of GAS NATURAL FENOSA.

d) Operational risk

GAS NATURAL FENOSA activities are exposed to different operational risks, such as breakdowns in the distribution network, electricity generation facilities and the gas tankers, explosions, polluting emissions, toxic spills, fire, adverse meteorological conditions, contractual breaches, sabotage or accidents affecting the gas distribution network or electricity generation assets, as well as defects and force majeure that could result in personal and/or material damages, impairment of facilities or property of GAS NATURAL FENOSA or their destruction. Events such as these, or the like, are unpredictable and can cause interruptions in the supply of gas and the production of electricity. In situations of this type, in spite of the existence of the pertinent coverage through risk insurance policies, insurance on potential loss of profit and damages, the financial position and results of GAS NATURAL FENOSA may be affected to the extent that these losses are not insured, or coverage is insufficient, or economic losses are generated as a result of the limitation of coverage or deductibles borne, as well as for potential increases of the prices of the premiums paid in the insurance market.

We should also mention that GAS NATURAL FENOSA could be subject to civil liability claims for personal and/or other damages caused during the ordinary course of its business. The filing of these claims could lead to the payment of indemnities under applicable legislation in those countries in which GAS NATURAL FENOSA operates, which could give rise, to the extent that these civil liability insurance policies do not cover the indemnities, to an adverse material effect on the business, outlook, financial position and results.

e) Gas and electricity price risks

GAS NATURAL FENOSA is exposed to variations in crude oil, natural gas and electricity prices.

A major part of the operating expenses of GAS NATURAL FENOSA is linked to the purchase of natural gas and liquefied natural gas (LNG) for commercialisation on the deregulated market and to supply regulated markets. Likewise, its combined cycle plants use natural gas as fuel.

Although the prices that GAS NATURAL FENOSA applies to the sale of gas to its customers corresponds generally to market prices, in very volatile environments, the fluctuations in sale prices may not reflect the proportional fluctuations in the cost of raw materials. In addition to the costs related to the gas business, the rises in the prices of natural gas could lead to an increase in the costs of electricity production, given that the combined cycle plants of GAS NATURAL FENOSA use natural gas as fuel.

The GAS NATURAL FENOSA business includes, amongst other activities, the wholesale commercialisation of natural gas to electricity generators and other customers. With respect to these operations, the income and results of GAS NATURAL FENOSA usually depend to a great extent on the market prices in the regional markets in which it operates and in other competitive markets. As a result, the wholesale commercialisation of natural gas is exposed to the risk of fluctuation in raw material prices and the price of electricity.

The variations in the price of raw materials could adversely affect the results of GAS NATURAL FENOSA if the increase in generation costs is not recouped through sale prices of electricity, or in general, in the gas area, if we cannot attain a degree of efficiency in the management of the customer portfolio to permit a recovery through the commercialisation of the fluctuations in the energy scene.

f) Gas Volume risk

Most of the purchase of natural gas and liquefied natural gas (LNG) are made through long-term contracts that include clauses under which GAS NATURAL FENOSA has the obligation to make annual purchases for certain volumes of gas (known as “take or pay” clauses). Under these contracts, in spite of the fact that GAS NATURAL FENOSA does not need to acquire the gas volume agreed at a specific time, it will be contractually obligated to pay the minimum amount agreed under these “take-or-pay” clauses.

The aforementioned contracts contain certain gas volumes that relate to the estimated needs of GAS NATURAL FENOSA. However, the real needs may be lower than those forecasts at the time the contracts were signed. If there are significant variations in these estimates, GAS NATURAL FENOSA will be obligated to acquire a greater volume of gas than it actually needs, or failing this, to pay for a minimum amount of gas agreed, irrespective of whether it acquires the surplus over its needs, which could have an adverse, significant impact on the operating costs of GAS NATURAL FENOSA.

g) Environmental requirements

The activities of GAS NATURAL FENOSA are subject to compliance with extensive legislation on environmental protection.

GAS NATURAL FENOSA and its subsidiaries are subject to strict compliance with extensive legislation on environmental protection that requires, amongst other points, the preparation of environmental impact evaluation studies, obtaining the pertinent authorisations, licences and permits, as well as compliance with certain requirements, including, amongst others, the fact that:

- The environmental authorisations and licenses may not be granted or may be revoked due to non-compliance with the conditions that are imposed thereunder.

- The regulatory framework or its interpretation by the authorities could be modified or changed, which could lead to an increase in costs or deadlines in order to comply with the new regulatory framework.

h) Interest and exchanges rate risk

Variations in interest rates modify the fair value of the financial assets and liabilities that accrue a fixed interest rate, as well as the cash flows from financial assets and liabilities indexed to a floating interest rate, and, accordingly, they affect both equity and net incomes, respectively.

On the other hand, GAS NATURAL FENOSA is exposed to the risk related to the variation in currency exchange rates. These variations could affect, amongst other things, the debt of GAS NATURAL FENOSA denominated in non-euro currencies, to the operations that GAS NATURAL FENOSA carries out in other currencies that generate income denominated in another currency, as well as the counter-value of the cash flows related to the purchase and sale of raw materials denominated in non-euro currencies. The fluctuations in the exchange rate between the Euro and the US Dollar, the currency in which gas purchases are made by GAS NATURAL FENOSA are denominated in or pegged to, could also affect the results and financial position of GAS NATURAL FENOSA.

In spite of the fact that GAS NATURAL FENOSA has proactive management policies for the risks mentioned above in order to minimise their impact on its net income, in some cases these policies may be ineffective in mitigating the adverse effects inherent in the fluctuation in interest rates and exchange rates, and could adversely and significantly affect net income and the financial position of GAS NATURAL FENOSA.

i) Impact of meteorological conditions

Electricity and natural gas demand is linked to climate. A major part of gas consumption during the winter depends on the production of electricity and its use for heating, while during the summer months consumption depends on the production of electricity for air conditioning, basically. The income and net income of GAS NATURAL FENOSA from the distribution and commercialisation of natural gas could be affected adversely by warm falls or mild winters. Likewise, the demand for electricity could decline if summers are not hot, due to less demand for air conditioning. Furthermore, the occupancy degree of hydro-electric plants depends on the level of precipitation where these installations are located, which can be affected by periods of drought.

j) Evolution of electricity sector activities

The development of the electricity business of GAS NATURAL FENOSA is subject to different factors beyond the control of GAS NATURAL FENOSA, which are the following

- Increases in the cost of generation, including the increases in the fuel price;
- Loss of competitiveness with other technologies, due to the increase in the cost of generation using natural gas;
- A possible decrease in the growth rate of electricity consumption due to different factors, such as economic conditions or the implementation of energy savings programs;
- Inherent risks in the operation and maintenance of electricity plants;
- The growing volatility in price due to the deregulation of the sector and changes in the market;
- Overcapacity situation of electricity production or in the markets in which GAS NATURAL FENOSA is the owner of generation plants or has an interest in them;
- The appearance of alternative energy sources due to the new technologies and growing interest in renewable energy and cogeneration.

k) Geopolitical Exposure

GAS NATURAL FENOSA has interests in countries with diverse political, economic and social environments. Two of these geographical areas are worthy of note:

a) Latin America

A major portion of operating profit of GAS NATURAL FENOSA is generated by its Latin American subsidiaries. The operations in Latin America are exposed to different risks inherent in investment in that region. Amongst the risks factors linked to the investment and business in Latin America are:

- Major influence on the economy by local governments;
- Significant fluctuation in the economic growth rate;
- High inflation rates;
- Devaluation, depreciation or overvaluation of local currencies;
- Controls or restrictions on the repatriation of profits;
- Changing environment for interest rates;
- Changes in financial economic and tax policies;
- Unexpected changes in regulatory frameworks;

- Social tensions;

- Political and macro-economic instability.

b) The Near East and Maghreb

GAS NATURAL FENOSA has both its own assets and important gas supply contracts with different countries in the Maghreb and Near East, particularly Egypt. Political instability in the region could result in property damages to the assets of the companies in which GAS NATURAL FENOSA holds an interest as well as the obstruction of the operations of those companies and others which could interrupt the Group's gas supplies.

The risk factors described above could have a negative impact on the legal, contractual and economic interests of GAS NATURAL FENOSA in the countries in that region, although it is impossible to predict when incidents may occur.

3. Environment and technological innovation

Information on the environment is set out in Note 37 to the Annual Accounts.

GAS NATURAL FENOSA allocates a major portion of its resources and efforts to R&D&i, in order to optimise resources, develop new technologies and keep abreast of the technological advances in the sectors in which it operates.

GAS NATURAL FENOSA participates in domestic and international sectorial and business organisation. The collaboration in institutions of this type allows the Company to remain in the lead of sectorial knowledge and permits it to be identified as a benchmark in its various areas of activity.

4. Outlook

The 2010-2014 Strategic Plan published by GAS NATURAL FENOSA on 27 July 2010 set objectives for the period 2010-2012.

Under the heading 'grow by integrating markets', the four basic axes of the new Strategic Plan are to consolidate the current position of GAS NATURAL FENOSA in Spain and Latin America, vertically integrating up and midstream, entering new markets by replicating its business model in Spain, especially in markets in the Atlantic and Mediterranean basins, and, finally, opting decisively for continued emphasis on efficiency.

The acquisition of Unión Fenosa, S.A. by Gas Natural SDG, S.A. was adopted by the CNC on 11 February 2009, subject to various commitments. Since then, GAS NATURAL FENOSA has carried out different transactions and agreements thanks to which it will meet most of the commitments imposed by the CNC:

- On 31 December 2009, the low-pressure gas distribution assets in the Cantabria and Murcia regions were sold.

- On 30 April 2010 GAS NATURAL FENOSA sold different natural gas supply and distribution assets in the Region of Madrid.

- On 12 July 2010 GAS NATURAL FENOSA reached an agreement on the sale of the combined cycle plant in Plana del Vent to a Spanish company in the Swiss Alpiq energy group.

- On 17 December 2010, GAS NATURAL FENOSA sold its 35% stake in Gas Aragón, S.A. a Endesa Gas, S.A.U.

- On 30 June 2011, GAS NATURAL FENOSA sold approximately 300,000 additional gas supply points in the Madrid region to a company of the Madrileña Red de Gas Group.

- On 28 July 2011, GAS NATURAL FENOSA sold the Arrúbal CCGT plant (La Rioja), with an installed capacity of 800 MW, to a company of the Contour Global Group.

- On 29 February 2012, GAS NATURAL FENOSA sold approximately 245,000 additional gas customers and other related contracts in the Madrid region to the Endesa Group. This transaction completes the company's fulfilment of the new commitments acquired with the National Competition Commission for the UNIÓN FENOSA acquisition and is subject to the obtainment of the relevant permits.

In addition to the divestments required to meet the obligations imposed by the CNC, throughout 2011 and 2010 different agreements were reached on the sale of other assets:

- On 14 April 2010 GAS NATURAL FENOSA announced the completion of the private placement of its 5% stake in Indra Sistemas, S.A. (INDRA) and its final sale.

- On 3 June 2010 GAS NATURAL FENOSA completed the divestment of part of its electricity generation business in Mexico.

- On 30 November 2010 GAS NATURAL FENOSA sold certain assets that make up the electricity transport network to Red Eléctrica de España for Euros 46.9 million.

- On 19 May 2011, GAS NATURAL FENOSA sold its stake in the Guatemala electricity distribution companies to companies owned by the fund Actis.

- On 2 August 2010, GAS NATURAL FENOSA and Enel Green Power agreed to terminate collaboration on renewable energies which until that date were carried out through Enel Unión Fenosa Renovables, S.A. (EUFER), the company in which company held a 50% stake. Once authorised, the transaction was completed on 27 May 2011. Following the deal, each shareholder received approximately one-half of EUFER's assets.

The combination of GAS NATURAL and UNION FENOSA permitted the identification of major operating and tax synergies. On 31 July 2008 operating synergies of Euros 300 million/year as from 2011 were announced.

Throughout 2009 these initial estimates and the final forecasts announced in November 2009 improved the following synergies:

- Euros 350 million in annual operating synergies, of which Euros 260 million will be cost savings and Euros 90 million in income through synergies.

- Euros 200 million in CAPEX synergies.

Throughout 2010 these estimates have improved and the latest projections issued in November 2010 contemplate the following synergies:

- Euros 475 million in annual operating synergies, of which Euros 343 million would be cost savings and Euros 132 million revenues from synergies.

- Euros 275 million in CAPEX synergies.

The synergy objectives were met early following the implementation of the detailed action plans.

The organic growth and integration and use of operating synergies based on the integration of the assets of GAS NATURAL and UNION FENOSA, a balanced, moderate risk management, optimisation of the joint investment plan, and a decrease in the risk of execution of the growth strategy of the resulting group, should generate value for the shareholders of both companies.

With respect to financial discipline, GAS NATURAL FENOSA has the intention of optimizing its financial structure and maintaining a solid balance. GAS NATURAL FENOSA is reducing its debt thanks to divestments and cash generation from the businesses and expects that the leveraging will continue to diminish. Bonds were issued for a total of Euros 12,181 million between 2009 and 2012 to maximise the financial structure. GAS NATURAL FENOSA will continue to seek to optimize its financial structure in the financial markets.

By the end of the year, the main financial objectives set out in the 2010-2014 Strategic Plan for the year 2012 had been met.

Due to major changes taking place in the sectors where the Group operators, the Strategic Plan is scheduled to be updated in 2013. The main objectives of the new Strategic Plan will be as follows:

- Reinforce efficiency in all areas of operations management and asset management.

- Maintain investment discipline, placing priority on strengthening the balance sheet.

- Adapt business growth and development to the evolution of the economic, energy and regulatory environment in each market.

- Create platforms for growth to capture opportunities for growth in new geographical areas in the medium term.

5. Annual Corporate Governance Report

Attached hereto as an Appendix to this Directors' Report, and forming an integral part of the same, is the Annual Corporate Governance Report for 2012, as required under article 526 of the Spanish Capital Companies Act.

6. Treasury Stock

At the meeting held on 20 April 2010, the General Shareholders Meeting agreed to authorise the Board of Directors, vesting it with powers of delegation, to acquire up to 10% of the Share Capital or any other maximum amount applicable under the laws in force at the time of the acquisition, within a period not to exceed five years. This treasury stock must be paid in full and the nominal value may never exceed 10% of the subscribed share capital or any other legally established limit.

By virtue of the abovementioned authorisation, in 2012, 1,325,160 shares of treasury stock have been acquired for Euros 15 million which 275,490 shares for Euros 2 million have been delivered to the Group's employees as part of their remuneration for 2012 in accordance with the Share Acquisition Plan 2012-2013-2014 (Note 3.3.14.d of Consolidated Annual Accounts) and all the rest have been sold for Euro 13 million. At the 2012 year end, GAS NATURAL FENOSA does not have any treasury stock. In 2011, no transactions were carried out with treasury stock.

7. Events after the balance sheet date

The events that occurred subsequent to the closing date are described in Note 38 of the Notes to the Consolidated annual accounts.

A. Capital Structure

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

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
22/6/2012	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

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	Number of indirect voting rights	% of total voting rights
Caja de Ahorros y Pensiones de Barcelona	0	349,804,076	34.956
Repsol, S.A.	238,934,669	61,372,202	30.010
Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures, S.p.A. (Sonatrach)	40,092,780	0	4.007

Name or company name of the indirect holder of the stake	Name or company name of the direct holder of the stake	Number of direct voting rights	% of total voting rights
Caja de Ahorros y Pensiones de Barcelona	Caixabank, S.A.	208	0.000
Caja de Ahorros y Pensiones de Barcelona	Criteria CaixaHolding, S.A.U.	349,802,430	34.956
Caja de Ahorros y Pensiones de Barcelona	Vidacaixa, S.A. de Seguros y Reaseguros	1,438	0.000
Repsol, S.A.	Repsol Exploración, S.A.	15,674,500	1.566
Repsol, S.A.	Repsol Petróleo, S.A.	45,697,702	4.567

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

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	Number of indirect voting rights	% of total voting rights
Mr Salvador Gabarró Serra	3,262	0	0.000
Mr Antonio Brufau Niubó	81,139	1,086	0.008
Mr Rafael Villaseca Marco	13,055	0	0.001
Mr Carlos Losada Marrodán	2,020	13,168	0.002
Mr Demetrio Carceller Arce	2,826	31,150	0.003
Mr Emiliano López Achurra	1,098	0	0.000
Mr Enrique Alcántara-García Irazoqui	8,339	21,749	0.003
Mr Felipe González Márquez	1,902	0	0.000
Mr Heribert Padrol Munté	0	0	0.000
Mr Juan María Nin Génova	156	0	0.000
Mr Juan Rosell Lastortras	0	2,000	0.000
Mr Luis Suárez de Lezo Mantilla	18,156	998	0.002
Mr Miguel Valls Maseda	7,000	0	0.001
Mr Nemesio Fernández-Cuesta Luca de Tena	1	0	0.000
Mr Ramon Adell Ramon	1,500	0	0.000
Mr Santiago Cobo Cobo	683	0	0.000
Mr Xabier Añoveros Trías de Bes	350	0	0.000

Name or company name of the indirect holder of the stake	Through: name or company name of the direct holder of the stake	Number of direct voting rights	% of total voting rights
Mr Antonio Brufau Niubó	Mr Antonio Brufau Penella	1,086	0.000
Mr Demetrio Carceller Arce	Inversones Las Parras de Castellote, S.L.	31,150	0.003
Mr Enrique Alcántara-García Irazoqui	Bufete Alcántara SLP	21,749	0.002
Mr Carlos Losada Morradán	Mrs Mercedes Cavestany de Dalmases	13,168	0.001
Mr Juan Rosell Lastortras	Mr Juan Rosell Las Tortras	2,000	0.000
Mr Luis Suárez de Lezo Mantilla	Mrs Soledad Suárez de Lezo Rivas	998	0.000
% total voting rights in possession of the Board of Directors			**0.021**

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

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:

Relationship type:
COM CON COR

Brief description:
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.

Name or company name of related parties
Repsol, S.A.
Caja de Ahorros y Pensiones de Barcelona

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:

A.6 Specify whether any shareholders' agreements have been notified to the company that affect it in accordance with the provisions set forth in Article 112 of the Securities Market Act. Where applicable, give a brief description and list the shareholders associated with the agreement:

Yes

% of share capital affected:	64.966

Brief outline of agreement:
Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003. (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. (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. (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. 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. (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.

Parties to parallel shareholders agreements
Repsol, S.A.
Caja de Ahorros y Pensiones de Barcelona

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

Yes

% of share capital affected:	30.010

Brief description of the concerted action:
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.

Parties to concerted action
Repsol, S.A.

% of share capital affected:	34.956

Brief description of the concerted action:
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

Parties to concerted action
Caja de Ahorros y Pensiones de Barcelona

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:

No

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:

Total	0

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

Unrealised gains/(Losses) of treasury stock disposed of over the period (thousands of euros)	0

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.

Point eight of the agenda of the General Meeting of Shareholders of 20 April 2010 agreed the following:

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 considers 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 the powers of replacing this delegation with 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 half the total share capital of the company, on the date of the authorisation, with the possibility of incomplete subscription, by issuing ordinary, preference or redeemable shares, with or without the right to vote, with or without a share premium, in one or more times and on the occasions and to the amount it deems appropriate, including the authority to cancel preferential subscription rights, where applicable, and rewriting the appropriate articles of the Articles of Association, thus cancelling the authorisation agreed by the Ordinary General Meeting of 20 April 2010.

1) Taking into consideration the current share capital figure, to authorise the Board of Directors, with the powers of replacing this delegation with the Executive Committee, 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 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 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 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, where applicable, the legal and statutory restrictions in the Articles of Association regarding the use of voting rights, and legal restrictions on the acquisition or assignment of share capital. Indicate whether or not there are legal restrictions to exercising voting rights:

Yes

Maximum percentage of voting rights that can be exercised by a shareholder in accordance with legal restrictions	3.000

Indicate whether or not there are statutory restrictions to exercising voting rights:

No

Maximum percentage of voting rights that can be exercised by a shareholder in accordance with statutory restrictions	0

Description of the legal and statutory restrictions to exercising voting rights

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 11.3.1.14 of Law 34/1998, governing the Hydrocarbons Sector.

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.

Indicate whether or not there are legal restrictions to the acquisition or assignment of shares in the company's capital:

Yes

Description of the legal restrictions to the acquisition or assignment of shares in the share capital

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 11.3.1.14 of Law 34/1998, governing the Hydrocarbons Sector.

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 Specify whether or not the General Meeting has agreed to take up measures of neutralisation against a takeover bid by virtue of provisions set forth in Law 6/2007.

No

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

–

B. Structure of the Management of the Company

B.1 Board of Directors

B.1.1 Describe the maximum and minimum number of Directors set forth in the Articles of Association:

Maximum number of Directors	20
Minimum number of Directors	10

B.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	23/6/2003	26/6/2009	Vote at general meeting
Mr Antonio Brufau Niubó	–	Deputy chairman	16/6/1989	20/4/2010	Vote at general meeting
Mr Rafael Villaseca Marco	–	Chief executive officer	20/4/2005	20/4/2012	Vote at general meeting
Mr Carlos Losada Marrodán	–	Director	16/12/2002	20/4/2012	Vote at general meeting
Mr Demetrio Carceller Arce	–	Director	21/5/2008	20/4/2012	Vote at general meeting
Mr Emiliano López Achurra	–	Director	23/6/2003	26/6/2009	Vote at general meeting
Mr Enrique Alcántara-García Irazoqui	–	Director	27/6/1991	20/4/2010	Vote at general meeting
Mr Felipe González Márquez	–	Director	17/12/2010	14/4/2011	Vote at general meeting
Mr Heribert Padrol Munté	–	Director	20/4/2012	20/4/2012	Vote at general meeting
Mr Juan María Nin Génova	–	Director	21/5/2008	20/4/2012	Vote at general meeting
Mr Juan Rosell Lastortras	–	Director	26/6/2009	26/6/2009	Vote at general meeting
Mr Luis Suárez de Lezo Mantilla	–	Director	20/4/2010	20/4/2010	Vote at general meeting
Mr Miguel Valls Maseda	–	Director	20/4/2005	20/4/2012	Vote at general meeting
Mr Nemesio Fernández-Cuesta Luca de Tena	–	Director	28/1/2011	14/4/2011	Vote at general meeting
Mr Ramon Adell Ramon	–	Director	1806/2010	14/4/2011	Vote at general meeting
Mr Santiago Cobo Cobo	–	Director	16/12/2002	20/4/2012	Vote at general meeting
Mr Xabier Añoveros Trías de Bes	–	Director	20/4/2012	20/4/2012	Vote at general meeting
Total number of Directors					17

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

Name or company name of Director	Condition member of the Board at the	Replacement date
Mr Carlos Kinder Espinosa	Proprietary member	20/4/2012

B.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 proposed appointment	Position in the company's management structure
Mr Salvador Gabarró Serra	Appointments and Remuneration Committee	Chairman
Mr Rafael Villaseca Marco	Appointments and Remuneration Committee	Chief executive officer
Total number of Executive Directors		2
% total of the Board		11.765

External Proprietary Directors

Name or company name of Director	Committee which proposed appointment	Name or title of significant shareholder he/she represents or who proposed appointment
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 Nin 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		8
% total of the Board		47.059

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 Ramon Adell Ramon	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	Doctorate in Law. Lawyer.
Total number of Independent Directors	7
% total of the Board	41.176

Other External Directors

List the reasons why consideration cannot be given to Proprietary or Independent Directors and their bonds with the company or its Executives or with its shareholders:

Indicate the changes, if any, in the type of Director during the period:

B.1.4 Where applicable, explain why Proprietary Directors have been appointed at the request of shareholders whose holding in the capital is less than 5%.

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

B.1.5 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:

No

B.1.6 Indicate, where applicable, the powers delegated to the Managing Director(s):

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.

B.1.7 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	Repsol-Gas Natural LNG. S.L.	Deputy Chairman
Mr Luis Suárez de Lezo Mantilla	Repsol-Gas Natural LNG. S.L.	Director
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol-Gas Natural LNG. S.L.	Chairman

B.1.8 Identify, if 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	Ebro Puleva, S.A.	Deputy Chairman
Mr Demetrio Carceller Arce	Sacyr-Vallehermoso, S.A.	Deputy Chairman
Mr Juan María Nin Génova	Repsol, S.A.	Director
Mr Juan María Nin Génova	Caixabank, S.A.	Chairman and CEO
Mr Juan Rosell Lastortras	Caixabank, S.A.	Director
Mr Luis Suárez de Lezo Mantilla	Repsol, S.A.	Voting Secretary

B.1.9 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

B.1.10 In relation to Recommendation number 8 of the Unified Code, indicate the company's general strategies and policies the Board in its plenary session has reserved the right to adopt:

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
Strategic or Business Plan, as well as the management aims and annual budgets	Yes
The remuneration policy and appraisal of senior management performance	Yes
Control of risk management policy, as well as periodic monitoring of the internal information control system	Yes
The dividend policy, as well as the treasury stock policy and, in particular, its limits	Yes

B.1.11 Fill in the following tables regarding the total remuneration of the Directors earned over the year:

a) In the company which is the object of this report:

Remuneration concept	Data in thousands of euros
Fixed remuneration	1,043
Variable remuneration	1,736
Expenses	4,062
Established in Articles of Association	0
Stock options and/or other financial instruments	0
Others	5
Total	**6,846**

Other benefits	Data in thousands of euros
Advances	0
Credits granted	0
Pension plans and funds: contributions	270
Pension plans and funds: obligations	0
Life insurance premiums	0
Guarantees made by the company to Directors	0

b) Through company Directors belonging to other Boards of Directors and/or the senior management of group companies:

Remuneration concept	Data in thousands of euros
Fixed remuneration	0
Variable remuneration	0
Expenses	0
Established in Articles of Association	0
Stock options and/or other financial instruments	0
Others	0
Total	**0**

Other benefits	Data in thousands of euros
Advances	0
Credits granted	0
Pension plans and funds: contributions	0
Pension plans and funds: obligations	0
Life insurance premiums	0
Guarantees made by the company to Directors	0

c) Total remuneration by type of Director:

Director type	By company	By group
Executives	4,137	0
External Proprietary	1,559	0
External Independent	1,150	0
Other external	0	0
Total	**6,846**	**0**

d) As a percentage of the profits attributable to the controlling company:

Total remuneration of Directors (in thousands of euros)	6,846
Directors' total remuneration/profit attributed to the parent company (%)	0.5

B.1.12 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
Mr Manuel Fernández Álvarez	Head of Wholesale Energy Business
Mr José María Egea Krauel	Head of Energy Planning
Mr José Javier Fernández Martínez	Head of Power Generation
Mr Antoni Peris Mingot	Head of Regulated Business
Mr Daniel López Jordà	Head of Retail Energy Business
Mr Sergio Aranda Moreno	General Manager of Latin America
Mr Antonio Basolas Tena	Head of Strategy and Development
Mr Antonio Gallart Gabás	Chief Corporate Officer
Mr Jordi Garcia Tabernero	Head of Communications and the Chairman´s Office
Mr Carlos Javier Álvarez Fernández	Chief Financial Officer
Mr Manuel García Cobaleda	Head of Legal Services
Total remuneration of senior management (in thousands of euros)	10,529

B.1.13 Indicate if there are guarantee or ironclad clauses, for cases of dismissal or control changes, in favour of members of senior management, including Executive Directors of the company or its group. Indicate if these contracts must be notified and/or approved by the bodies of the company or its group:

Number of beneficiaries	12

	Board of Directors	General Meeting
Body that authorises the clauses	No	No

Is the General Meeting informed of the clauses?	Sí

B.1.14 Indicate the process for establishing the remuneration of the members of the Board of Directors and the relevant clauses of the Articles of Association in that respect.

Process for establishing payment for the members of the Board of Directors and the statutory clauses

Article 22 of the Regulations of the Board of Directors states the following:

"1. The position of Director of Gas Natural SDG, S.A. shall be remunerated in the form set out in the Articles of Association, in the light of the report issued by the Appointments and Remuneration Committee, pursuant to Article 31 of these regulations.

The Appointments and Remuneration Committee shall propose to the General Meeting of Shareholders the criteria it deems appropriate to assure compliance with the purposes of this article, and the Board shall be responsible for its approval and the final distribution of the total sum, within the limits set out in the Articles of Association for that purpose. Each year, whenever it deems appropriate, the Board of Directors shall be entitled to approve payments of the amounts pertaining to each Director for the activities performed during that period.

2. The Board shall define the payment policy for its Directors, determining (i) the amounts corresponding to the fixed components, with a breakdown of those that correspond to the participation in the Board and its Committees and (ii) the variable concepts, where applicable, specifying their relative importance with regard to the fixed components. Except for just cause, remuneration through the delivery of shares, stock options or instruments referenced to the share value shall be limited to Executive Directors".

3. Remuneration of the Directors shall be transparent. The Annual Report, which is an essential part of the Annual Accounts, shall contain any information deemed appropriate concerning the remuneration received by the members of the Board of Directors'.

Complementing the foregoing, section 2 of Article 31 expressly states: "The Committee (Appointments and Remuneration Committee) has powers to examine and submit the following matters: putting forward criteria for the remuneration of the company's Directors and to assure transparency in remunerations…"

Furthermore, Article 44 of the revised text of the Articles of Association, in accordance with the agreements adopted in the General Meeting of Shareholders of 14 April 2011, specifically states:

"The Board of Directors will receive remuneration of 4% of the resulting profit, having deducted overheads, interest, taxes and other amounts that have to be allocated to write-down and repayment, unless the Board agrees to reduce the amount receivable in those years in which it deems such action appropriate. The resulting amount will be for distribution to the Board of Directors and its delegated committees, as well as to members of the Board that perform executive functions. It will be distributed in a manner deemed most opportune by the Board, both with regard to distribution among members, particularly the Chairman, in accordance with the duties and the time each member dedicates, as well as the form of expenses, statutory remuneration, compensation for executive duties, etc.

Administrators with executive duties in the company, regardless of their legal relationship with the company, will have the right to receive remuneration in exchange for these functions, which may be a fixed amount or a bonus, as well as incentive systems and another part that could include pension plans or insurance schemes and, if appropriate, the national social security scheme. Compensation may be payable in the event of termination not due to a breach of their functions.

The amount receivable by the Board, pursuant to the foregoing, may only be allocated once shareholders have been paid a minimum dividend of 4% of the share capital paid-up, pursuant to the provisions laid down in article 218 of the Corporate Enterprises Act.

By the same token, within the limits of the previous sections, all members may be remunerated with corporate shares or shares of another listed company of the group to which it belongs, options over the shares or instruments associated to the share price. This remuneration must be agreed by the General Meeting of Shareholders. If appropriate, the agreement will specify the number of shares to be handed over, the price of exercising the option right, the reference share price value and the duration of this method of remuneration".

Indicate whether or not the Board in its plenary session has reserved the right to adopt the following decisions.

At the proposal of the chief executive of the company, the appointment and possible resignation of senior executives, as well as their compensation clauses	Yes
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	Yes

B.1.15 Indicate whether or not the Board of Directors adopts a detailed payments policy and specify the matters on which it pronounces:

Yes

Amount of the fixed elements, with a breakdown if applicable of the allowances for participation on the Board and its Committees, and an estimate of the annual fixed remuneration to which they are entitled	Yes
Variable payment concepts	Yes
Main characteristics of the social benefits systems, with an estimate of the equivalent annual cost or amount	Yes
Conditions to be observed in the contracts of those who exercise senior management functions as Executive Directors	Yes

B.1.16 Specify whether the Board submits a report on the remuneration policy for Directors to voting at the General Meeting as a separate item of the agenda. Where applicable, explain the aspects of the report regarding the salary policy adopted by the Board for future years, the most significant changes in the said policies with regard to that applied during the year, and the global summary of how the remuneration policy was applied during the year. Give details of the role played by the Remuneration Committee and, if external consultancy services have been used, the identity of the external consultants that have provided the service:

Yes

Matters covered by the remuneration policy:

The Directors' Remuneration Report for the year 2011 was approved as a separate, consultative matter on the agenda at the General Meeting held on 20 April 2012.

Remuneration of Directors in 2012 was set in accordance with criteria concerning the amount of time they spend, qualifications and responsibility, and in no case does the amount compromise their independence in the performance of their functions.

It was deemed particularly appropriate to keep the values the same as the previous year which, in turn, had not changed since 2007.

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

- Chairman of the Board of Directors: 550,000.00 euros/year.
- Director: 126,500.00 euros/year.
- Chairman of the Executive Committee: 550,000.00 euros/year.
- Member of the Executive Committee: 126,500.00 euros/year.
- Member of the Appointments and Remuneration Committee: 12,650.00 euros/year.
- Member of the Audit and Control Committee: 12,650.00 euros/year.

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

The remunerations policy with regard to Executive Directors for the performance of their executive duties, other than collegiate supervision and decision-taking, inherent to their post on the governing body are based on the following premises:

- Having a competitive global remuneration level with regard to comparable companies in the energy sector.
- Maintaining an annual bonus tied to measurable targets aligned with shareholders' interests, with control and measurement systems, that determine the bonus received based on assessments that measure individual performance, performance of the business units and the company as a whole.

- Including medium/long-term multi-year bonus systems that encourage targets sustained over time to be achieved and holding on to critical persons associated to these targets.

We should point out that in 2012 there were no significant changes to the remuneration policy with regard to the policy applied in 2011.

The criteria pursued to establish the remuneration policy has been moderation, compensation for the time spent and a focus on the evolution of earnings.

Role played by the Remuneration Committee:

For future years, the Appointments and Remuneration Committee has provided a favourable report to the Board of Directors concerning maintenance of the remunerations policy pursued to date, based on the principles of moderation, compensation for the amount of time spent and in line with earnings.

In exercise of the terms of reference given by the Regulations of the Board to the Appointments and Remunerations Committee, the latter proposed the remuneration criteria of company directors, which were adopted by the Board of Directors at its session held on 27 January 2012.

Have external consultancy services been used?

Identity of the external consultants

B.1.17 Indicate, where applicable, the identity of Board members who are also members of the Boards of Directors, Directors or employees of companies that hold significant stakes in the listed company and/or companies of your group:

Name or company name of Director	Company name of significant shareholder	Position
Mr Salvador Gabarró Serra	Caja de Ahorros y Pensiones de Barcelona	First Deputy Chairman
Mr Antonio Brufau Niubó	Repsol, S.A.	Executive Chairman
Mr Juan María Nin Génova	Caja de Ahorros y Pensiones de Barcelona	General Director
Mr Juan María Nin Génova	Repsol, S.A.	Director
Mr Juan María Nin Génova	Criteria CaixaHolding, S.A.U.	Deputy Chairman
Mr Luis Suárez de Lezo Mantilla	Repsol, S.A.	Voting Secretary
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol, S.A.	Managing Director of Business

Provide details, if 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 Salvador Gabarró Serra	Caja de Ahorros y Pensiones de Barcelona	Director of Caixabank, S.A.
Mr Juan María Nín Génova	Caja de Ahorros y Pensiones de Barcelona	Director of Vidacaixa Grupo, S.A.U.
Mr Juan María Nín Génova	Caja de Ahorros y Pensiones de Barcelona	Vice-President and ceo of Caixabank, S.A.
Mr Juan Rosell Lastortras	Caja de Ahorros y Pensiones de Barcelona	Director of Caixabank, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol, S.A.	Chairman of Repsol Exploración, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol, S.A.	Chairman of Repsol Petróleo, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol, S.A.	Chairman of Repsol Sinopec Brasil, S.A.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol, S.A.	Chairman of Repsol-Gas Natural LNG, S.L.
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol, S.A.	Chairman of Repsol Comercial de Productos Petrolíferos, S.A.

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

Yes

Description of modifications

In 2011, Articles 5 and 30.7 of the Regulations of the Board of Directors were amended as follows:

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 exiting companies.

6. Adoption of merger, absorption, splin-off, concentration and dissolution transactions with or without liquidation, in which any of the companies in Gas Natural Fenosa Group.

Description of modifications

7. Disposal of capital shares in companies or other fixed assets by any of the companies in Gas Natural Fenosa Group.

8. Adoption of investment projects to be carried out by any company in the Gas Natural Fenosa Group.

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 Group.

10. Adoption of financial transactions to be carried out by any company in Gas Natural Fenosa Group which are not included in the Annual Financial Plan.

11. Awarding of guarantees by companies belonging to Gas Natural Fenosa Group 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 Group.

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 Fenosa 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 the Gas Natural Fenosa Group 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. Approval of the financial information that corresponds according to legislation.

19. Approval of the risk management and control policy and regular monitoring of the indicators and internal control systems.

20. Approval 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 the Gas Natural Fenosa Group. Whatever the case, the transactions 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.

Description of modifications

Article 30. The Executive Committee

7. The Executive Committee, convened by its Chairman, shall hold meetings whenever its Chairman considers it necessary or upon request of a 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.

B.1.19 Indicate the procedures for the 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.

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 the Gas Natural Fenosa Group unless 3 or 5 years, respectively, have lapsed since the said relationship.

b) Those who receive from the company or the Gas Natural Fenosa Group 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 the Gas Natural Fenosa Group.

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 the Gas Natural Fenosa Group 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 majority 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 the Gas Natural Fenosa Group.

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 completion of his/her mandate, he/she shall explain the reasons in a letter addressed to the other Directors. The resignation shall be notified as relevant information.

B.1.20 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 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.

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.

B.1.21 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

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

B.1.22 Are reinforced majorities other than those applicable by law required for any type of decision?

No

Indicate how decisions are taken in the Board of Directors, specifying at least the minimum quorum and the type of majorities for approving decisions:

Description of decision	Quorum	%	Type of majority	%
Various corporate decisions.	Article 47 of Articles of Association and 10 of Board Regulations. Half plus one of the members in attendance or represented.	52.94	Articles 49 and 50 of the Articles of Association and 10 of the Board Regulations. Absolute majority of those in attendance or represented. Two-thirds majority for the delegation of powers.	52.94

B.1.23 Indicate if there are specific requirements other than those relating to Directors in order to be appointed as Chairman.

No

B.1.24 Indicate whether the Chairman has a casting vote:

No

B.1.25 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 Directors
0	0	0

B.1.26 Indicate whether the Articles of Association or the Board Regulations establish a limited mandate for Independent Directors:

Yes

Maximum number of years of mandate	12

B.1.27 If there are few or no female Directors, explain the reasons or the initiatives adopted to correct this situation.

Explanation of the reasons and the initiatives	Cf. Section F. Recommendation 15.

In particular, indicate whether or not the Appointments and Remuneration Committee has laid down procedures to ensure that the selection processes are not subject to implicit bias that prevents the selection of female Directors and deliberately look for female candidates with the required profile:

Yes

Indicate the main procedures
Article 31.2 of the Regulations of the Board of Directors lays down the Appointments and Remuneration Committee obligation to ensure that"… when covering new vacancies, selection processes shall apply that are not subject to implicit bias that prevents the selection of female Directors, where the potential candidates shall include, under the same conditions, women that meet the professional profile being sought".

B.1.28 Indicate if there are formal processes for delegation of votes in the Board of Directors. If so, describe them briefly.

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

In addition, Article 10.3 of the Regulations of the Board lays down the following: "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".

B.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:

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 Committee	8
Number of meetings of the Audit Committee	5
Number of meetings of the Appointments and Remuneration Committee	8
Number of meetings of the Appointments Committee	0
Number of meetings of the Remuneration Committee	0

B.1.30 Indicate the number of meetings held by the Board of Directors during the year without the attendance of all its members. When calculating the number, representations made without specific instructions shall be considered as non-attendance:

Number of non-attendances of Directors during the year	1
% of non-attendances over the total number of votes during the year	0.500

B.1.31 Indicate if the Individual and Consolidated Annual Accounts submitted for approval by 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	Position
Mr Carlos Javier Álvarez Fernández	Chief Financial Officer

B.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 Financial-Economic 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.

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

No

B.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 adopted 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.

B.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.

In accordance with Art. 32.2 of the Board Regulations, the Audit and Control Committee is responsible for maintaining necessary 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 technical auditing standards.

In addition, the Board of Directors is bound by its own regulations (Article 6.4) to 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.

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.

B.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

B.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

	Society	Group	Total
Amount of tasks other than auditing activities (in thousands of euros)	478	337	815
Amount of tasks other than auditing/Total amount billed by the audit company (in %)	38.580	9.490	17.010

B.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

B.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:

	Society	Group
Number of years without interruption	22	22
Number of years audited by the current audit company/Number of years the company has been audited (in %)	100.0	100.0

B.1.40 Indicate the holdings of the members of the Board of Directors in the capital of companies which have the same, similar or complementary type of activity that constitutes the business purpose of the company and of its group, and of which the company has been informed. Also indicate the positions or duties that they perform in these companies:

Name or company name of Director	Name of object company	% stake	Position or duties
Mr Salvador Gabarró Serra	Enagas, S.A.	0.006	–
Mr Salvador Gabarró Serra	Iberdrola, S.A.	0.001	–
Mr Salvador Gabarró Serra	Red Eléctrica Corporación, S.A.	0.008	–
Mr Antonio Brufau Niubó	Repsol, S.A.	0.022	Chairman
Mr Rafael Villaseca Marco	Endesa, S.A.	0.000	–
Mr Rafael Villaseca Marco	Repsol, S.A.	0.000	–

Name or company name of Director	Name of object company	% stake	Position or duties
Mr Rafael Villaseca Marco	Enagas, S.A.	0.000	–
Mr Rafael Villaseca Marco	Iberdrola, S.A.	0.000	–
Mr Enrique Alcántara-García Irazoqui	Iberdrola, S.A.	0.000	–
Mr Felipe González Márquez	Iberdrola, S.A.	0.000	–
Mr Juan María Nin Génova	Repsol, S.A.	0.000	Director
Mr Luis Suárez de Lezo Mantilla	Repsol, S.A.	0.000	Voting Secretary
Mr Luis Suárez de Lezo Mantilla	Iberdrola, S.A.	0.000	–
Mr Nemesio Fernández-Cuesta Luca de Tena	Repsol, S.A.	0.003	Managing Director of Business

B.1.41 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).

B.1.42 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.

B.1.43 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.

B.1.44 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 124 of the Public Limited Companies Act:

No

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.

No

Decision taken	Reasoned explanation

B.2 Committees of the Board of Directors

B.2.1 Provide details of all the committees of the Board of Directors and their members:

Executive Committee

Name	Position	Type
Mr Salvador Gabarró Serra	Chairman	Executive
Mr Antonio Brufau Niubó	Deputy Chairman	Proprietary Member
Mr Carlos Losada Marrodán	Board Member	Independent
Mr Demetrio Carceller Arce	Board Member	Proprietary Member
Mr Emiliano López Achurra	Board Member	Independent
Mr Enrique Alcántara-García Irazoqui	Board Member	Proprietary Member
Mr Juan María Nin Génova	Board Member	Proprietary Member
Mr Rafael Villaseca Marco	Board Member	Executive

Audit Committee

Name	Position	Type
Mr Carlos Losada Morradán	Chairman	Independent
Mr Luis Suárez de Lezo Mantilla	Board Member	Proprietary member
Mr Ramon Adell Ramon	Board Member	Independent

Appointments and Remuneration Committee

Name	Position	Type
Mr Miguel Valls Maseda	Chairman	Independent
Mr Antonio Brufau Niubó	Board Member	Proprietary Member
Mr Santiago Cobo Cobo	Board Member	Independent

B.2.2 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
In the case of groups, it should favour the group's auditor assuming the responsibility for the audits of the companies in the group	Yes

B.2.3 Describe the organisational and operational rules and the responsibilities attributable to each of the Board's committees.

Committee name	Brief outline
Appointments and Remuneration Committee	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 Gas Natural Fenosa Group Directors. • Putting forward the guidelines for appointments, selection, careers, promotion and dismissal of the members 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.

Committee name	Brief outline
Executive Committee	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 Board Regulations.

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 a 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.

Committee name	Brief outline
Audit committee	**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 questions 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, to provide 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 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. La Comisión podrá invitar a sus reuniones a cualquier directivo o empleado que considere conveniente".

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 and presentation of regulated financial information, guaranteeing the correct application of the accounting principles and the inclusion of all the companies that are to be included in the consolidation perimeter.

- Monitoring and supervising the company's risk management and internal control systems and their effectiveness, guaranteeing that they identify the types of risk the company faces and the measures considered for reducing them and dealing with them in the event of effective damage. Speaking to the accounts auditors about significant weaknesses of the internal control system detected during the audit.

- 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 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.

B.2.4 Indicate the faculties for advising, consultancy and, if relevant, appointments, for each of the committees:

Committee name	Brief outline
Appointments and Remuneration Committee	Already detailed in section B.2.3 in this report
Executive Committee	Already detailed in section B.2.3 in this report
Audit Committee	Already detailed in section B.2.3 in this report

B.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.**

Committee name	Brief outline
Appointments and Remuneration Committee	No regulations corresponding to the Board Committees have been approved. They are regulated by the Organisation and Operation Regulations of the Board of Directors and its Committees, which are available on the company's website. These regulations were modified in 2012. This Committee has approved a report on the quality and efficiency of its performance in 2012. Mention must be made of the fact that the Regulations of the Board of Directors are duly registered in the Mercantile Register of Barcelona.

Committee name	Brief outline
Executive Committee	No regulations corresponding to the Board Committees have been approved. They are regulated by the Organisation and Operation Regulations of the Board of Directors and its Committees, which are available on the company's website. These regulations were modified in 2012. This Committee has approved a report on the quality and efficiency of its performance in 2012. Mention must be made of the fact that the Regulations of the Board of Directors are duly registered in the Mercantile Register of Barcelona.

Committee name	Brief outline
Audit Committee	No regulations corresponding to the Board Committees have been approved. They are regulated by the Organisation and Operation Regulations of the Board of Directors and its Committees, which are available on the company's website. These regulations were modified in 2012. This Committee approved a report on the quality and efficiency of its performance in 2012. Mention must be made of the fact that the Regulations of the Board of Directors are duly registered in the Mercantile Register of Barcelona. Furthermore, the Audit and Control Committee drafts an annual report on its own activities which is placed at the disposal of the shareholders before the Ordinary General Meeting and published on the company website.

B.2.6 **Indicate whether the makeup of the Executive Committee reflects the participation in the Board by the various Directors depending on status:**

Yes

C. Related-Party Transactions

C.1 Indicate whether the plenary Board has reserved the power to approve the operations that the company carries out with Directors, with major shareholders or shareholders represented on the Board, or with individuals related to these, following a favourable report from the Audit Committee or any other Committee commissioned with this duty:

Yes

C.2 Detail the significant operations that imply a transferral of resources or obligations between the company and entities within its group and the significant shareholders of the company:

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)
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Provision of services	41,371
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Purchase of tangible assets, intangible assets and other assets	5,044
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Sales of goods (manufactured or not)	1,171,298
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Reception of services	73,702
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	247,009
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Purchase of goods (manufactured or not)	1,175,291
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Leases	360
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Sale of tangible assets, intangible assets and other assets	814,873
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financial income	30,823
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	290,336
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Guarantees received	112,500
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Other income	884
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financial expenses	11,464
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Collaboration or management contracts	630,460
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (borrower)	512,796
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Other costs	43,844
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (lender)	1,860,377

C.3 Detail the significant operations that imply a transferral of resources or obligations between the company or entities within its group and the Administrators or Executives of the company:

C.4 Detail the important operations 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:

C.5 Indicate whether the members of the Board of Directors have been affected by any conflicts of interest over the year, in accordance with the provisions set forth in Article 127 ter of the Spanish Public Limited Companies Act.

Yes

Name or company name of Director	Description of the conflict of interest
Mr Antonio Brufau Niubó Mr Demetrio Carceller Arce Mr Enrique Alcántara-García Irazoqui Mr Heribert Padrol Munté Mr Joan Rosell Lastortras Mr Juan María Nin Génova Mr Luis Suárez de Lezo Mantilla Mr Nemesio Fernández-Cuesta Luca de Tena	In related party transactions that have been submitted for approval by the Board, following a favourable report from the Appointments and Remuneration Committee, those Directors representing the involved related party have abstained from voting. See section C.2.

C.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 Group, in which the Director acts as representative, manager or adviser, or has a majority 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 the 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 majority 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 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.

- 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.

C.7 Is there more than one listed company in the group in Spain?

No

Identify the subsidiary companies that are listed:

D. Risk Control Systems

D.1 General description of the risk policies of the company and/or its group, detailing and assessing the risks covered by the system, together with justification for the adaptation of the system to the profile of each risk type.

Gas Natural Fenosa strategy is based on the basic principles of growth, integration, profitability and quality, which are transmitted repeatedly to its interest groups in the reports issued. These include annual reports, quarterly earnings reports and various reports of a strategic nature.

The said strategy basically covers the exploration and production of gas reserves, the gas supply and transportation, the wholesale and retail commercialisation of gas and electricity, the generation of electricity and the distribution of gas and electricity.

All with presence in both Spain and in other countries of Europe, Africa and America. This places Gas Natural Fenosa in a context which is subject to several types of risk factors that are inherent to its activity.

The general risk policy is aimed at safeguarding Gas Natural Fenosa's assets and is consolidated by the following aspects:

- Controlled expansion of activities ensuring the fulfilment of quality standards.
- Profitable growth risk guidelines established by the governing bodies.
- Quick response to changes in the environment.
- High level of professionalism of members of the Board of Directors and other members of the organisation.
- Dynamic decision-making processes.
- Flexibility, objective-based organisational structure.
- Standard structure aimed at ensuring proper operation of critical processes and sub-processes for Gas Natural Fenosa, guaranteeing their efficiency and effectiveness and the appropriate control of transactional risks.

Gas Natural Fenosa takes the view that the risks that require a greater degree of proactive management are those that, given the severity of the risk occurring, could have a negative bearing on the fulfilment of the Strategic Plan and/or on the company's financial soundness in the short, medium and long term. Although Gas Natural Fenosa administrates its business with prudence and diligence, many of the risks are inherent to the management of its activities, and are therefore beyond its control on certain occasions, and foreseeing and/or avoiding their consequences is unfeasible.

Gas Natural Fenosa's broad experience in understanding and controlling risks can be seen in their integrated management. The main aim of global risk management is to guarantee the correct identification, assessment and management of the most important risks by the various business units. All with the aim of guaranteeing that the level of exposure to the risk assumed by Gas Natural Fenosa in the development of its business is consistent with its global target risk profile. The said risk profile responds to the level of uncertainty that must be assumed to achieve the strategic annual targets set by its governing bodies. The target risk profile is laid down in the different levels of uncertainty in accordance with the relevant risk category, as approved by the corresponding governing bodies.

Monitoring and assessing risk exposure in an integrated approach, and controlling overall exposure to it, allows efficiency in decision-making to be underpinned, making it possible to optimise the risk-return binomial and guaranteeing that the achievement of the credit rating levels is always in line with the strategic positioning of Gas Natural Fenosa and committed to its stakeholders.

The Corporate Risk Map of Gas Natural Fenosa

The process of identifying and assessing Gas Natural Fenosa's risks is governed by the Corporate Risk Map. The preparation and updating of the said map is the responsibility of the Financial Area in close collaboration with the Internal Audit Area and the business units.

It is an instrument which is designed to identify and assess the main risk categories that affect Gas Natural Fenosa. In a schematic form these are:

a) Business risks:

- a.1) Price.
- a.2) Volume.
- a.3) Regulatory.
- a.4) Strategic.

b) Financial risk:

- b.1) Exchange rate.
- b.2) Interest rate.
- b.3) Liquidity.

c) Credit risk.

- c.1) Retail.
- c.2) Wholesale.

d) Operational risk:

- d.1) Legal/Contractual.
- d.2) Human resources.
- d.3) Fraud.
- d.4) Processes.
- d.5) Information systems.

The aim of the preparation of the Risk Map is to analyse the effects of the various risk categories on each of Gas Natural Fenosa's basic processes/activities. Accordingly, the following is taken into account:

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.

The conclusions drawn from the map are conveyed to the Risk Committee, the Chief Executive Officer and the Audit and Control Committee; basic guidelines for action concerning risks are established regularly with the aim of reducing exposure in activities that have a residual risk of greater impact for Gas Natural Fenosa.

Comprehensive Risk Control and Management System

Gas Natural Fenosa has established a Comprehensive Risk Control and Management System that identifies, assesses and controls the risks to which the company is exposed. The foundations for this system are:

a) Definition of the general risk policy and profile.

b) Provision of organisational resources.

c) Internal policies, procedures and regulations of various types.

d) Adequate controls and measurement methodologies.

e) Technological infrastructure and information systems.

These foundations are set up through a process of continuous improvement, and their implementation is permanently regulated in cooperation among the various Committees, Governing Bodies and Departments of Gas Natural Fenosa, as well as by the Internal Audit Area.

With regard to regulations, special mention must be made of the General Risk Standard, whose main aim is to lay down the general principles and behaviour guidelines to guarantee the appropriate identification, information, assessment and management of Gas Natural Fenosa's exposure to risk. The aim of the General Risk Standard is to guarantee that the entire organisation understands and accepts its responsibility in identifying, appraising and managing the most significant risks. Accordingly, it establishes various managers for the management, measurement, control and laying-down of limits for each of the typified risk categories.

The fundamental principle on which Gas Natural Fenosa is based in order to assess, mitigate and reduce the principal existing risks is that of reasoned business prudence in all of its actions, with strict and faithful compliance of the legislation in force.

As an integral part of the Comprehensive Control and Management System, particular mention must be made of the Risk Measurement System. The purpose of the system is to quantify the risk assumed globally and by each of the relevant businesses on a recurring base of probability, regarding risk factors related to variations in market prices.

D. 2 Indicate whether or not any of the various types of risk (operative, technological, financial, legal, reputational, fiscal, etc.) that affect the company and/or its group have arisen during the year:

Yes

If the answer is affirmative, indicate the circumstances that caused them and whether or not the established control systems worked.

Risks occurred during the year	Causes of risks	Operation of control systems
The risks have evolved without significant impact on the Consolidated Annual Accounts.	All the causes of the risks are external and inherent to the activities carried out by Gas Natural Fenosa.	The internal control systems have worked appropriately.

D. 3 Indicate whether there is a committee or governing body that is responsible for establishing and supervising these control devices:

Yes

If the answer is affirmative, describe its functions.

Name of the committee or body	Description of duties
Internal Audit Area	The main purpose of the Internal Audit Area is to ensure the supervision and continuous assessment of the effectiveness of the Internal Control System, including the Internal Control System on Financial Reporting (SCIIF) and the Crime Prevention Model, in all fields of Gas Natural Fenosa Group, providing a systematic and stringent approach for process monitoring and improvement, and for the assessment of operational risks and controls relating thereto. All of the foregoing is designed to achieve compliance with the strategic objectives of Gas Natural Fenosa Group and to assist the Audit and Control Committee and the top-tier management of Gas Natural Group, in the fields of management, control and corporate governance. In order to achieve these aims, the Internal Audit Area, which answers to the Audit and Control Committee and which in turn reports to the Chairman and Chief Executive Officer of Gas Natural Fenosa, draws up and executes a Strategic Audit Plan (with broader time frame of five years) and Annual Internal Audit Plans, in accordance with a method of assessment of operational risks in keeping with best practices in corporate governance, based on the Conceptual Framework of the COSO Report (the Committee of Sponsoring Organisations of the Treadway Commission) and taking as a basis the type of risks defined in the Corporate Risk Map of Gas Natural Fenosa. In accordance with the aforementioned methodology, the operational risks associated with the processes are prioritised by assessing their impact, relative importance and degree of control. Based on the results obtained in the aforementioned assessment, an action plan is designed with a view to implementing corrective measures which shall mitigate residual risks identified as having greater potential impact than the established tolerable or accepted risks. Finally, it should be pointed out that the functions and activities of the Internal Audit Area are provided in Annual Report on the Activities of the Audit and Control Committee.

Name of the committee or body	Description of duties
Resources Area	This area is responsible for the overall management of the common services in fields such as Information, Purchases, Technology and Engineering, Quality, Health & Safety and Environment Systems. The role played by these units is fundamental for the management and mitigation of risks of an operational nature. Specifically: The Information Systems Unit is responsible for the integrated management of the group's Information Sytem, defining the technological strategy and planning, ensuring the quality of services, cost and safety required by the group. Of particular note is the Information Systems Management Unit, in charge of definition and monitoring of the governing parameters of the Information Systems, as well as the launch, set-up and monitoring of the normalisation of the group's Information Systems model. The Global Purchasing, Logistics and Supplier Quality Unit is responsible for the definition of the policies, operating model and methodology in purchasing, logistics and supplier quality. Likewise, it is responsible for authorisation of suppliers and guaranteeing the quality of the contracted goods and services. The Technology and Engineering Unit is responsible for the development and introduction of technological solutions that improve the efficiency, quality and safety of the group's processes. The Quality, Health & Safety, Environment and General Services Unit is responsible for the planning and management of the quality, safety, protection of the health and the environment. Likewise, this unit manages the personal, patrimonial and industrial safety.

Name of the committee or body	Description of duties
Financial Area	The Financial Area assumes the global responsibility on risks, finance, fiscal, accounting and administration policies, as well as controlling the management and the relationships with investors. The Risk Unit is responsible for the conceptual determination of inherent risk for the group's businesses as well as the assessment of the group's global risk profile and its monitoring. This unit develops the regulations, policies and tools for the management and monitoring of risk as well as the proposal of levels of authorisation, responsibilities and operational limits. It is also responsible for assessing the potential risks of material damage, civil liability and loss of profit, as well as contracting and administering industrial and vehicle insurance policies. Additionally, it administers incident management. The Finance Unit is responsible for conducting the group's short, medium and long-term financial management as well as proposing the group's financial policy in terms of distribution of results, levels of leverage, financial criteria on interest rates and the financial structure of companies.

Name of the committee or body	Description of duties
Energy Planning Area	The Balance Unit is responsible for the consolidation of the group's integrated energy balance and proposes indicators to improve the allocation of energy.

Name of the committee or body	Description of duties
Legal Services Area	The Legal Services Area is responsible for giving advice on the legal issues and manages the civil, penal and administrative matters in the different areas of the group. Of particular note is the Compliance Unit, as responsible for monitoring the legislation that is applicable to the group and in particular the Crime Prevention Model. This unit was established to prevent and effectively mitigate the occurrence of offenses under the Organic Law 5/2010 governing the Amendment of the Penal Code, which entered into force on 23 December 2010, introducing in Spain the criminal responsibility of artificial persons in cases in which they do not exercise due control over the systems of individuals subject to their authority. Likewise, the Compliance Unit promotes good corporate governance through the Corporate Governance Matters Unit, which is responsible for defining the basic issues of corporate governance on a group scale, as well as for collaborating on the preparation of internal regulations that reflect said issues and for ensuring the fulfilment of the Corporate Governance Principles.

Name of the committee or body	Description of duties
Audit and Control Committee	The responsibilities of the Audit and Control Committee are established in the Articles of Association and the Regulations of the Board of Directors. Among these are the functions of researching, reporting, supporting and making proposals to the Board of Directors in relation to their monitoring tasks, by means of a periodic review of compliance with the procedure for drafting business and financial information (Internal Financial Reporting Control System, SCIIF), the procedure for the identification and assessment of the risks included in the Corporate Risk Map, the Internal Control System of the company (including the Crime Prevention Model as well as regulations, laws, policies, codes, accounting and internal control procedures, etc.) of the auditing procedure and independence of the external auditor, and compliance with established policies in matters of corporate governance. The Committee has also been assigned with the responsibilities of 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. The main activities of the Committee in 2012 concerning the review of the internal control and risk management systems of Gas Natural Fenosa are set forth, inter alia, in the Annual Report on the Activities of the Audit and Control Committee. The functions and activities performed by the Audit and Control Committee of Gas Natural SDG, S.A. duly comply with the legal requirements introduced through Law 12/2010, which amends Law 19/1988 of 12 July, governing Accounts Auditing, Law 24/1988 of 28 July, governing the Securities Market, and the consolidated text of the Public Limited Companies Act, approved through Royal Legislative Decree 1564/1989 of 22 December, as well as the legal requirements introduced through Royal Legislative Decree 1/2010 of 2 July, which approves the consolidated text of the Corporate Enterprises Act.

Name of the committee or body	Description of duties
Audit and Control Committee (continuation)	By the same token, the functions and activities of the Committee duly comply with the good corporate governance recommendations published by the National Securities Market Commission (CNMV), included in the Unified Code on Good Corporate Governance of Listed Companies of 19 May 2006, approved on 22 May 2006 (Conthe Code) and the document published in June 2010 on Internal Control System on Financial Reporting (SCIIF) at listed companies.

Name of the committee or body	Description of duties
Executive Committee	The Executive Committee, in its capacity as appointed body of the Board of Directors, likewise gathers the necessary reports and advice for each case; it examines and authorises all significant operations which, due to their habitual occurrence in the company or their financial magnitude, are not authorised by the Board. The Executive Committee usually informs the Board of the decisions taken and requests, where applicable, their ratification or approval from the highest governing body. The Executive Committee is also responsible for proposing the Strategic Plan, the group's Objectives and the Annual Budget to the Board of Directors.

Name of the committee or body	Description of duties
Quality Committee	Its main objectives are to submit the Strategic Quality Plan for approval from the senior management but it is also responsible for coordinating and driving the introduction of the provisions in the plan in each of the affected organisational units, these units being ultimately responsible for their introduction. Likewise, through the Quality, Health & Safety, Environment and General Services Unit, it reports on the development of the measurements taken recurrently and systematically of Gas Natural Fenosa's customer satisfaction and the alignment between the quality objectives and intrinsic business risks.

Name of the committee or body	Description of duties
Management Committee	The Management Committee, comprising senior executives (specifically the Chief Executive Officer, the General Managers and the remaining Directors, as shown in the table of foregoing section B.1.9), is the body that coordinates the business and corporate areas. Its main functions include researching and proposing the Objectives, the Strategic Plan and the Annual Budget, as well as forwarding the proposals for actions that may affect the securing of the company's Strategic Plan to the governing bodies. All of the members of the Management Committee also participate in the drafting of the Corporate Risk Map through technical meetings at which they contribute their views on the principal uncertainties and possible effects on the business.

Name of the committee or body	Description of duties
Data Protection Committee	Its objective is to instigate, coordinate and drive the introduction of organisational and technical measures in all of the group's companies, which ensure the security and confidentiality of the personal data provided by customers, suppliers or employees, fulfilling, in turn, the provisions set forth in the Personal Data Protection Act and its Security Regulations. It must ensure coverage for the risks that are inherent to its scope of operation.

Name of the committee or body	Description of duties
Regulation Committee	Its objective is the definition of the carrying out of Gas Natural Fenosa's integrated regulation strategy, ensuring that the uncertainty associated with the regulatory sphere is properly managed.

Name of the committee or body	Description of duties
Risk Committee	This Committee is responsible for guaranteeing the correct determination and review of Gas Natural Fenosa target risk profile, ensuring that the entire organisation understands and accepts its responsibility in the identification, assessment and management of the most relevant risks. The permanent members of the said Committee include the Financial Area, the Energy Planning Area, the Wholesale Energy Business Area, the Retail Energy Business Area and the Internal Audit Area. In addition, the other members of the Management Committee can take part in the Committee as non-permanent members for dealing with specific cases. The risk management strategy designed by the Committee is applied by the Risk Subcommittee.

Name of the committee or body	Description of duties
Chief Executive Officer	The Chief Executive Officer authorises those operations that, due to their financial cost or nature, are directly submitted to his/her jurisdiction and have been proposed by the company's Executive Directors in the necessary reports. In the event that the operations exceed the pre-established limits, they are submitted by the Chief Executive Officer to the Executive Committee or the Board of Directors, as appropriate. As a fundamental and principal function, the Chief Executive Officer is responsible for the execution and implementation of the agreements adopted by the Board of Directors and the Executive Committee, and can give authority to the company executives, which are most suitable in each case, in accordance with the nature and significance of the matter. The participation of the Chief Executive Officer in the discussion of the most pertinent conclusions of the Corporate Risk Map is also significant. The conclusions complement and contextualise the decision-making process in terms of the risks assumed by Gas Natural Fenosa.

Name of the committee or body	Description of duties
Board of Directors	Gas Natural Fenosa practises a business policy in which the analysis and management of risks plays a key role in decision-making processes. The established risk management control systems are configured at the following levels: Board of Directors: 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 governing criterion is the sustained maximisation of the company's value. Accordingly, it shall be competent to determine Gas Natural Fenosa strategic focuses and economic targets, the supervision and verification of the fulfilment of the said strategy and targets by senior management in accordance with the company's purpose and interests. All guaranteeing the future viability of Gas Natural Fenosa and its competitiveness in the development of the business activity expressly under its control. When carrying out its functions, the Board of Directors shall establish as many supervision systems as required to guarantee control over its members' decisions. In order to carry out the aforementioned functions, the Board of Directors has the following powers, particularly relevant in the area of risk management and control. Adoption of Gas Natural Fenosa Strategic Plan, the Annual Budgets, the Annual Financial Plan and the investments and finance policy. Adoption of the risk management and control policy and regular monitoring of the indicators and internal control systems. Adoption of the corporate governance and corporate social responsibility policies. Adoption of the policy on dividends and treasury stocks.

Name of the committee or body	Description of duties
Secretary of the Board of Directors	In accordance with Article 26 of the Regulations of the Board of Directors, the Secretary of the Board, via the Secretary or, where applicable, via the Assistant Secretary, is responsible for assisting the Chairman in his/her tasks, and especially for providing the Board Members with advice and information required, looking after the company documentation, as well as keeping the minutes of the sessions and attesting to the agreements of the company's governing bodies. The Secretary of the Board shall be responsible for the formal and material legality of the Board's actions at all times, as well as those of other Committees, ensuring that their procedures and governing rules are regularly reviewed, thus minimising the existing company risks.

D. 4 Identification and description of the procedures for compliance with the different regulations affecting the company and/or its group.

Gas Natural Fenosa activities are significantly conditioned by the application of various relevant regulations related to gas, electricity and environmental activities in all the countries in which Gas Natural Fenosa operates. In order to guarantee compliance with the said regulations, there is an appropriate allocation of responsibilities in each of the business units, aimed at guaranteeing observance of and compliance with relevant legislative issues. In addition, as laid down in section D3, the Regulation Committee, especially with regard to environmental issues and in collaboration with the Resources Area through the Quality, Health & Safety, Environment and General Services Unit, is responsible for implementing a global and integrated control of compliance with legislative requirements in order to avoid risks in the said area. Finally, it is important to reiterate the function of the Legal Services Area, especially through the Compliance Unit, as responsible for and supervisor of compliance with the legislation applicable to the group.

E. General Meeting

E.1 Indicate and, where applicable, give details of whether or not there are differences between the quorum system laid down in the Public Limited Companies Act (LSA) and the quorum for constituting the General Meeting of Shareholders:

No

	% of quorum different to the provisions set forth in Article 102 LSA for general cases	% of quorum different to the provisions set forth in Article 103 LSA for these special cases set forth in article 103
Quorum required for the second call to meeting	0	0

E.2 Indicate and, where applicable, give details of whether or not there are differences between the system laid down in the Public Limited Companies Act (LSA) and the system for adopting corporate agreements:

No

Describe how the system differs from that of the LSA.

E.3 List the shareholders' rights in relation to General Meetings which differ from those of the LSA.

Shareholders' rights in respect of General Meetings are those established by the Corporate Enterprises Act (LSC) and other applicable legal regulations:

- Right to information.
- Right of attendance.
- Right of representation.
- Right to vote.

In accordance with the right to attendance, the General Meeting may be attended by those shareholders who, either individually or grouped with others, hold a minimum of 100 shares, provided that they are recorded in the corresponding accounting register five days prior to the meeting, and that they possess, as indicated in the meeting announcement, the corresponding attendance card attesting to compliance with the aforementioned requirements, which shall be issued in the name of the entities to whom it legally corresponds (Article 33 of the Articles of Association).

E.4 Indicate, where applicable, the measures adopted to encourage participation of the shareholders in General Meetings.

The most notable measure is the Meeting's approval of its regulations since, as indicated in its introduction, the regulations constitute an obligatory reference for improving the information provided to shareholders on the content of the decisions to be taken and in achieving their active participation in the General Meetings.

The regulations were approved by the Ordinary General Meeting held on 14 April 2004, modified in June 2006, in April 2011 and later in April 2012.

Special mention must be made of the fact that, in 2007 and 2008, the option for electronic votes was implemented on the company's website with a view to reaching the highest possible level of compliance with the proposals on corporate governance. However, owing to the notable lack of proportion between the effective use of the tool (5 shareholders in 2007 and 7 in 2008) and the economic cost of its implementation, it was not implemented in subsequent years. As a conclusion, the limited use of the electronic vote does not justify the economic cost of its introduction.

If circumstances change in the future, its reinstatement will be analysed.

A simultaneous translation service for the deaf was provided in the room where the General Meeting of Shareholders are held.

From the date of publication of the announcement of the General Meeting, the company shall place on its website all the proposals for decisions formulated by the Board of Directors in respect to the items on the agenda, unless since the proposals are not legally or statutorily required to be made available to the shareholders from the date of the meeting announcement, the Board deems that there is a justifiable reason for not doing so.

In addition, from the date of the announcement of the meeting, any other information which is considered appropriate for facilitating the attendance of the shareholders at the Meeting and their active participation therein shall be published on the company website, including:

- Information on the meeting venue, indicating, where applicable, access to the room designated for this purpose.
- Sample of an attendance card and the document for vote delegation indicating the procedure for obtaining the originals.
- If available, a description of the delegation or electronic voting systems which may be used.
- Information, where applicable, on the systems and procedures which facilitate monitoring of the Meeting (simultaneous translation or diffusion via audiovisual media).

By the same token, from the date of publishing the call to the General Meeting, shareholders will have an electronic forum accessible both by individual shareholders as well as voluntary associations that may be set up, to facilitate communication between them prior to the General Meeting. The following may be published on the foregoing forum:

- Proposals to supplement the agenda announced in the call to meeting.
- Applications to adhere to these proposals.
- Initiatives to reach the percentage required to exercise a minority right as provided for in law.
- Offers and requests concerning voluntary representation.

Likewise, shareholders may, prior to the General Meeting, request in writing from the Board of Directors any reports or clarifications they deem appropriate regarding matters included in the agenda. The Board of Directors, except in specific cases (detrimental to company interests, matters not included in the agenda or irrelevant information) is obliged to provide that information.

When the meeting is held, the Chairman shall invite the shareholders who wish to intervene to identify themselves to the Meeting Secretary. Having given the reports that the Chair deems appropriate, and prior to voting having addressed all the items in the agenda, the shareholders may take the floor. During this part of the meeting, shareholders may verbally request any reports or clarifications deemed appropriate regarding items in the agenda. Except for the cases provided in the foregoing paragraph or when the requested information is not available at the meeting, the Administrators are responsible for providing the requested information. This information shall be provided by the Chairman or, where applicable, as he/she indicates, by the Chairman of the Audit and Control Committee, or any other Board Committee competent in the matter in question, the Secretary, an Administrator, or if advisable, any employee or expert in the matter in hand.

E.5 Indicate whether the position of Chairman of the General Meeting coincides with that of Chairman of the Board of Directors. Indicate, where applicable, the measures adopted to encourage independence and effective operation of the General Meeting:

Yes

Details of measures

Pursuant to article 35 of the Articles of Association: The Board will be chaired by the Chairman of the Board of Directors and, in his absence, by the Deputy Chairman and, if there were several, by the next highest ranking person, and if remaining members were of the same rank by the eldest member or, in the absence of all of the aforementioned individuals, by the Director selected by the members of the Board in attendance.

The Chairman will be assisted by a Secretary, that of the Board of Directors, and in his absence, the Assistant Secretary of the Board of Directors, if any, or in his absence the person appointed by the Board.

The General Meeting Regulations, which contain full details of the measures for ensuring independence and effective operation of the meeting, may be consulted on the company website.

The most significant measures adopted are as follows:

- More announcements for the General Meetings are published (ordinary and extraordinary) than those legally required.
- Attendance cards are issued to make the voting process for shareholder easier.
- The General Meeting may be attended by those shareholders who either individually or in a group with others hold a minimum of 100 shares provided that they are recorded in the corresponding accounting register five days prior to the meeting, and that they possess as indicated in the meeting announcement, the corresponding attendance card attesting to compliance with the aforementioned requirements, which shall be issued in the name of the entities to whom it legally corresponds.
- As a general rule, the media is allowed access to the Meeting in order to make public the progress of the meeting and the decisions taken.

- In addition, a video of the meeting is available for subsequent dissemination.
- In order to ensure the security of those attending and the good order and progress of the General Meeting, sufficient surveillance, protective measures as well as access control are adopted.
- As a general rule, the necessary requirements for simultaneous translation of the speakers at the meeting shall be made available.
- Prior to the Meeting and following publication of the call to meeting, the shareholders that represent the least 5% of the share capital may request that a complement to the call to meeting be published, including one or more points of the agenda. The exercise of this right must be carried out through notification requiring acknowledgement of receipt received at the company's registered office within five days following publication of the call to Meeting.
- Shareholders have the right to intervene in the General Meeting and to request the information and clarifications they deem appropriate, and the Chairman of the Meeting in the exercise of his/her powers and without prejudice to any other actions may:

  I) Request that speakers clarify questions which have not been understood or which have not been sufficiently explained.

  II) Call the other shareholders to order so that they confine their comments to matters relating to the Meeting and refrain from making inappropriate statements or exercising their rights in an abusive or obstructive manner.

  III) Announce to those wishing to speak that the time allotted to them is coming to an end and that they should adjust their speech accordingly, and if they persist in the conduct described in the preceding paragraph, their right to speak shall be withdrawn; and

  IV) If it is considered that their contribution disrupts or may disrupt the normal course of the meeting, they may be required to leave the premises and, where applicable, the necessary measures may be taken to ensure that they are ejected.

- It should be pointed out that, without prejudice to the possibility of formulating a supplement to the call to meeting pursuant to Article 176 of the Corporate Enterprises Act and proposals for resolutions under the aegis of Article 168 of the Corporate Enterprises Act, prior to the announcement of the General Meeting, when the floor is open to speakers, the shareholders may formulate proposals for decisions to the General Meeting on matters on the agenda which do not legally need to be made available to the shareholders when the meeting is announced, and on those issues on which the Meeting may deliberate without being included on the agenda.

E.6 Indicate, where applicable, the amendments made during the financial year to the General Meeting Regulations.

In 2012, the following articles of the Regulations of the General Meeting were modified:

Article 4.- Convening the General Meeting.

1. The Ordinary General Meeting, duly convened by the Board of Directors, will hold meetings during the first six months of each year, without prejudice to the terms of Article 3 with regard to the validity of the call to meeting and/or holding of the meeting outside the deadline.

   Similarly, the Board of Directors will call an Extraordinary General Meeting whenever it deems such action appropriate for corporate interests. An Extraordinary General Meeting must be convened when this is requested by shareholders that hold at least 5% of the share capital. The items of the agenda that should be addressed at the Meeting must be expressed in the application. In this event, the Extraordinary General Meeting of Shareholders must be convened to be held within the legal deadline. The Administrators will draw up the agenda, and must include the items requested in the application.

2. Shareholders that represent the least 5% of the share capital may request that a complement to the call to the Ordinary General Meeting of Shareholders be published, including one or more points of the agenda provided that the new points are accompanied with a justification or, where applicable, a justified agreement proposal. The exercise must be carried out through notification requiring acknowledgement of receipt received at the company's registered office within five days following publication of the call to Meeting.

   The complement to the call must be published a minimum of fifteen days prior to the date established for the Meeting. If the complement is not published in the legally established term, it will be grounds for annulment of the Meeting.

3. Shareholders that represent the least 5% of the share capital may, in the term outlined in the above section, present proposals based on matters already included or that should be included in the agenda of the convened Meeting.

4. Administrators may summon the presence of a Notary to write the minutes of the General Meeting. This is obligatory when requested by the shareholders that hold at least 1% of the share capital request five days prior to the meeting. In both cases, the notarial deeds shall be considered as the minutes of the Meeting.

Article 5. Call to meeting.

The General Meeting must be convened to be held by the company's Board of Directors through an announcement published in accordance with the Articles of Associations.

The announcement, along with a few matters, are legally enforceable and any others that they deem pertinent, will state the date of the meeting on the first call and all matters to be discussed therein. Likewise, the date of the General Meeting, where applicable, on which the second call will be held will be stated. There should be a period of at least twenty four hours between the first and second meeting.

Article 7. Right to information.

Shareholders may request in writing from the Board of Directors, up until the seven days prior to the General Meeting of Shareholders, or verbally while it is being held, any clarifications they deem appropriate with regard to information accessible to the public that the company has handed over to the National Securities Market Commission (CNMV) since the last General Meeting of Shareholders, the auditor's report and any reports or clarifications regarding matters included in the agenda.

The Board of Directors shall be obliged to provide such information, except in the following cases:

When the disclosure of the information requested by the shareholders representing less than 25% of the share capital may impair, according to the Chairman, corporate interests.

When information or clarification requested is irrelevant to form an opinion on the matters submitted to the Board.

In the event of legal or regulatory provisions.

Where, prior to the submitting the question, the information requested is clear and directly available to all shareholders on the company's website under the question-answer format.

The Board of Directors may authorise any of its members or its Secretary or Assistant Secretary to, on behalf of the Board, respond to requests for information made by the shareholders.

The answers to the shareholders shall be in writing, unless, owing to the characteristics of the information requested, it is not appropriate or the proximity to the date of the General Meeting does not allow it, in which case the answers will be provided during the meeting, in accordance with the criteria laid down in these regulations.

Article 8. Delegations.

The right to attend the General Meeting of Shareholders may be delegated to any person.

The representation should be stated in writing or by any means of remote communication such as postal correspondence, telephone, email, sms or any other electronic means of communication supported by the company for this purpose.

The company will report on the corporate website and in any other media it deems appropriate to notify the represented company and on the guarantees that it requires with regard to the identity of both the shareholder granting the representation and the representative that is appointed and the security and integrity of the content of the remote communication. Accordingly, the company may require the use of a recognised electronic signature or any other system that, in the sole judgement of the Board of Directors or the body or persons who the Board delegates this power of attorney, is deemed to satisfy the sufficient security guarantees.

Natural persons who are shareholders and who are not in full possession of their civil rights and artificial persons who are shareholders must be represented by duly accredited legal agents or their designees. Representation which cannot be demonstrated according to law shall not be deemed valid or effective. Representation may be revoked at any time. Personal attendance at the General Meeting of the person represented may be revoked.

In cases where the Administrators of the company represent any shareholder, the document authorising that delegation should contain the agenda of the Meeting as well as instructions for exercising the right to vote for each point of the agenda. If there are no such instructions, and unless there is a conflict of interest by the representative, a favourable vote shall be assumed in respect of the proposals of the Board of Directors.

E.7 Indicate the attendance data of the General Meetings held during the financial year to which this report refers:

	Attendance data				
			% remote voting		
Date of General Meeting	% physical presence	% represented	Electronic vote	Others	Total
20/04/2012	67.090	8.800	0.000	0.000	**75.890**

E.8 Indicate briefly any decisions taken in the General Meetings held during the financial year to which this report refers, and the percentage of votes in the case of each decision.

Gas Natural SDG, S.A. held an Ordinary General Meeting on 20 April 2012. The decisions adopted and the percentage of votes accorded to each are indicated below, as well as the share capital present and represented.

Ordinary General Meeting of Gas Natural SDG, S.A. held on 20 April 2012.

One. Analysis and approval, where applicable, of the Annual Accounts and of the Management Report for Gas Natural SDG, S.A. pertaining to the year ended on 31 December 2011.
Blank votes: 0.0000%
Votes against: 0.0000%
Abstentions: 0.0264%
Votes in favour: 99.9735%

Two. Examination and approval, where applicable, of the Consolidated Annual Accounts and the Management Report of the Consolidated Group for Gas Natural SDG, S.A. pertaining to the year ended on 31 December 2011.
Blank votes: 0.0000%
Votes against: 0.0000%
Abstentions: 0.0264%
Votes in favour: 99.9735%

Three. Examination and approval, where applicable, of the proposed application of the results of the 2011 financial year.
Blank votes: 0.0000%
Votes against: 0.0000%
Abstentions: 0.0264%
Votes in favour: 99.9736%

Four. Approval, for the free allotment of ordinary shares to the company shareholders, of an increase in paid-up share capital for a determinable amount and with a maximum market vale of four hundred and sixty one million, four hundred and twenty five thousand, forty six euros and twenty eight cents (461,425,046.28). Acceptance of an undertaking to shareholders to acquire their free allocation rights at a guaranteed price. Express provision of incomplete allocation. Delegation of execution of the share capital increase to the Board of Directors, with express powers to replace and redraft Articles 5 and 6 of the Articles of Association. Requesting admission to trading of issued shares in the stock exchanges of Barcelona, Madrid, Bilbao and Valencia as well as their transaction through the Spanish Stock Exchange Interconnection System.
Blank votes: 0.0000%
Votes against: 0.0122%
Abstentions: 0.0272%
Votes in favour: 99.9606%

Five. Examination and approval, where applicable, of the Board of Directors' actions during the 2011 financial year.
Blank votes: 0.0000%
Votes against: 0.0099%
Abstentions: 0.0256%
Votes in favour: 9.9644%

Six. Re-election of the auditors of the company and its consolidated group for the year 2012.
Blank votes: 0.0000%
Votes against: 0.1765%
Abstentions: 0.0798%
Votes in favour: 9.7437%

Seven. Ratification, appointment, renewal or re-election of Directors.

7.1. Ratification and, where applicable, appointment of Mr Santiago Cobo Cobo.
Blank votes: 0.0000%
Votes against: 7.1569%
Abstentions: 2.8954%
Votes in favour: 89.9477%

7.2. Ratification and, where applicable, appointment of Mr Carlos Losada Marrodán.
Blank votes: 0.0000%
Votes against: 7.1569%
Abstentions: 2.8954%
Votes in favour: 9.9477%

7.3. Ratification and, where applicable, appointment of Mr Miguel Valls Maseda.
Blank votes: 0.0000%
Votes against: 7.1569%
Abstentions: 2.8954%
Votes in favour: 9.9477%

7.4. Ratification and, where applicable, appointment of Mr Rafael Villaseca Marco.
Blank votes: 0.0000%
Votes against: 7.1569%
Abstentions: 2.8954%
Votes in favour: 9.9477%

7.5. Ratification and, where applicable, appointment of Mr Demetrio Carceller Arce.
Blank votes: 0.0000%
Votes against: 7.1569%
Abstentions: 2.8954%
Votes in favour: 89.9477%

7.6. Ratification and, where applicable, appointment of Mr Juan María Nín Génova.
Blank votes: 0.0000%
Votes against: 7.1569%
Abstentions: 2.8954%
Votes in favour: 89.9477%

7.7. Appointment of Mr Xabier Añoveros Trías de Bes.
Blank votes: 0.0000%
Votes against: 7.1569%
Abstentions: 2.8954%
Votes in favour: 9.9477%

7.8. Appointment of Mr Heribert Padrol Munté.
Blank votes: 0.0000%
Votes against: 7.1569%
Abstentions: 2.8954%
Votes in favour: 9.9477%

Eight. Modification of certain articles of the Articles of Association, incorporating the modification agreed by the General Meeting.

Article 28. Call to the General Meeting. Article 34.- Representation. Article 38.- Right to information.
Blank votes: 0.0000%
Votes against: 0.1175%
Abstentions: 0.0264%
Votes in favour: 99.8561%

Nine. Amendment of certain articles of the General Meeting Regulations.

Article 4. Call to the General Meeting.
Article 5. Announcement of the Meeting.

Article 7.- Right to information prior to the General Meeting.
Article 8.- Delegations.
Blank votes: 0.0000%
Votes against: 0.0944%
Abstentions: 0.0264%
Votes in favour: 99.8792%

Ten. Authorisation for the Board of Directors, with the powers of replacing this delegation with 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 half the total share capital of the company at the time of this authorisation, with the possibility of incomplete subscription, on the date of the authorisation, by issuing ordinary, preference or redeemable shares, with or without the right to vote, with or without a share premium, in one or more times and on the occasions and to the amount it deems appropriate, including the authority to cancel preferential subscription rights, where applicable, and rewriting the appropriate articles of the Articles of Association, thus cancelling the authorisation agreed by the Ordinary General Meeting of 20 April 2010.
Blank votes: 0.0000%
Votes against: 9.8266%
Abstentions: 0.0656%
Votes in favour: 90.1078%

Eleven. Approval of the Share Acquisition Plan 2012-2013-2014 for certain personnel of the Gas Natural Fenosa Group.
Blank votes: 0.0000%
Votes against: 0.0533%
Abstentions: 0.0264%
Votes in favour: 99.9203%

Twelve. Consultative vote concerning the Annual Report on remuneration of members of the Board of Directors.
Blank votes: 0.0000%
Votes against: 2.8719%
Abstentions: 0.0283%
Votes in favour: 97.0998%

Thirteen. Ratification of the Gas Natural SDG, S.A. corporate website, www.gasnaturalfenosa.com
Blank votes: 0.0000%
Votes against: 0.0000%
Abstentions: 0.0264%
Votes in favour: 9.9736%

Fourteen. Delegation of powers of attorney to supplement, develop, execute, remedy and formalise the decisions taken by the General Meeting.
Blank votes: 0.0000%
Votes against: 0.0000%
Abstentions: 0.0264%
Votes in favour: 99.9736%

E.9 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

E.10 Indicate and justify the company's policy with regard to delegation of votes at the General Meeting.

Pursuant to Article 34 of the Articles of Association, any shareholder may be represented at the General Meeting by another person, informing the company of the representation at least three days before the meeting is held.

The representation must be conferred in writing for each General Meeting, except the provisions set forth in Article 187 of the Corporate Enterprises Act. Representation may be revoked at any time. Personal attendance at the General Meeting of the person represented may be revoked.

Likewise, Article 8 of the Regulations of the General Meeting indicates that the right to attend the General Meeting may be delegated in favour of another shareholder.

The representation should be stated in writing or by any means of remote communication such as postal correspondence, telephone, email, sms or any other electronic means of communication supported by the company for this purpose.

The company will report on the corporate website and in any other media it deems appropriate on the representation system by remote media and on the guarantees that it requires with regard to the identity and authenticity of the shareholder granting the representation and the security and integrity of the content of the remote communication. Accordingly, the company may require the use of a recognised electronic signature or any other system that, in the sole judgement of the Board of Directors or the body or persons who the Board delegates this power of attorney, is deemed to satisfy the sufficient security guarantees.

Natural persons who are shareholders and who are not in full possession of their civil rights and artificial persons who are shareholders must be represented by duly accredited legal agents or their designees.

Representation which cannot be demonstrated according to law shall not be deemed valid or effective. Representation may be revoked at any time. Personal attendance at the General Meeting of the person represented may be revoked.

In cases where the Administrators of the company represent any shareholder, the document authorising that delegation should contain the agenda of the Meeting as well as instructions for exercising the right to vote. If there are no such instructions, a favourable vote shall be assumed in respect of the proposals of the Board of Directors.

E.11 Indicate whether the company is aware of the institutional investors' policy of participating or not in the company decisions:

No

E.12 Indicate the address and means of access to corporate governance content on the website.

All the information required may be found on the website www.gasnaturalfenosa.com.The Corporate Governance information can be accessed through the section Information for Shareholders and Investors.

F. 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. In the event of failure to comply with any such recommendations, explain the recommendation, standards, practices or criteria in question applied by the company.

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 epigraphs: A.9, B.1.22, B.1.23 and E.1, E.2.

Complies

2. When the parent company and the subsidiary are listed, they must both publicly define the following in detail:

a) Their respective activity areas and possible business relations between them, as well as those of the listed subsidiary with the other companies in the group;

b) The mechanisms laid down to solve possible conflict of interests as they arise.

See epigraphs: C.4 and C.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 change of listed companies into holding companies through 'subsidiarisation' or the incorporation into entities dependent on essential activities carried out until then by the company itself, even though the said company maintains full control over them;

b) The acquisition or transfer of essential operating assets when there is an actual modification of the corporate purpose;

c) The transactions whose effect is equivalent to that of the company's liquidation.

Complies

4. The detailed proposals of the agreements to be adopted by the General Meeting of Shareholders, including the information referred to in Recommendation 28, 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) On the appointment or ratification of the members of the Board, which should be voted individually;

b) In the case of modifications to the Articles of Association, each article or group of articles that is substantially independent.

See epigraph: E.8

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.

See epigraph: E.4

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 company's general strategies and policies, in particular:

I) The strategic or business plan, as well as the management aims and annual budgets;

II) The investment and finance policy;

III) The definition of the structure of the group of companies;

IV) The corporate governance policy;

V) The corporate social responsibility policy;

VI) The remuneration policies and assessment of performance of senior management;

VII) The risk management and control policy, as well as the regular monitoring of internal information and control systems;

VIII) The dividend policy, as well as the treasury stock policy, with special focus on their limits.

See epigraphs: B.1.10, B.1.13, B.1.14 and D.3

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.

See epigraph: B.1.14

II) The remuneration of the members of the Board, as well as, in the case of Executives, the additional payment for their executive functions and other conditions to be observed in their contracts.

See epigraph: B.1.14

III) The financial information which, due to its status as a listed company, it has to publish on a regular basis.

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 deliberates 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 epigraphs: C.1 and C.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 exiting companies.

6. Adoption of merger, absorption, splin-off, concentration and dissolution transactions with or without liquidation, in which any of the companies in Gas Natural Fenosa Group.

7. Disposal of capital shares in companies or other fixed assets by any of the companies in Gas Natural Fenosa Group.

8. Adoption of investment projects to be carried out by any company in Gas Natural Fenosa Group.

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 Group.

10. Adoption of financial transactions to be carried out by any company in Gas Natural Fenosa Group which are not included in the Annual Financial Plan.

11. Awarding of guarantees by companies belonging to Gas Natural Fenosa Group 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 Group.

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 the Gas Natural Fenosa Group 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 the Gas Natural Fenosa Group. 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'.

Consequently, there are certain competencies which, owing to urgency, effectiveness and operability, have been awarded without distinction to the Board of Directors and to the Executive Committee.

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 epigraph: B.1.1

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 epigraphs: A.2, A.3, B.1.3 and B.1.14

Complies

11. **If there is an External Director who cannot be considered as either a Proprietary or Independent, the company should explain the said circumstance and his/her association either with the company or its executives, as well as with its shareholders.**

See epigraph: B.1.3

Not applicable

12. **Among the external Directors, the ratio between the number of Proprietary Directors and the Independent Directors should reflects 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 epigraphs: B.1.3, A.2 and A.3

Complies

13. The number of Independent Directors should represent at least one third of the total number of Directors.

See epigraph: B.1.3

Complies

14. The character of each Director must be declared by the Board before the General Meeting of Shareholders, which shall effect or ratify their appointment, an appointment that shall 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 epigraphs: B.1.3 and B.1 4

Complies

15. When the number of female Directors is very low or non-existent, the Board should explain the reasons and the initiatives adopted to correct this situation; and, more specifically, the Appointments Committee should ensure that when new seats on the Board are available:

a) The selection process does not involve implicit bias that prevents the selection of female Directors;

b) The company should deliberately look for and include among potential candidates women that comply with the professional profile being sought.

See epigraphs: B.1.2, B.1.27 and B.2.3

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.

16. The Chairman, as the person responsible for the effective performance of the Board, should ensure that the Directors receive sufficient information beforehand; stimulate 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 organise and coordinate the periodic assessment of the Board together with the chairmen of the relevant Committees as well as, if appropriate, that of the Managing Director or chief executive.

See epigraph: B.1.42

Complies

17. When the Chairman of the Board is also the company's chief 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 epigraph: B.1.21

Not applicable

18. The Secretary of the Board must be particularly sure that the Board's actions:

a) Comply with the content and spirit of legislation and the corresponding regulations, including those adopted by the regulating bodies;

b) Comply with the company's Articles of Association and with the Regulations of the General Meeting, the Board and other company general rules;

c) Take into account the recommendations on good governance laid down in the Unified Code accepted by the company.

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 epigraph: B.1.34

Complies

19. 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 epigraph: B.1.29

Complies

20. 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 epigraphs: B.1.28 and B.1.30

Complies

21. 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

22. In its plenary session, the Board should assess the following once a year:

a) The quality and efficiency of the Board's operations;

b) Based on the report issued by the Appointments Committee, the functions carried out by the Chairman of the Board and the company's chief executive;

c) The functioning of its Committees, based on the reports they issue.

See epigraph: B.1.19

Complies

23. 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 epigraph: B.1.42

Complies

24. 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 epigraph: B.1.41

Complies

25. 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

26. 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 report to the Appointments Committee on their other professional duties in case they interfere with the required devotion;

b) The companies should lay down rules on the number of Boards on which their Directors can sit.

See epigraphs: B.1.8, B.1.9 and B.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".

27. **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 case of Independent Directors.

b) After a report issued by the Appointments Committee, in the case of the other Directors.

See epigraph: B.1.2

Complies

28. **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 on which they sit, whether the companies are listed or otherwise;

c) Indication of the category of Director to which they belong accordingly, indicating, in the case of Proprietary Directors, the shareholder they represent or with whom they are associated;

d) Date of their first appointment as a Director of the company, as well as subsequent dates, and;

e) The shares they own in the company and the options over the said shares.

Complies

29. **The Independent Directors should not remain as such for a continued term of more than 12 years.**

See epigraph: B.1.2

Complies

30. **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 epigraphs: A.2, A.3 and B.1.2

Complies

31. The Board of Directors should not propose the standing down of any Independent Director prior to compliance with the statutory period for which they were appointed, unless there are good reasons observed by the Board following a report from the Appointments Committee. More specifically, justified reason shall be understood to exist when the Director has breached the duties that are inherent to their post or incurs any of the circumstances described in heading 5 of section 3 of definitions of this code.

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 12.

See epigraphs: B.1.2, B.1.5 and B.1.26

Complies

32. 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 124 of the Public Limited Companies 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 epigraphs: B.1.43 and B.1.44

Complies

33. 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

34. 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 epigraph: B.1.5

Not applicable

35. The remuneration policy approved by the Board should indicate at least the following:

a) IThe amount of the fixed components, with a breakdown, where applicable, of the allowances for participation in the Board and its Committees and an estimate of the annual fixed remuneration resulting therefore;

b) Variable remuneration concepts, including, in particular:

I) Classes of Directors to which they are applied, as well as an explanation of the relative importance of the variable payment with regard to the fixed concepts;

II) Results assessment criteria on which any right to payment in shares, options over shares or any variable component is based;

III) Fundamental parameters and basis of any annual premium system (bonus) or other benefits not paid in cash; and

IV) An estimate of the absolute amount of the variable remuneration arising from the proposed remuneration plan in accordance with the level of fulfilment of the hypotheses or objectives taken as reference.

c) Main characteristics of the social security systems (e.g. complementary pensions, life insurances and similar), with an estimate of their amount or equivalent annual cost.

d) Conditions to be observed in the contracts of those who exercise senior management functions as Executive Directors including:

I) Term;

II) Terms of notice; and

III) Any other clauses related to contracting premiums, such as indemnification payments or guarantees for early termination or cancellation of the contractual relations between the company and the Executive Director.

See epigraph: B.1.15

Complies

36. 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.

See epigraph: A.3 and B.1.3

Complies

37. 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

38. 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

39. In the case of variable remuneration, the remuneration policies should incorporate 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

40. The Board should submit a report on the Directors' remuneration policy to vote at the General Meeting of Shareholders, as a separate, consultative matter on the agenda. The said report should be made available to the shareholders either separately or in any other way the company considers appropriate.

The said report should focus particularly on the remuneration policy approved by the Board for the present year, as well as, where applicable, the policies anticipated for future years. It shall include all the matters referred to in Recommendation 35, except for circumstances that may suppose the revelation of sensitive commercial information. It shall underline the most significant changes in the said policies with regard to that applied during the past year to which the General Meeting refers. It shall also include an overall summary of how the remuneration policy was applied during the past year.

The Board should also report on the role played by the Remuneration Committee in the preparation of the remuneration policy and, if external consultancy services are used, on the identity of the external consultants providing the service.

See epigraph: B.1.16

Complies

41. The report should give details of the individual remuneration paid to Directors during the year, and include:

a) The individualised breakdown of the remuneration of each Director, which shall include, where applicable:

I) The attendance allowances and other fixed remuneration as Director;

II) Additional payments as chairman or member of any of the Board's Committees;

III) Any payments for participation in profits or premiums and the reason why they were made;

IV) Defined contributions to pension schemes in favour of the Director; for the increase of the Director's consolidated rights, when these are contributions to defined payment plans;

V) Any agreed or paid compensation in the event of termination of their duties;

VI) The remuneration received as a Director of other companies in the group;

VII) Payments for carrying out the senior-management functions of the Executive Directors;

VIII) Any other remuneration concepts other than the above, regardless of their nature or the entity of the group making the payment, especially when they are considered as associated transactions or their omission distorts the fair view of the total remuneration received by the Director.

b) The individualised breakdown of any shares of stock options given to Directors, or any other instrument pegged to the share value, with a breakdown of:

I) Number of shares or options granted over the year and the conditions for the exercise of these;

II) Number of options exercised over the year with an indication of the number of shares affected and the price;

III) Number of options pending exercise at the end of the year, indicating their price, date and other exercise requirements;

IV) Whatsoever modification during the year to the conditions for exercising the options already awarded.

c) Information on the ratio, the previous year, between the remuneration obtained by Executive Directors and the profits or other performance indicators of the company.

Complies partially

The report on the Annual Accounts individualises the amounts received by the members of the Board of Directors for belonging to said body of governance, the Executive Committee, the Audit and Control Committee and the Appointments and Remunerations Committee of the company, where the other remunerations are given in aggregate format with a breakdown of the various payment concepts.

42. 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 epigraphs: B.2.1 and B.2.6

Complies

43. 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.

44. 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 designate the members of these Committees in accordance with the knowledge, skills and experience of the Directors and the duties of each Committee; deliberate on the proposals and reports; and report on the activity and the work carried out at the first plenary Board meeting following the Committee 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) Outsourced consultancy should be used whenever deemed necessary for the performance of their duties.

e) Minutes of their meetings should be taken, with a copy sent to all Board members.

See epigraphs: B.2.1 and B.2.3

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.

45. 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.

Complies

46. 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

47. 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.

Complies

48. 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

49. The risk control and management policies should identify at least:

a) The different types of risk (operative, technological, financial, legal, reputational, etc.) facing the company, where the financial or economic risks should include the contingent liabilities and other off-balance-sheet risks;

b) The level of risk considered acceptable by the company;

c) The measures laid down to reduce the impact of the risks that are identified should they occur;

d) The internal control and information systems that will be used to control and process the said risks, including the contingent liabilities or off-balance-sheet risks.

See epigraph: D

Complies

50. The Audit Committee should be responsible for the following:

1 In relation to the internal control and information systems:

a) 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.

b) Regularly reviewing the internal control and risk management systems so that the main risks can be identified, processed and appropriately publicised.

c) Ensuring the independence and effectiveness of the function of the internal audit; proposing the selection, appointment, re-election and dismissal of the person responsible for the internal audit service; proposing the budget of the service; receiving regular information on its activities; and ensuring that senior management takes into account the conclusions and recommendations put forward in its report.

d) 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.

2 In relation to the external auditor:

a) 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.

b) Regularly receiving information from the external auditor on the audit plan and the results of its implementation, and ensuring that senior management takes into account the corresponding recommendations.

c) Guaranteeing the independence of the external auditor and, accordingly:

I) The company should report the change of auditor to the CNMV as a relevant event and accompany the said report with the declaration on the existence of disagreements with the departing auditor and, where applicable, the corresponding content.

II) The company and the auditor should be seen to respect the current rules governing the provision of services other than audit services, the limits on business concentration of the auditor and, in general, the other norms established to ensure independence of auditors.

III) In the case of the resignation of the external auditor, it should examine the circumstances leading to the said resignation.

d) In the event of groups, to see that the group auditor accepts liability for the audits of the companies that make up the group.

See epigraphs: B.1.35, B.2.2, B.2.3 and D.3

Complies

51. 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

52. 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 which, due to its status as listed, must be published by the company on a regular basis. 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 shares in entities with special purposes or domiciled in countries or territories that are considered as tax havens, as well as whatsoever other similar transaction or operation which, owing to its complexity, could undermine the group's transparency.

c) The related-party transactions, unless the preliminary report function has been attributed to another control and supervision committee.

See epigraphs: B.2.2 and B.2.3

Complies

53. The Board of Directors should seek to present the accounts to the General Meeting without reservation or exception in the auditors' 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 epigraph: B.1.38

Complies

54. 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 epigraph: B.2.1

Complies

55. Besides the functions indicated in the above recommendations, the following responsibilities should correspond to the Appointments Committee:

a) Assessing the competencies, know-how and experience required of the Board and, consequently, defining the functions and skills required of the candidates to cover each vacancy; and assessing the time and devotion necessary for them to carry out their task correctly.

b) Examining or organising, as considered appropriate, the succession of the Chairman and the chief executive and, where applicable, making proposals to the Board so that the said succession occurs in an orderly and well-planned manner.

c) Reporting the appointments and resignations of senior executives as proposed to the Board by the chief executive.

d) Reporting to the Board on matters of gender diversity as per Recommendation 14 of this code.

See epigraph: B.2.3

Complies partially

The only matter to be considered under this epigraph 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.

56. The Appointments Committee should consult the company's Chairman and chief executive, especially with regard to business concerning the Executive Directors.

Any Director should be able to request the Appointments Committee to consider potential candidates they deem ideal to cover vacancies.

Complies

57. 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) The individual remuneration of the Executive Directors and the other terms and conditions of their contracts;

III) The basic terms and conditions of the senior executives' contracts.

b) Ensuring the observance of the remuneration policy laid down by the company.

See epigraphs: B.1.14 and B.2.3

Complies

58. 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

G. Other Information of Interest

If you consider that there is any important principle or aspect regarding the corporate governance practices applied by your company, which have not been covered in this report, please explain below.

Clarification of section B.1.12

It includes the remuneration of Mr José Antonio Couso López, Head of Regulated Electricity Business until September 2012.

Clarification of section B.1.40

The percentage of stake includes both direct and indirect shares held by each Director in entities that have the same, similar or complementary type of activity.

Note on the Code of Good Tax Practices.

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 25 January 2013 the Board of Directors of Gas Natural Fenosa was notified about the tax policies adhered to by the group in 2012.

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.

Binding definition of Independent Director:

Indicate whether or not any of the Independent Directors has or has had any relationship with the company, its significant shareholders or executives which, if sufficiently significant or important, would have meant that the Director could not be considered as independent in accordance with the definition laid down in section 5 of the Unified Code of Good Governance:

No

Date and signature:

This Annual Corporate Governance Report has been adopted by the Board of Directors of the company in its session held on

25/1/2013

Indicate whether or not there have been Directors who voted against or abstained from voting on the adoption of this report.

No

Document complementing the annual corporate governance report of Gas Natural SDG, S.A. Corresponding to the 2012 financial period in relation to article 61 bis of the securities market law.

Information on securities which are not traded on a regulated community market, indicating, where appropriate, the different classes of shares, and for each class, the rights and obligations conferred, and the percentage of capital corresponding to treasury stock held by the company and significant variations to it (Art. 61 bis 4. a. 3. of the Securities Market Law (SML)).

The Company has no securities which are not traded on a regulated community market.

The Company has no treasury stock at 31 December 2012.

Information on the rules applicable regarding amendments to the company's articles of association (Art. 61 bis 4. a. 4. of the SML).

The amendment of the Articles of Association is regulated by Articles 24, 32 and 68 of the Articles of Association and Article 2 of the General Meeting of Shareholders Regulations.

General Meeting of Shareholders.

- The shareholders convened in a duly called General Meeting of Shareholders, will decide by a majority vote the issues that fall within the jurisdiction of the General Meeting of Shareholders.

- All the shareholders, including the opponents and those who have not participated in the meeting, are subject to the resolutions of the General Meeting of Shareholders (art. 24 Articles of Association).

Special resolutions and majorities. Constitution.

- In order for the Ordinary or Extraordinary General Meeting of Shareholders to legally agree to the issue of bonds, increase or decrease of share capital, suppress or limit preferred subscription rights to new shares or convertible bonds, or adopt a resolution in favour of the transformation, merger, demerger or total assignment of assets and liabilities, the transfer of registered office abroad, and, in general, make any modifications to the Articles of Association, the presence of shareholders or their proxies holding at least fifty percent (50%) of the share capital with voting rights will be required on first call. On second call, the attendance of twenty-five percent (25%) of said capital will be sufficient. (art. 32 of the Articles of Association).

Modification of the Articles of association.

- The modification of the Articles of Association must be adopted at the General Meeting of Shareholders and requires the concurrence of the following requirements:

  1) The Board of Directors or, as the case may be, the shareholders proposing the resolution must present a written report justifying the modification.

  2) They must clearly explain at the meeting the points they wish to modify and the right of all the shareholders to examine, at the registered office, the full text of the modification proposed and the report on the same and to request that said documents be delivered to them free of charge.

  3) The resolution must be adopted by the General Meeting of Shareholders, in accordance with the provisions of the Articles of Association.

  4) In any case, the resolution will be recorded in a public deed, which will be inscribed in the Mercantile Register and published in its Official Gazette (art. 68 Articles of Association).

Powers of the General Meeting of Shareholders.

- The General Meeting of Shareholders, as the maximum decision-making body of the Company, has the power to adopt all types of resolutions regarding the Company, and, in particular:

I. Approve, as the case may be, the annual accounts of the Company and decide on the application of results, and approve, as the case may be, the consolidated annual accounts.

II. Appoint and remove the member of the Board of Directors, and, ratify or revoke the appointments made by cooptation by the Board and approve their management.

III. Appoint, as the case may be, or re-appointment, the Accounts Auditors.

IV. Agree on the issue of bonds, the increase or reduction in capital, the transformation, merger, demerger or winding up of the Company, and, in general, any modifications to the Articles of Association.

V. Authorise the Board of Directors to increase share capital, in accordance with the provisions of article 297.1b) of the Spanish Public Limited Companies Act.

VI. Authorise the derivative acquisition of treasury shares of the Company under the legal terms in force.

VII. Confer upon the Board of Directors the powers which, for cases not foreseen, it deems necessary.

VIII. Decide on the affairs that will be submitted to resolution by the Board of Directors.

IX. Decide on the application of the remuneration systems consisting of the payment of shares or share options, and any other remuneration system that the value of the shares is indexed to, irrespective of who the beneficiary of said remuneration systems is.

X. Decide on what is licit, especially in relation to the issues that are not especially regulated by the Articles of Association and are not exclusively the competence of the Board of Directors (art. 2 of the Regulations of the General Meeting of Shareholders).

Any restriction on the transferability of securities and any restriction on voting rights (Article 61 bis 4.b of the SML).

There are no restrictions on the transfer of securities. According to article 11 of the Articles of Association of Gas Natural SDG, S.A. the shares are transferable in the manner set down by current provisions in force. Notwithstanding the application of certain norms, which are set out below.

As a listed company, the acquisition of significant shareholdings is subject to notification of the issuer and the Spanish Securities Exchange Commission (Comisión Nacional del Mercado de Valores – CNMV) under article 53 of the Securities Exchange Act, Law 24/1988, article 23.1 of Royal Decree 1362/2007/19 October and Circular 2/2007 of 19 December of the CNMV, which sets the first notification threshold at 3% of share capital or voting rights.

Furthermore, as a listed company, and except of the exemption under the First Additional Provision of Royal Decree 1066/2007 the acquisition of 30% or more of share capital or voting rights of the Company requires the filing of a takeover bid under the terms set down in article 60 of the Securities Exchange Act, Law 24/1988.

There are also relevant sectorial rules applicable in respect of the Group's energy company in Spain:

- As a Company whose Group comprises certain regulated and quasi-regulated assets and activities, the acquisition of its shares may be subject to the stipulations of Additional Provision 11. 3. 1. 14. of the Mineral Oils Sector Law (Law 34/1998).

- As a principle operator in the gas and electricity markets, ownership of its shares is subject to the restrictions laid down in Article 34 of Decree-Law 6/2000 on Urgent Measures for the intensification of competition in goods and services markets.

Information on the powers of board members and, in particular, those relating to the possibility of issuing or repurchasing shares (Article 61 bis 4. c. 3. of the SML).

The Company has conferred on the Chairman of the Board of Directors and the Chief Executive Officer broad powers of representation and management, which allows them to deal with the ordinary matters faced by the company, except those that cannot be delegated by Law, or by Articles of Association or Regulations that pertain to the General Meeting of Shareholders, the Board of Directors or its Committees.

In order to execute certain resolutions which, for various issues, require a specific mandate, the Board of Directors or the Executive Committee has conferred special powers upon the Chairman or the Chief Executive Officer, which expire after they are executed, in one single act.

The General Shareholders' Meeting of 20 April 2010, as point eight of its Agenda, resolved as follows:

"Eight.- Authorisation to the Board of Directors for the derivative acquisition of own shares, either directly or through companies of Gas Natural SDG, S.A. group, 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 one.- To cancel the authorisation granted to the Board of Directors by the General Meeting held on 26 June 2009 to acquire company shares for good and valuable consideration.

Eight two.- To authorise the Board of Directors to acquire, on a payment basis, and in a term of no longer than five years, on one or more occasions, up to a maximum of 10% of share capital, or the maximum figure that is the result of the application in accordance with the legislation in force at the time of acquisition, company shares which are completely paid in provided that the aforesaid percentage between the shares acquired by the company and those held by the subsidiaries is never exceeded. 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 considers appropriate. This authorisation is understood as applicable to the acquisition of the company's shares by owned companies."

Similarly, the General Meeting of 20 April 2012, as point ten on its Agenda, passed the following resolution:

Ten.- Authorisation for the Board of Directors or, in its place, the Executive Committee, in accordance with the provisions laid down in Article 153.1 1. b) of the Spanish Companies 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 social 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 temporary Article of the Articles of Association, thus cancelling the authorisation agreed by the Ordinary General Meeting of 20 April 2010.

Ten.

1) Taking into consideration the current share capital figure, to authorize the Board of Directors or, in its place, the Executive Committee, to increase share capital by FOUR HUNDRED AND NINETY-FIVE MILLION EIGHT HUNDRED AND THIRTY-SIX THOUSAND SIXTY-NINE EUROS (€495,836,069) within a period of five years counted as from this date, by means of a monetary disbursement, in a single operation or in various operations, and at the time and for the amount which on the board itself decides, issuing ordinary, privilege or redeemable shares, carrying or not carrying voting rights, with or without a share premium, without the need for further authorization by the General Meeting, and to amend the Articles of Association as required in view of the increase or increases of capital made by virtue of the said authorization, envisaging incomplete subscription, all in accordance with the provisions of article 297.1.b) of the Spanish Companies Act, derogating the authorization resolved upon by the Ordinary General Meeting of 20 April 2010.

2) The Board of Directors or, in its place, the Executive Committee, is expressly authorized to exclude preferential subscription rights, either wholly or in part, in relation to all or any of the issues resolved upon by virtue of this authorization.

3) As a result of the preceding resolution, to amend the Transitional Article of the Articles of Association, which would be worded as follows:

"Transitional article - delegation o Powers to the Board of Directors

The Company's Board of Directors or, in its place, the Executive Committee, for a maximum term of five (5) years as from this date, may increase the Company's share capital by FOUR HUNDRED AND NINETY-FIVE MILLION EIGHT HUNDRED AND THIRTY-SIX THOUSAND SIXTY-NINE EUROS (€495,836,069), by means of a monetary disbursement, in a single operation or in various operations, and at the time and for the amount which the board itself so decides, issuing ordinary, privilege or redeemable shares, carrying or not carrying voting rights, with or without a share premium, without the need for further authorization by the General Meeting and with the capacity to agree, if the case, the full or partial exclusion of the preferential subscription right, and may amend the Articles of Association as required in view of the increase or increases of capital made by virtue of the said authorization, envisaging incomplete subscription, all in accordance with the provisions of article 297.1.b) of the Spanish Companies Act.

Information on significant agreements entered into by the company and which come into force or are amended or terminated in the event of a change in the control of the company resulting from a public takeover bid, and the effects thereof, except when disclosure of this information could be seriously damaging to the company. This exception shall not apply when the company is obliged by law to make this information public (Article 61 bis 4. c. 4. of the SML).

The Industrial Operations Agreement between REPSOL, S.A. and GAS NATURAL SDG, S.A., which was communicated as a relevant event through the National Securities Market Commission on 29 April 2005, and the Shareholders' Agreement between REPSOL, S.A. and GAS NATURAL SDG, S.A. in respect of REPSOL-GAS NATURAL LNG, S.L., envisage a change in the control structure of either of the parties as grounds for termination.

More than half the outstanding debt of Gas Natural Fenosa Group is subject to a change-of-control clause, whether due to the acquisition of more than 50% of voting shares or to the obtaining of the right to appoint a majority of members of the GAS NATURAL SDG, S.A. Board; most of these clauses, however, are subject to additional conditions such as: a major reduction in credit rating caused by the change of control, material damage to the creditor, or a substantial adverse change in solvency or in capacity to perform the contract.

Most of these clauses imply repayment of the debt in a period longer than that allowed in cases of early termination; in some cases, the formalization of guarantees as an alternative to reimbursement is envisaged.

Information on agreements existing between the company and its directors and senior managers or employees which envisage the payment of indemnities when these persons resign or are unlawfully dismissed, or when the employment relationship comes to an end owing to a public takeover bid (art. 61 bis 4.c.5. of the SML).

The contract with the Chief Executive Officer contains a clause envisaging an indemnity which is three times the annual compensation envisaged, for termination of the relationship in certain situations, and an indemnity equivalent to one year's remuneration in respect of a one-year post-contractual non-competition agreement.

The contracts subscribed with members of the Management Committee contain a clause establishing a minimum indemnity of two years' remuneration for termination of the relationship in certain cases, and an indemnity equivalent to one year's fixed remuneration in respect of a two-year post-contractual non-competition agreement.

There are also indemnification agreements with 15 Senior Managers, the terms of which entitle such Senior Managers to a minimum indemnity of one year's remuneration for termination of the relationship in certain cases. Also envisaged is an indemnity equivalent to one year's fixed remuneration in respect of a two-year post-contractual non-competition agreement.

Description of the main characteristics of the internal control and risk management systems in relation to the process for the reporting of financial information (Article 61 bis 4.h.).

1. The Entity's Internal Control Environment

1.1. The bodies and/or functions which are responsible for: (i) devising and maintaining an appropriate and effective SICFR; (ii) its implementation; and (iii) its supervision.

Gas Natural Fenosa has defined its System of Internal Control over Financial Reporting (hereinafter SICFR) in the "General Standard for the System of Internal Control over Financial Reporting (SICFR) of Gas Natural Fenosa".

As part of its SICFR, Gas Natural Fenosa has defined, in the aforementioned General Standard, its model with respect to responsibilities in this area. This model is based on the following five areas of responsibility:

- The Board of Directors: The Board is responsible for the existence of an adequate and efficient SICFR in place, the supervision of which is delegated to the Audit and Control Committee.

  The Board of Directors' Regulations, in Article 5 of Section 19, stipulate that the approval of the control and risk management policy and periodic monitoring of internal control indicators and systems are one of the powers which is reserved exclusively for the Board.

- The Audit and Control Committee: This Committee is responsible, among other matters, for the supervision of the SICFR. According to Article 32 Section 2 of the Board of Directors' Regulations, the competences of this Committee include the following:

  - Being apprised of and supervising the process of drawing up and presenting the regulated financial information, ensuring the correct application of the accounting principles and the inclusion within the consolidation scope of all the companies that must be included.

  - Being apprised of and supervising the effectiveness of the Company's internal control and risk management systems, ensuring that they identify the various types of risk faced by the company and the measures taken to mitigate them and to address them if they materialize as actual damage. Discussing with the auditors any significant weakness in the internal control system detected during the audit.

  - Reviewing the information about the Company's activities and results that is drawn up periodically in compliance with the current regulations on the securities market, ensuring that it is drawn up in accordance with the same accounting principles as the annual accounts, and ensuring that the information is transparent and accurate.

- Adopting the measures that it considers advisable with regard to auditing, the internal financial control system and compliance with the legislation on providing information to the markets and on its transparency and accuracy.

The Audit and Control Committee has an Internal Audit Unit which performs a part of these functions.

- Economic-Financial General Management: responsible for the design, implementation and operation of the SICFR. There is an Internal Control Unit which performs this function.

- Internal Audit Unit: responsible generally for supporting the Audit and Control Committee in the supervision and on-going assessment of the efficacy of the Internal Control System in all areas of Gas Natural Fenosa, adopting a thorough and systematic approach in the monitoring and improvement of processes and for the assessment of associated operational risks and controls, including those corresponding to SICFR and the Criminal Risks Prevention Standard.

- Business and corporate units involved in the process for the preparation of financial information. These units are responsible for executing processes and for maintaining daily operational functioning, ensuring that the control activities established are executed.

1.2.Whether the following elements exist, especially in relation to the process of presentation of financial information:

- **Departments and/or mechanisms responsible for (i) designing and reviewing the organisational structure, (ii) clearly defining lines of responsibility and the assigning of tasks and functions; and (iii) ensuring that there is proper authority, with sufficient procedures in place for this information to be correctly transmitted within the entity.**

The design and review of the organizational structure of top-level management and the defining of lines of responsibility are undertaken by the Board of Directors, acting through the Managing Director and the Appointments and Remuneration Committee.

To ensure that the group's economic-financial information is adequately managed, the Economic-Financial General Management has developed, as part of the SICFR, a technical instruction consisting of an interrelations map (information flows) for the process of preparation of financial information, which documents communications between the Economic-Financial General Management, the different persons responsible for processes, and those persons responsible who constitute the source or are the intended recipients of financial information. This is called the "Interrelations map with regard to financial information of Gas Natural Fenosa".

There are six main areas taken into consideration by Gas Natural Fenosa when drawing up the interrelations map for the processes of preparation of financial information:

I) the information necessary in order to prepare the financial information;

II) the persons responsible who constitute the source or are the intended recipients of financial information;

III) the distribution of tasks among the different organizational units;

IV) the scope of such distribution to all the group companies;

V) the periodicity of the transfer of information;

VI) the information systems which are involved in the process for the preparation and presentation of financial information.

The Gas Natural Fenosa interrelations map therefore defines clearly the processes which have an impact on the preparation of financial information, covering both the operational processes with a significant impact on financial information and processes linked to the administrative and accounting area, and the persons responsible who are involved.

- **Code of conduct, approval body, level of distribution and instruction, principles and values included (indicating any specific mention of the recording of transactions and preparation of financial information), and body responsible for analysing breaches and proposing corrective measures and penalties.**

The commitments assumed by the Senior Management of Gas Natural Fenosa include its focus on ensuring that operations are performed in an environment of ethical professional practice not only by implementing mechanisms designed to prevent and detect fraud by employees or inappropriate practices which may result in penalties, fines or damage to the reputation of Gas Natural Fenosa, but also by stressing to its employees the importance of ethical values and integrity.

Gas Natural Fenosa has in place a Code of Conduct (hereinafter the Code of Ethics) which was approved by the Board of Directors in its meeting of 31 March 2005. Compliance with this Code is obligatory for all employees of Gas Natural SDG, S.A. and all investee companies whose management is controlled by Gas Natural Fenosa. The updating and amendment of the Code of Ethics are undertaken by the Gas Natural SDG, S.A. Board of Directors.

This Code has been amended on three occasions since its approval. The last of these amendments was effected on 19 May 2009, its purpose being to update the Code and incorporate in it new commitments assumed by Gas Natural Fenosa in relation to Good Governance and Corporate Responsibility, to incorporate best international practice in relation to ethical and social issues, and to comply with regulatory requirements resulting from the merger of Gas Natural Group and Unión Fenosa.

The Code of Ethics sets out the general ethical principles applicable in Gas Natural Fenosa as a whole, specifying the values to be adhered to in practice throughout the organization. These include: (i) the scope of application (applicability to all members of Gas Natural Fenosa); (ii) the criteria to which conduct in Gas Natural Fenosa must adhere (declaration of the Group's style of governance); (iii) conduct guidelines (a declaration of the key values of Gas Natural Fenosa; (iv) acceptance of and compliance with the Code; (iv) the Code of Ethics Committee and (v) validity.

The general criteria governing conduct in Gas Natural Fenosa according to the Code of Ethics are integrity and professional responsibility. Specifically, the Code establishes a series of guidelines which relate, to a greater or lesser extent, to the reliability of financial information and compliance with applicable legislation, specifically:

- Respect for law (Section 4.1)

"Gas Natural Fenosa is committed to acting at all times in accordance with applicable legislation and internationally accepted ethical practices, with total respect for Human Rights and public liberties (…)."

- Treatment of information and knowledge (Section 4.11):

"All employees that enter information of any type into the group's computer systems must ensure its rigor and reliability.

This is of particular importance with regard to the group's financial transactions, which must be reflected with clarity and precision in the corresponding records. Specially, all the Accounts, operations, income and expenditure must be correctly reflected in the records.

Gas Natural Fenosa employees will refrain from any practices that contravene the commitment to clearly and precisely reflect all the group's financial transactions in the group's Accounts."

Gas Natural Fenosa also has an Internal Code of Conduct with regard to the Stocks Markets, which is also approved by the Company's Board of Directors.

The Gas Natural Fenosa Code of Ethics Committee was formed in July 2005, its main purpose is to promote the dissemination and application of the Code throughout the entire group and provide a communications channel available to all employees for any consultations and the notification of breaches of its rules.

In order to ensure that the Code of Ethics Committee is able to perform its functions objectively and independently, it is presided over by the Internal Audit Unit and is made up of representatives of the different Units involved in the monitoring of compliance with the Code of Ethics.

The Committee reports regularly to Senior Management and reports quarterly to the Audit and Control Committee. Its purpose is to inform and make recommendations, proposing corrective measures to the units responsible for solving problems which arise in the practical application of the Code of Ethics and acting in turn as a link between such units and employees. The penalties regime, when necessary, is established by the Human Resources Unit. Similarly, the Code of Ethics Committee is able to propose – as it has done on several occasions – updates to be made to the content of the Code. These updates are initially approved by the Audit and Control Committee and are subsequently ratified by the Board of Directors.

Local Code of Ethics Committees have also been established, their purpose being to promote the dissemination and application of the Code in some of the countries in which Gas Natural Fenosa has a presence: namely, Argentina, Brazil, Mexico, Colombia, Panama, Nicaragua, Italy and Moldavia.

To promote both responsible conduct and knowledge and dissemination of the Code of Ethics, it is available in 9 languages:

- Externally: via the Gas Natural Fenosa corporate web site.

- Internally, via the Group's "Our Energy" platform and Naturalnet.

On-line training courses have also been developed through the Gas Natural Fenosa Corporate University. These courses are obligatory for all Gas Natural Fenosa employees.

In 2011 and 2012, Gas Natural Fenosa has carried out, through the Committee, a campaign for the Declaration of Compliance with the Code of Ethics, the objective being to increase awareness of the standards of conduct which all employees are expected to adhere to, increase awareness of the mechanisms in place for consultation and notification purposes, and to formalize regularly the commitment to ethics and integrity assumed by all group employees. The Declaration of Compliance has been sent out to almost all of Gas Natural Fenosa's employees and more than 95% of them have answered it. This Declaration is required periodically.

To promote awareness of the Code of Ethics among suppliers and collaborating companies, Gas Natural Fenosa includes in the General Terms of Orders a clause which indicates where they can consult the Group's Code of Ethics. A project is currently being carried out to modify the clauses of commercial contracts and orders used in the Purchases area in Spain to extend the informative scope of Gas Natural Fenosa's Human Resources Policy and Code of Ethics.

- **Whistle-blowing letters, which allows the Audit Committee to be notified of any financial or accounting irregularities, as well as any breaches of the code of conduct and irregular activities in the organisation, any issues which are confidential being identified as such.**

Professional ethics in Gas Natural Fenosa are based on integrity and professional responsibility; integrity is understood to refer to ethical and honest conduct based on good faith, and professional responsibility is understood to refer to pro-active, efficient actions focusing on excellence, quality and good service.

As is established in Article 32.2 of the Regulations of the Board of Directors and its Committees, the competences of the Audit Control Committee are: "Establishing and supervising a mechanism whereby staff can report, confidentially and, if appropriate, anonymously, any irregularities with potentially serious implications that they detect in the course of their duties, in particular financial or accounting irregularities."

Similarly, the Board of Directors, in its meeting of 31 March 2006, resolved that notifications received through the procedure for the notification of breaches of the Gas Natural Fenosa Code of Ethics relating to fraud, auditing, or accounting and internal control flaws, are to be referred directly to the Audit and Control Committee.

As has been mentioned above, in July 2005, the Code of Ethics Committee of Gas Natural Fenosa was formed as a means of enhancing internal control over compliance with the principles set out in the Code of Ethics. One of its main functions is to provide and oversee a communication channel open to all employees which can be used to receive consultations and notifications of any breaches of the Code, thus facilitating the resolution of conflicts related to the application of the Code of Ethics, and to report to the Governing Bodies of Gas Natural Fenosa on the dissemination of, and compliance with, the Code of Ethics and on the activities of the Committee itself.

This channel provides an easily accessible means of communication (by e-mail, fax, ordinary mail or internal mail) between the Code of Ethics Committee and all employees of Gas Natural Fenosa for addressing matters related to the Code. It enables all group employees, suppliers and collaborating companies, to receive and provide information on any matter relating to the Code of Ethics. These persons may also contact the Code of Ethics Committee to inform it confidentially and in good faith of any conduct which breaches the Code. This mechanism functions independently of the hierarchy in place in the employees' ordinary operations.

All communications between the Code of Ethics Committee and the employees of Gas Natural Fenosa are totally confidential, the constraints imposed by the Organic Law on the Protection of Personal Data (Law 15/1999 of 13 December) being duly observed. In this sense, the chairman of the Committee (the Internal Audit Director) is the only member who, in the first instance, is allowed access globally to all information on all consultations and notifications received from the group through the consultation and notification procedure. Similarly, notifications relating to fraud, audit matters, or flaws in accounting or internal control processes are reported directly to the Audit and Control Committee.

These consultations and notifications are dealt and resolved by the Code of Ethics Committee.

The 2012 Corporate Responsibility Report of Gas Natural Fenosa provides more detailed information on the Code of Ethics, the activities of the Code of Ethics Committee, and the use of this communication channel.

- **Training programmes and regular refresher courses for personnel involved in the preparation and review of financial information, and the assessment of SICFR, which cover, as a minimum, accounting standards, audit, internal control and risk management.**

To ensure that all personnel involved in the preparation and review of financial information and in the assessment of the SICFR are sufficiently qualified in this field and, above all, have an up-to-date understanding of it, it is essential that there should be a suitable training plan in place, to guarantee that the persons responsible for each area have at their disposal the knowledge required to be able to perform the various different functions included in the process for the preparation and review of financial information.

For this reason, Gas Natural Fenosa has a Corporate University which is responsible for the design of the training strategy and of the annual plan for the training of all group personnel. The Corporate University has been awarded the ISO 9001-2008 certification.

The goals of the Corporate University are the following: to ensure that there is proper management of knowledge within what is a multi-national and multi-cultural organization; to establish the organization as a reference with respect to training in the energy sector; to ensure cultural integration within the new Group.

The training plans in place pertain to the following categories:

- Leadership institute: guarantees talent development in order to enhance long and short term strategic vision. It is focused on three kind of abilities: business, interpersonal and personal.

- Crossover training: within the Technical Institute, the School of Processes transmits standards, processes and procedures and spreads experiences and external best practices.

- Specialised training: also within the Technical Institute, it is focused on conception and and processes for the different business areas and corporation functions.

Gas Natural Fenosa companies in seventeen countries which have training management centralised, total 782,463 training hours in 2012. The Economic and Finance class is within the School of Processes and in 2012 exceeded 11,200 training hours involving more than 700 people. Its main goals are:

- To homogenize economic and finance processes aimed to Gas Natural Fenosa economic and finance units professionals and other interested professional within other units.

- To update accounting, tax, finance, risk, controlling and international regulation criteria.

- Update technical knowledge in fiscal area.

- To provide knowledge on valuations, financial derivative and financial statements analysis.

In 2012, the last units of the Course in Economic-Financial Expertise held in collaboration with the Pompeu Fabra University between 2010 and 2012 were given, which were attended by 396 participants.

In addition, with the participation of this university, the Legal-Financial Programme for Business Strategy and Development was held in 2012, which provided over 800 hours of training and was attended by 53 participants. The aim of this programme, which will have new editions in 2013, was to provide professional workers with information on consolidation techniques and their effect on companies' financial statements to assist them with strategic decision-making.

The Efficient Financial Communication course with approximately 2,000 hours of training and 164 participants and the advanced office automation and SAP computer system course of over 2,100 hours of training are also significant.

2. Assessment of financial information risks:

2.1. What are the main features of the process to identify risks including the risk of misstatement or fraud, considering the following:

- Whether the process exists and is documented.
- Whether the process covers all financial reporting objectives (existence and occurrence, completeness, measurement, presentation, analysis and comparability, and rights and obligations), whether it is updated, and with what frequency.
- The existence of a process to identify the scope of consolidation, considering aspects such as the possibility of complex corporate structures, or special purpose vehicles or entities.
- Whether the process considers the impact of other risk types (operating, technological, financial, legal, reputational, environmental etc.) insofar as these affect the financial statements.
- Which of the entity's governing bodies supervises the process.

The approach adopted by Gas Natural Fenosa in the process of identification and analysis of financial information risks is reflected in the following diagram:

The purpose of the financial information scope definition matrix is to identify those accounts and breakdowns for which there is a significant related risk, the potential impact of which on financial information is material and therefore requires particular attention. In this sense, in the process for the identification of significant accounts and breakdowns, consideration is given to a series of quantitative variables (balance of and changes in the account) and qualitative variables (complexity of transactions; changes in and complexity of legislation; need to use estimates or projections; the application of judgement and the qualitative importance of the information). The methodology to be used in producing the scope matrix is described in a technical instruction entitled "Gas Natural Fenosa financial information scope definition matrix".

For each of the significant accounts/breakdowns, critical processes and subprocesses associated with the significant accounts/breakdowns included in the scope definition matrix have been defined, and risks which may generate errors in financial information have been identified, covering control objectives in respect of existence and occurrence, completeness, measurement, presentation, analysis and comparability, and rights and obligations, in the "Gas Natural Fenosa financial information risks matrix."

Finally, the control activities consisting of the policies and procedures which are incorporated in all stages of the financial information process, and which guarantee its reliability, are set out in the "Gas Natural Fenosa financial information control activities matrix".

The Scope definition matrix, the Risks matrix, and the Control activities matrix, are all updated annually.

Similarly, the risks Matrix identifies risks associated with the achievement of financial information objectives, consideration being given in this identification to the effects of other risk types (e.g.: operational, technological, financial, reputational, etc.) which form part of the Gas Natural Fenosa Corporate Risks Map.

The process of identification of the scope of consolidation of Gas Natural Fenosa forms part of the critical processes identified and is described in a technical instruction entitled "Gas Natural Fenosa group consolidated close cycle."

In the process for the identification of risks defined by Gas Natural Fenosa in its SICFR, consideration has been given to the issue of fraud, which is regarded as a very relevant aspect. In this sense, the fraud risk control policy of Gas Natural Fenosa focuses on three main areas:

- The prevention of fraud.
- The detection of fraud.
- Investigation and management of instances of fraud.

The defined preventative anti-fraud controls may be divided up into two categories. On the one hand, there are active controls, i.e. barriers to prevent or restrict access to valuable assets by persons who may attempt to commit acts of fraud. On the other hand, there are passive controls, the purpose of which is to stop fraud by means of deterrent measures.

The Audit and Control Committee is responsible for supervising the efficacy of the SICFR. In its performance of this function, the Audit and Control Committee has at its disposal the Internal Audit Unit and the External Audit unit (see section 5).

3. Control activities

3.1. Procedures for the review and authorisation of financial information and the description of the SICFR to be made public through securities markets, indicating the persons responsible, and documentation describing activity and control flows (including those relating to fraud risks) for the different types of transactions that may have a material impact on the financial statements, including the procedure used for the accounting close and the specific review of relevant judgments, estimates, measurements and projections.

Gas Natural Fenosa periodically reviews the financial information prepared, and the description of the SICFR, at the different responsibility levels necessary in order to guarantee their quality.

The first-level review is that performed by those responsible for the accounting close in each Gas Natural Fenosa company, who review the financial information prepared to ensure that it is reliable.

The financial information of Gas Natural Fenosa is also reviewed periodically by the head of the Economic-Financial General Management, who identifies any possible variances. The Economic-Financial General Management reports regulated financial information to the Audit and Control Committee, ensuring that such information is transparent and accurate, and indicating the internal control systems and accounting criteria which have been applied. It also reports the main accounting procedures, judgements, estimates, measurements and processes used in the preparation of economic-financial information and the financial statements, the main risks and contingencies and the provisions set up to cover them, and the Risk Management and Control Policies and Systems in place in Gas Natural Fenosa.

Ultimately, the Economic-Financial General Director certifies the individual and consolidated annual accounts which are presented to the Board of Directors for approval.

As is reflected in the "General Standard for the Systems of Internal Control over Financial Reporting (SICFR) of Gas Natural Fenosa", the control activities defined by the group in its SICFR meet the fundamental objective of ensuring that the financial information of Gas Natural Fenosa gives a true and fair view of the group.

The control activities defined in the SICFR include both general controls and controls in critical processes.

General controls are mechanisms which do not provide a sufficient level of control in group processes yet make it possible to achieve a series of objectives which are essential for efficient SICFR; in other words, they are those controls which describe the policies and guidelines designed to protect the SICFR of GAS NATURAL FENOSA as whole.

On the other hand, all the critical processes identified have been documented through the control activities matrix and the corresponding technical instructions which describe processes. In this sense, GAS NATURAL FENOSA has identified all the processes required for the preparation of financial information in which use has been made of significant judgements, estimates, measurements and projections, all of which are regarded as critical. The Audit and Control Committee is informed periodically of the main assumptions used in estimating financial information which depends on significant judgements, measurements and projections.

The documentation of critical processes and control activities includes the following information:

- A description of the process.
- A diagram indicating the flow of information in the process.
- A map indicating the systems which interact in the process.
- A description of the financial information risks associated with the different control processes and objectives.
- A definition of control activities for the mitigation of risks identified and their characteristics.
- A description of the persons responsible for control processes and activities.

Similarly, the definition of control activities identifies the following control activity classifications based on the five criteria indicated:

- Scope: based on the scope of control activities, they can be divided up into:

  - General control activities

  - Activities for the control of processes

- Implementation: control activities are classed as implemented or not implemented.
- Level of automation: based on the level of automation of control activities, they can be classed as either automatic or manual.
- Nature of the activity: based on the nature of control activities, they can be classed as either preventative or detective.
- Frequency: based on the temporal recurrence of the activity, e.g.: annual, weekly, monthly, daily, etc.

Lastly, the Gas Natural Fenosa SICFR defines the model for the annual internal certification of the controls identified in the critical processes to be carried out by the business and corporate Units involved in the process of preparation of financial information. The implementation and monitoring of this certification process is the responsibility of the Internal Control Unit. On the other hand, the Internal Audit Unit is responsible for reviewing and evaluating the conclusions regarding compliance and effectiveness which are reached through the annual process for the internal certification of the units responsible for controls, for the identification of weaknesses, and for plans of action.

3.2. Internal control policies and procedures for information systems (including access security, control over changes, implementation of changes, operating continuity and segregation of duties) which support the entity's significant processes with respect to the preparation and publication of financial information.

For the critical processes relating to the preparation and presentation of the financial information of Gas Natural Fenosa which have been defined in the group SICFR, control activities which operate in information systems have been defined, both for those used directly in the preparation of financial information and those which are relevant to the process or control of the transactions reflected.

On a general level, the Gas Natural Fenosa information systems map defines and implements a series of policies designed to guarantee the following aspects:

- Security of access to both data and applications.
- Control over changes in applications.
- The correct operation of applications.
- The availability of data and continuity of applications.
- An adequate segregation of duties.

a) Access security:

A series of measures at different levels have been defined to prevent unauthorized access to both data and applications.

The servers are housed in two main DPCs (in Barcelona and Madrid) and only authorized personnel are allowed access to these rooms. In addition, all entries are recorded.

Communications with these systems always take place under encrypted protocols to prevent possible unauthorized access. IDS and antivirus systems are included to enhance internally the control of threats of these kinds.

Finally, at application level, operating system and data base level, the user-password combination is used as a preventative control. At data level, profiles have been defined which restrict access to data but no duties segregation matrix which ensures that functions are not incompatible has been developed.

b) Control over changes:

A change management methodology which establishes the precautions and validations necessary to limit the risk in this process has been developed and implemented.

The main areas covered include the following:

- Approval by the business area
- Performance of tests prior to production
- Specific environments for development and testing tasks
- Procedures for reversal
- Segregation of duties since the development team does not have access to production.

c) Operation:

There is monitoring at three levels to ensure that operations are correctly executed:

- All interfaces between systems are analysed to ensure correct execution.
- At perimeter level, there are different availability indicators, to avoid cut-offs in communications.
- Automatic validations of data entered to ensure that they conform to those expected based on nature, rank, etc.

There is also an internal help-desk service which final users can contact in the event of detecting any type of incident.

d) Availability and continuity:

The Company has two replicated DPCs which guarantee the availability of information systems in the event of a contingency. This is further supported by a DRP indicating the tasks to be performed and steps to be taken to get the systems running again in such cases.

In addition, back-up copies of data are being made periodically; these are kept temporarily in a secure location. There is a specific procedure for the restoration of data although tests are not performed periodically.

e) Segregation of duties:

Access to Information Systems is defined based on a series of profiles which establish the functionalities to which a user should be allowed access. These profiles are used to restrict access by Information System users.

Similarly, Gas Natural Fenosa has developed a specific technical instruction which sets out the systems maps for critical cycles, and the interfaces between control systems and activities at application level which make it possible for information to be compiled fully and precisely.

3.3. Internal control policies and procedures for supervising the management of activities outsourced to third parties, as well as the assessment, calculation and measurement of activities entrusted to independent experts which may have a material impact on the financial statements.

Gas Natural Fenosa has developed a series of policies and procedures designed to supervise the management of activities outsourced to third parties; all these are approved at the established levels within the group and they include, most notably, the existence of a "General Outsourcing Standard", a "General Supplier Quality Standard", and the procedures which elaborate upon these standards.

Gas Natural Fenosa sets out in its "General Outsourcing Standard" the general principles which are necessarily to be applied in all contract adjudications and outsourcing operations performed by the group in respect of works, goods and services, thus ensuring that the model for the management of the Purchasing process in Gas Natural Fenosa is both uniform and efficient.

This Standard also establishes in general terms the responsibilities of the various Units in relation to the contracting process; these include the Purchases area which is responsible for promoting reliable long term business relationships with suppliers, establishing objective and unbiased evaluation and selection mechanisms to keep the principles defined in the Gas Natural Fenosa Code of Ethics. Similarly, prior engagement controls will be performed in order to ensure supplier reliability and reputation, accordingly with contract amount and significance. It is also responsible for defining requirements and ensuring initial and periodic suppliers evaluation and if required, homologation, to guarantee the quality of the goods and services acquired, in collaboration with the business Units.

With this aim, GAS NATURAL FENOSA has developed, in its "General Supplier Quality Standard", and the procedure which develops this standard, the basic principles to be adhered to in the process for assessing and endorsing group suppliers; these principles include, most notably, the establishing of procedures and controls which guarantee compliance with specifications by contracted suppliers and potential recipients. Before starting the contracted activity or supply, all suppliers are subject to the initial assessing process and, moreover, endorsement is required for those suppliers of services or goods included in endorsement requirements in accordance with critical or amount criteria.

In addition, a means of measuring performance by service satisfaction surveys of the most important suppliers in terms of amount or significance has been introduced, and, where necessary, the appropriate corrective measures have been established for each stage of the process.

In accordance with the Gas Natural Fenosa Group's criteria, the Purchases area defines or agrees the indicators for the control and monitoring of the process of prior approval and assessment of suppliers and products to ensure the quality of the products and services acquired. For suppliers who perform activities or supply products for which approval is required, three main approval types are defined (A, B, and C). In the case of the first category (A), the supplier must meet the requirements imposed by Gas Natural Fenosa for the activity to be performed and hold, in respect of such activity, a currently valid ISO 9001 Company Registration Certificate issued by an accredited certifying body. In category B, the supplier meets the requirements imposed by Gas Natural Fenosa for the activity to be performed but has no certified quality management system. The decision as to which of the approval categories should be required is based on quantitative or qualitative importance in relation to the service provided.

Category (C) is a provisional category corresponding to suppliers which are not compliant with aspects of the approval process but have presented a Corrective Measures Plan which has been accepted by Gas Natural Fenosa. Once the one-year period allowed for the implementation of this Plan has elapsed, these suppliers are categorized as appropriate.

The main areas affecting critical financial information processes which Gas Natural Fenosa has outsourced to third parties are:

- Certain processes pertaining to the Systems area
- Reading and measurement processes
- Certain Customer Service processes
- Logistics operator
- Certain processes pertaining to the Cash and banks area
- Payroll process and personnel management

• Management of Works and maintenance of the Distribution business

Similarly, the Business Units supervise and monitor the quality of their suppliers to determine whether they offer the required quality levels. When this is not the case, they send proposals for the withdrawal of approval/certification from suppliers/products/persons as a result of deficiencies in the delivery of the services or products in question.

Gas Natural Fenosa uses the services of experts in tasks performed to support accounting measurements, judgements or calculations only when such experts are registered with the corresponding Professional Associations or are similarly certified, declare that they are independent, and are companies of acknowledged prestige in the market.

4. Information and Communication

4.1. A specific function to define and update accounting policies (the accounting policies area or department), as well as to resolve any queries or conflicts arising from their interpretation, ensuring that there is fluent communication with the persons in charge of operations within the organisation, and an updated accounting policies manual which has been communicated to the units through which the entity operates.

The Economic-Financial General Management, through the Accounting Planning and Control Unit, is responsible, among other functions, for ensuring that accounting policies applicable to the group are kept up to date; in this sense, it is responsible for the updating of the "Gas Natural Fenosa Accounting Plan", which includes accounting Standards and the group's Accounting Plan, and also for analysing any accounting changes which may have an impact on Gas Natural Fenosa's financial information.

The "Gas Natural Fenosa Accounting Plan" is updated annually, the last such update taking place in December 2012. As part of these updates, a review is made of accounting standards based on changes in the IFRS-EU rules applicable and of the group's accounting structure, verifying traceability between the individual accounting plans of the group subsidiaries and the Accounting plan of Gas Natural Fenosa, which is used as a basis for the preparation of the various financial reports required to be submitted to external bodies, and for Management Control information.

Once the Accounting Plan has been updated, it is distributed to all personnel in the organization through the Gas Natural Fenosa intranet. In addition, once the updated accounting plan has been published on the intranet, an on-line alert is sent to users who access the intranet, thus informing all personnel of the update.

On the other hand, the Accounting Planning and Control unit analyses changes in IFRS-EU rules which could have a significant impact on the financial statements and informs the persons in positions of responsibility within Gas Natural Fenosa who are affected by such changes. It also resolves any queries regarding the accounting treatment of certain transactions which may be raised by the persons in charge of financial information at Gas Natural Fenosa.

4.2. Mechanisms for gathering and preparing financial information using standard formats, which are applied and used by all the entity/group units and which support the main financial statements and the notes thereto, as well as the information on SICFR indicated.

The integral economic-financial management model of Gas Natural Fenosa ensures that there is uniformity in administrative and accounting processes by centralizing accounting and economic administration in Shared Services Centres (SSCs) and through the use of SAP as a support system in most of the group companies. Those companies which do not use SAP are under the obligation to adhere to certain standards established by the group in order to ensure that there is uniformity in these processes.

The main characteristics of this model are described below:

- there is one single model for all countries and all business activities;

- it incorporates the legal, tax, commercial law and regulatory requirements of each of the countries;
- it incorporates internal control requirements;
- it serves as basis for the obtaining of the information which is presented to Senior Management and official bodies;
- It is based on a particular organizational model and economic-financial processes and computer systems which are the same for all countries and business activities.

The IFRS-EU financial statements for each country are obtained directly through the local account-group account assignation and the registering of IFRS-EU adjustments in the SAP application itself.

As part of the Group's SICFR, an interrelations map for the process of preparation of the financial information of Gas Natural Fenosa has been defined. This map indicates, among other aspects, the information systems which are involved in the process for the preparation and presentation of financial information, from the points of view of both the individual accounting close and the consolidated accounting close.

The EC-CS application is used in the process of preparation of the financial information - and breakdowns thereof - of Gas Natural Fenosa; this is a SAP tool for the management of the consolidation process. The SAP SEM application is also used to provide support in the preparation of management control reports.

Information is loaded into this consolidation system directly and automatically, once accounts for the month have been closed.

These two tools help in the management of the consolidation and management control process, in tasks such as:

- the standardisation of information
- the validation of information.

The preparation of economic information, both financial and management information, is prepared centrally in the Integrated reporting center, which ensures integration, homogenization, consistency and rationalization of GAS NATURAL FENOSA'S reporting.

Similarly, Gas Natural Fenosa has local accounting plans in place to ensure compliance with the accounting, tax, commercial law and regulatory requirements established in the different legislations of the countries in which it is present. These local accounting plans come together in a unified and standardized group accounting plan for consolidation purposes and for the reporting of financial information.

In 2012, Gas Natural Fenosa has begun to implement the SAP GRC Process Control, a global repository and management tool of its SICFR. This tool will also be used by Internal Audit for its monitoring of the SICFR.

5. Supervision of functioning

5.1. The activities performed for the supervision of the SICFR which are undertaken by the Audit Committee, and whether the entity has an internal audit function whose competences include supporting the committee in its supervision of the internal control system, including the SICFR. Similarly, report as to the scope of the SICFR assessment performed during the year and the procedure whereby the person responsible for this assessment reports his/her results, whether the entity has an action plan which details possible corrective measures to be taken, and whether the impact on financial information has been considered.

The functions of the Audit and Control Committee are set out in Article 32 section 2 of the Regulations of the Board of Directors and its Committees; its competences include the following:

- Being apprised of and supervising the process of drawing up the regulated financial information, ensuring the correct application of the accounting principles and the inclusion within the consolidation scope of all the companies that must be included.

- Being apprised of and supervising the effectiveness of the Company's internal control and risk management systems, ensuring that they identify the various types of risk faced by the company and the measures taken to mitigate them and to address them if they materialise as actual damage. Discussing with the auditors any significant weaknesses in the internal control system detected during the audit.

- Reviewing the information about the Company's activities and results that is drawn up periodically in compliance with the current regulations on the securities market, ensuring that it is drawn up in accordance with the same accounting principles as the annual accounts, and ensuring that the information is transparent and accurate.

- Informing the General Meeting of Shareholders on the questions raised by shareholders which fall within its scope of authority.

- Making proposals to the Board of Directors, for submission to the Shareholders' Meeting, regarding the appointment of the external auditors as referred to in article 264 of the Capital Corporations Law.

- Making recommendations to the Board for the selection, appointment, reappointment and removal of the external auditor, and the terms and conditions of such auditor's engagement.

- Liaising with the external auditors in order to receive information about matters that might jeopardise their independence and any other matters related to the audit process as well as other communications envisaged in the audit legislation and technical audit standards.

- Issuing a statement on the independence of the auditors each year prior to the issuance of the auditors' report.

- Supervising the internal audit units, ensuring their independence and proposing the appointment, reappointment and removal of the head of internal audit. To that end, the head of internal audit must present an annual work programme to the Committee, inform it directly of any incidents arising during the programme's implementation, and submit a report on activities at the end of each year.

- Overseeing the annual audit process.

- Liaising between the Board of Directors and the external auditors, and assessing the results of each audit. At all events, it must receive annually from the company's auditors written confirmation of their independence with respect to the company and to entities directly or indirectly related to the company, as well as information on any additional services provided to those entities by the auditors or by persons or entities related to the auditors, as provided for in the Audit Law.

- Adopting the measures that it considers advisable with regard to auditing, the internal financial control system and compliance with the legislation on providing information to the markets and on its transparency and accuracy.

The Audit and Control Committee, for the performance of its functions, has at its disposal the information and documentation provided by the Internal Audit and Economic-Financial Units.

The Internal Audit function has been established in Gas Natural Fenosa as an independent and objective valuation activity; for this reason, the Internal Audit Area reports in turn to the Audit and Control Committee and to the Chairman and Chief Executive Officer of Gas Natural SDG, S.A.

Its mission is to guarantee the supervision and on-going assessment of the efficacy of the Internal Control System (including SICFR) and the Criminal Risks Prevention Standard in all areas of Gas Natural Fenosa, adopting a rigorous and systematic approach in the monitoring and improvement of processes and for the assessment of associated operational risks and controls. All this is aimed at achieving the Strategic Objectives of Gas Natural Fenosa and at assisting the Audit and Control Committee and Top-level Group Management in compliance with their management, control and corporate governance functions.

In drawing up the Strategic Processes Audit Plan and the Annual Internal Audit Plans, consideration is given primarily to the Group's Strategic Plan, the risk areas included in the Corporate Risks Map of Gas Natural Fenosa, the SICFR scope matrix, the assessment of operational risks corresponding to each of the Processes (Operational Risks Maps), the results of audits performed in prior years and proposals made by the Audit and Control Committee and Top-level Management.

The Internal Audit Area has established a methodology for the measurement of operational risks based on the Conceptual Framework of the COSO Report, and taking as its starting point the risk types defined in the Gas Natural Fenosa Corporate Risks Map.

Under this methodology, operational risks associated with processes are prioritised based on an assessment of their incidence, relative importance and level of control. Based on the results obtained from this assessment, a plan of action is designed which is geared towards the implementation of corrective measures which make it possible to mitigate the residual risks identified which have a potential impact that exceeds the established tolerable or accepted risk.

The internal audit function is developed in turn in accordance with the International Standards for the Practice of Internal Auditing; it has internal auditors who have obtained or are in the process of obtaining the Certified Internal Auditor (CIA) qualification which is awarded for excellence in the provision of internal audit services.

In performing its activity, the Internal Audit Area verifies on a recurrent basis compliance with all policies, standards and controls of processes (including those established in the SICFR and the Criminal Risks Prevention Standard) with a view to overseeing their proper functioning and preventing and identifying incidents of fraud, corruption or bribery. For this, all the work programmes for the review of each of the Processes of Gas Natural Fenosa include a specific section for verification of the correct design and functioning of these policies, standards and controls. According to the Strategic Processes Audit Plan, the SICFR is to be fully supervised by Internal Audit for a period of 5 years.

Specifically, and in relation of the System of Internal Control over Financial Reporting (SICFR), the Internal Audit Area is responsible for supervising:

- The correct design of the SICFR and compliance with regulatory requirements
- The adequacy of the control policies and procedures implemented
- The adequacy of the definition of the scope of consolidation
- The correct application of accounting standards.

The Internal Audit Area is responsible for monitoring the Criminal Risks Prevention Standard on an annual basis to gain reasonable assurance that it effectively and efficiently identifies crimes defined by law and prevents or mitigates them.

The main processes reviewed by the Internal Audit Area during 2012 were those relating to:

- Business processes:

  - Gas distribution: maintenance of gas infrastructures, attending to emergencies and industrial start-up.

  - Electricity distribution: provision of consumption service.

  - Wholesale and retail trade: default management, industrial clients management and monitoring, construction and start-up of energy installations, capture and contracting of energy and products.

  - Generation: operation and maintenance of generation assets.

  - Energy management: sales of electricity, estimation and purchase of electricity.

  - Exploration and production of gas.

  - Supplies: purchases of gas.

- Support processes:

  - Customer service: retail and wholesale invoicing, residential and commercial clients default management.

  - Management of financial and physical resources: management of purchases and contracting of services.

  - Management of information systems: management of operations, juridical/legal management, client service.

  - Monitoring of agreements to improve audit processes.

  - Management of human resources processes and services.

  - Management of the regulatory framework.

  - Review of the Group's juridical system.

  - Review of the 2012 Corporate Responsibility Report.

  - Review of the valuation of 2012 efficiency projects and the obtaining of such projects.

  - System of Internal Control over Financial Reporting (SICFR).

  - Criminal Risk Prevention Standard.

47% of the processes reviewed correspond to Spain; the remaining 53% are of international scope.

The above process controls relating to Financial Information were reviewed in accordance with the work methodology described above.

5.2. Whether there is a discussion process whereby the auditor (in accordance with the technical standards governing the audit field), the internal audit function and other experts can inform senior management and the Audit Committee or the entity's directors of significant internal control weaknesses detected during the processes for the review of the annual accounts, or any other processes entrusted to them. Also, report as to whether there is an action plan to correct or mitigate risks identified.

As is established in Article 6.4 of the Regulations of the Board of Directors and its Committees:

> "The Board of Directors will maintain a direct relationship with the top-level management of the Company and with its Auditors. The objective, professional and continuous nature of this relationship must provide the utmost respect for the Auditors' independence."

Similarly, Article 9 of these Regulations stipulates as follows:

> "The Board of Directors will meet at least once every two months and whenever the Chairman considers it advisable for the Company's proper operation. Ordinary meetings of the Board of Directors will discuss general matters relating to the Group's progress, economic results, the balance sheet, the cash position and their comparison with the approved budgets, the matters set out in Article 5, if appropriate, and any item contained in the Agenda drawn up as provided in this Regulation. At these regular meetings, the Board will receive timely information about the main achievements and operating problems and any foreseeable situations that might be critical for the Company and any action which management proposes to address them."

In this sense, the Members of the Board of Directors, to obtain the information necessary for the performance of their functions, have at their disposal the Executive Committee, whose specific area of competence is the on-going monitoring of the top-level management of the Group, and the Audit and Control Committee, whose functions include knowledge and supervision of the process for the preparation of regulated financial information, and the efficacy of the internal control system.

The area of competence of the Executive Committee is the on-going monitoring of the top-level management of the Company, as well as any other function corresponding to it pursuant to the Articles of Association or the Regulations of the Board of Directors and its Committees, or which may be assigned to it by the Board of Directors.

According to the Company's Articles of Association and the Regulations of the Board of Directors and its Committees, the Audit and Control Committee is to be made up of a minimum of three and a maximum of five Directors, appointed by the Board of Directors from among the External Directors, with consideration being given to their knowledge and experience in the fields of accounting, audit and risks management. The members of this Committee shall cease to hold office as such when they cease to hold office as Board Members, when a resolution to this effect is passed by the Board of Directors, or when a period of three years has elapsed as from their appointment; they may be re-elected. At least one of the Committee members must be an Independent Director. At 31 December 2012, the Committee is made up of three Directors, one whichis dominical, the other two being independent. The Committee is chaired, in turn, by one of the independent directors.

The Chairman of the Committee is to be elected by the Board of Directors. The Chairman shall not have a casting voting and shall be required to be replaced in accordance with the provisions of the Articles of Association (Article 51 bis) and the Law. He/she may be re-elected once one year has elapsed as from the date on which he/she ceased to hold office. The Secretary of the Committee shall be the person who is Secretary of the Board of Directors.

The Commission is to meet, having been duly convened by its Chairman, whenever necessary for the issue of the reports falling within the scope of its competence or whenever a meeting is deemed advisable by its Chairman or is requested by two of its members; it is to meet at least four times a year. The Committee may invite to its meetings any senior manager or employee whose presence it considers advisable.

The functions and activities performed by the Audit and Control Committee of Gas Natural SDG, S.A. meet the legal requirements established by Law 12/2010 which amends Law 19/1988 of 12 July on the Auditing of Accounts, Law 24/1988 of 28 July on the Securities Market and the revised text of the Companies Law approved by Royal Legislative Decree 1564/1989 of 22 December, and Royal Legislative Decree 1/2010 of 2 July in which approval is given to the revised text of the Capital Corporations Law.

Similarly, the Committee's functions and activities are concordant with the good corporate government recommendations established by current legislation and by the Unified Code of Good Governance for Listed Companies, dated 19 May 2006 and which was approved on 22 May 2006 and published by the National Securities Market Commission (the Conthe Code).

The scope of the work performed by the Audit and Control Committee extends to:

- Gas Natural SDG, S.A.

- Companies in which Gas Natural SDG, S.A. has a majority shareholding.

- Other entities and investee companies over which Gas Natural SDG, S.A. has – by any means – effective control or responsibility for their management or operation.

Between 1 January 2012 and 25 January 2013 (the date on which the Consolidated and Individual Annual Accounts of Gas Natural Fenosa for the 2012 financial period were drawn up), 6 meetings of the Audit and Control Committee have been held, the attendance rate being 100%.

The Internal Audit Unit reports to the Audit and Control Committee on a recurrent basis, informing it of the steps taken to ensure that Gas Natural Fenosa adheres to all policies, standards and process controls established by the group's top-level Management. It also presents:

- The Annual Internal Audit Plan for approval by the Committee.

- The extent to which such plan has been executed, and the main conclusions and recommendations included in the Internal Audit Reports.

- An assessment of the efficacy of the Control System and assessment of operational and Internal Control risks affecting the Gas Natural Fenosa Group (including those corresponding to SICFR and the Criminal Risks Prevention Plan); this includes the corresponding Plans of Action to improve the level of internal control.

- The extent to which the units audited have implemented the corrective measures referred to in the Audit Reports, especially those measures proposed by the Audit and Control Committee.

Similarly, the Economic-Financial General Management reports regulated accounting or financial information to the Audit and Control Committee, verifying the transparency and accuracy of such information and indicating the internal control systems and accounting standards applied. It also reports on the main accounting procedures and processes used in the preparation of economic-financial information and the financial statements, on the main risks and contingencies and their coverage by provisions, and on Risk Management and Control Policies and Systems in Gas Natural Fenosa, and on relevant matters relating to the preparation, definition and conclusions of the Gas Natural Fenosa Corporate Risks Map.

Finally, the external auditor communicates to the Audit and Control Committee the internal control weaknesses detected during the performance of the audit. In addition, the external auditors report the main conclusions reached in the review of internal control, on the evaluation of risks and on plans of action.

6. Other relevant information

As is mentioned in section F.3.1. above, the execution of an annual internal certification process - whereby the business and corporate Units involved in the process of preparation of financial information guarantee that their processes involve the controls identified and that such controls are valid and adequate – has been defined as part of the model for the evaluation of the System of Internal Control over Financial Reporting of Gas Natural Fenosa. These Units also report to the Internal Control Unit any weaknesses and/or deficiencies which they have detected, and any changes made to their processes, so that it can be decided whether such changes imply the need to develop new controls or to modify existing controls.

During 2012, Gas Natural Fenosa has executed the first of these annual internal certification procedures, as a result of which changes have been identified in a limited number of processes. It is to be noted that these changes have not required the modification of the previously-identified control activities. For this reason, the risks associated with the preparation and reporting of financial information in the critical processes affected are considered covered. The main figures relating to this process are reflected in the following table:

	Spain	International	Total
Business or corporete units	79	74	153
Processes identified	54	93	147
Controls certified	947	1,965	2,912

Similarly, 120 plans of action have been drawn up in respect of weaknesses detected in control evidence; 29 of these correspond to Spain. In 2012, 60% of the plans of action identified in 2011 have been resolved and new plans have been drawn up. In any event, the sub-processes affected by these plans of action do not have a significant effect on the quality of financial information.

7. External audit report

7.1. Whether the SICFR information submitted to the markets has been reviewed by the external auditor, in which case the entity should include the corresponding report as an Appendix. If not, the reason for this should be reported.

GAS NATURAL FENOSA has considered it appropriate to ask the External Auditor to issue a report on information related to the System of Internal Control over Financial Reporting (SICFR).

Barcelona, 25 January 2013

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

AUDITOR'S REPORT ON "INFORMATION CONCERNING THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (SICFR)" OF GAS NATURAL SDG, S.A. AND SUBSIDIARIES FOR 2012

To the Directors,

As requested by the Board of Directors of Gas Natural SDG, S.A. (the Company) and in accordance with our engagement letter dated 10 December 2012, we have applied certain procedures to the "Information concerning the SICFR" included in the Document complementing the Annual Corporate Governance Report of Gas Natural SDG, S.A. for 2012 in relation to Article 61 bis of the Securities Market Law, which summarises the Company's internal control procedures connected with its annual financial information.

Securities Market Law 24/2003 of 28 July, following its amendment by Law 2/2011 of 4 March, on Sustainable Economy, requires, for the years starting on and after 1 January 2011, the Annual Corporate Governance Report (hereon, ACGR) to include a description of the main characteristics of the internal control and risk management systems connected with the issue of regulated financial information. In this regard, on 26 October 2011 the National Securities Market Commission (CNMV) published its Draft Circular amending the standard Annual Corporate Governance Report to be published, including the way in which this should be addressed by each entity in the description of the main characteristics of their SICFR. In its letter dated 28 December 2011, the CNMV refers to the aforementioned legal amendments that should be taken into account in preparing the "Information concerning the SICFR" until the definitive publication of the CNMV Circular defining a new standard of ACGR.

For the purposes of sub-paragraph 7 of the content of the SICFR of the standard Annual Corporate Governance Report of the CNMV Draft Circular, that requires entities to mention whether the description of their SICFR has been reviewed by the external auditor and if so, to include the pertinent report, the Corporations representing the auditors have published the Draft Action Guide of 28 October 2011 together with the corresponding standard auditor's report for guidance (hereinafter Draft Action Guide). Additionally, on 25 January 2012, the Spanish Institute of Auditors, in its Circular E01/2012, lays down certain additional considerations thereon.

The Board of Directors is responsible for adopting the pertinent measures to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and the development of improvements to that system and the preparation and definition of the content of the accompanying Information concerning the SICFR.

In this respect, it should be borne in mind that, irrespective of the quality of the design and operation of the internal control system adopted by the Company in relation to its annual financial information, it can only provide reasonable albeit not absolute assurance with respect to the objectives pursued, due to the limitations inherent in any internal control system. In the course of our audit work on the annual accounts and in accordance with Spanish Technical Standards on Auditing, our evaluation of the internal control of Gas Natural SDG, S.A. has aimed solely to enable us to establish the scope, nature and timing of the audit procedures on the Company's annual accounts. Therefore the scope of our internal control evaluation, performed for the purposes of that audit, has not been sufficient to enable us to express a specific opinion on the efficacy of that internal control over the Company's regulated annual financial information.

For the purposes of the issue of this report, we have applied exclusively the specific procedures described below and indicated in the Draft Action Guide, which lays down the work to be performed, the minimum scope thereof and the content of this report. As the scope of the work resulting from such procedures is, in any event, limited and substantially less than that of an audit or review of the internal control system, we do not express an opinion on its effectiveness or on its design and operational efficacy in relation to the Company's annual financial information for 2012 which is described in the accompanying Information concerning the SICFR. Accordingly, had we applied additional procedures to those indicated below or carried out an audit or review of the internal control system in relation to regulated annual financial information, other matters could have come to light that would have been reported to you.

Similarly, given that this special work does not constitute an audit of the accounts and is not subject to the Revised Audit Law approved by Legislative Royal Decree 1/2011 of 1 July, we do not express an audit opinion in the terms envisaged in such legislation.

The procedures applied are as follows:

1. Reading and understanding of the accompanying information prepared by the Company concerning its SICFR and evaluating whether such information addresses all the information required which should conform to the minimum content described in the standard Annual Corporate Governance Report of the CNMV Draft Circular.

2. Enquiries of personnel responsible for the preparation of the information detailed in point 1 above in order to: (i) obtain an understanding of the process applied in its preparation; (ii) obtain information to evaluate whether the terminology used is consistent with that defined in the framework of reference; (iii) obtain information as to whether the control procedures described are in place and operational in the Company.

3. Review of explanatory supporting documentation of the information detailed in point 1 above, and which will mainly consist of that made directly available to the persons responsible for preparing the descriptive information on the SICFR. In this respect, such documentation includes reports prepared by the internal audit function, senior management and other internal or external specialists in the performance of their functions supporting the audit committee.

4. Comparison of the information detailed in point 1 above with the understanding of the Company's SICFR obtained as a result of the application of the procedures used within the framework of the audit work on the financial statements.

5. Reading of the minutes of the meetings of the board of directors, audit committee and other committees of the Company for the purposes of assessing consistency between the matters addressed therein in relation to the SICFR and the information detailed in point 1 above.

6. Obtaining a letter of representation concerning the work performed, duly signed by the persons responsible for the preparation and drawing up of the information detailed in point 1 above.

As a result of the procedures applied to the Information concerning the SICFR no inconsistencies or incidents have arisen that may have an effect thereon.

This report has been prepared exclusively within the context of the requirements laid down by Securities Market Law 24/2003 of 28 July amended by Law 2/2011 of 4 March on Sustainable Economy, and in accordance with the CNMV Draft Circular of 26 October 2011 for the purposes of the description of the SICFR in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

Iñaki Goiriena Basualdu
Partner

8 February 2013

consolidated data
2008-2012

Operating statistics

Operating statistics

	2012	2011	2010	2009	2008
Gas distribution (GWh)	**409,774**	**395,840**	**411,556**	**402,691**	**481,414**
Spain	195,769	201,231	207,174	229,586	270,073
Regulated gas sales	-	-	-	26	14,177
TPA	195,769	201,231	207,174	229,559	255,896
Latin America	210,358	191,031	200,995	169,612	208,408
Regulated gas sales	131,407	114,559	128,141	107,196	144,065
TPA	78,951	76,472	72,854	62,416	64,343
Italy	3,647	3,578	3,387	3,494	2,933
Regulated gas sales	2,754	2,730	2,741	2,974	2,632
TPA	893	848	646	521	301
Gas supply (GWh)	**328,058**	**308,635**	**305,704**	**286,152**	**292,629**
Spain[1]	238,450	236,902	250,885	234,230	239,090
International	89,608	71,733	54,819	51,922	53,539
UF Gas (GWh)[2]	**83.883**	**83.440**	**87.292**	**45.639**	-
Commercialisation	55,683	56,937	59,518	34,854	-
Trading	28,200	26,503	27,774	10,785	-
Gas transportation/EMPL (GWh)	**116,347**	**111,855**	**109,792**	**109,230**	**133,497**
Gas distribution network (km)	**120,760**	**116,438**	**115,272**	**118,658**	**115,295**
Spain	46,541	43,871	44,931	50,697	48,578
Latin America	67,334	65,831	64,492	62,315	61,196
Italy	6,885	6,736	5,849	5,645	5,521
Increase in gas distribution points (thousands)	**292**	**316**	**335**	**298**	**377**
Spain	75	81	84	112	161
Latin America	208	217	243	169	176
Italy	9	18	8	17	40
Gas distribution points (thousands) as at 31/12	**11,663**	**11,372**	**11,361**	**11,790**	**11,492**
Spain	5,124	5,050	5,274	5,954	5,842
Latin America	6,090	5,882	5,665	5,422	5,253
Italy	449	440	422	414	397
Contracts per customer in Spain as at 31/12	**1.4**	**1.4**	**1.3**	**1.4**	**1.4**
Employees as at 31/12	**17,270**	**17,769**	**18,778**	**19,346**	**6,842**
Electricity generated (GWh)	**56,248**	**56,616**	**58,389**	**52,752**	**31,451**
Spain	37,144	38,081	38,338	28,728	18,130
International[3]	19,104	18,535	20,051	24,024	13,321
Electricity distribution (GWh)	**54,362**	**54,067**	**54,833**	**34,973**	-
Europe	36,288	36,361	36,831	22,919	-
International	18,074	17,706	18,002	12,054	-
Electricity distribution points (thousands) as at 31/12	**8,309**	**8,133**	**9,436**	**9,136**	-
Europe	4,608	4,568	4,535	4,497	-
International	3,701	3,565	4,901	4,639	-

[1] Does not include exchange transactions.
[2] Figures at 100%.
[3] Includes Costa Rica.

Financial statistics

Balance sheet figures
(in millions of euros)

Assets	2012	2011	2010	2009*	2008*
Gross tangible and intangible fixed assets	38,123	37,147	36,194	34,320	16,274
Consolidation goodwill	5,837	5,876	6,002	6,056	546
Provisions and accumulated depreciation	(10,888)	(9,199)	(7,767)	(5,620)	(5,397)
Net tangible and intangible fixed assets	**33,072**	**33,824**	**34,429**	**34,756**	**11,423**
Financial investments	**1,083**	**1,123**	**799**	**811**	**2,862**
Net worth attibuted to the parent company	**13,261**	**12,792**	**11,384**	**10,681**	**6,376**
Minority interests	**1,618**	**1,649**	**1,590**	**1,496**	**345**
Subsidies	**878**	**803**	**657**	**520**	**424**
Non-current financial liabilities	**18,046**	**17,539**	**18,176**	**18,658**	**4,451**
Current financial liabilities	**2,386**	**2,853**	**2,130**	**2,849**	**934**

*On 1 January 2010 Gas Natural Fenosa applied the IFRIC 12 "Service Concession Arrangements" retroactively, reformulating the Consolidated Balance Sheets at 1 January 2009 and 31 December 2009 for the intents and purposes of comparison.

Profit and Loss Account Figures
(in millions of euros)

	2012	2011	2010	2009*	2008
Net turnover	24,904	21,076	19,630	14,873	13,544
Other operating income and allocation of subsidies	284	298	289	238	95
Operating income	**25,188**	**21,374**	**19,919**	**15,111**	**13,639**
Gross operating profit	**5,080**	**4,645**	**4,477**	**3,923**	**2,564**
Net operating profit	**3,067**	**2,947**	**2,893**	**2,445**	**1,794**
Financial expenses and income, fair value variations in financial instruments and net exchange differences	(874)	(934)	(1,059)	(814)	(263)
Results from disposal of financial instruments	0	2	44	101	14
Financial profit/loss	**(874)**	**(932)**	**(1,015)**	**(713)**	**(249)**
Profit before tax	**2,203**	**2,022**	**1,883**	**1,791**	**1,551**
Consolidated profit for the financial year	**1,657**	**1,526**	**1,415**	**1,351**	**1,172**
Consolidated profit for the financial year attributed to the parent company	**1,441**	**1,325**	**1,201**	**1,195**	**1,057**

*On 1 January 2010, Gas Natural Fenosa applied the IFRIC 12 "Service Concession Arrangements" retroactively, reformulating the Balance Sheet and Profit and Loss Account for 2009 for the intents and purposes of comparison.

Cash Flow Statement Figures
(in millions of euros)

	2012	2011	2010	2009	2008
Cash flow statements of operations	**3,437**	**2,137**	**2,746**	**2,512**	**2,023**
Payments for investments in tangible and intangible fixed assets	**1,441**	**1,456**	**1,545**	**1,792**	**1,088**
Payments for other investments	**697**	**1,294**	**788**	**14,362**	**1,741**
Collection for divestitures	**933**	**2,521**	**2,216**	**2,068**	**66**
Payments for dividends	**566**	**445**	**858**	**756**	**580**
Collection/(payment) for financial liabilities	**(1,020)**	**(166)**	**(1,272)**	**9,039**	**1,286**

Stock market statistics

Stock market statistics

	2012	2011	2010	2009	2008
Number of shares traded (millions)	576	844	1,064	737	376
Funds traded (millions of euros)	6,726	10,827	13,258	9,777	11,833
Final share price (euros)	13.58	13.27	11.49	15.09	19.29
Final adjusted share price (euros)[1]	13.58	13.14	11.00	14.44	15.73
Maximum (euros)	13.97	15.00	15.67	22.28	42.45
Maximum adjusted (euros)[1]	13.97	14.86	15.00	18.17	34.62
Minimum (euros)	8.36	10.20	10.07	8.39	18.51
Minimum adjusted (euros)[1]	8.36	9.77	9.64	8.03	15.10
Book value per share (euros)	14.93[2]	15.15[2]	14.08	15.04[2]	15.01
Ebitda per share (euros)	5.10[2]	4.87[2]	4.86	4.85[2]	5.73
Net profit per share (euros)	1.45[2]	1.39[2]	1.30	1.48[2]	2.36
Capitalisation-book value ratio	0.9	0.9	0.8	1.1	1.3
Business value-Ebitda ratio	5.8	6.6	6.6	8.9	5.3
Capitalisation-profit ratio	9.4	9.9	8.8	11.6	8.2
Dividend-stock market capitalisation ratio (%)	6.6	6.3	7.0	5.3	7.7
Dividend-profit ratio (%)	62.1[3]	62.1[3]	61.8[3]	61.1	62.7
Share capital (number of shares as at 31/12)	1,000,689,341	991,672,139	921,756,951	921,756,951	447,776,028
Average number of shares	996,402,474	953,425,915	921,756,951	809,485,236	447,776,028
Stock market capitalisation (millions of euros)	13,589	13,155	10,591	13,905	8,638
Dividend (millions of euros)	895[3]	823[3]	742[3]	730	663

[1] Considering adjustments arising from the capital increase with preferential subscription rights carried out in March 2009, June 2011 and June 2012.
[2] Considering the average number of shares for the year.
[3] Considering the total equivalent amount allocated to dividends.

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