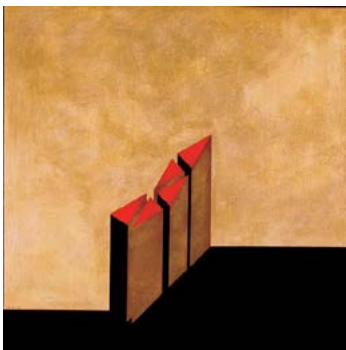


2014 Audit and Control Report



Rinaldo Paluzzi.

Juego ibérico.

1995.

100 x 100 cm.

Oil on canvas.

Museum of Contemporary

Art of Gas Natural Fenosa.

2014 Audit and Control Report

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

The Board of Directors of the company, in its meeting of 24 March 2004, approved the Organisation and Operation Regulations of the Board of Directors and its Committees, which provided a complement to the tasks, operation and competence of the Audit and Control Committee as established in the aforementioned Articles of Association. These Regulations were modified and updated by the Board of Directors at its meetings held on 23 February 2007, 18 December 2007, 25 February 2011, 30 September 2011 and 30 November 2012. The updates performed during the 2011 year were partly performed to adapt the Regulations to the amendments introduced by Law 12/2010, which amended 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.

In accordance with the foregoing Articles of Association and Regulations, the Audit and Control Committee shall comprise a minimum of three and a maximum of five Directors appointed by the Board of Directors from among the External Directors, taking into account their knowledge and experience in issues of accountancy, audit and risk management. Its members shall leave their post when they do so in their capacity as Directors, when agreed by the Board of Directors or after a period of three years from their appointment. They can be re-elected. At least one of the committee members will be an Independent Director.

The Board of Directors shall elect the Chairman of the committee, who shall not have a casting vote and shall be replaced in accordance with the Articles of Association (Article 51 bis) and legislation. He/she may be re-elected following the term of one year after his/her dismissal. The Secretary of the committee shall be the same as the Secretary of the Board of Directors.

The committee shall hold meetings whenever necessary in order to issue its reports, and will be convened by its Chairman on his own initiative or upon request of two of its members. At least four meetings per year must be held. The committee may invite to its meetings any executive or employee it deems appropriate.

On 31 December 2014, the Audit and Control Committee comprised the following Directors appointed by the Board of Directors:

- Chairman: Mr Ramón Adell Ramón¹ (Independent Director).
- Board member: Mr Carlos Losada Marrodán (Independent Director).
- Board member: Mr Luis Suárez de Lezo Mantilla (Proprietary Director).

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

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

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

- **Reporting to the General Meeting of Shareholders on questions raised by shareholders with respect to matters within their competence.**
- **Proposing to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment of external auditors, pursuant to Article 264 of the Corporate Enterprises Act.**

¹ Mr Ramón Adell Ramón was appointed Chairman of the Audit and Control Committee in place of Mr Carlos Losada Marrodán in the Board Meeting of 28 November 2014.

- **Supervising the internal audit services**, guaranteeing their independence and proposing the appointment, re-election and stepping down of its manager. Accordingly, the person responsible for the internal audit function shall present an annual work plan, report on the relevant incidents occurring during its development and submit a report on its activities at the end of the year.

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

- **Monitoring and supervising the preparation of regulated financial information**, guaranteeing that the accounting principles are correctly applied and that all the companies that are to be included in the consolidation perimeter are actually included.
- **Monitoring and supervising the company's risk management and internal control systems and their effectiveness**, guaranteeing that they identify the types of risk the company faces and the measures considered for reducing them and dealing with them in the event of effective damage. Speaking to the external auditors about significant weaknesses of the internal control system detected during the audit.

Specifically, the committee should be familiar, through the information and documentation provided by the Internal Audit, Compliance and Internal Control Area, the Financial Area and the external auditor, with the control systems and risk assessment, the internal control systems and the financial reporting procedures of the company, as well as supervise its sufficiency, suitability and effective operation in order to ensure the integrity, security and correct execution of operations along with an appropriate accounting record.

- **Raising the selection, appointment, re-election and substitution proposals concerning the external auditor to the Board, as well as the terms and conditions of his/her contract.**
- **Liaising with external auditors to receive information on any questions which could jeopardise their independence and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and technical auditing standards.**
- **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 external auditors reporting their independence with regard to the entity or entities related to the company, directly or indirectly, as well as information on the additional services of any kind provided to these entities by the foregoing auditors or by persons or entities related to the auditors, in accordance with the provisions laid down in the Accounts Auditing Act.
- **Every year, before issuing the Audit Report, to provide a report that gives an opinion on the independence of the external 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.**

In this respect, the committee shall:

- Analyse, in collaboration with the Financial Area and the external auditors, the half yearly and quarterly Financial Statements and the accounting or financial information required by the National Securities Market Commission or other regulatory bodies, ensuring transparency and accuracy of the information and stating, where appropriate, the applicable accounting criteria.
- Be appraised of and supervise the accounting practices and principles used in compiling the company's annual accounts and those of its consolidated group.
- Report to the Board, if appropriate, any alteration to the accounting criteria and any risks on or off the balance sheet.
- **Adopting the measures it considers appropriate in the auditing activity, internal financial control system and compliance with legal regulations in matters of provision of information to markets and the transparency and accuracy thereof.**
- **Checking compliance with the Internal Code of Conduct for securities markets current at any time and, in general, with the rules governing the company, and making any necessary proposals for their improvement.**
- **Providing information during the first quarter of the year and whenever the Board of Directors so requests, on compliance with the Regulations of the Board of Directors and of its Committees.**

- **Setting up and supervising a mechanism that enables employees to communicate any significant irregularities, especially those related to finance and bookkeeping, and to do so in a confidential manner and, if considered suitable, anonymous.**

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

The functions and activities performed by the Audit and Control Committee of Gas Natural SDG, S.A., duly comply with the legal requirements introduced through Law 31/2014 of 3 December, which amends the Corporate Enterprises Act to improve corporate governance.

By the same token, the functions and activities of the committee duly comply with the good corporate governance recommendations published by the National Securities Market Commission, included in the Unified Code on Good Corporate Governance of Listed Companies of 19 May 2006, approved on 22 May 2006 (Conthe Code), updated in 2013 and the document published in June 2010 on Internal Control over Financial Reporting (SCIIF) at listed companies.

Law 31/2014 of 3 December, amending the Corporate Enterprises Act to improve corporate governance, was published in the Official State Gazette of 4 December 2014, no. 293. According to the Preliminary Recitals of the aforesaid law, good corporate governance is an essential factor for generating value for companies, improving economic efficiency and enhancing investor confidence. During 2015, to adapt to the new laws, the company shall proceed, in all matters considered to be necessary, to amend its internal rules and regulations (Articles of Association, General Meeting Regulations and the Organisation and Operation Regulations of the Board of Directors and of its Committees).

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

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

During 2014, the activities of the Audit and Control Committee included the study, reporting, support and proposals to the Board of Directors in respect of its monitoring tasks, by means of a periodic supervision of compliance with the procedure for drafting economic and financial information (Internal Control over Financial Reporting, SCIIF), the Crime Prevention Internal Control Model, the effectiveness of the Internal Control Regulations of the company in the other areas (regulations, laws, policies, codes, accounting procedures and internal control, etc.), the procedure for risk identification and assessment, the accounts auditing procedure and independence of the external auditor, and compliance with the Code of Ethics, the Regulations of the Board of Directors and of its Committees, and the established policies in matters of corporate governance.

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

During the period between 1 January 2014 and 29 January 2015 (the date on which the Audit and Control Committee proposed to the Board of Directors of Gas Natural SDG, S.A. the drawing up of the 2014 Consolidated and Individual Annual Accounts), eight meetings of the Audit and Control Committee were held with the following attendance:

Director's name	Meetings number
Ramón Adell Ramón	8
Carlos Losada Marrodán	8
Luis Suárez de Lezo Montilla	4

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

31 January 2014

Agenda

- Presentation by the Chief Financial Officer of the financial information and of the Financial Statements as at 31 December 2013, as well as of the main risks and contingencies and the provisions needed to cover them.
- Presentation by the Chief Financial Officer of the 2013 Annual Financial Report that covers the Consolidated and Individual Annual Accounts, the Management Report and the selected financial information, prior to the approval and declaration of responsibility for the content thereof by the Board of Directors, together with the draft version of the External Audit Report.

- Presentation by the external auditor (PricewaterhouseCoopers) of:
 - Final conclusions of the external audit of the 2013 Consolidated and Individual Annual Accounts of the companies in Gas Natural Fenosa.
 - Memorandum sent to the auditors of Criteria CaixaHolding, S.A.U. and Repsol, S.A. on the final conclusions of the external audit works on the Consolidated Annual Accounts of the Group.
 - Limited Review Report on the Internal Control over Financial Reporting (SCIIF).
- Proposing the appointment of external auditors of the company and its consolidated group for 2014 to the Board of Directors, for submission to the General Meeting of Shareholders (Article 32.2, paragraph 2 of the Regulations of the Board of Directors).
- Information on contracts undertaken with companies using the PricewaterhouseCoopers name (external auditor).
- Presentation by the Chief Financial Officer of the group's Tax Situation Report.
- Presentation by the Director of Internal Audit of the 2013 Annual Report on the Functions and Activities of the Audit and Control Committee.

- Presentation by the Secretary of the Board of:
 - Report on quality and performance of the Audit and Control Committee in 2013.
 - Report on compliance with the Internal Code of Conduct in matters relating to the Securities Market in 2013.
 - Report on compliance of the Regulations of the Board and of its Committees in 2013.
 - 2013 Annual Report on the independence of the auditors (Law 12/2010 of 30 July).
 - 2013 Corporate Governance Report.
- Miscellaneous:
 - Monitoring of legislation on corporate governance.
 - Others.
- Approval of the minutes of the meeting.

27 February 2014

Agenda

- Presentation by the Head of Legal Services of the litigious and contentious principles updates.
- Presentation by the Director of Internal Audit of:
 - Monitoring of the degree of execution and main conclusions of the 2013 Internal Audit Plan.
 - 2014 Internal Audit Plan for approval by the Audit and Control Committee.
- Presentation by the Director of Internal Audit of the main activities of the Code of Ethics Committee and of the notification of enquiries or breaches received through the established channels.
- Degree of progress in implementing the update of the “Compliance” function.
- Preview of the Code of Ethics and Anticorruption Policy update of Gas Natural Fenosa.
- Miscellaneous:
 - Monitoring of legislation on corporate governance.
 - Others.
- Approval of the minutes of the meeting.

25 April 2014

Agenda

- Presentation by the Chief Financial Officer of the financial information and of the Financial Statements as at 31 March 2014, as well as of the main risks and contingencies and the provisions needed to cover them.
- Information on contracts undertaken with companies using the PricewaterhouseCoopers name (external auditor).
- Information regarding the proposal to update the Code of Ethics of Gas Natural Fenosa for its approval by the Board of Directors of Gas Natural, SDG, S.A.
- Presentation of the Communication Plan of the updated Code of Ethics and of the new Anticorruption Policy of Gas Natural Fenosa.
- Degree of progress in implementing the update of the “Compliance” function.
- Miscellaneous:
 - Monitoring of legislation on corporate governance.
 - Others.
- Approval of the minutes of the meeting.

26 June 2014

Agenda

- Presentation by the Chief Financial Officer of the Gas Natural Fenosa 2014 Corporate Risk Map.
- Presentation by the external auditor (PricewaterhouseCoopers) and the Director of Internal Audit, Compliance and Internal Control on the progress concerning conclusions drawn from supervision of the Internal Control over Financial Reporting (SCIIF).
- Presentation by the Head of Legal Services and the Director of Internal Audit, Compliance and Internal Control of the situation of the subsidiaries in Italy.
- Presentation by the Director of Internal Audit, Compliance and Internal Control of the monitoring of the degree of execution and the main conclusions of the 2014 Annual Internal Audit Plan.
- Presentation by the Director of Internal Audit, Compliance and Internal Control of the main activities of the Code of Ethics Committee and of the notification of enquiries or breaches received through the established channels.
- Presentation by the Director of Internal Audit, Compliance and Internal Control of the degree of progress in implementing the update of the "Compliance" function.

- Presentation by the Head of Legal Services of the amendment of the Internal Code of Conduct in matters concerning the securities markets and the treasury stock policy.
- Miscellaneous:
 - Monitoring of legislation on corporate governance.
 - Others.
- Approval of the minutes of the meeting.

17 July 2014

Agenda

- Presentation by the Chief Financial Officer of the financial information as at 30 June 2014 and the provision of the Half Yearly Financial Report with the Consolidated Abridged Annual Accounts, the Interim Management Report and the selected financial information, prior to the approval and declaration of responsibility for the content thereof by the Board of Directors, together with the draft version of the Limited Review Report by the external auditor.
- Presentation by the external auditor (PricewaterhouseCoopers) of the conclusions of the external audit of the Half Yearly Financial Report of Gas Natural Fenosa as at 30 June 2014.

- Presentation by the external auditor (PricewaterhouseCoopers) of the planning and schedule for the 2014 external audit of the Consolidated and Individual Annual Accounts of the companies in Gas Natural Fenosa, as well as other related works.
- Presentation by the external auditor (PricewaterhouseCoopers) of the main aspects of the Amendment of the Corporate Enterprises Act to improve Corporate Governance.
- Presentation by the Chief Financial Officer of considerations regarding the award of external auditing services for the forthcoming years.
- Information on contracts undertaken with companies using the PricewaterhouseCoopers name (external auditor).
- Miscellaneous:
 - Monitoring of legislation on corporate governance.
 - Others.
- Approval of the minutes of the meeting.

31 October 2014

Agenda

- Presentation by the Chief Financial Officer of the financial information and of the Financial Statements as at 30 September 2014, as well as of the main risks and contingencies and the provisions needed to cover them.
- Information on contracts undertaken with companies using the PricewaterhouseCoopers name (external auditor).
- Presentation by the Director of Internal Audit, Compliance and Internal Control of the monitoring of the degree of execution and the main conclusions of the 2014 Annual Internal Audit Plan.
- Presentation by the Director of Internal Audit, Compliance and Internal Control of the degree of progress in implementing the "Compliance" function.
- Miscellaneous:
 - Monitoring of legislation on corporate governance.
 - Others.
- Approval of the minutes of the meeting.

19 December 2014

Agenda

- Presentation by the external auditor (PricewaterhouseCoopers) of the external audit preliminary conclusions of the 2014 Consolidated Annual Accounts of the companies in Gas Natural Fenosa.
- Presentation by the Chief Corporate Officer of Gas Natural Fenosa's Health, Safety and Environmental policies.
- Presentation by the Director of Internal Audit, Compliance and Internal Control of the supervision conclusions of the 2014 Crime Prevention Model.
- Presentation by the Director of Internal Audit, Compliance and Internal Control of the Internal Audit Opinion on the Internal Control System and the main operational risks of the processes identified in 2014.
- Presentation by the Director of Internal Audit, Compliance and Internal Control of the proposal of the schedule of activities of the Audit and Control Committee in 2015.
- Miscellaneous:
 - Monitoring of legislation on corporate governance.
 - Others.
- Approval of the minutes of the meeting.

29 January 2015

Agenda

- Presentation by the Chief Financial Officer of the financial information and of the Financial Statements as at 31 December 2014, as well as of the main risks and contingencies and the provisions needed to cover them.
- Presentation by the Chief Financial Officer of the 2014 Annual Financial Report that covers the Consolidated and Individual Annual Accounts, the Management Report and the selected financial information, prior to the approval and declaration of responsibility for the content thereof by the Board of Directors, together with the draft version of the External Audit Report.
- Presentation by the external auditor (PricewaterhouseCoopers) of:
 - Final conclusions of the external audit of the 2014 Consolidated and Individual Annual Accounts of the companies in Gas Natural Fenosa.
 - Memorandum sent to the auditors of Criteria CaixaHolding, S.A.U. and Repsol, S.A. on the final conclusions of the external audit works on the Consolidated Annual Accounts of the Gas Natural Group.
 - Limited Review Report on the Internal Control over Financial Reporting (SCIIF).

- Proposing the appointment of external auditors of the company and its consolidated group for 2015 to the Board of Directors, for submission to the General Meeting of Shareholders (Article 32.2, paragraph 2 of the Regulations of the Board of Directors).
- Information on contracts undertaken with companies using the PricewaterhouseCoopers name (external auditor).
- Presentation by the Chief Financial Officer of the group's Tax Situation Report.
- Presentation by the Director of Internal Audit, Compliance and Internal Control of the 2015 Internal Audit Plan for approval by the Audit and Control Committee.
- Presentation by the Director of Internal Audit, Compliance and Internal Control of the 2014 Annual Report on the Functions and Activities of the Audit and Control Committee.
- Presentation by the Secretary of the Board of:
 - Report on quality and performance of the Audit and Control Committee in 2014.
 - Report on compliance with the Internal Code of Conduct in matters relating to the Securities Market in 2014.
 - Report on compliance of the Regulations of the Board and of its Committees in 2014.

- 2014 Annual Report on the independence of the auditors (Law 12/2010 of 30 July).
- 2014 Corporate Governance Report.

- Miscellaneous:

- Monitoring of legislation on corporate governance.
- Others.

- Approval of the minutes of the meeting.

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

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

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

- Financial System Reform Act, Law 44/2002 of 22 November.
- Law 26/03 of 17 July, amending the Securities Market Act, Law 24/1988 of 28 July, and the consolidated text of the Public Limited Companies Act, approved by Royal Legislative Decree 1564/1989 of 22 December, with a view to increasing transparency in listed companies.

- Order ECO/3722/2003 of 26 December, on the Annual Corporate Governance Report and other reporting instruments of listed companies and other entities.
- Circular 1/2004 of 17 March, from the National Securities Market Commission, on the Annual Corporate Governance Report of listed companies and other entities that issue securities accepted for trading on secondary stock markets and other reporting instruments of listed companies.
- Unified Good Governance Code of Listed Companies of 19 May 2006, approved on 22 May 2006 and published by the National Securities Market Commission.
- Law 47/2007 of 19 December, which amends Law 24/1988 of 28 July, governing the Securities Market.
- Royal Decree 1362/2007 of 19 October, which implements Law 24/1988 of 28 July, governing the Securities Market, with regard to the transparency requirements concerning information on issuers whose securities are accepted for trading on an official secondary market or on another regulated market of the European Union.
- Royal Decree 1066/2007 of 27 July, governing takeover bids.
- Law 16/2007 of 4 July, governing reform and adaptation of commercial legislation in accountancy for international harmonisation based on the regulations of the European Union.

- Law 11/2007 of 22 June, governing citizens' electronic access to public services.
- Law 6/2007 of 12 April, governing reform of Law 24/1988 of 28 July, governing the Securities Market, for modification of takeover bids and transparency of issuers.
- Royal Decree 364/2007 of 16 March, amending Royal Decree 685/1982 of 17 March, which implements certain aspects of Law 2/1981 of 25 March, governing regulation of the mortgage market; Royal Decree 1343/1992 of 6 November, which implements Law 13/1992 of 1 June, governing shareholders' equity and consolidated supervision of financial enterprises; Royal Decree 867/2001 of 20 July, governing the legal system of investment service companies; and Royal Decree 1333/2005 of 11 November, which implements Law 24/1988 of 28 July, governing the Securities Market in issues of market abuse.
- Royal Decree 363/2007 of 16 March, which amends Royal Decree 726/1989 of 23 June, on Stock Exchange Governing Entities, Stock Exchange Members, and the collective; Royal Decree 1814/1991 of 20 December, which regulates the official futures and options markets, and Royal Decree 116/1992 of 14 February, governing securities represented through book entries and clearance and settlement of stock market trades.
- Royal Decree 361/2007 of 16 March, which implements Law 24/1988 of 28 July, governing the Securities Market in issues of shareholding in capital of companies that are managed by secondary markets of securities and companies that administer systems for the recording, clearance and settlement of trades.
- Circular 2/2007 of 19 December of the National Securities Market Commission, which approves the notification forms of significant shareholdings held by Directors and executives of operations carried out by the issuer with its own shares, and other forms.
- Circular 4/2007 of 27 December of the National Securities Market Commission, which modifies the form for the annual corporate governance report of listed public limited companies.
- Circular 1/2008 of 30 January of the National Securities Market Commission, on periodic information from issuers with securities admitted for trading on regulated markets concerning the half yearly financial reports, intermediate management statements and, if applicable, the quarterly financial reports.
- Circular 8/2008 of 10 December of the National Securities Market Commission, which approves the models for the announcements and applications for authorisation of takeover bids.
- Order EHA/1421/2009 of 1 June has led to development of Article 82 of Law 24/1988 of 28 July of the National Securities Market on relevant information.
- Circular 4/2009 of 4 November of the National Securities Market Commission on the communication of relevant information.
- Directive 2009/109/EC of the European Parliament and Council of 16 September 2009, for which the Directives 77/91/EEC, 78/855/EC and 82/891/EEC and the Directive 2005/56/EC have been modified with regards to the obligation of information and documentation in the event of mergers and spin-offs.
- Order Jus/206/2009 of 28 January, for which new models have been approved for the presentation in the Mercantile Register of the annual accounts for the parties under obligation for the publication thereof.
- Law 3/2009 of 3 April on structural modification of trading companies.
- Law 12/2010 of 30 June, amending Law 19/1988 of 12 June, governing Accounts Auditing, Law 24/1988 of 28 July, governing the Securities Market, and the consolidated text of the Public Limited Companies Act, approved through Royal Legislative Decree 1564/1989 of 22 December, to adjust it to the European regulations.
- Royal Legislative Decree 1/2010 of 2 July, which adopts the consolidated text of the Corporate Enterprises Act. Error correction of 30 August 2010.
- Royal Decree-Law 13/2010 of 3 December on actions in fiscal, labour and deregulation issues to foster investment and the creation of employment.
- Law 2/2011 of 4 March, governing Sustainable Economy.

- The Instruction of 18 May 2011, from the Directorate General of Registers and Notary Affairs, on the incorporation of mercantile companies and the call to the General Meeting, in application of Royal Decree-Law 13/2010 of 3 December.
- The Instruction of 27 May 2011, from the Directorate General of Registers and Notary Affairs, which amends the one of 18 May 2011, on the incorporation of mercantile companies and the call to the General Meeting, in application of Royal Decree-Law 13/2010 of 3 December.
- Law 25/2011 of 1 August, governing partial reform of Corporate Enterprises Act.
- Law 32/2011 of 4 October, which amends Law 24/1988 of 28 July, governing the Securities Market.
- Royal Decree-Law 9/2012 of 16 March, which simplifies the information and documentation on mergers and spin-offs of corporate enterprises.
- Law 1/2012 of 22 June, which simplifies the obligations on information and documentation on mergers and spin-offs of corporate enterprises.
- Order ECC/461/2013, of 20 March, which sets out the content and structure of the Annual Corporate Governance Report, the annual report on remuneration and other reporting instruments of listed companies, savings banks and other situations that issue securities accepted for trading on official securities markets.
- Circular 4/2013 of 12 June, from the National Securities Market Commission, which sets out the models for the annual report on remuneration of directors of listed public limited companies and members of the Board of Directors and of the control committee of savings banks that issue securities accepted for trading on official securities markets.
- Circular 5/2013 of 12 June, from the National Securities Market Commission, which sets out the models for the Annual Corporate Governance Report of listed companies, of savings banks and other institutions that issue securities accepted for trading on official securities markets.
- Law 31/2014 of 3 December, amending the Corporate Enterprises Act for the improvement of corporate governance.

Likewise, the Committee Secretary submitted the status of the major solved and in-progress penal procedures in the group and the 2013 and 2014 Corporate Governance Reports and several favourable reports on compliance with the Regulations of the Board of Directors and of its Committees and the Internal Code of Conduct in issues concerning the Securities Market, duly confirming that, in the case of the Audit and Control Committee, this operated with expected normality during 2014, fully exercising its terms of reference without any interference and with complete respect with regard to both current legislation as well as to the organisational and performance rules of the Regulations of the Board of Directors.

Internal Audit: supervision of operational risks and internal control effectiveness

The internal audit function was established in Gas Natural Fenosa as a means of independent and objective assessment and for this reason Internal Audit reports to the Audit and Control Committee and to the Chairman and 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 over Financial Reporting (SCIIF) and the Crime 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 Gas Natural Fenosa and to assist the Audit and Control Committee and the top-tier management of the group in the fields of management, control and corporate governance.

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

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

The objectives, operating standards, powers and responsibilities of internal audit, as well as the methodology for drawing up the Annual Internal Audit Plans, are set out in the Internal Auditing Standards.

The Strategic Audit Plan (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 main risks covered by of the Crime Prevention Model, 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.

Internal Audit has established a methodology for assessment of the operational risks based on the conceptual framework of the COSO Report, taking as a point of departure the type of risks defined in the Corporate Risk Map of Gas Natural Fenosa.

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

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

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

- Validating the proper design of the SCIIF, based on the basic principles of the model approved by the Audit and Control Committee.
- Supervising the efficacy and adaptation of control policies and procedures put in place (in full over five years).
- Revising and assessing of conclusions on compliance and effectiveness of the SCIIF resulting from the internal certifications of the business and corporate units in charge of the controls (in full over five years).
- Assessing and communicating the results obtained in the process of supervising the SCIIF and the controls of the SCIIF processes.

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

In previous years, the Crime Prevention Model was designed and implemented. This policy addresses internal control systems established in the group for eliminating or mitigating criminal risks. The design and supervision of the model were overseen by the Audit and Control Committee, and spearheaded by the Legal Services Area, the Secretary of the Board and the Internal Audit, Compliance and Internal Control Area. Once it is operational, the Compliance Unit, supported by the Legal Services Area, is responsible for the management and maintenance of the model.

Internal Audit is in charge of the annual supervision of the Crime Prevention Model to be reasonably sure that the model is efficient and effective at preventing, identifying or mitigating the occurrence of legislation-typified crimes. In 2014 and previous reporting periods, this supervision was carried out through an independent expert.

The 2014 Corporate Governance Report of Gas Natural SDG, S.A. provides greater detail on the Internal Control over Financial Reporting and of the Crime Prevention Model, with the model of supervision set up at Gas Natural Fenosa.

Internal Audit Projects have been developed via the Internal Audit corporate tool. 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, encouraging the creation of a qualified team of human resources, and promoting internal rotation, training, continuous assessment and professional development within the group.

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

- Presenting the Annual Internal Audit Plan for the committee's approval.

The 2014 and 2015 Audit Plans were presented in meetings held on 27 February 2014 and 29 January 2015, respectively.

- Reporting the degree of execution of the Internal Audit Plan and the main conclusions and recommendations included in the Internal Audit Reports.
- Presenting the level of implementation by the audited units of the corrective measures arising from the Auditor's Reports, in particular those proposed by the Audit and Control Committee.
- Presenting the Internal Audit Opinion on the Internal Control System and the main operational risks of the processes identified in 2014.
- Assessing the effectiveness of the Control System and Assessment of Operational Risks and Internal Control of Gas Natural Fenosa (including the SCIIIF and the Crime Prevention Model).
- Presenting the proposed Reports on the Functions and Activities of the Audit and Control Committee 2013 and 2014.
- Monitoring, in his role as spokesperson, the aspects addressed in each of the committee meetings and supporting the committee members in carrying out their duties.

The main processes revised by the Internal Audit Area in 2014 were those concerning:

- Business processes:

- Exploration: exploration/production and management of underground warehouse.
- Supply and transportation: management of gas spot market, technical vessel management and transportation logistics.
- Gas distribution: reading and calculation of consumption, gas infrastructure maintenance, dealing with emergencies, warehouse gas distribution management, network construction and ATR billing and collection.
- Generation: operation and maintenance of production assets and warehouse management.
- Electricity distribution: network maintenance, warehouse electricity distribution management, ATR billing and collection and consumption reading and determination.
- Wholesale and retail commercialisation: management and tracking of industrial customers, management and tracking of global accounts, gas management and logistical optimisation and management of energy customers and products.
- Administration of contracts and management of access, management of energy customers and products, maintenance of power facilities, capture and procurement of energy and products.
- Energy management: estimated electricity demand and purchase and energy trading.

- Support processes:

- Customer service: retail and wholesale billing, collection and irregularity and fraud management.
- Information System Management (SSII): information system exploitation management and information system user service.
- Management of financial-economic resources: economic-administrative management of operations.
- “Compliance” processes and due diligence procedure of the counterparty to evaluate reputation and corruption risks.
- Monitoring undertakings to improvements in process auditing.
- Management of the regulatory framework.
- Review of the group’s regulatory system.
- Review of the 2013 Corporate Responsibility Report.
- Review of the assessment and achievement of the 2013 efficiency projects.
- Internal Control over Financial Reporting Model (SCIIF)
- Crime Prevention Model.
- Updating of 2014 Operational Risk Map.

55% of the review processes correspond to Spain and the remaining 45% to the international sphere.

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

Auditing Area (External Audit)

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

- Planning of his/her external audit work, indicating the areas of greatest risk where the external auditor will focus his/her work and compliance with Technical Auditing Standards.

- The main conclusions of his/her auditing work on the half yearly and annual financial statements, including recommendations to improve the SCIIF, have specifically provided information on:
 - Internal control weaknesses identified in the audit.
 - Conclusions drawn on the main opinions and estimates made by the Management and which have an impact on accounts.
 - Conclusions on the companies included within the group's consolidation perimeter.
 - Conclusions on the appropriate nature of the accounting criteria applied and the sufficiency of the breakdowns given in the Annual Accounts.
- The Consolidated and Individual Annual Accounts Audit Report of Gas Natural Fenosa.
- Limited review report on the review of the Internal Control over Financial Reporting (SCIIF).
- The report and conclusions on the audit or accounting review tasks concerning the Financial Statements belonging to Gas Natural Fenosa, carried out in compliance with the regulatory and consolidation requirements of "la Caixa" and Repsol Groups.
- The main aspects of the Amendment of the Corporate Enterprises Act to improve Corporate Governance, emphasising the responsibilities of the administrators and the Audit and Control Committee.
- Impact of the new Accounts Auditing Act in the European Union and its possible impacts once it is transposed to the Spanish legal system.

We should point out that in 2014 no services were contracted with the firm PricewaterhouseCoopers (accounts auditor) other than the accounts auditing services or related services, thus avoiding the questioning of its independence. This is in accordance with the limitations laid down in Law 44/2002 of 22 November 2002, on the Financial System Reform Act and the provisions of Section 201 of the Sarbanes-Oxley Act.

The fees billed in 2014 by the audit service and related fees have totalled 4,367,393 euros and those corresponding to consultancy services from procurement made in previous years have totalled 332,030 euros.

The additional services contracted with the external auditors in previous years were supervised in full by the Audit and Control Committee prior to contracting. This committee concluded that these services were not incompatible with the firm's work as auditors, and did not therefore question its independence, pursuant to the limitations laid down in the legislation referred to previously. The aforementioned services corresponded to matters related mainly to business issues and were required as a result of their uniqueness and complexity. In this regard, in the aforesaid years the committee issued reports on the independence of the external auditor.

In accordance with the provisions of Law 12/2010 of 30 July, the committee meeting of 31 January 2014 and 29 January 2015 issued two reports in which it declared that, in its opinion, the auditors have proceeded in a completely independent way in the provision of their services, regarding the work typical of an external auditor and the services provided in addition to those required by law.

Moreover, in its meetings of 31 January 2014 and 29 January 2015, the Audit and Control Committee made a proposal to the Board of Directors (for subsequent submission to the General Meeting of Shareholders) for the selection and appointment of the external auditors for 2014 and 2015, respectively, pursuant to Article 264 of the Corporate Enterprises Act. Those proposals for the selection and appointment were made on the basis of the results of the open procedure for the selection of the external auditor carried out in 2011, which included four accounts auditing firms of international prestige and recognition. The Ordinary General Meeting of Shareholders, held on 11 April 2014, at the request of the Board of Directors, designated the auditors for the 2014 financial year. The designation of auditors for 2015 rests with the Ordinary General Meeting of Shareholders that will be held in 2015.

Financial Area

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

- Presenting the financial information, the Annual Accounts and the monthly, quarterly and half yearly Financial Statements, as well as accounting or financial information required by the National Securities Market Commission or any other regulatory body, ensuring transparency and accuracy of the information provided and stating the internal control systems and, where appropriate, the accounting criteria applied.
- Reporting on the main accounting procedures and processes employed in compiling the economic and financial information and the financial statements.
- Reporting on the companies that form part of the group's consolidation perimeter.
- Reporting on the main risks and contingencies and their cover by means of provisions.
- Reporting on the group's fiscal policy and the main fiscal policies applied in the Corporate Tax returns of 2013 and 2014.
- Reporting on the procedure for selecting the external auditor for 2014 and 2015

- Reporting on whether the External Audit Programme has been carried out in accordance with the contracted conditions and legal requirements.
- Reporting on the efficiency and efficacy of the Internal Control over Financial Reporting (SCIIF).

During 2014 has been consolidated the project led by the Financial Area. The purpose of the project is to improve Gas Natural Fenosa's Internal Control over Financial Reporting (SCIIF) and its supervision by the Audit and Control Committee. It incorporates the recommendations for the SCIIF published by the National Securities Market Commission in June 2010, which were pending implementation or under development in the group.

Furthermore, with the aim of having a tool to ensure the adequate control of SCIIF management, the group has continued with the implementation of the SAP GRC Process Control in Latin America (in previous years, it was implemented in Spain), for the automated and comprehensive management of the documentation, assessment and oversight of internal control in process.

The 2014 Corporate Governance Report of Gas Natural SDG, S.A. provides greater detail on the Internal Control over Financial Reporting and the model of supervision set up at Gas Natural Fenosa.

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

Corporate Risk Map of Gas Natural Fenosa

The Chief Financial Officer provided information on the Risk Control Policies and Systems at Gas Natural Fenosa, as well as relevant aspects concerning the drafting, definition and conclusions of the Corporate Risk Map of Gas Natural Fenosa, emphasising the following aspects:

- Definition and characteristics of the main risk factors.
- New features in the 2014 Corporate Risk Map.
- Impact variables.
- Main measurement methodologies used for each kind of risk.
- Qualitative, quantitative and probable severity of the risk occurring.
- Defined controls and their effectiveness.

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

The 2014 Annual Corporate Governance Report details the Risk Management System of Gas Natural Fenosa.

Code of Ethics Committee of employees of Gas Natural Fenosa

The Code of Conduct¹ of Gas Natural Fenosa was approved on 31 March 2005 by the Board of Directors of Gas Natural SDG, S.A. and subsequently presented at the General Meeting of Shareholders on 20 April 2005.

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

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

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

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

Code of Ethics Local Committees have also been set up, subordinated to the Code of Ethics Committee, in some of the countries where Gas Natural Fenosa operates (Italy, Argentina, Brazil, Colombia, Mexico, Panama and Moldova), for the purpose of facilitating distribution of the content of the code within these spheres. The other areas are managed by the Code of Ethics Committee itself.

The Code of Ethics is available in 9 different languages. Gas Natural Fenosa has reserved a specific space for the code in the corporate Intranet, in which practical information is offered on different issues thereof.

The most important tasks carried out by the Code of Ethics Committee include the activities for disseminating the contents of the Code of Ethics and the Anticorruption Policy, directed to all the group's employees and the supervision of the Code of Ethics consultation and notification procedure.

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

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

All communications between the Code of Ethics Committee and Gas Natural Fenosa employees are confidential, pursuant to the restrictions set forth in Organic Law 15/1999 of 13 December, governing the Protection of Personal Data. To this end, the Chairman of the Code of Ethics Committee is the sole member, at the initial stage, authorised to be aware of all the information from all the enquiries and notifications received from the group through the consultation and notification procedures. Notifications concerning fraud, auditing or faults in accounting processes or internal control are likewise sent directly to the Audit and Control Committee. In 2014, 17% of the notifications received were related to alleged fraud, none of which had any significant impact.

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

As a result of the foregoing, the Code of Ethics was amended by agreement of the Board of Directors, dated 25 January 2008, 27 February and 19 May 2009 and 27 June 2014 in order to update it and incorporate the commitments acquired by Gas Natural Fenosa regarding the good governance and corporate responsibility from 2005 (date the Code of Ethics was approved) and likewise to incorporate the best international practices in ethical and social issues and to comply with the regulatory demands derived from the integration of Gas Natural Group and Unión Fenosa. Specifically, the update carried out in the 2014 year has included improvements in the areas of corruption, bribery and safety in the workplace, with the aim of adapting it to the new laws enacted (*inter alia*, the Reform of the Penal Code) and the implementation of the Health and Safety Model in the group.

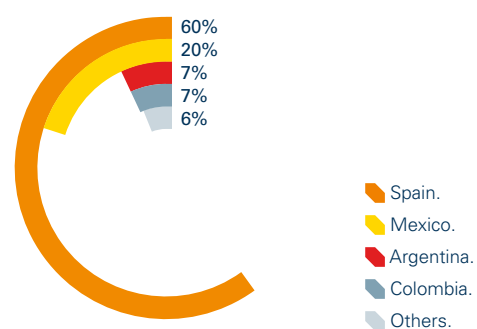
Lastly, in previous years, the “Declaration of Compliance with the Code of Ethics of Gas Natural Fenosa” process was implemented, according to which all group employees must declare that they are aware of, understand and comply with each of the guidelines for conduct provided in the Code of Ethics. The response percentage was higher than 95%. This declaration process is conducted periodically.

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

Main activity indicators of the Code of Ethics Committee

Correspondence received	89
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Geographical origin of correspondence



Code of Ethics chapter which correspondence refers (%)

	2014
Respect for other persons	25
Loyalty to the company and conflicts of interest	24
Customer relations	14
Professional development and equal opportunities	10
Relations with collaborators and suppliers	10
Corruption and bribery	9
Respect for law, human rights and ethical values	8
Total	100

	2014
Average time for resolving correspondence (days)	38

	2014
Number of meetings of the Code of Ethics Committee	4
Attendance rate for the Code Ethics Committee (%)	96

	2014
Number of meetings of the Code of Ethics Local Committees	15
Attendance rate for the Code of Ethics Local Committees (%)	91

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